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China Economic Report 2022

Update

Key Economic Indicators Summary

- In the first nine months of 2022, China's GDP reached CNY 87'027 billion (CHF 11'566 billion), up 3% YoY, lagging behind potential growth and the nation's goal of "around 5.5%" for the year.
- Strict Covid control measures had a strong negative impact, particularly on domestic demand. Economic actors have to cope with lockdowns, travel restrictions, reduced predictability, and the gloomy outlook for the global economy. Chinese PMI readings in November indicated contraction for both the manufacturing sector (48 points) and non-manufacturing sector (46.7).
- The construction sector suffered from subdued demand for residential housing. While average new home prices keep falling, real estate investment dropped 8% in the first three quarters. Infrastructure investment grew 11% in the same period.
- Inflation in China remains low by international standards. The consumer price index (CPI) stood at 2% in November. Relatively low interest rates weighed on the foreign exchange rate.
- In the first three quarters, the urban surveyed unemployment rate averaged 5% (migrant workers are not taken into account). Urban youth (aged 16 to 24) unemployment reached a record high of 19.9% in July.
- The outlook for China's economy in 2023 depends on how Covid control measures will evolve. Amid a slowing world economy and against a lower base of comparison, China's GDP growth forecasts for 2023 fall in the range from 3% to 5%.

Key Economic Growth Indicators	2017-2019 Average yoy growth	2020-2021 Average yoy growth	2022 Q1-Q3 growth
GDP	6.6%	5.2%	3%
Retail sales of consumer goods	9.0%	4.3%	0.7%
Investment in fixed assets	6.2%	3.8%	5.9%

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	2017-2019 Average yoy growth	2020-2021 Average yoy growth	2022 Q1-Q3 growth
Total value of exports	6.1%	12.6%	13.8%
Total value of imports	9.8%	10.4%	5.2%
Disposable income (per capital)	6.5%	6.9%	5.3%
Fiscal revenue	5.8%	3.4%	4.1%
Fiscal expenditure	8.2%	1.55%	6.2%

Source: KPMG; National Bureau of Statistics of China

Economic Policy Updates

- **Damage control:** In 2022, economic policies focused on offsetting headwinds caused by strict Covid control measures. The government deployed expansionary fiscal policies to support the slowing economy. Monetary policy shifted from focusing on banks' lending capacity to supporting borrowers.

- **Fiscal stimulus**: Tax relief measures were adopted to ease the economic pressure on companies. The scope of value-added tax (VAT) rebates, originally limited to six industries, expanded in June for the benefit of sectors particularly affected by lockdowns (wholesale and retail, hospitality and catering, education, healthcare, culture and sports, etc.). By early November, VAT rebates reached nearly CNY 2.31 trillion (CHF 300 billion) – a staggering amount that far exceeds the corresponding amounts granted from 2019 through 2021 (CNY 1.2 trillion). Additional measures included deferring social security premiums and repayment on loans, mainly for the benefit of micro, small and medium-sized enterprises (MSMEs).

- For the **construction sector**, the People's Bank of China (PBOC) and China Banking and Insurance Regulatory Commission (CBIRC) jointly issued a policy package with 16 measures in November. They successfully urged both State-owned and commercial banks to improve access to credit for both property developers and homebuyers, especially the former, in order to stabilize the sector.

- **Infrastructure construction** remains one of the main drivers behind China's economic growth. In June, the State Council ordered state-owned policy banks and development banks to increase the line of credit for infrastructure projects by CNY 800 billion (CHF 105 billion) and further boosted support by issuing bonds to replenish capital of key projects. In November, the National Development and Reform Commission (NDRC) again called on local governments to speed up infrastructure construction. Yet local government finance suffered from a sharp decline in land sales revenue.

- **Monetary policy**: China's headline consumer price index (CPI) remains at a low level, which offers enough room for the People's Bank of China (PBOC) to loosen monetary policy without risking high inflation. In August, the one-year loan prime rate (LPR) was lowered by 5 basis points to 3.65% and the five-year LPR was lowered by 15 basis points to 4.3%. Furthermore, China continued cutting the reserve requirement ratio (RRR). The latest cuts in April and November 2022 freed up around CNY 500 billion (CHF 67 billion) of liquidity each.

- **Mid-term policy orientations**: Social, economic and technological development remains high on the Communist Party of China's agenda. The 20th Party Congress in October reaffirmed the CPC's vision to build China into a "great modern socialist country" by significantly increasing economic strength and “join the ranks of the world’s most innovative countries, with great self-reliance and strength in science and technology”. The Party further pledged to deepen reform of state-owned enterprises, facilitate the growth of the private sector, and make China’s industrial and supply chains more resilient and secure.

Foreign Trade Updates

- **Exports and imports**: Exports continued to drive China’s economic development during the first three quarters of 2022. Overall exports of goods registered strong growth (+13.8%) but the slowdown of the global economy is likely to take its toll in the fourth quarter. Import growth was considerably flatter throughout the period (+5.2%) due to weaker domestic demand and the property sector slump. Trade in services also continued a strong upward trend during the Q1-Q3 period (exports +20.5% and imports +16.1%) including travel services that were recovering slowly.

- **Strategic competition**: The tense US-China trade relations deteriorated further as the US ban on Xinjiang imports took effect and the US Department of Commerce imposed new export controls on advanced computing and semiconductors to China. The attention has clearly shifted from the trade balance to strategic competition.

- **ASEAN rises**: The Regional Comprehensive Economic Partnership (RCEP), in effect in January 2022, has invigorated the trade relation between China and ASEAN countries. ASEAN is now China’s top one import origin and the largest trade partner, as it accounted for 15.1% of all imports and exports during the first three quarters of 2022.

- **Sino-Swiss trade**: Chinese trade with Switzerland kept growing in the first nine months. Swiss exports excl. gold increased 4.5% and imports from China grew +16.3% yoy.

Foreign Direct Investment Updates

- **On the rise:** Foreign direct investment (FDI) in China showed a steady growth. In the first 10 months of 2022, it reached USD 168.34 billion, up 17.4% YoY. The number comprises investments made by mainland Chinese companies via offshore and may not reflect the prevailing sentiment among multinational companies.

- **Broader scope of incentives**: The updated “2022 Catalogue of Encouraged Industries for Foreign Investment” will take effect in 2023. Sectors of air ground support equipment, key components related to autonomous driving, advanced manufacturing, energy saving and environmental protection were added. Foreign-invested projects in listed industries in the catalogue could enjoy several favorable treatments including tariff exemptions on imported equipment, access to preferential land prices, and lowered corporate income tax.