China P.R. Mainland

SEB MERCHANT BANKING – COUNTRY RISK ANALYSIS **November 28, 2016**

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Government stimuli continue providing life support to the economy as seen in unusual stable growth rates right on official targets. The authorities are likely well aware of the medium to longer term dangers of these policies as the financial leverage grows rapidly but are all focused on avoiding rocking the boat ahead of the all-important party conference of late 2017.

Summary and conclusions

Stable growth: After the financial turbulence in 2015, domestic financial markets are still in an uncertain state. The stock market is clearly down but the real estate market has become the new hot thing at least in the larger cities where prices are up more than 30% this year alone. Since late September the government has started to talk down market expectations and announced some measures to that effect to prevent a new bubble in the making. The authorities are keenly watching out for any disturbances that could mar the picture of smooth sailing up to the next party conference next fall. Growth in Q3 show that they once again managed to keep the country on an even keel at 6.7% annual growth rate, the same as in the two previous quarters. That should set the stage for at least a 6.6% whole year growth rate, leaving President Xi with some wiggle room to achieve his promised 6.5% average for the 2016-20 period.

Political tensions: The point is that headline GDP numbers apparently have become the focus of the various factions within the ruling communist party in the run-up to next year's all-important party conference. After the unsuccessful handling of the stock market crisis of June 2015 it is imperative to build an image of control and stability. The anti-corruption campaign is ploughing forward relentlessly and probably creating as many new enemies as it eliminates along its way. Pundits believe that President Xi's main opposition is the faction of the previous president, Jiang Zemin, who stepped down in 2002, but has continued pulling the strings.

President Xi's position: While few would bet against the reappointment of the incumbent president, focus has shifted to PM LI. That is in particular if Pr. Xi should be in need of a scapegoat for the economy. Barring such an event, new Chinese "*Kremlinologists*" are focusing on the seven members of the Standing Committee of the Communist Party's Central Committee. Five of them -- all but Messrs. Xi and Li – are about to pass the party's unwritten rule of age retirement. The four eldest were appointed long time ago, and are not regarded as fully loyal to Pr. Xi. The fifth, Mr. Wang, is more of a boarder case and he is clearly Pr. Xi's loyal and effective anti-corruption tsar. Retaining him but dismissing the others could be a sure sign of Pr. Xi winning the top-level political battle. The opposite would rather be a sign of infighting beyond the current tenure of Pr. Xi with potential repercussions on policy implementation and stability.

Infighting: The risk of continued infighting should not be underestimated. Since party membership was opened for private businessmen and women in the early 2000s, numbers have swelled to almost the double. It seems reasonable to assume that many of the new members have been recruited among private business people not necessarily for their affiliation with politics and ideology, but rather for their desire to promote their own business. As such they maybe more attuned to Mr. Jiang, one of the richest men in the world according to experts who assert that infighting is not over ideology but is rather of a personal nature and a question of power and wealth. As such, Chinese politics are becoming more like their Russian counterpart.

Outlook remains tenuous: Apart from the apparent but unlikely case that intra-party strife comes out in the open, the danger over the next 12 months is that infighting will distract the leaders from giving the economy its due attention. Tensions continue to build in the financial sector with current credit growth at 16% after a leap of 22% last year both twice as high as the nominal growth of the economy. Wealth management products (WMP) have climbed to RMB26trillion –a quarter of banks' total assets but last year yielded an extremely small net profit margin of only 0.4% presumably because of growing losses and the inability of banks to unload these on clients. Hundreds of new WMPs are being issued every week but only in a few cases have investors been forced to take a hit leading to underpricing of risk. It seems reasonable to assume that this low loss rate is the workings of the authorities' pressure on banks to shield clients and thus avoiding adverse market reactions and associated negative publicity.

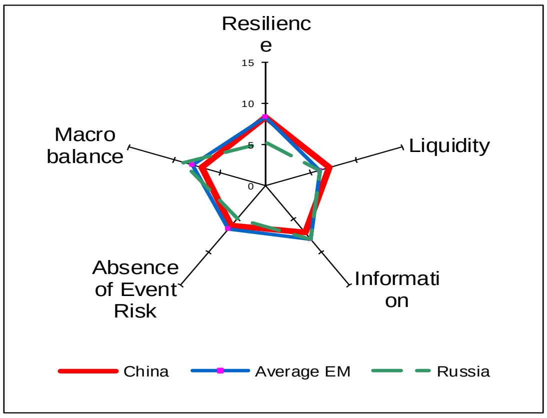
Three scenarios: Markets continue to focus on three scenarios with probabilities much dependent on political fallout after the party conference late next year.

- Reforms and rebalancing: A strengthened leadership will push forward with more reforms and redirect policies to a new growth model notwithstanding possible medium term growth pains.
- Denial 1: A weakened leadership is left unable to take decisive measures but continues along the path of government stimuli to uphold zombie companies á la Japan in the 1990s. Reasonable growth continues for several years but gradually declines as capital are wasted and adverse demographics set in, eventually ending in a Japanese sink hole.
- Denial 2: regardless of politics the economy's internal inconsistencies could have it heading for a more acute financial crisis within a couple of years as market confidence plunges and capital outflows become endemic with no way to stop the rot without back-dialing economic freedoms several decades.

Among these outcomes we hope history will prove us right in regarding the two first-mentioned as the more likely than "Denial 2".

Ratings: Two rating agencies have now signaled a possible down grade of the sovereign over a 1-2year's horizon. The same may be relevant for country risk unless the authorities change attitude and stop employing short term remedies in lieu of reforms to set the economy on a firmer footing for the longer future.

Key ratios	2016
Population (mill.)	1382.9
GDP/capita ($)	8033
GDP (%chg.)	6.6%
Inflation	1.9%
Trade balance/GDP	2.1%
Reserves/imports (months)	32
Budget balance/GDP*	-5%
Government net debt/GDP*	17%



External ratings:
Fitch: A+
Moody's: Aa3

Peers:
UAE
Latvia
Italy

Graph: China scores above average on macro balance and liquidity, but is weaker than the average on reliable information. Resilience is about the average of emerging markets but event risk is weaker.

Recent economic developments

Growth at target: For a third consecutive time this year quarterly growth ticked in at the presumed target of 6,7% providing the government headroom to deliver on its 6,5% average growth rate for the rest of the decade. It thus vindicated PM Li's recent assertion of a "farewell to [China's] unbalanced and unsustainable growth model". But as has become increasingly frequent in recent years critics have been quick to raise question marks to the new official data not least when comparing them with the weakening of hard indicators such as output of steel, cement, plate glass etc. and also the less stable PMI indicator and other high frequency data. Our own research shows that such stability is indeed rare in an global framework. Nevertheless, as 2/3rds of that growth represented private consumption the rebalancing toward less investment led growth would seem to be making some headway.

Rebalancing: That said though, this rebalancing may be less than meets the eye. Private consumption seems to have been boosted by a temporary tax cut for new vehicles -- most of them of domestic production, propelling passenger car sales to 27% growth. The incentive is expected to expire at year end which suggests continued support to private consumption in the last quarter of the current year. This should underpin the current growth story to ensure growth targets are met for the whole year despite the ongoing softening of the country's exports performance and a potential cooling of the property market..

Housing and real estate: The new housing market boom seems to have become more tenuous in the third quarter. It took off in late 2015 as the authorities eased purchase and mortgage restrictions to provide new opportunities for retail investors after the stock market had crashed in the previous summer. That boosted real estate sales which set off at annualized growth rates exceeding 30%. Recent signs indicate this may be about too cool. In September, housing starts fell 18% probably responding to signals that the government is about to change its mind once again in particular as regards markets of the largest cities.

The employment situation remains healthy so far: The continued slowing of the Chinese economy since several years has so far not had the feared impact on the labor market. According to official statistics, unemployment has remained relatively constant at 4% underpinned by healthy vacancy reports slightly above the numbers of job-seekers. That may remain the situation going forward as this is the last year of stable labor supply before the onset of a long-predicted secular decline due to the previous one-child policy. It remains to be seen, though, if that can offset a surge in unemployment should the authorities accept a more rapid closing of unviable state-owned enterprises (SOE) with a potential to shed some 8mn. workers according to the IMF.

Wage growth outpacing prices: Price pressure has also remained quite stable with headline inflation at slightly less than 2% a year and core inflation somewhat below that. Wages, by contrast, continue to rise fast in part as a result of relatively tight labor market conditions making Chinas exporters struggling to compete on price with countries like Russia and Mexico.

Softer foreign trade: Merchandise exports of the current year are projected to fall by some 6% to $2tr. That is in parallel with a decline of imports including of raw materials and intermediate goods as China shifts to less import intensive private consumption. As a result of this and the fact that exports are larger than imports the current account surplus is estimated to shrink further in 2016 to 2% of GDP. That combined with a surge in net FDI outflows will further weaken the basic balance leaving it in a small surplus only of some $140bn. just enough to cover estimated net repayments of long term external credits. Provided other more spontaneous capital outflows continue at the underlying rate of some $20-30bn a month despite the authorities attempts at arresting them, reserves may come under renewed pressure before long.

Shrinking reserves: Since peaking in 2014, they have dropped about $1tr. to $3,2tr. While nominally the largest in the world, they are still of relatively modest size in particular compared with the size of the country's stock of money. Mexico, Russia and Malaysia do all have larger reserves in this regard. From February to September pressure on reserves subsided but apparently returned in October as seen in a drop of around $25bn. The Peoples Bank (PBC) acted to counter a too rapid fall of the yuan vis-à-vis the dollar including in the forward market as investors began to transfer yuan to Hong Kong where they could more easily be converted to dollars in turn forcing Hong Kong banks to hedge.

Securities markets: Since the bursting of the spectacular bubble in June 2015, the stock market has remained dull and may on past form remain so for the rest of the decade. In return, a new frenzy could occur in China's rapidly growing bond markets including bonds issued by local governments (LG) reacting to the central government's encouragement to swap bank loans for marketable securities.

Policies

Fiscal

Rising government deficit: The central government (CG) deficit is set to grow from 2,7%/GDP in 2015 to more than 3% in the current year. Including also the fiscal balances of LGs -- provinces and municipalities, the total balance of the general government (GG) is poised to end slightly up on last year's deficit of about 10%/GDP. That is according to IMF calculations of the so-called "augmented deficit" which includes LG spending from revenues generated by land-sales. The latter varies much among the individual LGs and is clearly higher in the rich coastal areas where land is priciest. On average this covers about a quarter of total LG revenues.

Gradually growing government debt: Because of financing through land sales, GG debt does not rise as fast as the annual deficit would suggest but has already reached almost 60%/GDP according to IMF estimates. Comprehensive data on LG debt are not released on a regular basis. They were last surveyed in mid-2013 and then estimated to more than 40%/GDP. The difference between this estimate and that of the IMF represents off-budget LG financing mainly through local government financing vehicles (LGFV) which often include also real production units with many employees. As of last year CG has prohibited LGs to use LGFVs for budgetary purposes but gradually forced them to issue domestic market debt in own names, i.e. bonds, and also swap old bank loans with new bonds although often bought by the same banks. The CG has said that such bonds will not be covered by any CG guarantee, but markets do not seem to heed that warning as judged by the pricing. On top of this already recognized debt comes with contingent liabilities. The total of bad loans in banks' loan books (NPL) has mushroomed to an estimated 9%/GDP They are mainly related to SOEs but the share of households is on the rise..

Monetary

Monetary policy shift: With the lifting of the ceiling on deposits, interest rate liberalization was formally completed in late 2015. Experience so far, however, is that most banks have continued to stay close to the central bank's guidance of 2% pa rates on standard retail deposit which are now covered up to RMB100,000 by a deposit guarantee administered and funded by banks themselves without support from the government. In principle this should form the basis for intensified focus on interest targeting in monetary policies, which otherwise continue to operate under multiple objectives. This shift from direct money growth control originates from the PBC's unfortunate experience during the SHIBOR crisis of mid-2013, when an unexpected and abrupt liquidity crisis caused interbank rates to rise sharply apparently to the astonishment of the central bank.

Could fuel more financial bubbles: As a result of this shift, China's high reserve requirement has become irrelevant for the daily liquidity management of the banking system. In principle, banks can now originate as much new money as they like at the prevailing interest rate level based on a free flow of funding from the central bank. Even before this shift, central bank liquidity, mainly. loans to the banking system, was growing at full speed expanding more than five times over the last three years. In 2015, this supported an increase in credits from banks at an annual rate of 22%. That will likely slow to 16% in the current year but is still high at almost two times the growth rate of nominal GDP and 3 percentage points (pp) higher than the policy target.[1] Such abnormal credit supply could fuel more speculative behavior among domestic investors as recently seen in stock and the housing market bubbles.

The yuan – how far can it fall? For many years Treasury bashed China to relent on its "currency manipulation". Eventually the PBC yielded and let the yuan float with the effect that the exchange rate dropped from a peak of 6,12 against the dollar to around 6,7 at the present, i.e the opposite of the result Washington had called for. As noted above, the float has been a managed one forcing the PBC to intervene heavily to cushion the fall. However, with loose monetary policies the danger is that it could fall further as a trickle turns into a stampede. The threat is now rather that with pools of liquidity and no other outlet for savings speculative activity could turn to foreign exchange. Pundits see the yuan rate at 8 to the green back by the end of 2017. Forward markets have so far only penciled in a drop of 2,8%.

The financial sector

Rapid growth continues: In the first half of the current year bank lending accelerated to an annual rate of almost 18% -- a growth of RMB7,5tr. Total credit outstanding in the economy passed the 200% mark by a wide margin. Of that some 170%/GDP will be to non-financial corporates, most of it to SOEs. That is up more than 10pp from 2015 because the government has urged the state owned banks (SOB) to support ailing SOEs in sectors with declining prices and over-capacity. The Chinese economy is clearly one of the most leveraged in the world and more leveraged than at the time when others, including Japan, eventually buckled.

Bad loans – how many? As a result of this rapid loan growth the level of NPL (Non-Performing Loans) in banks' balances has begun to rise reaching almost 2% of the total according to official estimates which most independent observers believe vastly understate the real problem. The Global Financial Stability Report of the IMF[2] estimated the NPL level at 7%/GDP or about 3% of total loans but others, including the rating agencies have estimated the level of potential trouble loans at a multiple times higher. Chinese banks are on average well capitalized with a CAR ratio at 13%. Forcing banks to provision for all NPLs identified by the IMF report might still leave the system above the regulatory minimum of 8% CAR, but would likely leave many of them scramble for new capital while some would prove outright insolvent.

A Ponzi scheme? A number of companies with interest dues exceeding their EBIT are reportedly on the rise in particular among SOEs despite their preferential borrowing rates. Moreover, 14% of listed firms have less profit than interest due. Estimates of corporate financing costs – interest and scheduled loan repayments have reached an average of 20% of profits. While not yet dramatic, another couple of years of similar borrowing could force many companies to borrow even more to meet

[1] Adjusted for bond issues replacing bank loans to LGs.
[2] April 2016, Washington DC

financial obligations. Such a development is often characterized as a classic Ponzi scheme in which debtors contract new deb to serve the old one.

Inter-company and other non-standard lending: The underlying problem is likely exacerbated by companies avoiding regular credit channels. Instead they turn to new financial intermediaries or approaching potential creditors via the internet or business contacts even outside the shadow banking industry. After the authorities stepped up controls, shadow banks quietly turned into new forms of intermediation which were regulated lighter or in not at all. Such included inter-company loans often intermediated by banks but kept off-balance. The IMF reports of an increase in payment arrears of such loans among listed companies with the numbers of days of outstanding receivables rising by a half to 46 since 2010.

Shadow banking: In face of the difficulties, the government has done a commendable job in keeping statistical recording of all forms of credits including the parts of shadow banking that are subject to registration. It is regularly published as Total Social Financing (TSF) which is set to reach a total of RMB250tr. by the end of the year equivalent to 340%/GDP. The problem with this part of the financial industry is not necessarily only its size, the equivalent of the US before the GFC in 2008-09 was reportedly even bigger. The problem is rather the Chinese shadow banking industry's opaque interconnectedness with the formal banking industry.

Wealth management products: A popular type of securities produced in the hundredths each week is wealth management products (WMP). They are normally offered by banks to companies, non-banks and retail investors alike with a yield of 4% pa. but often with limited respect to the underlying credit risk. They can earn a decent profit of more than 10% pa. when on-lent successfully to small and medium-sized firms but can also end up as significant losses.[3] So far banks have covered most of these losses perhaps for reputational reasons, with the consequence of thwarting pricing. There appears to be a widespread misconcept in the Chinese financial market that a web of implicit guarantees implies that all financial institutions, not only state owned banks, are not allowed to fail. That has made it possible for even smaller banks with limited earning opportunities to attract investor money to WMPs and other products. Larger banks, by contrast, including SOBs have a more stable profit base and have limited their participation to less risky products.

Structural reforms

Slow in implementation: The "Third Plenum" of the Communist Party of China (CCP) three years ago when President Xi was still new in office and presented his ambitious reform plans, has so far remained a disappointment. While a host of reforms have been made into law, implementation has been slow in gestation or all but non-existent. Interest liberalization has occurred but so far mainly on paper. Land reforms, portability of pensions and reform of the old "hukou" system (resident registration which determines where you can live) have all advanced but with pilot projects only. Clearly such could have far-reaching social consequences and it may be understandable that the authorities take a gradual approach. But there are also suspicions that foot-dragging may be due to lack of political consensus.

Decisive role of markets: As to the new "decisive" role of market forces, observers are increasingly pointing to lack of consistency in policies so far feeding concerns about reform commitment. A reform that should have been relatively easy to implement: the final liberalization of interest rate setting – have become diluted as few banks seem willing to deviate from the official interest guidance on deposits.

[3] In 2015 WMPs reportedly garnered an average net profit of only 0,5% on a total outstanding of RMB25tr. indicating that many of the WMPs defaulted or otherwise ended up at a loss for the investor

There are rumors that banks trying to attract funding with higher rates have also attracted undesired interest of supervisors or other authorities.

Two widely different approaches – 1) Local government debt: On the financial side the authorities approach to the mushrooming of LG debt – i.e. the debt for bond swaps -- has been welcomed as a useful way of increasing transparency and instill market discipline even though the market reaction so far has been less encouraging as noted above. Observers point out over-optimistic valuations may come to saddle banks – the main holders of the new LG bonds -- with overvalued collateral somewhere down the road. In other countries, including Italy, this has induced banks to continue lending to troubled companies.

2) State owned enterprises: But the biggest disappointment so far has been the way the government has addressed the over-capacity in the coal and steel sector. While some mines and steel mills have been closed and even caused defaults in the bond market, too many have been allowed to continue despite outright losses or very weak profitability. The government has called for a 10-15% capacity cut over the next 3-5 years but observers ask for concrete implementation details. Without an overhaul, support for these industries will represent continued waste of capital and other resources. The problem is not unique for China. In recent decades the west has faced the same hard decision over its own heavy industries. An idiosyncrasy in the case of China, however, is that most of the largest firms in this sector are state-owned and may represent vested political interests.

Politics

Signs of growing tensions? Mr. Xi was appointed President in a smooth way at the party conference in 2012 and it is expected that he will be reappointed to the same position at the next conference scheduled for late 2017. As such political calm will prevail. However, pundits believe that under the surface a major battle is taking place and may come to a head next year not necessarily to disrupt elections procedures but to curb the President's power. His anti-corruption campaign, unprecedented in intensity since Mao times, is tainted with suspicion that its true targets are political opponents within top echelons of the party pyramid. But there are also longitudinal tensions between the top brasses in Beijing and lower ranking members in the provinces reflecting different economic interests. (Box 4.)

Box 4: Inner party tensions: One of our trusted data providers, Oxford Analytica, presents this as follows: *For much of the post-Mao period interests of local political elites have aligned with national interest and local cadres have reaped most of the benefits of economic growth. But the shift from investment to consumer-led growth will deprive local officials of rent seeking opportunities.* And follows up with: … *limited monitoring capacity of the central combined with reluctance on the part of local officials to carry out directives may hinder the Xi administration to implement pledged reforms.* And finally: *So far it [i.e. the anti-corruption campaign] may seem to have been successful in silencing dissenting voices within the party. The danger is that the current oppressive turn could encourage local officials to block upward flows of information and circumvent supervision with a threat to party cohesion in the longer term.* Oxford Analytica: "Local resistance will thwart reforms in China", October 3, 2016, Oxford, UK

Xi versus Jiang: According to some local observers, one of those opponents is the previous president from 1992-2002, Mr. Jiang Zemin, suspected of still pulling the strings through a loyal group of high ranking party members. It is not clear whether there are other political or ideological conflicts between him and Pr. Xi, but personal discords appear obvious. While Pr. Xi has been able to take a firm grip on the army, Mr. Jiang, has so far held on to its influence over media. Observers believe the simmering tension may come to a head at the party conference next fall, and may be seen in the new composition of the party's Central Committee and in particular its Standing committee. Needless to say, any dissonances in then party structure could act as a distraction to the policy making and hinder implementation of reforms.

Regional security: Duterte and Trump. The new Philippine President, Mr. Duterte, made waves when he recently travelled to Beijing and declared his country had now separated from its decades-long ally, the US, and would embrace closer partnership with China. So far this has proved longer on words than actions. The US President elect, Mr. Trump, may present a more significant event. His campaign threats of hitting imports of Chinese products with 45% tariffs could have serious implications for both countries and may even spiral out into security issues. It is too early to expand on these initial thoughts but prudent investors will remain mindful.

Outlook and concluding comments:

Policymakers in Beijing may deserve some sympathy. The growth model that served them so well for more than a generation began to sputter five-six years ago. For a time this was masked by strong fiscal and monetary stimulus justified as countering the impact of the global financial crisis which was not of their own making. But then they were too late to recognize that the world was no longer the same and could not support China's export led economy. Instead of taking a hard look at themselves, they upheld the stimuli in the process making investments in infrastructure and housing the main economic drivers. At the same time the impetus; in particular the emphasis on credit growth, had triggered rapid financial engineering with its own internal dynamics that proved unamenable to supervision and monetary control.

The result is seen in today's imbalances, in particular between investments and consumption, industries and services, money and credit growth and a string of financial and real estate bubbles. There is no doubt that the leadership is well aware of the challenges. Relevant and serious reform initiatives have been launched by the new president in office since 2012 but too often stalled in the implementation stage. First of all, turning around a vast country like China is of course a formidable mission in itself as such an endeavor is seldom painless. Second, while little has transpired outside party walls observers point to worrying signs of softening consensus at the top echelon of power while loyalty erodes at the grass root.

The big question is if China can avoid a "hard landing"? Looking to other countries in similar situations of the past, many analysts find little to cheer about. Japan in the late 1980s and early 1990s had experienced a similar fantastic ride as China for the last decades but when it hit the wall the government too long denied it had a problem. Eventually Japan avoided a spectacular downfall, but remained burdened with zombie companies and dud loans in banks which kept the economy subdued for almost two decades. Like Japan, China is burdened with vested political interests that may if not outright prevent reforms make such too slow in the gestation to remedy the problems. Less like Japan, but more like pre-crisis US, China is finding itself in a whirlwind of financial engineering that may already have become too complex for supervisory oversight. Still it may be argued that China has vast resources to support its financial system and the economy in order to avoid a collapse provided an operational environment to utilize such resources..

For the next several years our base scenario is one of continued economic deceleration to around 6-6,5% growth in 2017 dropping further to around 5-6% to the end of the decade. Crucial to that scenario is continued political stability around the present leadership confirmed by the upcoming party conference late 2017. New market concerns about that have the potential to trigger disruptive forces noted above.

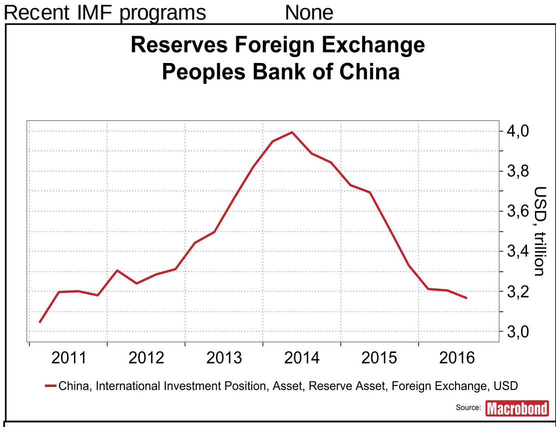
Key data:	2012	2013	2014	2015	2016	2017	2018
GDP (mill.US$)	8568	9689	10451	10903	11109	11529	12817
GDP/capita (US$)	6317	7106	7627	7919	8033	8301	9193
GDP (%chg.)	7.8%	7.8%	7.3%	6.8%	6.6%	6.3%	5.9%
Investments/GDP	48%	49%	49%	48%	49%	48%	48%
Budget balance/GDP*	-2%	-2%	-2%	-3%	-5%	-5%	-5%
Govt net debt/GDP*	14%	14%	14%	15%	17%	21%	24%
CPI inflation (%chg.)	2.6%	2.6%	2.0%	1.4%	1.9%	2.1%	2.6%
Money demand (%chg.)	10.6%	8.5%	4.4%	4.4%	5.3%	4.0%	3.8%
Stock prices (%chg.)	2223	2196	2236	3714			
Interest rates	4.2%	4.9%	4.8%	3.8%	2.9%	3.0%	3.1%
Exch. Rate ($)	6.31	6.15	6.16	6.28	6.62	6.91	6.75
Trade/GDP (%)	42%	41%	39%	34%	32%	32%	30%
Oil price (Brent)	$112	$109	$99	$52	$44	$50	$52
Millions US $							
Export of goods	1 973 520	2 148 590	2 243 760	2 142 750	2 017 820	2 081 280	2 181 970
Imports of goods	1 661 950	1 789 610	1 808 720	1 575 760	1 519 840	1 595 430	1 684 120
Other:	-96 178	-210 776	-157 607	-236 388	-263 251	-295 312	-339 122
Current account ($ mill)	**215 392**	**148 204**	**277 433**	**330 602**	**234 729**	**190 538**	**158 728**
(% of GDP)	2.5%	1.5%	2.7%	3.0%	2.1%	1.7%	1.2%
FDI	176 251	217 957	144 967	62 057	-83 698	-40 211	-4 279
Loan repayments	-35 519	-33 395	-43 975	-131 142	-142 209	-77 440	-72 292
Net other capital flows	-228 374	-14 346	-67 526	-614 727	-361 612	-44 376	-18 857
Balance of payments	**127 750**	**318 420**	**310 900**	**-353 210**	**-352 790**	**28 510**	**63 300**
Reserves	3 305 930	3 624 350	3 935 250	3 582 040	3 229 250	3 257 760	3 321 060
Total debt	735 554	825 810	926 262	848 744	789 950	889 389	1 042 510
o/w short term debt	497 337	579 286	660 016	695 368	732 340	793 047	861 807

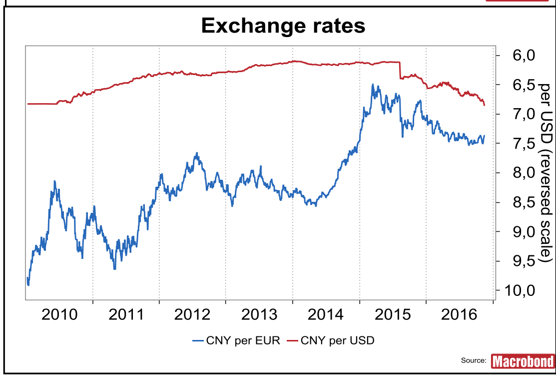
Source: OEF (Oxford Economic Forecasting) and SEB estimates.
* Central government only

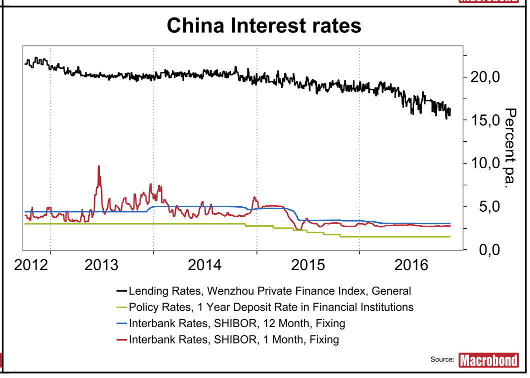
Rating history				
Fitch (eoy)	A-	A	A+	A+
Moody's (eoy)	A1	A1	Aa3	Aa3

Type of government: Communism. Leaders expected re-elected at next party conference in 2017
Next elections N/A

Other:
Latest PC deal None
Recent IMF programs None







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