

China CITIC Bank International latest economic outlook

Global economy to see strongest post-recession recovery in 80 years in spite of uneven growth across geographies

(Hong Kong: 5 Aug 2021) China CITIC Bank International Limited (the “Bank” or “CNCBI”) today releases its latest market outlook. As a result of the vaccination progress and a favourable base for comparison, the global economy is expected to rebound strongly.

- Global GDP growth is estimated to reach 5.6% in 2021, the strongest post-recession recovery in 80 years which offsets the 2020 contraction of 3.5%
- Mainland China’s growth is expected to stay ahead of other economies with full-year GDP grow of 8.5%
- Hong Kong’s GDP growth may reach 6.0%

Mainland China to continue recovery lead despite uneven domestic figures

Mainland China’s first-quarter GDP rose 18.3%. The record expansion was attributable primarily to a favourable base for comparison. As this influence subsided in the second quarter, the country’s second-quarter GDP growth dropped 10.4 percentage points on the quarter to 7.9% y-o-y although underlying growth was stronger with average annual growth during a two-year period at 5.5% in the second quarter, approaching pre-pandemic levels and 0.5 percentage points stronger than the previous quarter. In view of this, the country’s GDP growth will keep ahead of other major economies’ with 8.5% for the year 2021.

Mainland China’s international trade has been particularly strong and is likely to remain buoyant on the back of the country’s robust supply chain. In RMB terms, merchandise exports rose 28.1% y-o-y in the first half of the year while imports gained 25.9%. In June, total merchandise trade posted growth for 13 consecutive months with a 22.0% increase y-o-y. However, domestic recovery remains uneven. Industrial production has recovered fully with a 6.5% gain in June in terms of average annual growth during a two-year period, whereas private consumption has remained relatively weak logging a nominal retail sales increase of 4.9% in June in terms of two-year average annual growth. After adjusted for inflation, real growth may only be about 3.5%.

Mr Tristan Zhuo, Chief Economist, CNCBI, notes, “In a bid to ensure reasonably adequate liquidity for sustaining and broadening economic recovery, the People’s Bank of China lowered the reserve requirement ratio (RRR) by 0.5 percentage point in July, which is translated into an 8.9% weighted

average RRR. This across-the-board, untargeted RRR cut was largely unexpected and it does not signal a directional shift in the stance of the country's monetary policy. In line with the mainland government's repeat emphasis on avoiding excess liquidity, the benchmark loan prime rate (LPR) has remained unchanged since April 2020 and is unlikely to be adjusted any time soon..”

Hong Kong to reign supreme in resuming pre-pandemic normalcy

Hong Kong's climbing COVID-19 vaccination rates in addition to relaxation of preventive measures have positive impacts on the city's consumer confidence stimulation and economic activities resumption. According to recent research results published by weekly newspaper *The Economist* ¹, Hong Kong came out tops among 50 of the world's largest economies in terms of returning to pre-pandemic normalcy. The city posted GDP growth of 8.0% in the first quarter of the year, which ended the contraction that lasted six consecutive quarters. The GDP stood at 7.5% in the second quarter, and is on track to grow 6.0% in 2021, higher than the 5.5% upper bound of the HKSAR government's initial estimate.

The labour market has also been improving. The seasonally adjusted unemployment rate declined rapidly after peaking at 7.2% in February. Mr Zhuo adds, “At the current rate, unemployment may drop below 5.0% by the end of the year. As vaccination rates continue to rise, the eventual reopening of the mainland border will provide the Hong Kong economy and in particular retail and tourism an extra boost. In view of the robust economic rebound, fast-improving unemployment, and stronger consumer market, Hong Kong's economic outlook is fairly positive.”

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¹ “Covid-19 data – The global normalcy index.” *The Economist Newspaper Limited*, 21 July 2021, <https://www.economist.com/graphic-detail/tracking-the-return-to-normalcy-after-covid-19>.

Photo



Mr Tristan Zhuo, Chief Economist, CNCBI, says that the global GDP is estimated to rise by 5.6% in 2021, the strongest recovery in 80 years, while Mainland China and Hong Kong's GDP growth may reach 8.5% and 6.0% respectively.

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