Sustaining Economic Growth in China

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Real Return on Household One-year Deposits, 1997-2011

Percent


3.04

-.54
Household Saving from Disposable Income, 1997-2008

Percent


20 25 30 35 40 45

29.4 36.4
Shanghai Stock Exchange Composite Index, 1997-2011

Dec 1990=100

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Investment in Residential Housing, 1997-2011

Percent of GDP


0% 1% 2% 3% 4% 5% 6% 7% 8% 9% 10%

3.4% 7.1%
Investment Share of GDP, 1997-2010

Percent of GDP

30  32  34  36  38  40  42  44  46  48  50


37.1  44.1

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Peak Investment in Residential Housing: China, United States, India, and Taiwan

<table>
<thead>
<tr>
<th>Region</th>
<th>Year</th>
<th>% GDP</th>
</tr>
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<tbody>
<tr>
<td>Spain</td>
<td>2007</td>
<td>9.9</td>
</tr>
<tr>
<td>China</td>
<td>2011</td>
<td>9.3</td>
</tr>
<tr>
<td>United States</td>
<td>2005</td>
<td>5.6</td>
</tr>
<tr>
<td>India</td>
<td>2008</td>
<td>5.0</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1980</td>
<td>4.0</td>
</tr>
</tbody>
</table>
Composition of Urban Household Wealth, 1997 and 2010

Percent GDP

1997

2010

Equity

Bonds

Urban Housing Stock

Insurance Policy

Bank Deposits
Household Debt and Mortgage Debt as a Percent of Disposable Income, 2003-2011

Percent

HH Debt as % Disposable Income

Mortgage Loans as % Disposable Income

2003 2004 2005 2006 2007 2008 2009 2010 2011
Change in the Real Effective Exchange Rate of the RMB (yoy), 1995-2010
Current Account, 1997-2011

Percent of GDP

2.4
6.3
Additions to Foreign Exchange Reserves, 1997-2011

Percent of GDP

Central Bank Bill Outstanding, 1998-2011

RMB MN


0 500,000 1,000,000 1,500,000 2,000,000 2,500,000 3,000,000 3,500,000 4,000,000 4,500,000 5,000,000

55,902 (.2% GDP) 3,175,349 (9.8% GDP)

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Interest Rates on Central Bank Bills and Loans, 2008-2011

Weighted Average Lending Rate

Benchmark Nominal Lending Rate

Nominal Interest Rate on Central Bank Bills
Interest Rates on Required Reserves and Loans, 1997-2011

- Weighted Average Lending Rate
- Benchmark Nominal Lending Rate
- Nominal Interest Rate on Required Reserves
Links Between Higher Real Deposit Rates and Household Consumption

- **Higher Rates on Deposits**
  - Higher Household Income
  - Higher Household Consumption

- **Higher Rates on Deposits**
  - Lower Savings Rate
  - Higher Household Consumption

- **Higher Rates on Deposits**
  - Higher Lending Rates
  - Less Capital Intensive Development
  - More Job Creation and Higher Household Income
  - Higher Household Consumption
The Winners and Losers from Financial Repression

Winners:

• Coastal Provinces
• Exporters and Import Competing Industries
• Commercial Banks
• Property Developers and Local Governments
• Ministry of Commerce and Ministry of Finance

Losers:

• Inland Provinces
• Importers and Consumers
• Savers
• First-time Homebuyers
• Peoples Bank of China