



UNDER EMBARGO UNTIL 12.00 HRS., BANGKOK TIME, THURSDAY, 28 APRIL 2016

CHINA

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|-------------------------------------------|-------------|--------------------------------|------------|
| GDP (current US\$, billions): | \$10,354.83 | Population (thousands): | 1,364,270 |
| Share of GDP in developing Asia-Pacific: | 39.3% | GDP per capita (current US\$): | \$7,590.02 |
| Share of GDP in East and North-East Asia: | 39.4% | Average inflation (2015) | 1.4% |

- Economic growth in China continued the moderating trend that started in 2010. The economy expanded by 6.9% in 2015 relative to the 7.3% growth rate in 2014.
- Exports shrank by almost 3%, while fixed investment, especially on equipment and machinery, was subdued. As a result, consumption was the largest contributor to output growth, supported by stable employment conditions, higher disposable income and low inflation. Consumer spending also benefited from a supportive macroeconomic policy stance.
- Fiscal spending increased, while the policy interest rate was cut twice in 2015. Lower interest rates and the easing of restrictions on home purchases that were put into place in 2013 to curb overheating in the property market underpinned the recovery of the housing market during the second half of 2015.
- The financial sector experienced heightened volatility in recent years. After a 150% gain between June 2014 and June 2015, China's main stock market index underwent substantial corrections in mid-2015 and early 2016 on concerns over slower economic growth and devaluation of the renminbi. The impact of stock market volatility on consumption and investment is expected to be modest, as equities still account for only a small portion of household and corporate assets.
- Capital outflow, sparked by speculative selling of the currency and the interest rate hike in the United States, resulted in record high net sales of \$466 billion in foreign exchange by banks in 2015. To stem speculative attacks, the central bank responded by intervening in the foreign exchange market and tightening controls on currency trade. A new 20% reserve requirement was imposed on all currency forward positions.
- As economic rebalancing is moved forward, economic growth is projected to moderate further to 6.5% in 2016 and 6.3% in 2017.
- Projections are still largely in line with a minimum target for an economic growth rate of 6.5% during the country's 13th five year plan (2016-2020). The plan places emphasis on the quality of growth. Under the plan, green initiatives are to be better integrated into economic policies, particularly to address the growing problem of air pollution, through such measures as tougher emissions standards and more support for the use of non-fossil fuels.
- Financial reforms to move the economy towards a more market-based system are expected to continue, including interest rate deregulation and increasing the flexibility of the exchange rate. These reforms are expected to help reduce transaction costs and benefit all other subregional economies which have deep and wide linkages with China.
- The reforms may also increase the risk of short term volatility with widespread spillover effects on a global scale, as was demonstrated by the recent turmoil in the Chinese stock and currency markets. Managing planned financial reforms towards a more open market system in the light of increased volatility is a pressing challenge for the Government.