BBVA Research projects China's auto market growth to accelerate to 20% by 2014

BBVA Research presented today in Shanghai its first annual China Automobile Market Outlook report. The newly published report assesses the evolution of the Chinese auto market and its future prospects. The report also provides insight into the outlook for auto finance in China and the increasing role of auto finance companies. Building on BBVA's global experience with auto finance and its strategic partnership with China CITIC Bank, BBVA is working toward the establishment of an auto finance joint venture in China.

- Despite a recent deceleration due to the tightening of credit policies in 2010-2011, auto sales growth should pick up in the coming years, from 10% in 2012 to 20% by 2014.
- Sales are already beginning to rise again on supportive policies, and over the medium term, ongoing urbanization and rising purchasing power should contribute to a further rise in market growth.
- At the same time, auto-finance is expected to expand rapidly under financial sector liberalization and policy support for the growth of consumer finance. Overall, we project growth of the auto finance market to outpace the growth in auto sales as a larger share of purchases are financed with credit.

China's domestic auto market has grown rapidly since the country's 2001 accession to the World Trade Organization. By 2009 the domestic market had become the world's largest, surpassing the US both in terms of domestic sales and production.

Growth has been underpinned by market liberalization and greater economic openness. While the liberalization process still has a long way to go, it has fostered increased foreign investment and imports of automobiles and auto parts. At the same time, demand has been facilitated by rising income levels, urbanization, and policies to rebalance growth toward private consumption.

After growing rapidly in recent years, auto sales decelerated in 2011 due to tighter credit policies and slowing economic growth. Auto sales growth fell from 46% in 2009 to 2.5% in 2011, well below the average of previous years. The factors for the slowdown are tighter credit conditions, the removal of subsidies for auto purchases that were in place during 2009-2010, and new restrictions on licensing to curtail congestion in major cities. Recent monetary easing and the renewal of auto subsidies should support a resumption of growth in the coming year.

Ongoing urbanization, rising purchasing power, and policy initiatives to support private consumption bode well for the sustained growth of China's auto market in the years ahead. Based on these factors, BBVA Research projects passenger car sales growth to rise from around 10% in 2012 to 20% by 2014 despite relatively sluggish sales growth for the rest of 2012. On this basis, ownership rates should more than double over the next few years, to 113 per 1,000 people by 2015. Risks to the outlook stem from the possibility of slower economic growth, rising energy costs, and environmental sales restrictions.

Government policy has been an important driver of production and market trends. The approach so far favors joint ventures with international producers. Policies are shifting gradually in favor of local brands, as well as in support of the growth of auto and auto parts production for export. The government has also been a strong advocate for the development of electric powered and energy efficient vehicles, which are expected to underpin growth of domestic production in the coming years.

The development of auto finance in China is still at an early stage, accounting for only around 15% of total purchases. That said, the auto-finance market has been expanding at a rapid pace. While auto-finance has been led by banks so far, the role of auto finance companies is likely to increase over time as financial sector liberalization leads to an increase in their access to a wider range of funding sources, and as enhancements are made to credit information sharing within the financial system. Overall, we project growth of the auto finance market to outpace the growth in auto sales as a larger share of purchases are financed with credit.

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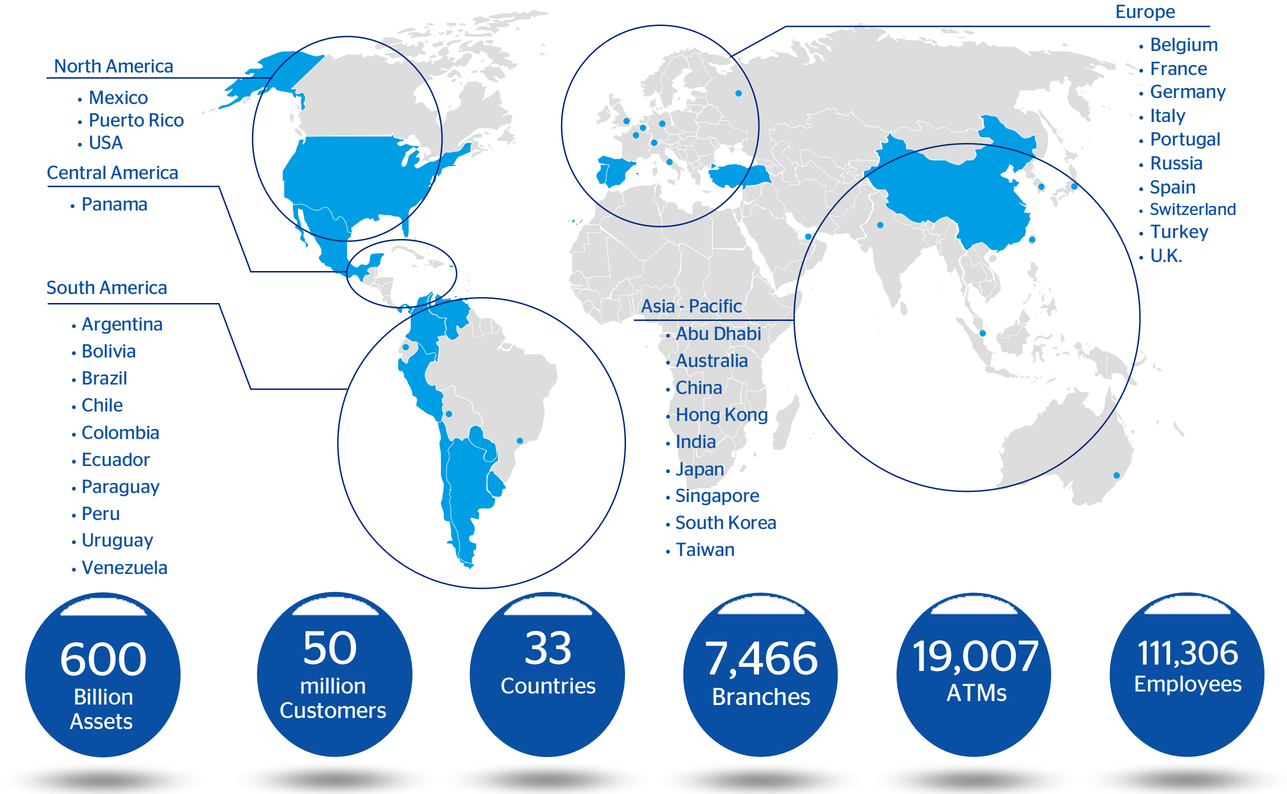
BBVA Research reports are available in English, Spanish and Chinese

About BBVA



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