

## China: the big concern is still lockdowns

We are keeping our low GDP forecast even though the Chinese government is boosting growth through fiscal stimulus and infrastructure spending. We remain concerned that lockdowns will keep happening



We are worried that lockdowns in China will keep happening

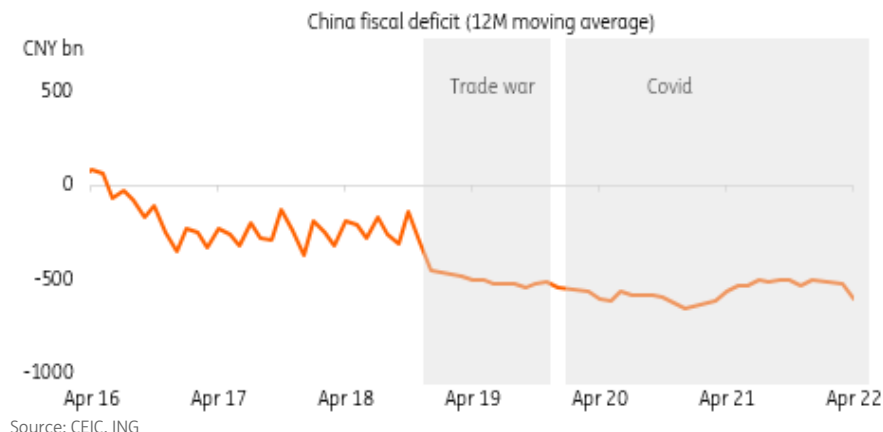
### No change to GDP forecasts even though there will be huge stimulus

We are keeping our GDP forecast at 3.6% for 2022 even though the government is going to strongly increase fiscal stimulus. The main reason for this is the high probability of further lockdowns. We cannot rule out the prospect of further lockdowns, in Shenzhen or Shanghai again, or in other cities.

So far, the government has provided stimulus of around 4% of GDP. However, we still expect a year-on-year growth rate of -1% in 2Q22. The main economic issue is not just the slump in retail sales due to lockdowns, which should partially recover after the lockdowns are eased. Our broader concern is about employment. Small and medium-sized enterprises (SMEs) are employing fewer people, and we expect them to keep the number of workers to a minimum, reducing as much as possible the potential impact of another lockdown or measures to tighten social interaction. SMEs contribute more than half of the jobs in towns and cities. As this previously large pool of labour

supply now faces fewer job openings, those who are unemployed will continue to find it difficult to find a job. Without stable jobs, these people struggle with lower spending power resulting in a vicious circle.

## China fiscal deficit



## Government stimulus is the main risk to our forecast

The risk to keeping our GDP forecasts unchanged is that the government is pushing stimulus measures, both at the national and local government level. So far, stimulus measures have accounted for about 4% of GDP. With Premier Li Keqiang urging local government officials to achieve positive growth in the second quarter, this implies that more stimulus is coming. We think it will be difficult to achieve positive growth in the second quarter, with only one month to go after the sharp contractions in activity in April and May.

Even if the additional stimulus does not push GDP into positive growth in the second quarter, it could still support growth in the second half of the year. The chances of getting GDP growth above 4% depend heavily on the size and also the nature of the stimulus.

That is where the risk of keeping the GDP forecast comes in – a huge fiscal stimulus package. But we are also concerned that irrespective of the size of the stimulus, it will be extremely difficult to implement such a big boost to growth in such a relatively short time.