Global Economy and China’s Economy in 2021

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Uncertain and unbalanced global economy recovery
In April 2020, IMF substantially cut its growth forecasts for 2020:

- Global economy would shrink by 3% in 2020 (IMF forecasted 3% growth at the beginning of the year)
- Global economy would suffer from the worst recession since the “Great Depression”.
- Nearly 90% of the countries recorded negative growth, the most extensive economic recession in the past 150 years.

Source: IMF, 2020, World Economic Outlook (April 2020)
Uncertain and unbalanced global economy recovery (2)

Critical factor: COVID-19

The pandemic situation is still severe; China, Russia, the US and other countries are speeding up vaccine development, which is expected to make a difference.

Trend of domestic/overseas newly confirmed cases

Unit: case
Uncertain and unbalanced global economy recovery (3)

According to IMF forecast in October:
- World economy would shrink by 4.4% due to COVID-19, 4.3% for the US, 8.3% in Eurozone, and 3.3% for emerging market economies (EMEs), while China was expected to have a 1.9% growth. These forecasts were raised except that for EMEs.
- At least 90 countries may come to a financial crisis.
- A strong rebound in 2021 was probable (due to a low base).
Uncertain and unbalanced global economy recovery (4)

• The world economy growth is expected to shrink by 4.2% this year as a result of COVID-19, better than that projected in June and September.
• The global economy may grow by 4% on average over the next two years. The global GDP growth is projected to be at 4.2% in 2021 (down from 5% estimated in September) and 3.7% in 2022.
• By the end of 2021, the global economy may recover to pre-COVID-19 levels.

The latest forecasts released by OCED in December

Note: Previous forecasts for China and Germany not available.
Source: OECD
## 1. Uncertain and unbalanced global economy recovery (5)

**Relatively optimistic forecasts by Goldman Sachs**

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Note: All forecasts calculated on calendar year basis. IMF forecasts used for India 2022 consensus when quarters not available in Bloomberg.

Source: Bloomberg, Goldman Sachs Global Investment Research

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Uncertain and unbalanced global economy recovery (6)

Basic judgements:
• Economic recovery is likely to come despite its uncertainty;
• Based on existing indicators, there will be a strong rebound in 2021 (from an optimistic but prudent perspective, global GDP may shrink by less than 4%), and the economy will be back to normal (i.e., pre-pandemic level) in 2022; and
• Recovery will be different in countries/regions, while China will still lead the world in economic recovery.

Favourable factors:
• Owing much to the implementation of substantial relief programs, enterprises or market entities in most economies have managed to survive. Recovery in investment confidence may immediately boost the economic recovery.
• The fiscal relief expenditure will be increased by at least USD 1 trillion after Biden takes office.
• The epidemic is likely to be controlled rapidly after COVID-19 vaccines are phased into common use.
• The accelerated recovery of China’s economy and global efforts on epidemic control will boost market confidence and promote global economic recovery.

Adverse factors:
• Many countries are still going through pandemic rebound which will have negative impact economic recovery.
• A number of vulnerable groups, enterprises and countries are still experiencing uncertainties, and such continuity will expose them to greater economic losses.
• The economic consequences caused by the pandemic will exert lasting effects in the coming years.
Significant risks to global finance in the post COVID-19 world
International financial risks in the post COVID-19 world (1): Another sharp fall in the stock market

Triggers include:

- The significant V-shaped rebound in the stock market is in sharp contrast to the recession in the real economy, indicating an obvious bubble in the market.
  - S&P 500 has increased by more than 60% since March;
  - Buffett: the bubble is larger than that in 2000.
- Factors triggering another sharp fall include:
  - Economic growth shrinkage resulting from further outbreaks far outstripped expectations.
  - Trade frictions and geopolitical conflicts are getting more intensive;
  - The Democratic Party has made a major adjustment to the economic policies after they won the US election;
  - The market is adjusting itself under the influence of external factors.
The extreme monetary and fiscal policies, especially unlimited quantitative easing of the US in response to the impact of the COVID-19 will raise concerns among investors about the medium and long-term prospects for economic growth.

- M2 increased by 20%; FED’s balance sheet increased from USD 4 trillion to 7 trillion.
- According to the Congressional Budget Office, the deficit of the Federal Government of the United States in 2020, as a proportion of Gross Domestic Product (GDP) may soar to record high of 17.9% during peace period.
- In Q1 2020, net national savings fell to 1.4% of national income. This is the lowest record since late 2011, only accounting for a fifth of the average (7%) between 1960 and 2005.
- Cyclical inflation and asset bubbles.
International financial risks in the post COVID-19 world (2-1): A substantial devaluation in USD

**USD Index: 1976-2019**

![Graph showing USD Index from 1976 to 2019](image)

**Hit the bottom?**

![Graph showing USD Index with a circle highlighting a specific point](image)

Source: macrotrends
International financial risks in the post COVID-19 world (3): Monetary and financial crisis in emerging markets

- The centre of the outbreak has shifted to EMEs (GDP growth has been largely revised downward this year); IMF estimated that EMEs would need at least USD 2.5 trillion in 2020 coping with the pandemic.
  - There are no sufficient resources for the financial safety net, and it has obvious institutional flaws in some ways.
  - Without the support of sufficient liquidity, EMEs are likely to go through a monetary and financial crisis.
- If global financial markets were to be volatile again, the USD exchange rate should inevitably fluctuate dramatically.
  - EMEs will undertake great capital flight pressure if the index rises dramatically in the short term (in March, most emerging markets experienced a significant devaluation in currency due to continuous financial upheavals in the US market and the sharp rise in US Dollar index). The USD appreciation will bring more debt burdens to EMEs;
  - After the instabilities get controlled, the USD will become devalued. If the USD continues to weaken, some EMEs may have difficulties in their export activities and thus may suffer from debt crises.
The past financial crisis indicates that economic recessions are generally followed by a banking crisis (a typical example: the Great Depression between 1929 and 1933).

An outlook on the ROE (Return on Equity) of banks in 9 developed countries shows that these countries are expected to have a significant decrease in ROE over the next few years, according to the Global Financial Stability Report (GFSR) released by IMF. The ROE of many systematically important banks may decrease to 4% in 2025, while that of the rest may be up to 8%; in low-interest-rate countries, 60% of banks will have an ROE of 4%.

Can Chinese banks maintain a stable ROE without interruption?

The ROE of many systematically important banks may decrease to 4% in 2025.
Opportunities and challenges facing China’s economy in 2021
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• China’s economy managed to realise a V-shaped rebound in 2020, and China is the only major economy for which GDP is projected to rise.
  − There was a 6.8% shrinkage in Q1, and a 3.2% and 4.9% growth in Q2 and Q3 respectively on a year-on-year basis. If there will be a 5.5% increase in Q4, the yearly growth is expected to be 2.1% (forecasts after October are between 1.8% and 2.3%). In 2021, the growth rate may be up to 8% or above due to the lower base; in 2022, the growth rate may return to normal, reaching approximately between 5.5% and 5.7%.
  − Investment increase in fixed assets made major contribution to such improvement and the growth rate is expected to be 3.5% accumulated growth rate. Total retail sales of consumer goods may reduce by 4.4% for the year. Exports are doing better than expectations, growing by about 1.8%.

Highlights:

Industrial output rebounded fastest with growth in Q2, among which output from high-tech manufacturing grew significantly on a year-on-year basis.

With respect to the service sector, the output of information transmission, software and information technology services as well as financial industry increased rapidly.

Retail consumption has been gradually improved, with significant growth in online consumption, accounting for more than 25% of the total retail sales of consumer goods.

New commercial activities are developing rapidly, including online education, medical care and office, which may show a regular growth.

Growth shrinkage in trade of goods was below expectation, and the export of medical materials, medicines, etc. rose significantly.

Foreign capital inflows recorded net growth, and the RMB had steadily strengthened.
Opportunities and challenges facing China’s economy in 2021 (2)

Outlook on China’s economic policies in 2021

• Implement the Proposals of the 14th Five-Year Plan and accelerate the establishment of a "dual circulation"
  – “Dual Circulation” development will be a long-term strategy
• Retain most of the economic stimulus policies
  – Fiscal policies are likely to remain relatively lenient and the fiscal deficit-to-GDP ratio may remain above 3%;
  – Monetary policies may return to normal (the growth rate of M2 may decrease from 10.4% to 9% this year; social financing may be reduced from 13.5% to 12%);
  – Strengthen supervision to prevent systematic financial risks.
• Maintain a relatively high investment growth rate, and continue to push ahead with the “new infrastructure and new urbanisation initiatives and major projects”
• Deepen reform, energise the market and continue to improve the business environment to enhance the confidence of domestic and overseas investors
• Support expansion of high-quality opening-up to avoid “decoupling” from the developed countries; remain committed to promoting reform through opening-up
Opportunities and challenges facing China’s economy in 2021 (3)

Changes in domestic industrial structure in 2021 and potential opportunities.
- New technological revolutions in 5G, new energy sources, new materials, etc.;
- Economic and trade friction; import substitutions as result of global supply chain transformation ((semiconductors, auto parts, etc.));
- Online economy;
- New urbanisation.

"Opportunities in crisis" from the slow recovery of global economy, low (negative) interest rates in developed countries, Sino-US economic and trade frictions.
- Net capital inflows and financing opportunities;
- Return of US-listed Chinese shares and acquisition of quality assets;
- RMB internationalisation;
- Oversea investments.
Opportunities and challenges to China’s economy in 2021 (4)

Significant risks to China’s economy in 2021:

- The pandemic may continue to expand globally, making it difficult for some countries to recover from economic recessions.
- The recovery may stagnate as major economies have prematurely scaled back their relief and stimulus efforts.
- Risks are rising in global financial markets.
- Sino-US economic and trade frictions could remain and US embargo of foreign technology may escalate further.
- The excessive inflow of foreign capital will lead to the rapid appreciation of the RMB and the expansion of asset bubbles.
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