

China GDP: 'rising uncertainty' as economic recovery slows amid mounting problems

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- **Waning confidence in China's economic growth has been spreading, with its recovery appearing to have fizzled out after registering 4.5 per cent growth in the first quarter**
- **Global investment banks have revised down their second quarter sequential growth forecasts, down from over 4 per cent on average to around or less than 1 per cent**

On a sweltering Monday afternoon in mid-June, Shenzhen resident David Yu carried US\$8,000 in his backpack and luggage and crossed the border into Hong Kong.

Passing Chinese customs with so much cash could be risky, as China - which has strict capital control - only allows travellers to carry up to US\$5,000 in foreign currency per trip without declaring it.

But Yu decided to take the risk, as it was a great time to deposit the money into a Hong Kong bank as the interest rates have been so high thanks to multiple rate increases by the US Federal Reserve. More importantly, he felt the urgency to deploy some overseas assets.

"The uncertainty about China's economy is rising, so there is a sentiment that it is safer to have some money physically outside of China," he said.

Yu is far from alone. That afternoon, he waited for over 40 minutes at a branch of HSBC, with many Mandarin speakers queuing in front of him also depositing stacks of US dollars.

A lack of confidence in China's future economic growth has been quickly spreading, as its post-coronavirus recovery appears to have fizzled out after registering 4.5 per cent growth, year on year, in the first quarter.

Premier Li Qiang has said that China's economic growth in the second quarter - which is set to be released on July 17 - will be faster, but the rate is more likely to be higher due to a much lower base a year earlier rather than a solid growth, economists said.

Most global investment banks have revised down their second quarter sequential growth forecasts, down from over 4 per cent on average to around or less than 1 per cent, in contrast to 2.2 per cent quarter on quarter growth in the first three months of the year.

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Ipek Ozkardeskaya

They have also slashed their annual growth forecasts, moving closer to Beijing's modest target of "around 5 per cent" for 2023 set in March.

An indicator of economic sentiment, the yuan tumbled by 5.7 per cent against the US dollar in the second quarter. The currency weakness, in turn, has further fuelled negative sentiment.

Economists said the Chinese currency is expected to face more pressure as a recent slew of stronger-than-expected US economic data may lead to more interest rate increases, compared to more anticipated policy easing from the People's Bank of China (PBOC) amid a sputtering recovery.

"The initial forecast for this year - US recession and Chinese rebound - is not happening. On the contrary, the US is growing, and China is slowing," said Ipek Ozkardeskaya, a senior analyst with Swissquote Bank.

"At this point, the Chinese government has no choice but to regain people's and investors' confidence if it doesn't want to become too old before becoming rich enough," she said, as the world's second-largest economy is also facing a looming demographic crisis, after its population declined for the first time in 60 years in 2022.

Premier Li Qiang plays up China's economic prospects at World Economic Forum's 'Summer Davos' When China fully restarted its economic engine in January, economists expected that domestic consumption and investment would be the key drivers, along with fading curbs on households and businesses, and worsening geopolitical tensions.

While the much-anticipated revenge spending did materialise, and although new businesses did spring up, the trend did not last.

In April, the manufacturing sector fell back into contraction and growth in the service sector started to slow down.

Ding Shuang, chief Greater China economist at Standard Chartered Bank, said consumers and private firms still have the ability to spend and invest, but they lack the expectation for a steady future income.

Ji Siqi in Beijing

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