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ECONOMY

IMF TRIMS CHINA GDP GROWTH OUTLOOK FOR 2021

Technology decoupling, financial risks and HK fundraising restrictions cited in revised 7.9pc gain, down from previous 8.2pc prediction

Cissy Zhou
cissy.zhou@scmp.com

The International Monetary Fund has trimmed its growth projection for the Chinese economy in 2021, citing headwinds from technological decoupling with the United States and domestic financial risks to restrictions on fundraising via Hong Kong for Chinese companies.

China will grow by 7.9 per cent this year, the fund forecasts, down from its previous prediction of 8.2 per cent growth made in October.

While few nations will achieve such growth, the downgrade is a reflection of an increasingly hostile geopolitical climate and tough global economic conditions.

In its latest review of the Chinese economy, the IMF warned yesterday that worsening US relations could accelerate technological decoupling and trim 1.8 per cent from China's real gross domestic product over the long term. The US economy would see a 1.1 per cent cut under such a scenario, the IMF said.

Restrictions on financial flows through Chinese financial institutions operating in Hong Kong could adversely affect the country too, the fund said.

Hong Kong accounts for about a third of China's total equity financing, two-thirds of offshore bond issuance, and 60 per cent of inward and outward direct investment, the agency said after its economists recently visited China.

The US this week threatened new sanctions on Hong Kong and China for the crackdown on opposition politicians which saw more than 50 arrests in the city. There has been some speculation the US could attempt to restrict US dollar fundraising access for Chinese firms in Hong Kong in the final days of the Trump administration.

China's GDP grew by 4.9 per cent in the third quarter of 2020, following a rebound of 3.2 per cent in the second quarter, and it is projected by the IMF to be the only economy to grow last year, with a 1.9 per cent rise, unchanged from its previous review in October.

> **The pandemic has weakened aggregate private consumption as income dropped**
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> IMF REVIEW ON CHINA'S ECONOMY

However, Chinese growth is still "unbalanced", with the recovery relying heavily on government support while private consumption is lagging, the IMF said. Throughout 2020, industrial growth outstripped consumer spending, while export growth far exceeded import growth.

"The pandemic has weakened aggregate private consumption as income dropped, especially for the more vulnerable households, while the better-to-do increased precautionary savings. At the same time, public investment increased significantly, threatening to reverse the progress towards more balanced growth achieved over the last five years," the IMF said.

Financial stability risks have increased during the crisis, in the non-financial corporate, housing, and banking sectors. This partly reflects the coronavirus-induced delay in the government's bid to reduce financial risks and debt, the report said.

Corporate debt is expected to have risen by about 10 percentage points to 127 per cent of GDP last year following a similar decline in the previous few years, while household debt is expected to have climbed to 58.3 per cent of GDP compared to 55.6 per cent in 2019, the agency estimated.

It also said financial pressures on some local governments were spilling over to the corporate and banking sectors. Local government debt is rising rapidly and is projected to reach 25 per cent of GDP by the end of last year, even as revenues are slowing.

"These debt burdens appear to be affecting financing conditions for local firms and local government financing vehicles with weak debt-servicing capacity, which may be reliant on backstops from the local authorities," the IMF said.

It called for continued moderately supportive fiscal and monetary policies until the recovery stabilises, while noting that medium term, a scaling back of government spending was necessary to ensure debt sustainability.