

## China's longer-than-expected lockdown needs government intervention

Lockdowns in China, especially in Shanghai, have gone on much longer than expected. This is hurting the economy and disrupting supply chains. The government has pledged to come to the rescue



Shanghai has been in lockdown for more than a month

### Lockdowns are hurting the economy, mainly by disrupting logistics

The lockdown in Shanghai has lasted more than a month, and we believe that it will continue for another month (throughout May). Beijing is now starting mass Covid-19 testing and is therefore in partial lockdown.

The main source of economic damage from these lockdowns comes from the disruption to logistics. Delivery people are unable to deliver important documents for business operations as they are too busy delivering daily necessities and medicines. Delivery across the city is very difficult. Factories and ports are in closed-loop operations, so entering and leaving these sites is very difficult.

This all damages economic activity: clearly retail is being hit hard, financial services are also

taking a hit, as are manufacturing and ports.

Beijing could experience similar issues if large numbers of Covid cases are found after the testing is concluded. Though so far, only 12 cases have been found following the first batch of mass tests.

## Government comes to the rescue, but how successful will it be?

The government, including the People's Bank of China, has said it will execute policy actions to support economic growth.

The main thing we have seen so far is that the PBoC has cut the Reserve Requirement Ratio on foreign currency deposits to release dollars for financial institutions to buy yuan in financial markets. This has prevented a further depreciation of the USD/CNY and USD/CNH beyond 6.60.

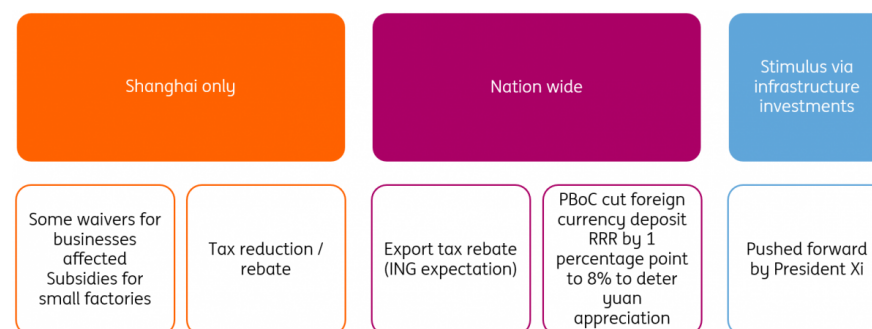
The PBoC has also said that it will speed up regulation on the platform economy (i.e. companies including Alibaba and Tencent) that have provided fintech services to society. This also helped lift the Chinese equity market, but only for a short while.

The third thing – again so far just a pledge rather than action – the government (from President Xi Jinping to Vice Premier Liu He), has pledged to push forward the construction of infrastructure projects. If this is put into action, it means an increase in bond issuance by local governments to fund those projects as well as to kick off construction. This is likely to be done.

Airport infrastructure is already under construction, and some highways are, too. Green energy projects should also have been planned from 4Q21 when local government special bond quotas for 2022 were released.

The question here is whether these policies can keep GDP growth at the 4.8% year-on-year level seen in the first quarter.

## Policy pledge and actions



Source: ING

## Forecast revision, again

When Shanghai started its lockdown, we revised our GDP forecast for full-year 2022 down from 4.8% to 4.6% year-on-year. Considering the net effect of negative factors from lockdowns and positive factors from potential government action, we are downgrading our China GDP growth forecast further to 3.6% for this year, with the 2Q22 GDP growth rate revised to -1% year-on-year.

Our calculation is based on GDP per capita in the city and assumes some multiplying damage from the lockdowns, for example, import and export activity at ports that are used for other locations in

China.

The risk to this forecast is that the government is unable to push infrastructure projects forward as quickly as it would like and as quickly as would be needed to totally offset the negative factors. And so, even though President Xi and Vice Premier Liu He are taking steps to make this happen, there are still limits as to what can be done during the two months left in 2Q22.