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Ressort: Wirtschaft und Finanzen

Deflating the financial bubbles in China

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The world's most polluted country, the People's Republic of China, is making an effort to become the global leader in green finance. PRC's 13th five year plan, announced in 2015, enunciated a policy defining implementation of a green financial system. The task of driving development of green finance was given to China's central bank (PoBC), and the National Development and Reform Commission (NDRC), a government

Agency. Green finance has become central to China's endeavors to green its economy and to clean up its heavily-degraded environment. And that for both public health and economic reasons. PRC is also looking to green finance to build its Belt-and-Road projects.

But the fuel that supported the Chinese economy in recent years, such as population growth or abundance of liquidity seems running out its driving force.

The Chinese authorities have been very able in controlling the economic system but the economy can be maneuvered in the short term, while in the long term structural policies are needed. And China is not yet fully prepared to implement structural policies. According to estimates made official by Prime Minister Li Keqiang on Tuesday

during the National Assembly of the Chinese people, the GDP should grow this year between 6 and 6.5%, the increase is the lowest in the last 28 years. It is a slowdown started in 2011. However, nobody is ready to believe in the reliability of Chinese official statistics. In particular, the GDP figure could be distorted by a deflator (the amount needed to purify economic growth from the price increase) that does not adhere to inflation.

The trend is that of a slowdown and Beijing seems to own a few ammunition to combat this trend. External observers are also used to looking at other indicators (electricity consumption, sales, indices, etc.) to outline a more truthful picture of the situation. Thus there are those who go so far as

to hypothesize that the increase of the production could stop at 2%. This estimate seems a bit too pessimistic although the signals are all rather worrying and the negative data are multiplying. It is no coincidence that the government has announced a huge tax cut of \$ 300 billion to try to push growth. The Caixin Pmi index, developed by a private company to monitor the performance of small and medium-sized companies that are not included in the official statistics, recorded a 2019 start with the handbrake on. That of February confirmed the phase of contraction of economic activity, settling at 49.9.

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Negative developments would have more concrete effects but are certainly not the heart of the problem.

Contrary to what is often believed, the real driving force of Chinese growth in these decades were not exports but investments. To boost growth, easy credit was used in a really exaggerated and distortive way and now companies have very high levels of debt that must somehow be traced back to more acceptable thresholds. Corporate debt now stands at over 150% of Chinese GDP and has been growing almost continuously for 10 years. The system is very closed: state banks that finance state-owned companies. For smaller companies, alternative financing circuits, the so-called shadow banking is flourishing.

This is an expression that gives an idea worse than it really is: it involves in fact all those financial subjects who, by virtue of their juridical nature and structure, are not subject to the same rules as ordinary banks, from which important shares of the financial system's cash flows is passing, even in Western countries. Beijing is struggling with a bold exercise in financial balancing. Deflate the financial bubbles produced by excess credit without penalizing the economy too much.

All in the midst of a socio-demographic transformation. China is a country that is aging rapidly, today the median age is 38 years, in 2050 it will have risen to 48. From the "one child" policy, it has switched to subsidies to those who have children. As a producer country it is increasingly a consumer country and therefore also an importer.

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