

The NewsLine

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MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

CHINA

Government leans against growth slowdown

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Not least thanks to the economic policy measures aimed at stabilizing growth, the Chinese economy in the second quarter of this year was able to maintain the pace of expansion seen in the preceding quarter. However, given the ongoing consolidation pressure in the industrial sector, we continue to expect growth to slow. We are still penciling in an average increase in real GDP of 6.5% this year.

As China's National Bureau of Statistics announced today, the Chinese economy grew by 6.7% on a year earlier in the second quarter of 2016, unchanged from the previous three-month period. Government stimulus packages were key behind the unchanged pace of expansion, with public-sector investment projects leading the way. Whereas investment spending in the private business sector saw little to no growth, investment activity among state enterprises remained buoyant.

We expect the gradual slowdown in growth that has been evident for a while now to continue in the coming quarters. Consolidation pressure in the industrial sector remains immense. This is true especially for heavy industry which is still plagued by considerable overcapacity. Against this backdrop, business investment is likely to lose further steam, in turn weighing on economic growth. And with global merchandise trade expanding only moderately, the prospects of a meaningful boost to growth from Chinese foreign trade are limited. Nor is the recent downward shift in the yuan likely to help much. Since early May the Chinese currency has slipped 2½% in trade-weighted terms. Against the US dollar it has dropped slightly more than 3%. We

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expect this moderate downward trend to continue in the coming months. By early 2017 one US dollar could already cost more than 7 yuan.

Going forward, private and government consumption along with public-sector investment activity will continue to support growth. All told, economic growth is likely to slow slightly further, edging down towards the 6% mark. However, a marked slump is not on the cards in the short to medium-term horizon. For 2016 as a whole we are still penciling in real GDP growth of 6.5%.

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