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## China: The sky is the limit

- Sky-high annual growth in Q1 thanks to base effect, but weak quarterly growth
- We raise our 2021 GDP growth forecast from 8.5% to 9.0% on 2020-Q4 revisions
- Consumption on track for further recovery
- However, the credit cycle is turning, as Beijing has tightened the screws again

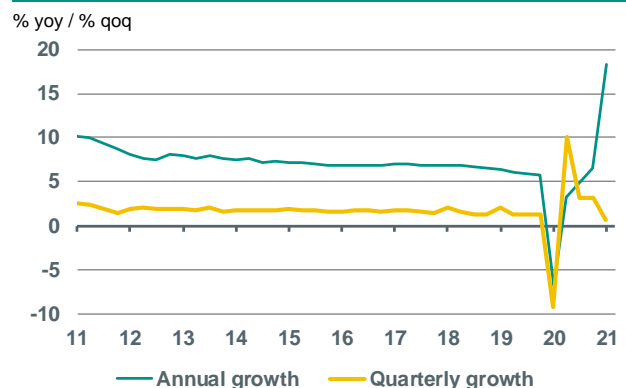
### 1. We raise our 2021 growth forecast from 8.5% to 9%

Last Friday, China's GDP figures for Q1 were published. Annual growth came in at a record-high of 18.3% yoy, close to our forecast of 18% yoy. This reflects the strong base effect from Q1-20 when China was 'in lockdown' following the initial covid-19 outbreak, but also underlines China's stark recovery from the pandemic shock. Meanwhile, quarterly growth was subdued (0.6 qoq sa), much lower than growth in previous quarters. That reflects a retightening of mobility restrictions and new regional lockdowns around the Lunar New Year holiday break mid-February on virus flare-ups. Besides, it is obvious that qoq growth will be lower this year than in the previous three quarters, as the 'catch-up' effect from the pandemic shock is fading over time. In any case, the high Q1 yoy number will drive up annual growth for the full year. Partly due to the upward revision of quarterly growth in Q4-20, we raise our 2021 annual growth forecast to 9.0%, from an already high 8.5%. That compares to an official growth target of 'above 6%' announced at the NPC in early March. This target was set conservatively, to give Beijing more room to focus on other key goals such as financial derisking and environmental protection (also see paragraph 4 and our previous [China update, Don't get fooled by high annual growth numbers](#)).

### 2. Consumption on track for further recovery

China's recovery has been led by industry and the property sector, but there are more and more signs of a rotation going forward. Last year, private consumption and services had been lagging in the recovery, with social distancing sensitive sectors such as transport and catering struggling. While renewed restrictions in early 2021 kept pandemic related drags in place, the renewed success in getting control of the situation quickly laid the foundation for a pick-up in consumption following the LNY break. In early April, the services PMIs for March already indicated an improving momentum. Consumer confidence rose to new highs in February, after a short-lived dip following the pandemic outbreak. The jobless rate is almost back to pre-corona levels (5.3% in March, vs 5.2% end- 2019). Retail sales growth came in stronger than expected in March, at 34.2% yoy (consensus: 28%, Jan/Feb combined: 33.8%), although – here too – the yoy number is flattered by the base effect. Assuming China will succeed in keeping new outbreaks contained and with the pace of vaccination being ramped up, we expect the recovery of consumption to strengthen and broaden in the course of this year.

### Record-high yoy growth in Q1, but weak qoq growth



Source: Bloomberg

### Who's afraid of covid: consumer confidence at new highs



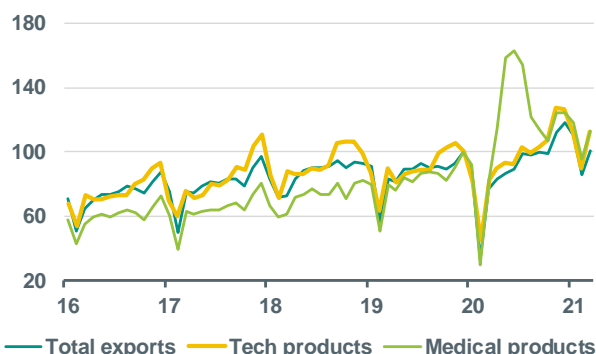
Source: Refinitiv

### 3. Trade data also point to domestic and external demand firming

China's trade data for March published last week show high annual growth rates for both exports and imports, again largely driven by the strong base effect. Exports in dollars came in at 30.6% yoy, a bit weaker than expected (consensus: 38%, versus 61% in Jan/Feb). Imports in dollars rose by 38.1% yoy, which was better than expected (consensus: +24.4%) and the Jan/Feb number (22%). The pick-up in imports seen over the past months is in line with the recovery of China's PMIs (including the import PMI), following some weakness due to renewed lockdowns and mobility restrictions earlier this year. Hence, China's import data form another signal that domestic demand is recovering from this weakness. Meanwhile, exports remain quite solid as well, in line with the return of China's export PMIs to expansion levels in March. By destination, exports to the US and the EU did particularly well. By product type, 'pandemic specific' exports (IT sectors related to working/staying at home and medical supplies) – that did much better than average last year – seem to have lost much of their outperformance now that the global pandemic has shifted to a new phase.

### Pandemic outperformance medical & tech exports fades

Export values, indices, December 2019 = 100

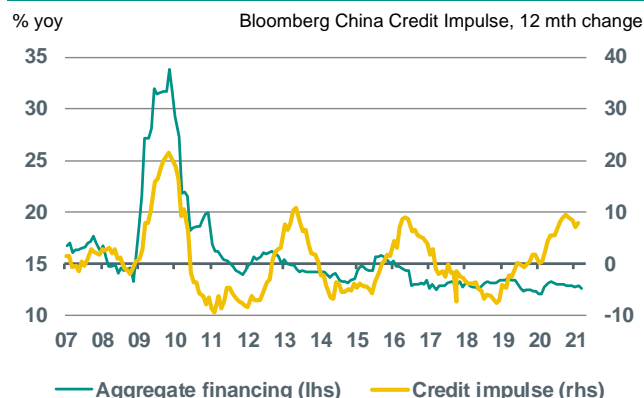


Source: ABN AMRO Group Economics, Bloomberg, Refinitiv

### 4. Beijing is tightening screws again, with financial derisking in focus

To offset the impact from the covid-19 shock, China eased fiscal and monetary policy in the first half of 2020. Still, the support was relatively limited compared to the packages rolled out in developed economies and also compared to what Beijing did during the global financial crisis. Acceleration in total lending growth was not only modest, but also short-lived. The government also frontloaded and raised quota for local government bond issuance and issued special 'pandemic' sovereign bonds. Meanwhile, with the economy quickly normalising and the leverage ratio rising again, since the second half of last year Beijing has changed course and put financial derisking at the forefront again. The government aims to keep credit growth equal to nominal GDP growth this year and has asked banks to keep lending under control. All in all, taking into account (local) government bond issuance as well, the credit impulse has started turning. We expect this trend to continue in 2021, although we do not foresee sharp policy U-turns in monetary policy and anticipate a gradual fiscal retrenchment (also see our China Outlook 2021 [here](#)).

### China's credit cycle has turned



Source: Bloomberg

Beijing's more hawkish stance is also visible in tightening property market regulation and a renewed crackdown of shadow banking including fintechns and online platforms. What is more, the rising number of SOE bond defaults once more shows that Beijing supports the fading of the 'implicit guarantee framework', also illustrated by recent turmoil regarding the asset management company Huarong. At the same time, we expect the government will remain careful to keep contagion risks in check to mitigate overall financial stability risks.

**Key forecasts for the economy of China**

	2018	2019	2020e	2021e	2022e
GDP (% yoy)	6.6	6.1	2.3	9.0	5.5
CPI inflation (% yoy)	1.9	2.9	2.5	1.5	2.5
Budget balance (% GDP)	-4.1	-4.9	-5.3	-5.0	-4.5
Government debt (% GDP)	16	17	20	22	25
Current account (% GDP)	0.2	1.0	2.0	2.5	2.5
Gross fixed investment (% GDP)	43.0	42.4	40.9	40.5	40.4
Gross national savings (% GDP)	44.1	44.1	43.5	43.9	43.5
USD/CNY (eop)	6.9	7.0	6.5	6.4	6.2
EUR/CNY (eop)	7.8	7.8	8.0	7.4	6.8

*Budget balance and current account balance for 2021 and 2022 are rounded figures*

*Source: EIU, ABN AMRO Group Economics*

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