

## ECONOMIC PULSE

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## CHINA: DIFFICULT ECONOMIC REBALANCING

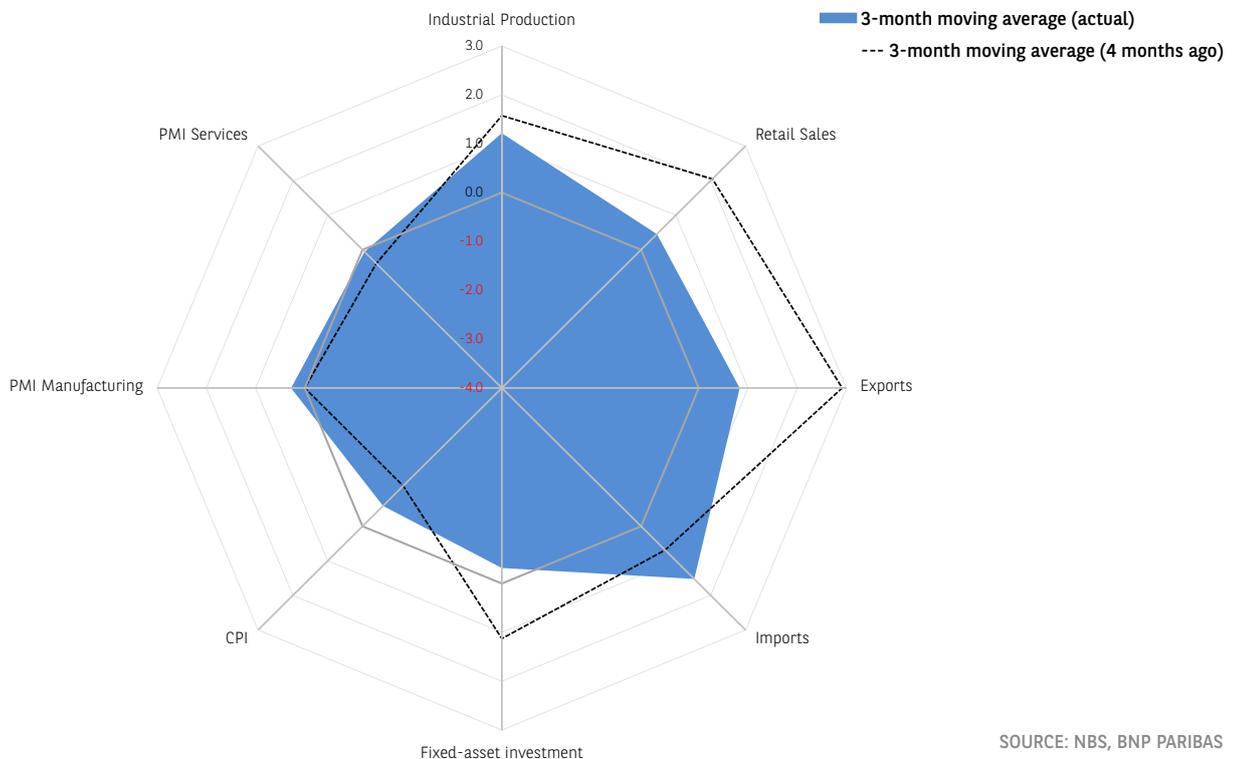
Economic growth reached 7.9% year-on-year (y/y) in Q2 2021 vs. 18.3% in Q1 2021. This apparent slowdown is the result of growth rates gradually returning to normal in all sectors and all demand components; it was largely expected as base effects have become less favourable since last spring. This trend explains the contraction of the blue area compared to the dotted area in our Monthly Economic Pulse. In quarter-on-quarter seasonally-adjusted terms, real GDP growth rose to 1.3% in Q2 2021 from 0.4% in Q1 (source: China's NBS). The rebound is small. In particular, the recovery in the services sector and private consumption remains fragile. Yet, since March 2021, the growth rate in services production has surpassed that of industrial production. Activity in the services sector grew by 8% y/y in Q2 2021 (vs. 15.6% in Q1); in the industrial sector, activity grew by 7% y/y in Q2 (vs. 24.4% in Q1).

In recent weeks, the authorities have been increasingly cautious when tightening the policy mix. They admit that the economic recovery's foundations have remained unbalanced over the past year. On the monetary policy front, the authorities have even recently announced a cut in the reserve requirement ratio (by 50 basis points) for all financial institutions (the cut, which is effective as from July 15, is the first reduction in fifteen months). This policy measure is aimed at maintaining domestic liquidity at sufficient levels to encourage a decline in real funding costs and support the recovery of SMEs and micro-enterprises. As a result, growth in total credit (social financing), which has slowed since October 2020, is now projected to stabilize in the very short term, notably driven by bank loans.

On the fiscal policy front, priority is given to adjusting the public accounts while continuing to provide support to the most vulnerable enterprises. The moderation in public spending has been achieved through a significant growth slowdown in investment in infrastructure projects in recent months. On the contrary, manufacturing investment, which started to pick up late last year, appears to be finally taking the leading role in domestic investment growth. It is expected to continue to recover in H2 2021, stimulated by the strong momentum in exports (which increased by 30% y/y in Q2 2021), very high industrial capacity utilisation rates, and the improvement in corporate profits.

Christine Peltier

## CHINA: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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