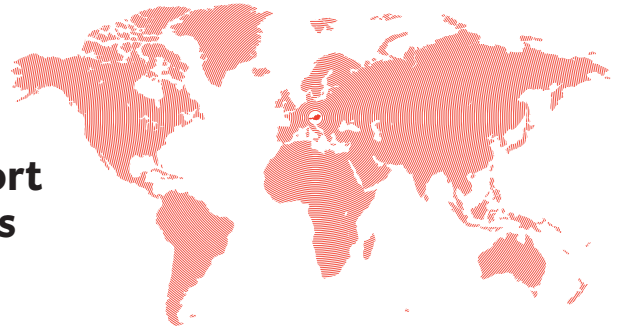


Oberbank

Economic and Banking Report Global Financial Institutions



People's Republic of China

Economic situation

> GDP 2021: 8,1 %

The Land of the Rising Sun: As the second largest economy in the world, the People's Republic of China offers enormous market potential for numerous industries. In addition to China's central role in global manufacturing and goods trade, there are increasing opportunities in the area of private consumption. In addition, e-commerce is experiencing a strong upswing. Boosted by the Covid 19 pandemic, one third of retail sales are already being made online.

Economic growth of 8.1 %, as in 2021, is not expected for 2022. Experts are forecasting growth of only 5.2 % at best for 2022. The reason for this is the strict "zero-covid strategy", which again led to hard lockdowns in metropolises such as Shanghai in the spring, regardless of economic losses. As a re-

sult, there were staff shortages as well as interruptions in supply chains and investment disruptions in various companies. This leads to uncertainty among domestic and foreign entrepreneurs and severely weakens the economy. China's inflation is expected to reach 3.2 %. Due to China's global economic importance, it can be assumed that these developments will have a considerable impact on the world economy.

China – the world's second-largest economy

The massive income gap as well as the strong ageing of the population are considered the greatest social challenges of the People's Republic. Despite the abolition of the one-child policy in 2016, the fertility rate is only 1.3

children. The three-child policy was presented as a solution in 2021.

In addition, the costs for births and childcare will be reduced, while at the same time a gradual increase in the retirement age is being discussed. With the help of the "Common Prosperity" strategy announced by President Xi Jinping, the gap between rich and poor is to be narrowed in the future. By 2035, starting from 2020, disposable income is to double, thus establishing China's population as a "high-income society". In order to realise this goal, state-owned enterprises will be strengthened by intervening in the market development of certain industries. In addition, higher social benefits, wage increases and simultaneous tax cuts contribute to achieving this goal.

Aspirations of a technological autarky

Using innovation to reach the top of the global value chain

One of China's central aspirations is to transform itself into a modern socialist state with economic development characterised and driven by high quality and innovation. The Chinese state budget increased its investment in research by 7.2 % in 2021. The goal is to achieve scientific breakthroughs in key technologies such as artificial intelligence, semiconductor technology, quantum computing, genetic engineering, bio-

technology and space exploration. Thus, China is expected to rise in the global value chain in these fields, take a pioneering role and achieve a high degree of technological autarky in the long term. These developments offer new business opportunities in digitalisation, including in the areas of biotech, e-health, smart manufacturing, and pharmaceutical and medical technology.

Summary:

- Second largest economy in the world
- GDP growth in 2021: 8.1 %.
- "Common Prosperity" strategy to reduce the income gap
- Ageing as one of the biggest social challenges
- Technological autarky as a goal

Key economic figures	2019	2020	2021	2022*
Nominal GDP in billion USD	14,341	14,867	17,734	18,956
Gross domestic product / capita at purchasing power parity in USD	16,816	17,362	19,365	21,070
Population in millions	1,400	1,412	1,413	1,424
Real economic growth in %	6.1	2.2	8.1	5.2
Inflation rate in %	4.5	0.1	1.4	3.2
Unemployment rate in %	3.6	5.6	5.1	5.1
Exchange rate CNY to EUR; 1 Euro = in CNY	7.85	8.02	7.21	7.38
Goods exports of the country in billion USD	2,386	2,497	3,234	3,404
Goods imports of the country in billion USD	1,993	1,982	2,658	2,823

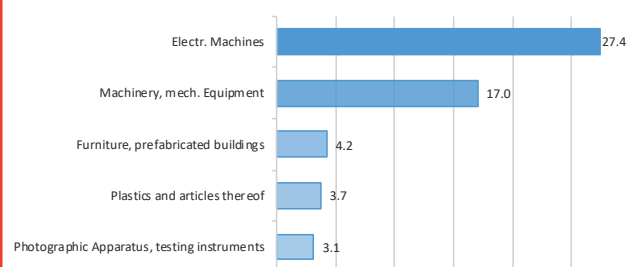
Source: WKO, Wirtschaftsbericht, March 2022

*Forecast

Exports/Imports

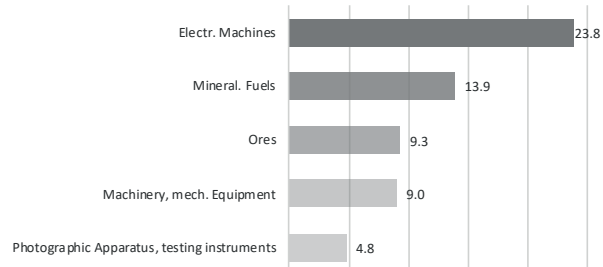
Both the EU and China are each other's most important trading partners. China's foreign trade is decisive for the entire economic performance of the People's Republic. Exports show an increase of 29 % in 2021 despite rising transport costs, high raw material prices and energy problems. China's imports are subject to an even stronger growth trend with +34.0 % worldwide and +22.6 % from the EU.

Top 5 export goods



Source: WKO, Länderprofil April 2022; 2020 in %.

Top 5 import goods



Economic relations with Austria and the Oberbank regions

China is Austria's third most important trading partner after Germany and Italy. This 50-year trade connection and establishment of diplomatic relations with China recorded historic Record

values in 2021. In terms of German relations with China, the People's Republic plays an even more significant role, ranking first in terms of German imports and second in terms of exports.

In the other Oberbank regions, too, the foreign trade figures demonstrate the importance of China as a trading partner.

> Austria's imports from China

Austria's imports from China set records in 2021 with an increase of 28.6 %. Particularly strong increases can be seen in imports of pharmaceutical products (+814.8 % to € 1.12 billion). In addition, future technologies such as electric accumulators (+46 % to 147.7 million euros) or cars with electric motors (+220 % to 43.2 million euros) are generating significant increases, even if they are currently still at a low value level.

Austria Imports from China 2021: +28.6 %

> **Austria's exports to China**

With regard to Austria's export performance, an increase of 23.1 % was recorded in 2021, which not only represents a catch-up growth of the slumps in 2020. The export volume of 4.82 billion euros also exceeds the export figures of 2019 by 8.1 %. Austria's most important export goods include various machines, road vehicles and medical and pharmaceutical products.

Austria's exports to China 2021: +23.1 %

China's foreign trade



2020, change YOY, in EUR bn Imports, exports and balance from China's perspective; own presentation Sources: WKO, Wirtschaftsbericht, March 2022; GTAI, Wirtschaftsdaten kompakt, May 2022; * Forecast

Exports 13.1 28.60 %
Imports 4.8 23.10 %
Balance 8.3

Exports *141.8 20.80 %
Imports *103.6 8.10 %
Balance *38.2

Assessment of the business environment

Climate Change Performance Index 2022	Rank 38 of 64 countries
Corruption Perceptions Index 2021	Rank 66 of 180 countries
Global Competitiveness Index 2019	Rank 28 of 141 countries
Global Innovation Index 2021	Rank 12 of 173 countries
Rule of Law Index (World Justice Project) 2021	Rank 98 of 139 countries
Most important goods export market AT/DE 2020	Rank 9/Rank 2

Current rankings of the Oberbank regions in the Global Innovation Index 2021:

Germany	10
Austria	18
Czech Republic	24
Hungary	34
Slovakia	37

China's sustainability efforts

As the world's largest emitter, China's use of resources has a huge impact on the ecology and on addressing climate challenges. Regarding China's sustainability efforts, the country has to accept mixed ratings in the Climate Change Performance Index 2022 (CCPI).

While strong criticism is voiced in the area of greenhouse gas emissions and energy consumption, the climate policy, which is characterised by clear guidelines and timetables, is highlighted as extremely positive. The aim of this climate policy is to achieve CO2 neutrality

and a reduction of fossil fuels to 20% of energy consumption by 2060. Nevertheless, China is currently ranked 38 out of 64 in the CCPI.

Rating China

> Investmentgrade

Agency	Rating	Outlook	Date
Fitch	A+	stable	02.06.2022
Moody's	A1	stable	14.09.2020
S&P	A+	stable	21.09.2017

Quelle: FitchConnect

China is considered a stable country for investment with its single-A ratings across agencies. Fitch justifies the "A+" rating in June 2022 with robust external finances, a track record of macroeconomic performance and high economic stability.

On the other hand, the country struggles with low per capita income, a highly indebted non-government sector, ongoing geopolitical tensions and high levels of corruption. Due to China's domestic market size, a stable outlook is currently assumed.

Single A ratings with stable outlook for the country

However, should geopolitical tensions such as those with Taiwan be subject to a steady increase, China's long-term developments could be slowed down.

China's financial sector

After more than a year of sustained currency strength, the Chinese yuan has been depreciating against the US dollar since April 2022. According to Fitch, this currency weakness is influenced by the slowdown in Chinese economic growth, among other factors. In addition, China's total debt-to-GDP

ratio of around 300% is one of the country's biggest challenges. To a large extent, the debt is limited to state-owned banks in domestic business. However, in the case of non-performing loans and the resulting snowball effect, the private sector could also become a systemic risk.

In order to strengthen confidence in the Chinese economy, the Chinese government is initiating a relaxation of investment restrictions for foreign companies. Beijing plans to liberalise the financial services sector. In particular, fund and securities trading are to be focused on.

China's largest banks

Place	Bank	Total Assets
1	Industrial & Commercial Bank of China Limited	5,104,643
2	China Construction Bank Corporation	4,306,638
3	Agricultural Bank of China Limited	4,164,697
4	Bank of China Limited	3,735,692
5	China Development Bank	2,618,308
6	Postal Savings Bank of China Co Ltd	1,738,019
7	Bank of Communications Co Ltd	1,637,649
8	China Merchants Bank Co Ltd	1,280,016
9	Shanghai Pudong Development Bank Co Ltd	1,217,063
10	Industrial Bank Co Ltd	1,208,456

Total assets as of 31.12.2020 in USD million
Source: Bankers Almanac, download on 29.06.2022

Oberbank-Expertise

Banks shaded in grey:

Oberbank has an active relationship with these relationship banks (SWIFT/RMA) and is thus able to provide documentary transactions for customers. Payment transactions are also possible with all banks in China via our clearing bank partners.

Sources:

Bankers Almanac: "Country Ranking China", www.bankersalmanac.com (Die größten Banken Chinas), download on 29.06.2022 CCPI: "Climate Change Performance Index China", <https://ccpi.org/country/chn/>, download on 30.06.2022

FitchConnect: "Taiwan, China", https://app.fitchconnect.com/entity/GRP_80442243, download on 30.06.2022

FitchRatings: "Fitch Affirms China at 'A+'; Outlook Stable", 02.06.2022, <file:///N:/Privat/Download/Fitch%20Fitch%20Affirms%20China%20at%20'A+'%3B%20Outlook%20Stable%20-%2002%20Jun%202022.pdf>, download on 30.06.2022

GTAI Germany Trade & Invest: "Chinas Wirtschaft steckt in einer tiefen Krise", 30.05.2022, <https://www.gtai.de/de/trade/china/wirtschaftsumfeld/chinas-wirtschaft-steckt-in-einer-tiefen-krise-251412>, download on 27.07.2022

GTAI Germany Trade & Invest: "Wirtschaftsdaten kompakt China", Mai 2022, https://www.gtai.de/resource/blob/21314/dc4c38e0777f271be859e7568e58718e/GTAI-Wirtschaftsdaten_Mai_2022_China.pdf, download on 29.06.2022

Schwab Klaus, World Economic Forum: "The Global Competitiveness Report 2019", http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf, download on 30.06.2022

Trade Map, <https://www.trademap.org/Index.aspx>, download on 30.06.2022

Transparency International: "Corruption Perceptions Index 2021", <https://www.transparency.org/en/cpi>, download on 30.06.2022 WKO, Abteilung für Statistik: "Länderprofil China", Mai 2022, [lp-china.pdf](https://www.wko.at/lp-china.pdf) (wko.at), download on 26.04.2022

WKO, AußenwirtschaftsCenter Peking: "Wirtschaftsbericht China", March 2022, <https://www.wko.at/service/aussenwirtschaft/china-wirtschaftsbericht.pdf>, download on 29.06.2022

World Intellectual Property Organisation (WIPO): "Global Innovation Index 2021", https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021/cn.pdf, download on 04.07.2022

World Justice Project: "Rule of Law Index 2021", <https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2021>, download on 30.06.2022

Disclaimer: This document is for current information purposes only and is based on the knowledge of the persons entrusted with its preparation at the time of preparation. Any statements contained in this document should not be construed as a general recommendation. Although we consider the sources we have used to be reliable, we do not accept any liability for the completeness and accuracy of the information contained herein. In particular, we expressly reserve the right to make errors with regard to figures.

Status: 18.08.2022

Subscribe to our newsletter now at oberbank.at/newsletter



Oberbank AG

Untere Donaulände 28, 4020 Linz – Österreich

GFI-Status: August 2022

Oberbank AG, legal form: public limited company, registered office: Linz, company register no. FN 79063 w, Linz Regional Court, DVR: 0019020.

Oberbank AG, German branch, registered office: Munich, registration number: HRB 122267, Munich Local Court, branch managers and permanent representatives: Robert Dempf, Bernd Grum, Stefan Ziegler, Manuel Leitner.

Oberbank AG, head office: Linz, Austria, legal form: public limited company, company register number: FN 79063 w, Linz Regional Court, Management Board: Chairman CEO Dr. Franz Gasselsberger, MBA, Management Board Director Mag. Dr. Josef Weißl, MBA, Management Board Director Mag. Florian Hagenauer, MBA, Management Board Director Martin Seiter, MBA, Supervisory Board Chairman: Dr. Andreas König.