**Introduction Statement by Prof. Horst Löchel: China’s Economy Outlook 2022**

**Last year’s results**

   Basically driven by strong rising exports (+ 30 %); trade surplus was 26 % higher than in 2020, but weakening consumption and fixed investment slowdown.

**What to expect for 2022?**

Growth projection: 4.5 – 5.5 % (still above the USA and the EU but below EM countries, esp. India and previous projections; N. B. China’s accounts for one-quarter of global growth and is already the 2nd largest economy of the world).

No inflation issue: headline inflation: 1.9 % (after 0.9 % in 2021).

Also the currency is expected to stay strong or become even stronger.

**Downside risks have clearly increased:**

Triple pressure: (i) Contradicting external and internal demand, (ii) supply shocks due to supply chain issues and energy shortages, (iii) weakening domestic and international expectations.

Jan. 2022: Manufacturing purchasing manager index was close to contradiction with a value of 50.1. (After 50.3 in Dec.).
   Household’s savings increased on 5.4 trillion yuan (about 530 bn €) in January compared to Dec., which in turn leads to another decrease in consumption. And the future is not bright: Less than 25 % of the private households said in a recent representative poll that they plan to spend more in the future.

**Domestic challenges:**

Sharper than expected slowdown in the property sector that leads to further decrease of demand with negative feedback loops to the financial sector.

Ongoing Covid-19 pandemic related with tighter epidemic control.

Further power crunches.
**International challenges:**
Slowing trade and further supply chain disruptions.
Foreign capital outflows due to rising interest rates in advanced economies.
Rising international tensions and ongoing decoupling and deglobalisation.

**Upside potential from politics: Results of the Central Economic Working Conference (end of Dec 2021):**
Short-term growth keeps top priority (stability) although policy makers have shifted their focus from tackling long-standing issues, such as high local debt, still overheated property sector and a carbon-intensive energy structure.
A higher degree of a more expansionary fiscal policy is to be expected especially by local governments’ (N. B.: Fiscal policy was actually restrictive in 2021 due to deleveraging: Government spending felt on 8.1 %).
Monetary policy: Keeps moderate supportive (recent small decrease of key interest rate on 0.1 % (one-year leading to 2.85 % and reverse repurchase agreement to 2.1 %).
Tax reduction for consumers is scheduled (when and how much is not clear yet).

**Overall result:**
China’s domestic economy is still healthy and economic policy ready to step in if needed even if the pandemic and the zero-Covid strategy will continue. Economically the main risk is the course of the world economy and politically rising international tensions.