

## Policymakers in China look to the future after a crisis averted

It's been an eventful month in China. The economy has firmed up further, the government has pledged to expand the central government deficit, and President Xi Jinping has promised to open China to foreign investors ahead of major policy meetings



China's president, Xi Jinping

### Economy firms further, but questions remain

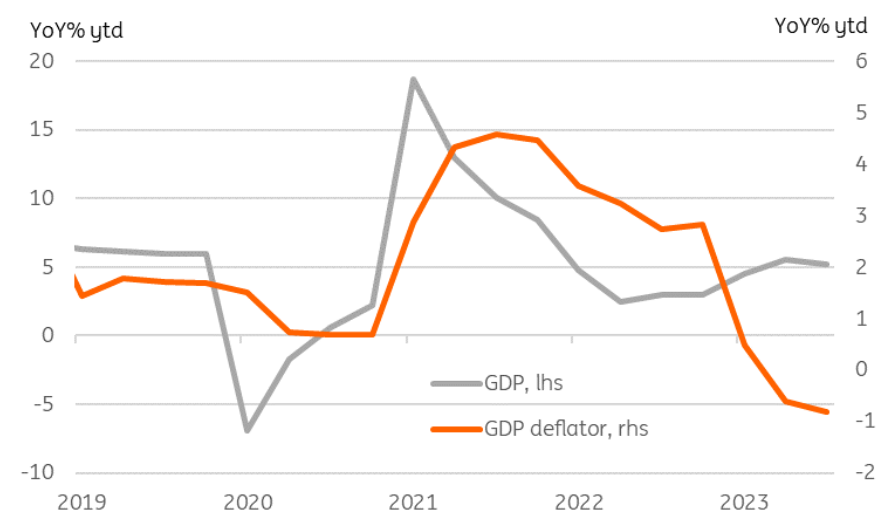
The last month has seen China reach some important milestones. August data had already begun to show that the economy was not in a downward spiral and was bottoming out. That was reinforced with third-quarter GDP data, which beat expectations with a 4.9% year-on-year growth rate. Together with some helpful historical revisions, this means that the hurdle for achieving 5% full-year growth is now very low.

Fourth-quarter GDP now only has to achieve a 4.2% YoY growth rate for full-year GDP to hit 5.0% (rounding up to one decimal place). Given all the distortions taking place last year, it may be more helpful to consider what needs to happen on an incremental basis to seasonally adjusted GDP. Measured like this, any positive growth at all in quarterly real GDP will ensure the 5% target is hit.

There are still some questions about the economy. Things don't seem to be getting worse, but after a decent bounce in August, the September retail sales increase was fairly marginal. Real GDP is also getting a substantial boost from a negative GDP deflator which in the third quarter recorded a year-to-date (YTD) rate of -0.82%, in contrast with consumer price inflation which is still hovering around zero. That looks a bit odd, but helps to lift real GDP figures while it persists.

Furthermore, the most recent purchasing manager indices (PMIs) showed that after September, the momentum of the economy slowed in October. While it will probably still be positive, incremental economic growth in the fourth quarter is likely to come in below that of the third quarter.

## Real GDP and GDP deflator



Source: CEIC, ING

## Growth forecasts for 2023 revised up to 5.3%

Monthly activity data for September tended to reinforce the message that the economy is bottoming, although there remain pockets of concern. Most notably, these include anything related to the property sector, which is still struggling – and by extension, infrastructure investment, where growth rates are still positive but slowing.

The net result of all this is that we have had to revise our full-year GDP forecast back up. We're placing it at 5.4%, comfortably above the 5% target rate. The same arithmetic that is proving helpful to the 2023 numbers isn't quite having the same effect for 2024, which we are struggling to push up above 5% even with some more optimistic underlying growth rates.

## Upcoming policy flashpoints

There are a number of important upcoming meetings in China in the near future. Perhaps the most important of these is the 3rd plenum of the 20th Central Committee (although there are also meetings of the Politburo and National Financial Work Conference).

The 3rd plenum will set the economic tone for the next five-year plan. In the past, these meetings have provided a forum for big economic reforms. Areas where we may expect to see strong policy commitment for development or restructuring could include:

- **Technology and innovation** (highlighted in February's Two Sessions meetings, with semi-conductor self-reliance a priority).
- **Foreign investment:** A possible taster for a more open Chinese economy came at the recent Belt and Road Forum, where President Xi Jinping suggested that all barriers to foreign investment in the manufacturing sector would be removed and talked up the goal to forge more free trade agreements.
- **Housing registration:** There have been many piecemeal changes at the city level to China's complicated housing registration (Hukou) system in the last year. However, a more coordinated approach to help reinvigorate the housing market may be a priority given the current problems with that sector and the associated problems with local government debt.

We may also hear more about plans to expand the central government's deficit, which has been strictly held at 3%. An outline of a plan to issue an additional CNY 1 trillion of sovereign debt has been put forward, and we could learn how that is to be funnelled; perhaps to restructure existing local government debt and financing vehicles, or to provide more support to construction during this adjustment phase.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

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