

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.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.