BPI

China

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	2022	Forecast 2023
GDP growth (%)	7.9	6.8	6.9	6.7	6.0	2.2	8.4	3.0	5.2
CPI Inflation (%)*	2.1	1.7	1.5	0.1	0.7	1.5	1.8	1.9	1.5
Fiscal balance (% of GDP)	-0.9	-3.4	-3.4	-4.3	-6.1	-9.7	-6.1	-8.9(e)	-7.2
Public debt (% of GDP)	37.3	48.2	51.7	53.8	57.2	68.1	71.5	76.9(e)	84.1
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	6.7	6.5
Current balance (% of GDP)	2.2	1.7	1.5	0.2	0.7	1.7	1.8	1.6(e)	1.3
External debt (% of GDP)	12.7	11.4	12.0	13.1	13.5	13.0	13.3	14.3(e)	12.8

Notes: * Annual average. (e): estimate.
Source: BPI Research, based on data from national statistical agencies and Refinitiv.

- **China, the first to enter and the last to leave the pandemic.** 2022 was marked by the ongoing restrictive health policies in the country, aggravated in the first half of the year by another Omicron outbreak (with massive lockdowns in Shanghai, Shenzhen and Beijing). The unexpected announcement that these restrictions were being lifted came at the end of November, which triggered a further outbreak of cases that countered the positive effects that were expected from the reopening in December (mobility rates were down on November). This led to the Chinese economy stagnating in the final quarter of the year and GDP growth slowed from 3.90% in Q3 to 2.90% in Q4, year-on-year. Investment in fixed assets in urban areas was among the most unyielding indicators, recording 5.1% growth over the whole year, confirming the resilience of investments in manufactured goods and infrastructures. However, retail and consumer goods were weak and contracted significantly in Q2 and Q4 of the year, due to their particular sensitivity to unexpected health restrictions. Additionally, the figures on economic activity rates also reflected the uncertainty and decline in consumer confidence and they remained in contraction territory for much of the year. All in all, the Chinese economy grew by 3% over the course of the year, the smallest growth in the last 45 years (excluding 2020, which stood at 2.2%).

- **January's economic indicators point to a rapid recovery in China**, so our optimism has been restored, but to continue this trend it will have to overcome a more adverse global environment. Given the prospects of foreign demand cooling off and a global shift in consumption patterns towards the service sector, China (a net exporter of goods) may find that its foreign sector is weakened substantially in both the short and medium terms, forcing its industry to shift its focus towards more sophisticated products and/or the country's domestic demand. Investment in state-of-the-art technologies (which has increased by 10% on average year-on-year in recent years) and the manufacture of electric cars on a global scale are among the most notable opportunities currently available. In turn, the real estate sector – another driver of Chinese growth – seems to be showing small signs of improvement. However, despite the direct aid offered by the government and the relaxation of the financial regulations known as the Three red lines guidelines, which restricted access to real estate lending, we expect housing affordability and investment to take longer than anticipated to recover to the desired levels. Furthermore, the Chinese authorities have confirmed that the government's priority this year will be economic stability and it will rely on proactive fiscal policies and a prudent monetary policy, albeit with a certain degree of freedom, in 2023.

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