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ECONOMY

IMF cuts China GDP forecast, warns 'worst yet to come'

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The International Monetary Fund (IMF) yesterday lowered its growth estimate for China this year, saying the country's slowdown, the Ukraine war and inflation triggered by aggressive US monetary tightening were the three main headwinds facing the global economy.

The IMF forecast the world's second-largest economy to expand by 3.2 per cent in 2022, slightly lower than its previous estimate of 3.3 per cent, according to its latest World Economic Outlook.

The Washington-based institution also cut China's forecast for next year from 4.6 per cent to 4.4 per cent – a far cry from the 8.1 per cent expansion seen in 2021.

In comparison, the IMF's 2023 gross domestic product (GDP) growth estimates for the United States and India remained unchanged, at 1 per cent and 6.1 per cent, respectively.

China's economic outlook is dimming due to a number of factors, including Beijing's hard-line zero-Covid policy, a property sector downturn and a volatile geopolitical situation.

If, as the IMF predicts, China's economy expands only 3.2 per cent this year, it will be the country's lowest growth rate in four decades, excluding the initial coronavirus crisis in 2020.

That spells trouble for the rest of the world, according to the IMF, given China accounts for one-fifth of the global economy and is integral to supply chains.

Some 43 per cent of the world would experience at least two consecutive quarters of negative growth next year, the IMF said, while revising down the 2023 global growth forecast by 0.2 percentage points to 4.4 per cent. It kept this year's estimate unchanged at 3.2 per cent.

"In short, the worst is yet to come, and for many people 2023 will feel like a recession," the report said.

The IMF warned that China's property sector crisis would not only cause a cash crunch, but also damage consumer spending and the balance sheets of local governments. "This would be a large blow, given that the real estate sector makes up about one-fifth of GDP in China," the report said.

Lockdowns in cities such as Shanghai (pictured) hit China's economy and contributed to a lower growth estimate by the IMF. Photo: Reuters

In addition, frequent lockdowns aimed at stamping out coronavirus outbreaks have damaged the local and global economy, by weakening demand and putting pressure on supply chains.

"The impact of the pandemic is perhaps most keenly felt in China, where intermittent lockdowns in parts of the country have continued to affect economic activity," the report said.

To illustrate its point, the IMF said China's manufacturing capacity utilisation slowed to below 76 per cent in the second quarter, the lowest level in five years except during the acute phase of the pandemic.

It also pointed to the new orders component of the purchasing managers' index (PMI), which fell to 47.4 in April after Shanghai's lockdown.

The IMF said Chinese authorities should hedge systemic financial risk by restructuring troubled property developers and boost vaccination rates for the elderly to replace zero-Covid controls.

China is set to release its third-quarter GDP data next week after its economy grew by 0.4 per cent in the second quarter. The consensus is that its economy grew by 3.5 per cent in the third quarter, year on year, according to financial data provider Wind.