CCXI & CCXAP – Research & Commentary

2020H1 China's Macroeconomic Analysis: Pressure from Three Aspects Increases, Policies Need to Keep Balance between Two Difficulties

Hong Kong, 29 July 2020 -- China Chengxin International Credit Rating Co., Ltd. ("CCXI") released a semi-annual macroeconomic analysis entitled *"Pressure from Three Aspects increases, Policies Need to Keep Balance between Two Difficulties"*. CCXI conducted a systematic analysis of China's macroeconomic development for the first half of 2020 and offered an outlook for the economy and policies for the second half of 2020.

CCXI believes that under the trio-pressure from the global pandemic, the Sino-US frictions and financial risks, macroeconomic policies are encountering a "dilemma" of steady growth and risk prevention. Compared with the tone of stabilizing growth during the pandemic for the first half of 2020, the second half will see the marginal adjustment of macro polices with a particular focus on risk prevention, a balanced approach to steady growth and risk control. Taking into the considerations of the economic development and the marginal adjustment of macro policies, the report asserts that the Chinese economy is expected to keep a recovery trajectory in the second half of 2020. However, its pace of recovery may slow down. CCXI also maintains its forecast of 2.5% GDP annual growth rate for 2020.

Economic performance in 2020H1

With the effective control of the COVID-19 and the emergence of stabilizing growth, the economy demonstrated a clear momentum of recovery in the second quarter. GDP growth rate for the quarter turned to be positive compared with the same period in 2019, leading to a significant narrowing of the decline in the cumulative year-on-year growth rate of GDP in the first half of the year. Both supply and demand sides have improved. With a special note on the production front, the industrial output in June was basically close to the level in the same period of the previous two years. From the demand side, the recovery in investment was largely driven by infrastructure and real estate sectors. Although exports were still down from the same period last year, but it already beat the forecast. The recovery in retail sales of consumer goods was relatively weak. The report also warns even through there was a clear sign for economic recovery, the structural issues escalated by the pandemic were very prominent: The supply and demand recovery was unbalanced, and there was a large amount of discrepancies in the degree of recovery inside the supply and demand. For example, guided by the policies, the middle- and upper-stream industries and the high-tech industries will experience a higher output than that in the downstream. At the same time, in the manufacturing sector, particularly in the downstream manufacturing, the improvement was still limited. The declining tendency in the resident spending suppressed the recovery in consumption. Then, there was insufficient market-driven recovery force**.**

Economic outlook for 2020H2

As for the second half of 2020, CCXI believe that under the trio-pressure, the internal policy will see marginal adjustment. The trio combo are: first, the global spreading of COVID-

19 still has a negative impact on the Chinese economy; second, the escalation of China-US arm wrestling are intensifying geopolitical risks, and one must be very cautious about the possible “de-China globalization”; third, the financial risks are still very high. The policy for steady growth is merely delaying the outburst of risks. From a medium-to-long-term perspective, the debt risk is accumulating. The credit risk faces the release pressure, and the financial risks will restrict policy maneuvers. It is revealed in the report that based on the progress made in the first half of 2020 for the counter-risk macro policies, the second half will see that the transition of macro polices from pandemic hedging and securing growth to gradual normalization in keeping the steady growth and risk prevention as a bottom line. There will be more emphasis on preventing risks and stabilizing employment. Although we started to see the phasing out of emergency relief policies for the pandemic, the support to small- and medium-sized enterprises would not only be unchanged but also be strengthened. From the perspective of monetary policy, it will return to a normalization state with its focus sliding onto the real economy and financing of micro, small, and medium-sized enterprises. The second half of 2020 will likely experience one (directional) required reserve rate cut at around the end of year. From the fiscal policy point of view, it will focus on further improving efficiency, aiming at curtailing the deficiencies exposed by the pandemic and from other social and economic sectors. It is worth to note that the global pandemic has hit local governments with varying degrees of impact. So to have a steady investment flow and stabilize employment, local government debts will increase. We need to be watching for the prevention and control of local government bond risks.

The pace of economic recovery for the second half of 2020 will be slower. The estimated annual GDP growth rate is 2.5% year on year. The slower-paced economic recovery is caused by the three factors: First, under the conductive policy of stabilizing growth, the growth rate of industrial added value has already passed what was forecast for the first half of 2020. In fact, the growth rate was very close to the level prior to the pandemic. Therefore, it will be very difficult for Q3 to maintain the similar pace. Second, the service industries have to keep a reduced capacity for operations due to the COVID-19 prevention requirement. Finally, the spreading pandemic overseas will shrink the export demand, which will lead to a negative impact on the export businesses. Therefore, CCXI concludes the economic recovery for the second half of 2020 will rely on the steady growth in investment. In general, the economic recovery will not change its direction but its pace will be slowing down. The report further points out the focus for the second half will still be on the unbalanced structure, particularly the slow recovery in the residents’ consumption. This weak consumption cannot generate the growth in the domestic demand. In the comprehensive review of the structural issues and macro policy adjustment, the report keeps its position in the forecast for the annual GDP growth rate to be at 2.5%. This was first published in April 2020 on the Macro Q1 Report “Pandemic Triggers Negative Economic Growth, Policy Defends the Bottom Line”.

To obtain the full report, please call our Customer Service Hotline +852-2860 7111.

中诚信国际 CCXI

中诚信国际信用评级有限责任公司

地址： 北京市东城区朝阳门内大街
南竹竿胡同 2 号银河 SOHO6 号楼
邮编：100020

电话： (8610) 6642 8877

传真： (8610) 6642 6100

网址： http://www.ccxi.com.cn

China Chengxin International Credit Rating Co., Ltd

Address: Building 6, Galaxy SOHO,
No.2 Nanzhugan hutong, Chaoyangmennei Avenue,
Dongcheng district, Beijing, 100020

Tel: (8610) 6642 8877

Fax: (8610) 6642 6100

Website: http://www.ccxi.com.cn

中誠信亞太 CCXAP

中国诚信(亚太)信用评级有限公司

地址： 香港中环康乐广场 1 号
怡和大厦 8 楼 805-808 室

电话： (852) 2860 7111

传真： (852) 2868 0656

网址： http://www.ccxap.com

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 805-808, Jardine House, 1 Connaught Place,
Central, Hong Kong

Tel: (852) 2860 7111

Fax: (852) 2868 0656

Website: http://www.ccxap.com