

The NewsLine

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CHINA

Slowdown no cause for panic

As expected, growth in the Chinese economy slowed further in 2015. While investment momentum slipped further against the backdrop of ongoing excess industrial capacity, private consumption helped cushion the economy. This basic trend is likely to continue this year. We are expecting annual average growth of 6.5%.

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As China's National Bureau of Statistics announced today, the Chinese economy grew by 6.8% on a year earlier in the fourth quarter 2015. In 2015 as a whole gross domestic product was up 6.9%, after 7.3% in 2014. A look at the production side of GDP shows that the services sector made a key contribution to growth, growing on average by more than 8% in real terms and accounting for more than half of last year's economic growth. By contrast, industry lost further steam and recorded an increase of "only" 6%. This divergence in growth between industry and the services sector does not come as a surprise. It has been evident for a while now in various indicators such as the corresponding purchasing manager indices and the data on industrial production and retail sales.

The ongoing slowdown in growth is no cause for panic. It will doubtless continue this year as well. The realignment of the Chinese growth model and the reduction of existing imbalances are no simple task. Nonetheless, we do not expect real growth rates to nosedive. The consolidation process in industry will doubtless continue beyond 2016 and investment activity will lose further steam given the excess capacity in a number of sectors. By contrast, private consumption is likely to continue to perform well, as the ongoing robust retail sales data suggest. And last but not least, the government and the central bank still have sufficient policy leeway to counter an excessive slowdown. For instance, in the coming months we expect the central bank to lower the minimum reserve rate for banks further in order to stimulate lending to small

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and medium-sized enterprises in particular. All told, we expect to see GDP growth of 6.5% this year. In 2017 real growth is likely to come in at “only” around 6%.

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