

Video transcript

Qu Hongbin talks about China's economy

Hello, I'm Jon Marsh, Managing Editor of HSBC Global Research in Asia. I'm joined today by Chief Economist for Greater China, Qu Hongbin, who is here to talk about his new report *Faster reform, slower growth* in which he cuts his GDP forecast for China.

Jon Marsh: Hongbin, growth is slowing in China, but the country's new leaders seem determined to use reforms rather than stimulus to sustain growth. What does this mean for the economy?

Qu Hongbin: Focus on the reform is going to lift the growth prospect in the middle term to long term. Deregulation, for instance, is going to boost the private investment in the sectors which are still being controlled by the government, and streamlining the government is also going to make it easier for private business to grow. And after all the financial reform, and also the fiscal reform, are the only solutions to the local government debt as well as other structural problems within the economy.

But having said that, all those reforms will take time to filter through, and then have an impact in the growth. In the near term, some of the reform measures will even have a negative impact on demand, so therefore I think the growth is going to slow before regaining the momentum in the next three to five years.

Can you talk us through your changing GDP growth forecast?

In light of the new leaders' focus on reforms rather than stimulus, as well as the weighted and expected data flows, we cut our GDP forecast for this year from 8.2 per cent to 7.4 per cent. We also cut our GDP growth forecast for next year, from 8.4 per cent to 7.4 per cent. In other words, we are going to see a slower growth in China for the second half of this year as well as next year. However, once the reform measures are going to filter through, we are going to see the Chinese economy pick up momentum in the next two to three years.

The reform agenda is pretty broad, what do you see as the most important part of the package?

Financial reform, fiscal reform and the service sector deregulation are the most important parts of the reform agenda. In financial reform, we are looking for the interest rate liberalisation. It's for the expansion of the bond market as well as the renminbi internationalisation. Fiscal reform is mainly focused on just the financing needs of the local government, and the service sector deregulation is going to focus on reducing the entry barriers for the private sector.

What's the minimum level of growth required to keep the labour market stable?

We believe that probably 7 per cent is going to be the minimal growth rate in order to keep the labour market stable. So therefore I think if there is a risk for the growth to slow towards 7 per cent, I think probably that's going to trigger some kind of more support, even a stimulus from Beijing.

What other tools does Beijing have to put a floor under growth, if that's required?

Fiscal ammunition is the important part of the potential stimulus. The government, China, still runs a small fiscal deficit, and the government also has financial ammunition to make more immediate infrastructure investment. And also China's interest rate is still high, so there is still room for the central bank to cut the rates particularly given that the inflation pressure is easing.

Hongbin, thank you very much indeed.

Pleasure.