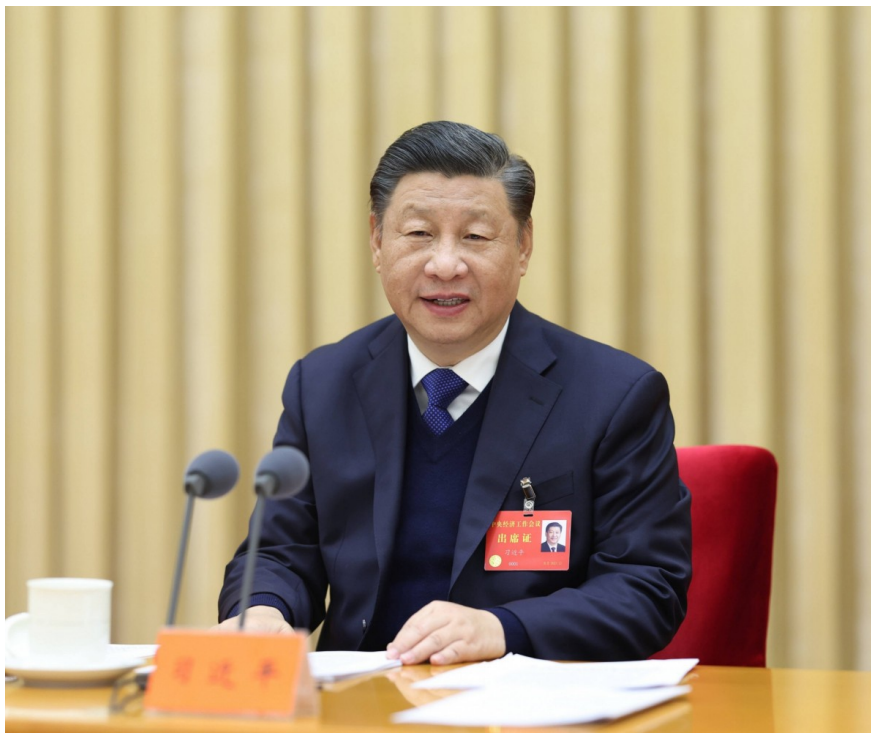


## China's economic policies for 2022 - Stability is the key

China held an important meeting last week, setting the direction for economic policy in 2022. Stability is the key. This reminds us of the policy environment before the trade war. But the background has changed a lot since then. Covid and international politics do not seem to be helping. ESG will be the opportunity



China's Xi Jinping at the Central Economic Work Conference in December 2021

### China plans for a stable economy in 2022

Planning is always part of the Chinese government's duty. Economic policy direction is one of those plans. The Central Economic Work Conference held from 8 to 10 December 2021, sets the tone for economic policy in 2022. The result of this conference will be the draft economic policies for the Two Sessions in March 2022. This is why this conference is important.

The keyword is stability.

This is also our expectation as the economy needs time to let the aggressive policies implemented from August to October 2021 take effect. These policies include the ongoing deleveraging of the real estate sector, data compliance for technology companies, and ESG for workers and the environment.

## Not as easy as you might think

Though stability will be the key for 2022, the government has to continue to work for the targets set for the 14th Five Year plan. The most important element of which is the advancement of technology.

Covid is one of the challenges that makes stability a tough objective to achieve. The other challenges are supply chain disruptions, semiconductor shortages and changes in commodity prices.

Another challenge is the relationship with the US and its allies. International politics are not going in a constructive direction. This will make it harder for China to grow steadily, especially when China wants to forge breakthroughs in advanced semiconductor manufacture, comparable to the technology owned by Taiwan, the US, Japan and South Korea.

Defaults on offshore bonds by Chinese real estate developers will continue in 2022. But this may already have been largely digested by the market and should not create substantial spillovers into other markets. Even the yuan has not softened in the face of this so far.

## The role of monetary and fiscal policies

Monetary policies will probably not play an active role in 2022. The conference indicated that monetary policy's role is to help SMEs, technology and green investment. This means there will be targeted help for these areas, which will most likely be in the form of preferential interest rates.

As such we don't see a big need for cutting the RRR (required reserve ratio) for the rest of 2021, and any further cuts will probably not occur until after the Two Sessions in March 2022 - though this will depend on the economic conditions at that time. We also don't see the need for cutting interest rates to support growth. Though it is equally difficult to envisage any interest rate increases as challenges from Covid will likely continue to hurt demand internally and low rates will help to offset the risk of commodity prices remaining high.

Fiscal policy should work in tandem with monetary policy in these areas. As such we do not expect the fiscal deficit to exceed 3.5% of GDP in 2022.

## ESG to support growth

As we can see from the preference in monetary and fiscal policies, ESG (environmental, social and governance) will enjoy supportive policy measures. We believe companies will take advantage of these preferential policies to grow their businesses, which in turn will support the growth rate of the whole economy.

ESG is very broad and is positive for the quality of economic growth for the long term. This matches the theme of the 14th Five Year Plan. We expect that many ESG projects will be supported by the government.

## Forecasts

We expect China's GDP will have grown by 8.9% by the end of 2021 and will grow by 5.4% in 2022.

For the yuan, we believe it will continue to be strong against the dollar in the first half of 2022 as portfolio inflows should remain supportive. We expect this strength to fade in the second half of 2022 once the Fed starts to hike rates. We forecast USDCNY of 6.35 by 1H22 and 6.50 by the end of 2022.