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China: Carrot-and-stick

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Since the beginning of the year, the Chinese government has continued its effort to carry out various items on the reform agenda, particularly on fine-tuning the structure of the Chinese economy. While various aspects of reform are underway, growth is by no means forgotten. With plenty of signs showing lackluster growth momentum in this year, it is believed that the government is likely to introduce stronger stimulus to sustain economic growth. More specifically, the continuation of targeted-stimuli is expected.

On the credit quality side, in-line with the suggestion from our China payment survey report, non-performing loan (NPL) has been rising in China, as the absolute amount of NPL soared 28.7% YoY in 1H2014. The growing NPL is leading to concerns over lending qualities, while the cost of financing remains to be a concern to various sectors and smaller companies that lack access to credit facilities.

In our sectoral risk assessment, we went through the conditions of metals, energy and wood-paper sectors. The overall sector assessments of our sectoral risk assessment did not change from the previous report in January 2014, except bringing up metals to very high risk.

China Sectoral Risk Assessment			
Sectors	Risk level	Sectors	Risk level
Automotive	● (Moderate risk)	Metals	● (Very high risk)
Construction	● (High risk)	Retail	● (Moderate risk)
Electronics & IT	● (Medium risk)	Textile	● (Medium risk)
Energy	● (Medium risk)	Wood Paper	● (Medium risk)

Source: Datastream, Coface — Moderate risk, Medium risk, High risk, Very high risk

In the later part of this report, we have discussed the property and consumer goods industries in China, respectively. These industries are the key drivers of growth for the Chinese economy, but they are facing headwinds in the near-term. While the property industry is facing pressure as a result of financing constraints and other reasons, the consumer goods industry is expected to slow as a result of lower income growth and the anticorruption campaign; economic growth will continue to moderate, to 7%YoY in 2015.