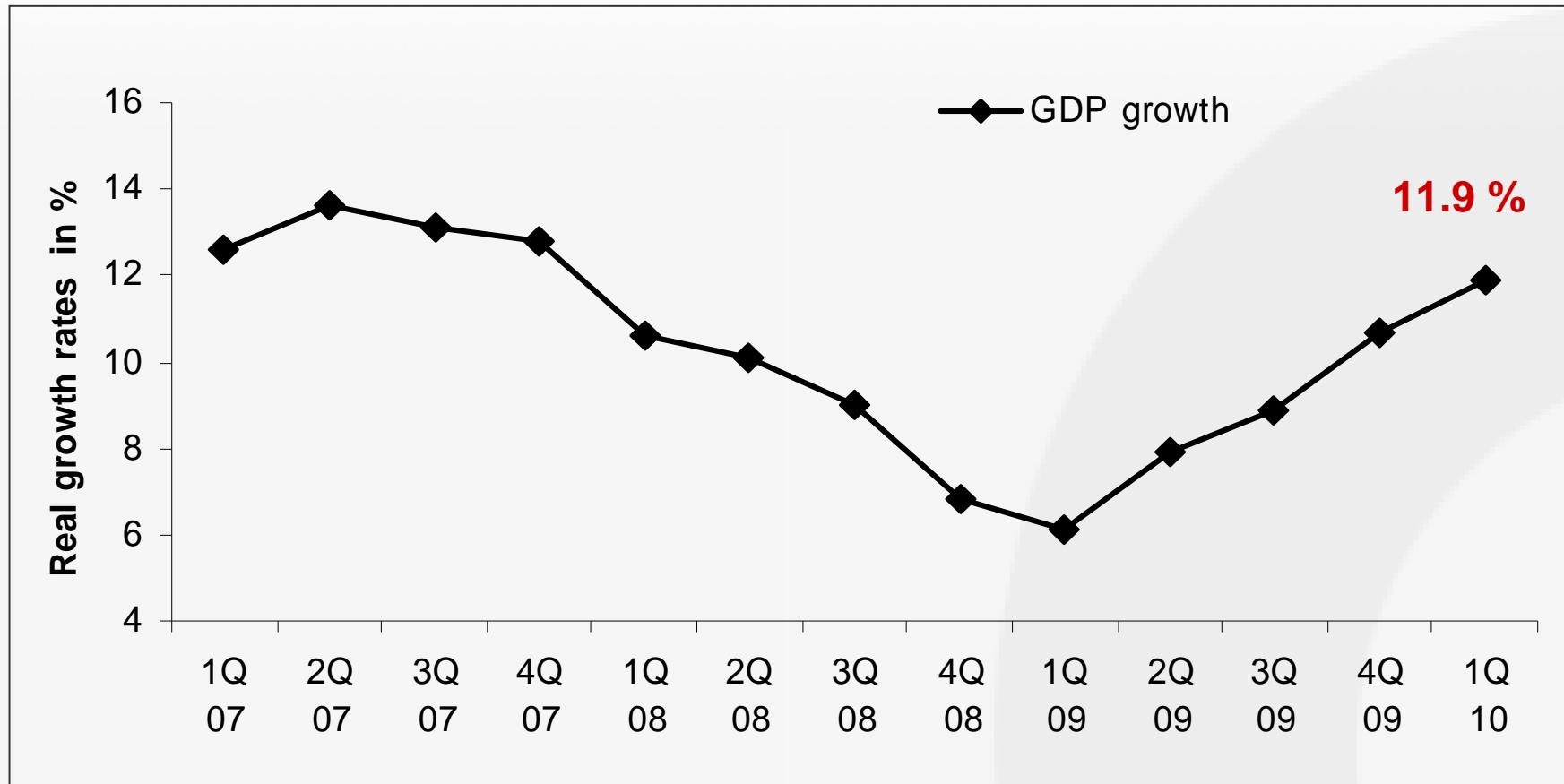


Current Analysis and Forecast for China: China: Economy fast on track

wiiw Press Conference, 7 July 2010

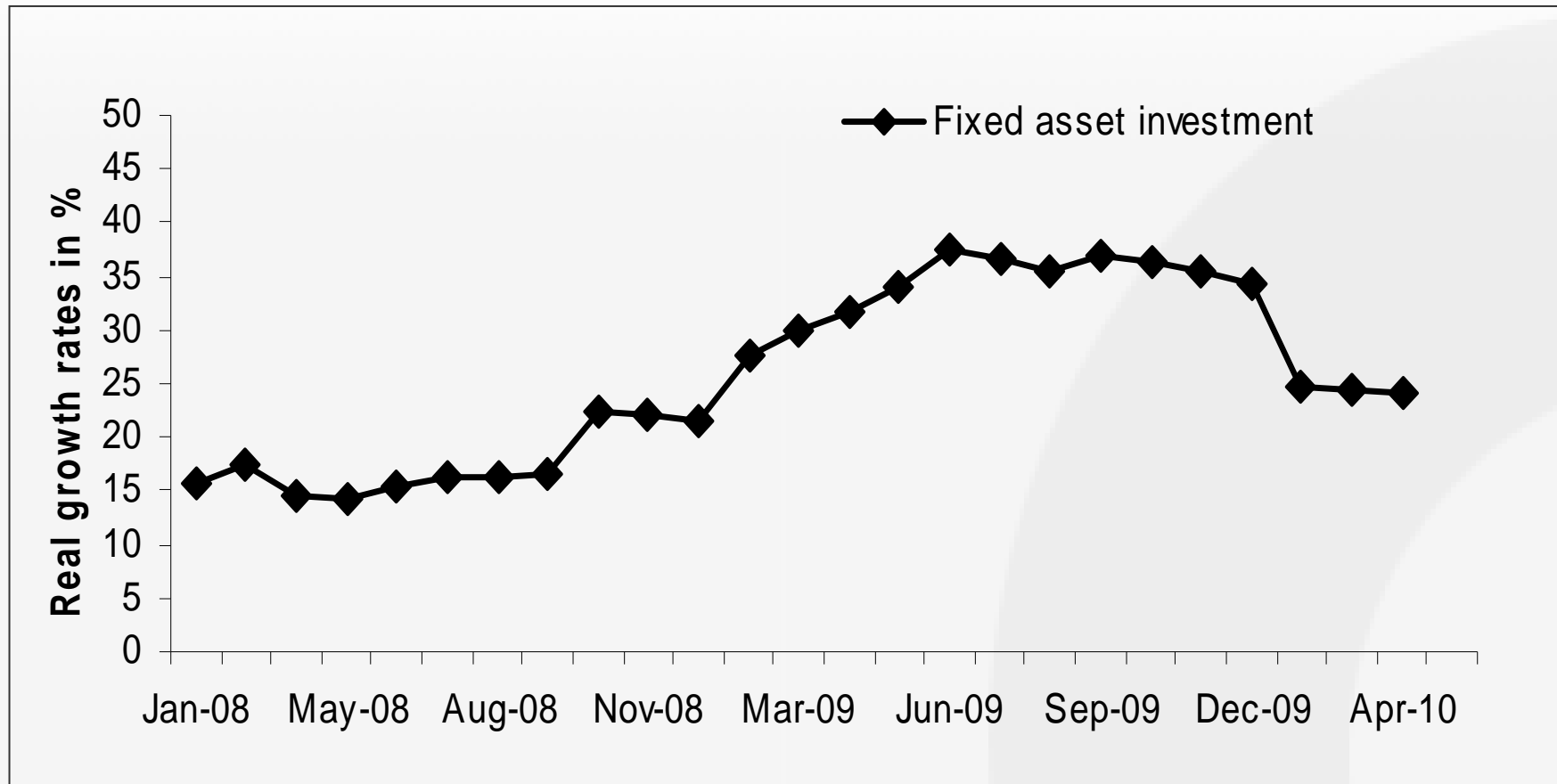
Waltraut Urban

Very high GDP growth in the first quarter of 2010



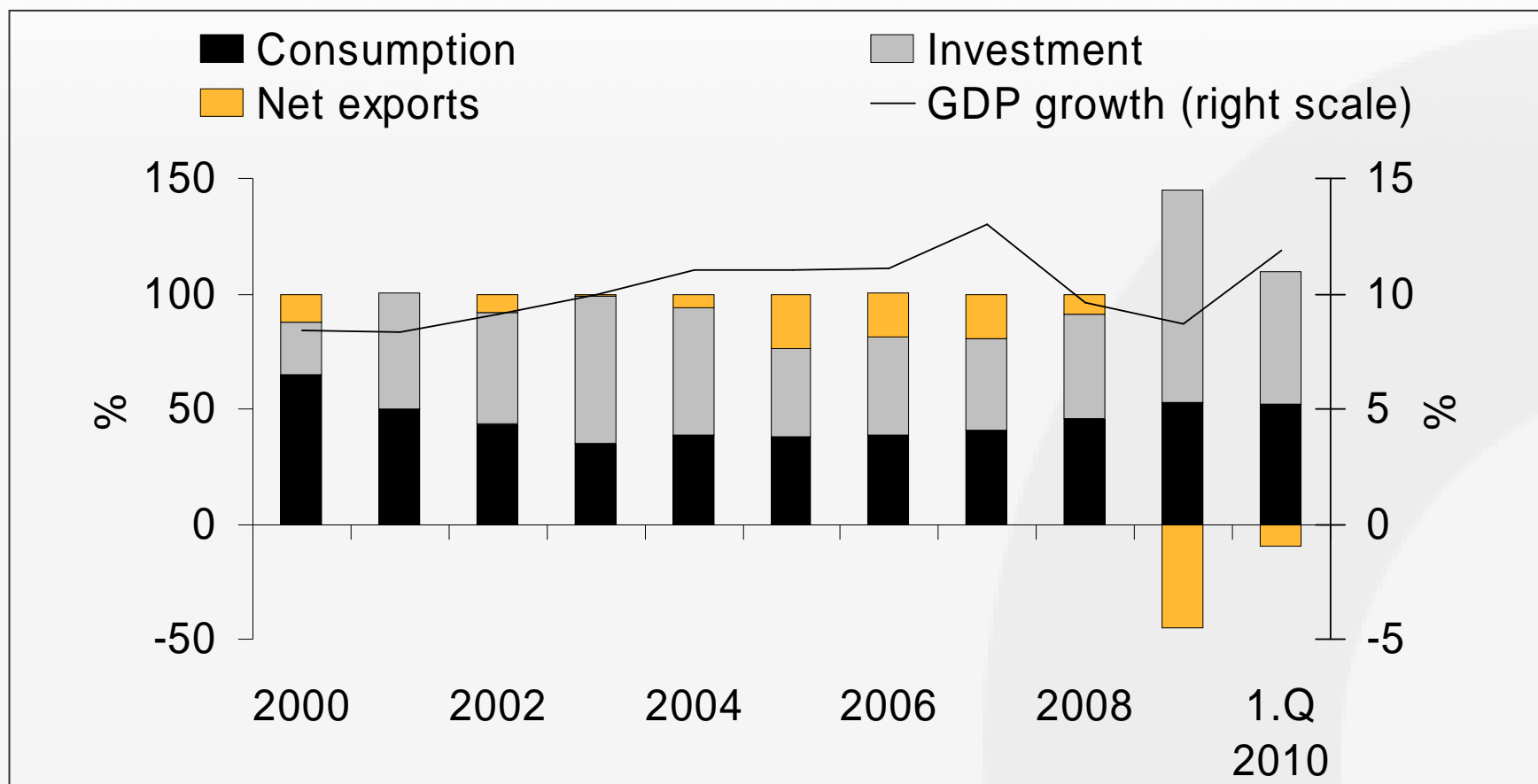
Source: National Bureau of Statistics, PRC.

Investment growth slowing down



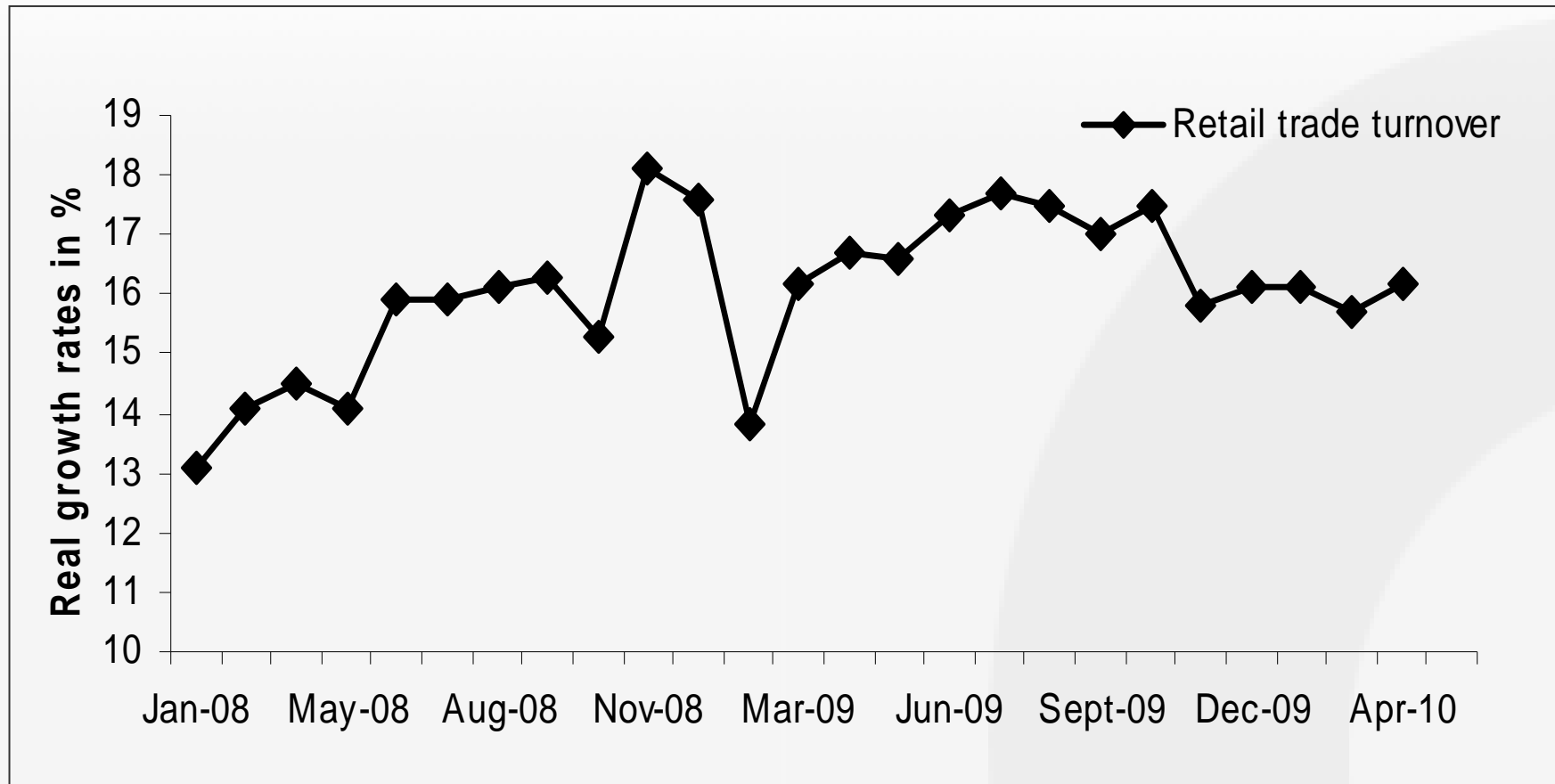
Source: China Monthly Statistics, National Bureau of Statistics, PRC; wiiw calculations.

Components of GDP growth



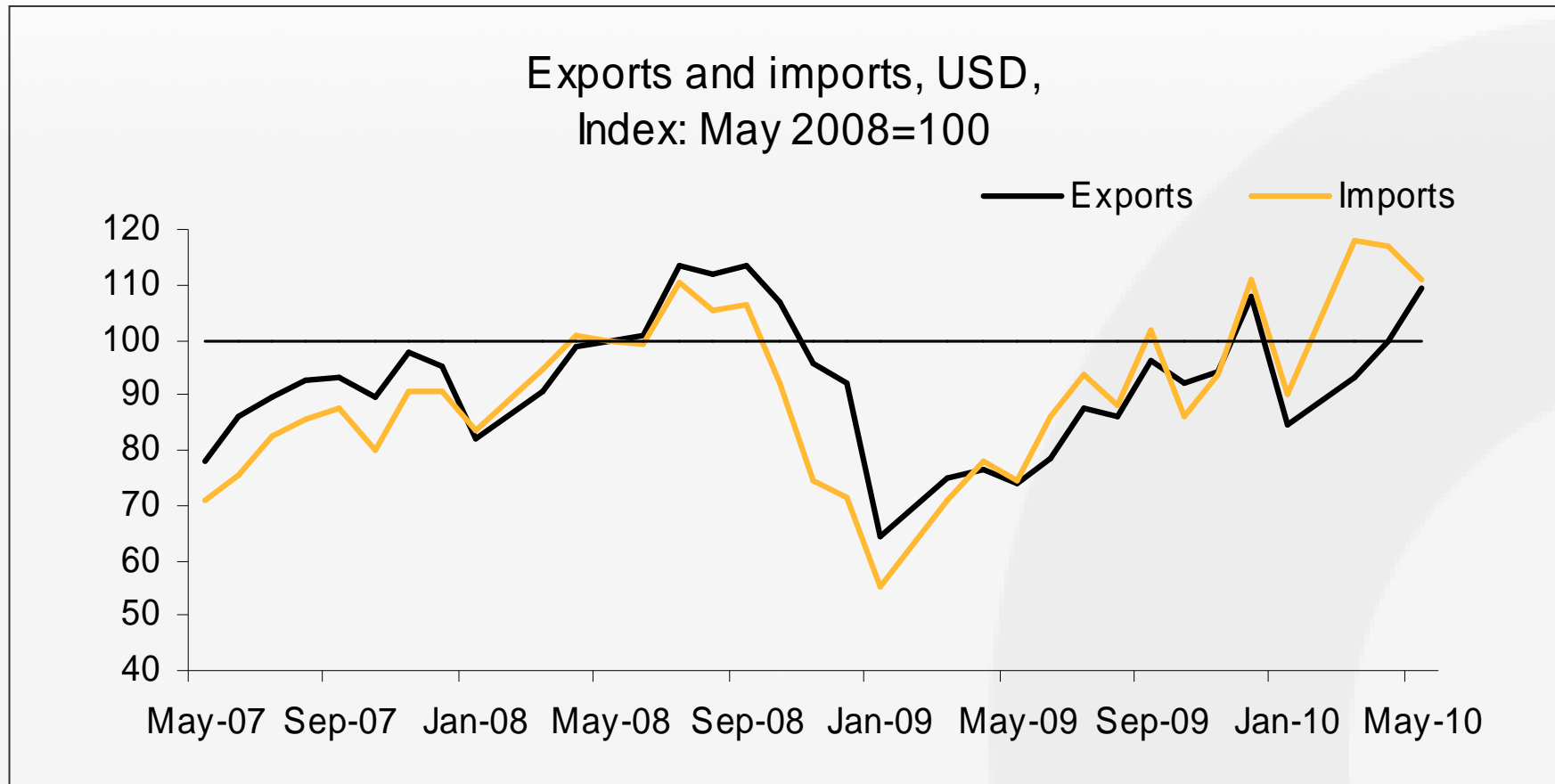
Source: China Statistical Yearbook 2009; China Daily, 16 April 2010.

Private consumption remains strong



Source: China Monthly Statistics, National Bureau of Statistics, PRC.

Exports expanding vigorously – pre-crisis levels reached again



Source: China Monthly Statistics, National Bureau of Statistics, PRC.

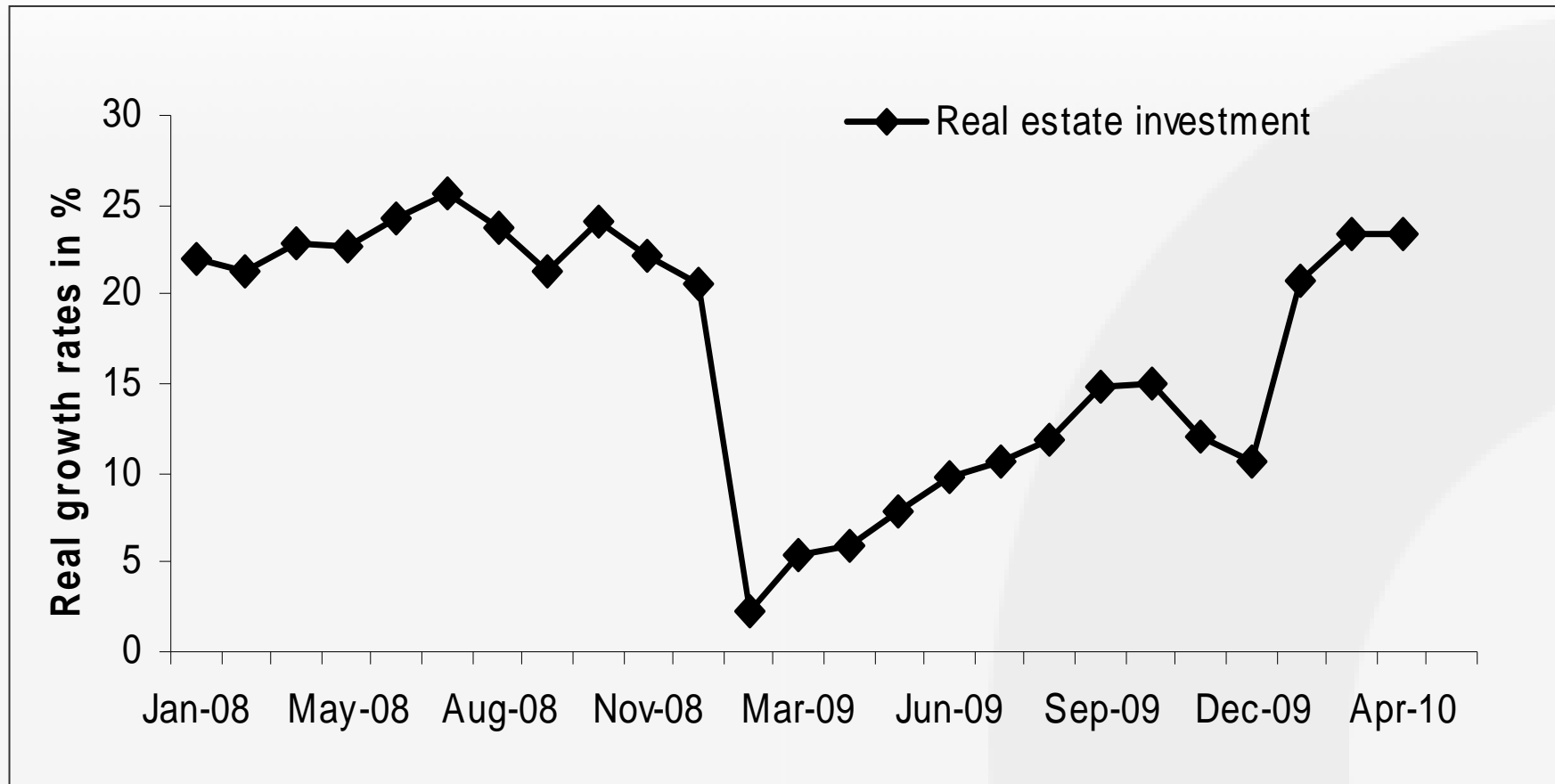
Relative importance of the real estate sector in China

- The real estate sector accounts for 25% of total investment in fixed assets in China
- Fixed asset investment takes an average share of 40% in GDP
- High contribution of fixed asset investment to GDP growth: 2009: 92%, 1st quarter 2010: 58%
- The real estate sector is an important employer and has a significant impact on many upstream and downstream industries
- Mortgage loans and loans to the real estate sector come up to 18% of all outstanding loans

Fighting the real estate bubble

- Real estate prices started to accelerate strongly in the second half of 2009
- End of 2009 / beginning of 2010: first government measures taken to contain the real estate market
- April 2010: further regulations introduced to control speculation, e.g. more stringent downpayment requirements for mortgage loans, higher interest rates for second home loans, credit ban on third or above home purchases
- Reserve requirement ratio raised three times to rein in excess liquidity
- Discussion on the introduction of a property tax

Development of the real estate sector

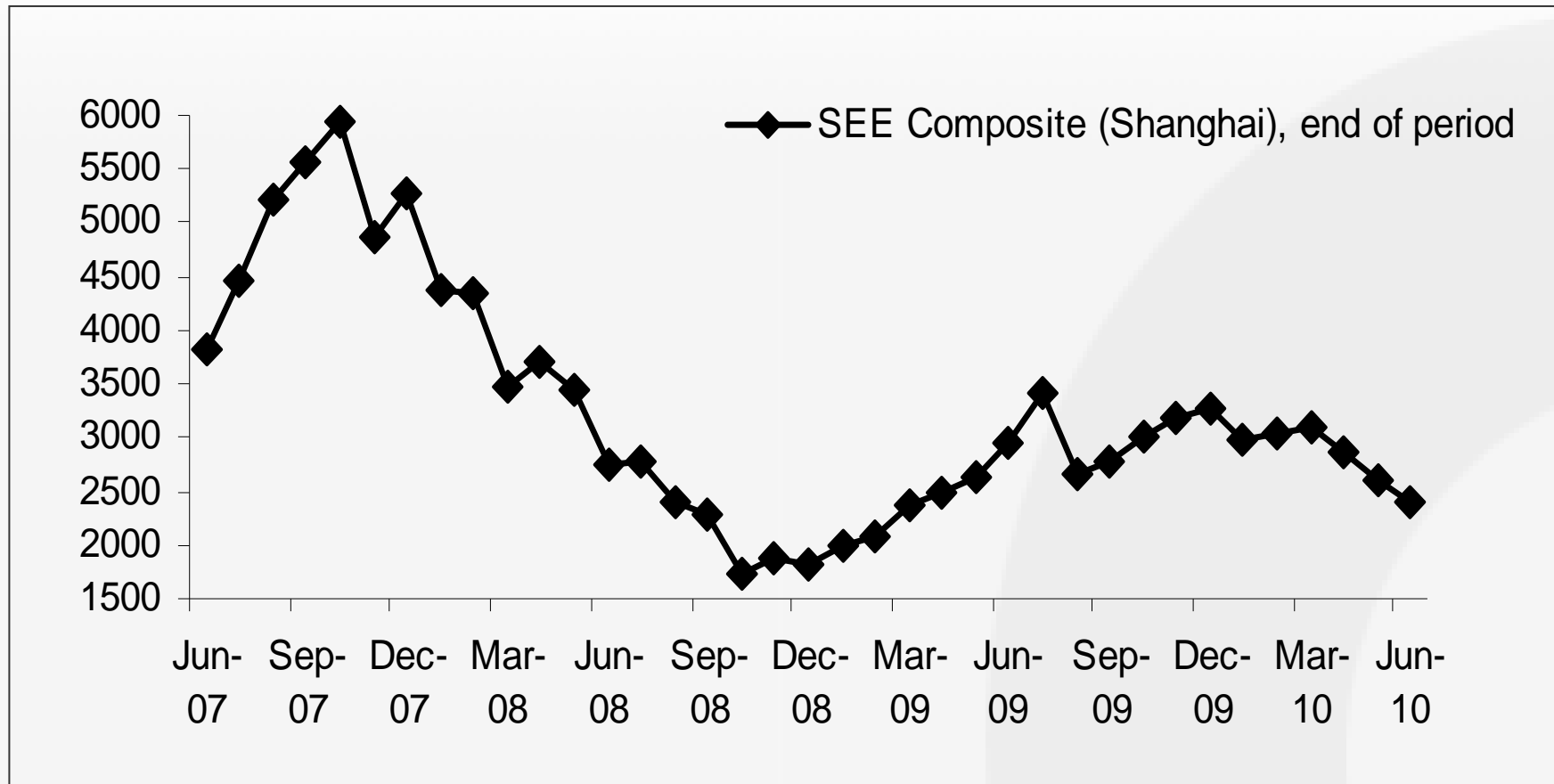


Source: China Monthly Statistics, National Bureau of Statistics, PRC; wiiw calculations.

Consequences of the recent regulations

- Property sales in May dropped significantly
- But price developments still ambiguous
- Decline of stock prices, especially those of real estate developers
- Risk: the regulations may lead to a downward spiral in the real estate market which could dampen GDP growth and raise unemployment significantly

Declining stock prices

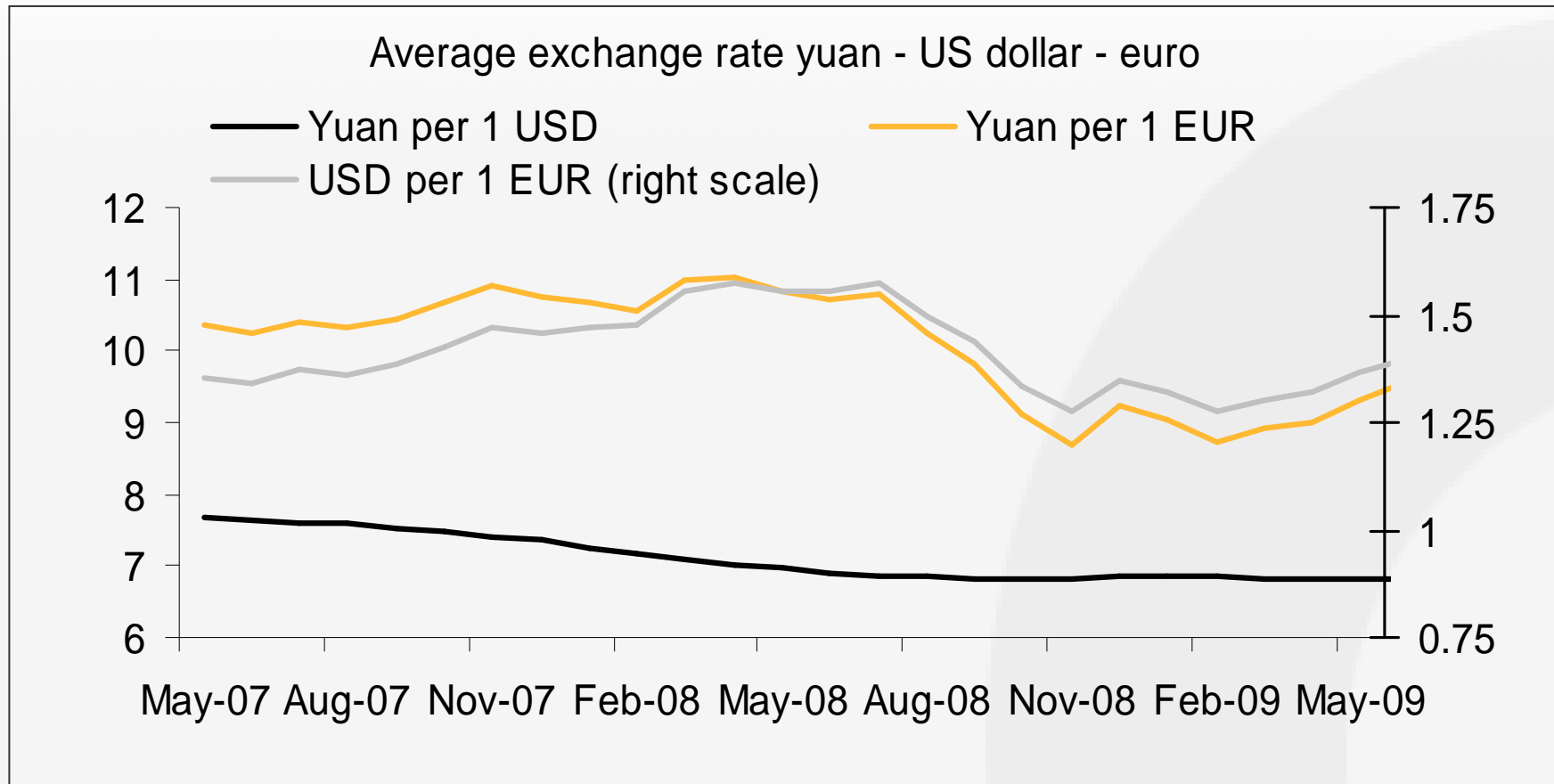


Source: China Monthly Statistics, National Bureau of Statistics, PRC; Shanghai stock exchange. © wiiw

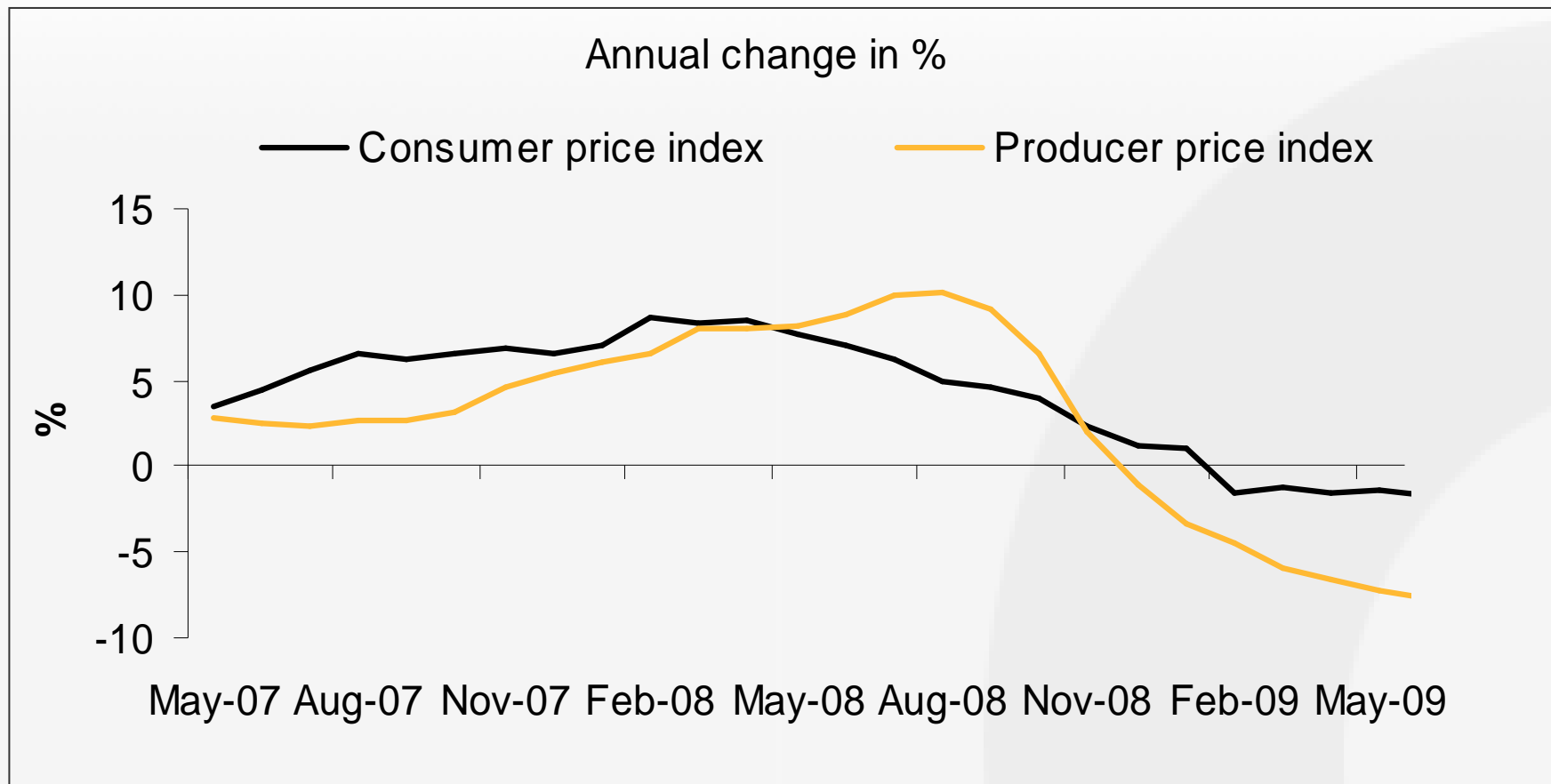
Uncertainties regarding the future of foreign demand

- Budgetary consolidation in Europe
- Weak exchange rate of the euro (appreciation of the yuan versus the euro)
- High and persistent unemployment in the USA
- Shares in Chinese exports (January-April 2010):
 - EU: 18.6%
 - USA: 17.2%

Revaluation of the yuan versus the euro



Rising inflationary pressure



Source: China Monthly Statistics, National Bureau of Statistics, PRC.

Strikes and spreading wage demands

- May 2010: 1900 workers at Honda Parts Manufacturing Co. in Foshan, Guangdong, went on strike
- After three weeks: wages were raised by 24% on average (67€ at minimum)
- Strikes and wage demands are spreading to other branches (e.g. electronics) and provinces (e.g. Jiangsu, Shanghai, Shandong)
- Political signal: strikes were reported by the official media; wage negotiations took place between the management and elected workers' representatives instead of official trade union representatives
- Minimum wages raised in 14 provinces by more than 20%

Thank you for your attention!