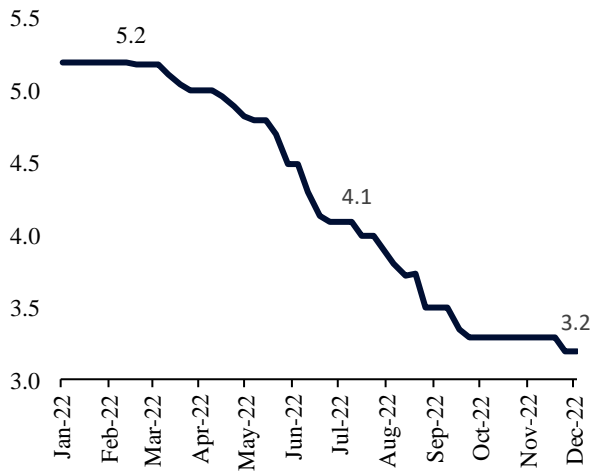


Four pivots are set to spur a powerful cyclical rebound in China

Subdued global economic growth last year raised questions about the overall health of the Chinese economy. The country was for decades the main global growth engine. In fact, from the Great Financial Crisis of 2007-09 onwards, China was responsible for around 40% of total global economic expansion. Every year over the last several years, China’s growth added to the system an amount equal to the total GDP of one of the major G-20 economy.

However, over the last several quarters, different domestic factors led to an overall economic slowdown in China. This was driven by the Zero Covid policy with lockdowns across major cities, restrictive bank lending to the overleveraged real estate sector and aggressive regulatory clampdowns on technology-related sectors. As a result, China’s expected growth plummeted throughout 2022.

Evolution of expected GDP growth in China in 2022
 (Bloomberg consensus forecasts, y/y, %)

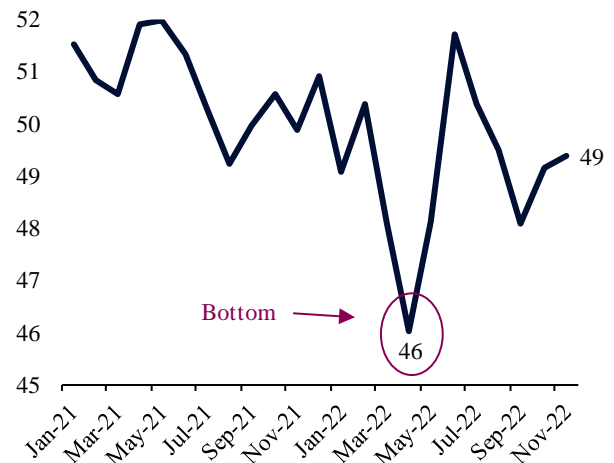


Sources: Bloomberg, QNB analysis

Despite the negative momentum, there are early signs that the Chinese economy may be about to turn a corner into a recovery mode. The Manufacturing Purchasing Managers’ Index (PMI) of China, a survey-based indicator that measures whether several components of activity improved or deteriorated versus the previous month, seemingly bottomed in April 2022. China’s manufacturing PMI is still below 50 index points, the threshold that traditionally separates contractionary from

expansionary changes in business conditions, but it started to accelerate in recent months, despite new waves of Covid-19 cases.

China’s manufacturing PMI
 (index points; 50 = threshold separating expansion/contraction)



Sources: Haver, QNB analysis

In our view, however, four key policy pivots are set to spur a powerful cyclical recovery in China over the coming months.

First, China is rapidly pivoting away from Zero Covid policies, i.e., lockdowns and ultra-tight social distancing measures that aim to suppress waves of new virus cases. This is being supported by the development of new Chinese mRNA vaccines as well as the availability of efficient antiviral pills. The recent decision of the State Council to flexibilize quarantine requirements and to urge elderly citizens to get vaccinated and even get boosted more often further reinforced this policy shift. Hence, a more stable “re-opening” should be secured, allowing economic activity to gain momentum.

Second, China is also pivoting its macroeconomic policy stance from neutral to supportive or accommodative. Chinese policymakers are becoming more concerned about the domestic economic slowdown and are starting to ease more aggressively. Policy actions so far include a few rounds of interest rate reduction, liquidity injections and fiscal spending in infrastructure projects. This

supports aggregate demand and overall economic activity.

Third, Chinese policymakers started to pivot from promoting a sharp de-leveraging of major property developers. Tighter credit conditions to real estate projects were causing sectoral debt distress, threatening the broader domestic financial system. In November 2022, regulators issued a comprehensive plan to boost the real estate sector. The plan included both a significant liberalization of property ownership in certain cities and financial support measures to developers facing liquidity problems. This should enhance confidence in the sector and allow for more investments.

Forth, Chinese authorities are pivoting away from open-ended regulatory changes in key technological sectors. Over the last several quarters, comprehensive regulatory reviews in certain industries, such as private education, fin-tech, e-commerce, food delivery and ride hailing, created

severe business uncertainty, partially preventing new investments and even innovation in related activities. In recent months, however, authorities started to conclude their regulatory reviews, providing clearer guidance for businesses and issuing more formal licenses to operate to important corporates that were previously operating under “grey areas.” This is lessening business uncertainty and should start supporting private sector investments and innovation.

All in all, major policy changes in healthcare, real estate and business regulation should further boost the Chinese cyclical recovery, promoting above consensus growth in 2023. In fact, while consensus forecasts point to 4.9% growth in China this year, we expect to see a GDP expansion of 5.5% for the same period.

QNB Economics Team:

Luiz Pinto*

Senior Economist
+974-4453-4642

James Mason

Senior Economist
+974-4453-4643

* Corresponding author

DISCLAIMER: *The information in this publication (“Information”) has been prepared by Qatar National Bank (Q.P.S.C.) (“QNB”) which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information’s accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient’s sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB’s knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*