China

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts 2022	Forecasts 2023
GDP growth (%)	7.9	6.8	6.9	6.7	6.0	2.2	8.1	4.7	4.9
CPI Inflation (%)*	2.1	1.7	1.5	0.1	0.7	1.5	1.8	1.9	1.7
Fiscal balance (% of GDP)	-0.9	-3.4	-3.4	-4.3	-6.1	-10.7	-6.0	-7.7	-7.1
Public debt (% of GDP)	37.3	48.2	51.7	53.8	57.2	68.1	73.3	77.8	81.8
Reference rate (%)*	5.9	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Exchange rate (RMB/USD)*	6.3	6.6	6.8	6.6	6.9	6.9	6.5	6.5	6.5
Current balance (% of GDP)	2.2	1.7	1.5	0.2	0.7	1.7	1.8	1.1	1.0
External debt (% of GDP)	12.7	11.4	12.0	13.1	13.5	13.2	13.9	14.2	14.4

Note: *annual average
Source: CaixaBank Research, based on data from national statistical agencies and Refinitiv.

- **The slowdown of the Chinese economy seems inevitable.** As we indicated in our last publication, the risk posed by the zero-COVID policy, when more highly contagious strains are circulating and there are lower vaccination rates among the elderly population, has materialised. The Chinese economy grew by 4.8% year-on-year during Q1 2022, following a rise of 4.0% in Q4 2021. However, despite GDP exceeding expectations, the figures from March on activity confirmed that the real economy is slowing down, with lockdowns in cities such as Jilin and Shenzhen, major industrial and logistics centres in the country. Due to its size and the consequences for regional value chains, the lockdown in Shanghai that began at the end of March, and the heavy traffic restrictions on roads, could push the economy towards contraction in Q2. In Q1, retail and consumer goods grew by 1.6% year-on-year (compared with growth of 5.1% and 3.5% in Q3 and Q4 2021, respectively), a good illustration of the current weakness of domestic demand. Furthermore, industrial production grew by 6.3% year-on-year (3.9% in Q4), albeit slowing down somewhat in March. The high-frequency indicators available for April suggest that the economy will have slowed down further since then. Moreover, unlike the 2020 lockdown following the outbreak in Wuhan, on this occasion the Chinese economy will not be boosted by foreign demand and the fiscal and monetary policy will be more moderate.

- **The strength and stability of the financial system will continue to put pressure on the medium-term outlook of the Chinese economy.** The real estate sector crisis, whose lukewarm recovery has been disrupted by the latest set of lockdowns, will continue to be a source of concern for the Chinese government, which has already announced measures to prevent this sector's crisis from spreading to the financial system. The People's Bank of China has cut the reserve requirement ratio by 25 bp to 11.25% and it has announced a stability fund to bail out financial institutions that are in difficulty. However, although inflation is likely to be kept under control during the year, the shrinking gap in the sovereign interest rate differential with the US will limit the room for manoeuvre in monetary policy. Similarly, fiscal policy will have to remain moderately expansionary against a backdrop of public debt at historically high levels and lower revenues from land sales for local governments. Furthermore, the impact of the recent announcements by the Chinese authorities regarding a change in direction in regulatory policies for digital platforms is yet to materialise. Additionally, there is an – albeit unlikely at the moment – risk factor posed by the potential impact of accompanying sanctions being imposed on China by the western economies if the conflict between Russia and Ukraine becomes entrenched and creates further diplomatic tensions between blocs.

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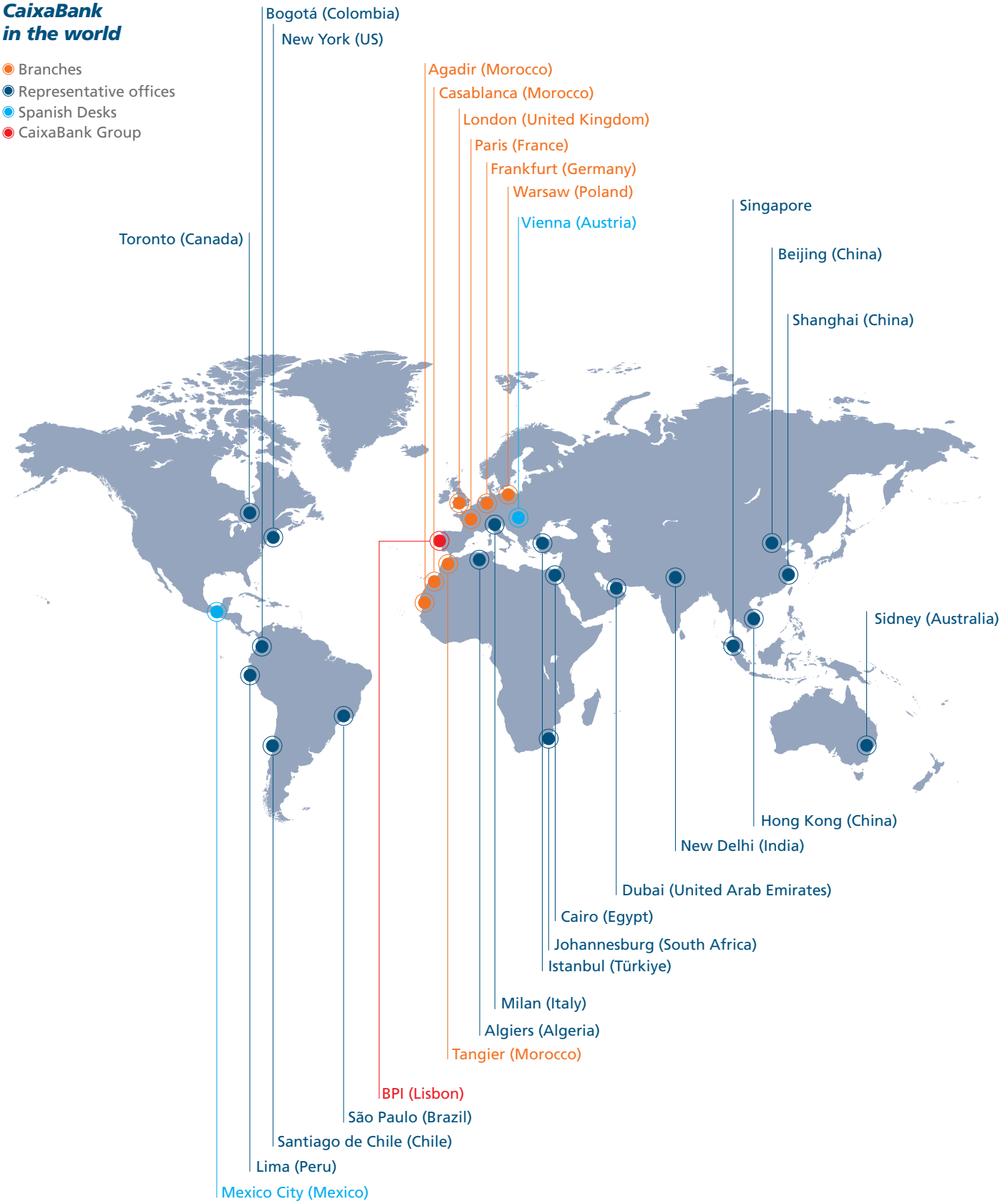

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