

## Webinaire

# China's economy: how close to the cliff ?

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September 25, 2025

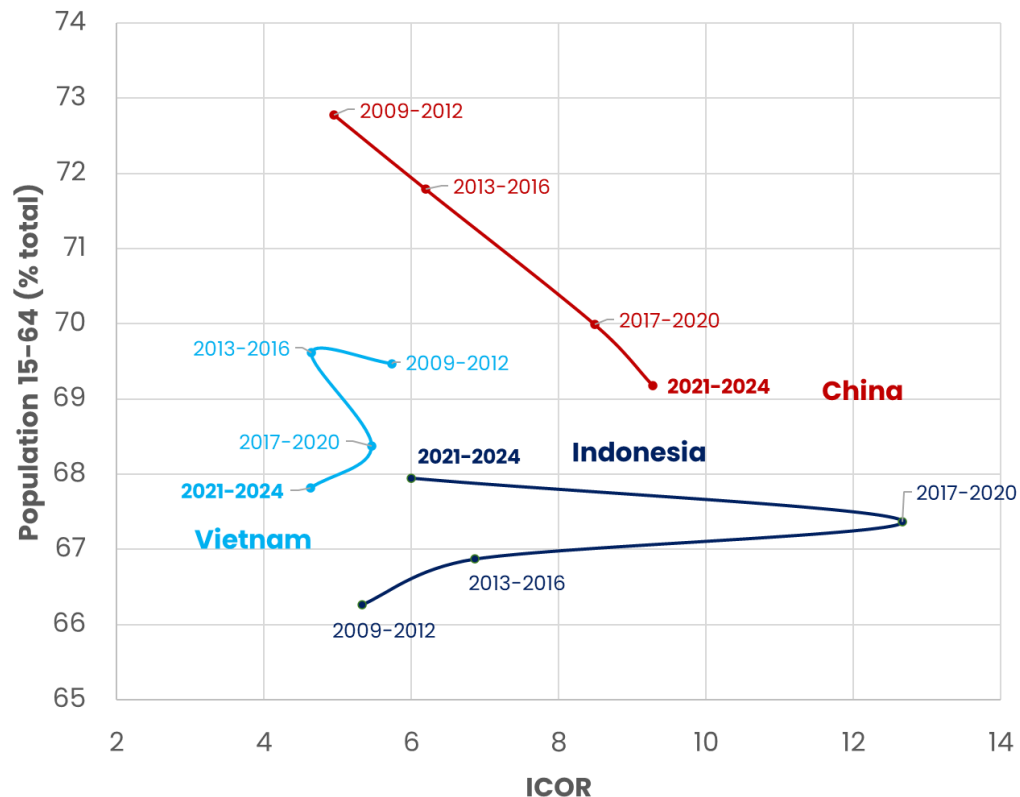


A straightforward approach for our current diagnostic on China's outlook and risks:

1. **Structural weaknesses versus resilience capabilities** have been discussed and debated at least since 2015. Both are affected by the current geopolitical transformations.
2. **In this uncertainty**, we have had a rare convergence of three very different **quantitative tools** in **raising a flag for higher risk of systemic shock around 2027**.
3. **Then what?**
  1. It is still a yellow flag and resilience has not disappeared
  2. Expect macro turbulences and significant corporate / debt restructuring
  3. Divergences across industries are huge and require careful attention

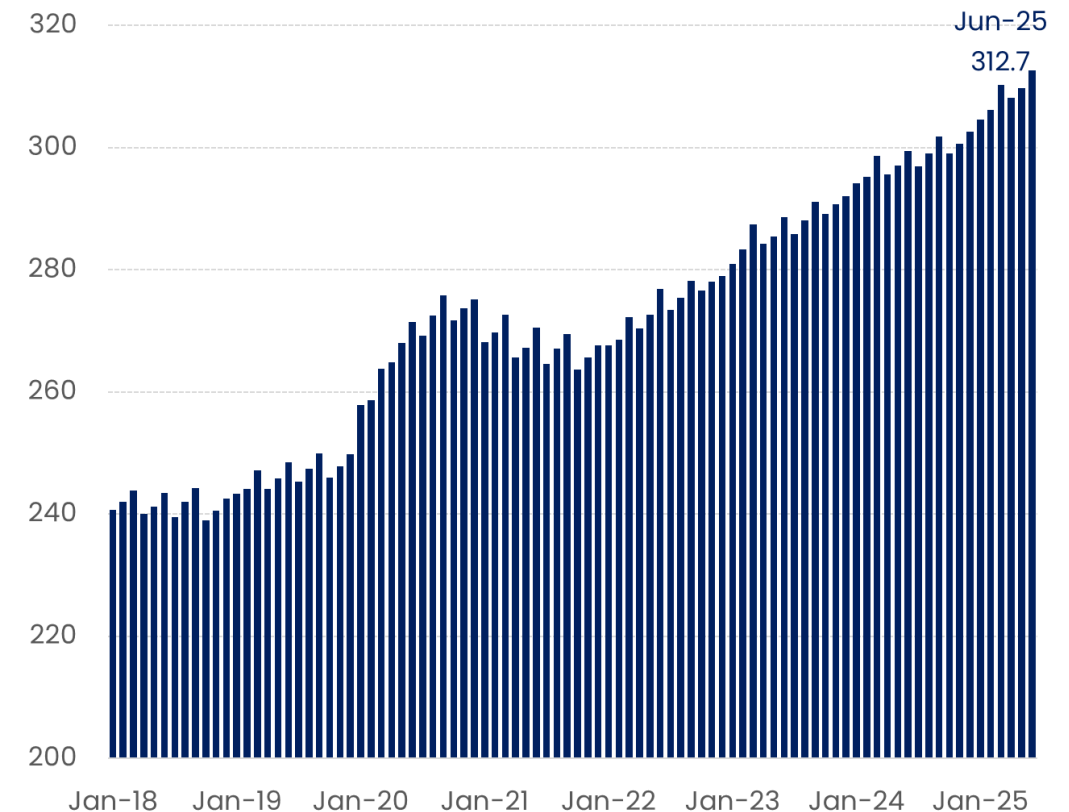
Structural slowdown in growth (demographics and capital efficiency becoming strong headwinds) with unsustainable credit leverage and major shifts in both production structures and demand characteristics.

### ICOR versus Population 15–64



Source: TAC ECONOMICS, IMF/WEO, World Bank

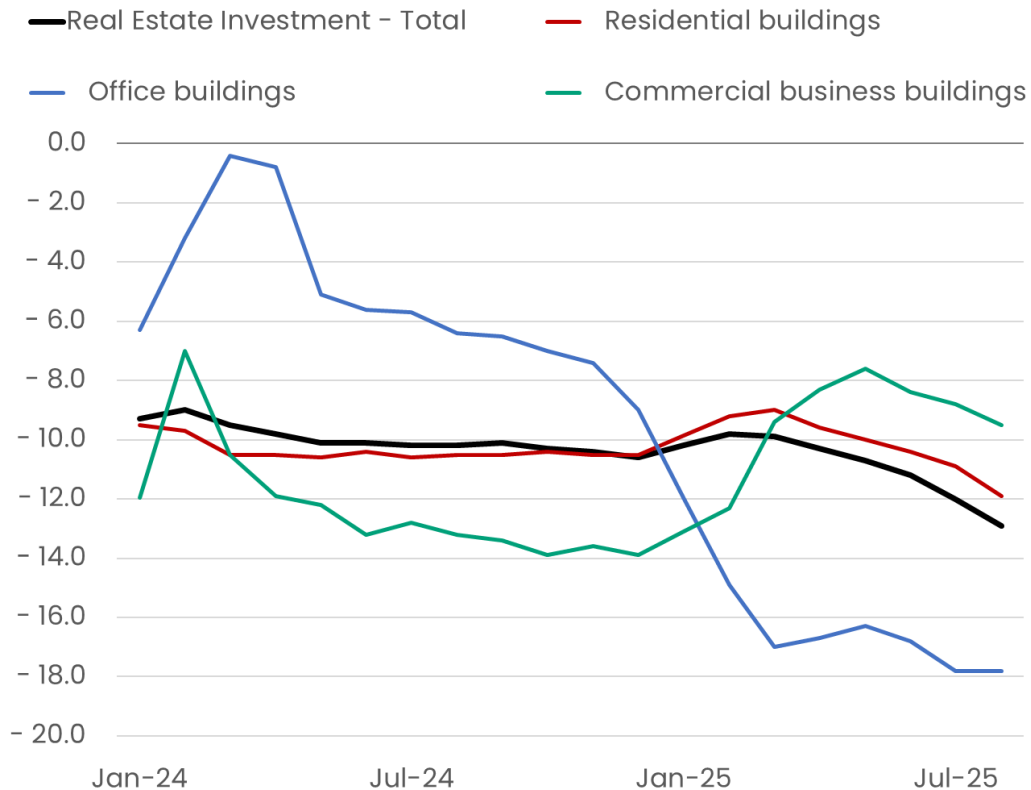
### Aggregate Social Financing (% GDP)



Persistent cyclical challenges, related to the real estate crisis, excess capacities and pressures on margins, complex trade policy development, and deflationary pressures.

### Real estate investment

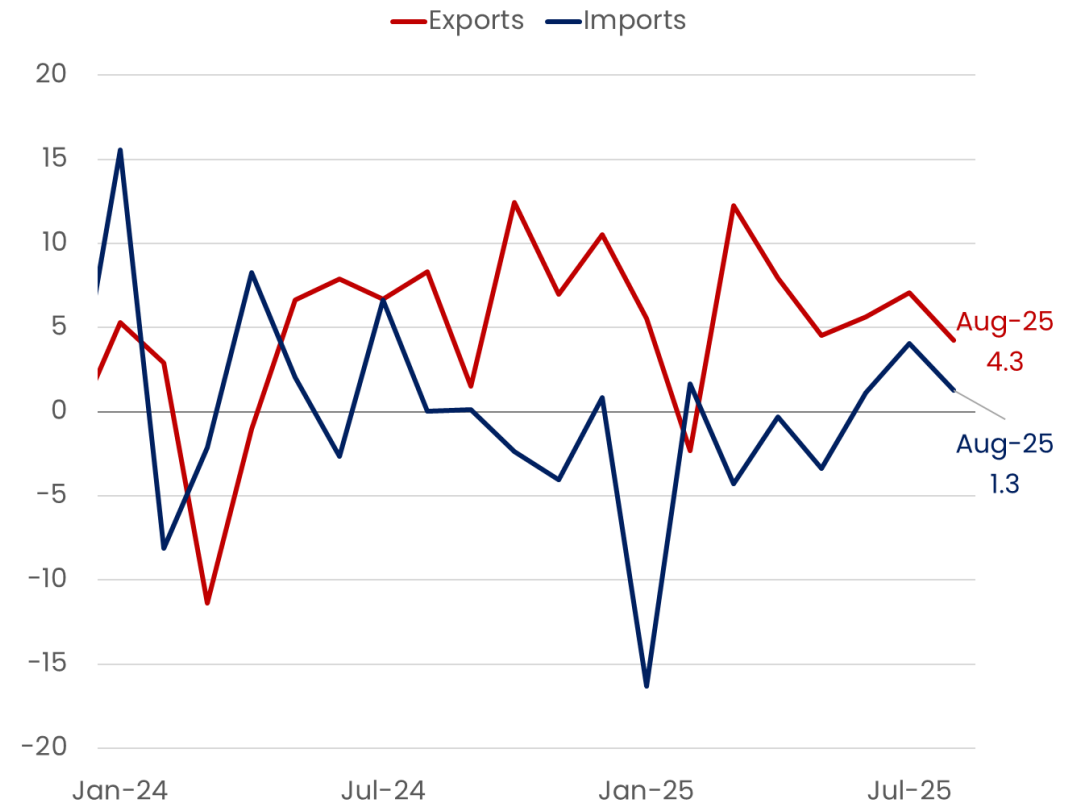
By type, ytd, y/y, %



Source: TAC ECONOMICS, China NBS, China Customs

### Trade performances

China Foreign Trade USD basis, y/y, %



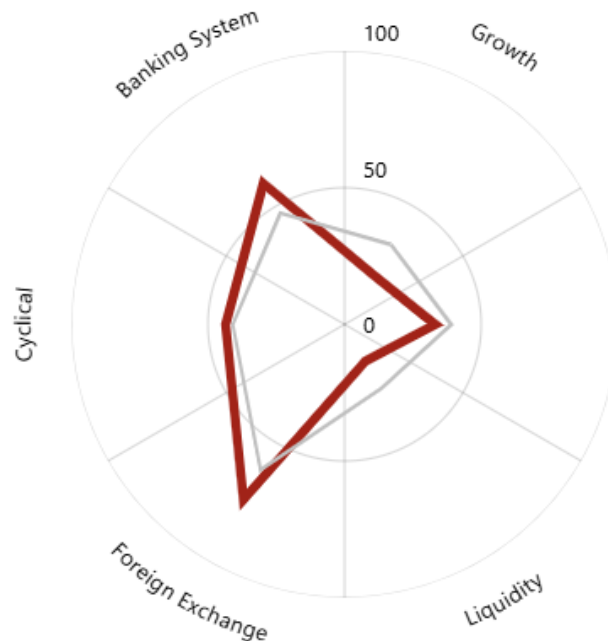
**A normative approach to country-risk ratings**, defined through a combination of performances in so-called Fundamental Balances and using powerful quants for calibrating non-linear characteristics:

→ **Showing a rapid deterioration of the average Economic & Financial Risk rating**

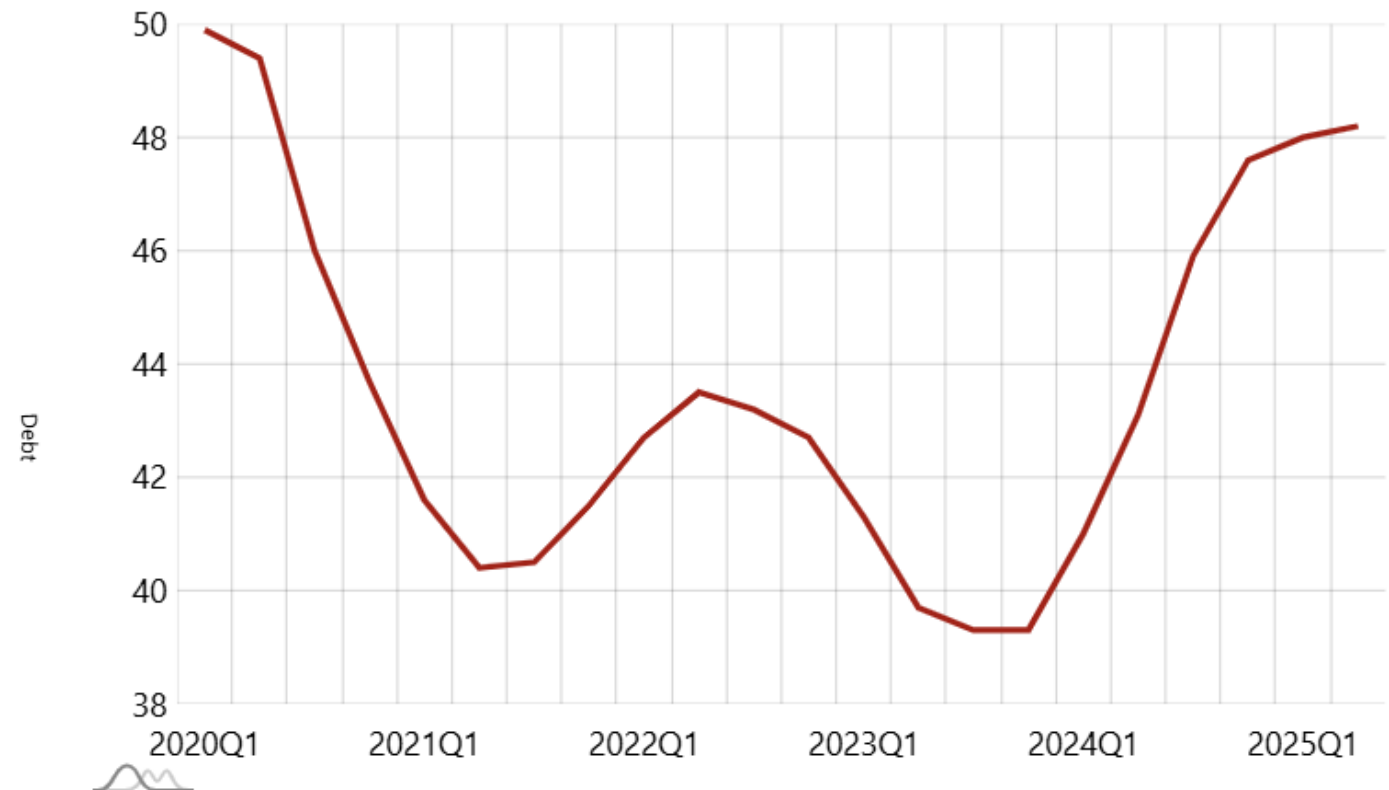
### Economic & Financial Risk Scores by component

From 0 (lowest risk) to 100 (highest risk)

■ China  
■ Asia



### Economic & Financial Risk historical ratings



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## Converging outputs from three quantitative tools (2/3)

**Datamining techniques focusing on non-linearities:** five different modeling techniques providing three outputs: No Signal, WatchList Indication and Crisis Signal

### Signals of Potential Shocks

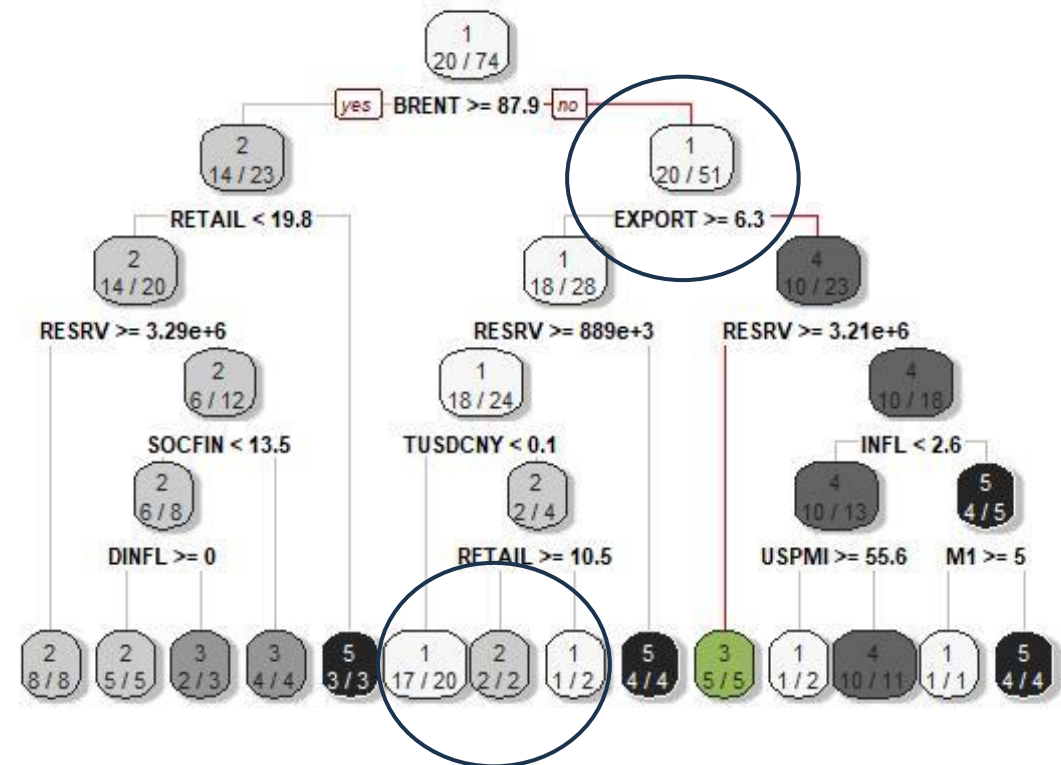
#### A Watch List Indication on Economic Activity

Period of highest vulnerability 2026.Q3 - 2028.Q2

Date	NNSUM of CYC crisis <1 yr.	NNSUM of CYC crisis 1-3 yr.	NNSUM of CYC crisis 3-5 yr.	NNSUM of EXR crisis <1 yr.	NNSUM of EXR crisis 1-3 yr.	NNSUM of EXR crisis 3-5 yr.	NNSUM of TRA crisis <1 yr.	NNSUM of TRA crisis 1-3 yr.	NNSUM of TRA crisis 3-5 yr.
2020-3						1			
2020-4			1	1		1			
2021-1				2		1			
2021-2			1	1		1			
2021-3			1	1	1	1			
2021-4		1	2	1	1	1			
2022-1			2	1	1	1			
2022-2			2	1	1	2			
2022-3			2			1			
2022-4			2			1			
2023-1		1	2	1		1			
2023-2			2	2		2			
2023-3			3						
2023-4		2	3			1			
2024-1		1	3			2			
2024-2		1	3						
2024-3		2	3	1					
2024-4		2	3			1			
2025-1		2	1			1			
2025-2		3	2			2			
2025-3									
2025-4									
2026-1									
2026-2									
2026-3									
2026-4									
2027-1									
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2027-4									
2028-1									
2028-2									
2028-3									
2028-4									
2029-1									
2029-2									
2029-3									
2029-4									

**Recursive Partitioning Models for projections of GDP growth for each quarter up to 7 quarters ahead:** for the longest horizon, a clear indication of likelihood for brutal shift in cyclical gear to the “lowest range” implying GDP contraction starting in 2027Q2; key driver would be the delayed impact of trade tensions.

China - GDP growth YoY - Model 7 quarter: 90.5 %





## Three plausible scenarios:

1. **Our signals prove wrong, and the resilience capability is once again able to manage the difficult transition**, with a progressive absorption of excess leverage and a successful “involution” reducing deflationary forces, in a tech / defense driven support to growth and persistent efficiency of “authoritarian strategist”.

## Our signals prove correct...

2. **Major wave of corporate / industry / financial restructuring, probably in 2027**, associated with a couple of quarters of cyclical contraction, government support to systemic financial actors and a plausible depreciation of the CNY.
3. **Political / policy decision** to use the moment for nationalistic stance / more authoritarian regime **and plausible blind run in international confrontation**.



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## Then what? Operational implications

### Five critical considerations:

1. **Very strong heterogeneity of performances across industries** as well as across individual corporates.
2. **Supply chains / resilience of individual suppliers will be tested** in most scenarios and require a careful review and look at “diversification options”.
3. **Shifts in consumer preferences will intensify**, with consequences on pricing / marketing / distribution strategies.
4. **Participation in JVs could be significantly affected** by corporate restructuring, and could create substantial challenges for foreign operators.
5. **Currency depreciation, financial repression** and structural changes in the financial system (and monetary / payment systems) will increase, with **issues for local funding**.

# China's economy: how close to the cliff ?

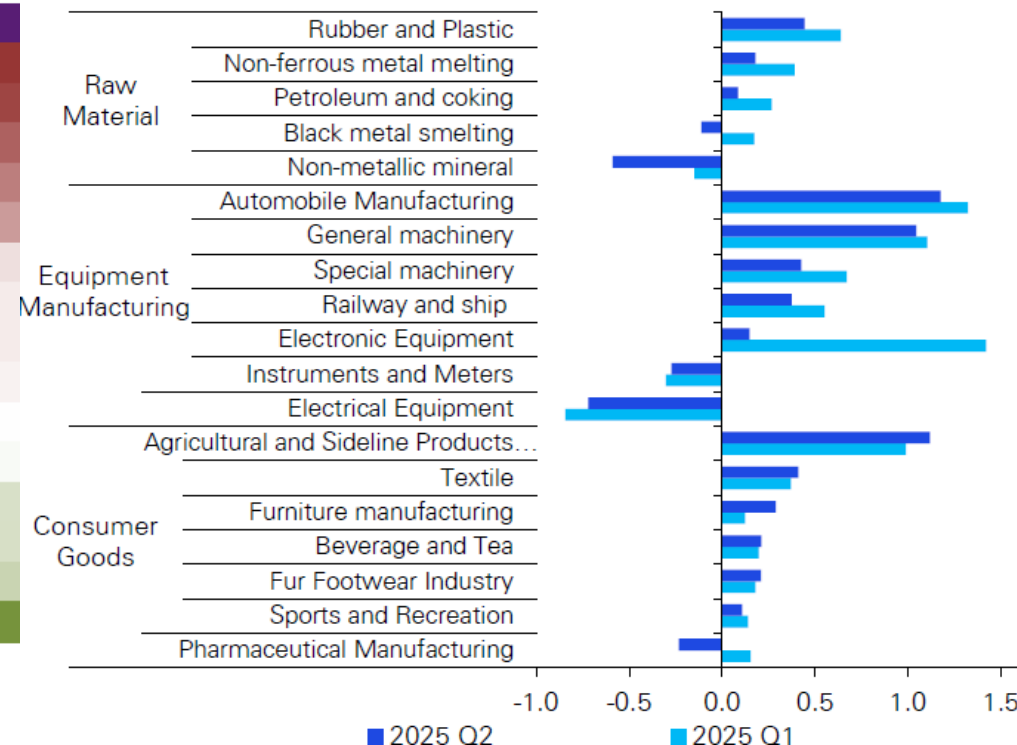
## Then what? Sharp divergences across industries and corporates

### China: share of “zombie” firms by sector (%)

	18	19	20	21	22	23	24
Renewables	0	0	5	11	3	5	29
Real Estate	12	11	9	16	18	24	27
Infrastructure	5	5	12	20	23	22	25
ICT	9	10	9	14	15	19	22
Communication Services	6	6	9	10	16	9	19
Automobile	10	9	15	16	14	15	12
Healthcare	8	9	11	9	11	11	11
Semiconductors	11	12	5	5	9	8	11
Industrials	6	6	7	6	9	8	10
Metals & Materials	4	4	4	3	6	8	9
Consumer Discretionary	3	6	13	10	10	6	8
Energy	4	4	4	2	2	6	6
Consumer Staples	6	3	6	10	8	12	6
Utilities	3	3	3	12	8	3	5
Airlines	0	0	13	25	88	0	0

N.B. Defined as firms with EBITDA-to-interest expense lower than 1.

### China: contribution to manufacturing investment growth by sector (%)



Sources: Natixis, KPMG

# Contacts

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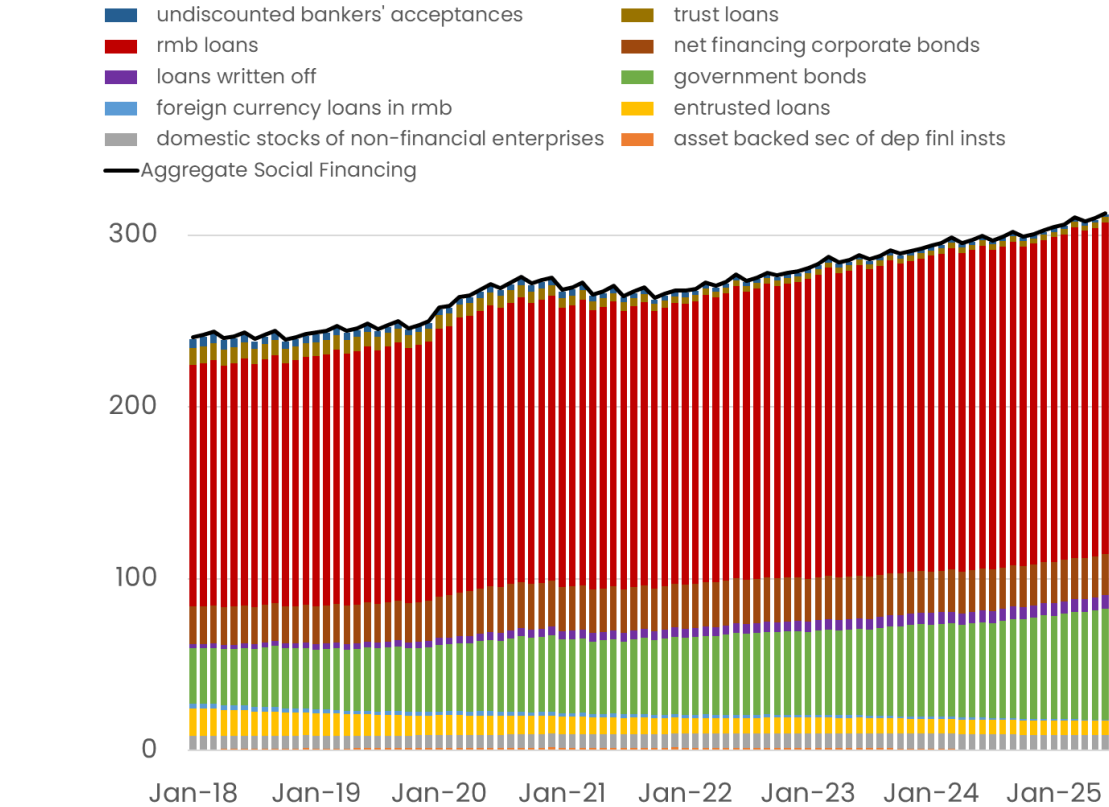
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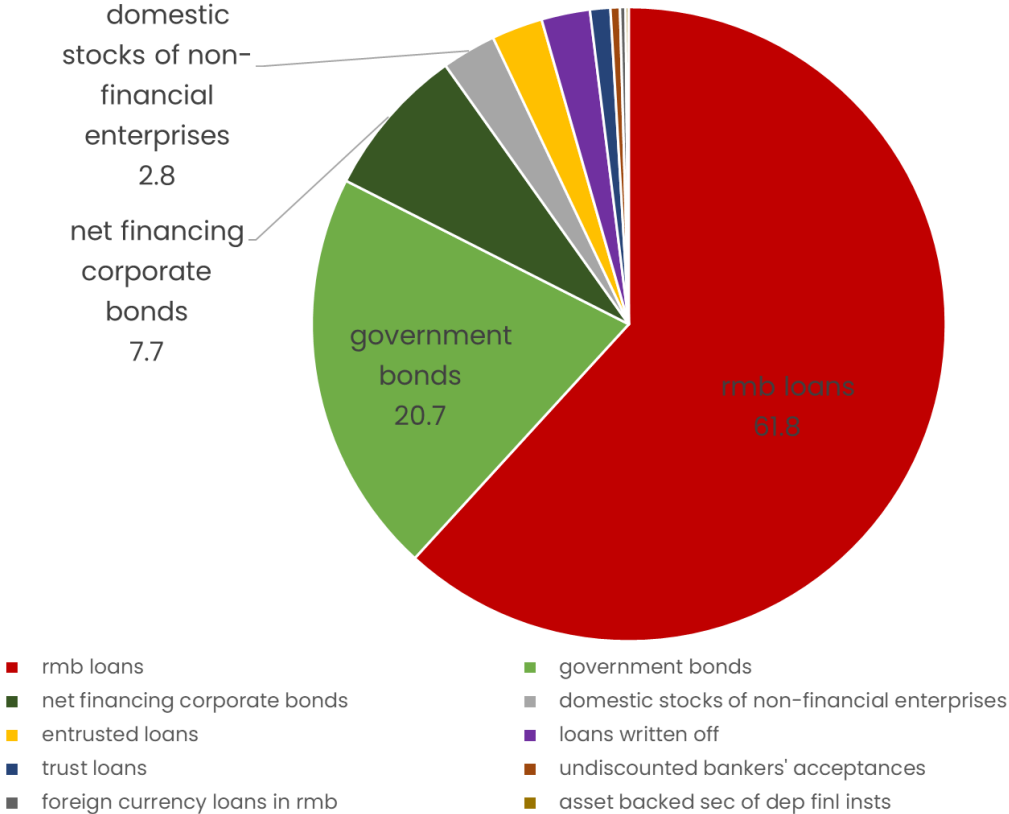


Appendix

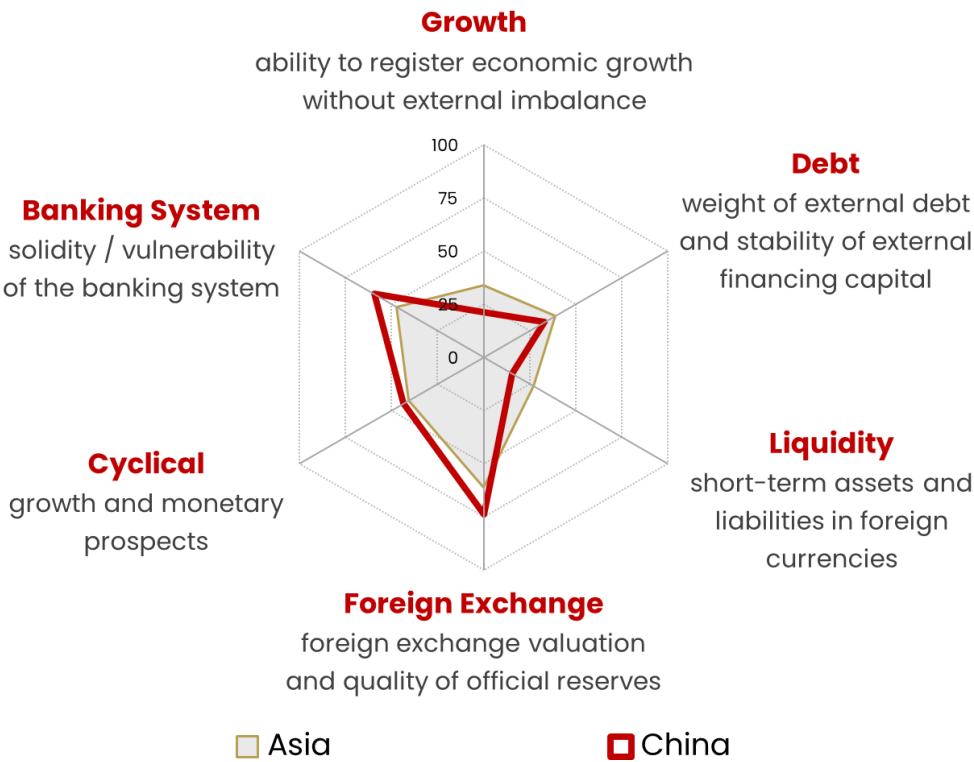
China's economy: Aggregate Social Financing (total credit leverage)  
(% of GDP, left chart, % as of 2025Q2, right chart)



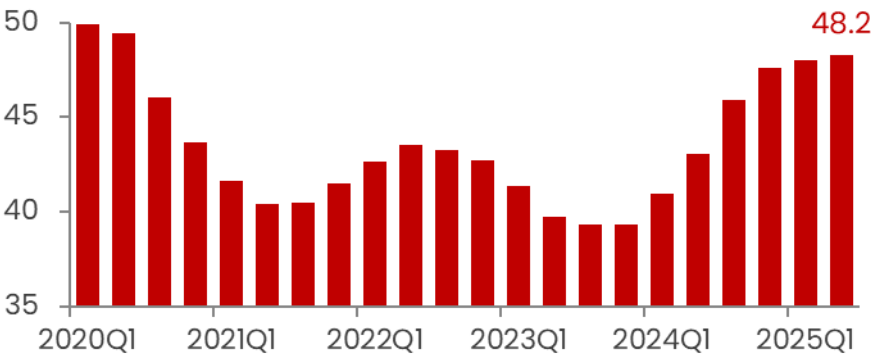
Source: TAC Economics



Economic & Financial Risk Score by component  
From 0 (lowest risk) to 100 (highest risk)



Economic & Financial Risk Rating History  
From 0 (lowest risk) to 100 (highest risk)

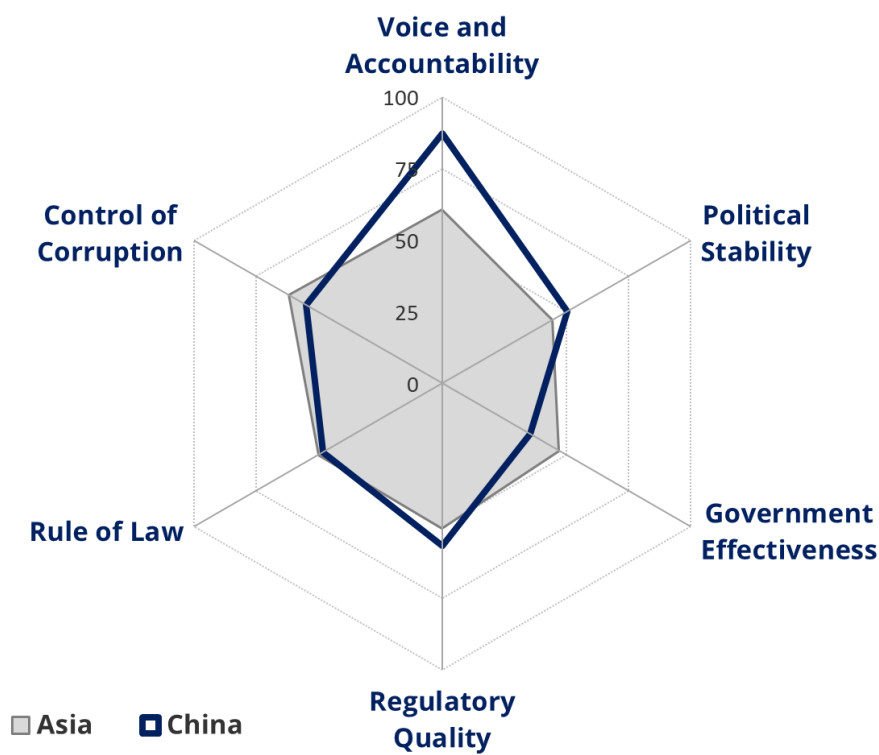


Signals of Potential Shocks

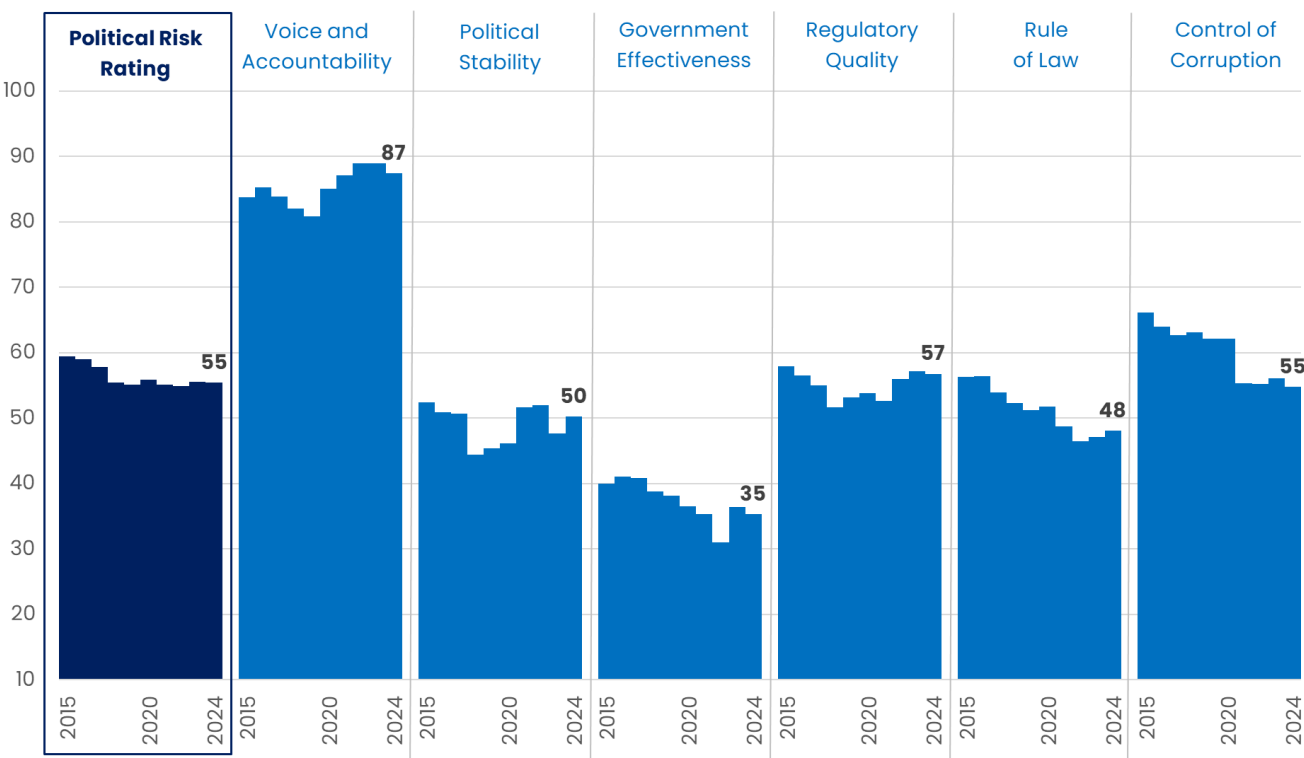
**A Watch List Indication on Economic Activity**  
Period of highest vulnerability 2026.Q3 - 2028.Q2

Source: TAC ECONOMICS

Political Risk Rating by component  
From 0 (lowest risk) to 100 (highest risk)

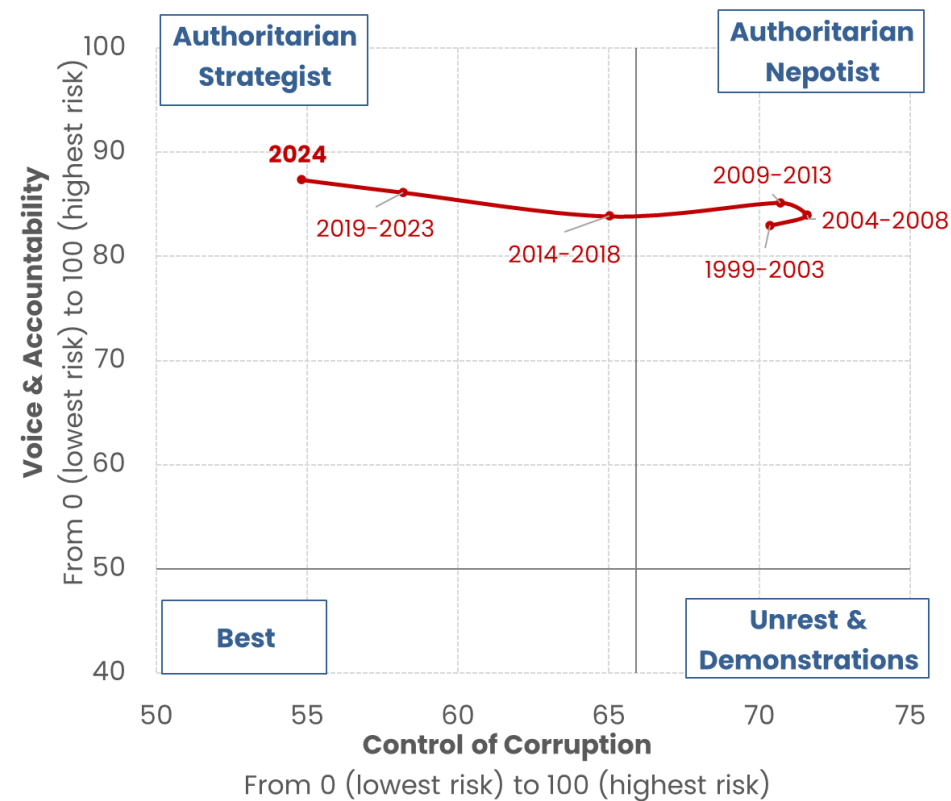


Political Risk Rating History by component  
From 0 (lowest risk) to 100 (highest risk)



Source: TAC ECONOMICS

Political & Governance Risk – Institutional Setting  
Control of Corruption vs Voice & Accountability



Source: TAC ECONOMICS Datalab