



D&B Country Insight Snapshot: China

April 2015

Overview

Overall Country Risk Rating : DB4b



Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Rating Outlook: Stable



Core Outlook

- + The increase in wages seen to date in the 2010s has boosted disposable incomes.
- + Attractive sales growth forecasts for a range of services and consumer-oriented sectors are still credible.
- China's financial cycle is entering a more difficult phase after at least a decade of easy credit and capital misallocation.
- The 'one-child' family planning policy (begun in 1979) will bring one of the most accelerated national ageing trends in human history, and affect the property market in the next five years.

Key Development

D&B has downgraded China's country risk rating from DB4a to DB4b as economic growth slows, credit risks in heavy industry intensify and policy responses will only mitigate impacts on employment and the financial system.

Credit Environment Outlook



Key Development has had a negative impact on the outlook.

Supply Environment Outlook



Key Development has had a neutral impact on the outlook.

Market Environment Outlook



Key Development has had a negative impact on the outlook.

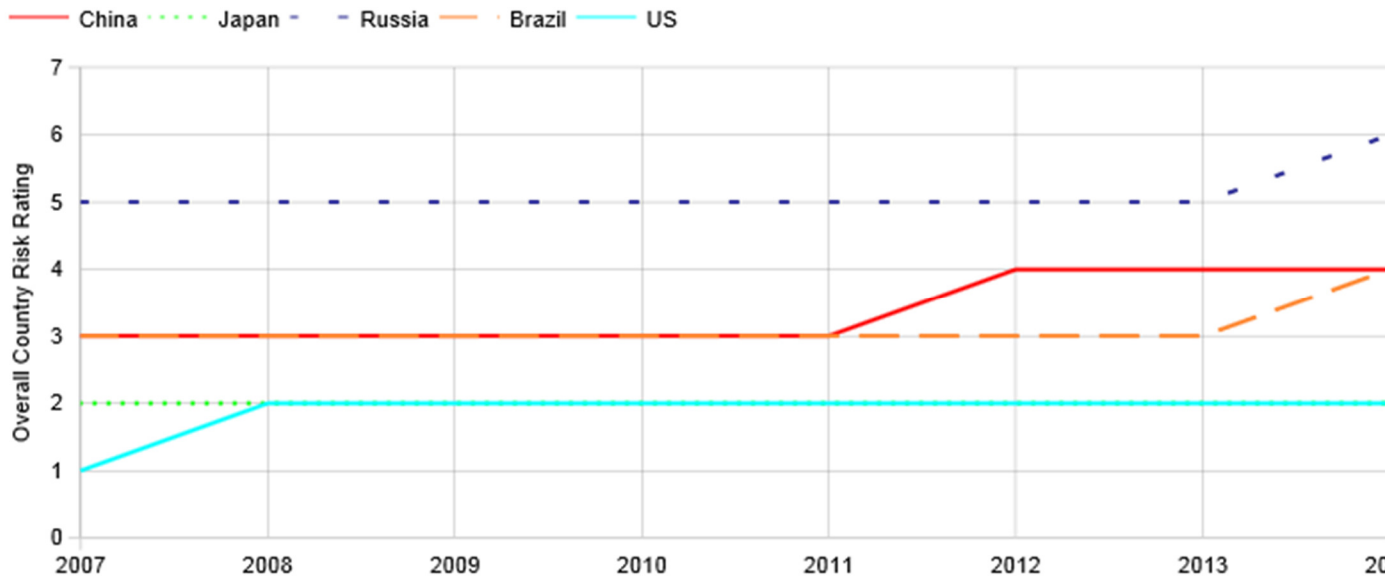
Political Environment Outlook



Key Development has had a neutral impact on the outlook.

Key Indicators

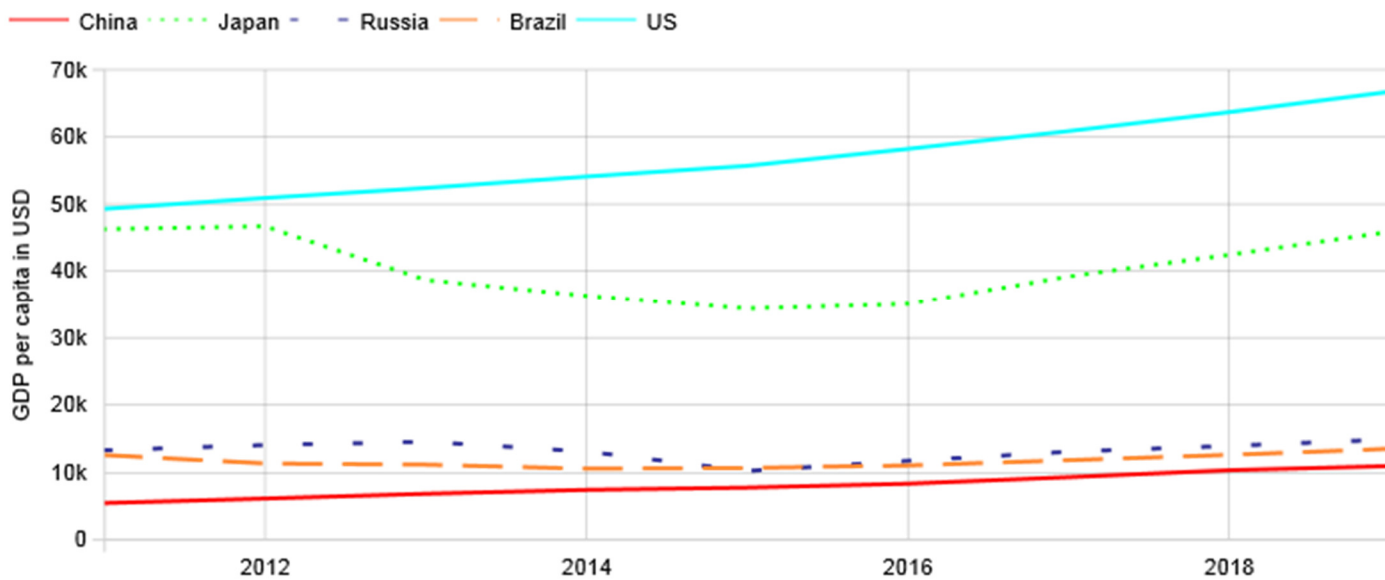
Rating History and Comparison



Source: D&B

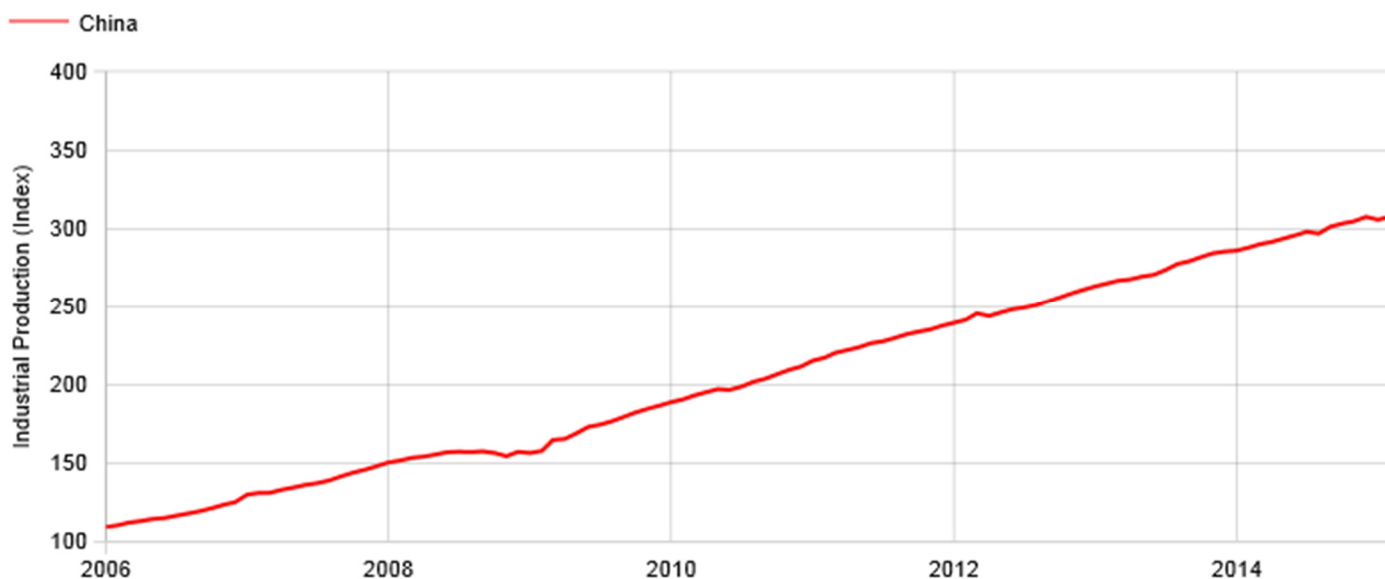
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: D&B

Chart of the Month



Source: National Statistical Offices

Economic Indicators

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	2.5	1.9	2.1	1.6	1.0	1.9	1.9	1.9
Govt balance, % GDP	-1.6	-1.9	-1.9	-2.4	-4.8	-3.0	-2.8	-3.0
Inflation, annual ave %	2.6	2.6	2.1	1.2	2.2	3.0	2.8	2.8
Real GDP Growth, %	7.7	7.7	7.4	6.7	6.4	7.0	7.2	5.6
Urban Unemployment	4.1	4.1	4.1	5.4	5.8	5.2	5.0	4.3

Source: Haver Analytics/D&B

Trade and Commercial Environment

China Minsheng Bank, the pioneer in private sector banking in China, is set to see its balance sheet impacted by the failure of Shanxi province-based, privately owned Highsee Iron and Steel, which will see CNY7trn (over USD1bn) in bad loans to Minsheng alone, close to 3% of Minsheng's common equity. However, the opaque nature of corporate winding-up processes is such that Highsee failed as early as 2011 but continued to pay salaries until 2014. This reflected the fact that Highsee paid 60% of one county's tax revenue and shows how government-business links can mask corporate failures for years. Meanwhile, leading private sector shipbuilder Rongsheng is restructuring more than USD1.6bn and unlikely to emerge as an independent company, in a sector which has seen a spate of owners fleeing or arrested. Both 2015 and 2016 promise more failures.

Trade Terms and Transfer Situation

Minimum Terms: SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

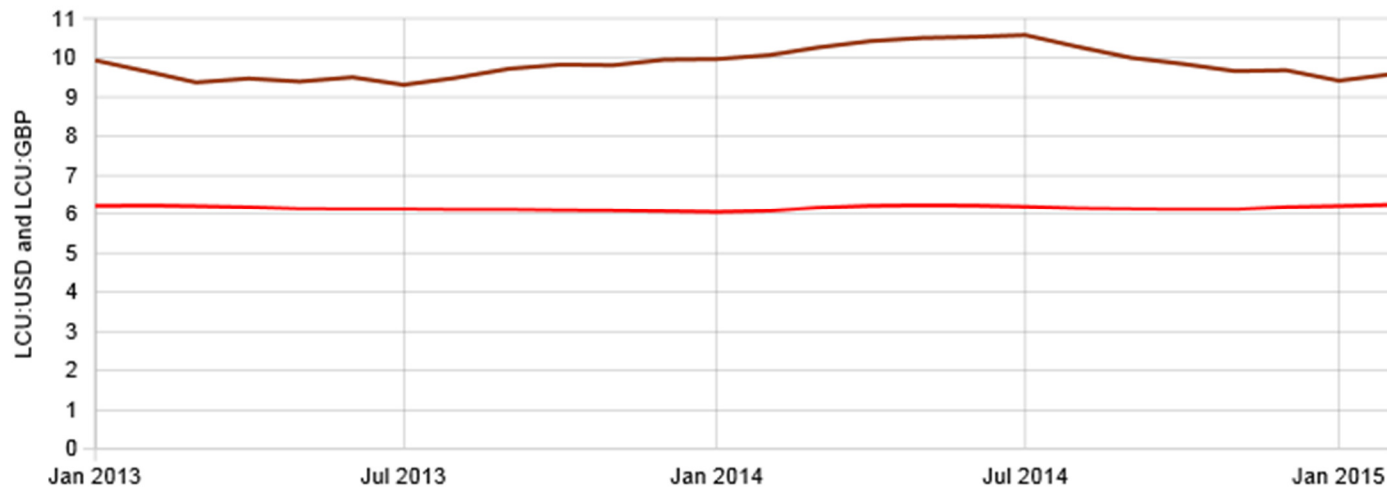
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Exchange Rate

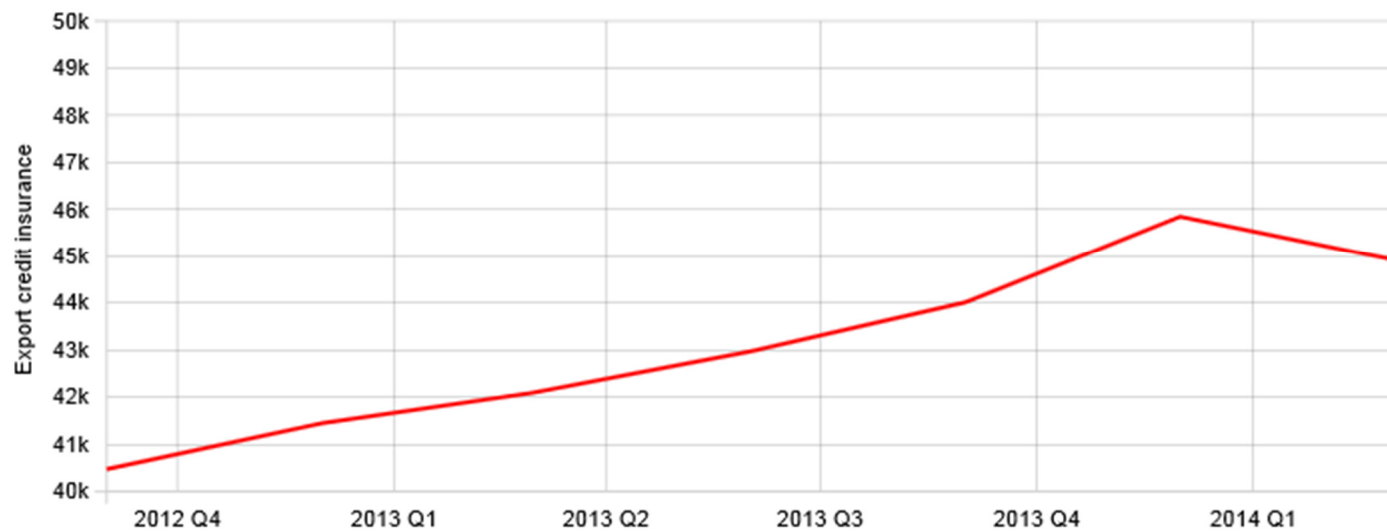
LCU:USD — China
LCU:GBP — China



Source: IMF International Financial Statistics, National Statistical Offices
LCU = Local Currency Unit

Credit Conditions

— China



Source: Haver

Risks and Opportunities

Market Potential

A slew of credit risks can no longer be hidden

D&B is downgrading China's risk indicator from DB4a with a deteriorating outlook to DB4b with a stable outlook. The context is of a deceleration in growth below 7%, credit risks in upstream and heavy industry that can no longer be kept hidden and a flurry of policy stimulus moves that Dun & Bradstreet anticipates can only mitigate the impacts of the slowdown, in particular on employment and the financial system. While the international business press has continued to report on Chinese business activity without too much alarm and generally followed official guidance that approximately 7% growth is likely in 2015, we believe warning signs are multiplying.

For the most part, the downgrade reflects the elevated credit risks in particular industries and provinces that are becoming so pronounced that they have to affect the countrywide rating. Accordingly, sectors that are not over-leveraged with bank debt and that are oriented to private consumers and services are still faring well as business news from China reflects. However, one reason there has been such a limited contagion effect via the employment channel from distressed industrial sectors is that local governments have been propping up employment via direct pressure and control over banks. This has meant that while aggregate demand has held up, corporate finances in distressed sectors have become even worse than if they could have taken advantage of China's flexible labour laws; which in turn has worsened banks' exposures.

Short-Term Economic Outlook

Signs of the long-awaited implosion of heavy industrial creditworthiness increase

Foremost in our evaluation has been an unusual admission that a lesser-known, official monthly estimate of real GDP growth fell to 6.8% year on year (y/y) in January-February, industrial sector value added also falling to this level. Thermal coal consumption, rail and road freight, and steel prices are falling. Electricity consumption growth has fallen below 2% y/y. Non-performing bank loans grew 42% in 2014 and will pass the CNY1trn mark in 2015. China Construction Bank, one of China's top four banks, expects only 1% profit growth in 2015, an estimate that could prove sensitive to downside risks. The geographic zone of elevated credit risks spans from Zhejiang, Shandong, Sichuan and Henan (with a close to 2% non-performing loan average) to Shanxi and Inner Mongolia (with an average close to 5%), compared to the national average of 1.25%, according to *Caixin* magazine. In this context, banks are further shunning exposure to small- and medium-sized companies, which may be why the HSBC Purchasing Managers Index for March remained in contraction territory below 50, while the official PMI oriented towards larger, state-owned firms climbed to 50.1. However, non-performing loans are rising regardless of region or sector and investments being put on hold across the board. The central government is removing restrictions on the housing market and putting under way major infrastructure works to stimulate growth. It has raised its budget deficit projection for 2015 to the largest since 2008.

Country Profile and Statistics

Overview

China is the world's most populous sovereign country and the third-largest by land area (9.6m square kilometres). Over 80% of the population is concentrated in the eastern half of the country, especially in coastal provinces. Bordering 13 countries, including India, Pakistan and Russia, China has immense political and economic significance. It is the only Asian nuclear power still a signatory to the Nuclear Non-Proliferation Treaty; China has a small long-range missile capability.

The economic reforms that began in the late 1970s have transformed China into a powerhouse of the international economy. Almost USD1trn in FDI has entered China, which has exported well over USD1trn in goods annually since 2007. However, the labour force has already ceased growing in the 2010s, reflecting the One-Child Policy introduced in 1979 and only slowly being loosened. Meanwhile, the central government's plans to combat problems ranging from pollution, corruption, misallocation of capital in the boom period and energy system reform remain in their infancy.

Key Facts

Key Fact	Detail
Head of state	President XI Jinping
Capital	Beijing
Timezone	GMT +08-00
Main languages	Mandarin, Cantonese,
Population (millions)	1,393.8
GDP (USD billions)	10,361.8
GDP per capita (USD)	7,434
Life expectancy (years)	75
Literacy (% of adult pop.)	90.9
Surface area (sq km)	9,598,060

Source: UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	10.6	9.5	7.7	7.7	7.4
Nominal GDP in USDbn	6,039.55	7,492.89	8,461.56	9,490.81	10,361.78
Nominal GDP in local currency (bn)	40,890	48,412	53,412	58,802	63,646
GDP per Capita in USD	4,441	5,475	6,145	6,850	7,434
Population (year-end, m)	1,359.82	1,368.44	1,377.07	1,385.57	1,393.78
Exchange rate (yr avge, USD-LCU)	6.77	6.46	6.31	6.2	6.14
Current Account in USDbn	236.96	135.2	215.48	182.88	214.05
Current Account (% of GDP)	3.92	1.8	2.55	1.93	2.07
FX reserves (year-end, USDbn)	2,847.34	3,181.15	3,311.59	3,821.32	3,843.02
Import Cover (months)	22.49	20.02	19.71	20.95	20.36
Inflation (annual avge, %)	3.2	5.5	2.6	2.6	2.1
Govt Balance (% GDP)	-1.7	-1.1	-1.6	-1.9	-1.9

Source: D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	6.7	6.4	7	7.2	5.6
Nominal GDP in USDbn	10,872.9	11,759.2	13,171.7	14,702.8	15,633.6
Nominal GDP in local currency (bn)	68,825.5	75,141.4	83,113.33	91,892.22	100,055.26
GDP per Capita in USD	7,758	8,346	9,304	10,339	10,950
Population (year-end, m)	1,401.6	1,408.9	1,415.8	1,422.1	1,427.8
Exchange rate (yr avge, USD-LCU)	6.3	6.4	6.3	6.3	6.4
Current Account in USDbn	174	117.6	250.3	279.4	297
Current Account (% of GDP)	1.6	1	1.9	1.9	1.9
FX reserves (year-end, USDbn)	3,740	3,600	3,780	3,800	4,000
Import Cover (months)	21.49	20.47	20.81	20.32	21.47
Inflation (annual avge, %)	1.2	2.2	3	2.8	2.8
Govt Balance (% GDP)	-2.4	-4.8	-3	-2.8	-3

Source: D&B

Comparative Market Indicators

Indicator	China	Japan	Russia	Brazil	US
Income per Capita (USD)	7,434	36,281	13,104	10,573	54,100
Country Population (m)	1,393.8	127.1	142.5	203.2	322.6
Internet users (% of population)	45.8	86.3	61.4	51.6	84.2

Real GDP Growth (% p.a., 2015 - 2024) 5.5 - 7 -0.5 - 1.2 1.5 - 3 2.5 - 4.5 1.5 - 3
Source: D&B