

## China draws a recovery roadmap

China has decided to relax the lockdown of Wuhan city but maintain strict social distancing in most cities. This is the first step to getting the economic recovery back on track. There are also fiscal and monetary policies in place, but will they work?



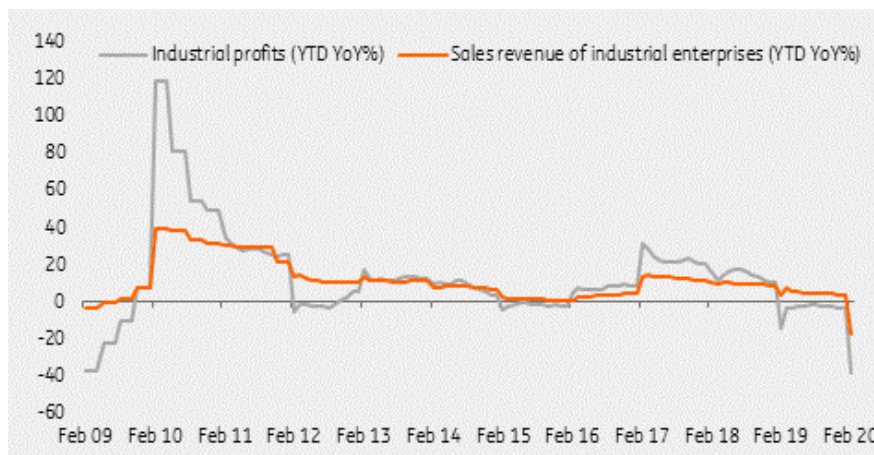
Source: Shutterstock

### First step to recovery

The Chinese government sees unlocking Wuhan as an important first step to economic recovery. But there are still very strict rules on social distancing and distance learning for students. So domestic demand will recover, but only gradually.

Global supply chains are disrupted in Europe and the US, and so is global demand. As we assume in our base case that the global lockdown will only last until early May, the damage should be manageable by Chinese manufacturers and exporters who have been given extensions in fee payments and loan repayments.

## China industrial profits fell to levels similar to the global financial crisis



Source: ING, Bloomberg

### Roadmap for a full recovery

A roadmap for a full recovery was developed by China when it was hit by Covid-19 in February, and this is becoming clearer now.

The recovery plan involves 'New Infrastructure' projects. Not everything will be done by the government, some will be implemented by the private sector. These new projects lay out the necessary soft and hard infrastructure that China will need to succeed in the future digitalised world.

### Stimulus to avoid recession

In terms of government support, fiscal stimulus will range between 6.5% to 8% of nominal GDP in 2020, which will include tax and fee cuts, to prevent the economy falling into recession.

China's sovereign bonds will be bought by the country's corporate treasuries until the end of April, but then some of them will switch from government bonds into investment grade corporate bonds as the market recovers in the second quarter.

### PBoC protects the financial system

For now, the central bank has to make sure that a deterioration in credit overseas does not lead to tighter liquidity and more difficult credit conditions in China. More frequent and stronger-than-expected rate cuts should prevent this from happening. But if there is a deterioration in credit, the recovery plan will clearly be delayed.

### Downgrade growth forecast

We expect GDP growth at 3.6% year-on-year in the first quarter. Fiscal stimulus should avert a year-on-year recession but cannot prevent a slowdown from falling global demand. Our GDP forecast for 2020 is revised downward to 4% from the previous forecast of 4.2%. The recovery plan may be able to boost GDP growth in the second half of the year but it is still too early to tell.

The yuan's path will follow the dollar. There shouldn't be any delays to outward remittances as capital outflow pressures will not be high. USD/CNY could reach 7.25 by the end of 2Q20 and reach 6.9 by the end of 2020.