

China – 2Q22

Macroeconomic Outlook Report



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Index



1. Chinese macroeconomic view **5**



2. International overview **8**



3. Banking sector: general overview **12**



4. Appendix **16**



1. Chinese macroeconomic view

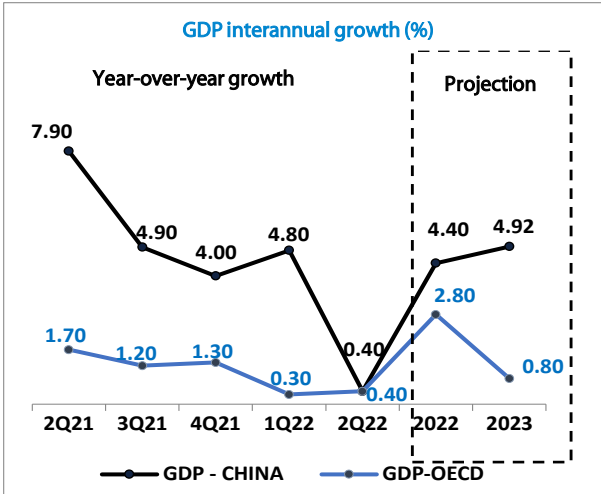
The Chinese economic growth stunted during the second quarter due to new COVID-19 outbreaks, down to 0.40%. Inflation rose to 2.23% during the second quarter. According to the labour market, unemployment increased up to 5.80%

MAIN MACROECONOMICS INDICATORS (Interannual growth %)

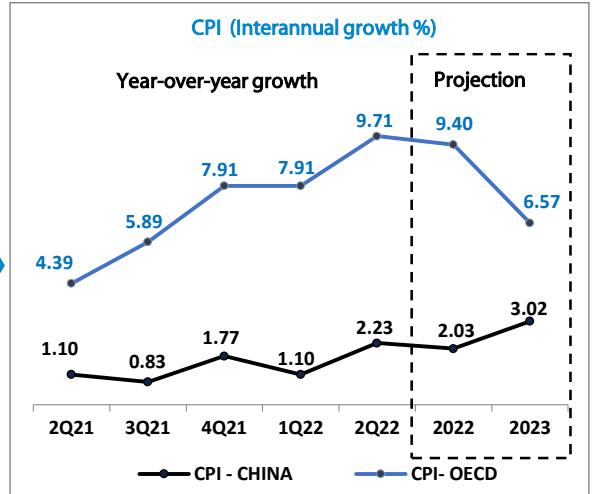
INDICATOR	2Q21	3Q21	4Q21	1Q22	2Q22	2022	2023
GDP	7.90	4.90	4.00	4.80	0.40	4.40	4.92
INFLATION							
CPI	1.10	0.83	1.77	1.10	2.23	2.03	3.02
LABOUR MARKET							
UNEMPLOYMENT	3.86	3.88	3.96	5.50	5.80	3.96	3.70
INDICATOR							
GDP	2017	2018	2019	2020	2021	2022	2023
DOMESTIC DEMAND	11.63	11.82	8.34	1.68	10.93	2.92	4.85
PRIVATE CONSUMPTION	11.09	10.43	9.34	-0.001	13.34		
PUBLIC CONSUMPTION	11.21	11.91	8.84	4.95	4.86		
GROSS FIXED CAPITAL FORMATION	12.30	13.08	7.26	1.93	11.21		
NET EXPORTS	-14.12	-51.61	61.58	121.68	16.84		
INFLATION							
CPI	1.55	2.13	2.90	2.51	0.92	2.03	3.02
LABOUR MARKET							
UNEMPLOYMENT	3.94	3.84	3.63	3.98	3.91	3.96	3.70

Source: National Bureau of Statistics of China. Projections correspond to the OECD from June 2022 and IMF from June 2022.

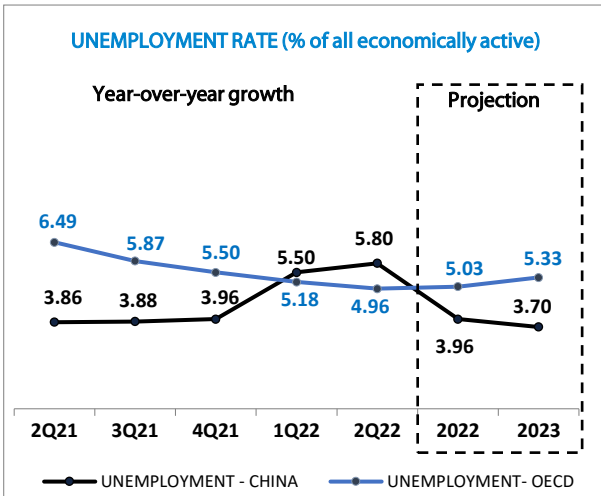
- ▶ The Chinese GDP rate recorded a significant decrease of 4.40 p.p. compared to the previous quarter to a growth value of 0.40%. During the second quarter, mainland China faced its worst Covid outbreak since the height of the pandemic in early 2020. Strict stay-home orders hit the metropolis of Shanghai for about two months, while travel restrictions contributed to supply chain disruptions. The OECD expects a GDP average annual rate of 4.40% in 2022 and an average increase of up to 4.92% in 2023
- ▶ The unemployment rate worsened compared to the previous quarter by 0.30 p.p. to register a rate of 5.80%. The OECD expects an improvement in the unemployment rate decreasing to 3.96% in 2022 and a further decrease to 3.70% in 2023.
- ▶ According to the World Bank, the re-emergence of domestic outbreaks of COVID-19 could require more extensive and longer-lasting restrictions, leading to further disruption of economic activity. A severe and prolonged downturn in the real estate sector could have major repercussions throughout the economy.
- ▶ Inflation increased by 1.13 p.p. to 2.23% when compared to the previous quarter. However, statistics bureau spokesperson Fu Linghui described the impact of Covid as "short-lived," and emphasized how China's inflation is far below that of the U.S. and Europe, adding that there are "challenges" to achieving the full-year economic targets. In addition, OECD expects inflation to move closer to the inflation target rate of 3% established by the Central Bank of China, registering 2.03% and 3.02% in 2022 and 2023, respectively.



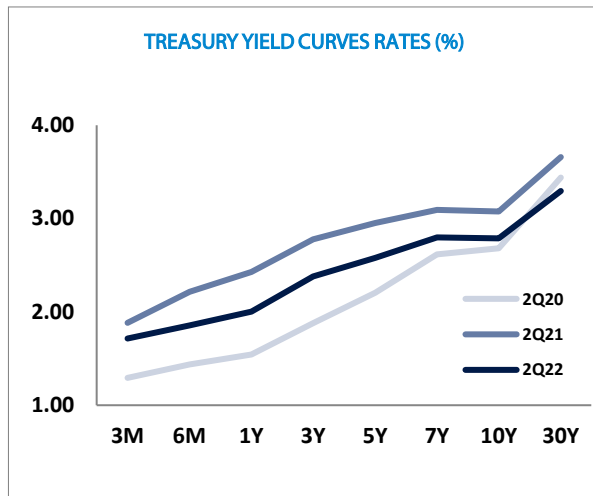
Source: National Bureau of Statistics of China. Projections correspond to the OECD WEO from June 2022.



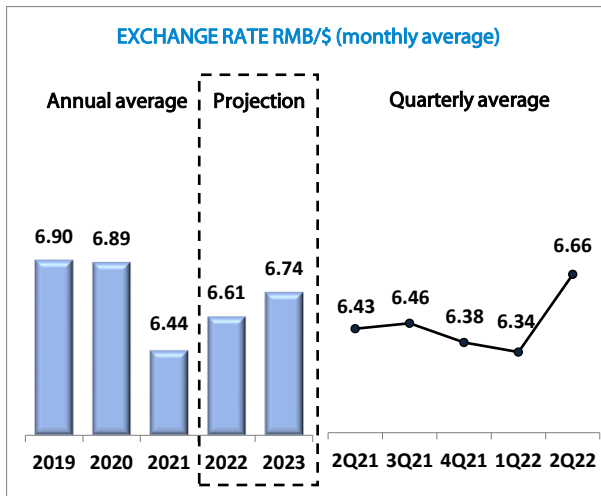
Source: National Bureau of Statistics of China, projections correspond to the OECD WEO from June 2022.



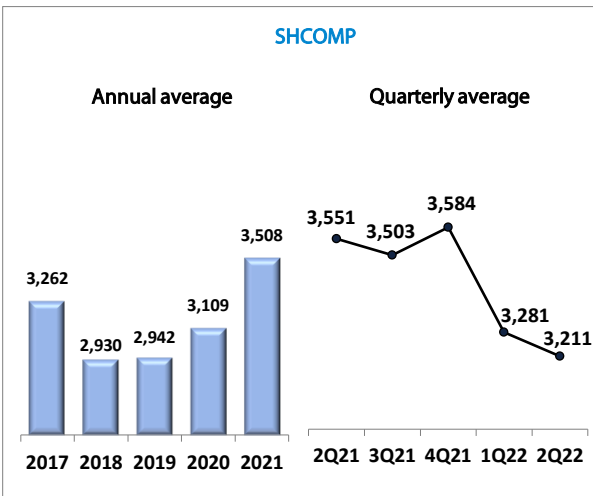
Source: National Bureau of Statistics of China, projections correspond to the IMF WEO June 2022.



Source: World Government Bonds.



Source: SAFE. Projections correspond to the OECD WEO from June 2022.



Source: Bloomberg.



2. International overview

LatAm, OECD and China

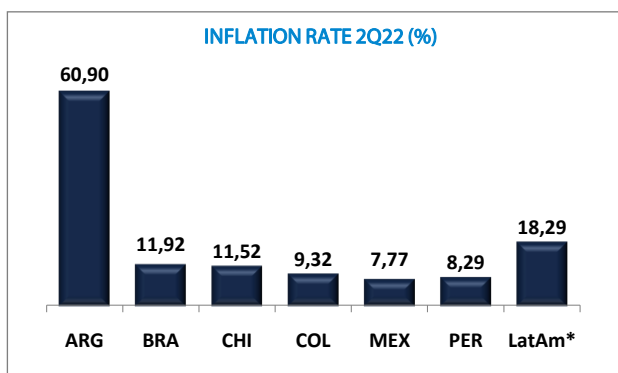
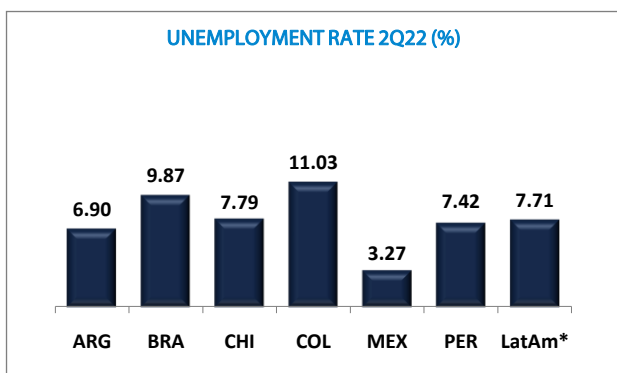
The upward inflationary trend has determined the monetary policies of major global banks and the stagnation of economic growth during 2Q22.

Macroeconomic outlook

- ▶ During the quarter, the global economic recovery continued after the most acute phase of the pandemic, albeit in a very uncertain environment. The main constraints on economic developments were the unfolding war in Ukraine, the slowdown in China, and the intensification of inflationary pressures in the short term, which affected the conduct of monetary policies at the global level. All this dampened households' purchasing power and increased firms' production costs.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) revised in October its forecast for the Latin American economy for 2022, raising the region's growth by 3.2% and cutting it to 1.4% for 2023. World trade dynamics are expected to be negatively affected by the war, which would lead to a decrease in Latin America's external demand. For its part, the European Commission has acknowledged a slower than expected economic recovery, affected by the outbreak of the war in Ukraine. Likewise, the Fed modified its previous projections for the US, predicting lower GDP growth of 2.3% in 2022 and 1% in 2023.
- ▶ During the second quarter of 2022, the labor market continued to recover from the economic consequences of the pandemic to near pre-pandemic levels. Most countries recorded declines in their unemployment rate compared to 1Q22. Mexico ranked as the country with the lowest unemployment rate (3.27%) while Colombia had the highest rate (11.03%) for Latam. Moreover, Spain reached a 12.48% unemployment rate during this quarter.
- ▶ In 2Q22, inflation increased in all the economies analyzed concerning 2Q21, with the highest rates in Argentina (60.13%), Brazil (9.72%), the United Kingdom (9.16%), and Spain (9.07%). The EMU registered an increase of 6.70 p.p. compared to 2Q21, reaching a rate of 8.60%. The average for Latam was 16.52%. China registered the smallest year-on-year increase, with inflation of 2.23%. Inflation grew at a very high rate due to the energy component. On the other hand, all economies contracted their labor markets, except Canada and China, which recorded slight year-on-year increases.
- ▶ Foreign trade in the G20 countries continued to grow in monetary terms on the back of higher commodity prices and inflation. Exports of the group of the world's 20 largest economies increased by 2.1 % from the previous quarter, while imports rose by 2.6 %. Exports of the European Union as a whole rose by 2 %, Latin America by 2.8 %, and North America by 1.5 % in the quarter.

Financial sector

- ▶ In response to rising inflation, central banks' monetary policy became more restrictive, and most central banks have raised interest rates significantly, reaching levels like those observed in 2017.
- ▶ On the fiscal side, public debt levels remained high in many countries. In a context of high demands for public spending, measures were required to strengthen fiscal sustainability and expand fiscal space by strengthening public revenues.
- ▶ In terms of their ratings, all OECD, China, and Latin American countries kept their ratings constant in the second quarter of the year, except for Chile, which moved from a Moody's rating of A1 to A2, and Mexico, which moved from a Moody's rating of Baa1 to Baa2 during this period.



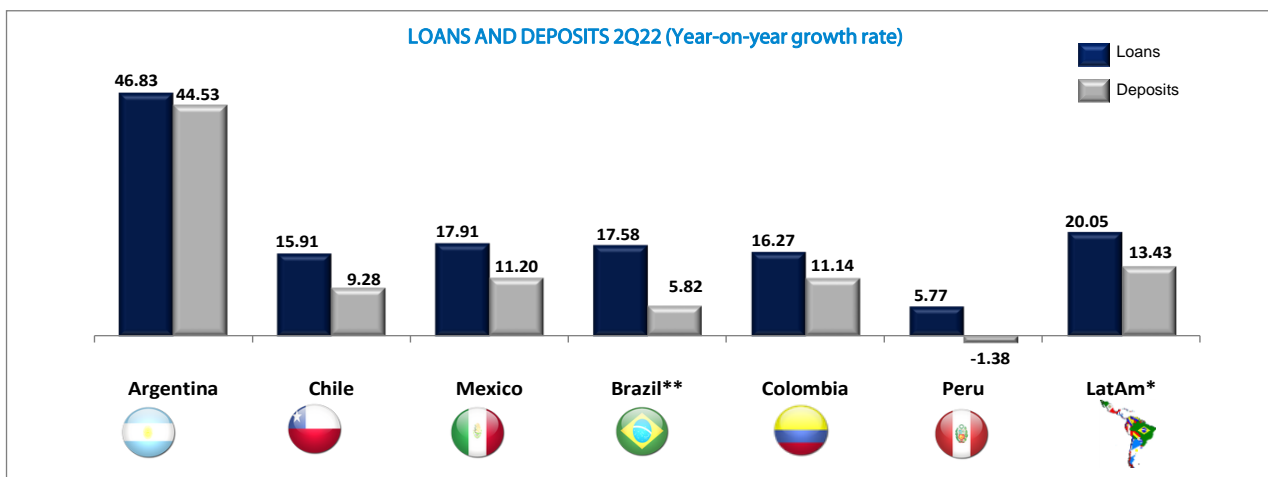
LONG TERM RATES 2Q22

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A2	▲	A	—	A-	—
Colombia	Baa2	—	BB+	—	BB+	—
Mexico	Baa2	▲	BBB	—	BBB-	—
Peru	Baa1	—	BBB	—	BBB	—











▲ Increase since 1Q22

— Constant since 1Q22

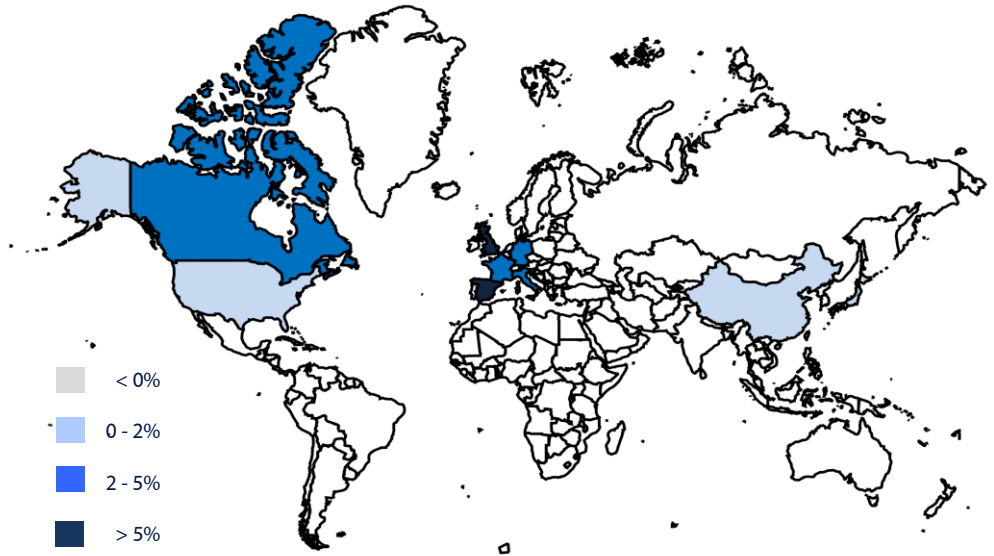
▼ Decrease since 1Q22



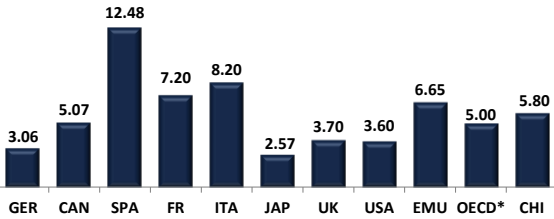
*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.
 **Most updated figures available at the date of the release correspond to 2Q22, except for Brazil's deposits (1Q22)

-  **Germany**
2.56%
-  **Canada**
4.56%
-  **China**
0.40%
-  **France**
4.01%
-  **Spain**
6.78%
-  **Italy**
4.70%
-  **Japan**
1.40%
-  **EMU**
4.25%
-  **UK**
9.95%
-  **USA**
1.70%

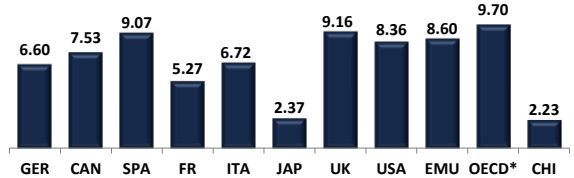
GDP 2Q22 (% year-on-year growth rate)



UNEMPLOYMENT RATE 2Q22 (%)



INFLATION RATE 2Q22 (%)

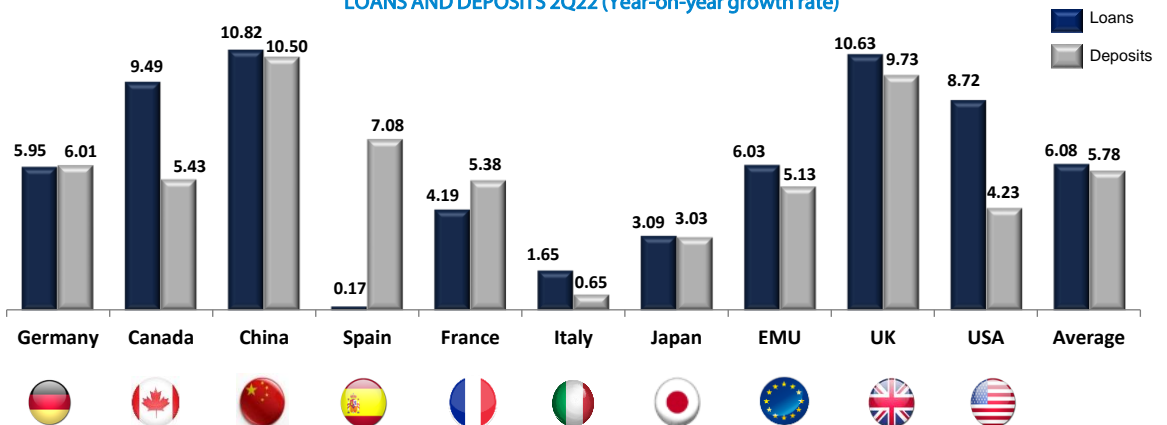


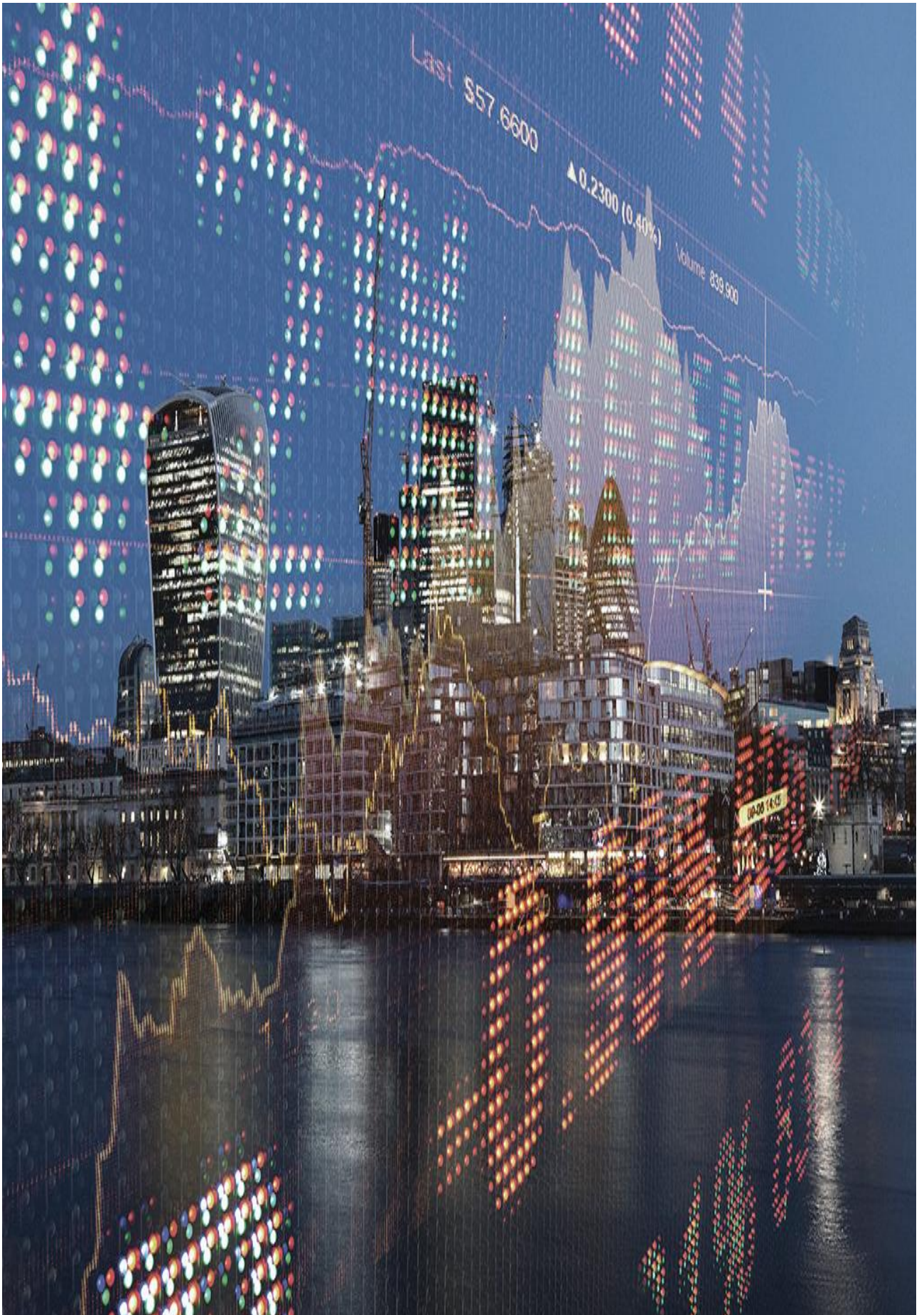
LONG TERM RATES 2Q22

	MOODY'S		S&P		Fitch	
Germany	Aaa	—	AAA	—	AAA	—
Canada	Aaa	—	AAA	—	AA+	—
China	A1	—	A+	—	A+	—
Spain	Baa1	—	A	—	A-	—
France	Aa2	—	AA	—	AA	—
Italy	Baa3	—	BBB	—	BBB	—
Japan	A1	—	A+	—	A	—
UK	Aa3	—	AA	—	AA-	—
USA	Aaa	—	AA+	—	AAA	—

- ▲ Increase since 1Q22
- Constant since 1Q22
- ▼ Decrease since 1Q22

LOANS AND DEPOSITS 2Q22 (Year-on-year growth rate)

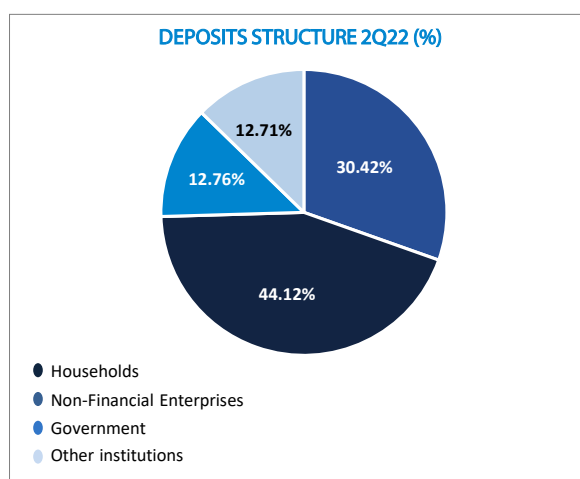
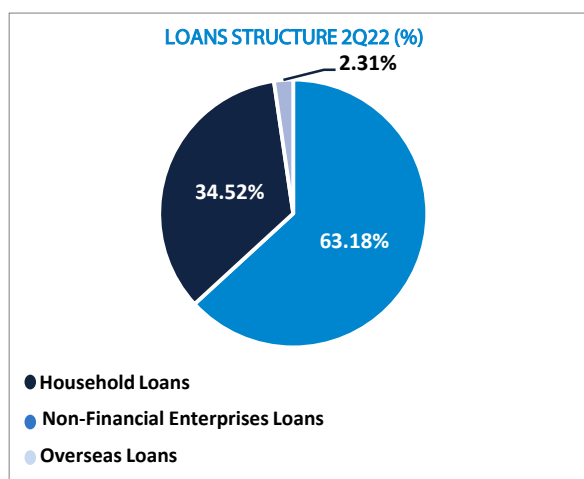




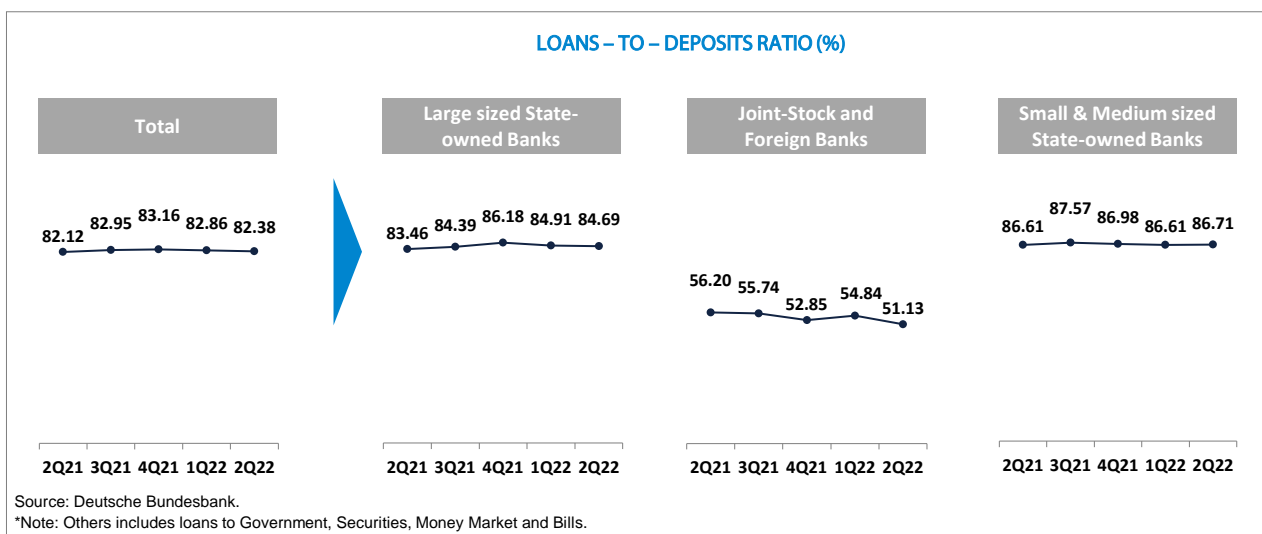
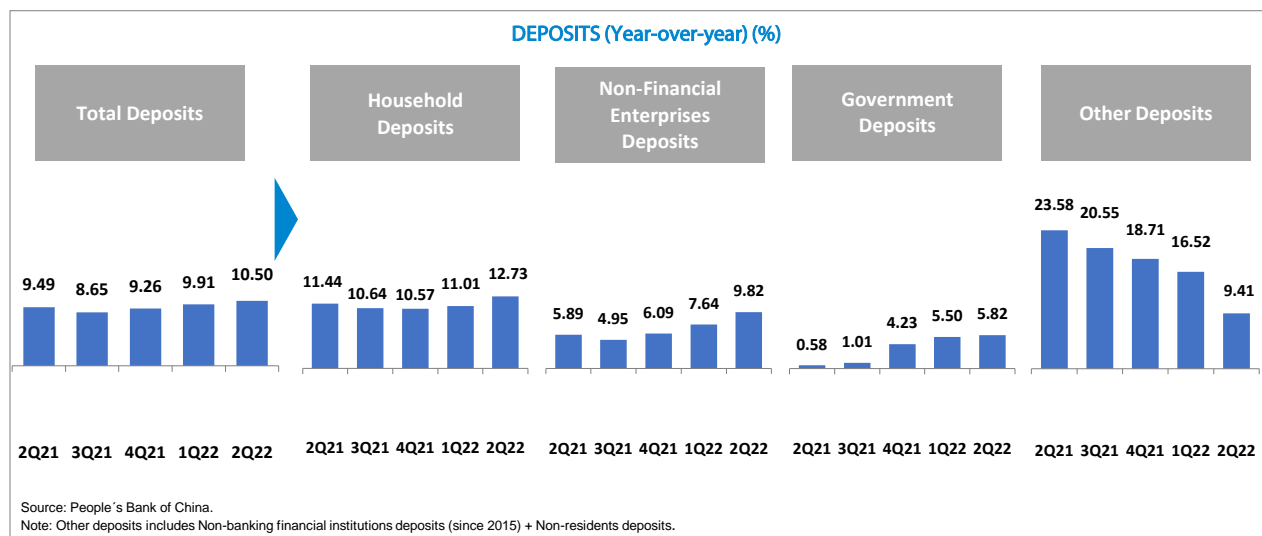
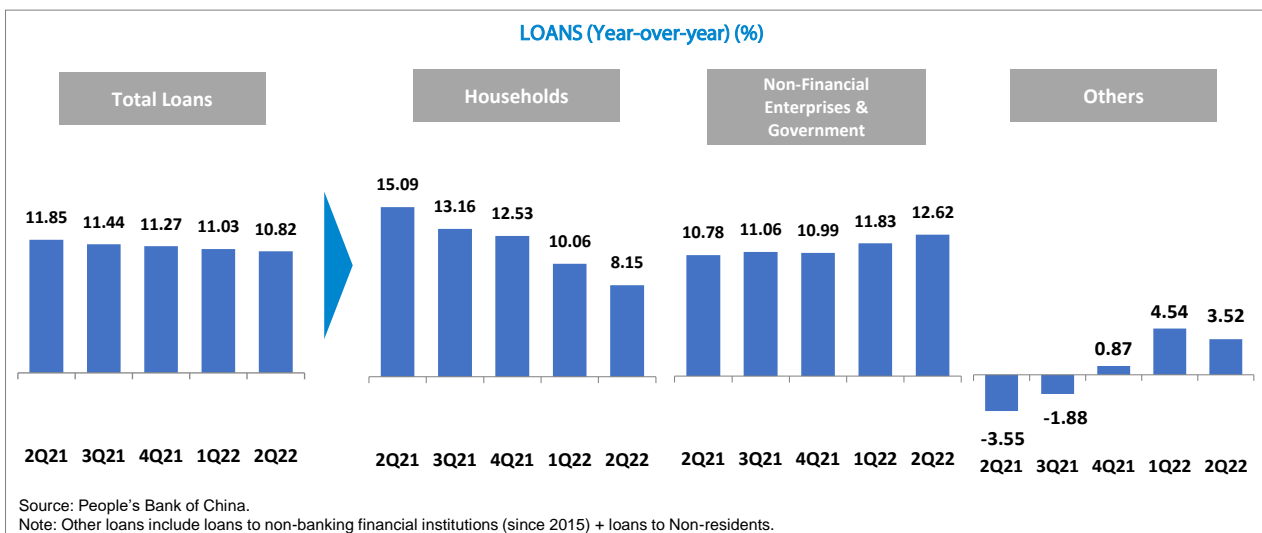
3. Banking sector: general overview

During 2Q22, the financial market became more volatile under the influence of foreign and domestic factors, although it remained generally stable. The credit structure continued to improve to further increase support for key fields and weaker links. First, the balance of credit to small and micro businesses including finance, industrial enterprises, and high-tech manufacturers kept growing fast. However, real estate loans recorded the lowest growth on record.

Chinese banking sector



- ▶ The year-over-year loan growth rates decreased reflecting both the increase in interest rates and the high uncertainty following the steep increase in energy prices and the linked high inflation rates.
- ▶ Loans to households and other segments registered both a decrease concerning the previous quarter, the former of 1.91 p.p. registering an 8.15% rate in 2Q22, and the latter of 1.02 p.p. in achieving a growth rate of 3.52% during the second quarter. On the other hand, non-financial enterprises and government loans' growth rate saw an increase of 0.79 p.p. concerning the first quarter of 2022, up to 12.62% in 2Q22.
- ▶ The distribution of loans in 2Q22 remained very similar to the one registered in the previous quarter. Non-financial enterprises and government loans continued registering the largest share (63.18%). Meanwhile, loans to households recorded a share of 34.52%. Finally, other loans represented 2.31% of the total loans in the second quarter of 2022.
- ▶ In contrast to the decrease in loan growth a steady increase was recorded concerning the year-over-year growth rate of deposits up to a 10.50% total deposits rate. Especially the y/y deposits of household and non-financial enterprises increased up to 12.73% and 9.82% respectively. However, other deposits experienced a significant decrease down to 9.41%, 7.11 p.p. lower compared with the previous quarter.
- ▶ Regarding the deposits' distribution, during this quarter the largest share was registered by household deposits (41.12%) followed by non-financial enterprises (30.42%), government (12.76%), and other institutions (12.71%).



NON-PERFORMING LOANS RATIO (%)

Total System

1.76 1.75 1.73 1.69 1.67

2Q21 3Q21 4Q21 1Q22 2Q22

Large Commercial Banks

1.45 1.43 1.37 1.35 1.34

2Q21 3Q21 4Q21 1Q22 2Q22

Joint-stock Commercial Banks

1.42 1.40 1.37 1.35 1.35

2Q21 3Q21 4Q21 1Q22 2Q22

City Commercial Banks

1.82 1.82 1.90 1.96 1.89

2Q21 3Q21 4Q21 1Q22 2Q22

Rural Banks

3.58 3.59 3.63 3.37 3.30

2Q21 3Q21 4Q21 1Q22 2Q22

Other national Banks

1.24 1.31 1.26 1.43 1.50

2Q21 3Q21 4Q21 1Q22 2Q22

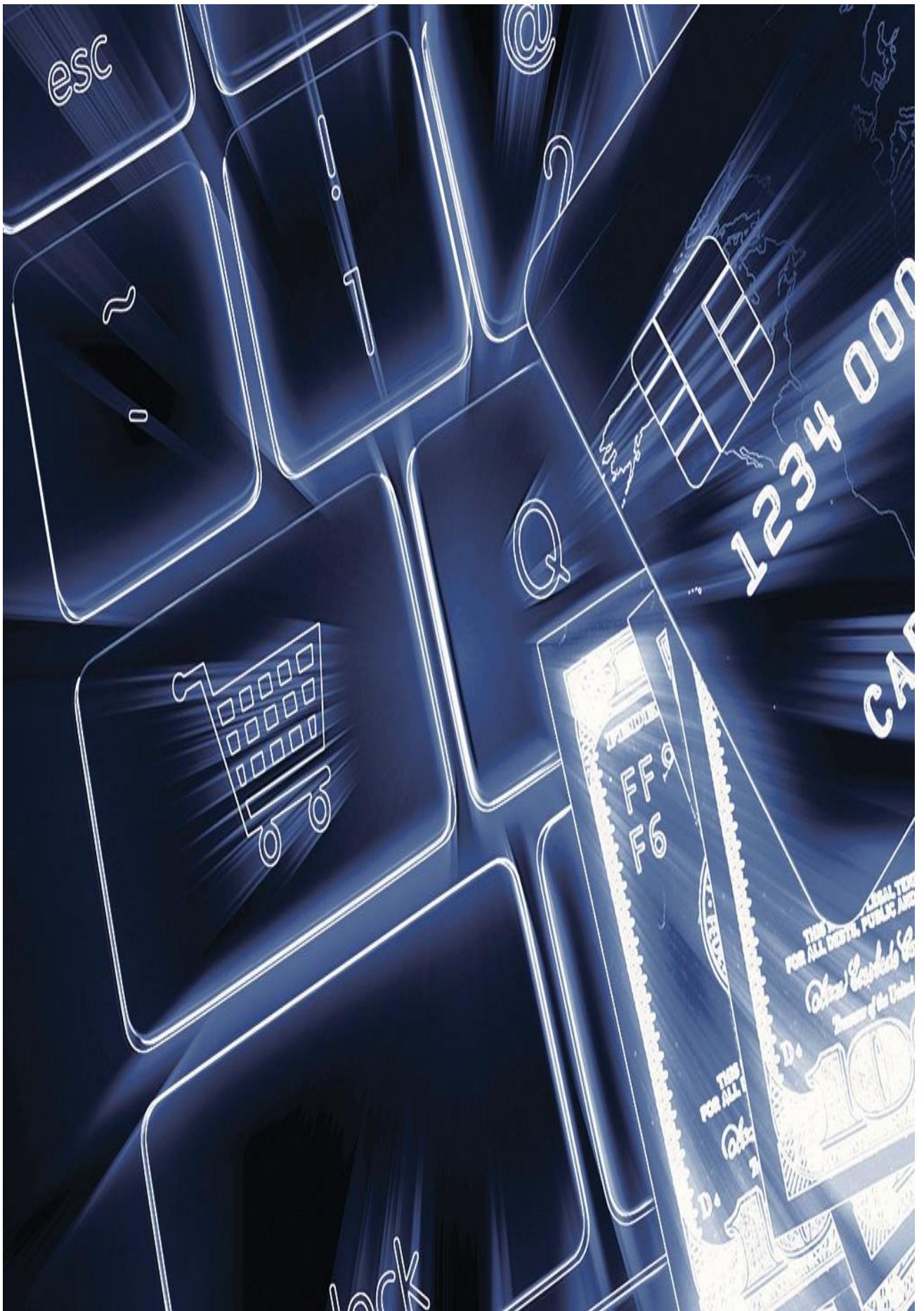
Foreign Banks

0.60 0.58 0.56 0.65 0.80

2Q21 3Q21 4Q21 1Q22 2Q22

Source: China Banking and Insurance Regulatory Commission.





4. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- ▶ National Bureau of Statistics of China:
<http://www.stats.gov.cn/english/>
- ▶ IMF:
<http://www.imf.org/external/index.htm>
- ▶ World Bank: <https://www.worldbank.org/>
- ▶ State Administration of Foreign Exchange (SAFE):
<http://www.safe.gov.cn/>
- ▶ BBVA Research:
<http://www.bbvarsearch.com/KETD/ketd/esp/index.jsp>
- ▶ Bloomberg:
<http://www.bloomberg.com/>
- ▶ Standard & Poor's:
<http://www.standardandpoors.com/>
- ▶ Fitch Ratings:
<http://www.fitchratings.es/>
- ▶ Moody's:
<http://www.moodys.com/>
- ▶ European Central Bank:
<http://www.ecb.int/ecb/html/index.es.html>
- ▶ Bank of Spain:
<http://www.bde.es/bde/es/>
- ▶ Central Bank of the Republic of Argentina:
www.bcra.gov.ar
- ▶ Central Bank of Chile:
www.bcentral.cl
- ▶ Bank of Mexico:
www.banxico.org.mx
- ▶ Central Bank of Brazil:
www.bcb.gov.br

MACROECONOMIC OVERVIEW (Continued)

- ▶ National Administrative Department of Statistics of Colombia (DANE):
<http://www.dane.gov.co/>
- ▶ Bank of the Republic of Colombia:
<http://www.banrep.gov.co/>
- ▶ Central Bank of Venezuela:
www.bcv.org.ve
- ▶ Central Reserve Bank of Peru:
www.bcrp.gob.pe

Appendix

SOURCES

FINANCIAL SECTOR

- ▶ People's Bank of China:
<http://www.pbc.gov.cn/>
- ▶ ICBC:
<http://www.icbc.com.cn/>
- ▶ China Construction Bank:
<http://www.ccb.com/en/>
- ▶ Bank of China:
<http://www.boc.cn/en/>
- ▶ Agricultural Bank of China:
<http://www.abchina.com/en/>
- ▶ Bank of Communications:
<http://www.bankcomm.com/>
- ▶ China Merchants Bank:
<http://english.cmbchina.com/>
- ▶ China CITIC Bank:
<http://bank.ecitic.com/>

GLOSSARY

- ▶ **CAI:** Comprehensive Agreement on Investment between the People's Republic of China and the European Union.
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **CPI:** Consumer Price Index measures the evolution of the average cost of the basket of goods and services representative of household final consumption.
- ▶ **Efficiency Ratio:** (Non-interest expense - amortization of intangible assets) / (net interest income + non-interest income).
- ▶ **EMU:** The Economic and Monetary Union.
- ▶ **GDP:** Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- ▶ **Gross Margin:** Net interest income + non-interest income.
- ▶ **IMF:** International Monetary Fund.
- ▶ **LTD ratio:** Loans to deposits is a ratio used to assess the liquidity of a bank by comparing its total loans to its total deposits over a given period of time.
- ▶ **Non-Performing Loans Ratio:** Non-performing loans / net loans and assets.
- ▶ **Non-Performing Loans Coverage Ratio:** Loan loss allowance / non-performing loans.
- ▶ **OECD:** Organisation for Economic Co-operation and Development.
- ▶ **Operating Expense:** Total non-interest expense.
- ▶ **PEPP:** The ECB's pandemic emergency purchase programme (PEPP) is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (Covid-19) outbreak.
- ▶ **p.p.:** percentage points.
- ▶ **Return On Equity (ROE):** Net Income / equity.
- ▶ **Return On Assets (ROA):** Net income / average total assets.
- ▶ **Tier 1 Common Ratio:** (Tier 1 capital - qualifying subordinate debt and redeemable preferred stock - qualifying non-controlling interests in consolidated subsidiaries) / Total risk-weighted assets.
- ▶ **Large Sized State-owned Banks:** ICBC, CCB, ABC, BoC, BDC, Bank of Communications and Postal Savings Bank.
- ▶ **Small & Medium Sized State-Owned Bank:** Local Banks, including City Commercial Banks.
- ▶ **Private Banks:** Joint-stock Commercial Banks and Foreign Banks.



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