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CONFERENCE**

COUNTRY RISK

**MAJOR
TRENDS
IN THE WORLD
ECONOMY**

2018

CHINA SHADOW BANKING - RISKS AND OUTLOOK

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SHADOW BANKING IN CHINA CRISIS OR OPPORTUNITY?

CONCLUSIONS:

1. Shadow Banking is Crucial for China's Local Fiscal Health
2. Shadow Banking has the potential to be the catalyst for a bank run and an economic downturn.
3. Shadow Banking is also a “safety valve” for China's political and economic system and is a form of capitalism.

SHADOW BANKING IN CHINA CRISIS OR OPPORTUNITY?

WHAT ARE CHINESE SHADOW BANKS?

1. Trusts
2. Online Lenders
3. State Banks
4. Regional and City Banks

SHADOW BANKING IN CHINA

WHY DOES SHADOW BANKING EXIST?

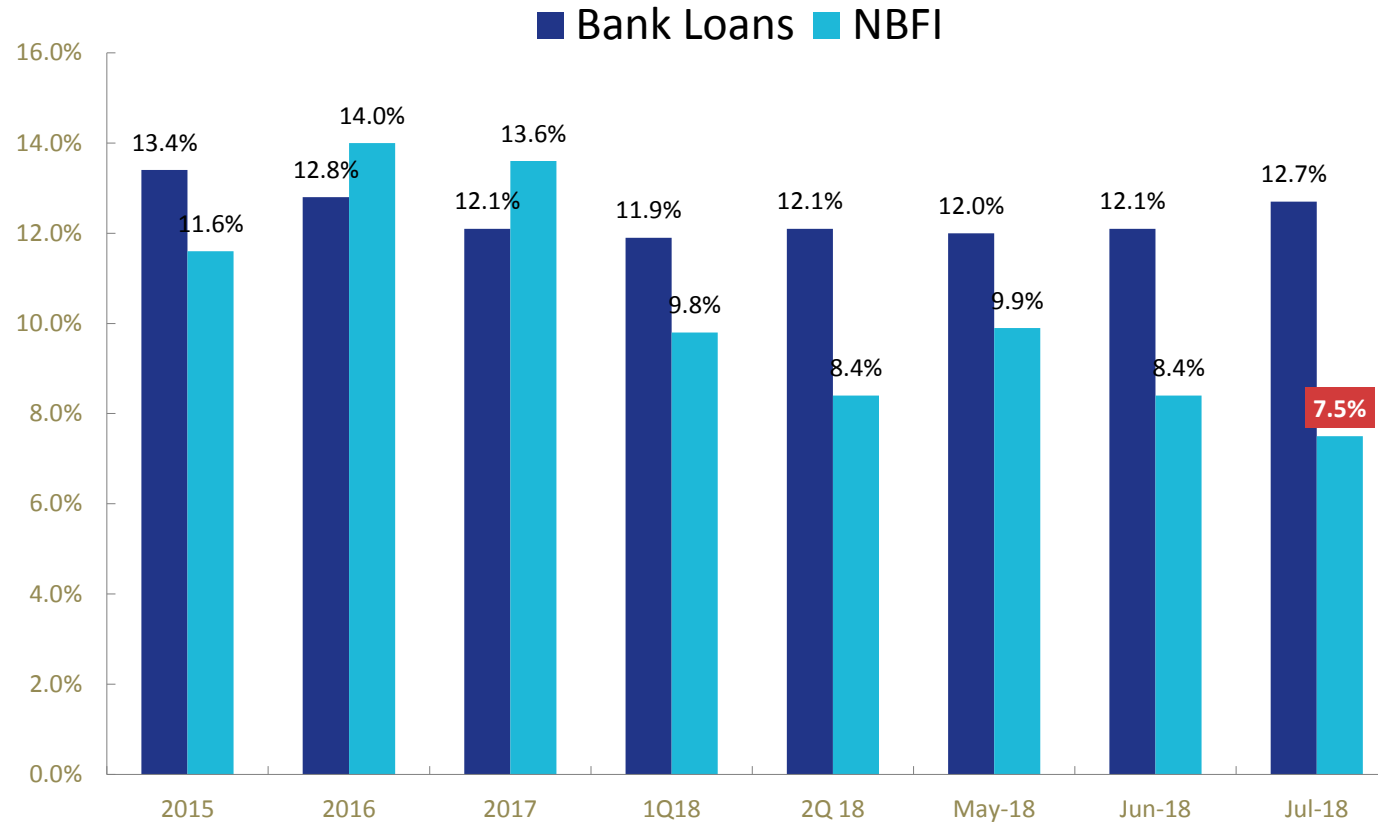
Local Governments Need Fiscal Revenue

China's Government Revenue by Location (2013)

	Sub-national % GDP	% Total
Fees and penalties	2.2	12.6%
Asset income	0.6	3.4%
Other	1.7	9.7%
Non tax revenue	4.4	25.1%
Land sales (net)	2.1	12.0%
Non tax plus land sales (net)	6.5	37.1%
	17.5	100%

SHADOW BANKING IN CHINA WHERE DO WE STAND?

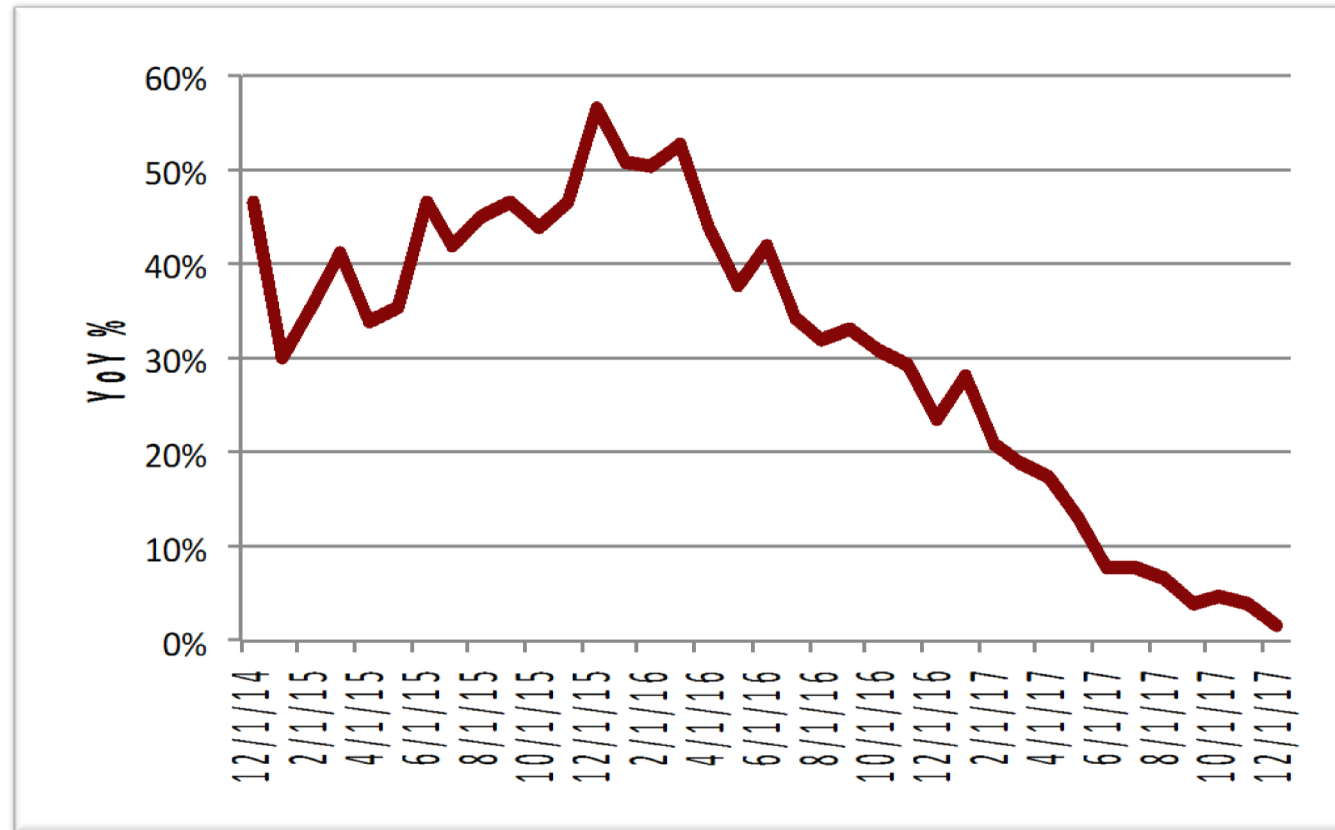
Beijing is “Reining In” Shadow Lending (YoY %)



Source: PBOC

SHADOW BANKING IN CHINA WHERE DO WE STAND?

Issuance of Off-Balance Sheet Wealth Management Products (WMPs) is Slowing....
...But Outstanding Amount Remains High at 29.5 trillion yuan.



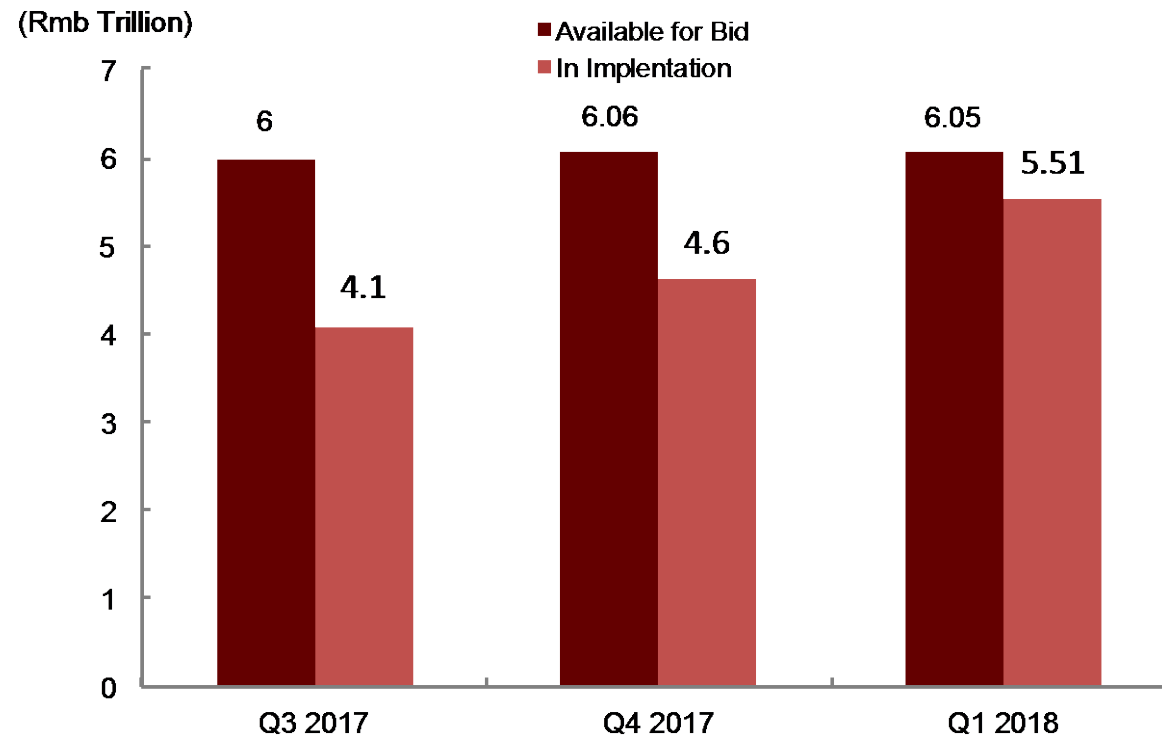
Source: Chinabond

China is shifting credit risks from banks to private sources
From Large Banksto small banks....to shadow banks....to private credit



RELIANCE ON PRIVATE CREDIT GROWING USE OF PRIVATE PUBLIC PARTNERSHIPS (PPP)

Securitized PPP become off-balance sheet “shadow” loans



Source: Moody's

WHICH SECTORS WOULD BE HURT BY A RUN IN SHADOW CREDIT?

- Property Market
- Bond and Equity Market
- Local Government Bonds (7.4 trillion yuan)

BEIJING'S DILEMMA BETWEEN A ROCK AND A HARD PLACE...



Thank You!

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