BBVA Research

China Economic Outlook

June 2023

Creating Opportunities

Research

01

Global economy: a more hawkish FED and higher recession risk

Creating Opportunities

Main messages

Recent developments

Supply shocks have eased while demand has remained resilient, triggering upward growth surprises and reducing the odds of a recession in the short-run. Headline inflation has fallen, but core figures remain sticky. After a temporary decoupling, markets are now in line with central banks' indications that interest rates still have some room to rise and the easing cycle will take some time to unfold; financial volatility has increased, but remains contained.

Growth outlook

Global growth is forecast to reach 2.8% in 2023 (0.5pp higher than the previous forecast) and 3.3% in 2024 (unchanged forecast), after having reached 3.2% in 2022. Positive incoming data and lower energy prices favor an upward revision in 2023 GDP forecasts in the US and, mainly, in the Eurozone, while the easing of covid restrictions supports a sharper recovery in China. Still, a growth slowdown is likely ahead amid higher inflation and interest rates.

Inflation and rates outlook

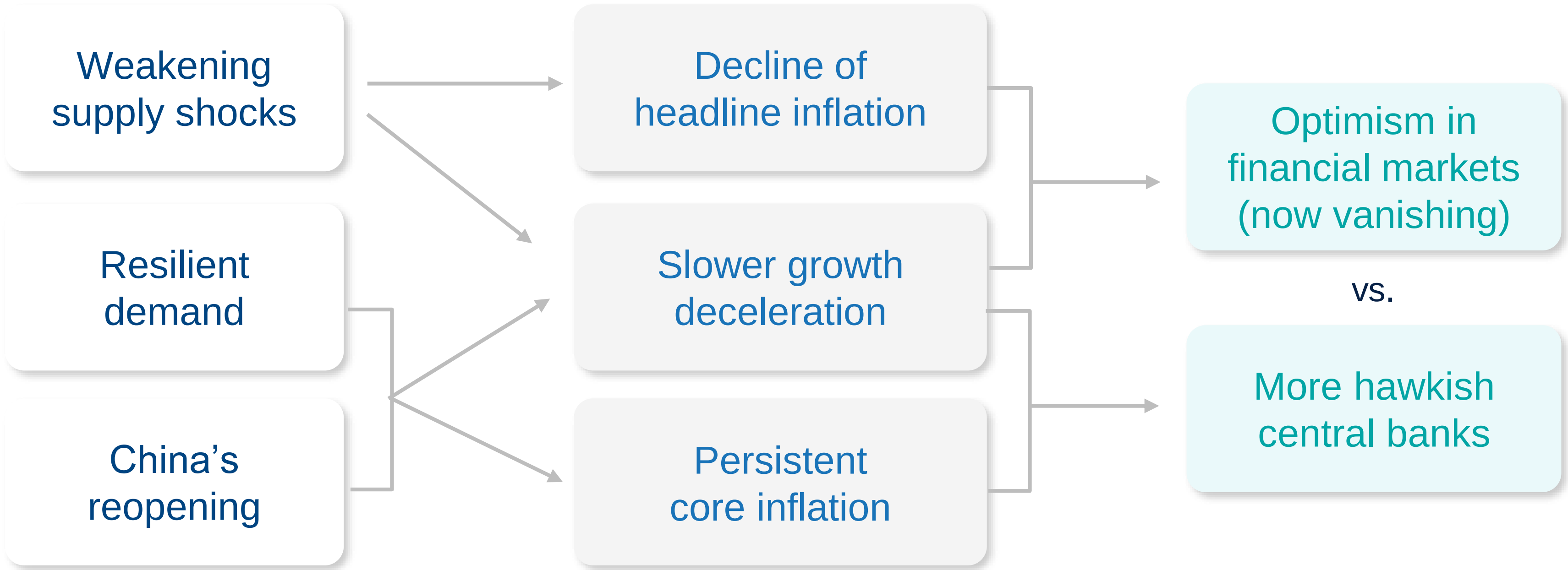
Persistent core inflation and robust labor markets will force central banks to deliver higher than expected policy rates and no rate cuts before 2024. Inflation is expected to decline gradually as supply shocks wane and demand weakens, but it will remain above the 2% target in both the US and the Eurozone at least till the end of 2024.

Risks

The main risk is that inflation proves to be more persistent than expected, due to tight labor markets, second-round effects, demand-driven recovery in China, war disruptions, etc., triggering further monetary tightening, and then, potentially, a recession, stagflation or, even, financial instability.

Weakening supply shocks, resilient demand and China's reopening back growth, but also inflation fears despite the recent drop in headline measures

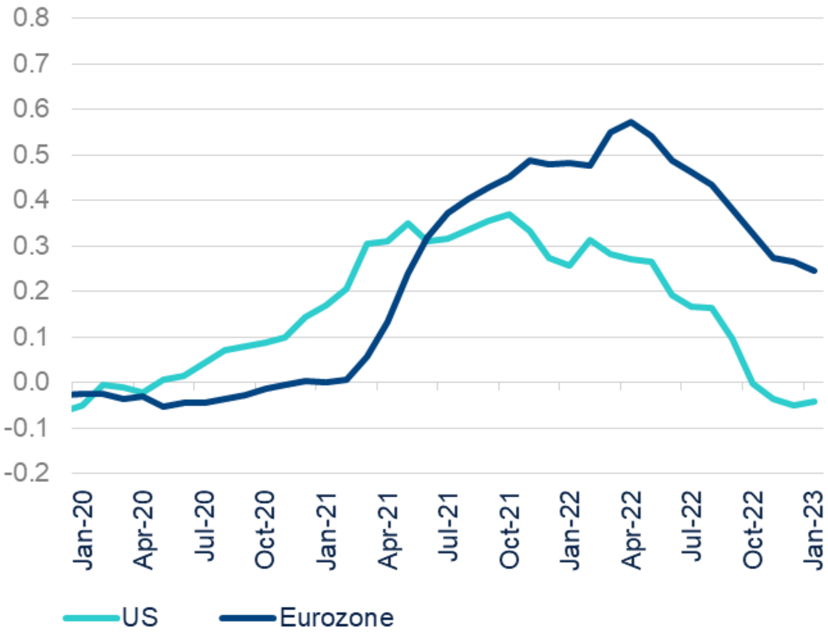
RECENT DEVELOPMENTS IN THE WORLD ECONOMY



Weakening supply shocks: bottlenecks and commodity prices have eased; mild weather and healthy storage have helped to push gas prices down

BBVA RESEARCH BOTTLENECK INDEX

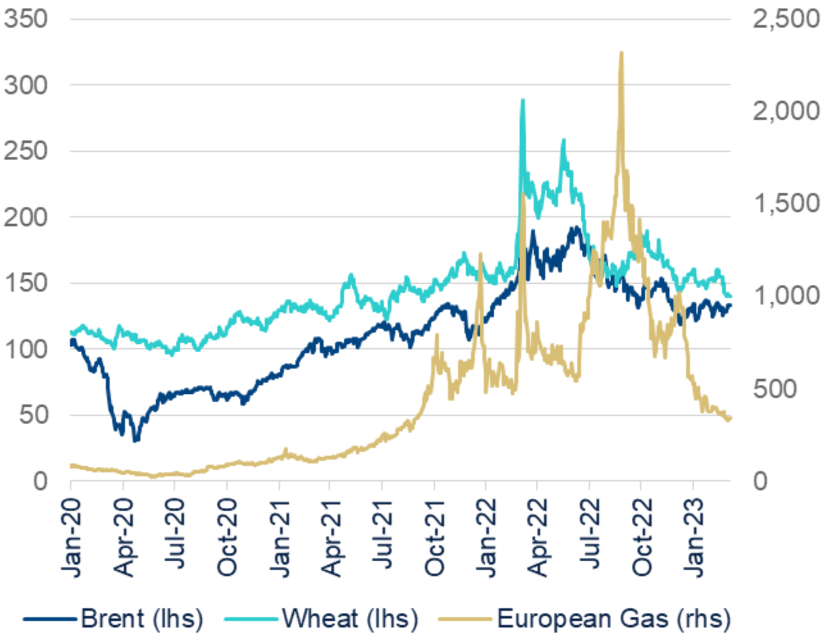
(INDEX: AVERAGE SINCE 2003 = 0)



Source: BBVA Research.

COMMODITY PRICES

(INDEX: 2019 AVERAGE = 100)

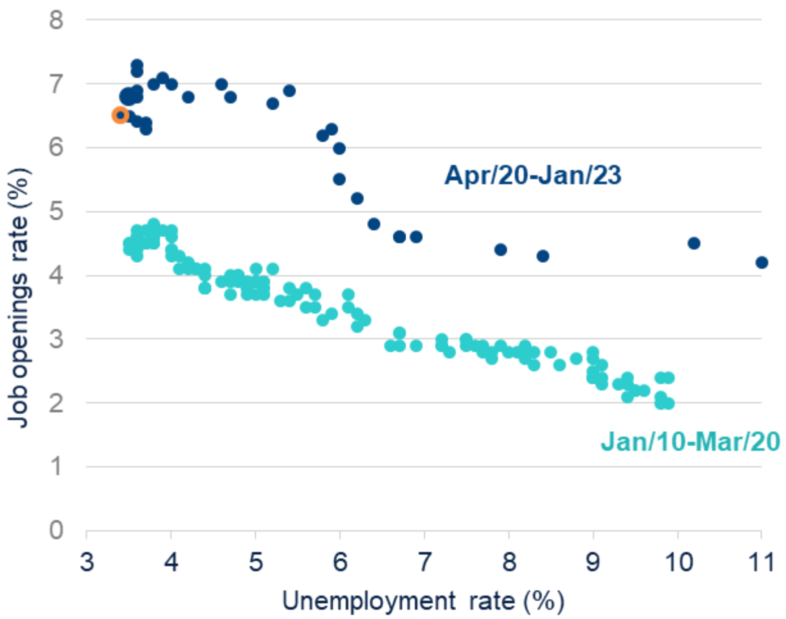


Source: BBVA Research based on data from Bloomberg.

Resilient demand: labor markets remain tight, backing private consumption and fueling concerns about more persistent price pressures

US: BEVERIDGE CURVE (*)

(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)



(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from FRED.

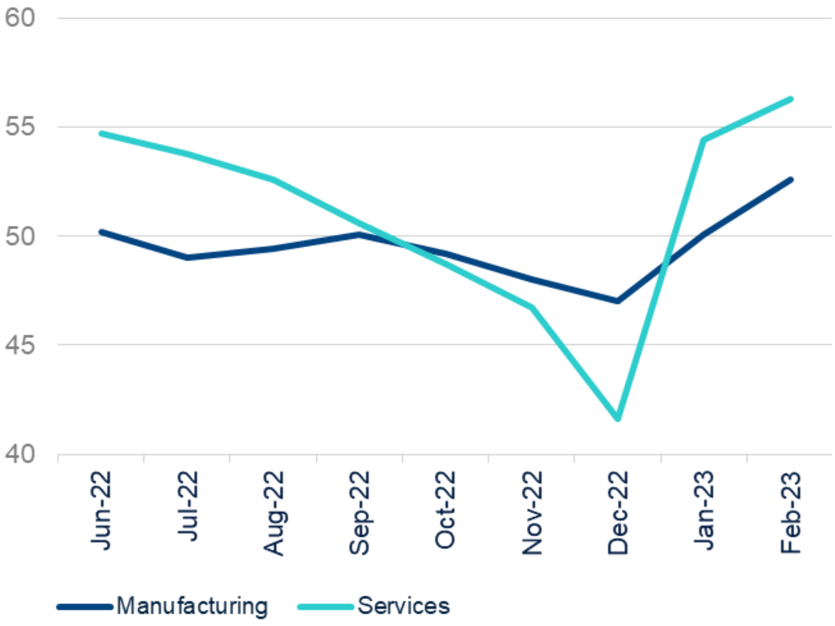
EUROZONE: BEVERIDGE CURVE (*)

(MOST RECENT MONTHLY DATA HIGHLIGHTED IN ORANGE)

(*) Unemployment: share of labor force. Job openings: share of sum of employment and job openings.
Source: BBVA Research based on data from Eurostat.

China's reopening: after an initial negative impact on activity, unexpected easing of covid restrictions has boosted economic activity

CHINA PMI INDICATORS
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

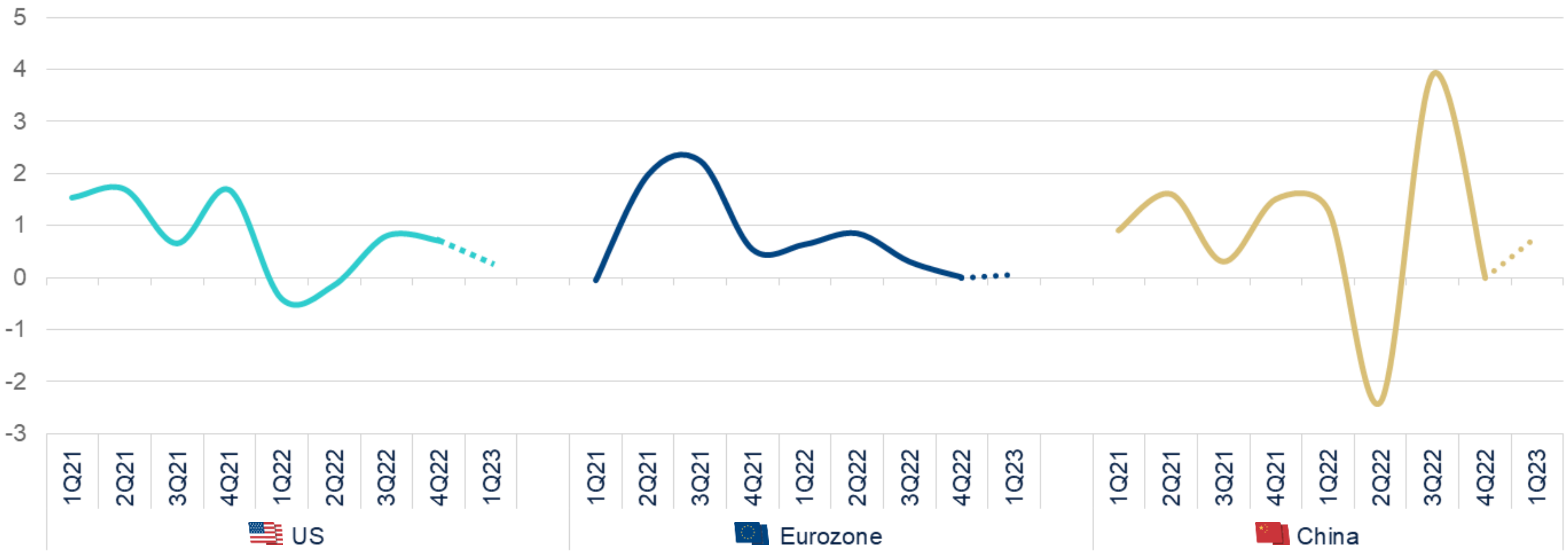


Source: BBVA Research based on data from Haver.

- China's flexibilization of covid policies was faster than expected; together with the measures to stabilize the real estate sector, it suggests that the focus is now on growth.
- The reopening initially drove infections up, contributing to the sharp downward surprise of 4Q22 GDP.
- But a solid recovery is now underway according to more recent data.
- The demand recovery pace compared to the rhythm of supply normalization, in a protectionist context, will be key for global activity and inflation dynamics.

Growth has slowed less than forecast, suggesting a recession is now less likely in the US and EZ; after a very weak 4Q22, activity is improving in China

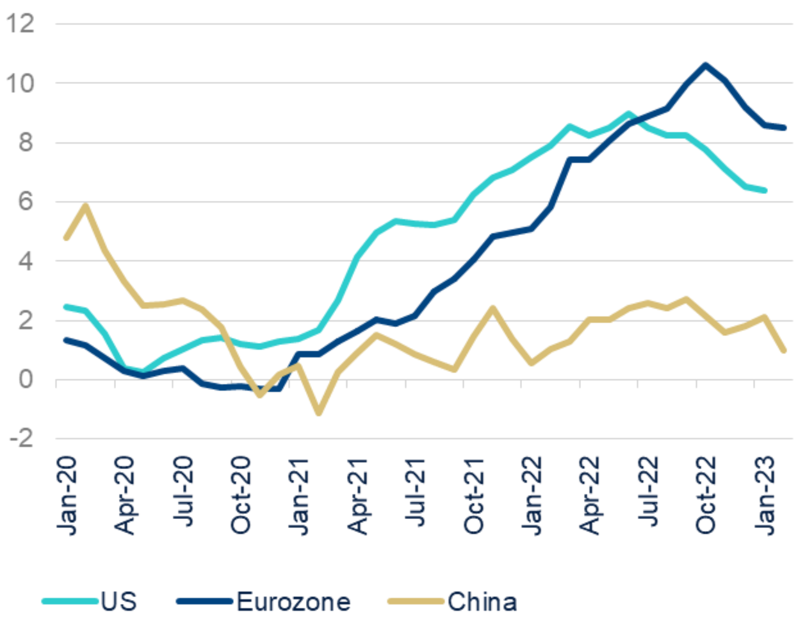
GDP: REAL GROWTH (*)
(Q/Q %)



(*) BBVA Research growth forecasts for the 1Q23.
Source: BBVA Research based on data from Haver.

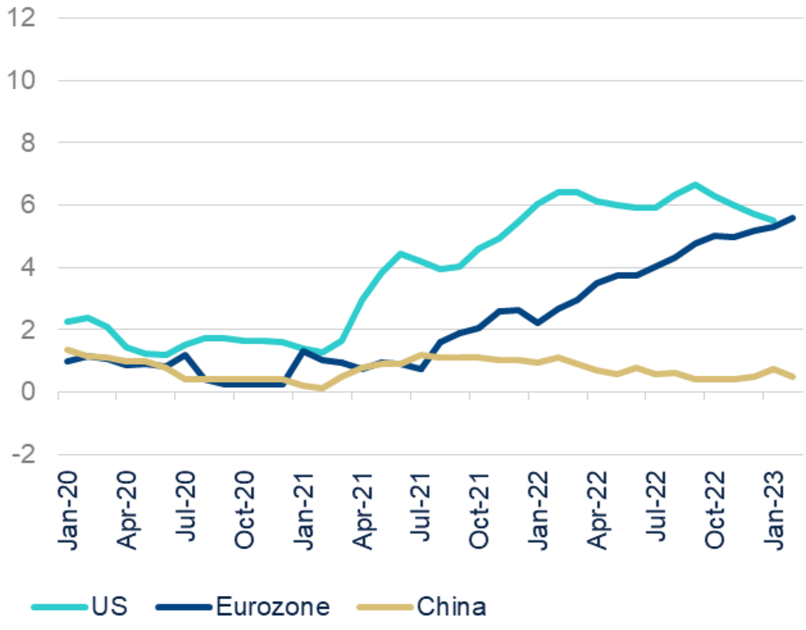
Headline inflation is falling, mainly on declining energy prices, but resilient consumption is still contributing to keep core figures at very high levels

INFLATION: CPI
(Y/Y %)



Source: BBVA Research based on data from Haver.

CORE INFLATION: CPI
(Y/Y %)

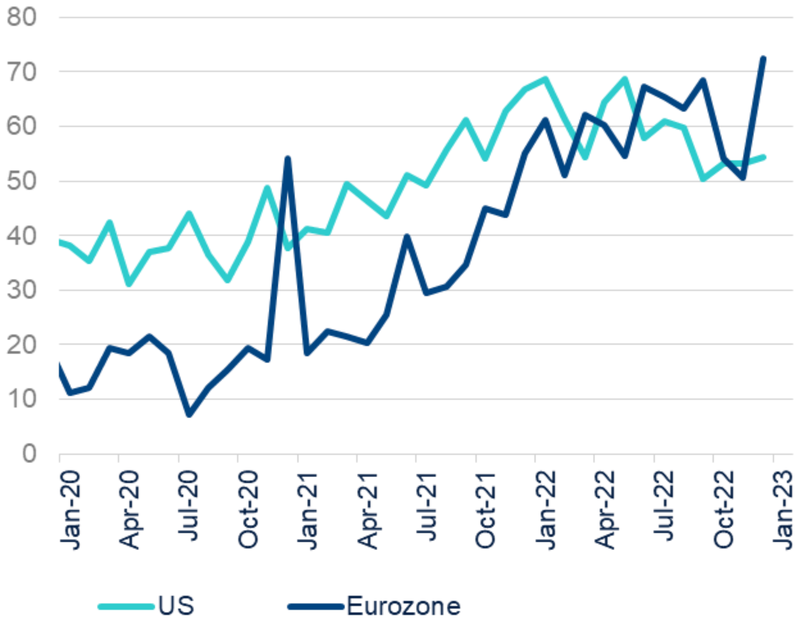


Source: BBVA Research based on data from Haver.

Price adjustments have become less widespread and frequent in the US, but there are no clear signs yet of improvement in the Eurozone

ITEMS OF THE CPI BASKET WITH ANNUALIZED MONTHLY INFLATION HIGHER THAN 4%

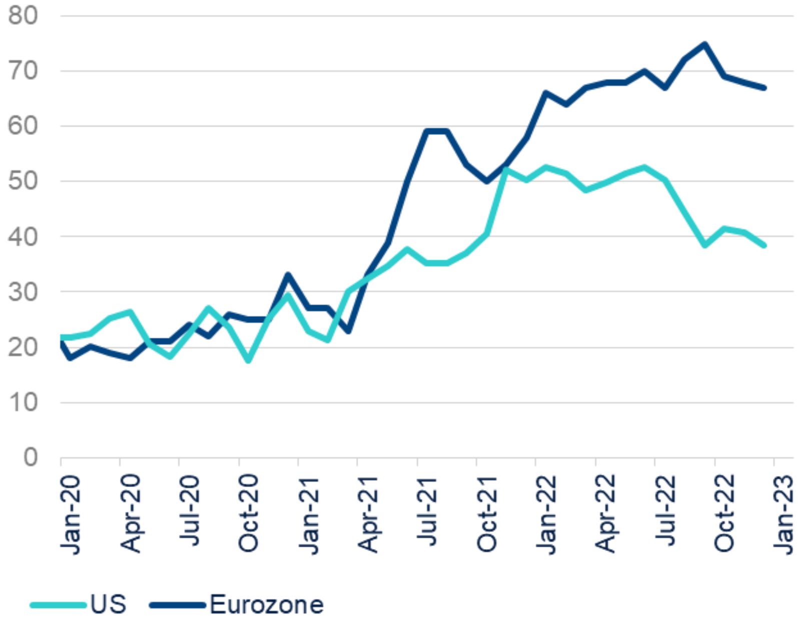
(SHARE OF TOTAL 2-DIGIT CPI ITEMS)



Source: BBVA Research based on local statistics.

ITEMS OF THE CPI BASKET WITH THREE CONSECUTIVE MONTHLY PRICE RISES

(SHARE OF TOTAL 2-DIGIT CPI ITEMS)

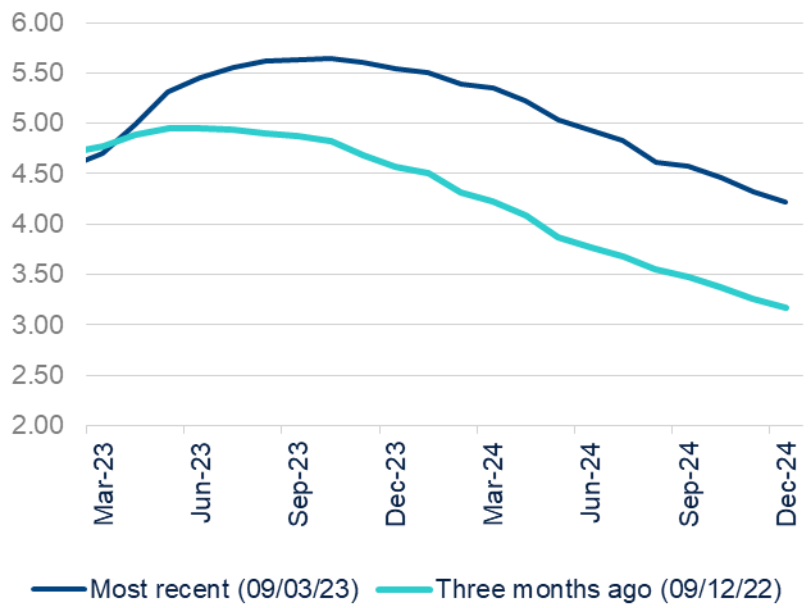


Source: BBVA Research based on local statistics.

After a temporary decoupling, markets are now in line with central bank's view that rates have room to rise and the easing cycle will not be immediate

IMPLIED FED INTEREST RATE IN FED FUND FUTURES

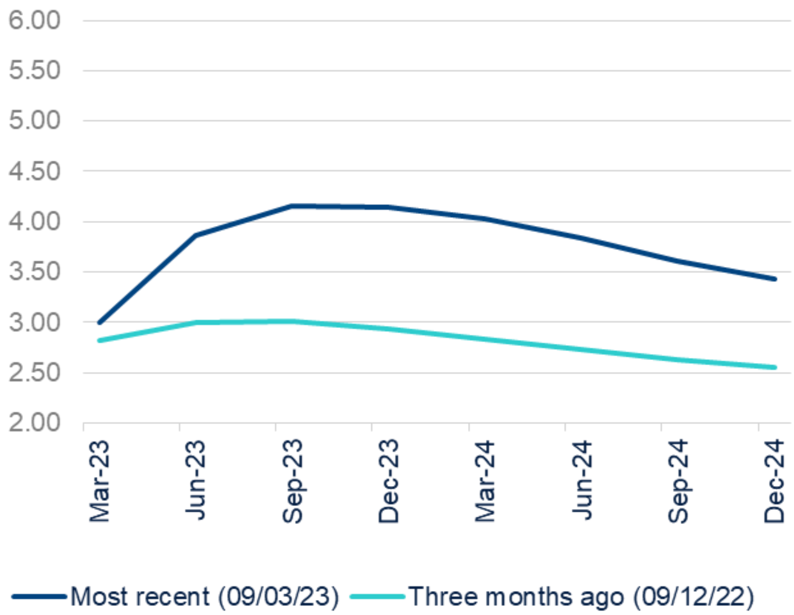
(%)



Source: BBVA Research based on data from Bloomberg.

IMPLIED ECB INTEREST RATE IN EURIBOR FUTURES (*)

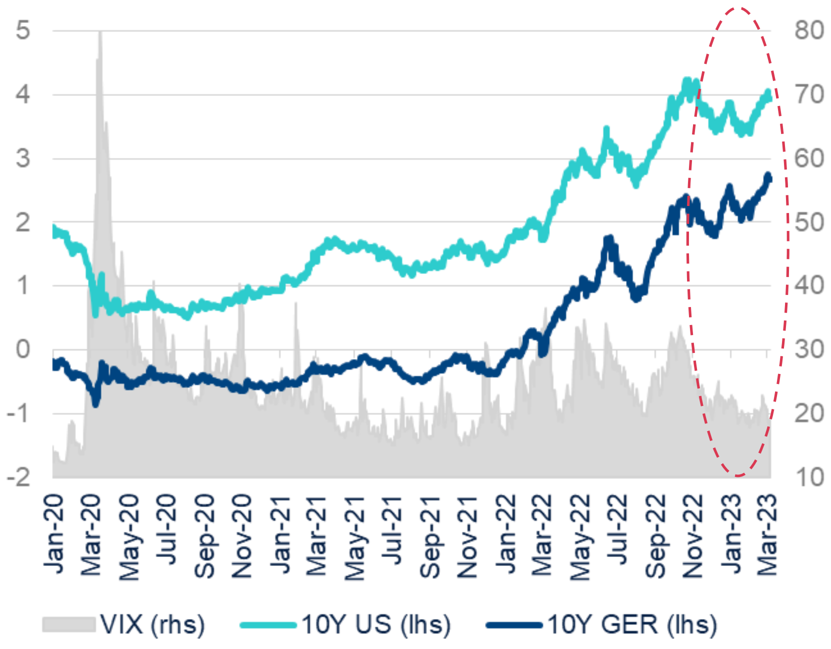
(%)



(*) Interest rate of the ECB deposit facility.
Source: BBVA Research based on data from Bloomberg.

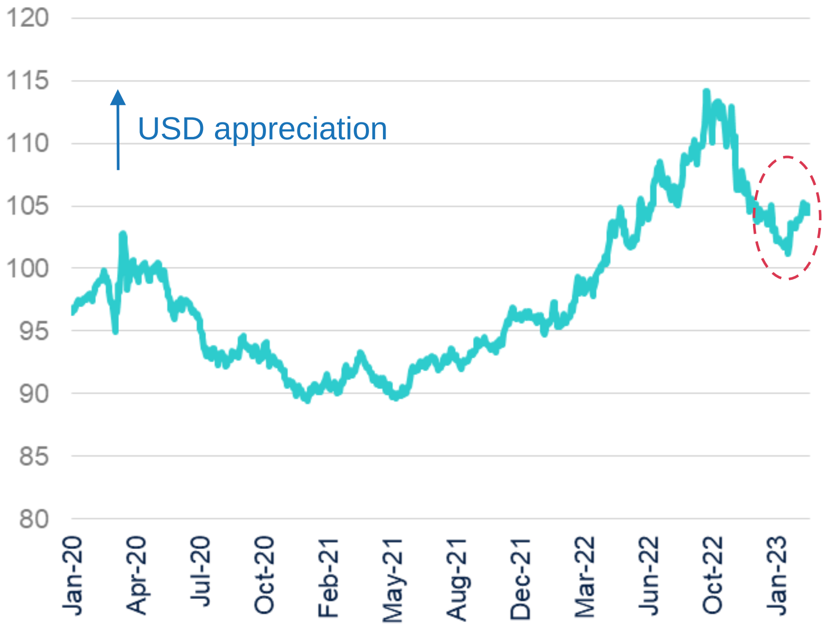
The recent increase in bond yields, driven by central bank hawkish rhetoric, has provided support to the dollar and fueled volatility, albeit limited

US AND GERMANY 10-YEAR BOND YIELDS, VIX
(%, INDEX)



Source: BBVA Research based on data from Bloomberg.

US DOLLAR INDEX: DXY
(INDEX)



Source: BBVA Research based on data from Bloomberg.

BBVA Research baseline scenario: interest rates will be higher for longer to ease demand and curve inflation down

BBVA RESEARCH BASELINE SCENARIO: MAIN ASSUMPTIONS AND FEATURES

COMMODITIES AND BOTTLENECKS

Commodity prices to remain under 2022 levels, but China's demand and supply issues will limit downward corrections and favor rebound of oil prices in 2H23.

Supply bottlenecks to continue normalizing.

EUROPEAN GAS

Prices assumed to remain somewhat higher than ongoing levels, mainly from mid-2023.

Gas reserves to be enough to prevent shortages, even under relatively unfavorable scenarios.

FINANCIAL AND MONETARY CONDITIONS

More restrictive monetary policy, also through monetary tightening programs.

A strong dollar, higher sovereign yields and modest capital inflows into riskier assets are expected.

ACTIVITY AND PRICES

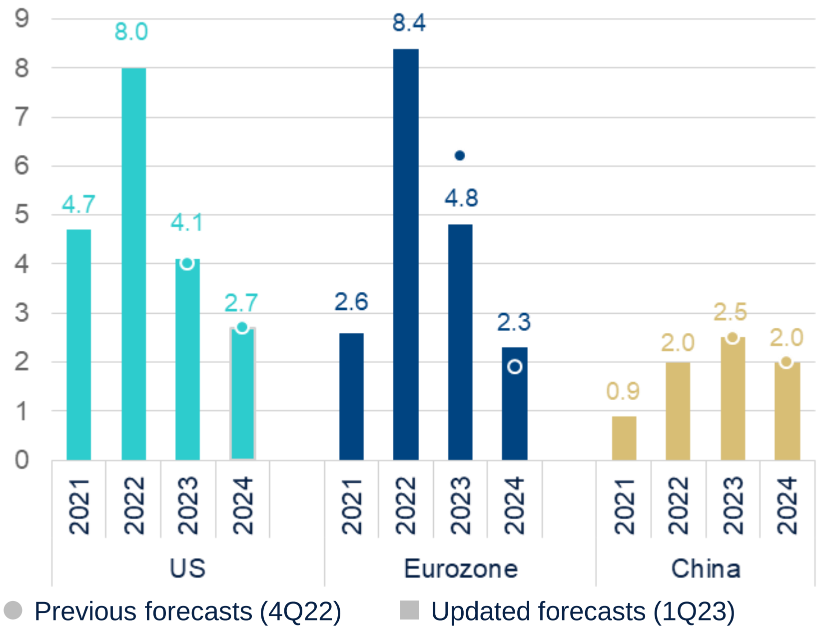
Monetary tightening will pave the way for demand deceleration.

Price and wage pressures will gradually ease and price and wage spirals will be avoided.

Inflation will continue trending downwards, but slower demand deceleration will prevent it from converging to the target over the next two years

INFLATION:CPI

(Y/Y %, PERIOD AVERAGE)



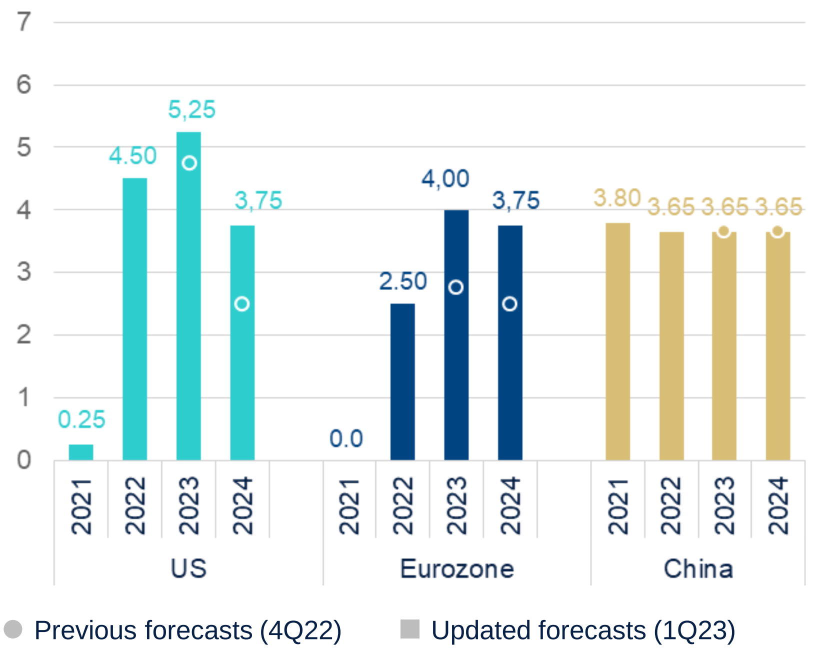
Source: BBVA Research.

- Downward surprises in headline inflation pave the way for lower-than-expected price pressures in the short-run both in the US and the EZ.
- Still, sticky core prices amid more resilient labor markets as well as scarcer room for further falls in energy prices will keep inflation high for longer than expected.
- In China, inflation will probably remain under control, but the risk is that higher domestic demand coupled with the impact of protectionist measures more than offset the effects from the supply normalization, which would add to inflation pressures.

Central banks will remain focused on inflation: interest rates will rise more and will be kept higher for longer than expected

MONETARY POLICY INTEREST RATES (*)

(%, END OF PERIOD)

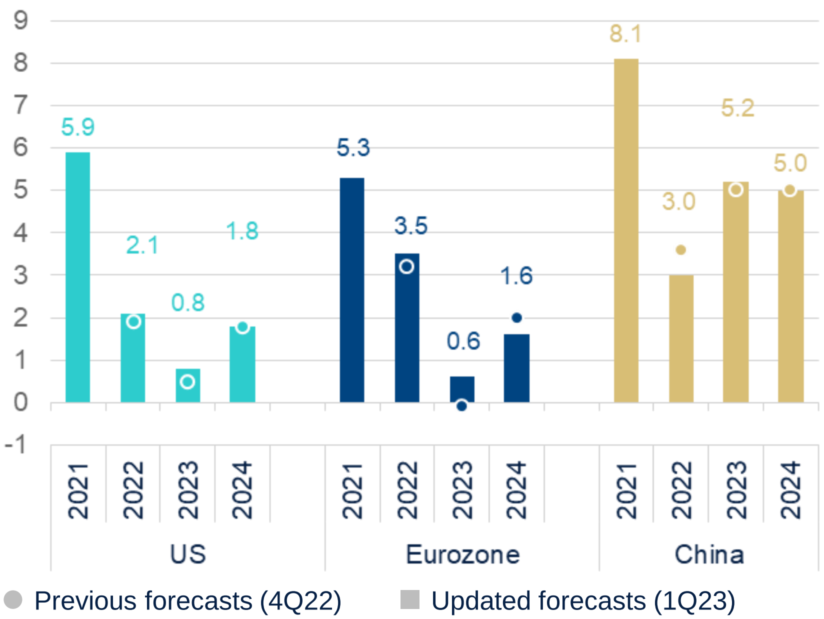


(*) In the case of the Eurozone, interest rates on refinancing operations.
Source: BBVA Research based on Bloomberg data.

- Terminal interest rates will be higher than expected, but uncertainty is large due to the volatile inflation dynamics, the unexpected resiliency of demand and doubts about the power of monetary policy in this context.
- One option is to accelerate quantitative tightening in exchange for smaller additional rate hikes, but that entails financial instability risks.
- The most likely is that rates soon reach 5.25%-5.50% in the US and 4.00%-4.25% in the euro zone.
- High rates can be expected for longer, given the slow process of disinflation.

Better growth prospects for 2023: a softer deceleration in both the US and the Eurozone, and a stronger rebound in China

GDP: ANNUAL GROWTH IN REAL TERMS (*)
(%)



(*) Previous forecasts: 0.5% in 2023 and 1.8% in 2024 in the US, -0.1% in 2023 and 2.0% in 2024 in the Eurozone, 5.0% en 2023 and 5.0% in 2024 in China.
Source: BBVA Research.

- Global GDP is expected to grow 2.8% (0.5pp higher than forecast) in 2023 and 3.3% (0.0pp) in 2024, after having grown 3.2% in 2022.
- 2023 forecasts have been revised up in the US and the EZ on positive incoming data (resilient demand) and lower energy prices.
- Upward revision in 2023 GDP also in China: the reopening will support consumption and supply-side normalization; policy stimuli will back investment.
- Deceleration prospects remain in place due to monetary tightening and high inflation, but some factors (private sector’s balance sheets, NGEU in Europe) will be supportive and a deep recession will likely be avoided.

In an uncertainty context, the main risk is that sticky inflation requires extra monetary tightening, triggering a recession, stagflation or financial instability

MAIN RISKS

MORE PERSISTENT INFLATION AND TIGHTER MONETARY POLICY:

- stronger demand (tight labor markets, fiscal stimulus, etc.)
- demand-driven Chinese recovery
- higher energy prices on the war or other factors
- wage-price spirals

→

GLOBAL RECESSION OR STAGFLATION

FINANCIAL INSTABILITY

MAIN UNCERTAINTIES

GEOPOLITICAL TENSIONS

US-CHINA RIVALRY (DEGLOBALIZATION, ETC)

ENERGY TRANSITION AND CLIMATE CHANGE

SOCIAL TENSIONS AND POPULISM

BBVA Research

02

China: growth headwinds emerge after a stronger-than-expected recovery in Q1

Main messages

Recovery is losing its momentum

The economic recovery seems to have lost its momentum after registering a strong GDP reading in Q1. The Q1 GDP grew by 4.5%, higher than the market forecast of 3.9%. This better-than-expected outturn was primarily driven by the stellar performance of the service sector, which erupted after the lift the “Zero Covid” policy. However, the growth momentum significantly slowed in the second quarter. Despite the still resilient service sector, the manufacturing sector was dragged by sluggish external demand and flagging domestic property market. We revise up our full-year growth projection from 5.2% to 5.7% due to Q1 GDP outturn while highlight the necessity of further policy support.

Disinflation reveals insufficient demand

China’s CPI outturns hover around 0 into the second quarter, indicating the unevenness in the recovery as well as lack of market confidence. During the pandemic, the authorities provided sizable subsidies to the corporate sector while did little to help households directly. As such, the supply side recovered faster and stronger than the demand side. The property market hasn’t bottomed out yet, further weighing on the demand of related products such as home appliances, decoration materials etc. Moreover, moderating global demand and rising geopolitical risks lead to lackluster performance of the export sector.

Risks to growth abound

The risk to our growth projection remains to the down side. On external front, global growth moderation is expected to weigh on China’s export sector in the next couple of years, which could be exacerbated by the US rhetoric of China Decoupling. Domestically, it is hard to have a quick fix of the anemic property market. China needs several years to absorb the legacy problems of housing bubble burst. All above point to elevated risks to China’s growth over the short-to-medium term.

Three phases of recovery after lifting "Zero Covid" Policy

PHASE 1

Consumption rebound and Restorative Production recovery

→

PHASE 2

Policy-led recovery: Fiscal-led Infrastructure and Credit boom

→

PHASE 3: JAM HERE?

Repairment of Consumer confidence, Enterprises' profits and their Balance-sheets

→

Sustainable growth

A strong rebound of consumption, but may not be sustainable

The economy calls for a more aggressive easing at the central government level to boost market sentiments.

Several indicators deterioate in the second quarter

ECONOMIC RECOVERY: FROM PANDEMIC TO POST-PANDEMIC

- Industrial production ↓
- Consumption ↑
- Fixed asset investment
  - Real estate: ↓
  - Manufacturing: ↓
  - Infrastructure: ↑
- Exports ↓

- Credit data: ↓
- Industrial profits: ↓
- Employment: ↓
- Inflation: ↓

KEY RISKS

Household and enterprises' balance sheet "recession".

Real estate remains the main risk.

External demand will drag growth in 2023.

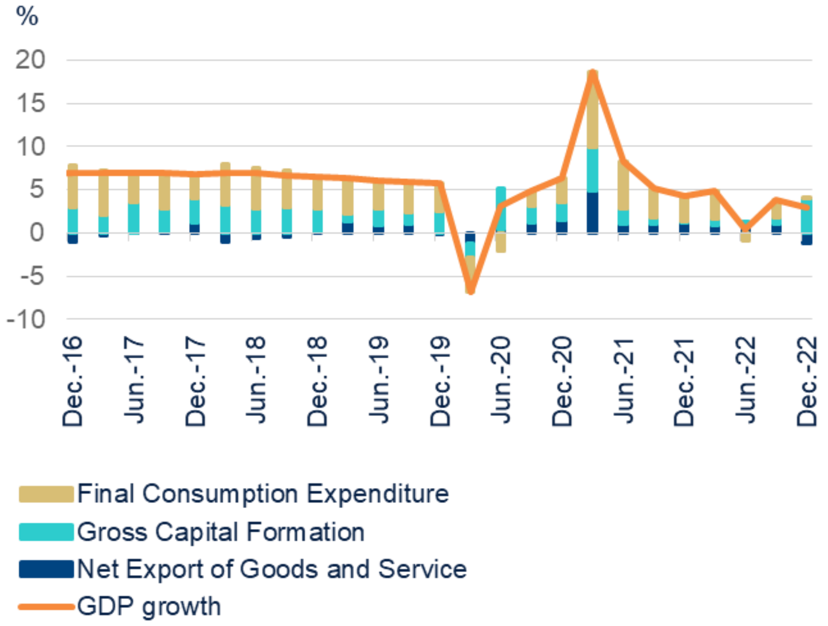
2023 POLICY SUPPORT

Accommodative monetary and expansionary fiscal policy;

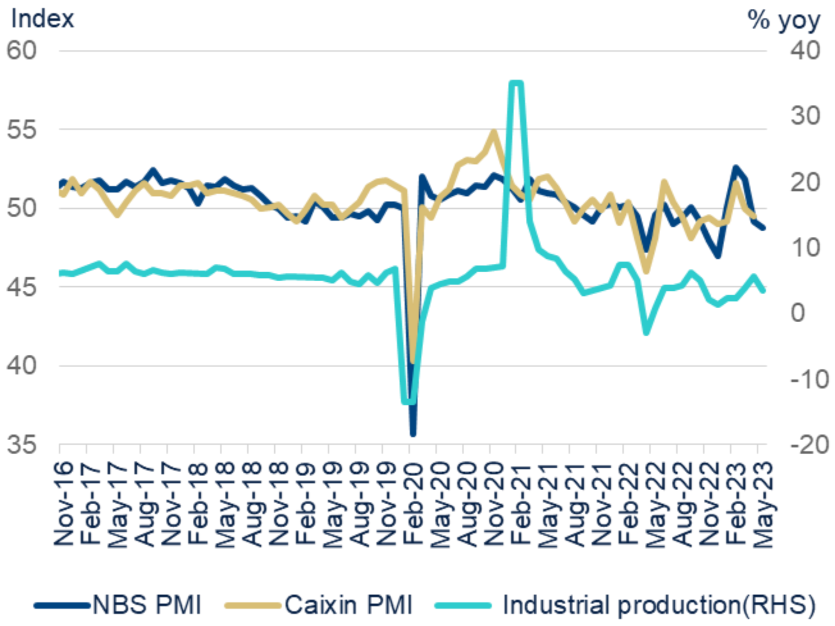
but calls for more aggressive easing at central government level.

2023 Q1 growth is higher than expected, led by service sector; 2023 quarterly pattern will be "N-shape" due to base effect

Q1 GDP REACHED 4.5%, HIGHER THAN CONCENSUS AT 4%; SERVICE SECTOR CONTRIBUTES 3.1% OF GROWTH



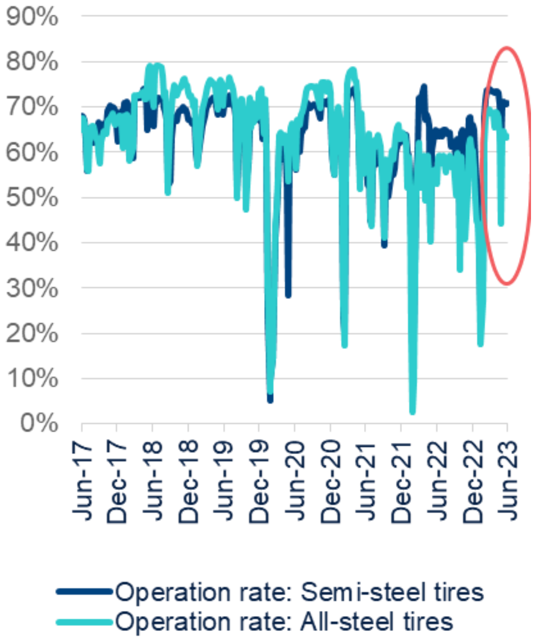
HOWEVER, ACTIVITY INDICATORS POINTING TO A SLOWDOWN IN Q2



Source: CEIC and BBVA Research.

High frequency of production indicators pointing to a slowdown in Q2

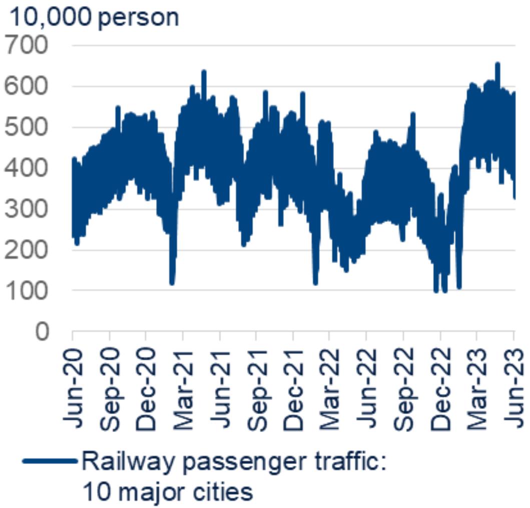
A SERIES OF HIGH FREQUENCY PRODUCTION INDICATORS



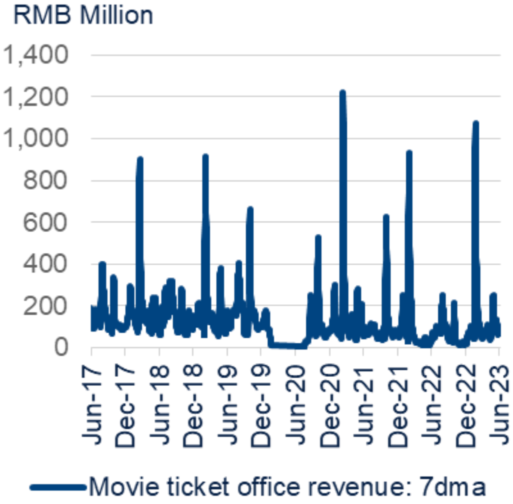
Source: Wind and BBVA Research.

High frequency indicators of service sector show mobility and consumption activities remain resilient

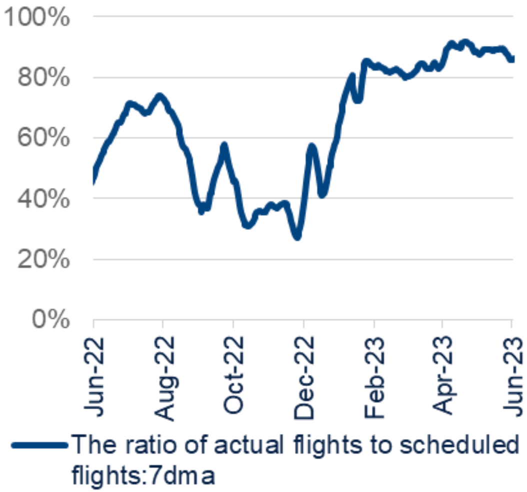
PEOPLE MOBILITY BY TRAIN GRADUALLY PICKED UP



MOVIE BOX OFFICE REVENUE HIGHLY CORRELATED WITH LOCKDOWN POLICY



AIRLINE INDUSTRY ALSO PICKS UP SIGNIFICANTLY

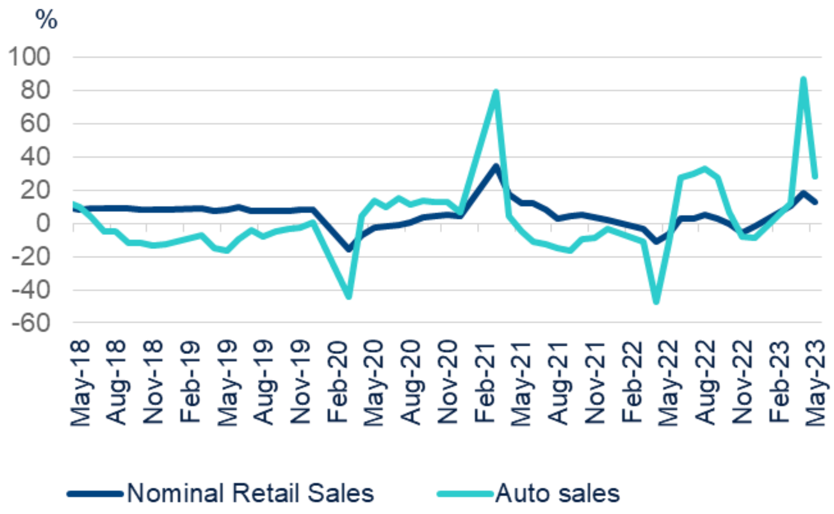


Source: Wind and BBVA Research.

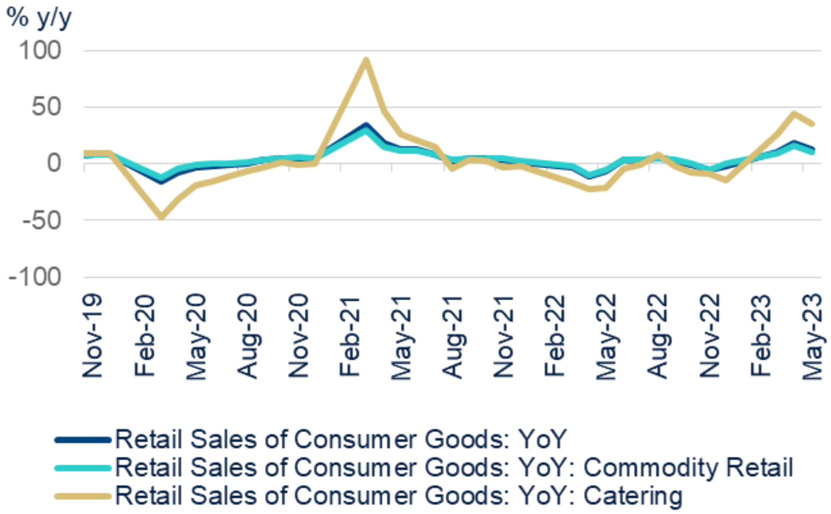
The May 1-8 Labor’s Day Golden week consumption indicators such as restaurant, tourism and people mobility etc. has already surpassed their pre-pandemic levels .

Retail sales rebound was led by consumption “revenge” in service sector with “contact” and “gathering” characters, but not on durable goods

RETAIL SALES DROPPED TO 12.7% FROM 18.4% IN APRIL



CATERING SECTOR’S REBOUND IS SIGNIFICANTLY HIGHER THAN OTHER CATEGORIES

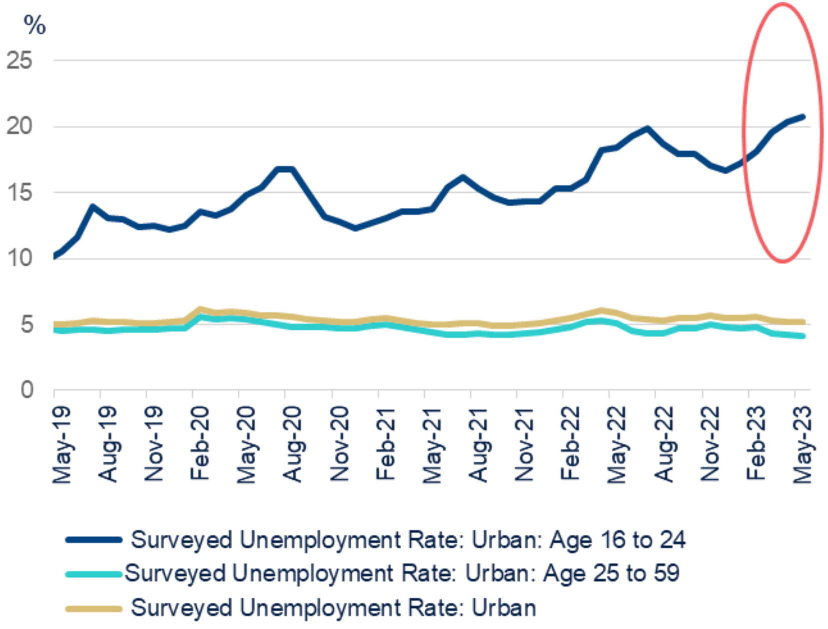


Source: CEIC and BBVA Research.

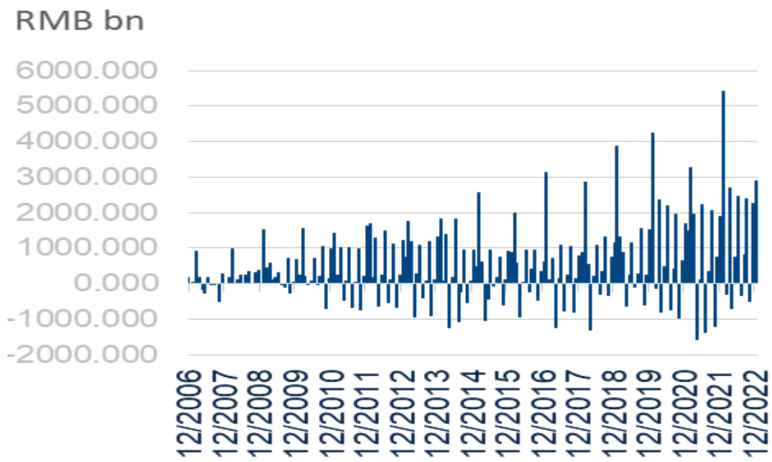
The “consumption revenge” include restaurant service, tourism, movie, conferences and exhibitions, transportation, catering etc. But durable goods such as automobiles, electronic products are lackluster.

However, unemployment problem remains severe among the younger generation, resulting in rising precautionary savings

AFTER RE-OPENING, UNEMPLOYMENT RATE REMAINED HIGH FOR YOUNG GENERATION AT 20.4%



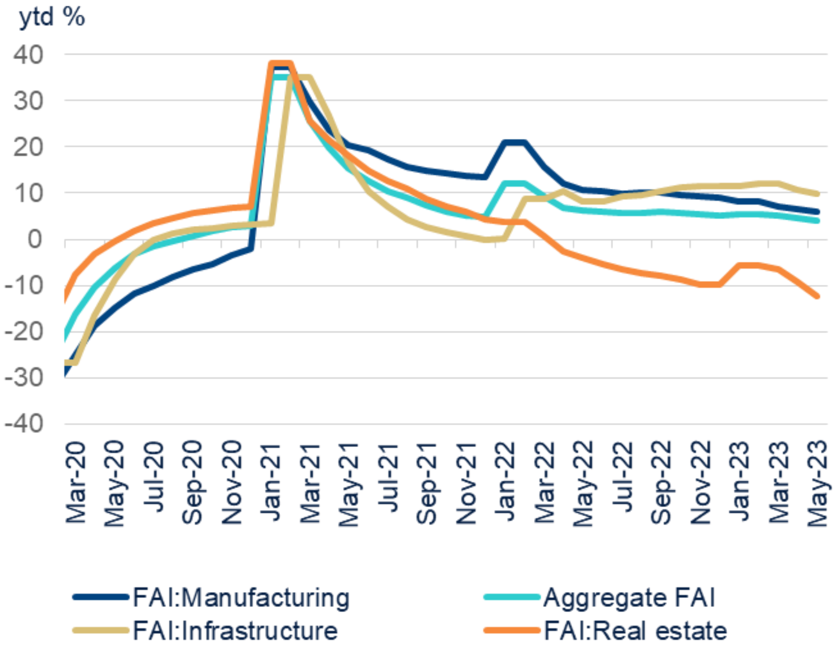
EXCESS SAVINGS DURING PANDEMIC AROUND RMB 4.4 TRN, BUT IT MAY NOT TRANSFER TO CONSUMPTION



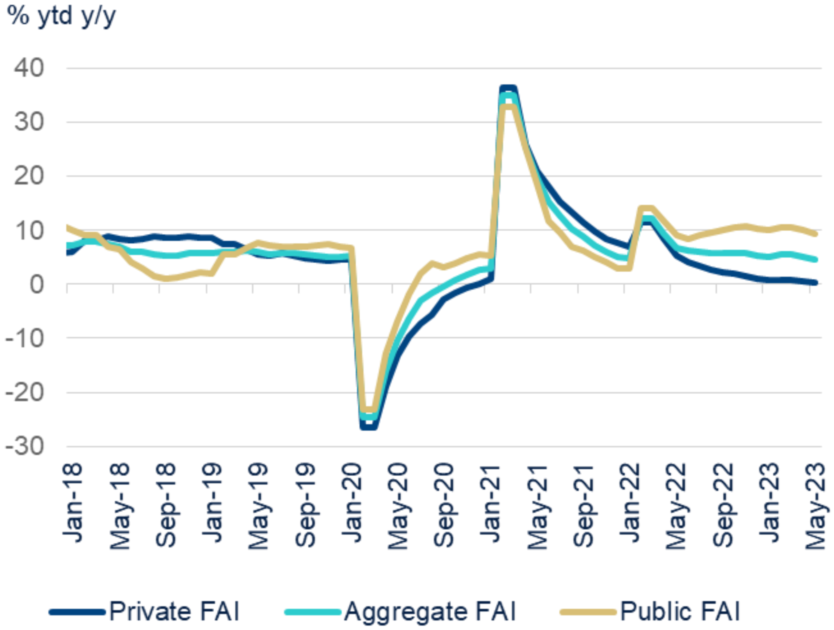
Source: CEIC and BBVA Research.

FAI: aggregate FAI moderated; public-investment-led infrastructure will be the main engine, while housing investment dipped deeper

AGGREGATE FAI MODERATED TO 4.0% YTD Y/Y FROM 4.7%; HOUSING FAI AT -12.3% YTD Y/Y



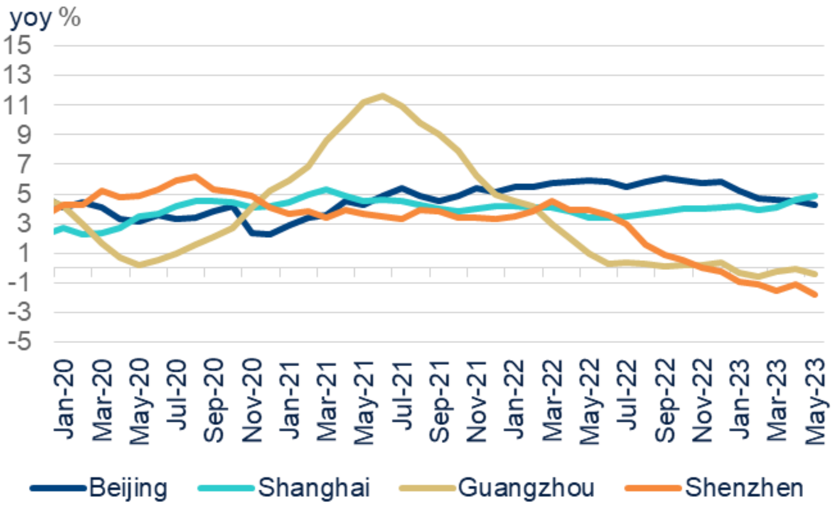
PRIVATE FAI REMAINS LACKLUSTER DUE TO DAMPENED CONFIDENCE



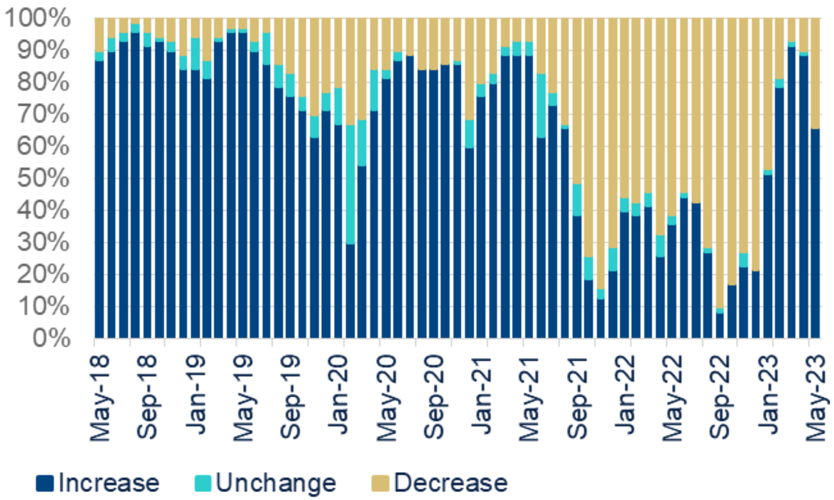
Source: CEIC and BBVA Research.

The woes of housing market continue

HOUSING PRICES AND TRANSACTIONS DIPPED AGAIN AFTER A SHORT PICKUP



LESS CITIES REPORTED HOUSING PRICE INCREASE THAN LAST MONTH

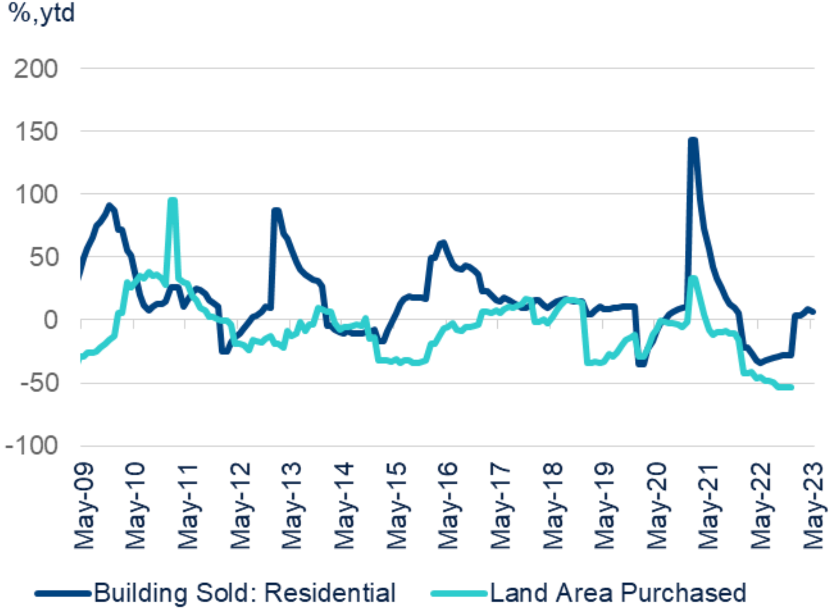


Source: CEIC and BBVA Research.

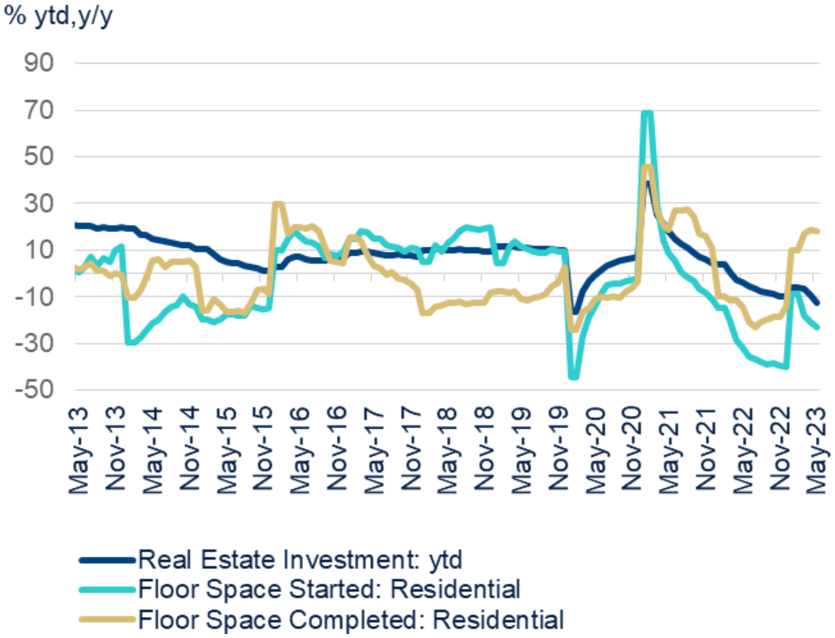
Property market slumped again in May, reflecting the lack of confidence in the real estate market and economic outlook.

Building sold and floor space completed have a relatively better performance that floor started and land purchase (de-stocking is faster than new investment)

LAND PURCHASED (3-QUARTER PRIOR INDICATOR) GROWTH REMAINED -50% WHILE BUILDING SOLD SLIGHTLY STABLIZED



FLOOR SPACE COMPLETED ALSO PICKED UP VS. WEAK FLOOR STARTED -25%



Source: CEIC and BBVA Research.

Some baseline scenario outlook of China's real estate sector

The current round of housing crash will not lead to nationwide housing collapse or financial crisis given the authorities' powerful intervention ability and lifting of "zero Covid".

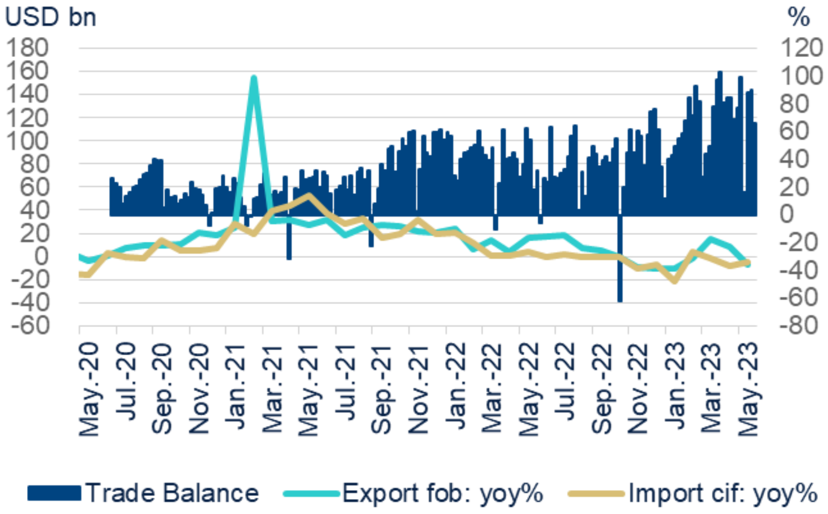
The worst time has passed. Housing market is anticipated to bottom out in the second half of the year if appropriate counter-cyclical measures are to be implemented.

There will be diverging of real estate development between tier-1 cities and tier-3 and tier-4 cities: outlook of housing market in large cities still robust, but the outlook is deteriorated in small cities.

It is a long-term challenge for Chinese authorities to balance growth (stimulated by real estate) and financial stability, as well as a challenge to apply the "new growth" model to replace "old growth model" (based on housing and infrastructure stimulus.

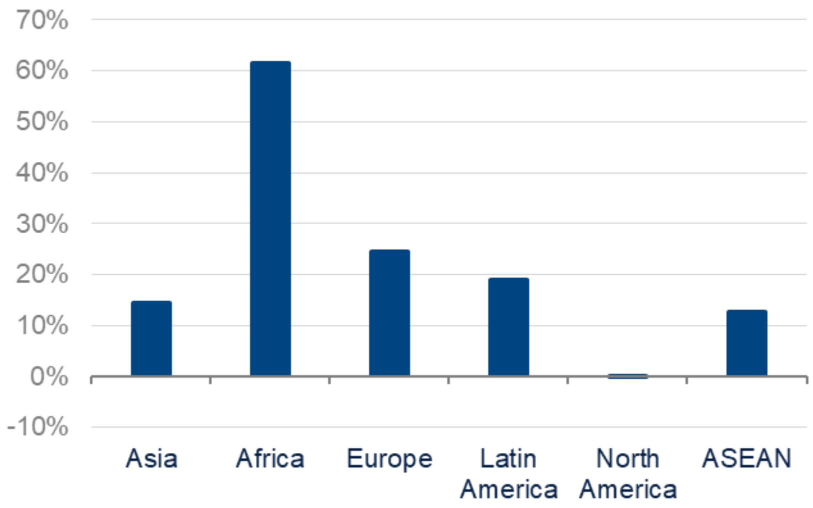
Exports slowed down at last, in line with other Asian economies

EMPORTS SLOWED FROM 8.5% TO -7.5% IN MAY WHILE IMPORTS STABLIZED TO -4.5% FROM -7.9%



Source: CEIC and BBVA Research.

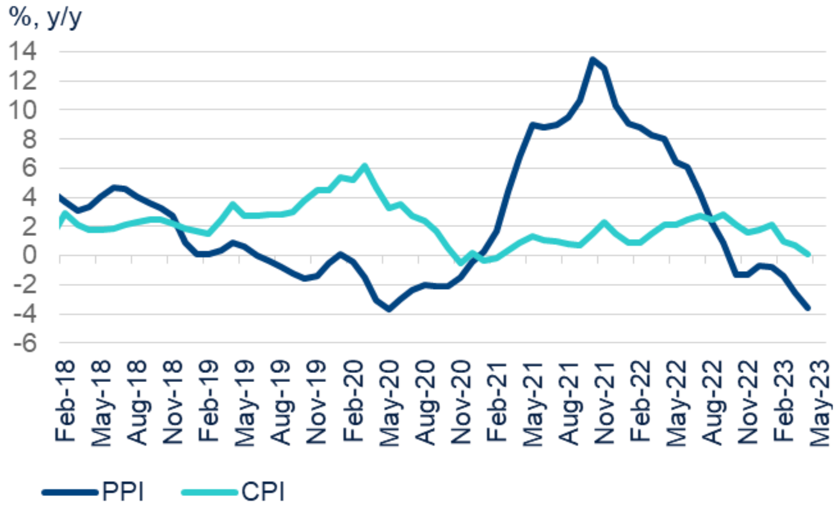
CHINA'S EXPORTS GROWTH TO THE EUROPE, ASIA AND LATAM ALL RECORDED STRONG GROWTH



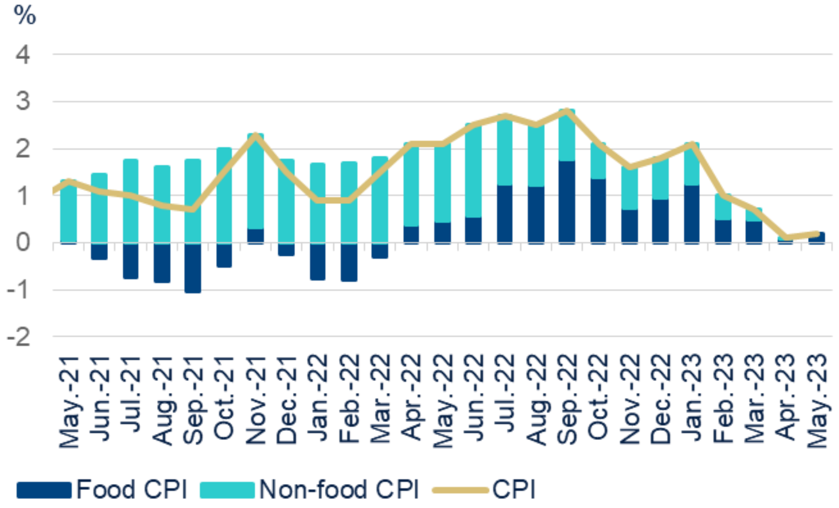
We anticipate export growth will decrease by 2% in 2023 while imports increased by 2%, leading shrinking current account. It drags GDP growth by 0.8% in 2023. Foreign tourists after re-opening will significantly increase current account deficit, leading current account to GDP ratio declines from 2.5% in 2022 to 1% in 2023.

China's disinflation: inflation hovered around 0 in April-May

CPI DECELINED TO 0.1% IN MARCH FROM 0.7% PREVIOUSLY; PPI FURTHER SLIDED TO -3.6% FROM -2.5%



CPI WENT DOWN TOGETHER WITH THE PORK PRICE AND IMPACTED BY NEGATIVE PPI AND GLOBAL COMMODITY PRICES

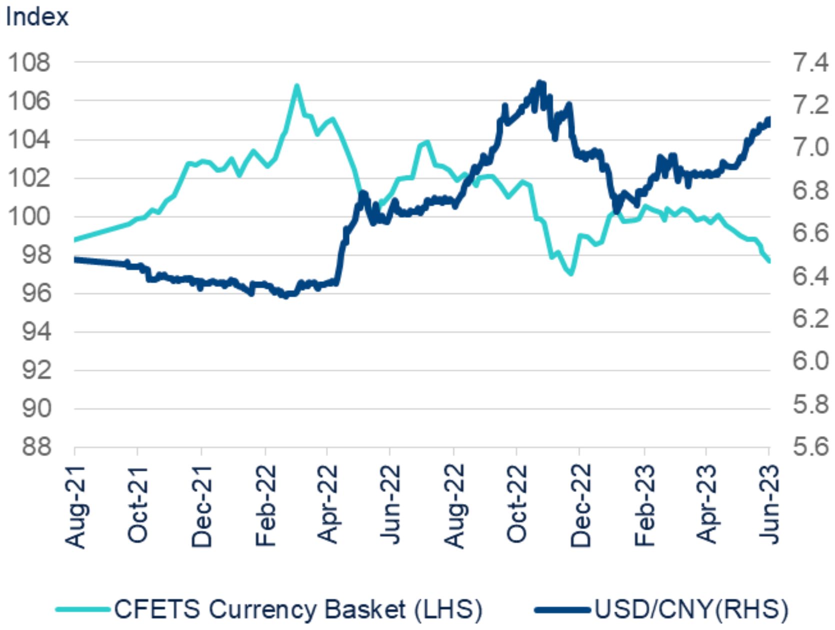


Source: CEIC and BBVA Research.

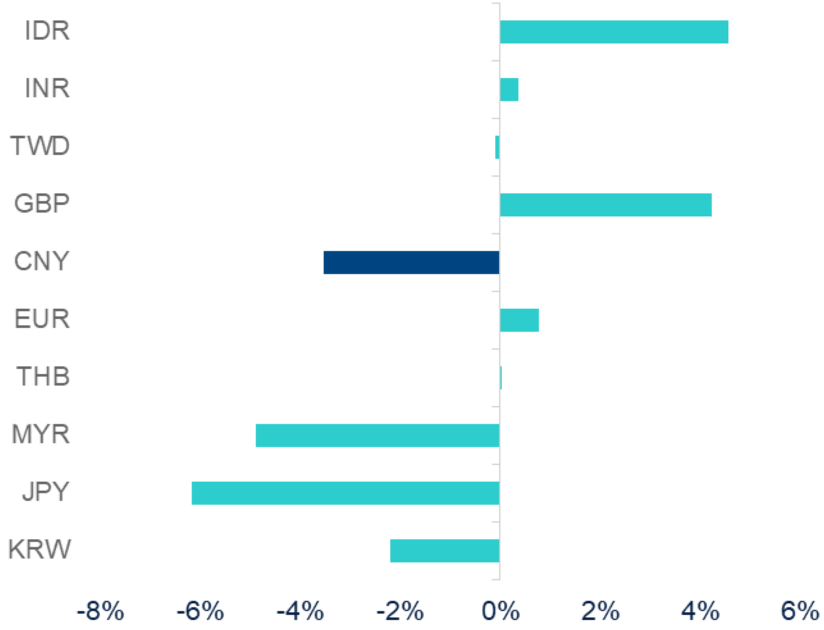
China seems to export deflation to the world again. (i) Unlike the US, Chinese authorities did not directly transfer cash to household, (ii) pandemic stimulus in China was contained, (iii) the downward adjusted global commodity price, PPI will remain negative.

RMB exchange rate: depreciation accelarated on growth slowdown

RMB EXCHANGE RATE DEPRACIATED BELOW 7 AFTER 6.7 PEAK WITH THE FINAL FED INTEREST RATE HIKE IN MAY



RMB DEPRECIATED MODESTLY FROM BEGINNING OF 2023 TO NOW



Source: Bloomberg and BBVA Research.

RMB exchange rate reversion as the FED enhanced the hawkish stance

Several factors support RMB exchange rate:

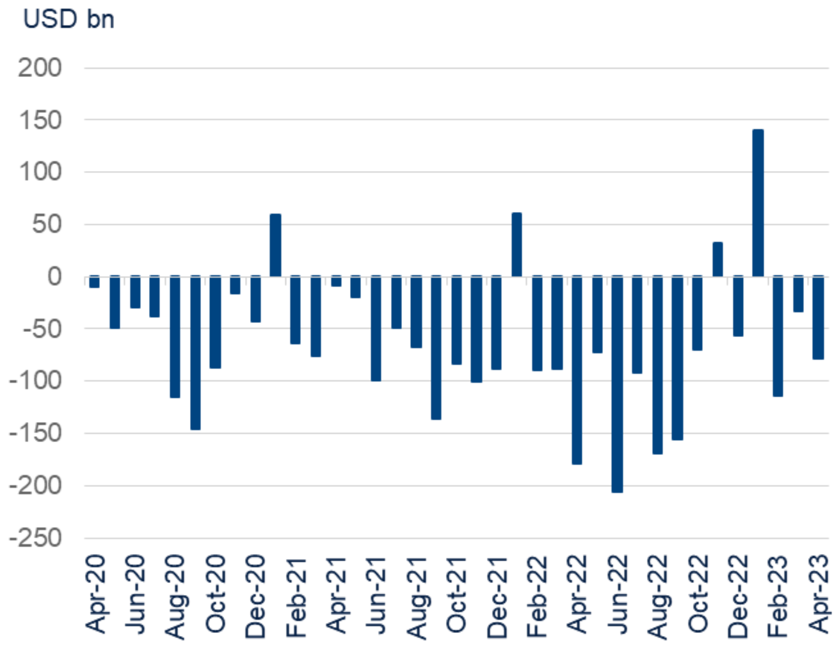
FED will eventually stop interest rate hike at 2H 2023, supporting RMB exchange rate.

China's tame inflation give its currency some advantage of real interest rate;

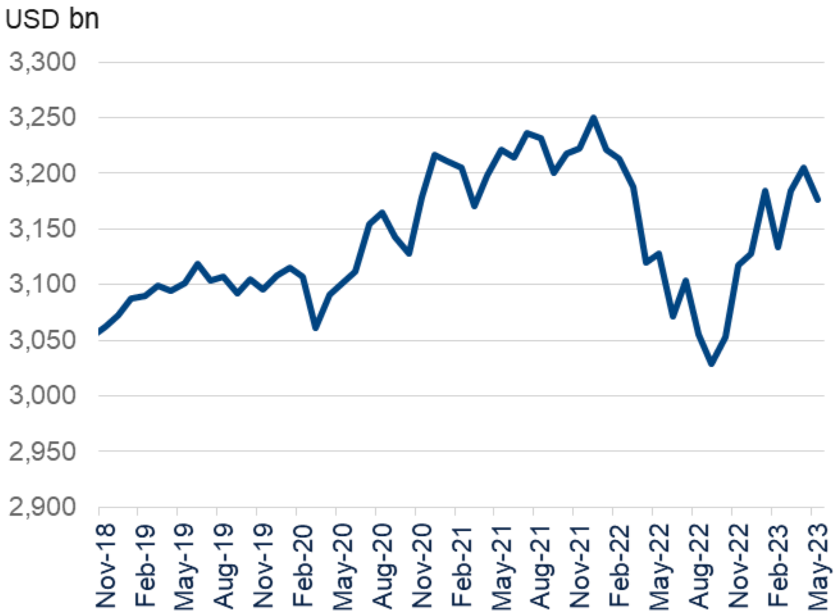
From the natural interest rate perspective in a longer term, as in the general equilibrium a country's natural interest rate should be equivalent to its natural growth rate. China's potential growth is higher than the US (China 4.5%, US around 2%), providing a justified support for long-term attractions for capital inflows, supporting RMB outlook.

Capital outflows remain stable and FX reserves were affected by strong USD

ESTIMATED CAPITAL OUTFLOWS= FOREIGN RESERVE CHANGE-TRADE BALANCE-NET FDI-VALUATION EFFECT



FOREIGN RESERVES TRENDED UP AS WELL

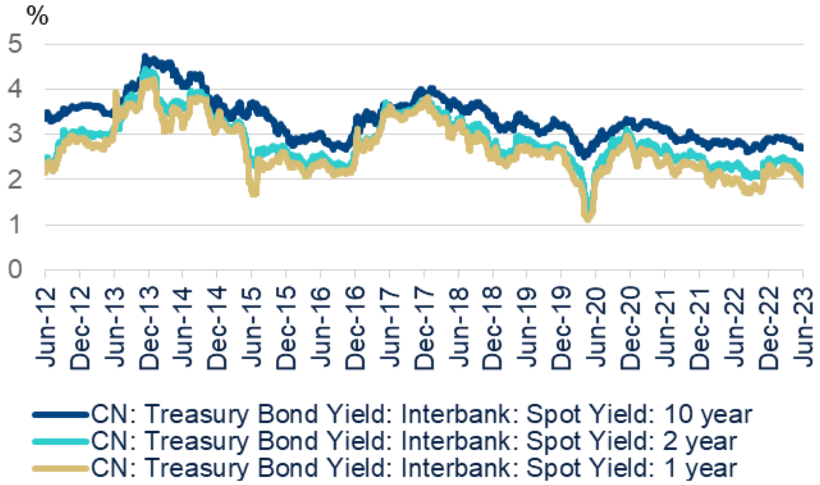


Source: CEIC and BBVA Research.

Financial markets underperformed, reflecting weak investors' confidence

SHANGHAI-SHENZHEN 300 INDEX CORRECTED FROM PREVIOUS HIGH

BOND YIELD ALSO PICKED UP RECENTLY, SHRINKING INTEREST RATE DIFFERENCE WITH THE US (10-YEAR BOND FORECAST: 3.3% END-2023)



Source: CEIC and BBVA Research.

In addition to less optimistic economic outlook, rising geopolitical risks also dampen investors' interest in China's assets

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03

Pro-growth policy set to help overcome headwinds

Main messages

Monetary policy

Policy stance has de facto shifted from "prudent" to "pro-growth" after the unexpected cut in both 7-day repo rate and medium-term lending rate (MLF) in mid-June. The key policy rate, loan prime rate (LPR), will follow suit soon. In addition to policy rate cuts, the authorities will continue to lower financing costs through liquidity tools, for example the cut in the required reserve ratio (RRR). It is noted that the incoming measures are universal ones, instead of targeted ones implemented previously.

Fiscal policy

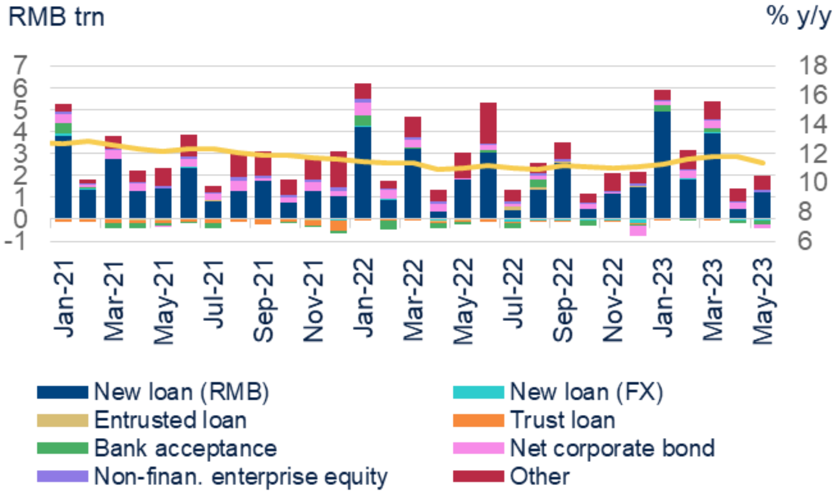
Expansionary fiscal policy could be expanded further. This year's fiscal deficit budget to GDP ratio was set at 3%, up from 2.8% in 2022. In particular, the authorities expanded the quota of local government debt issuance to RMB 3.8 trillion in 2023 from RMB 3.65 trillion in 2022, in a bid to support infrastructure investment. In light of vulnerable financial situation of local governments, the central government is likely to shoulder a larger share of additional spending. In terms of fund sources, the central government might issue more special bonds to the market. In some regions, the local governments set out to pilot the programs of "consumption coupons" to boost local economies.

Housing policy

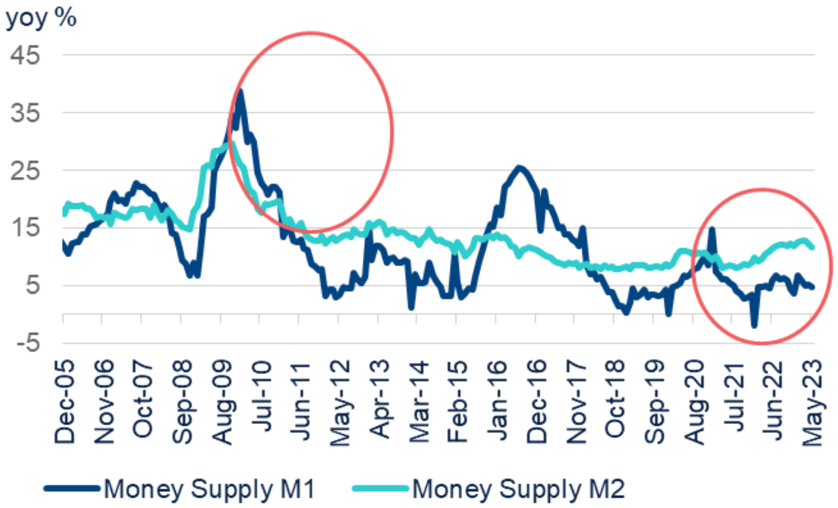
Housing policy is likely to be further relaxed to boost sales and investment in the sector. In several large cities, the home purchases is still forbidden for the second home. It looks now a good time window to change these restrictions and allow the market to balance the demand and supply by itself. Moreover, the authorities now still require a down payment equivalent to 30% of house prices. Lowering this requirement is set to allure more potential home buyers to participate in the market. On supply side, the authorities will push banks to extend more credit to private developers to ensure the completion of existing projects.

Credit expansion comes from policy side, instead of proactive "balance sheet" expansion by household and enterprises

TOTAL SOCIAL FINANCING AND NEW RMB LOANS EXPANDED SIGNIFICANTLY IN MARCH BUT DECLINED IN APRIL-MAY



…LEADING TO A SURGING M2 GROWTH

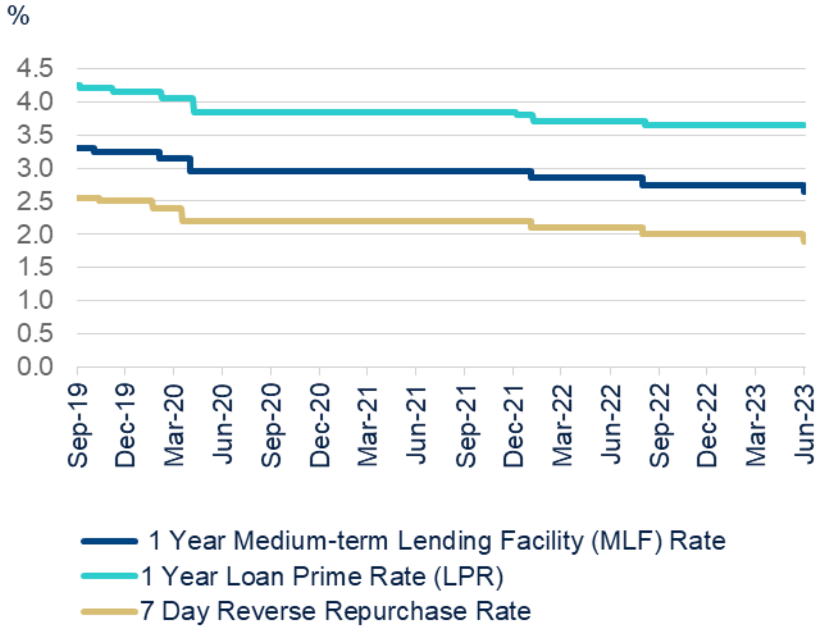


Source: CEIC and BBVA Research.

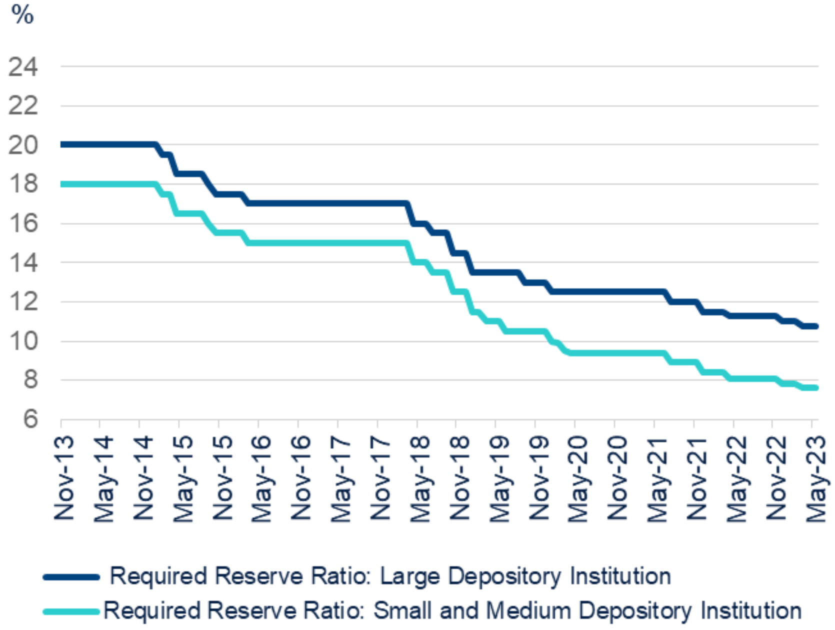
Enterprises need to wait until they foresee a high investment return to proactively expand their "balance sheet", during this process, economic normalization (investment return back to previous track) and rebuilding market confidence at central government level will be the key.

The PBOC cut the policy rate to stimulate the economy

CHINA IS NOT ANTICIPATED TO CUT POLICY RATE DURING FED HIKE CYCLE



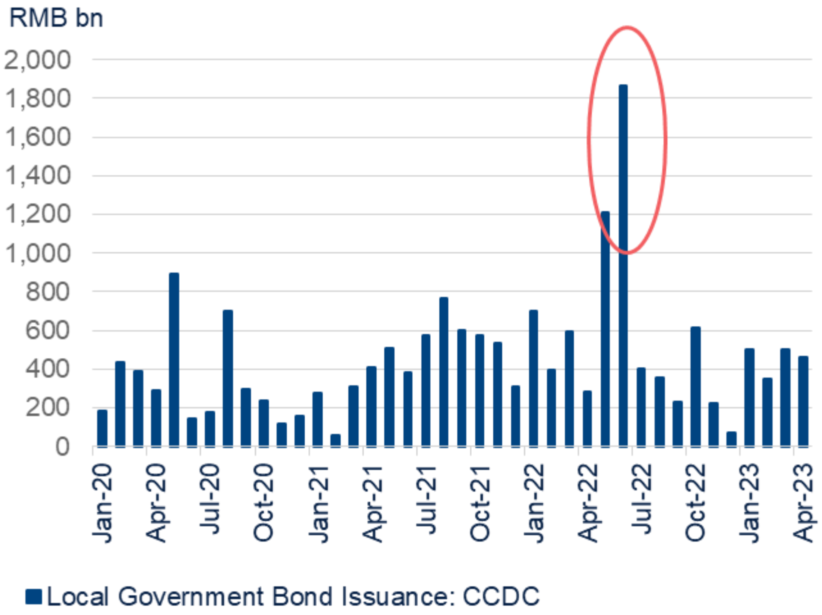
THE EASING MONETARY POLICY FOCUS ON QUANTITATIVE TOOLS, i.e. RRR CUT AND TARGETED TOOLS



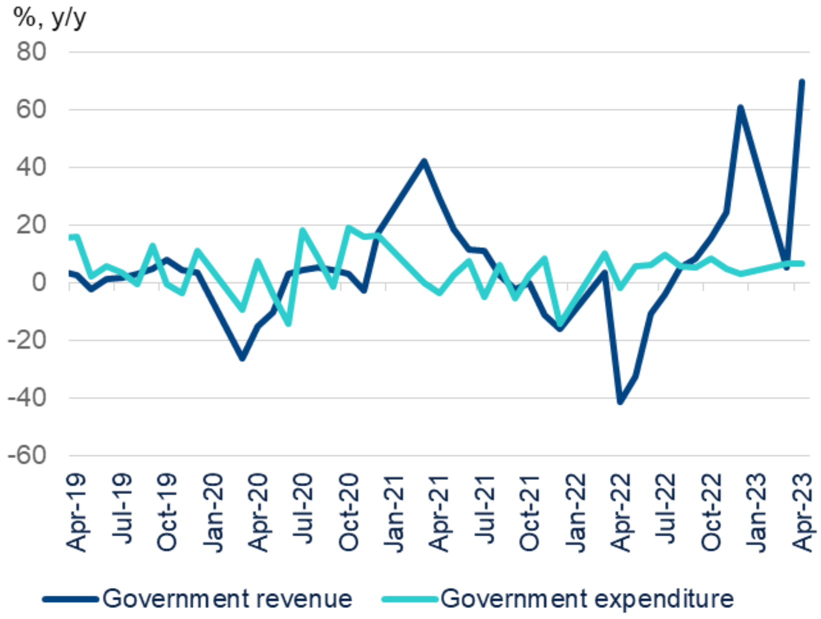
Source: CEIC and BBVA Research.

More fiscal stimulus is anticipated in 2023 to support growth recovery

THE AUTHORITIES HAVE USED UP THE LOCAL GOVERNMENT BOND ISSUANCE QUOTA IN 1H 2022 TO STIMULATE INFRASTRUCTURE



LOCAL GOVERNMENT FISCAL BALANCE WAS AFFECTED BY DIPPING LAND SALES AND UNIVERSAL COVID TEST DURING PANDEMIC TIME



Source: CEIC and BBVA Research.

Recently announced fiscal stimulus to support recovery and rebuild market sentiments

2023 fiscal deficit budget will be 3% of GDP, higher than previous year's budget at 2.8%;

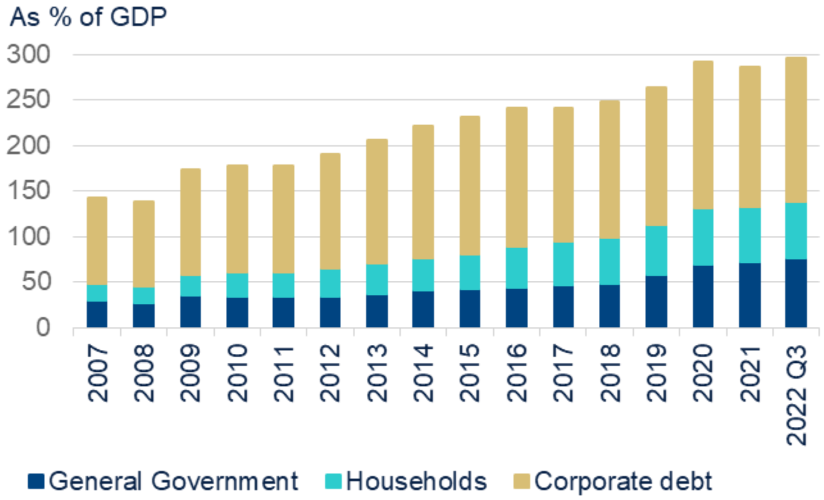
2023 local government bond quota is announced to be RMB 3.8 trillion, higher than 2022's quota at RMB 3.65 trillion, although lower than the actual local government bond issuance at RMB 4.15 trillion.

To release **consumption coupon** in the areas of tourism, restaurant, furniture, domestic appliance etc. in order to stimulate retail sales, with the total amount more than RMB 2 billion. But unlike the US, China did not directly transfer cash to household.

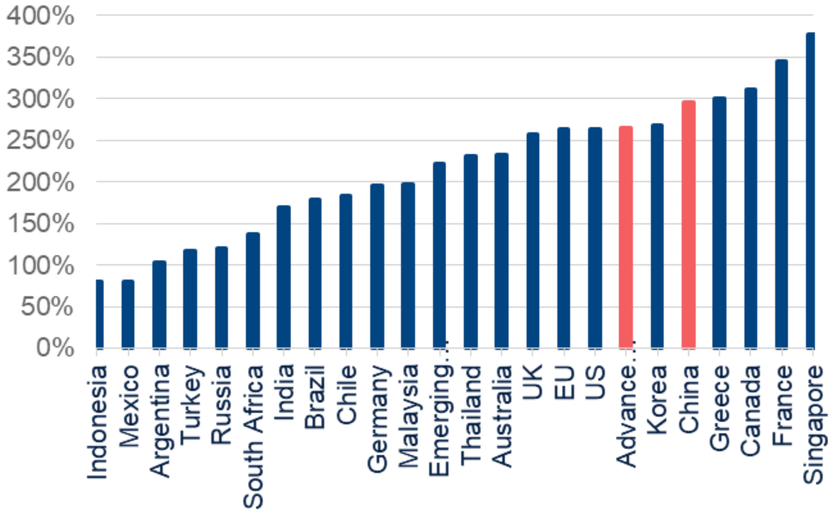
The room for further stimulus at the local government level is limited. The central government still has capacity to increase the leverage and spend more.

China's debt overhang issue focus on local government debt and corporate debt, while household debt and central government debt remain sustainable

TOTAL SOCIAL FINANCING AND NEW RMB LOANS EXPANDED SIGNIFICANTLY IN MARCH BUT DECLINED IN APRIL-MAY



CHINA'S MACRO LEVERAGE RATIO IS HIGHER THAN EMERGING MARKETS AVERAGE



Source: CEIC and BBVA Research.

China's authorities need balance the short term demand of growth boosting and the long-term demand of debt sustainability in tackling its debt overhang problema. An ideal path will be that the central government increase its debt level to support the economy while the local govenments consolidate its debt.

Forecast: China's main economic indicators

BASELINE SCENARIO

	2019	2020	2021	2022	2023	2024	2025
GDP （%）	6.1	2.3	8.1	3	5.7 ▲	4.8 ▼	4.5
CPI（%）	2.9	2.6	0.9	2	1.5 ▼	2	2
PPI (%)	-0.3	-1.8	8.1	4.2	-0.5 ▼	0.7	1
Interest rate (LPR, %）	4.1	3.85	3.8	3.6	3.4 ▼	3.4 ▼	3.4
RMB/USD exchange rate	7	6.5	6.36	6.9	6.9	6.7 ▲	6.6

Source: BBVA Research

China’s forecasting: decomposing GDP growth

BASELINE SCENARIO

	2019	2020	2021	2022	2023	2024	2025
GDP （%）	6.2	2.3	8.1	3.0	5.7	4.8	4.5
Personal consumption	6.27	1.70	7.90	1.50	7.00	3.50	4.50
Government consumption	8.50	1.60	10.00	1.00	7.00	3.50	4.00
GCFC	5.00	1.40	6.20	2.80	5.50	4.00	5.20
Inventory Change	-0.80	-12.30	2.50	5.80	1.65	4.60	4.70
Export	-0.10	3.60	30.00	12.00	-1.00	2.70	2.21
Import	-1.00	-1.05	29.00	8.00	0.60	3.00	3.20

Source: BBVA Research

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China Economic Outlook

June 2023

Creating Opportunities