

Soft start to China's new year raises hopes for policy support

Sentiment about China's economy remains downbeat heading into the Lunar New Year. And that's raising expectations for more policy support despite the country reaching its 2023 growth targets



Welcoming in the Year of the Dragon in Suqian, Jiangsu province, China

Mission accomplished for 2023, but there are no guarantees for this year

Data over the past month confirmed that the Chinese economy grew by 5.2% YoY, exceeding the 5% growth target set at last year's Two Sessions. Despite this, property sector struggles continue to weigh on sentiment. Market focus remains on negative headlines such as [Evergrande's liquidation](#) court order. However, there are still some positive signs, with several cities releasing the long-awaited real estate project "whitelists", which highlight high-quality projects for which banks can provide financing support.

Early indications are that while the economy has stabilised in recent months, momentum remains soft right now. Our first look at China's 2024 activity data was the January manufacturing PMI, which came in at 49.2, slightly below expectations. At least it was trending in the right direction with a smaller contraction than December. The Chinese manufacturing sector remains under pressure amid a weak domestic recovery and poor external demand. The manufacturing PMI has

been under 50 for nine of the past ten months.

With a less favourable base effect, repeating 5% growth in 2024 will be more challenging.

Policy direction remained supportive to start the year

Growth stabilisation has been the key theme for policymakers in the last few months, and we saw many piecemeal supportive policies released on a provincial and national level. Some of the highlights include discussions of a market stabilisation fund and the continued rollout of property market policies such as city-level project whitelists.

While the People's Bank of China refrained from cutting rates in January, it did announce a 50bp Reserve Requirement Ratio cut to take effect from 5 February. It was the largest since 2021 and provides, in theory, up to RMB1tn of liquidity to markets. The PBOC also broadened access to commercial loans for property developers by allowing bank loans pledged against developers' commercial properties to be used to repay other loans and bonds until the end of the year. It also cut the refinancing and rediscount rates for rural and micro-loans by 0.25ppt to 1.75%.

Two Sessions will set China's official annual growth targets

	2019	2020	2021	2022	2023	2024F
GDP (%YoY)	6-6.5	Not set due to Covid-19	Above 6	c.5.5	c.5	c.5
Inflation (%YoY)	c.3	c.3.5	c.3	c.3	c.3	c.3
New urban employment	Above 11m	c.9m	c.11m	c.11m	c.12m	c.12m
Urban unemployment rate (%)	c.5.5 (survey), under 4.5 (registered)	c.6 (survey), 5.5 (registered)	c.5.5	c.5.5	c.5.5	c.5.5
Fiscal deficit (% of GDP)	2.8	Above 3.6	c.3.2	c.2.8	3.0	c.3.5
Special government bond issuance (RMBtn)	2.15	3.75	3.65	3.65	3.8	4.0

Source: Chinese government website, ING

Markets await the Two Sessions to set the tone for 2024

Soon after the Lunar New Year, the Chinese government will hold its annual Two Sessions, which refer to the plenary sessions of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC). They're typically the most important policy meetings of the year and will start on March 4-5.

There is a higher-than-usual level of uncertainty this year, as the Third Plenary Session was postponed; it's traditionally a fourth-quarter meeting where the economy is the main focus and various reforms and new measures are announced. So, the upcoming meetings will be highly scrutinised for any new policy signals.

In terms of economic targets, we feel it is unlikely we will see major movements in targets. Premier Li Qiang's comments at Davos and the provincial level 2024 GDP targets indicate that the country-level GDP target will likely be "around 5%" again in 2024. The fiscal deficit to GDP target is worth watching as a potential signal for stronger fiscal policy support this year. We expect this target to be lifted from 3% to 3.5% of GDP in 2024, though an unchanged target does not preclude the government from more stimulus as it may use special bonds to finance necessary projects.

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