DEALING WITH A FINANCIAL CRISIS: EXAMPLES AND COMPARISONS FROM EUROPE AND CHINA

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Abstract: The financial crisis of 2008 left an indelible mark on the global economy. Deep changes to the structure of the EU and Chinese economies have been put in motion. It is important to see how the response to the crisis varied and what it bodes for the future economic structure. The purpose of this paper will be to study some of the more important aspects of the stimulus packages China and the EU adopted and explain certain specifics regarding the effects of the crisis. Moreover, a look at the recent stock market crash in China will also be conducted. We will use economic data and polices to outline relationships and transmission mechanisms within the economy. The end result is a comparison between the response styles of China and the EU to the financial crisis and an overview of the deeper, structural changes taking progress.

Keywords: *financial crisis, EU, China, monetary policy, stock market crash*

Introduction

The financial crisis of 2008 and the resulting spillover into the real sector of much of the global economy is probably the most important event of economic significance in recent history. The crisis shaped the way economies work, it changed the way the public regards the financial industry and also fiscal spending. It affected the political landscape of many countries such as Greece and the GDP composition of countries like China. The purpose of this paper would be to make a brief analysis of the way the EU and China handled the effects of the financial crisis. Furthermore, we will attempt to select some of the differences in those approaches and explain why they exist.

The crisis itself began as an asset bubble in the housing market in the United States and then transferred into the financial sector and after that into the real sector of the economy. The main reasons for its occurrence we could narrow down to two: 1. a prolonged period of loose monetary policy on the part of the United States Federal Reserve; and 2. lack of efficient regulation and supervision in the financial sector and housing market. Those factors were not the only ones to be sure, but they created the environment of excessive risk-taking and leverage and also the bubble in the housing market.

The effects of the crisis were more or less felt all over the globe. The European Union was hit hard by the financial crisis of 2008, mainly because of its banks' exposure to derivative instruments. The interconnectedness of American and European banks enabled the contagion effect in the financial system across the ocean. Banks had to be bailed out with public funds and later a sovereign debt crisis hit the more fiscally irresponsible EU nations. The latter is a problem which still threatens the stability of the Union, as is the case in Greece. The European Union has been struggling with improving GDP growth. Internal imbalances within the Union, fiscal struggle and bailouts have made it difficult for business to find confidence.

In China, the effects were different. Chinese exports to the West were significantly reduced and that put the steady pace of the Chinese economy's growth in danger. Export-oriented businesses struggled. It's financial sector, however, was not that vulnerable since Chinese banks had little exposure to the toxic assets which took down some American and European banks. The negative impact was due to the flight of foreign capital from banks.

China's response to the financial crisis of 2008

When considering the response to the financial crisis of 2008 it is important to consider several key factors which shaped the Chinese government's answer to the implications of the financial meltdown.

First is the potential bubble in the housing market which China experienced.

Second is the negative impact of falling US and Europe demand and its effect on the Chinese export sector.

Third, the shift from an export-oriented, investment-heavy model to a new paradigm where domestic consumption plays the role of a driver for growth.

Prior to the financial crisis, China experienced a bubble in the housing market. Wary of the consequences of the bursting of a house bubble in the United States, the Chinese government enacted quick measures to curtail lending and growth in the housing market. Those included a rise in benchmark interest rates in the spring of 2007 and increasing the reserve requirement ratio for banks. Those two measures are particularly aimed at slowing down growth in the economy. The reason for that was mainly the fear of an economy that is overheating. Different measures which were aimed particularly at decreasing the inflation of the housing bubble.

The reason for the government's restricting measures was mainly the slowdown in advanced economies and the potential negative effect on demand for Chinese exports. The government became concerned with decreasing leveraged speculation in the market so as to slowly begin to prevent the increase of new debt by home buyers.

The measures accepted in the spring of 2007 were aimed at decreasing the inflation of the bubble in the housing market by investors and speculators. By raising the downpayment requirement the speculative side of the demand in the housing sector is decreased. It makes sense that the government should address first the demand coming from investors because this way a signal is sent that housing prices are rising too quickly and that housing speculation is the driving force. And also, starting to curtail housing prices approaching from the side of homeowners can at first have a negative effect on the consumption part of GDP. In addition, a penalty interest rate was implemented again on investment properties. In terms of homeowners, their tax exemption period was lengthened to a five-year period. The last measure is obviously aimed at creating an incentive for home buyers to not sell their property.[1]

The way that was achieved was by making sure that the new buyers allowed in the market can actually afford the purchase of a new house. The two sets of measures (the ones aimed at curtailing lending and the housing market specific regulations) go hand-in-hand of course. Since the relationship between 'easy money' and demand for new housing are positively related. The new housing market regulations included the increase in the down-payment for investment properties. Another one was the lengthened period of tax exemption for property ownership.

The People's Bank of China began raising interest rates in the middle of 2006. Prior to the shift in policy, the Chinese central bank had kept rates relatively stable and low. A measure which is often used to spur growth since the houses require a substantial investment and is probably the largest purchase a person will make in their life. Not to mention that construction is a labour and material intensive industry, which can also keep demand for products by Chinese manufacturers strong.

Everything is great, until the point when home prices stop rising and the perceived investment function of real estate disappears, then demand falls even further. Homes start to lose their value and mortgages already taken become expensive. Such unfolding of events happened in the US and eventually lead to the financial crisis. China, however, did not experience such a devastating bursting of the housing market bubble.

If we look at the monetary policy decisions of the central bank and the additional government regulations imposed on the housing market in the period of 2006 – 2011, we can see that at first the focus was on monetary tightening aimed specifically at the housing boom.[2] That was followed by a policy of

[1] Nicholas R. Lardy, Sustaining China's Economic Growth after the Global Financial Crisis, Peterson Institute, 2012, p.7

[2] The same, p.8

monetary easing, put forward because of the added slowing down effect of the financial crisis on economic growth. And soon after we see a return to monetary tightening again with raising benchmark interest rates and stricter control of the housing market.

The falling housing prices in the US were an indicator of future economic growth. As prices began to settle in 2006, the debt taken by so many mortgage owners became more difficult to service. Not to mention that construction is an important driving force for the economy. So worries about the pace of growth of the US economy predated the crisis seeing that a potential slowdown could lead to weaker demand for Chinese exports.

The part of the stimulus package concerning boosting demand through changes in taxes was aimed directly at consumers. The tax cuts they got were realised only when a purchase of a certain long-term product was made. This ensured that consumers may not use the tax cut in a different way such as paying down debt, or saving it. Both of which would not be of any direct help to stimulating aggregate demand. To compare, the tax cuts which the US government issued, were mainly used to pay down debt. In terms of stimulating demand, the effect was questionable.[3]

Comparing the size of the stimulus package to the size of the economy for China and the EU, gives us a 12,5% of GDP to 1,5% of GDP respectively. It is obvious that the stimulus program of the Chinese government was incomparable to that of the EU in terms of relative size. In absolute terms, the difference is still there, however not that stark. The size of the funds pledged in China amounted to $585 billion while those in the EU $255 billion.[4]

When the policy of monetary easing came to the forefront, the government removed the previously instated 40 percent down payment requirement for mortgages purchased by investors. That was augmented by an elimination of penalty interest rates which were instituted one year before.

Stimulus program

What was specific about the Chinese stimulus program was that it was particularly aimed at stimulating new investments. The larger share went to infrastructures spending, with the reconstruction of the Sichuan earthquake area taking almost 40% of all infrastructure spending. Much less was spent on the Technology and Environment section of the package and on social measures,

[3] Nicholas R. Lardy, Sustaining China's Economic Growth after the Global Financial Crisis, Peterson Institute, 2012, p. 6

[4] Barry Naughton, Understanding the Chinese stimulus package, China Leadership Monitor, No. 28, 2008, p. 2

such as social security. In Western economies, where consumption plays a much bigger role in GDP composition than in China, the stimulus efforts were directed at putting money in the hands of consumers. However, China is an investment-orientated economy, and it should come as no surprise that the Investment part of GDP was the focus of the Chinese stimulus package. That decision has taken some criticism, on the basis that the package is not doing much to improve China's shift to consumption-orientated economy. This shift was triggered by the slowdown of Western economies and the unsustainability of this model.

A problem with the stimulus program was that it did nothing to change the structure of the Chinese GDP, with an orientation towards Consumption. It seemed like a fix of a familiar pattern, however, investments which lead to increased production capacity can no longer be aimed at the export-oriented sectors of the economy, this model is not sustainable since the largest customers are struggling with them on recoveries, let alone aid in China's by their demand of Chinese goods.

No toxic assets – an important difference in how China had to deal with the effects of the financial crisis is that Chinese banks had little exposure to the toxic assets which took down some of their Western counterparts and destabilised the financial industry there.[5]

Credit absorption capacity – Chinese government and households were not as indebted as the ones in the US. When the new credit boom came about households could take on more debt.

Chart explanations:

- Interest rates chart – as we can see from Chart 1, The People's Bank of China changed interest rates rapidly during the onset of the financial crisis. But when we consider the mitigation of the housing boom, we see a similar situation to that in the US, where worries of an overheated economy sent interest rates up. That created problems for heavily indebted households. In China, however, households had not taken that much debt. It is common practice for apartments to be purchased with cash. Therefore, the link starting from interest rates and falling housing prices following to devaluation of financial instruments backed by mortgages and continuing to hurting banks' balance sheets was not apparent. This explains why the problems China faced at the onset of the crisis, had to do more with the real sector of the economy, especially export-oriented industries, than the financial one.

[5] Nicholas R. Lardy, Sustaining China's Economic Growth after the Global Financial Crisis, Peterson Institute, 2012, p. 13

- Housing prices chart – As is obvious from Chart 2, housing prices nearly doubled for the period of ten years starting at the year 2000. Opinions vary on whether China was experiencing a housing bubble or not. If we have to compare the situation with the housing market in the US or even the EU, the situations are similar but also very different. All markets experienced rapid growth and construction was an important driving force for growth. However, China had an emerging middle class and low levels of household debt. Not to mention that a huge factor boosting demand from housing was the ongoing urbanisation of many Chinese people. That is why the underlying value behind housing prices may have had more substance than the high-debt, easy credit fuelled growth in the US and EU. An additional factor may also be the deregulated real estate market in the US which led many to believe that real estate was a "safe" investment and that housing prices always go up. We can see from the actions of the Chinese government that direct and decisive actions were taken to directly influence the activities of property investors and speculators.
- Outstanding loan growth chart – Looking at Chart 3, it is obvious how bank lending was essential to the stimulus package the government initiated in 2008. Tapping into the banks' huge cash reserves, provided an alternative to deficit spending. What is also apparent is the relatively low growth of the lending prior to the crisis, again reflecting the low-level indebtedness of Chinese households and their cash-paying preference.

The European Union

When considering how the European authorities responded to the financial crisis, it is essential to take into account the destabilised financial market and the vulnerability of financial institutions. The spill over effect of the American subprime mortgage default led to a troubling situation for European banks, which were also heavy buyers of toxic debt. The government had to intervene. The case of Spain is a very clear example of bailing out banks with public money. Although the situation was similar across the EU. Bursting of housing bubbles all over Europe were evident and stock market bear runs were also the norm. Stability and security went out the window and bank runs occurred.

Another factor which exacerbated the already dire situation, was the sovereign debt crisis. With the unfolding of bad debt, it became apparent that governments had almost unmanageable levels of it. The cases of Greece, Portugal, Ireland and Italy are the most prominent examples. The first one is still plaguing the very idea of the European Union. Using global financial markets to sell their debt instruments and raise money, the perception of the default risk of those economies was disturbed by the notion of EU stability and integrity and the single European currency. As is the case in Greece, much of that financing was used not for investment purposes, bur for the direct benefit of the population, and especially government employees. Lowering the retirement age and additional bonuses to salaries were normal. The motives were in no small part political. As the crisis unfolded and a credit crunch occurred, it became harder for those countries to finance their debt. And the situation only worsened, since low rates were essential to their borrowing. It turned out that paying back was difficult. The EU, together with the IMF and ECB stepped in to assist those countries. But along with that help came the austerity measures which were the root of much divide within the European Union since their implementation was: 1. Highly unwelcome in the countries suffering from bank runs, unemployment and slow growth; 2. Questionable in terms of crisis response since the decrease in spending only exacerbated slowing demand. However, a message had to be sent that the taxpayers' money would no longer be used to bail out reckless borrowers (both banks and governments).

Regarding the stimulus package, the total amount of funds which were pledged was $ 255 billion dollars. Many critics saw that as a very modest amount.

One of the two pillars of the European Economic Recovery Plan the effort to increase competitiveness. The proposed investments were called "smart" and included: energy efficiency, clean technologies, like construction and automobiles; and infrastructure to promote efficiency and innovation. One of the criticisms against that plan was that those investments are too future-oriented and benefits are to be realised long-term to say the least. In terms of managing a crisis, perhaps not the best choice for a fast recovery. It was clear that authorities were not focussed on the short-term, since the goal was the better prepare Europe for the low-carbon economy of the future.[6]

The stagnation in Europe is still a problem. Growth has been difficult to achieve with GDP growth at levels below 1% for the past 4 years of data for the whole of the EU (Chart 4). It appears that the spirit of stagnation haunts Europe. However, the crisis unearthed some deeper, underlying problems within the European economy. One of them is probably the lagging in competitiveness of the EU. With being the exception of Germany, other nations have struggled with keeping growth up. Germany faced the crisis well-prepared. The levels of debt were relatively low and although the country has an export-oriented economy, the high added value of its exports and measures to mitigate the negative effects of the crisis on the labour market were also put in place. This however escalated

[6] COMMISSION OF THE EUROPEAN COMMUNITIES, A European Economic Recovery Plan, 2008, http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf Last accessed: 13 October 2015

inequality with the Union and also the political stability in Germany when the more fiscally irresponsible countries had to be bailed out.[7]

We can see that the financial crisis unearthed deeper problems of unsustainable development. The debt taken by the previous governments prior to the crisis will continue to be a heavy burden for the European countries in the years to come. Even though the situation has settled and the spreads on government bonds are not that high achieving growth remains an issue.

European Central Bank

When we discuss the response to the financial crisis we cannot pass the fledgling banking system. The ECB stepped in to provide credit, however banks refused to lend out loans. This strategy was aimed at maintaining liquidity by not taking on new debt. Refusing to lend the funds needed led to a credit crunch and further pressure on the central bank to cut interest rates. Between October 2008 and May 2009 the interest rate was cut by 325 basis points (Chart 5). The ECB's decision to cut interest rates was implemented over an eight-month period, but even the liquidity that was provided on the financial markets was not enough to disperse the ghost of insecurity in business.[8]

Politically speaking, reaching a decision on what to do with struggling banks and how the public accepted the bailouts of the same financial institutions was holding back decisive action. Furthermore, austerity measures were introduced in the most indebted countries, which came to be known as PIIGS (an acronym of Portugal, Italy, Ireland, Greece and Spain). Imposing those austerity measures did little to stimulate demand in the economy, in fact it did the exact opposite. Unemployment levels rose, and growth was negative or sluggish. Reaching a unanimous decision on issues concerning the European Union is difficult since there are many participants and aligning their interests is slow work. That can slow down the response time of European institutions.

There is a problem which is characteristic of the European Union. Often referred to as the trilemma of financial supervision. According to that trilemma the simultaneous existence of: 1. an integrated financial market; 2. stable financial system; and 3. national supervision of financial markets; is impossible.[9] The situation resembles the financial crisis of 2008. The financial markets in the European Union were well integrated, however even assuming that the system

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[7] Ognyan Mitev, Financial Crises and the Problems of Financial Stability, University of Plovdiv, 2014

[8] THE ECB'S RESPONSE TO THE FINANCIAL CRISIS, ECB Monthly Bulletin October 2010, 2010

[9] Schoenmaker, D. (2010), Burden Sharing: From Theory to Practice, DSF Policy Paper No. 6, Amsterdam: Duisenberg School of Finance.

was stable, having so many different national supervisors renders the system unstable. Therefore, the integration of financial markets is a requirement for a more stable financial system.

Comparisons in dealing with the financial crisis of 2008

By comparing the two approaches we can make more clear the policies which make a country prepared or not for a crisis. It is understood that a direct comparison cannot be made since the effects of the crisis were different and the structure of the economy also different. Furthermore, the exposure to the financial instruments which were at the core of the crisis had different effects on the European and the Chinese financial stability. What we can derive from the comparison are the areas of importance of the EU and China. We can see that the stability of the monetary union itself was jeopardised when the sovereign debt crisis took hold. Not only that but European institutions had their banking system to fix. And also deal with inequalities within the Union with countries like Germany and France providing the only stable growth, while countries in the periphery were plagued by high levels of debt, unemployment and also political turmoil. This has also raised inequality with the Union and tensions regarding economic positions and austerity measures.

When China's growth model which relied heavily on investments and exports became unsustainable, the government also looked for new ways to keep China on its path. Both economies suffered deep changes and it seems that the EU needs to pursue growth as China did, and China needs to open up its financial markets and regulate them just as the EU did. The role of the Chinese consumer will become more important as China adapts to a new model where consumption will be the driving force behind future GDP growth, not investment, which is a structure more befitting a soon to be developed economy. While the EU needs investments and growth. We already mentioned that the focus of the stimulus package was "smart" investments orientated towards the low-carbon economy of the future.

Both economies suffered housing bubbles, but again the bubbles in the European Union burst and led to tumbling housing prices, because the fundamental factors which led prices up were no longer valid and the new situation could not support high housing prices in a credit crunch, low growth, high unemployment reality.

The sovereign debt crisis was an effect unique to the EU. Problems exacerbate when the government which is supposed to be a market corrective and provide assistance in times of a crisis has itself taken unsustainable levels of debt and is experiencing difficulties in accessing the global financial markets for debt.

The stock market crash of 2015 in China

The middle of June 2015 marked the beginning of the downtrend of the Shanghai Composite index. Many have called it a crash, with the substantial drops on July 27th and August 24th being dubbed "Black Monday". By the end of August, the index had lost about 40% of its value at the beginning of the downfall (Chart 6). The effects of the crash were big news in China and also spurred a committed response from the government.

The stock market's inflation was due to several reasons. First, the newly found love of Chinese people to invest in the stock market. The reason for that was the restrictions Beijing has put on investing abroad. Second, the government's monetary policy, which during the period before the crash was loose as the chart on interest rates above shows.[10]

The period running up to the crash was a remarkable bull period. The Shanghai Composite Index had nearly doubled over a 4-month period, beginning in February 2015. Even if we do not consider the fundamentals of this bull run, and just focus on trading mechanics, a correction was bound to happen. Taking into account the fundamentals, however, we can paint a similar picture. Growth in China had not been what it once was, mainly because of the shrunk export sector. Companies were not that profitable. The influx of funds offered by individual investors, families, retirees and college students provided the kindling for this fire.

In truth, the government saw the stock market as a potential driver of growth, since the previously used export-oriented, investment-heavy model had become unusable. The stock market is seen as a source of funding for private companies and state enterprises. But a new model where returns on equity in a relatively new, undeveloped and not yet mature stock market can be dubious to say the least. Volatility is just too high. Not to mention that company-specific risks are also present as is the risk of an unexpected crisis. According to *The Economist*, the shares in the Shanghai Composite Index are historically more than two times more volatile than those in the S&P 500.[11] In a continually growing market, it is easier to achieve high returns, and that attracts even more investors and more funds which in turn raise prices and so on. This however is not a sustainable model since it is not based on fundamental factors of growth. The policy of easy money and deregulation can create conditions for an asset bubble. The role of households in the stock market crash is important for another reason, which is that their savings are usually invested in the stock market, and

[10] Gwynn Guilford, Everything you've heard about China's stock market crash is wrong, Quartz, http://qz.com/486476/everything-youve-heard-about-chinas-stock-market-crash-is-wrong/ Last accessed: 15 October 2015

[11] The Economist, Was the crash that big? 2015, http://www.economist.com/blogs/freeexchange/2015/08/chinas-stockmarket-0 Last accessed: 22 October 2015

when the possibility of losing those savings becomes more likely, public opinion of the government's ability to regulate and control markets suffers.

According to Bloomberg, 90 million people in China had a trading account. Much of the newly created trading accounts had been made using leverage.[12] The government's advertising of the investment into equity as the new source for growth led many people to become stock buyers. Which by itself is not a problem since in developed economies owning equity is normal, however owning stock in a volatile market as this one, with clear signs of no fundamental reasoning for the upward move is not a sustainable strategy.

Government response

The government's response was quick and powerful, with almost 9.3 trillion yuan being spent by government institutions in order to stop the fall in the stock prices. The effects of this policy, however was not that strong.[13] The market continued its downfall until it settled in late August, where it found support. What can be taken from this situation is that it is an uphill battle trying to defend a crashing stock market index. It is as they say in the trading industry: 'dangerous to catch falling knives'. The central bank also had a role to play as they lowered reserve requirements for some banks by 50 basis points and also lowering interest rates, which now stands at 4.35%, its lowest standing for more than 20 years. The government also had a more direct role to play considering stock trading. A ban on selling was initiated on the stock markets and brokerage firms had to buy shares.[14]

China's growth oriented model has turned the country into an economic superpower, the government's determination to stabilise stock markets also created a situation of moral hazard, where if a bubble occurs, the government would step in to mitigate the effects of its bursting. Until the stock market matures and volumes slowly increase, the volatility aspect is going to make it difficult for investors to consider returns on equity as a stable, alternative source of income.

What we can conclude from the stock market crash of 2015 is that the government had once again to step in to influence markets because of a bubble. Just as the governments of the US and the EU did at the onset of the financial crisis.

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[12] Bloomberg, There Are Now More Stock Traders in China Than Communist Party Members, 2015, http://www.bloomberg.com/news/articles/2015-06-30/in-communist-china-stock-market-capitalists-now-rule Last accessed: 20 October 2015

[13] Gwynn Guilford, Everything you've heard about China's stock market crash is wrong, Quartz, http://qz.com/486476/everything-youve-heard-about-chinas-stock-market-crash-is-wrong/ Last accessed: 15 October 2015

[14] Nargiza Salidjanova, China's Stock Market Collapse and Government's Response, U.S.-China Economic and Security Review Commission, 2015

Nation-specific characteristics are apparent and the approach varies accordingly. However, even though the channel which led the toxic assets from the US banks to spillover in European ones because of the contagion effect of doing so much business together was not existent in China, the financial crisis had other implications which affected the latter country. We can draw a crude map of the relationships between economies during the financial crisis and how such an event transpired. Every country suffered blows to the real sector of the economy. China was probably hurt the most with exports being vital to the economy and the resulting unemployment halting the process of urbanisation in the country. The EU had problems with the financial system and fiscal stability. Those problems still persist today. The government institutions responded with a strong bout of financial regulations and bailing out of indebted countries.

Both economies showed deeper underlying problems. China was too dependent on exports, which have been the source for growth so far. The shift towards a more consumption-oriented economy was the only solution since the previous model is not sustainable. This pattern of heavy-investment and export-oriented growth, followed by a rise in prominence of the consumer as the economy matures and develops has been evident in other Asian economies, such as Japan and South Korea. The problem is whether that shift is now premature since China has not yet arrived at that breakout level of GDP per capita which seemed to be case with the other countries.[15] It also became clear that the idea of decoupling, which explained simply is the idea of a state of the economy where demand depends on internal factors, rather than external and global trends, is far away from being reached.[16]

The European Union also showed deep, underlying problems. The irresponsible use of fiscal spending by some of the governments is a huge and crippling problem. It led to severe austerity measures which put further downward pressure on demand.

Conclusion

To sum up, we discussed some of the measures China and the EU took to address the negative effects of the financial crisis of 2008. The stimulus package adopted by both had growth as an objective, however they approached it differently because of the unique situation of each economy. The monetary policy effects in China were well received and effective, the monetary policy decisions in the EU were timely and well adjusted, however they were not enough to fix

[15] David Bulman, China and the financial crisis, 2010, Johns Hopkins University

[16] Is Asia Decoupling from the United States (Again)? Sylvain Leduc, Mark M. Spiegel, Federal Reserve Bank of San Francisco, 2013

the underlying structural problems such as unsustainable government indebtedness and a crippled financial system. China's isolation in terms of financial markets protected it from that spillover effect, however the real sector suffered as demand dropped. What is similar for both economies is the need for structural change in order to face the challenges of a post-crisis global economy. The EU has undertaken an unprecedented regulatory effort to reform the banking sector in order to ensure that public funds are no longer used to bail out private banks. Austerity measures were introduced in the countries with unmanageable debt, which some argue is mistake during the recovery phase (especially the same country's government), in order to curtail fiscal debt to manageable levels. In China, the structure of the economy is changing. Since exports can no longer provide the growth China needs, private consumption should be the driving force instead of investments and exports. This is a pattern familiar from other Asian nations.

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CHARTS AND GRAPHS:

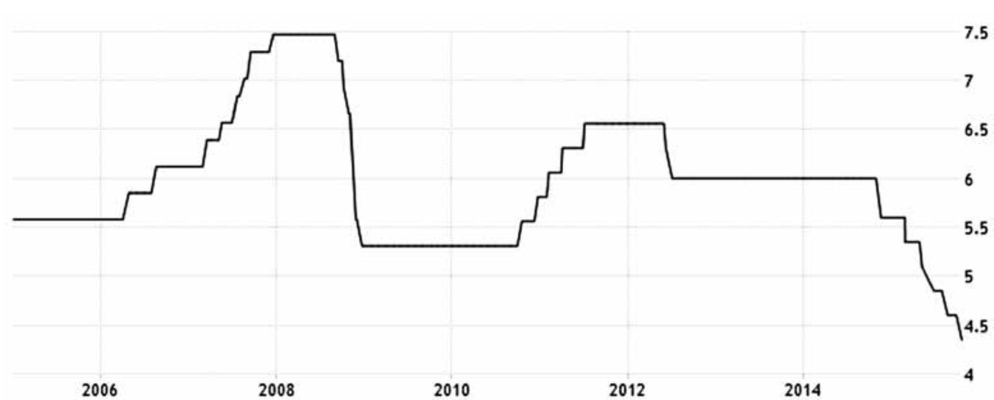

Chart 1: *Interest rates in China;*
Source: trading economics.com; The People's Bank of China

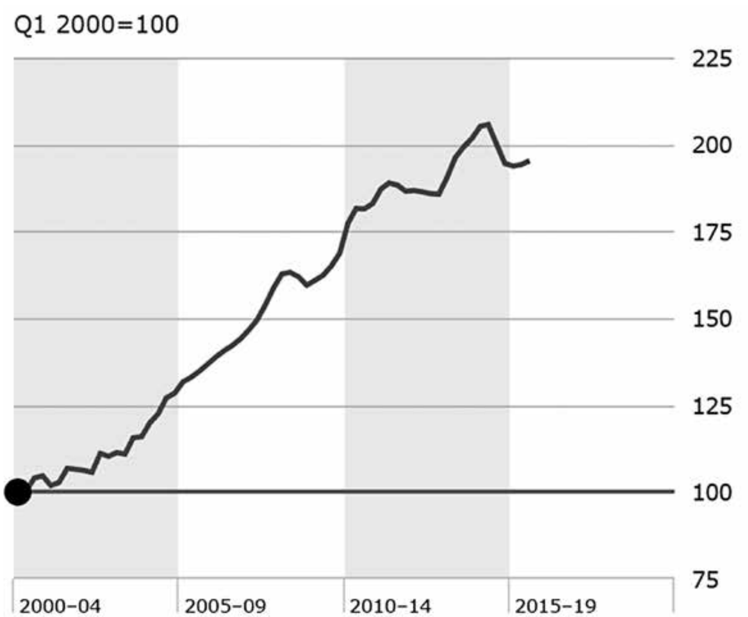

Chart 2: *China Housing Index Indexed data.*
Source: The Economist, Thomson Reuters

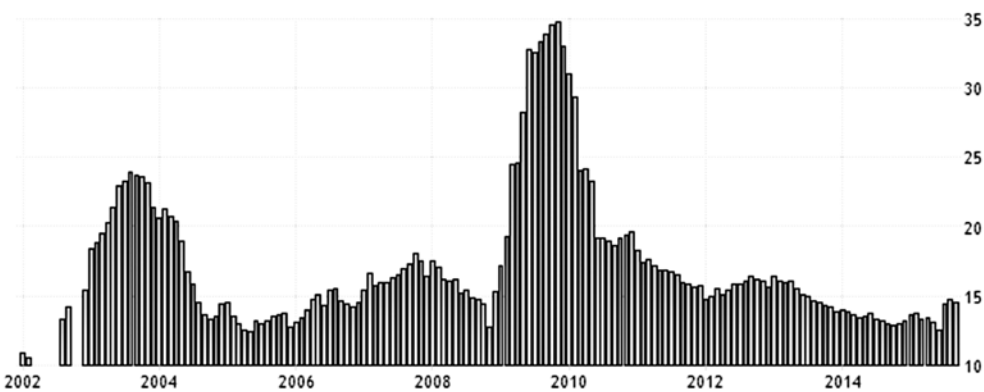

Chart 3: *China Outstanding Loan Growth Rate*
Source: tradingeconomics.com

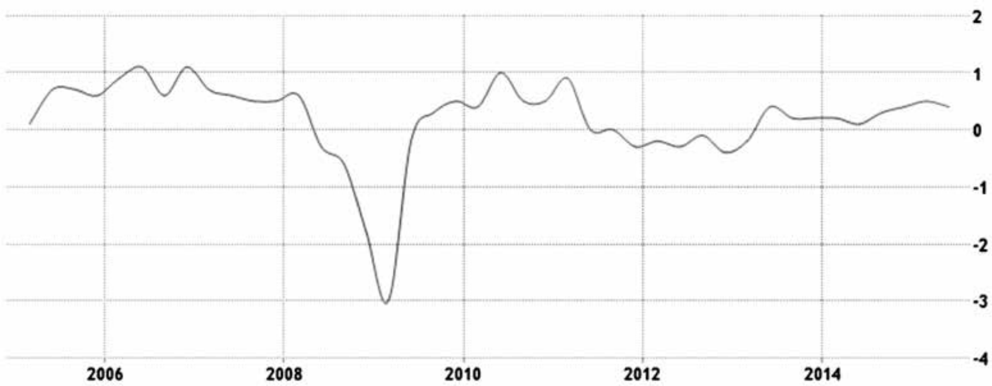

Chart 4: *GDP growth in the EU in percentages;*
Source: tradingeconomics.com, Eurostat

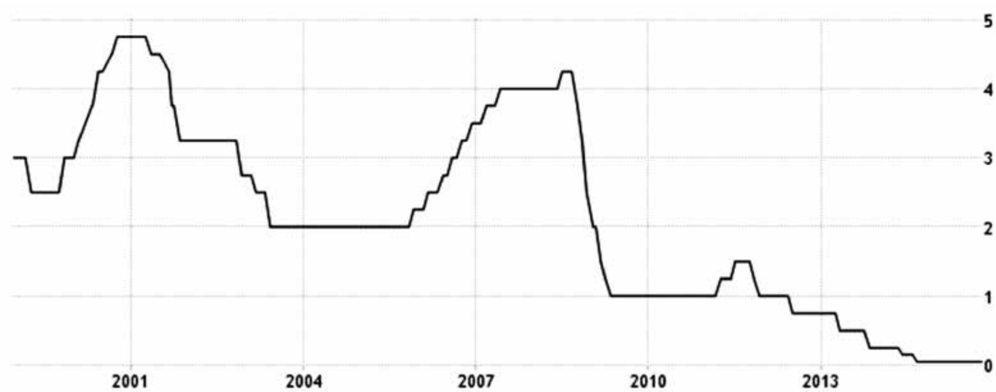

Chart 5*: ECB Benchmark interest rate;*
Source: tradingeconomics.com, European Central Bank

Chart 6 *The Shanghai Composite Index;*
Source: tradingeconomics.com