

La Chine peut-elle éviter la crise ?

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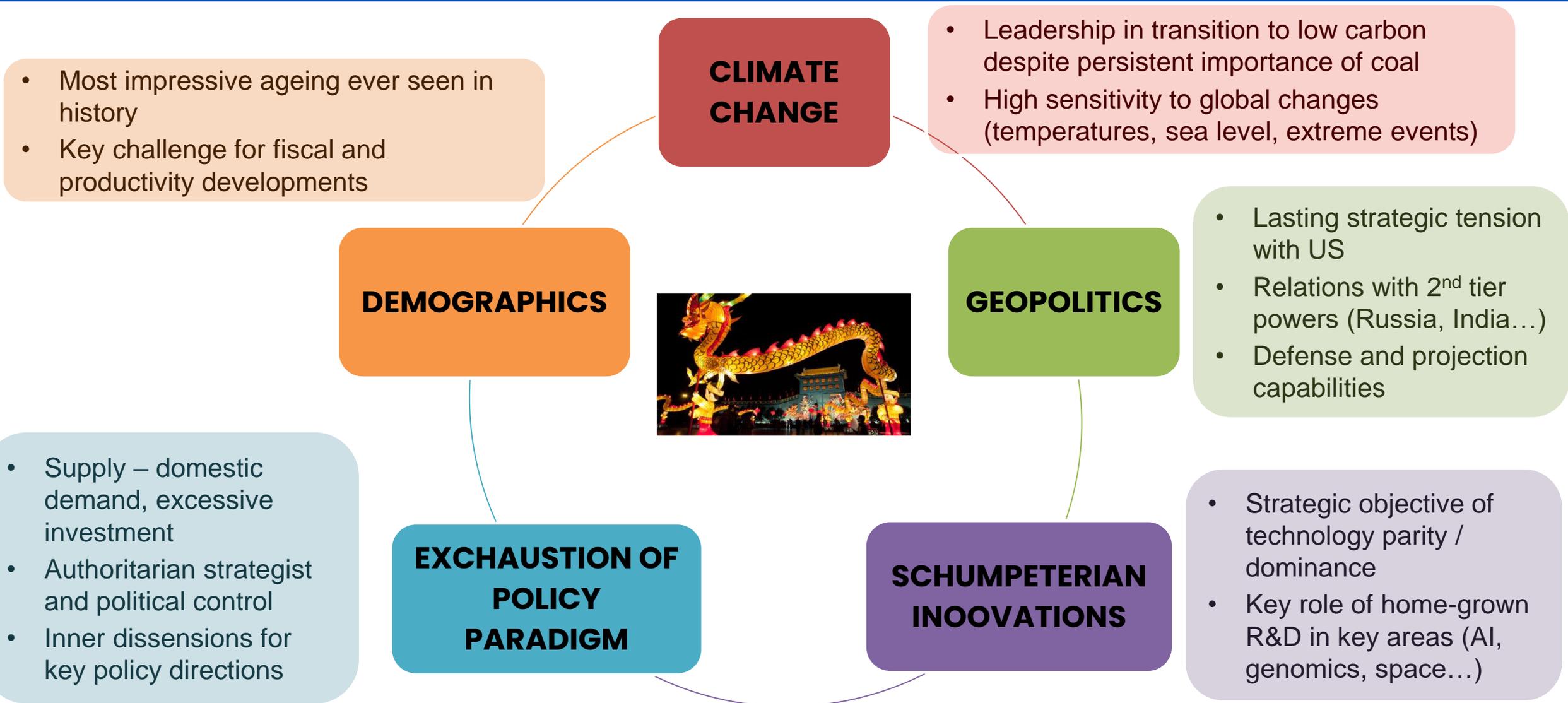


China's economy: how close to the cliff ?

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
 4. But China will still remain the fastest-cruising massive economy over the next 5-10 years

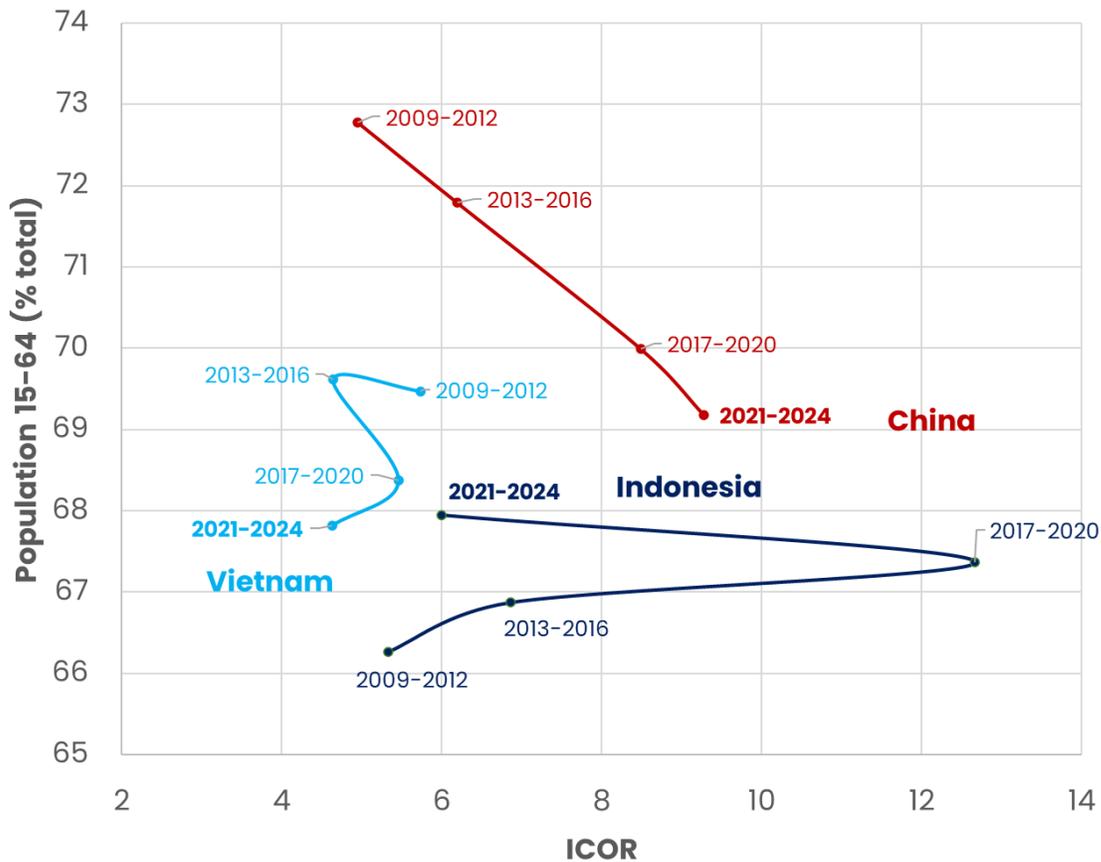
China at the epicenter of five worldwide tectonic disruptions



China's economy: how close to the cliff ? Structural weaknesses are well known

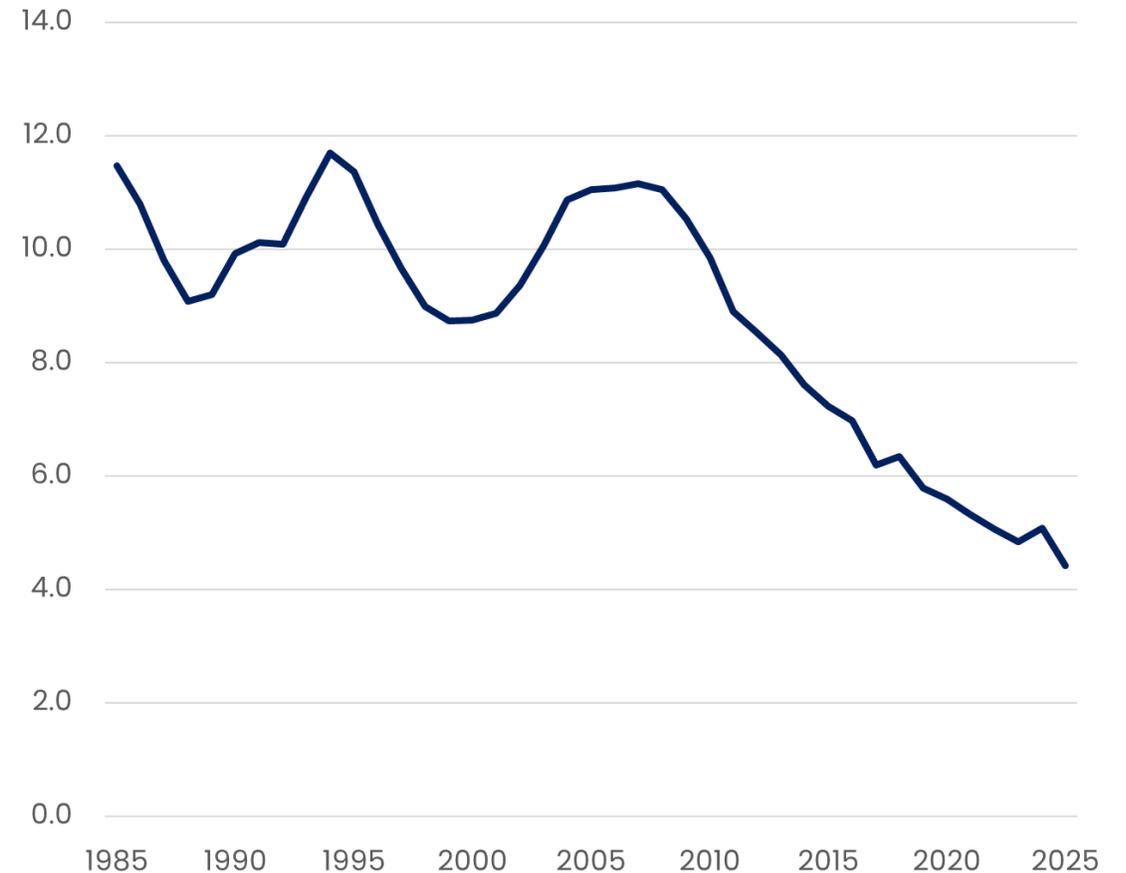
Trend slowdown in growth and exhaustion of previous engines

Declining investment efficiency and working-age population



Structural slowdown in GDP growth

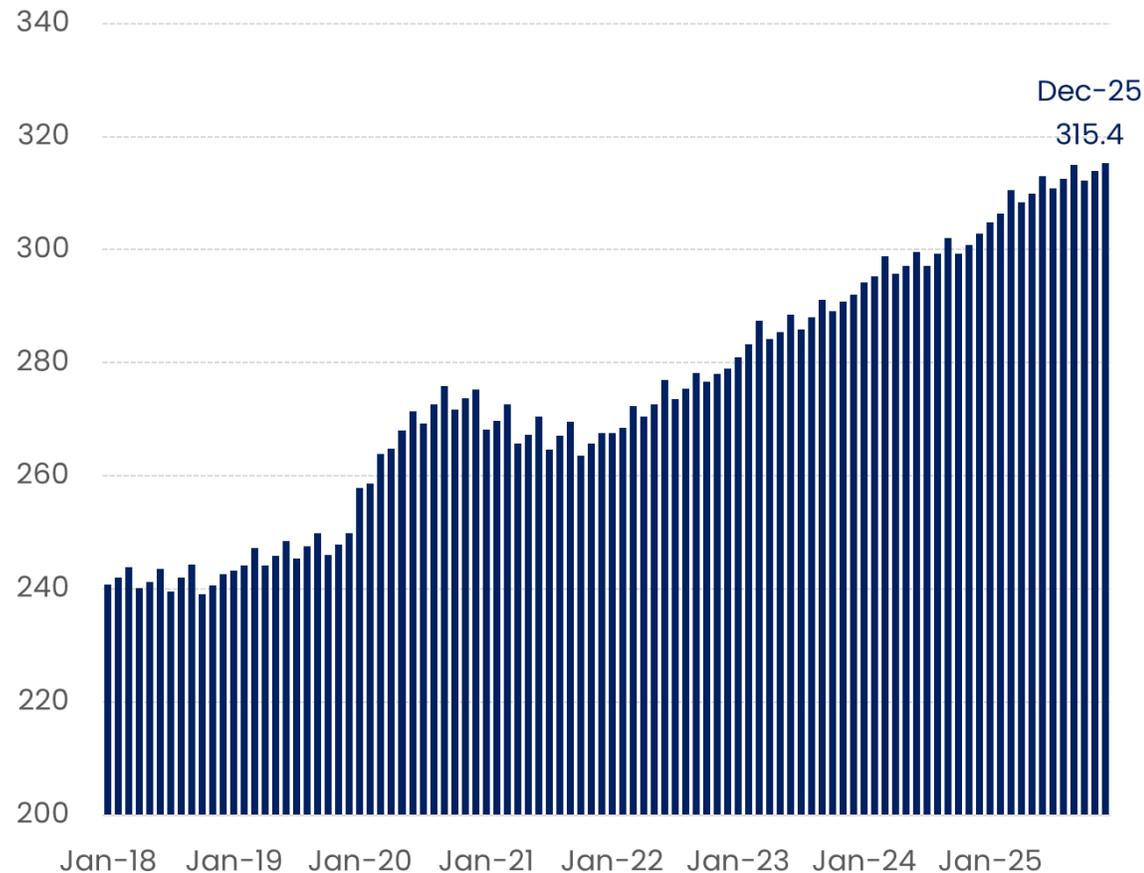
7 years centered-moving average



China's economy: how close to the cliff ? Structural weaknesses are well known

High credit leverage and declining debt sustainability

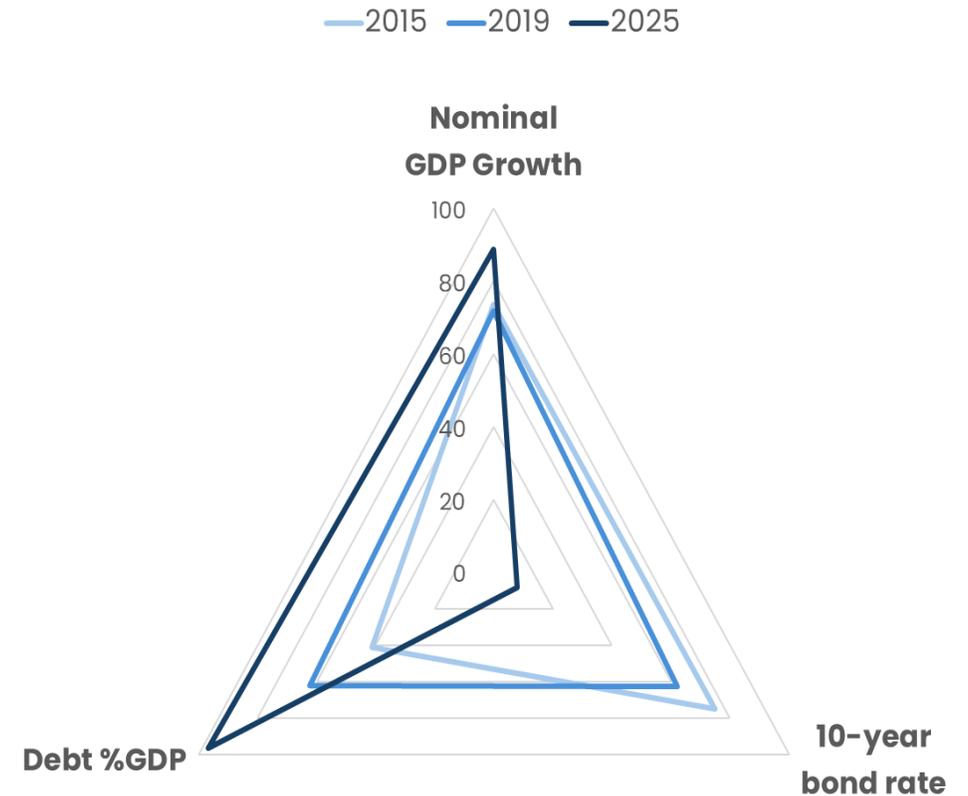
Aggregate Social Financing at 315% of GDP



Source: TAC ECONOMICS, IMF/WEO, World Bank

Aggregate-debt sustainability metric

Normalized indicators, average last 2 years
From 0 (more sustainable) to 100 (less sustainable)

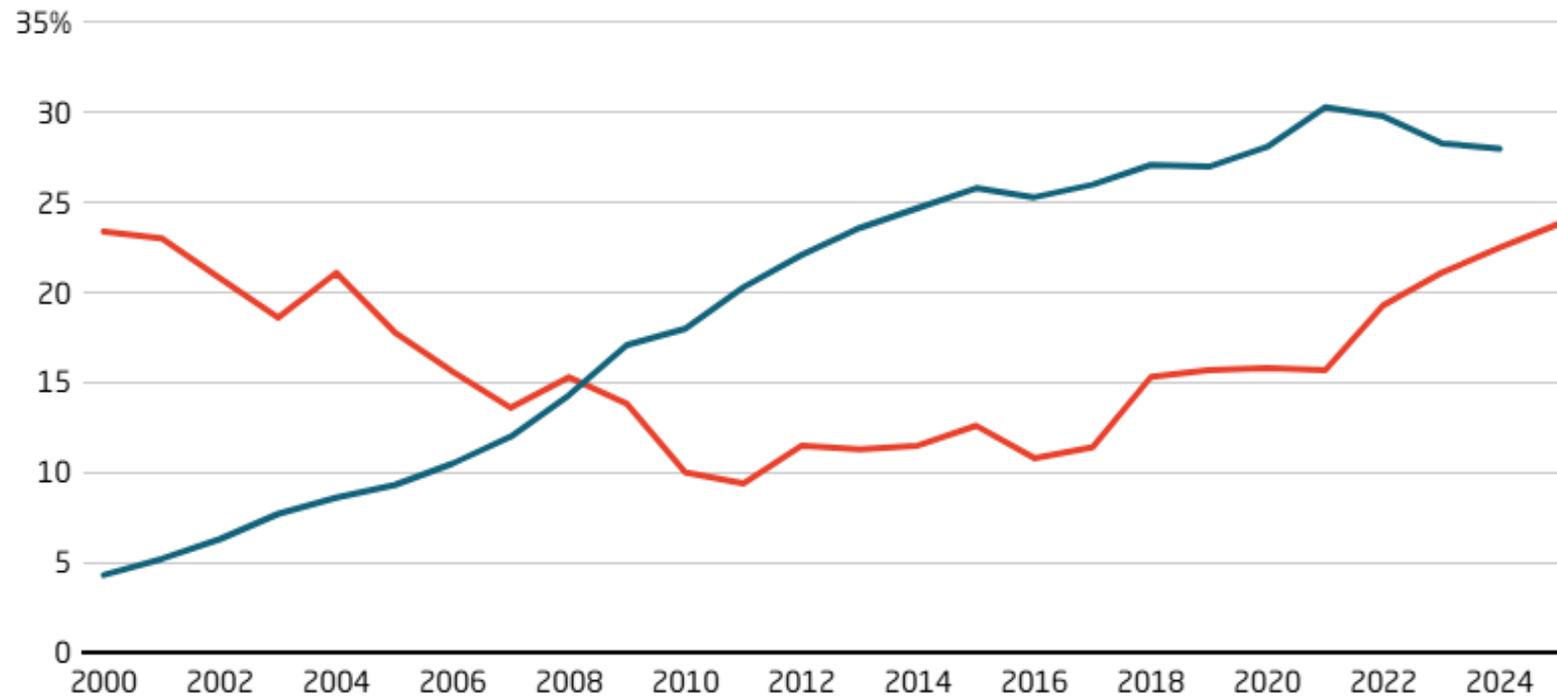


China's economy: how close to the cliff? Structural weaknesses are well known
Increasing strains at corporate level (competition and leverage)

Manufacturing expansion comes with a new rise in loss-making



— China's share in global manufacturing — Share of loss-making industrial firms in China



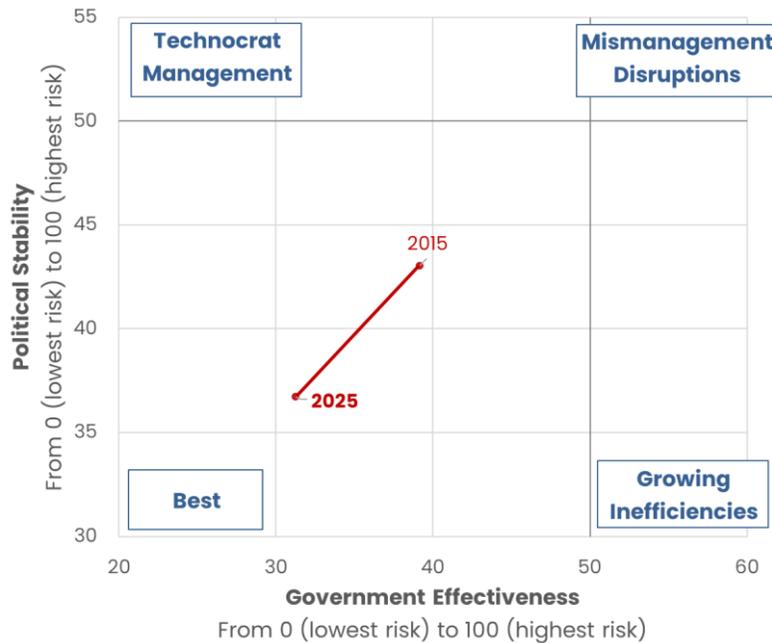
Source: MERICS

China's economy: how close to the cliff ? Resilience related to political economy

Strategic state actors

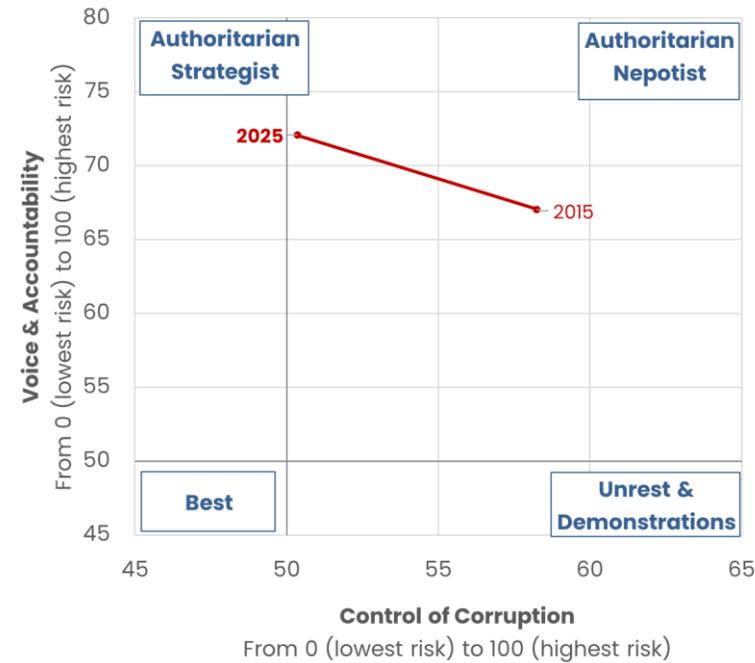
Government Management Setting

Government Effectiveness vs Political Stability



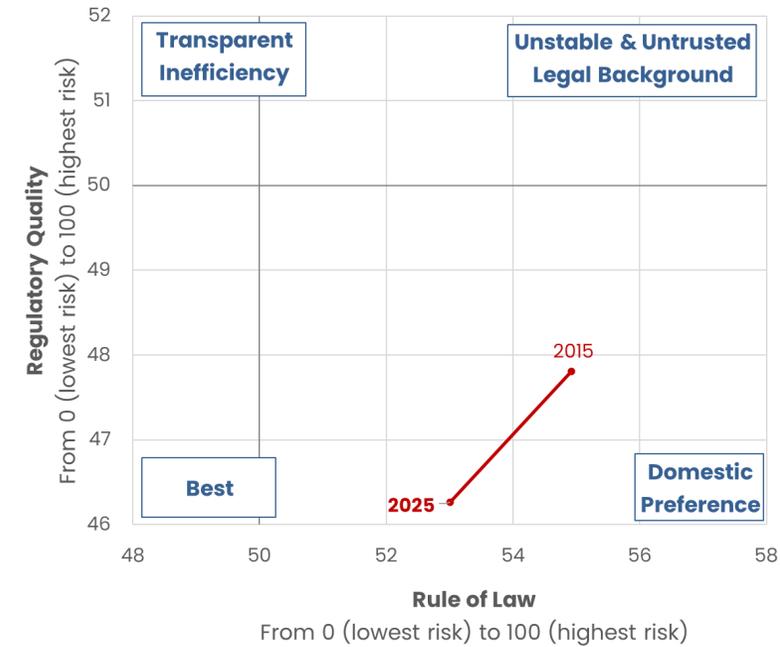
Institutional Setting

Control of Corruption vs Voice & Accountability



Operational Setting

Rule of Law vs Regulatory Quality



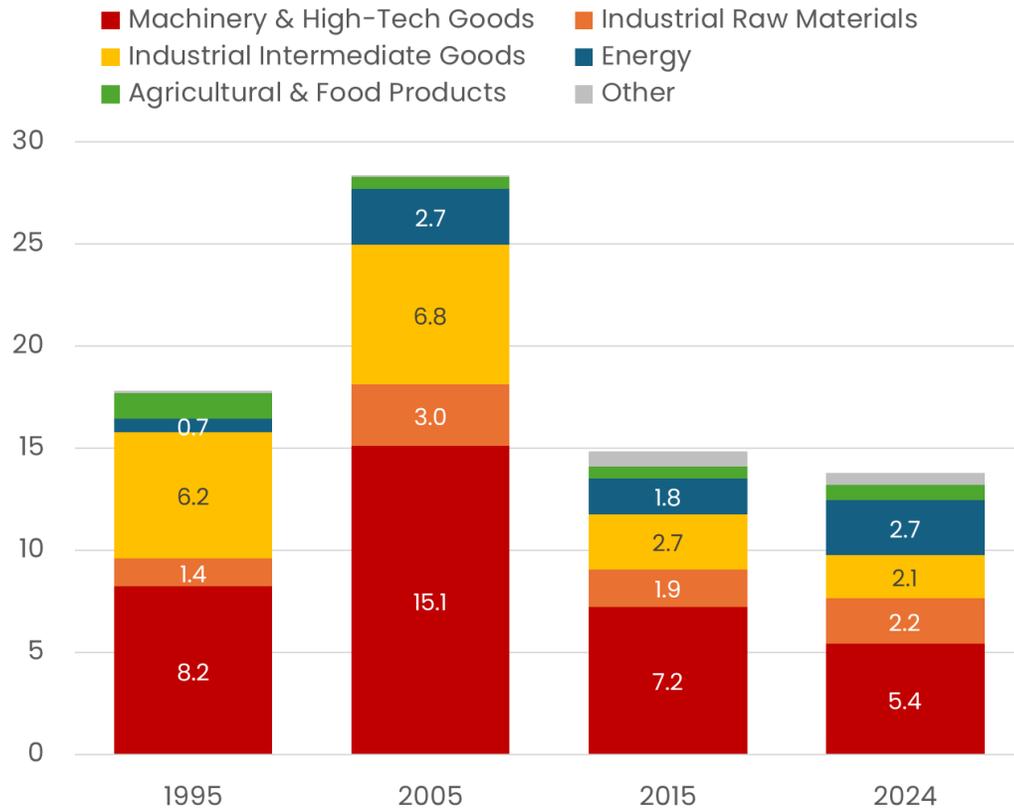
Source: TAC ECONOMICS

China's economy: how close to the cliff? Resilience related to political economy

Economic / development catch-up process

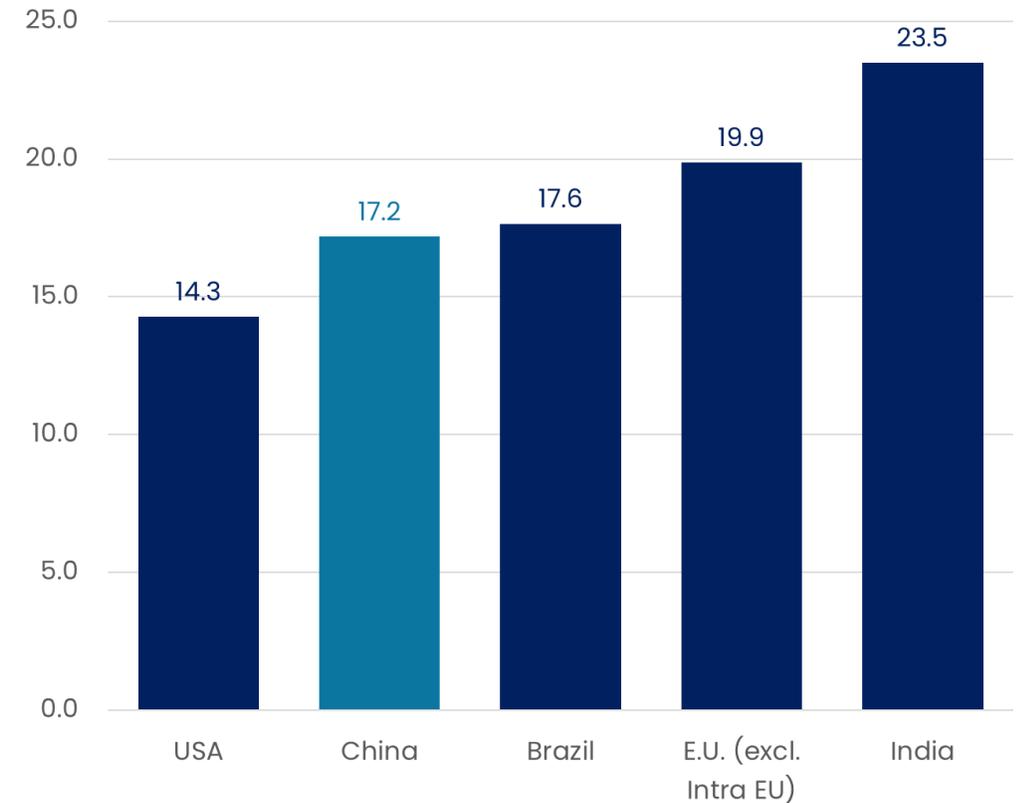
Goods Imports by product category

% GDP



Imports of Goods & Services

% GDP, 2024

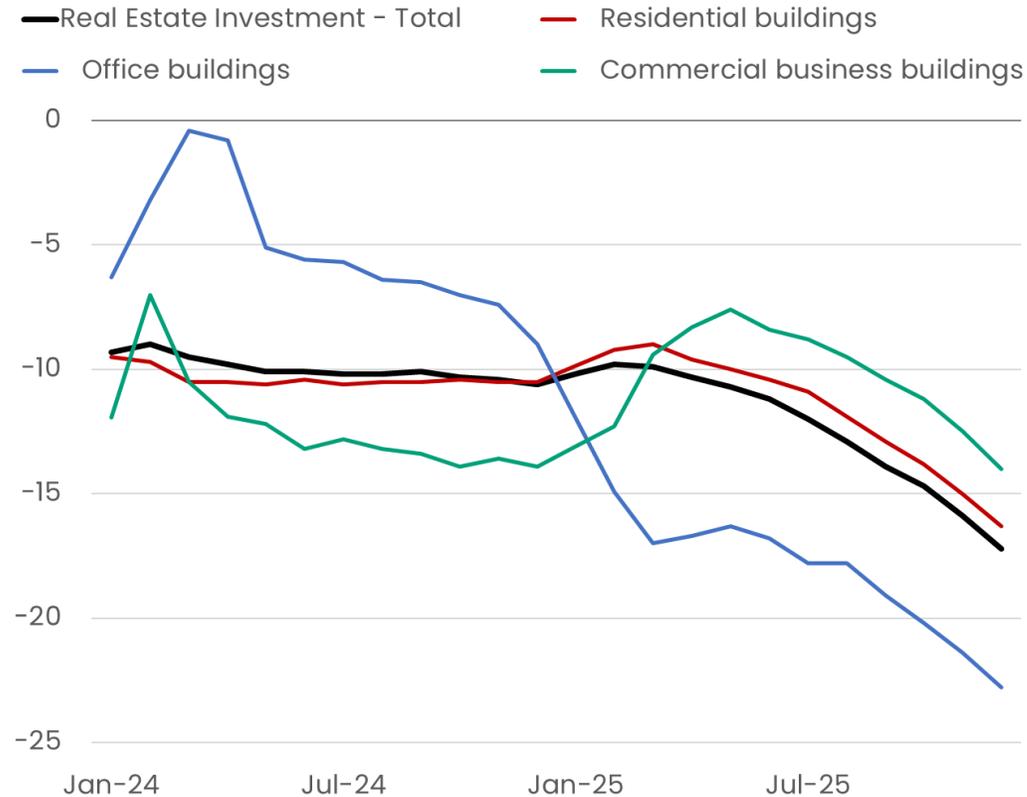


China's economy: how close to the cliff? A higher-risk short-term combination

Persistent cyclical drag from real estate and confidence

Real estate investment

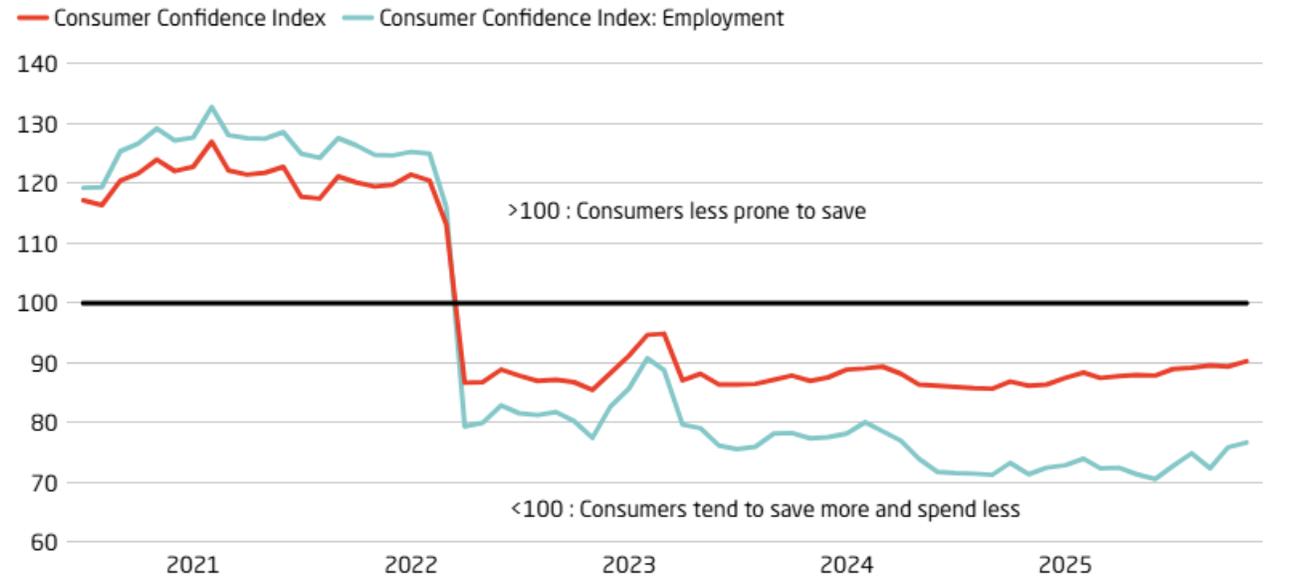
By type, ytd, y/y, %



Consumer confidence

By type, ytd, y/y, %

Consumer Confidence Index shows no signs of recovery



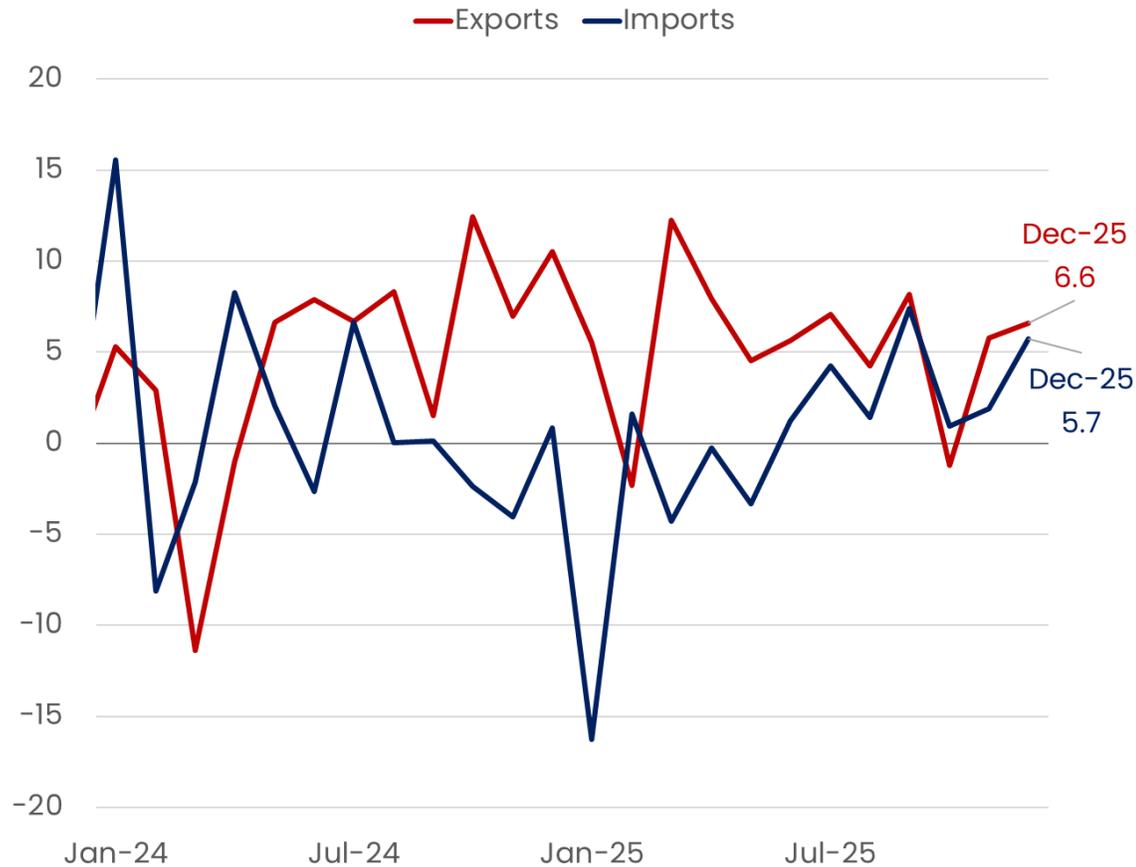
Source: National Bureau of Statistics

China's economy: how close to the cliff? A higher-risk short-term combination

Resilience for external trade, but rising restrictions

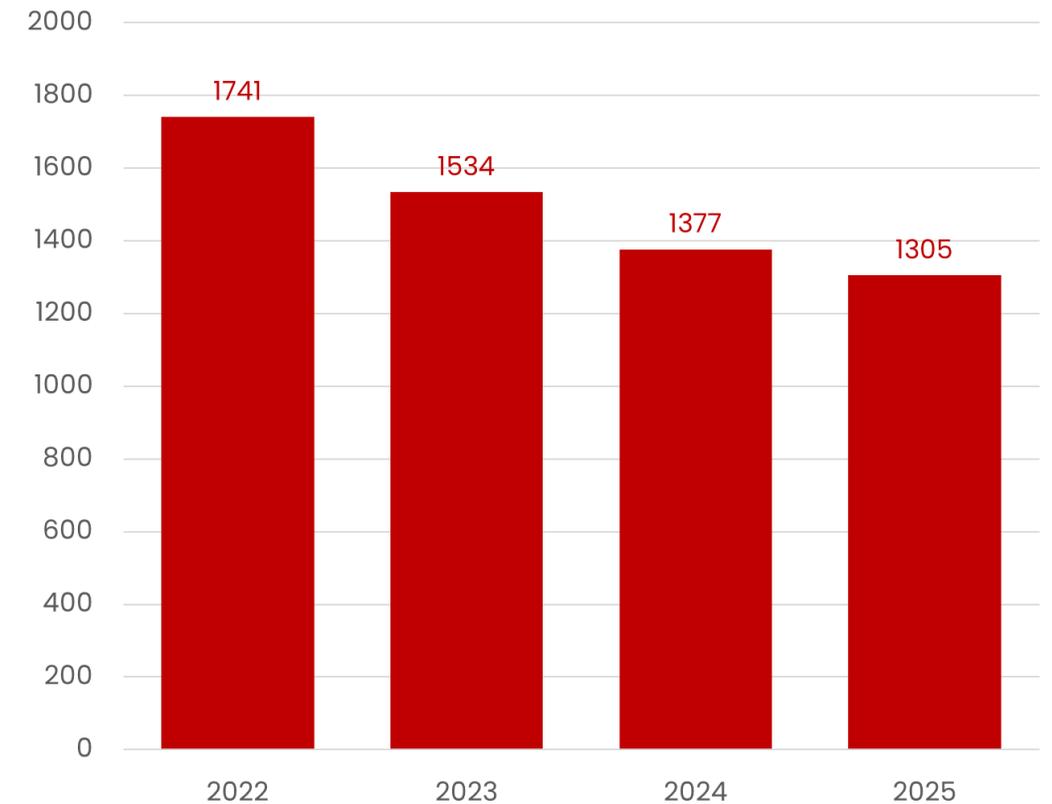
Trade performances

China Foreign Trade USD basis, y/y, %



New trade restrictive policies against China

GTA, total 2022-2025

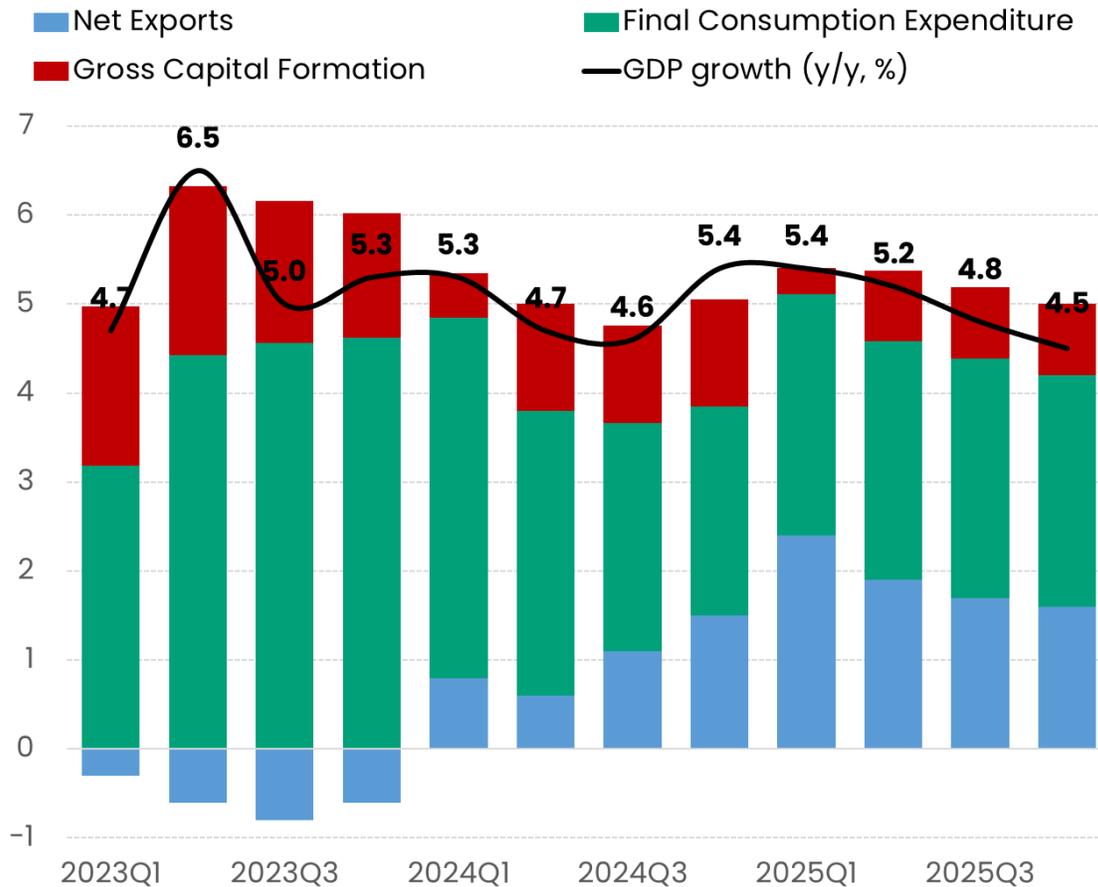


China's economy: how close to the cliff? A higher-risk short-term combination

Dependence on trade, excess supply and deflation

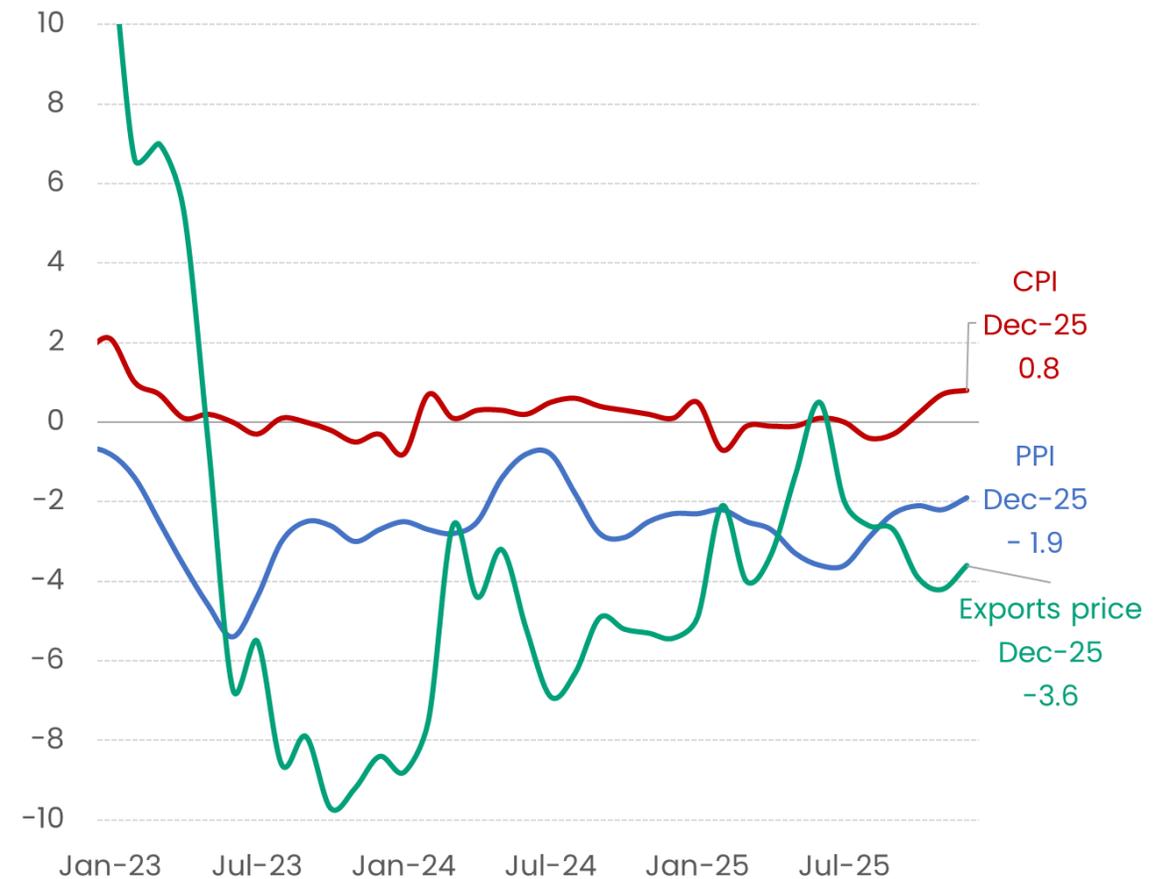
Contribution to GDP growth, 23Q1 to 25Q4

By type, ytd, y/y, %



China deflationary pressures (CPI, PPI, export prices)

China Foreign Trade USD basis, y/y, %



Source: TAC ECONOMICS, China NBS, China Customs

China's economy: how close to the cliff ? A convergence of quantitative metrics

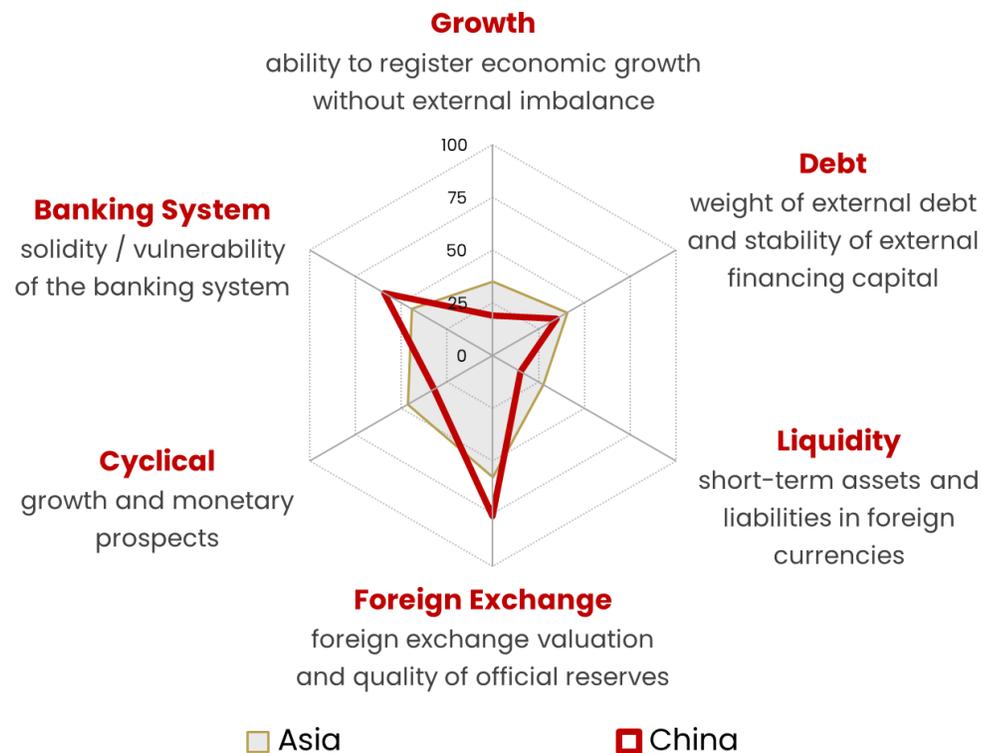
Country-risk rating: deteriorating

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:

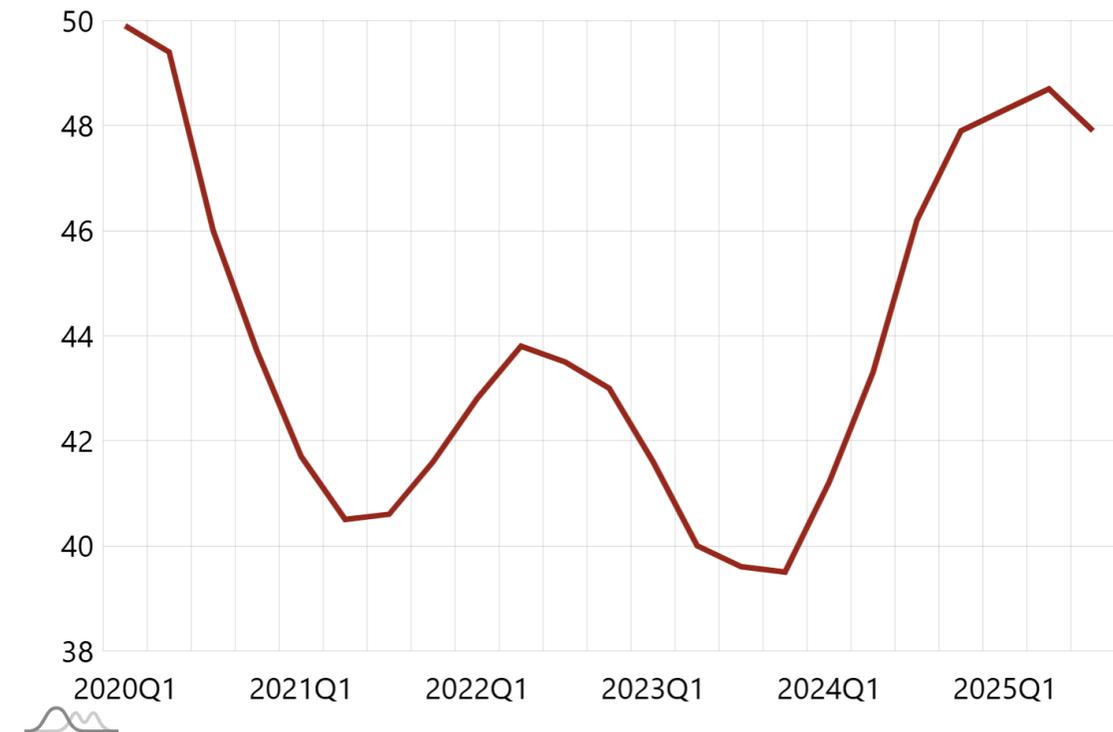
→ **Showing a rapid deterioration of the average Economic & Financial Risk rating**

Economic & Financial Risk Score by component

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



Economic & Financial Risk historical ratings



Source: TAC ECONOMICS Datalab

China's economy: how close to the cliff ? A convergence of quantitative metrics

AI techniques for Early Warning Signal: switched ON

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

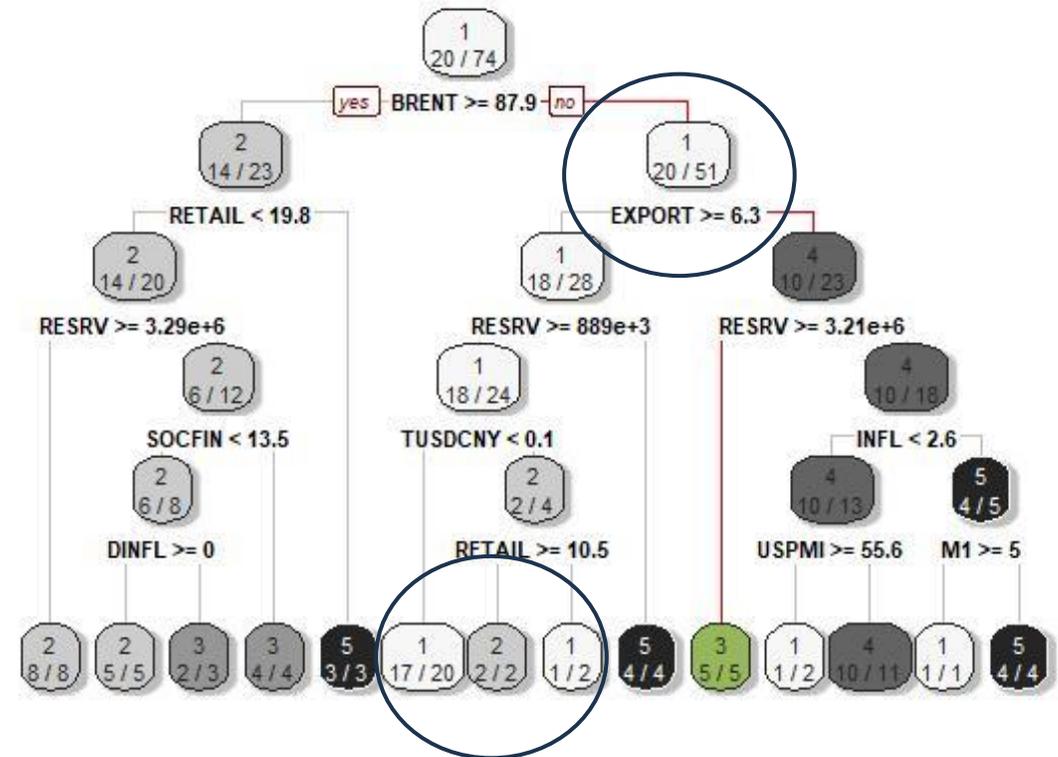
Date	NNSUM of CYC	NNSUM of CYC	NNSUM of CYC	NNSUM of EXR	NNSUM of EXR	NNSUM of EXR	NNSUM of TRA	NNSUM of TRA	NNSUM of TRA
	crisis <1 yr.	crisis 1-3 yr.	crisis 3-5 yr.	crisis <1 yr.	crisis 1-3 yr.	crisis 3-5 yr.	crisis <1 yr.	crisis 1-3 yr.	crisis 3-5 yr.
2020-3						1			
2020-4			1	1		1			
2021-1				2		1			
2021-2			1	1		1			
2021-3			1	1	1	1			
2021-4			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		1	3	1					
2024-4		1	3			1			
2025-1		1	1			1			
2025-2		1	1			2			
2025-3		1	1			2			
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China's economy: how close to the cliff? A convergence of quantitative metrics

Datamining technique for ST GDP projection: sharp slowdown

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.**

China's economy: how close to the cliff ?

Then what? Operational implications

Six 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**.
6. **A cyclical / financial shock does not mean a “sinking country”**; China will remain a large and fast-growing economy over the next 5-10 years, and the expected corporate restructurings would open huge opportunities.

Contacts

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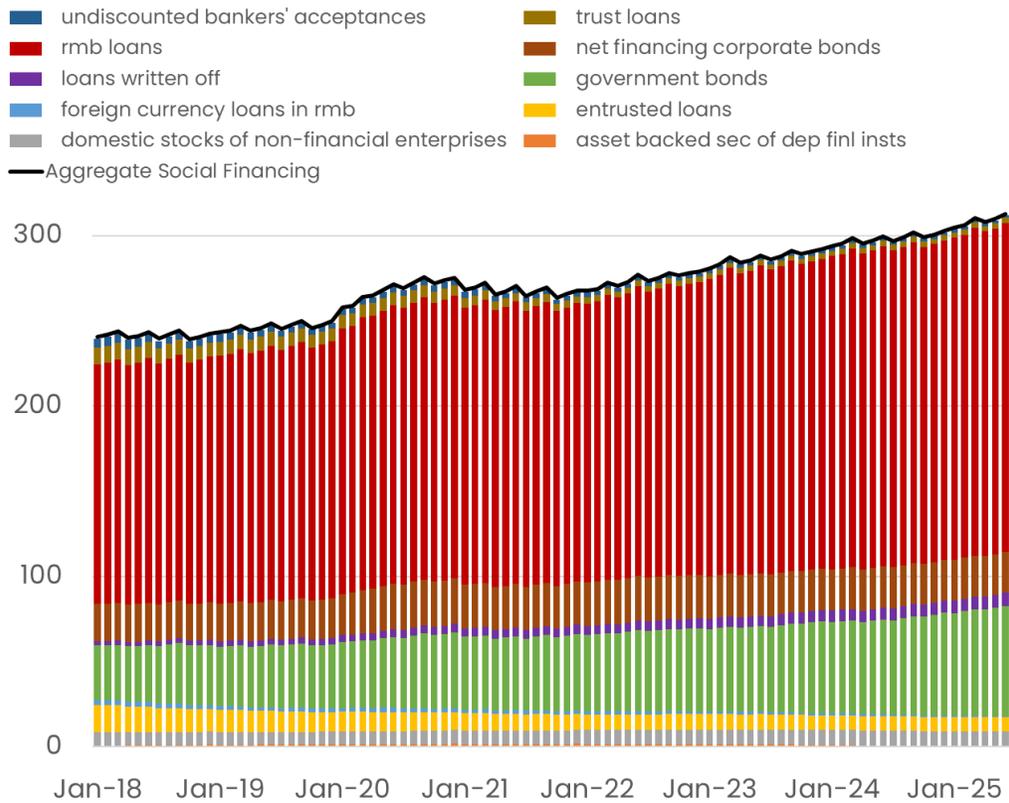
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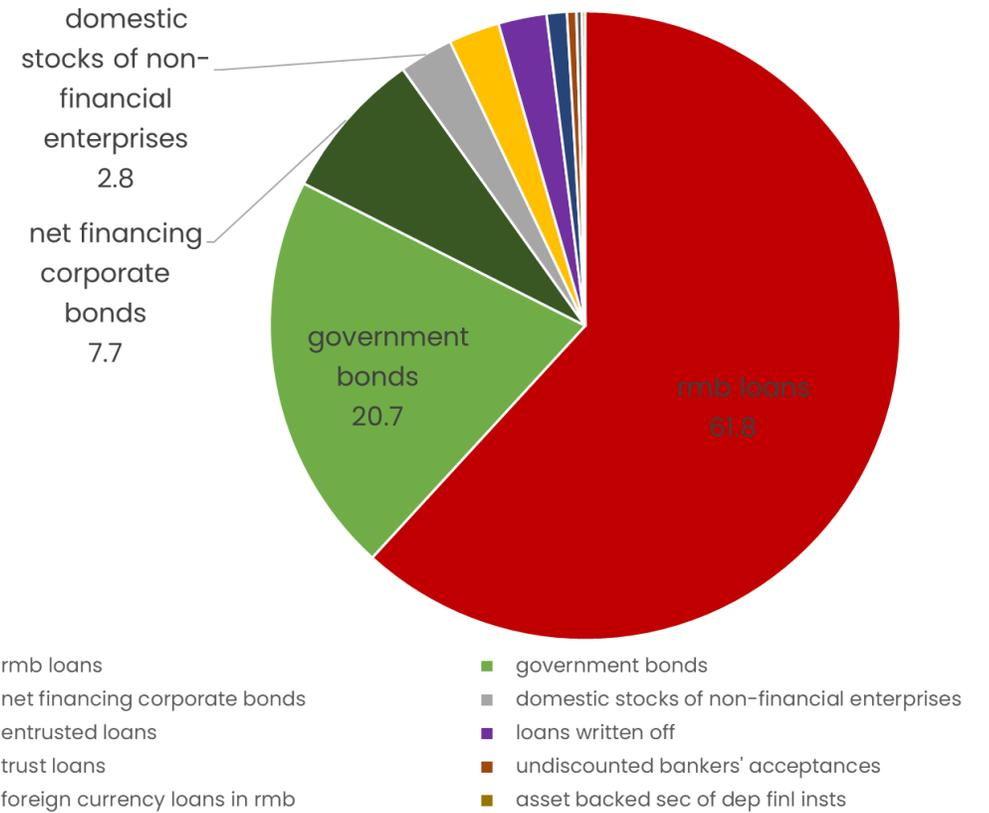


Appendix

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

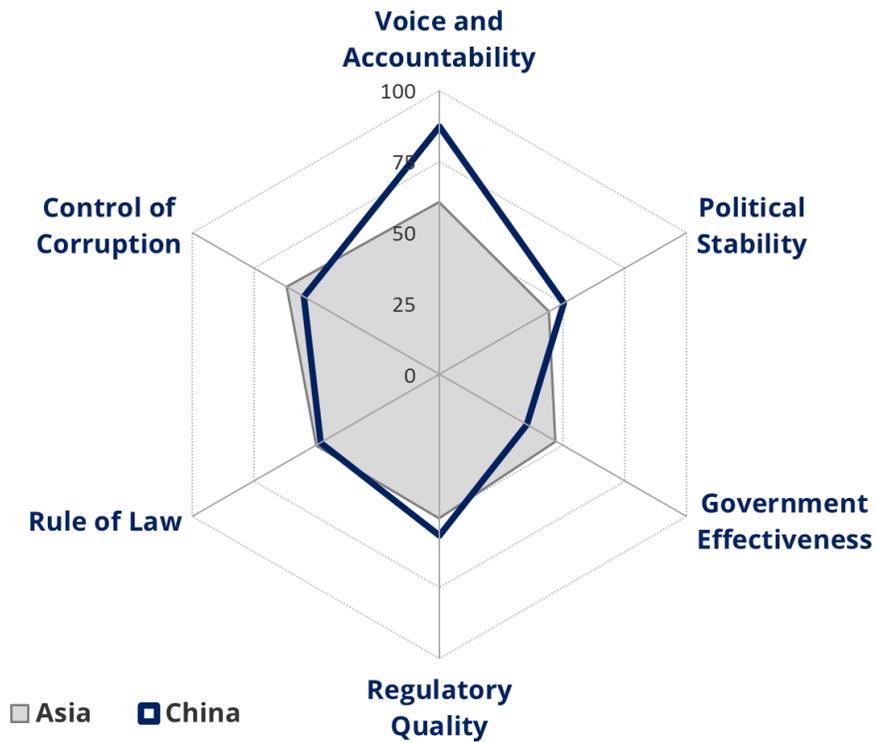


Source: TAC ECONOMICS



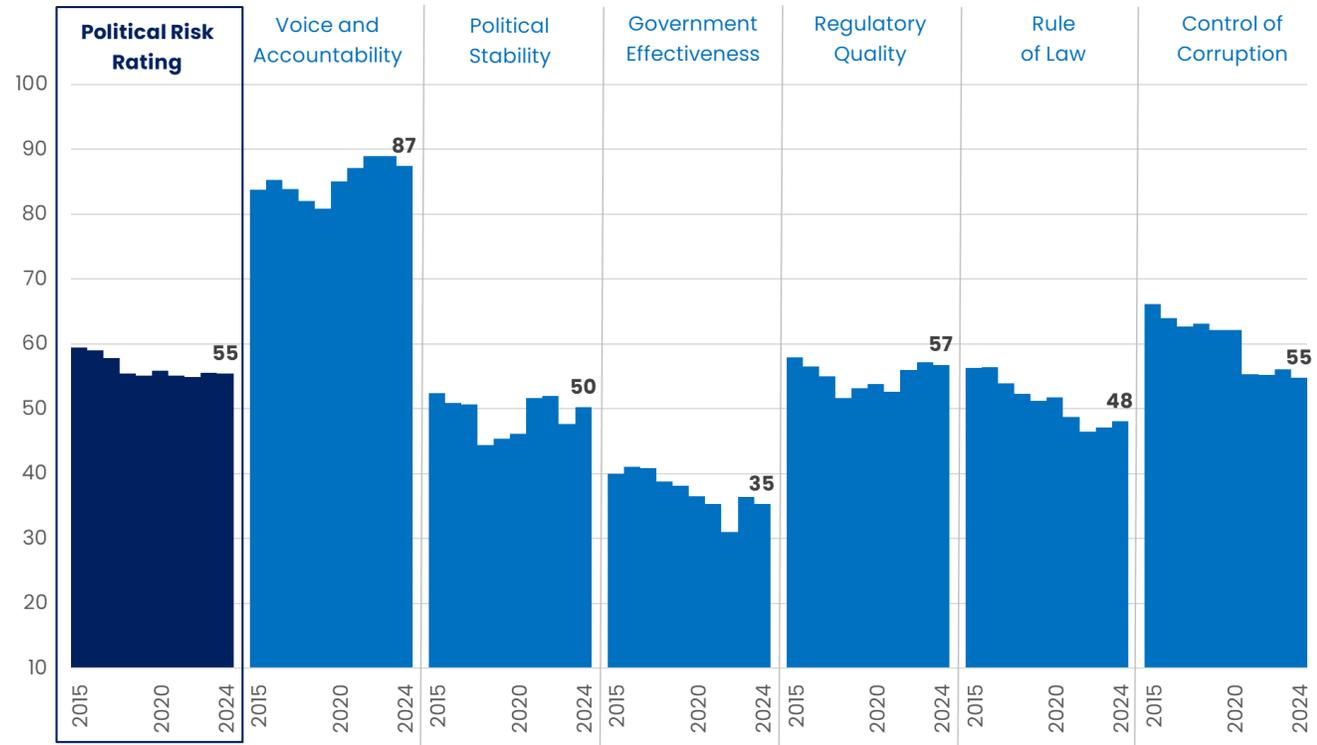
Political Risk Rating by component

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

China's economy: how close to the cliff ?

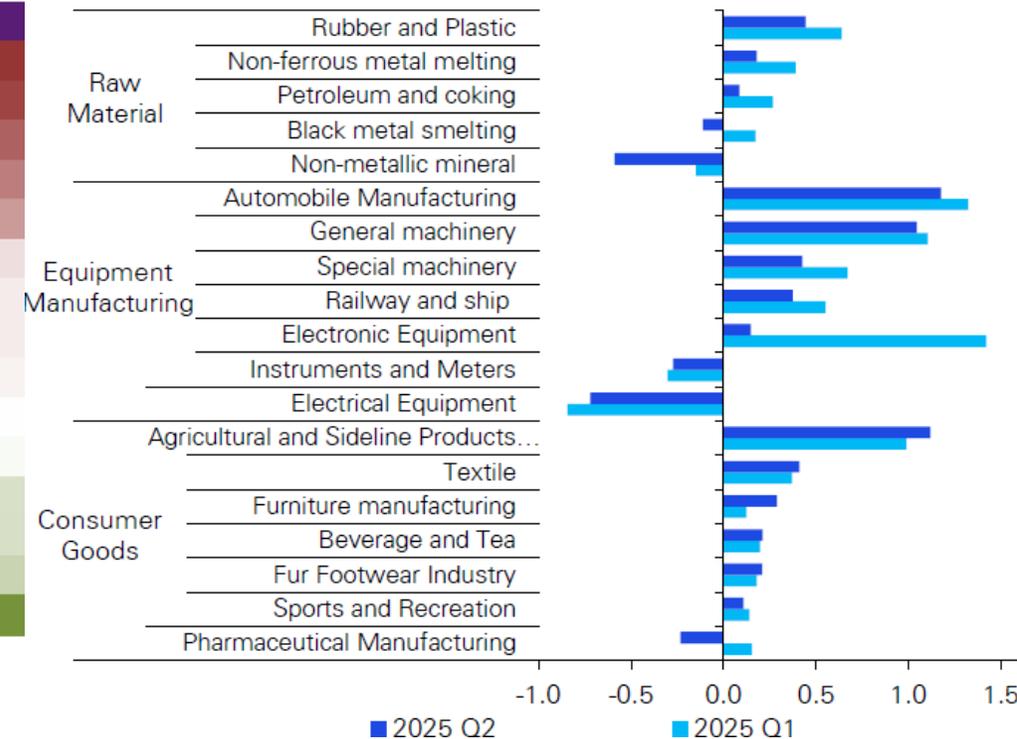
Then what? Sharp divergences across industries and corporates

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