Issues with Chinese economy

Why in news?

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After decelerating for six consecutive years, real GDP growth of China appears to be inching up in 2017.

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What is the status of Chinese economy?

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- Chinese economy is in the midst of an extraordinary structural transformation—with a manufacturing-led producer model giving way to an increasingly powerful services-led consumer model
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- The 6.9% annualised increase just reported for the second quarter exceeds the 6.7% rise in 2016.
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- It is well above the consensus of international forecasters, expected growth was to be closer to 6.5% this year,
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- The growth is expected to slow further to 6%, in 2018.
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Why Chinese economy is vulnerable?

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- The pessimism over the Chinese economy has focused on the twin headwinds of de-leveraging and a related tightening of the property market.
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- In the midst of the worst global contraction since the 1930s, the Chinese economy still expanded at a 9.4% average annual rate in 2008-2009.
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- China is a high-saving economy that owes its mounting debt largely to itself.
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- According to the International Monetary Fund, China's national savings is likely to hit 45% of GDP in 2017.
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- China, with its far larger savings and much smaller sovereign debt burden (49% of GDP), is in much better shape to avoid sovereign debt crisis.
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- There is a rising middle class needs for affordable housing.
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- With the urban share of China's population rising from less than 20% in 1980 to more than 56% in 2016 and most likely headed to 70% by 2030 is one of the reason.
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- Chinese home prices up nearly 50% since 2005—nearly five times the global norm affordability is obviously a legitimate concern.
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- The challenge for China is to manage prudently the growth in housing supply needed to satisfy the demand requirements of urbanisation, without fostering excessive speculation and dangerous asset bubbles.
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- Forecasters find it difficult to resist superimposing the outcomes in major crisis-battered developed economies on China.
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Source: Financial Express

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Quick fact

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Sovereign debts crisis:

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- A sovereign debt crisis is generally defined as economic and financial problems caused by the (perceived) inability of a country to pay its public debt.

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- This usually happens when a country reaches critical high debt levels and suffers from (perceived) low economic growth.

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- 2015 Greece financial crisis is of this type.

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- It is measured by % of Sovereign debt with respective to GDP, the sovereign debt ratio of japan is 249% of its GDP, where as India has 52.3% of its GDP.

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