

CCXI & CCXAP – Research & Commentary

Growth Stabilization Policies Bolster the Ebbing Economic Recovery under Triple Pressure

Hong Kong, 14 February 2022 --The Research Institute of China Chengxin International Credit Rating Co., Ltd. (“CCXI”) has recently issued two reports entitled “Growth Stabilization Policies Bolster the Ebbing Economic Recovery under Triple Pressure -- 2021 Review and 2022 Outlook on Macro-economy (I)” and “How to Choose Macroeconomic Policies under Multiple Risk Challenges -- 2021 Review and 2022 Outlook on Macro-economy (II)”. According to the reports, 2021 saw a persistent but uneven recovery of Chinese economy amid global supply shortage and China’s effective COVID-19 containment. Supply recovered faster than demand and foreign demand showed a stronger recovery than domestic demand. China’s economy still faces a downward pressure in 2022 under the triple pressure of supply shock, demand contraction and weaker expectations, coupled by coexistence of internal and external risks in the macro-economy. With strong policy efforts to stabilize growth, however, the economy may still find a “bottom” in the year ahead. The economy is expected to show a low start followed by steady advancement through the rest of the year. But stable growth in the second half of the year will depend on the effectiveness and intensity of the growth stabilization policies.

The report notes that in 2021, China’s economic growth as a whole showed a weakening trend due to exit of unconventional policies, medium- and long-term structural adjustments and fallout from COVID-19. Looking back on 2021, the economic operation basically followed the logic of post-pandemic recovery. The low comparison base led to a significant year-on-year increase in GDP in the next quarter. Economic growth retreated from quarter to quarter since the second and third quarters. **On the production side,** industrial production generally maintained fairly high growth in an overall downtrend. The service production growth was relatively slow due to sporadic coronavirus outbreaks. **On the demand side,** investment, consumption and export were structurally uneven. As for investment components, policy-driven investment recovery weakened while market-driven investment recovery accelerated. Infrastructure investment growth remained low on the whole, with real estate investment slowing down under the drag from tough industry curbs and local risk eruptions. Manufacturing investment at a higher market-oriented level became the major contributor to investment growth. Consumer spending was lackluster due to the coronavirus resurgences. Overall exports were resilient, with a cumulative year-on-year growth of 29.9% in 2021, providing a strong support for recovery of China’s manufacturing investment. **On the price side,** CPI and PPI experienced a divergence of movements. In particular, PPI broke through the recent high amid supply chain disruptions, showing no reversal for a pullback until November. **Overall,** the economic recovery momentum marginally weakened in 2021 under the triple pressure of supply shock, demand contraction and weakening expectations. **According to the report, the macro-economy in 2021 recovered with a weakening momentum, mainly for the following reasons:** First, the overly fast normalization of macro policies led to a modest policy support for the economy. Second, the “carbon emissions peaking, carbon neutrality” goals and medium- and long-term structural adjustments introduced on the heels of one another to reduce the dependence of economic growth on real

estate had a negative impact on economic performance in the short term. Third, economic recovery weakened in the second half of 2021 against the backdrop of flood, pandemic and intense rollout of structural policies. The demand-side recovery failed to match the supply-side recovery as expected, becoming a drag on the come-back of supply.

Looking forward to 2022, the macroeconomic growth rate may be flat with the potential growth pace. The annual economic growth, in 2022 will be significantly weaker than in 2021. With the fiscal spending front-loaded and credit easing in place, quarterly growth in 2022 may show a low start followed by steady advancement. Whether the growth can remain stable through the second half of the year still depends on the intensity and effectiveness of growth stabilization policies.

The report notes that although the effectiveness of the growth stabilization policies can alleviate the triple pressure on economic performance to a certain extent, China's economy still faces a grim and complicated situation, including a variety of risks and challenges at home and abroad. As for external environment, the external situation is still grim and complicated, including uncertainties in development of the global pandemic, the pressure from a slowing global recovery, the persistent tone of the power game and the monetary policy transition in major economies. All these factors will disturb the pace of China's economic recovery. **As for domestic factors**, the economic recovery still faces challenges. **First of all**, the imbalance between consumption and production may continue amid COVID-19 resurgences and strict containment policies. The potential growth rate may further decline under the unexpected combined effect of various structural policies launched earlier. **Second**, the long-term constraints from the dual carbon goals may become a drag on China's short-term economic growth. The industrial structure adjustments under carbon emissions reduction may widen divergence among industries and push up the industry tail risk. **Third**, risks in the real estate industry are accelerating. In the process of reducing the dependence on real estate for economic growth, it is still necessary to guard against the spillover and transmission of risks. **Fourth**, the debt pressure is still high, the debt risk remaining a "grey rhino" that China has to tackle head-on in its economic operation.

In the face of downward economic pressure and macro risks, macro policies need to balance long-term structural adjustments with short-term economic stability, and balance risk prevention with stable growth. At present, a clear signal of ensuring stable growth should be released to firm up economic growth as soon as possible. From the perspective of specific measures, **first**, the top-level design of "carbon emissions peaking, carbon neutrality" should be strengthened to avoid the supply shocks similar to that from "campaign-style" carbon reduction". **Second**, the COVID-19 containment policies should be more precise, tolerant and flexible as coronavirus resurgences may continue to disturb local recovery of services and consumer activity. **Third**, prudence should be used in introducing policies that are signaling a contraction, countercyclical and cross-cyclical measures should be coordinated and the fiscal policy should pay more attention to efficiency and focus on front-loading and structure optimization. The monetary policy should be stable and flexible, maintain reasonable and sufficient liquidity, moderately ease money and credit, and cause the growth stabilization policies to work as soon as possible. **Fourth**, the resolution of major risks still should be progressive and well-timed. Regulatory policies in areas such as real estate where risks are too quickly exposed should be fine-tuned to avoid the risk of risk handling.

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

Copyright

Copyright © 2022 China Chengxin (Asia Pacific) Credit Ratings Company Limited, China Chengxin (Asia Pacific) Credit Ratings Company Limited and/or their affiliates (collectively, "CCX"). All rights reserved. All information contained herein is protected by law. None of such information may be copied or otherwise reproduced, repackaged, further transmitted, transferred, redaction, interception, resold or redistributed, or stored for subsequent use for any such purpose, by any person without CCX's prior written consent.

Important Information

All information contained herein is obtained by CCX from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "as is" without warranty of any kind. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any commercial purpose of such information is given or made by CCX in any form or manner whatsoever.

To the extent permitted by law, CCX and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (a) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, or any contingency within or beyond the control of, CCX or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; or (b) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCX or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

CCX's credit ratings, assessments and other opinions contained herein are current opinions and are not statements of current or historical fact and do not constitute or provide investment or financial advice, and do not provide recommendations to purchase, sell, or hold particular securities. CCX's credit rating assessments and other opinions are not intended for use by retail investors when making an investment decision. Any person as investor will, with due care, make its own study and evaluation of each security, issuer, guarantor, and credit supporter that is under consideration for purchase, holding, or selling.



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 19 楼 1904-1909 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 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong
Tel: (852) 2860 7111
Fax: (852) 2868 0656
Website: <http://www.ccxap.com>