BBVA Research

China Economic Outlook

June 2024

Creating Opportunities

Main messages

Recent developments

A very soft landing so far. Growth has surprised upwards and inflation has halted its downward trend, mostly due to the service sector dynamism. With fiscal policy to some extent offsetting the contractionary impact of monetary tightening, the room for central banks cutting interest rates has declined. Still, financial volatility remains low.

Growth outlook

Growth will weaken in the next few quarters and recover somewhat in 2025. In the US, 2024 growth was revised up, but a soft-landing, with weaker demand and labor markets, is still expected. In the Eurozone, a cyclical recovery is expected to gain momentum ahead. In China, despite positive incoming data and increasing stimuli, structural challenges will eventually drive growth down.

Inflation and rates outlook

The ECB has started cutting interest rates, but the Fed will wait more than anticipated to launch its easing cycle. Domestic demand will eventually weaken, paving the way for further disinflation and rate cuts. However, inflation concerns will not fully subside and, therefore, interest rates are likely to remain at contractionary levels.

Risks

If activity doesn't weaken due to the dynamism of the services sector and/or a manufacturing recovery occurs, inflation converging to 2% would be at risk. In the current geopolitical context, new supply shocks could also prevent inflation from slowing. All this would leave little room for lower interest rates.

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01

Global Economic Outlook 2Q24

Creating Opportunities

A very soft landing: growth and inflation remain resilient, reducing the room for central banks cutting interest rates

Recent scenario drivers

Tight monetary conditions are hitting demand with long lags and through the traditional channels; tightening effects softened by monetary easing prospects

Expansionary fiscal policy has been favoring activity, partially offsetting the impact of monetary tightening

Supply "normalization": moderated input prices and bottlenecks, favored also by oversupply in China; despite geopolitics, trade tariffs, US elections...

Recent macro trends

Resilient growth, mainly in the US and service sector; recovery signs in Europe and China as well as in manufacturing

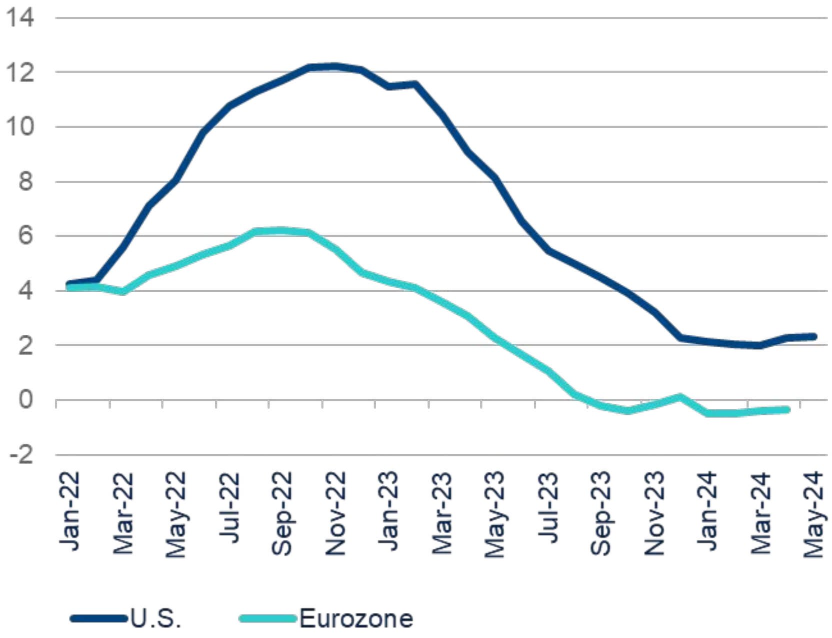
Inflation has surprised upwards; it has stopped falling lately on more persistent services inflation

Limited financial volatility as positive growth view prevails, despite prospects of delayed monetary easing by the Fed

Monetary policy seems to be working through some of the traditional channels; still, its effects may have been weakened lately by monetary easing prospects

BANKING LENDING

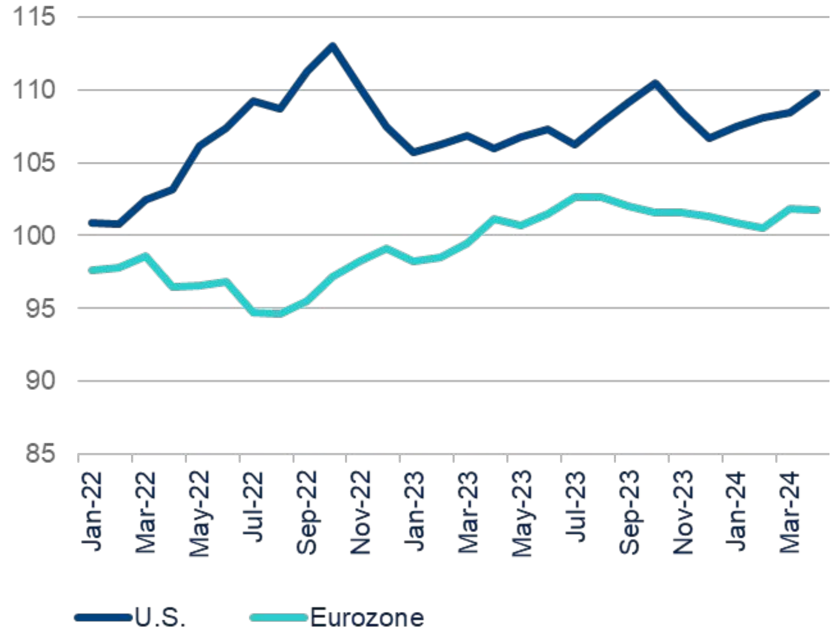
(YOY %)



Source: BBVA Research based on BEA and ECB data.

REAL EFFECTIVE EXCHANGE RATE

(INDEX: 2020 AVERAGE=100)

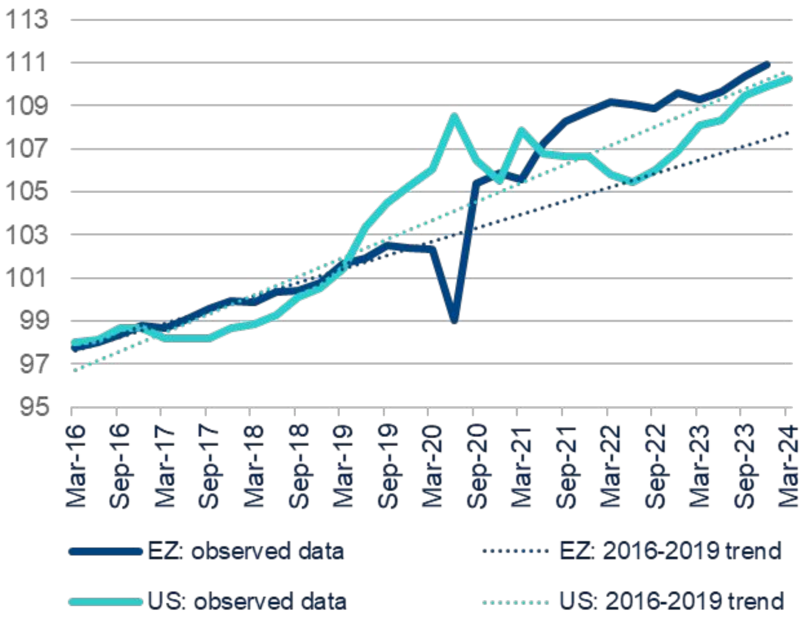


Source: BBVA Research based on BIS data.

Fiscal policy continues, in general, to support activity, to some extent offsetting the contractionary impact of high interest rates

GOVERNMENT CONSUMPTION

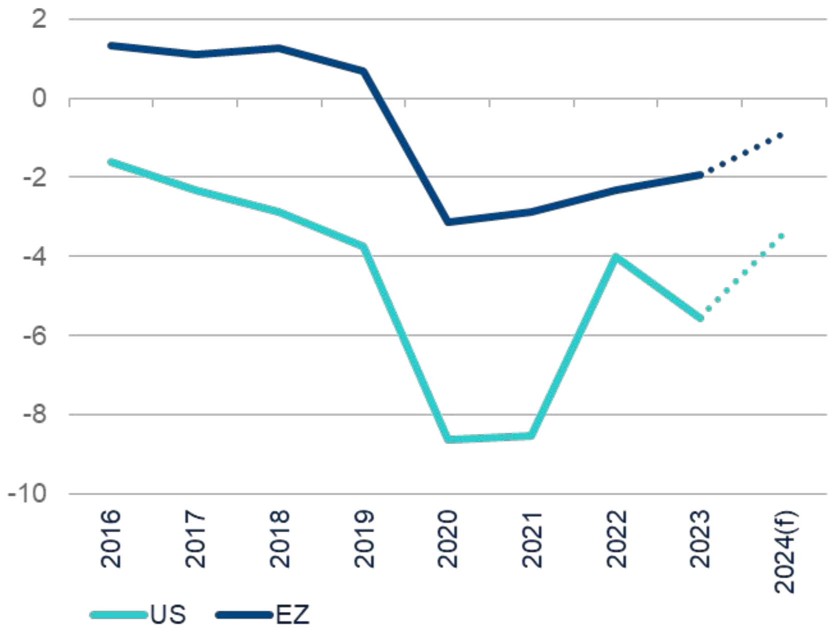
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA and ECB data.

CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE

(SHARE OF POTENTIAL GDP)

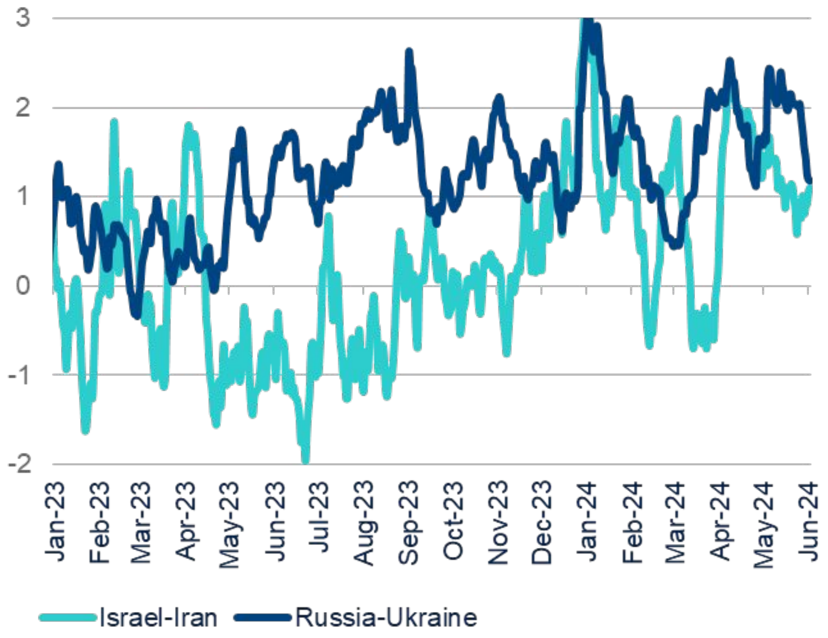


(f): forecast.

Source: BBVA Research based on IMF data.

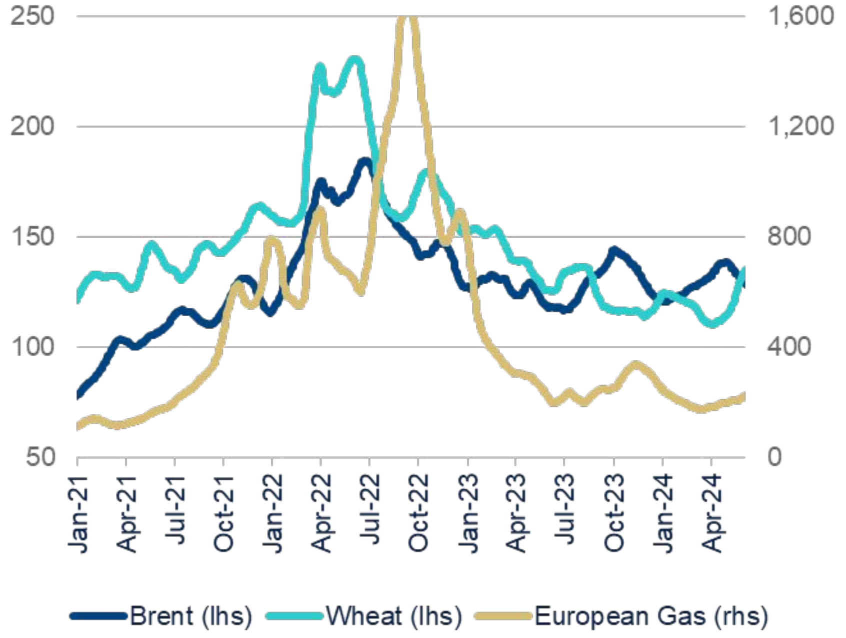
Commodity prices have remained relatively stable recently despite ongoing geopolitical tensions

BILATERAL TENSIONS INDEX
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research Geopolitics Monitor.

COMMODITY PRICES
(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)

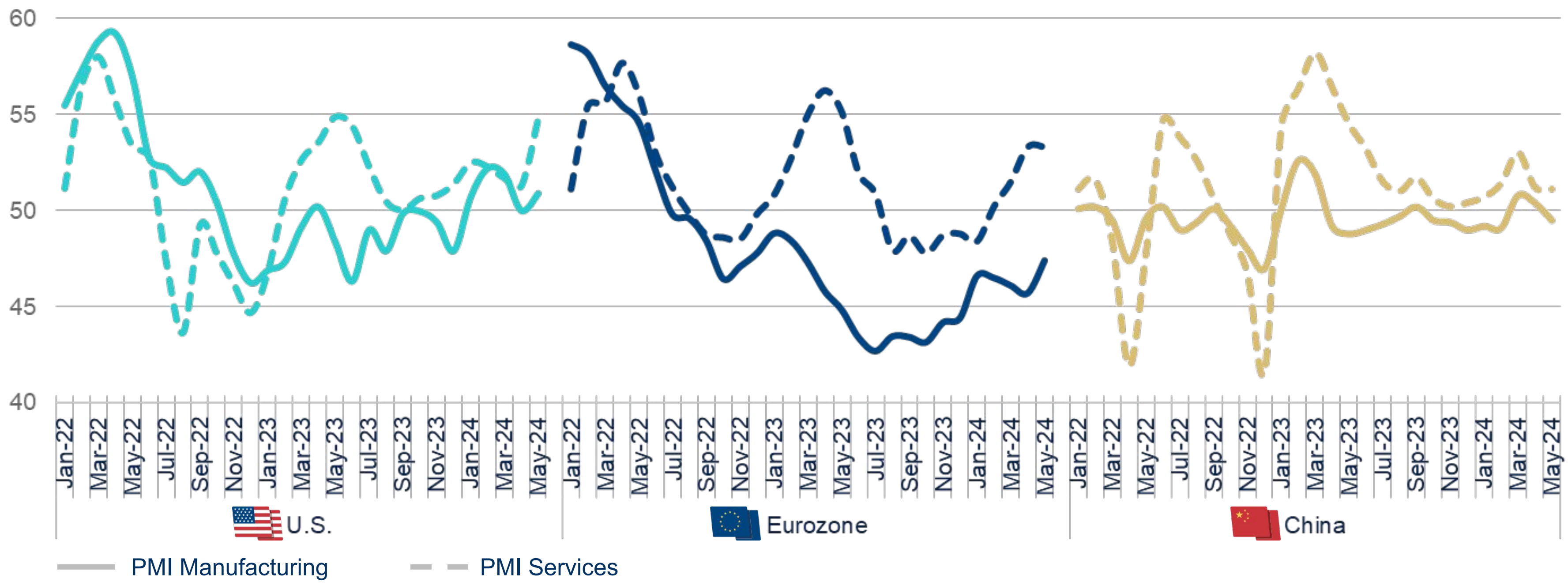


Source: BBVA Research based on data from Haver.

Growth is holding up better than expected, mainly due to service dynamism, and there are now some signs of recovery, in particular in manufacturing

PMI INDICATORS

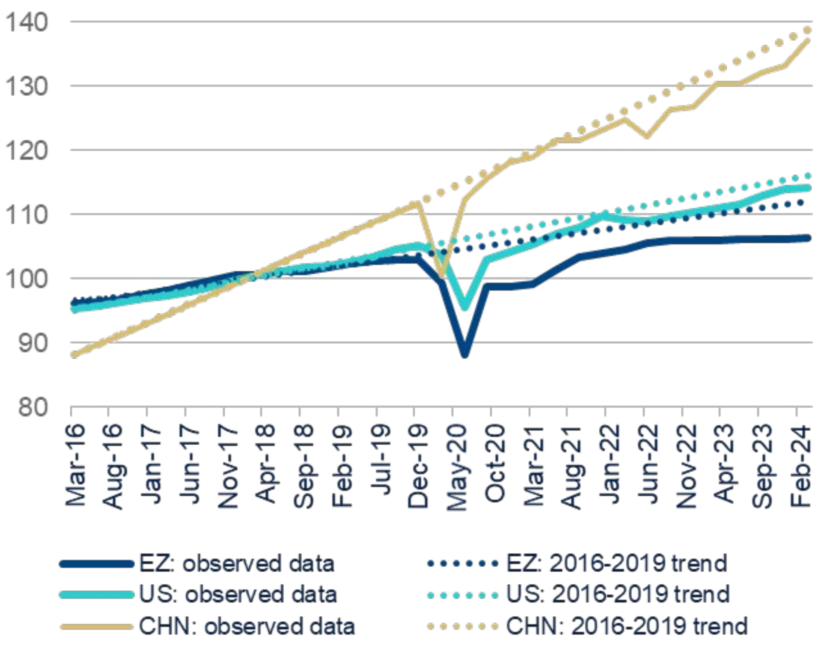
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver.

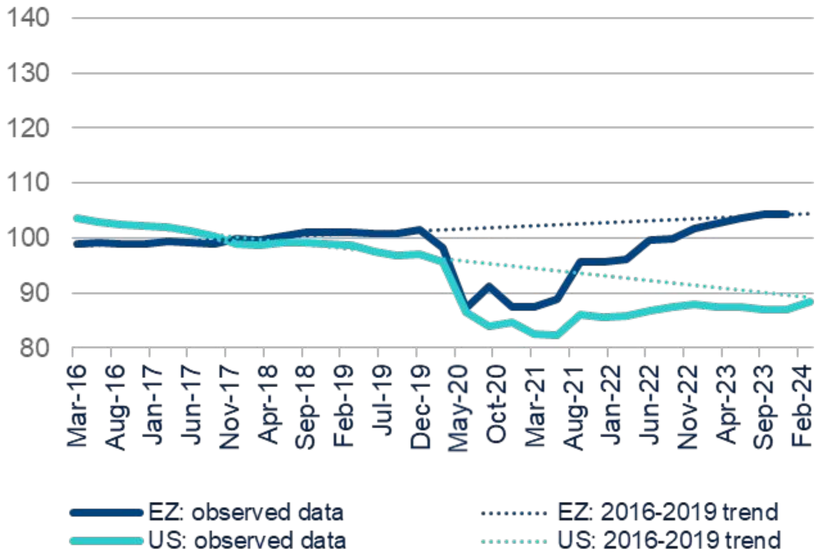
Despite growth resilience and recovery signs, GDP is below (mainly in Europe), and service consumption is close to pre-COVID trends

GDP
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA, ECB and Haver data.

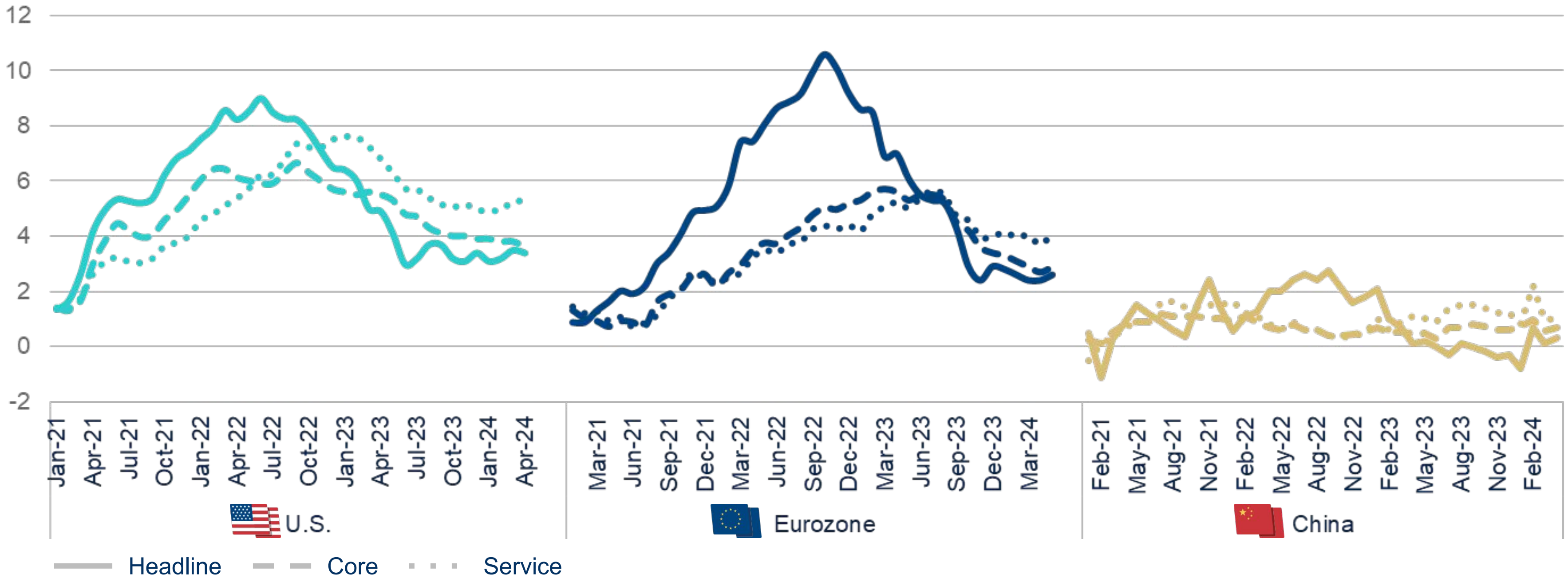
SERVICE / GOODS PRIVATE CONSUMPTION RATIO (*)
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



(*) Eurozone: based on data available for 14 countries (out of the 20 countries) in the region: Germany, Estonia, Ireland, France, Italy, Cyprus, Latvia, Luxembourg, Malta, Netherland, Austria, Slovenia, Slovakia and Finland.
Source: BBVA Research based on BEA and ECB data.

Headline inflation has been moving sideways lately, to a large extent due lo higher than expected service inflation persistence

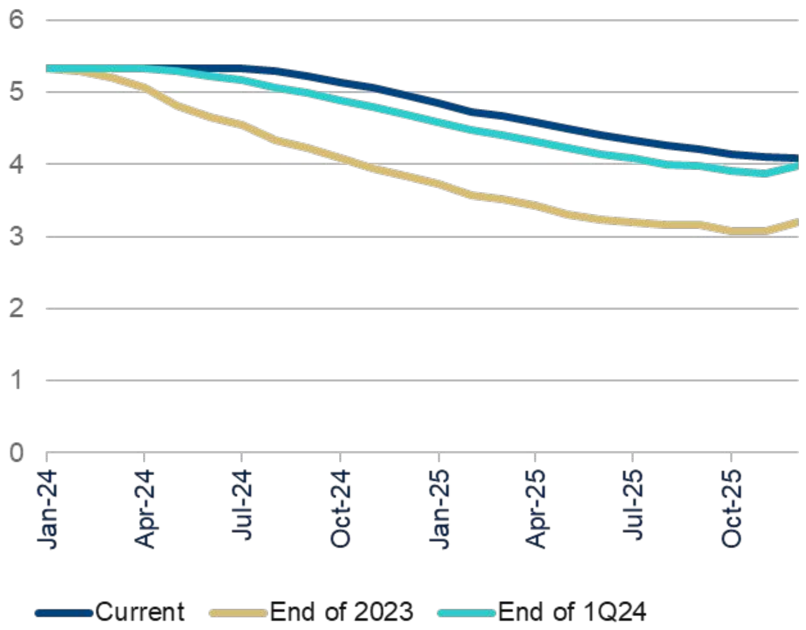
CPI INFLATION: HEADLINE, CORE AND SERVICE
(Y/Y %)



Source: BBVA Research based on data from Haver.

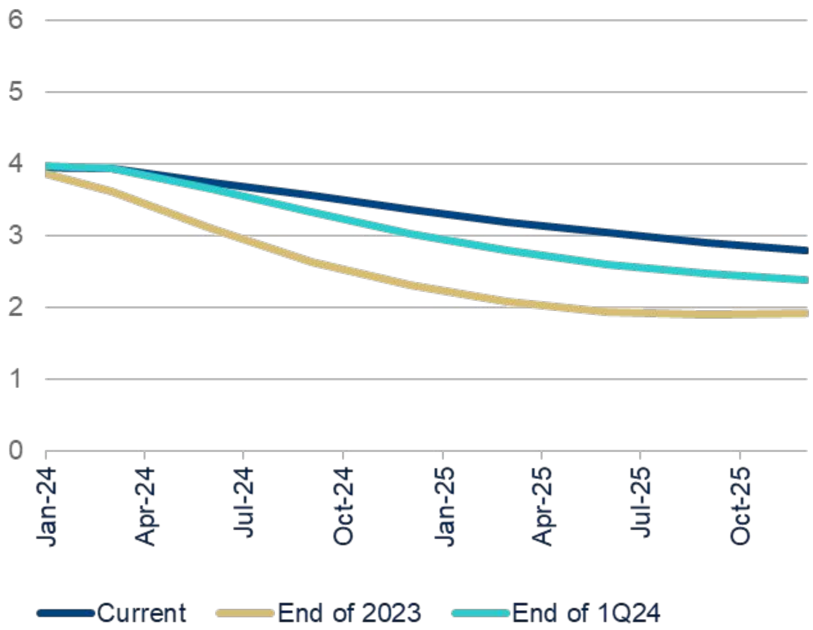
Markets have raised again their interest rate expectations as the Fed's easing cycle is delayed and the ECB remains cautious despite the recent 25 bps cut

US: IMPLICIT RATE IN FED FUND FUTURES (%)



Source: BBVA Research based on Bloomberg.

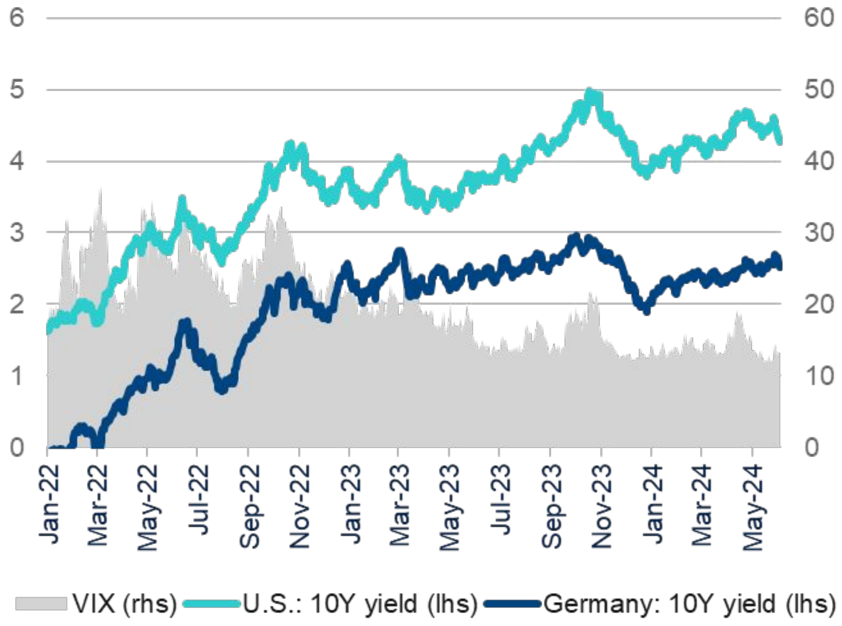
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*) (%)



(*) Depo interest rates.
Source: BBVA Research based on Bloomberg.

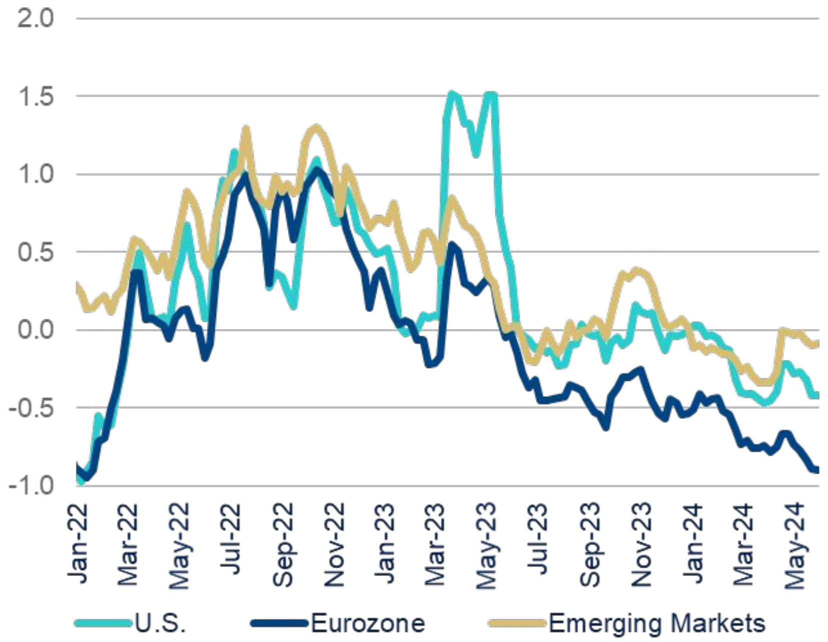
Financial volatility remains low even though sovereign rates have reached high levels and concerns about geopolitics and US elections have heightened

SOVEREIGN YIELDS AND VOLATILITY
(%, INDEX)



Source: BBVA Research based on data from Haver.

BBVA RESEARCH FINANCIAL TENSIONS INDEX
(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on data from Haver.

BBVA Research baseline scenario: inflation and interest rates are likely to decline, but will remain relatively high, favoring subdued activity growth

Scenario drivers

Interest rates to gradually fall, also in the US, where cuts were postponed amid large uncertainty, but will remain at contractionary levels

Fiscal policy will scarcely contribute to ease inflation pressures, mainly in the US; some consolidation is likely in Europe from 2025, given new fiscal rules

Supply conditions: geopolitical context makes negative shocks more likely than in the past, but no particular shock is assumed in baseline scenario

Macro trends: prospects

Global growth to be weak in 2H24 and recover somewhat in 2025; China's structural deceleration will weigh down

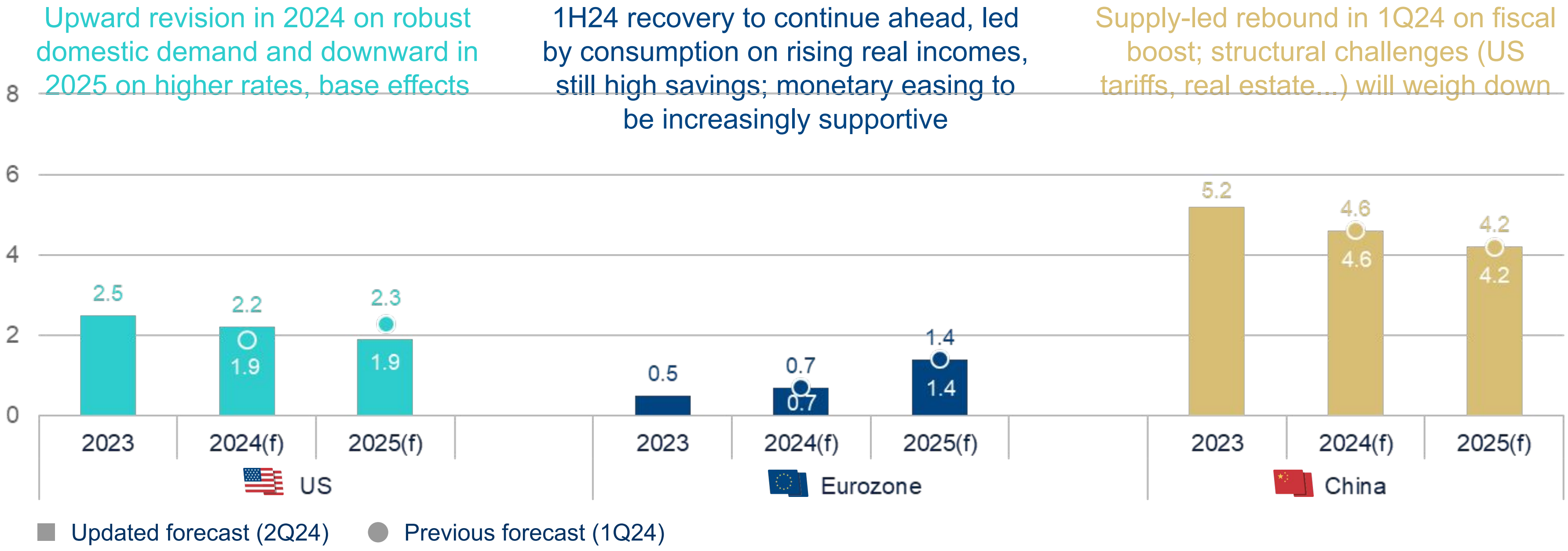
Inflation will ease further, but is set to remain higher than in recent decades on demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.) issues

Volatility on geopolitics and US elections, likely offsetting the positive effects triggered by lower Fed rates

GDP growth prospects: a softer landing in the US, a cyclical recovery in the Eurozone and a structural deceleration in China

GDP GROWTH (*)

(%)



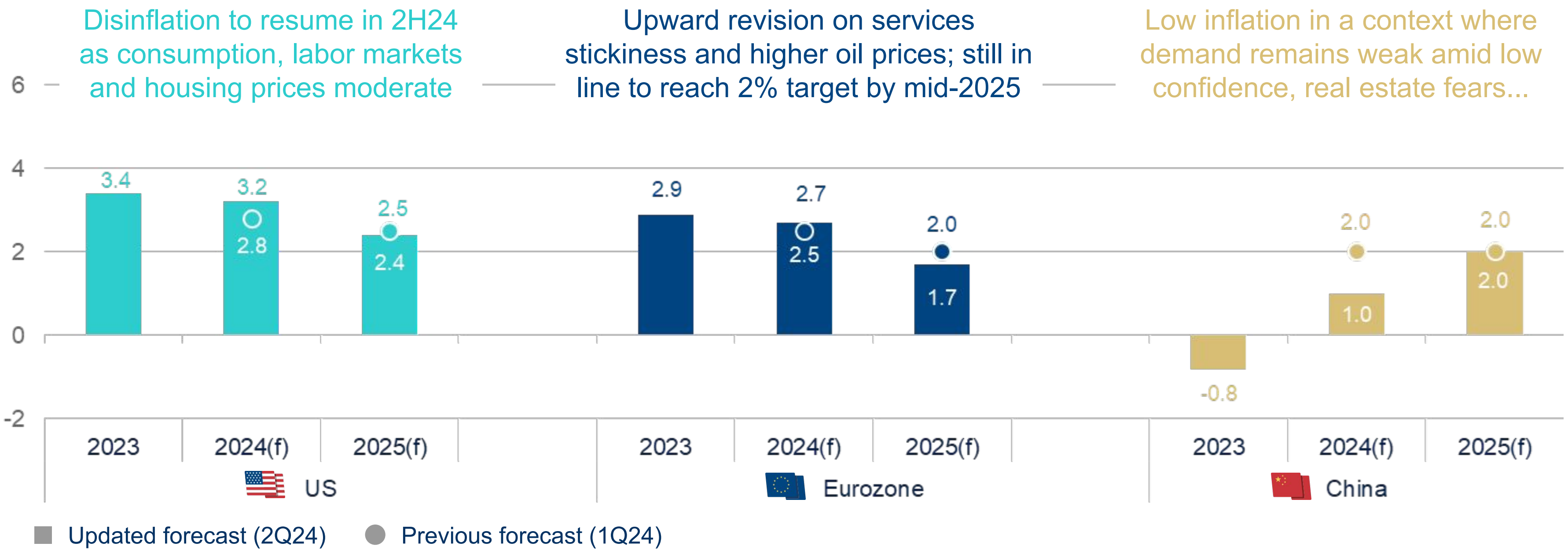
(f): forecast.

(*) Global GDP growth: 3.2% in 2023, 3.1% (+0.0 pp in comparison to previous forecast) in 2024 and 3.3% (+0.0 pp) in 2025.

Source: BBVA Research.

Inflation forecasts revised upwards in the US and Eurozone, mostly on service stickiness, and downwards in China, amid deflation concerns

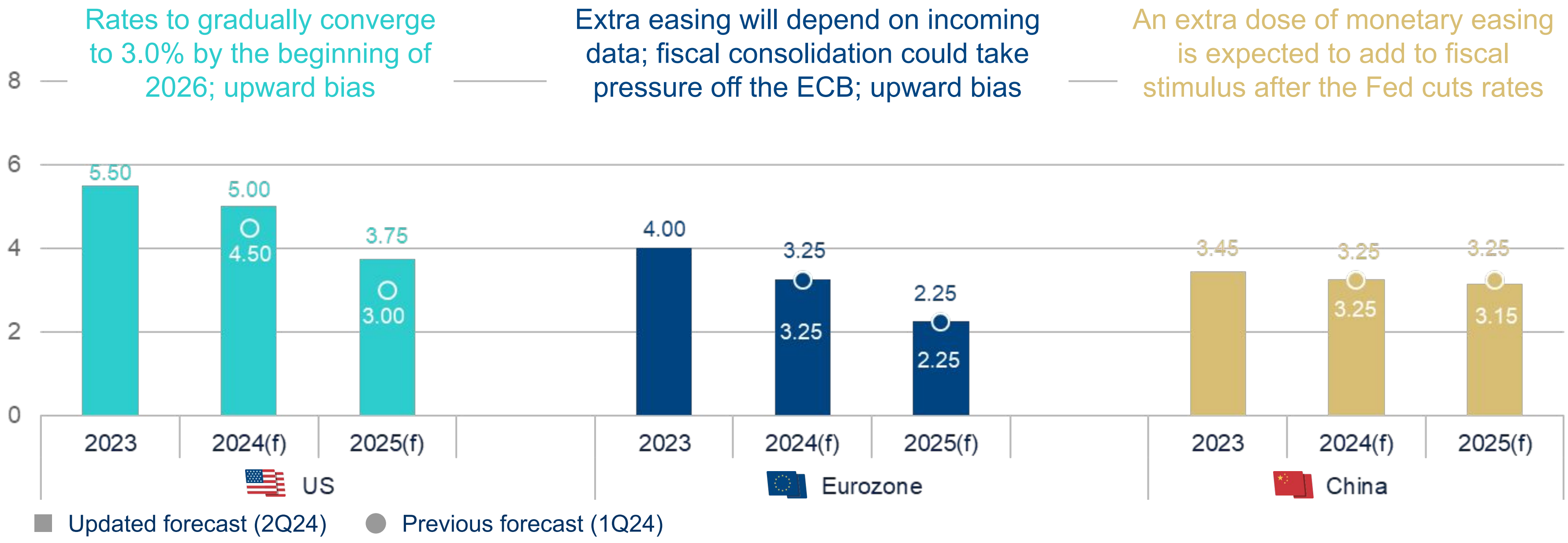
HEADLINE INFLATION: CPI
(YOY %, END OF PERIOD)



(f): forecast.
Source: BBVA Research.

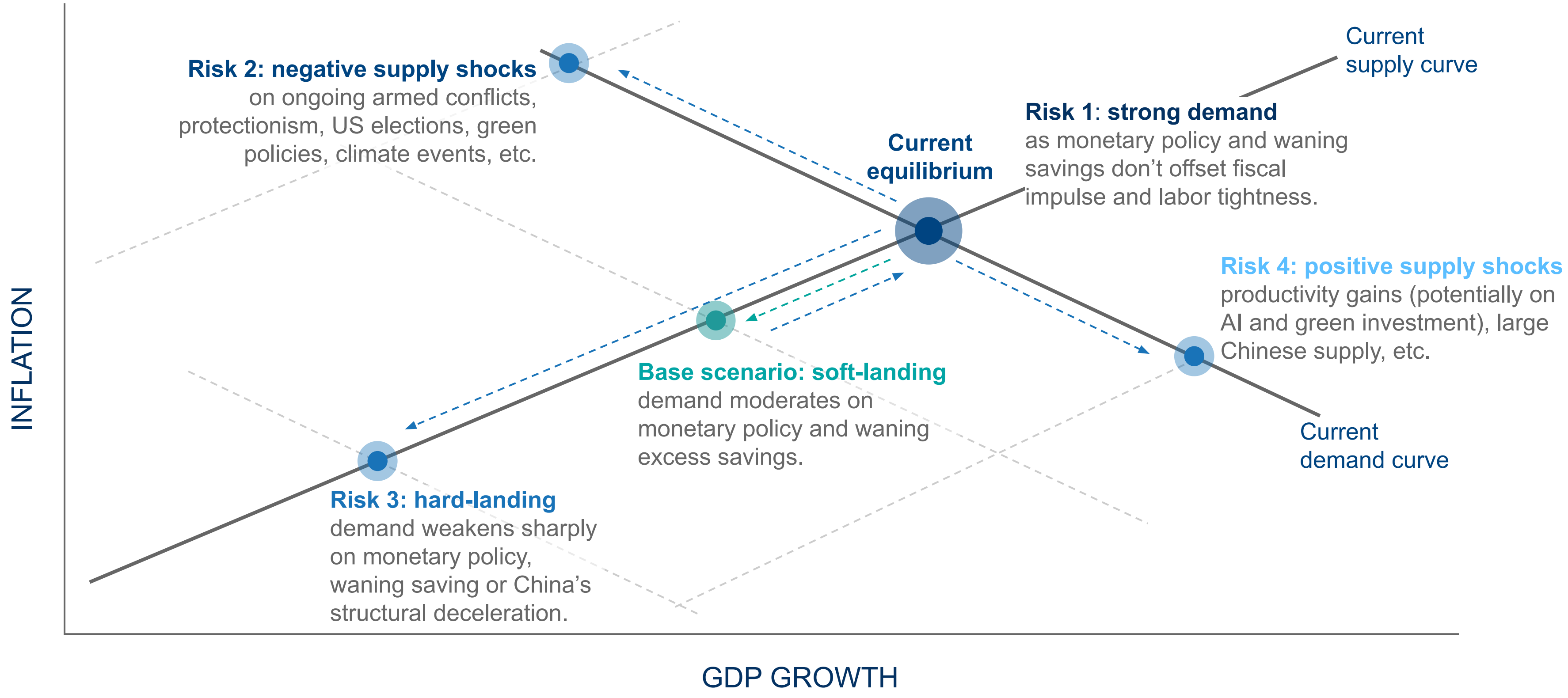
The ECB has started cutting rates; the Fed will wait at least until Sep/24 to launch its easing cycle amid still uncertain growth and inflation moderation

POLICY INTEREST RATES (*)
(%, END OF PERIOD)



(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

Risks: demand strength, protectionism, geopolitics, among other factors, could prevent inflation and interest rates from declining ahead



BBVA Research

02

China: unbalanced economic structure

Creating Opportunities

Summary

Growth

China's 2024 Q1 GDP reached 5.3%, higher than the consensus and 2023 reading 5.2%, making our 4.6% 2024 forecast easy to achieve. However, the economic structure is significantly unbalanced, with the supply side much stronger than demand side. Industrial production beats both previous reading and consensus supported by national strategy to prioritize high-end manufacturing, green economy and national security; but investment and retail sales significantly lag behind.

Look ahead, the ongoing recovery has not got a solid foundation yet as the deep adjustment of real estate and unbalanced economic structure remain the main risks. Deflationary environment and geopolitics risks persist. The weak market sentiments of households and enterprises have not been reversed. We maintain our 2024 GDP forecast at 4.6% (Bloomberg: 4.8%, IMF: 4.6%), in line with the government's 2024 growth target "around 5%" announced in March 2024 "two sessions". We maintain our 2025 forecast at 4.2%.

Risks

Risks focus on real estate, local government debt, deflation, supply chain relocation and geopolitics, but we think the systemic financial risks do not exist at the current stage, given the prudent monetary policy and a series of precautionary financial regulation measures. Housing market remains the top priority of the risk.

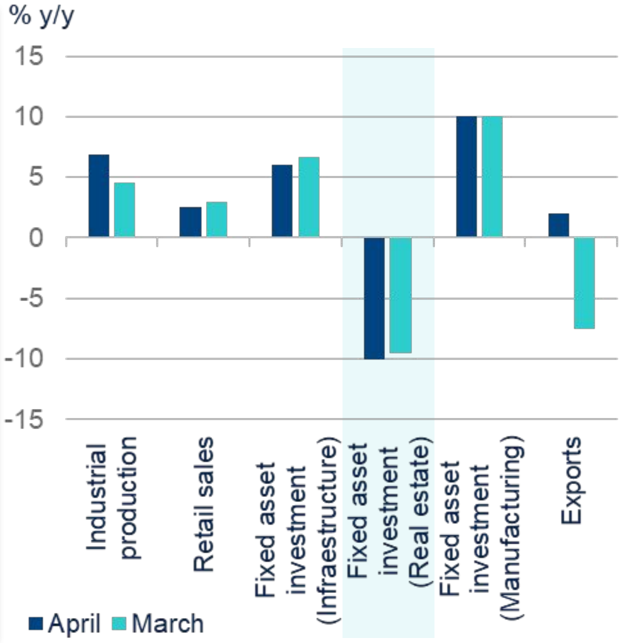
Geopolitics

China-US confrontations have achieved some marginal improvement amid the high-level China-US communications including the bilateral high-level visits, Xi-Biden talk in APAC meeting, etc. But risks mostly due to US president elections will persist in the future. On the other hand, President Xi's recent high-profile European visit to France, Hungary and Serbia shows China's national foreign affairs strategy's focus is transferring from the US to the Europe.

April economic indicators display a significant unbalanced structure with supply side much stronger than demand side

ECONOMY

- INDUSTRIAL PRODUCTION ↑
- RETAIL SALES ↓
- FIXED ASSET INVESTMENT ↓
  - REAL ESTATE ↓
  - MANUFACTURING ↓
  - INFRASTRUCTURE ↓
- EXPORTS ↑



Source: CEIC and BBVA Research.

KEY RISKS

(1) Unbalanced structure and overcapacity.

(2) Deflation.

(3) Weak sentiments for enterprises and households.

(4) Real estate market crash.

(5) High unemployment rate at young age.

POLICY

- Monetary policy: anticipate 2 RRR cuts and 1-2 LPR cuts in 2024;
- Fiscal policy: (i) 2024 fiscal budget is set at 3%, but the actual 2024 deficit is anticipated to be 3.5-3.8%. (ii) Starting from 2024, China will issue super long-term government bond every year (2024: RMB 1 trn). (iii) PBoC could purchase gov bond in the secondary market.

Do Chinese authorities truly not intent to prioritize consumption stimulus but only focus on supply side stimulus?

- There are recently many reports surging from western media blaming Chinese government does not support consumption but only focus on production side stimulus, such as subsidizing high-end manufacturing, green economy, and national security sectors, which leads to overcapacity that eventually creates large trade imbalance and trade disputes with advanced economies.
- Indeed, compared to its super competitive manufacturing sector, China's consumption always appears to be tepid, but we call for a more balanced view on (i) why Chinese economy is still investment-driven but not consumption-driven and (ii) the difference between Chinese-style consumption stimulus and western style direct cash injection.
- Although apparently the supply side is faster than demand, it does never mean the government does not want to support consumption; by sharp contrast, China indeed wants to foster the growth model transformation from investment-and-exports-driven to consumption-driven.
- The generation of President Xi and its cadres might have a natural aversion to the idea of directly distribute cash to households. In their youth, they have seen how the "command economic model" destroyed people's incentives to work, and led to economic disasters. Direct subsidies to households might never be in their policy toolkit.
- Chinese people historically are good at saving but not spending. Even the government directly injects money, people will save it but not spend it like Americans. Only if the government could raise their expectation of lifelong income (wealth effect), it could eventually raise people's marginal consumption propensity.
- The recent geopolitical risks (i.e with US) and supply chain relocation issue have made the authorities place unprecedented emphasis on national security. Thus, consumption might give way to high-end manufacturing and national security sectors.

The current overcapacity issue is mainly due to China's growth model

1978
STARTED REFORM AND OPENING-UP
Demand driven economy: shortage of supply

2001
JOINING WTO
External demand driven

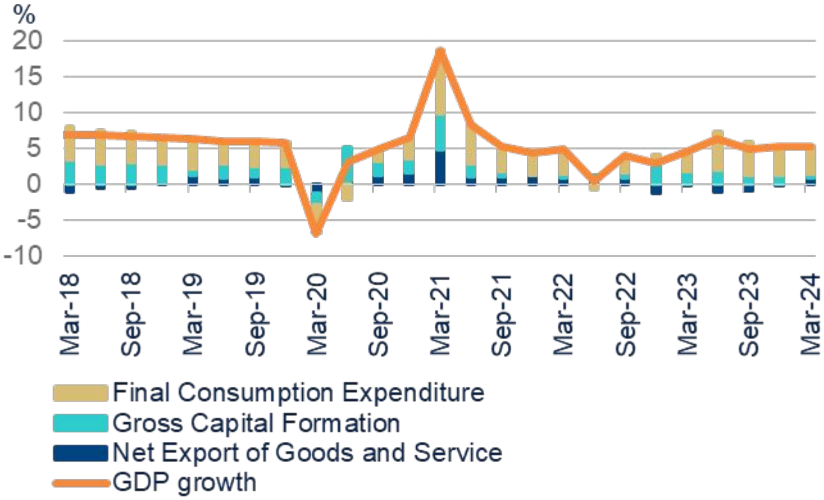
2008-09
GFC
Investment (infrastructure and real estate driven)

2020
COVID-19
Investment (infrastructure and real estate driven)

NOW
Consumption driven?

2024 Q1 GDP reached 5.3% y/y, beating market consensus, but with an unbalanced structure

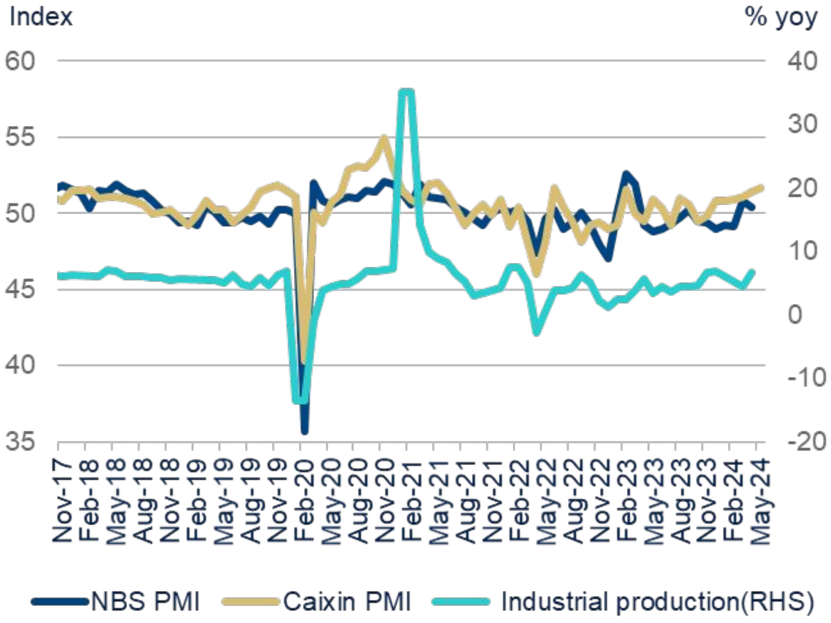
2023 GDP ACHIEVED 5.2%, WHILE 2024 Q1 GDP INCREASED TO 5.3%



Forecast	2024Q1	2024Q2F	2024Q3F	2024Q4F
Y/Y%	5.3	5.7	4.1	3.7
Q/Q% (HAVER SA)	3	0.01	0.5	0.9

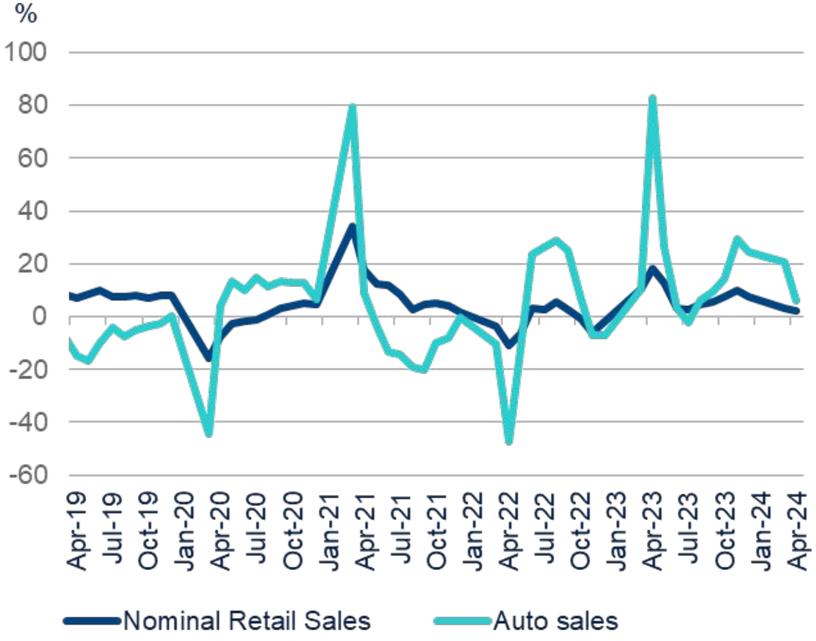
Source: CEIC and BBVA Research.

NBS PMI FELL TO 49 IN DEC FROM 49.4; INDUSTRIAL PRODUCTION INCREASED TO 6.7% IN APRIL FROM 4.5%



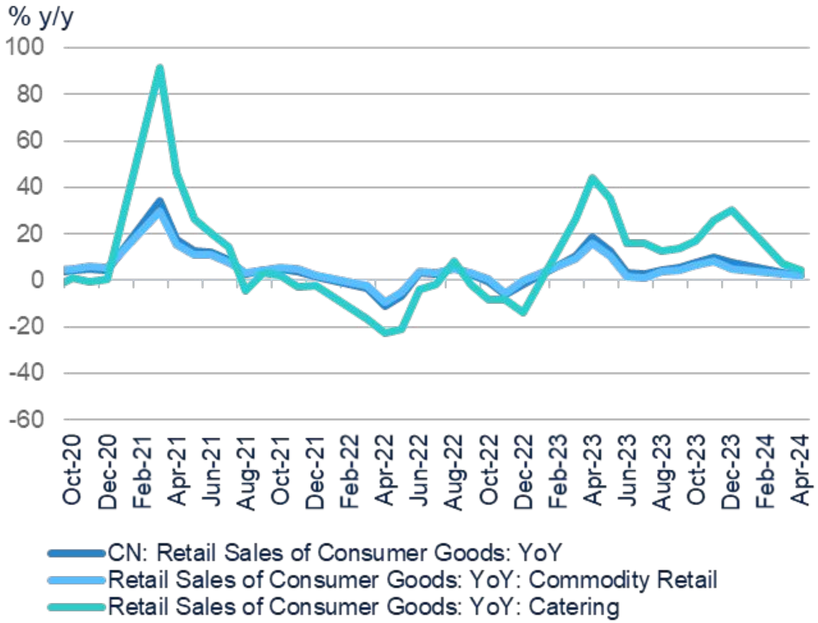
Retail sales decelerated to 2.3% from 3.1% with fading effect of Covid-19 opening

RETAIL SALES DECELERATED TOGETHER WITH AUTO SALES



Source: CEIC and BBVA Research.

THE CONVERGING OF CATERING SECTOR AND OTHER RETAIL SALES INDICATE ECONOMIC NORMALIZATION AFTER COVID-19



Source: CEIC and BBVA Research.
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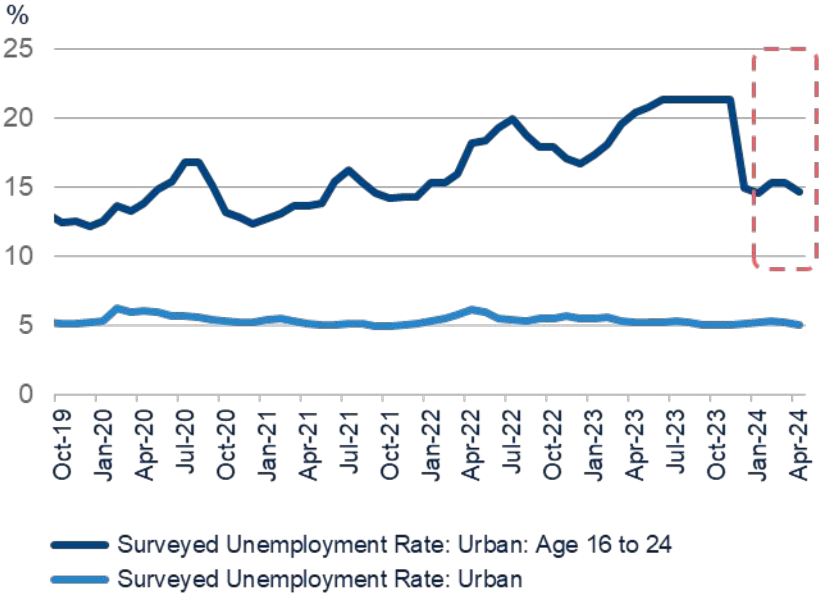
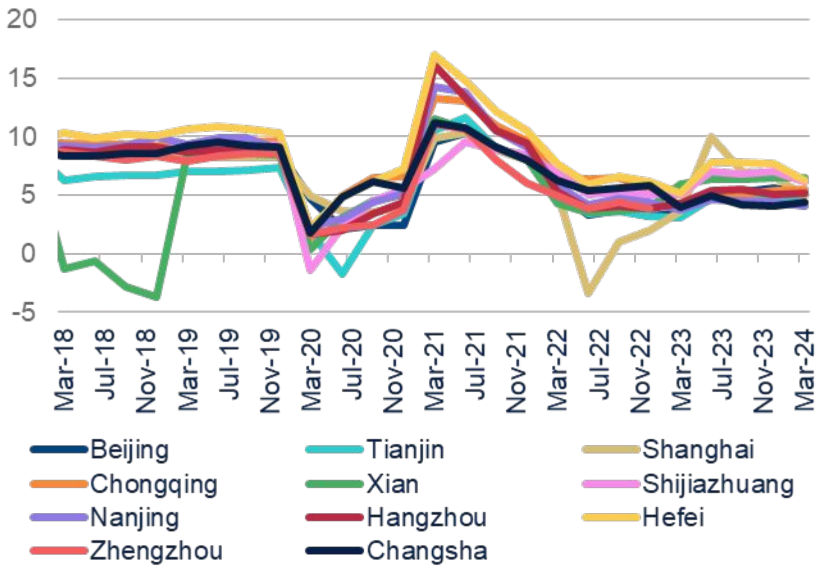
Retail sales is still constrained by: (i) high unemployment rate in young group (ii) “salary cap campaign” in finance and government sectors and…

THE REVISED 16-24 UNEMPLOYMENT RATE IS 15.3% STILL MUCH HIGHER THAN HEADLINE UNEMPLOYMENT 5%



NOTES: The revised statistic method of 16-24 unemployment rate excludes the survey on final year students at school.
Source: CEIC and BBVA Research.

INCOME GROWTH IN BIG CITIES LOWER THAN PRE-PANDEMIC LEVEL

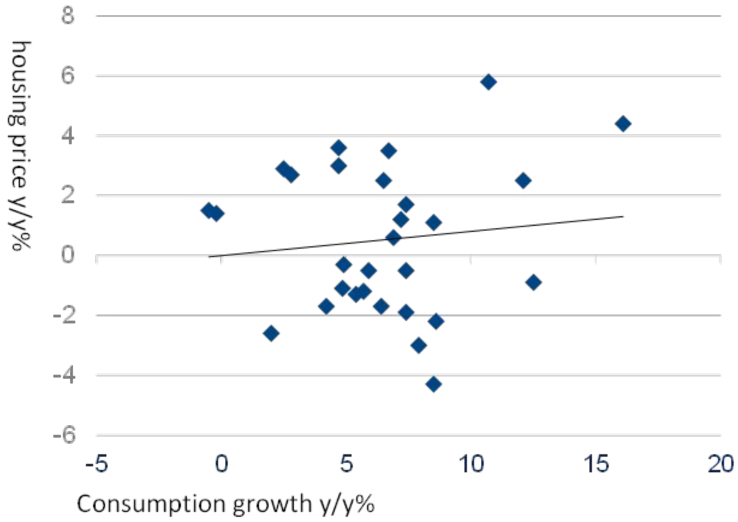


…and (iii) wealth effect: by sliding housing and stock prices

WEALTH EFFECT: STOCK MARKET LACKLUSTER

Source: CEIC and BBVA Research.

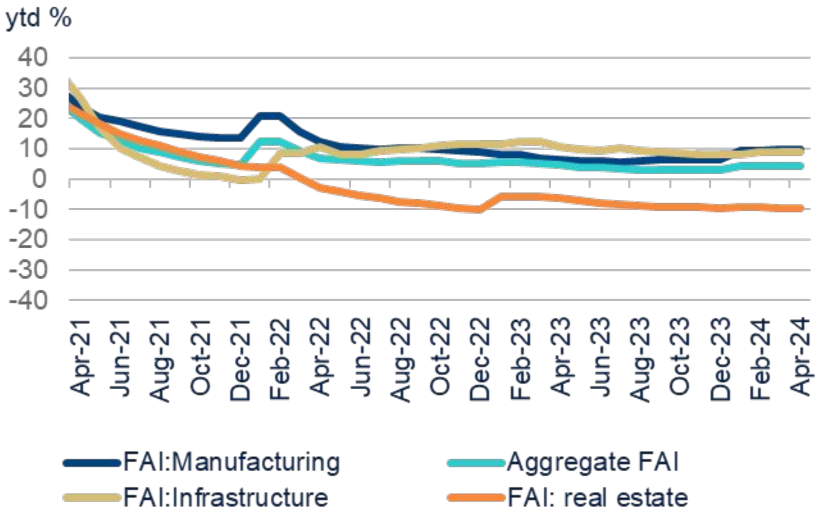
WEALTH EFFECT: CITY LEVEL DATA SHOW THAT HOUSING PRICE HAS A POSITIVE RELATIONSHIP WITH CONSUMPTION



NOTES: The sample includes 24 tier-1 and tier-2 cities in Mainland China.
Source: CEIC and BBVA Research.

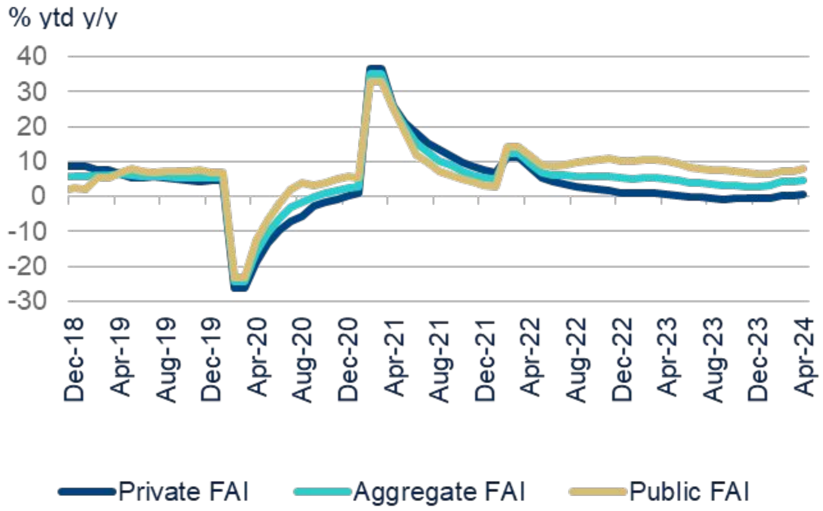
Investment further slowed to 4.2% ytd y/y from 4.5%: housing FAI remains the main lag (-9.8%); manufacturing FAI (9.7%) surpasses infrastructure FAI (6%)

HOUSING INVESTMENT EXPANDED ITS DECLINE TO -9.8% YTD Y/Y FROM -9.5%



Source: CEIC and BBVA Research.

THE MULTIPLIER EFFECT OF PUBLIC FAI TO PRIVATE FAI REMAINS LACKLUSTER

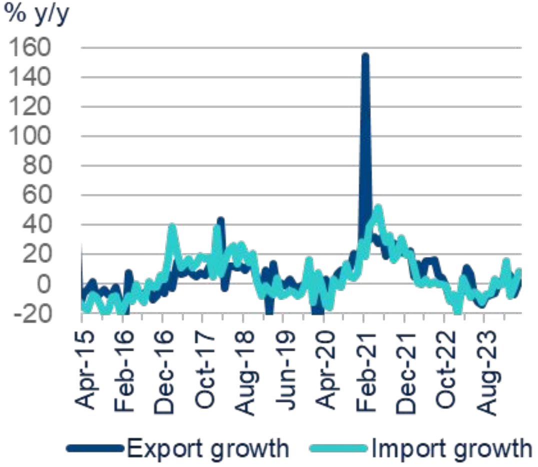


Source: CEIC and BBVA Research.

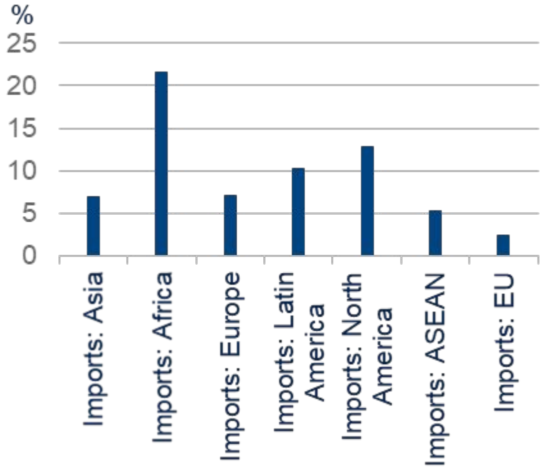
(1) Manufacturing FAI is supported by high-end manufacturing, digital economy, modern service industry, national security projects etc.; (2) Infrastructure FAI issupported by the extra RMB 1 trillion government bond issuance at end-2023.

Both exports and imports growth turned to positive in April, showing resilience of the external sector

EXPORTS TURNED TO 1.5% FROM -7.5% AMID US ECONOMY RESILIENCE; IMPORTS IMPROVED TO 8.4% FROM -1.9%



CHINA'S IMPORTS PICKED UP MOSTLY FROM AFRICA, NORTH AMERICA AND LATAM



EV EXPORTS GROWTH SIGNIFICANTLY SLOWED IN RECENT MONTHS DUE TO TRADE DISPUTES

Source: CEIC and BBVA Research.

China recently expanded the commodity imports from Latam, due to (i) expanding its strategic reserve amid rising geopolitical uncertainties; (ii) "buy low" before the US cut the rate. (iii) Strong supply side recovery particularly in green economy and high-end manufacturing.

China's Balance of Payments reversion: from pandemic (2020-2022) to post-pandemic time (2023)

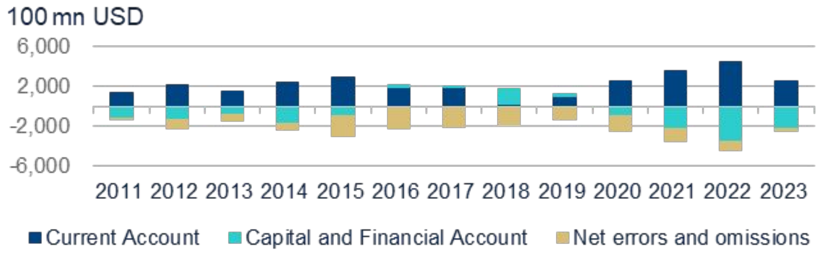
THE MAIN REVERSIONS: PANDEMIC VS. POST-PANDEMIC

(i) Exports sharply decelerated in 2023 from the Covid-19 pandemic period, leading to a shrinking trade balance;

(ii) Current account surplus also declined dramatically due to a combination of a shrinking trade balance and a significant increase of service trade deficit as outbound tourism bounced back from almost zero in Covid-19;

(iii) FDI inflows also reversed its pattern from historical peak in 2020 to negative growth in 2023, due to the large reversion of China-US policy rate as the PBoC conservatively cut the rate to stimulate growth.

(iv) Portfolio inflows became negative in 2023, due to the dim outlook of Chinese economy, housing market crash, lackluster performance of China's stock and bond market as well as RMB exchange rate depreciation.

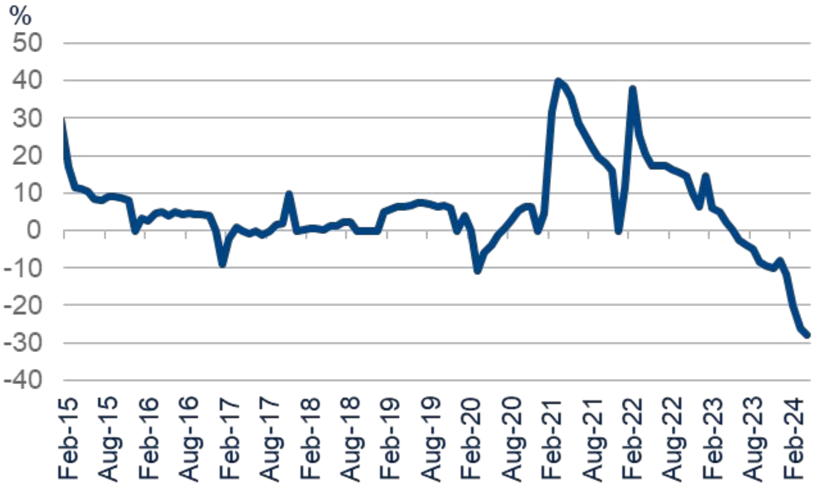


Source: CEIC and BBVA Research.

Components of BOP	Qualitative assessment of 2024 outlook
Goods Trade	Negative, driven by global economic slowdown and weak external demand
Services Trade	Negative, driven by expansionary outward international tourism item, thus expanding service trade deficit
Primary and Secondary Income	Ambiguous, driven by declining in both investment interests in foreign countries and in China
Direct Investment	Negative, driven by significant decline of FDI inflows into China due to nearshoring, supply chain moving outside of China amid rising geopolitics
Portfolio Investment	Negative, driven by the persistence of the reversion of China-US policy rate and FED's "higher for longer" rate

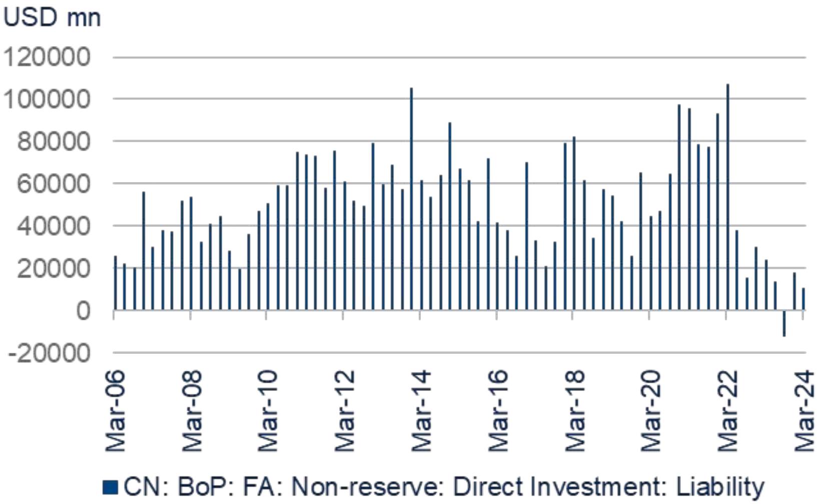
China's FDI inflows improved recently by SAFE BoP data

MOFCOM: THE NET FDI INFLOW DROP IS CONTINUING



Source: CEIC and BBVA Research.

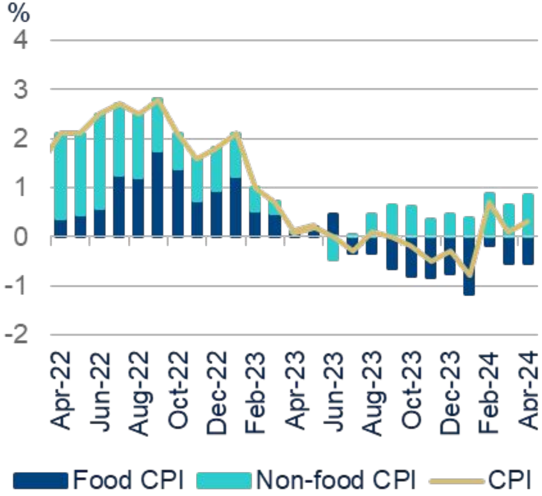
BoP LEVEL (SAFE): FDI NET INFLOW TURNED TO POSITIVE IN RECENT MONTHS



Nicholas R. Lardy (2023) provides a explanation for the differences between the SAFE and the MOFCOM FDI data: SAFE includes the following terms but MOFCOM does not: *1. IPOs in offshore markets 2. Foreign VC/PE . 3. Reinvested profits and repatriated profits. 4. Direct investments in the financial sector. 5. Related foreign firms' bank borrowing (by USD and in foreign banks)*

Deflationary environment is not easy to reverse amid deep real estate adjustment; the stimulus focus more on production side but not on demand side

CPI WENT MARGINALLY UP TO 0.3% SUPPORTED BY NON-FOOD CPI



Source: CEIC and BBVA Research.

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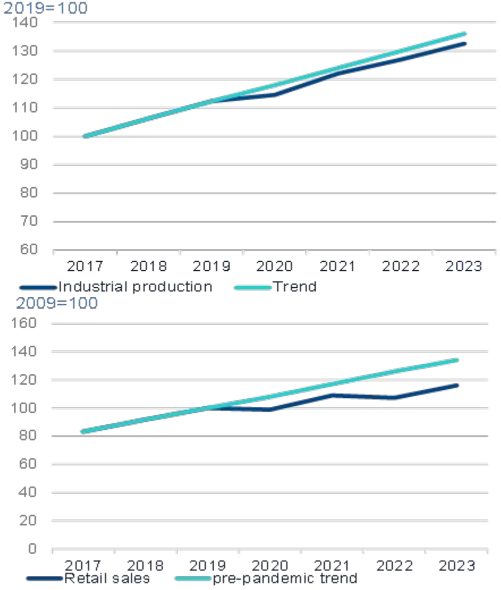
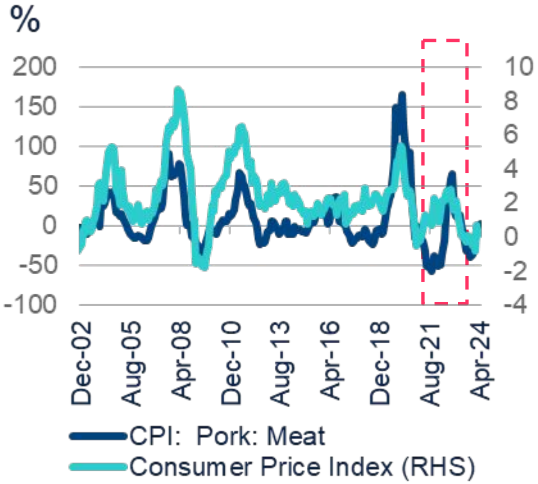
UNBALANCED SUPPLY AND DEMAND



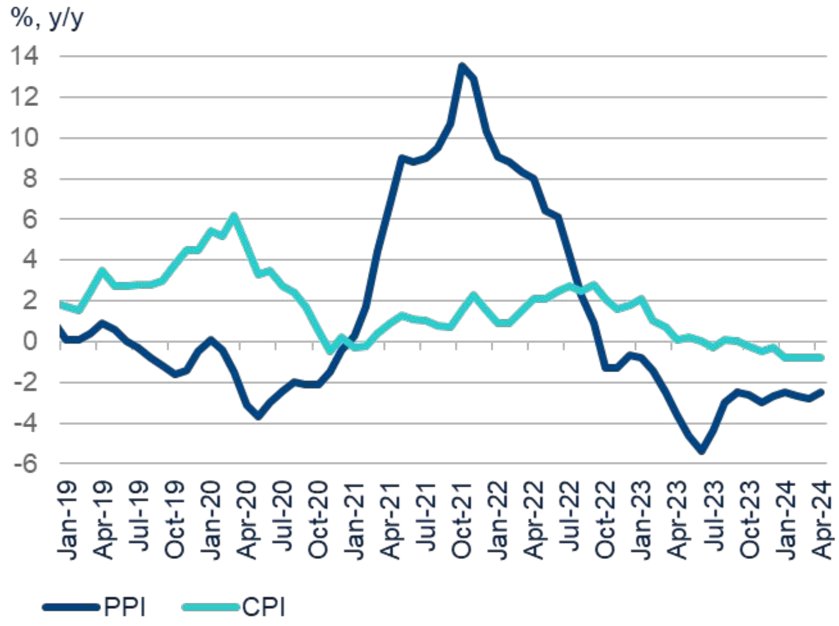
PORK CYCLE IS IMPORTANT TO UNDERSTAND CPI GIVEN ITS LARGE VOLATILITY



Why deflation in China? Supply and demand side mismatch matters: 1. Weak domestic demand and weak sentiments after reopening. 2. Price decelerated due to the "salary cap campaign" in financial sector etc., together with high unemployment in young age group forms a negative "wage-price spiral". 3. Pork cycle is outside the swine flu period, pork supply expanded significantly leading to overcapacity. 4. Conservative central banks indicates limited liquidity in the market.

PPI marginally shrinks its decline together with global commodity price increasing, which helps to improve industrial profits

PPI REMAINED NEGATIVE AT -2.5% FROM -2.8%, PPI NEGATIVE FOR THE PAST 19 MONTHS



Source: CEIC and BBVA Research.

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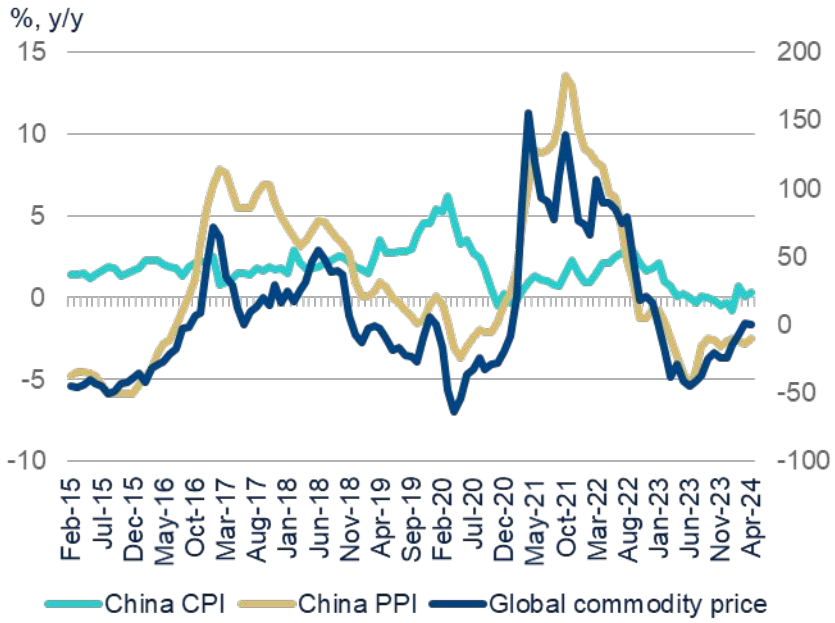
CHINA'S PPI IS SYNCHRONIZED WITH GLOBAL PPI AND COMMODITY PRICES



Source: CEIC and BBVA Research.

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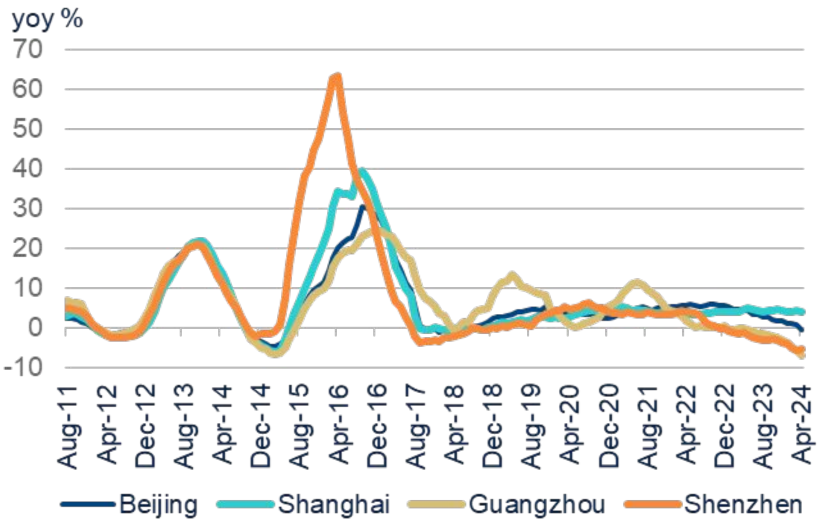
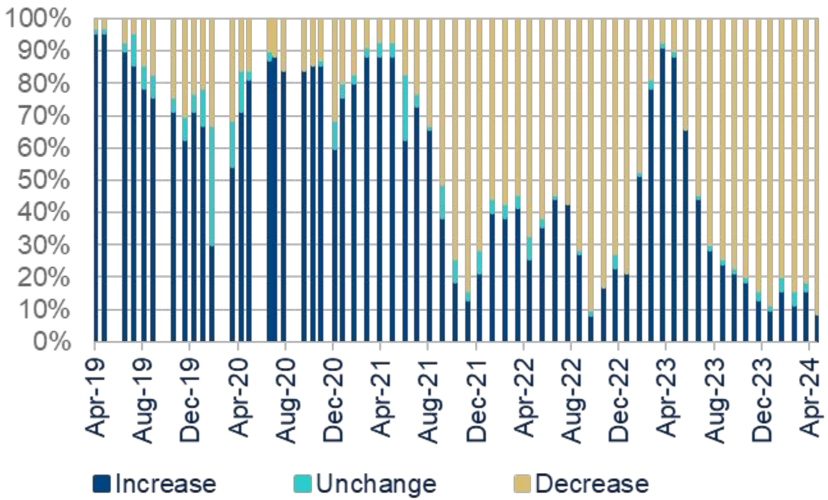
China’s real estate market remains the primary risk of the economy in 2024

IN TIER-1 CITIES, THE PRICE PERCENTAGE CHANGE RANGE IS WITHIN -10% TO 5%



90% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY

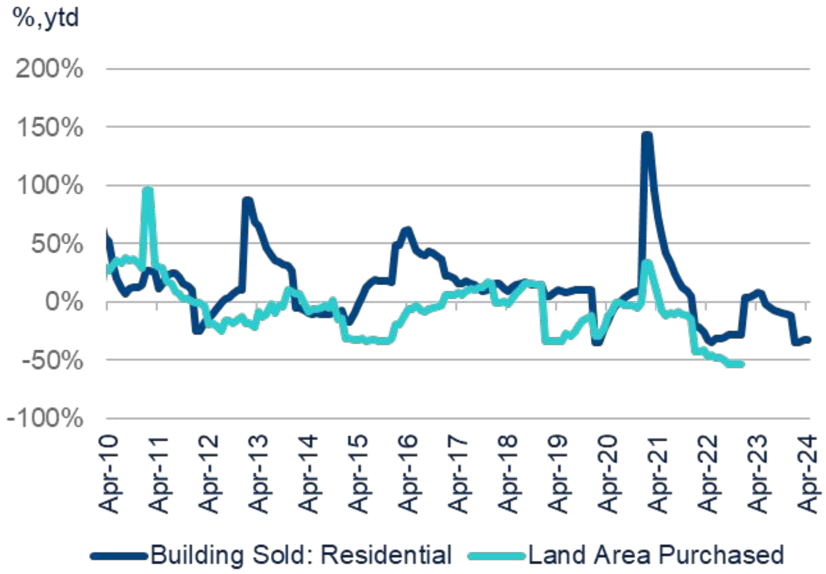


Source: CEIC and BBVA Research.

The recent housing stimulus: (i) Lower the First house purchase down payment ratio to 15% and second house purchase to 25%; (ii) To move the lower bound of mortgage rate for home buyers. (iii) PBoC will set RMB 300 billion re-lending pool, and to encourage local SOEs and government to purchase unsold houses as low-income housing. (iv) Only 6 cities have not lifted limited-purchasing. (v) Gov could get back the land that sold to real estate developers.

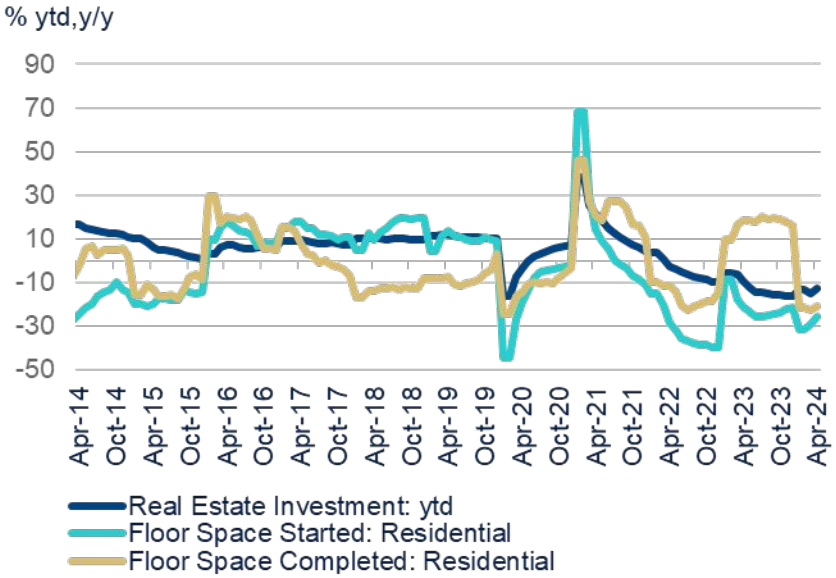
We have not observed bottom-up of the main housing indicators such as housing sales, housing started and investment

BUILDING SOLD REMAINS NEGATIVE GROWTH



Source: CEIC and BBVA Research.

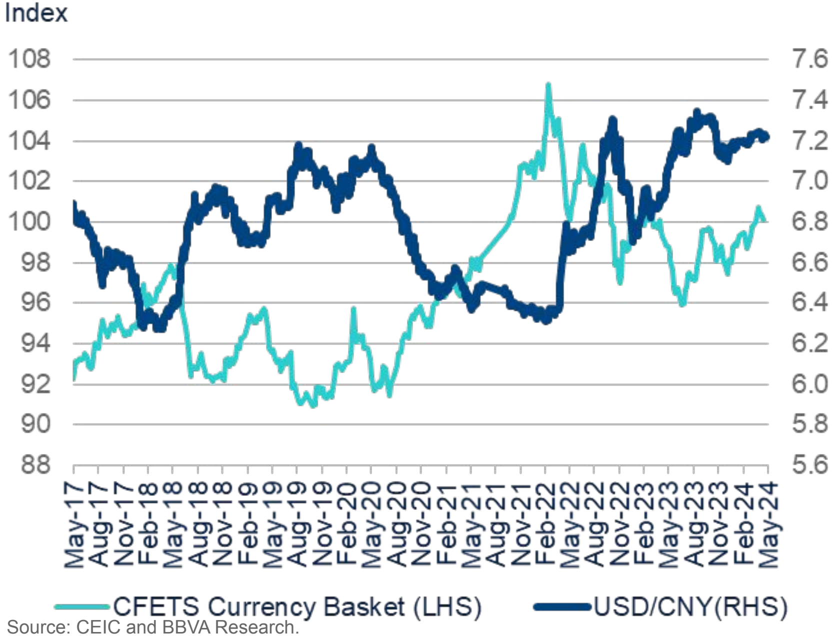
FLOOR SPACE COMPLETED PICKED UP AMID POLICY “ensuring timely deliveries of pre-sold homes”; HOUSING INVESTMENT NEGATIVE FOR MORE THAN 20 MONTHS



Source: CEIC and BBVA Research.

US FED delayed the rate cut and US rate "higher for longer" lead to RMB depreciation recently(1)

RMB EXCHANGE RATE DEPRECIATED TO 7.23 FROM 7.1 AFTER FED'S FOMC MEETING SIGNALLING DELAYING THE CUT



Source: CEIC and BBVA Research.

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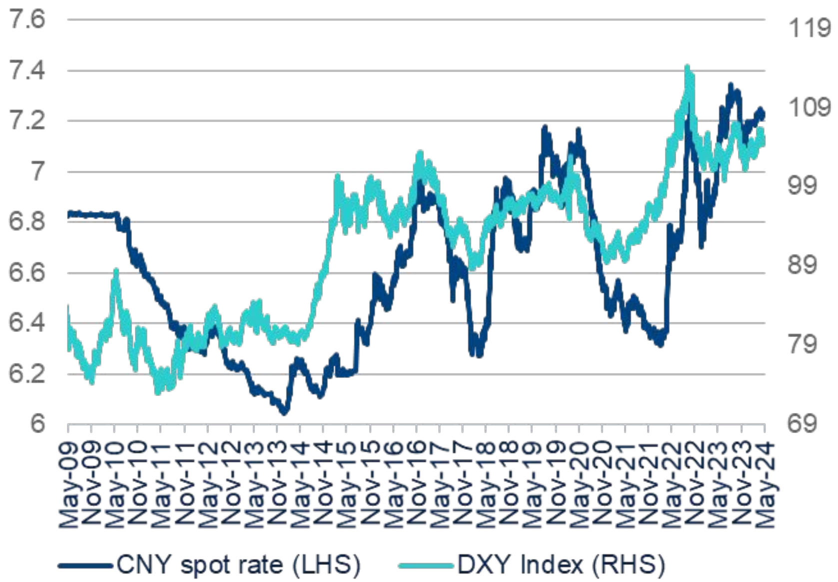
THE MIRROR EFFECT OF RMB EXCHANGE RATE AND USD DXY PERSISTS"



Source: CEIC and BBVA Research.

We change our RMB forecast together with FED's delay of initial cut(2)

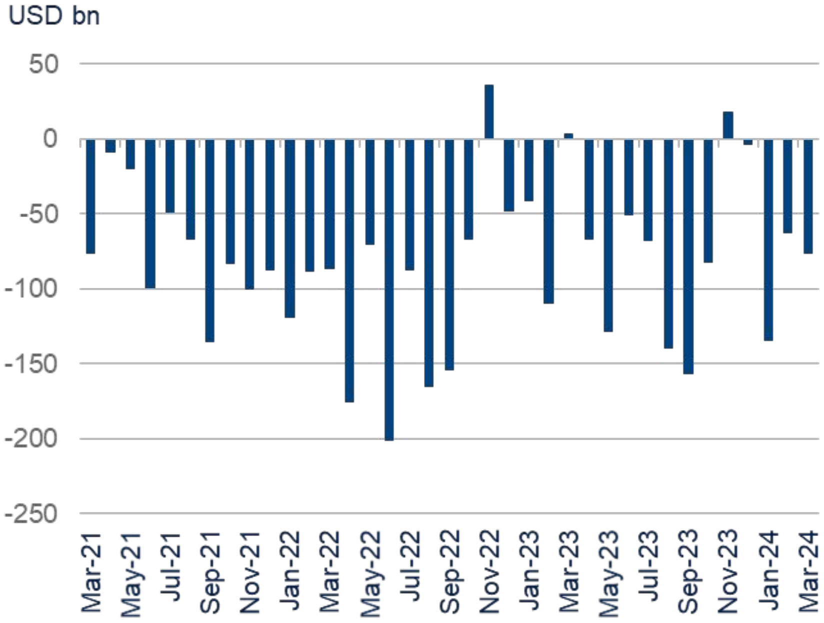
- In short term, the dominant factor of RMB remains the monetary policy dynamics between US and China. US recently delayed the initial cut to November and anticipated to cut only 1 time this year, leading to pressure on RMB.

- We believe FED delaying rate cut in Nov will lead to RMB/USD appreciate to around 7.1 at end-2024. And end-2025 forecast remains at 6.9 (Bloomberg: consensus: 2024: 6.97, 2025: 6.8).

- Other short-term factors that leads to weak RMB include: (i) China-US long-term bond yield and policy rate reversion; (ii) dipping Chinese stock price vs. uptrending US stock accelerated capital outflows; (iii) dipping exports and shrinking current account; (iv) growth slowdown.

- Long term will be a different story: (i) natural interest rate should be equivalent to its natural growth rate. China's potential growth is still higher than the US (China 3.5%, US 1-1.5%), providing a justified support for portfolio inflows. (ii) A prerequisite of RMB internationalization is appreciation expectation.

CAPITAL OUTFLOWS ACCELERATED DUE TO US-CHINA LONG-TERM YIELD REVERSION AND UNDERPERFORMANCE OF STOCK IN CHINA



Source: CEIC and BBVA Research.

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03

Fiscal stimulus leads the policy support

Main messages

Monetary policy

Monetary policy remains expansionary to support recovery but prioritizes fiscal stimulus amid weak sentiments as the transmission mechanism of monetary easing remains weak. The recent monetary expansion is the pledged supplementary lending (PSL) loans to support infrastructure and 50 bps RRR cut, 25 bps targeted rate cut. We lower our expectation of rate cut from 2-3 times previously to 1-2 as the US delayed rate cut to Nov. Although deflation provides room for easing measures, monetary policy will be more targeted instead of universal to take lessons from RMB 4 trillion stimulus in GFC which led to debt overhang for the past decade.

Fiscal policy

2024 fiscal budget is set at 3%, but the actual 2024 deficit is anticipated to be 3.5-3.8%. Starting from 2024, China will issue super long-term government bond every year (2024, the issuance will be RMB 1 trillion). In the future, PBoC could purchase government bond in the secondary market. That means, China's monetary and fiscal policy coordination will be more likely the situation in the US.

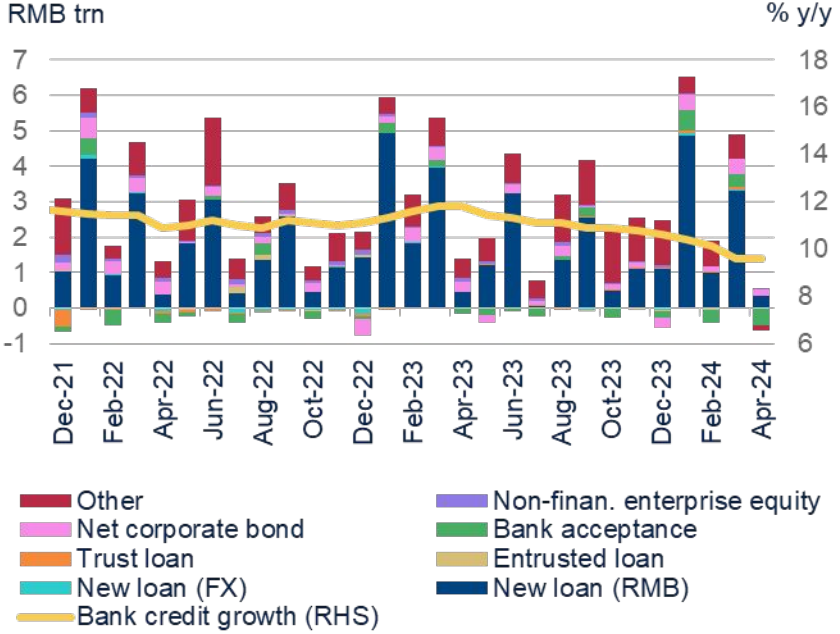
Housing policy and 20th CCCPC meeting

Recently the PBoC promulgated three important new housing stimulus measures from both supply and demand side.

We anticipate the Third Plenary Session of the 20th Central Committee of the CPC in coming July will outline the blueprint of "Chinese-style modernization" with "new quality productivity" and promulgate more stimulus to solve the current economic imbalance.

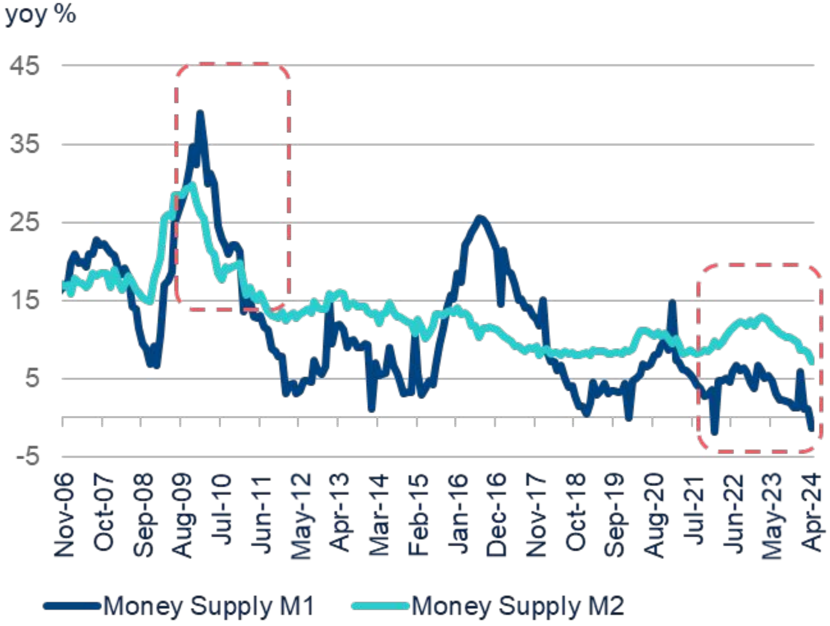
Total credit growth decelerated amid conservative central bank stimulus

TOTAL SOCIAL FINANCING AND NEW RMB LOANS DECELERATED SIGNIFICANTLY IN APRIL



Source: CEIC and BBVA Research.

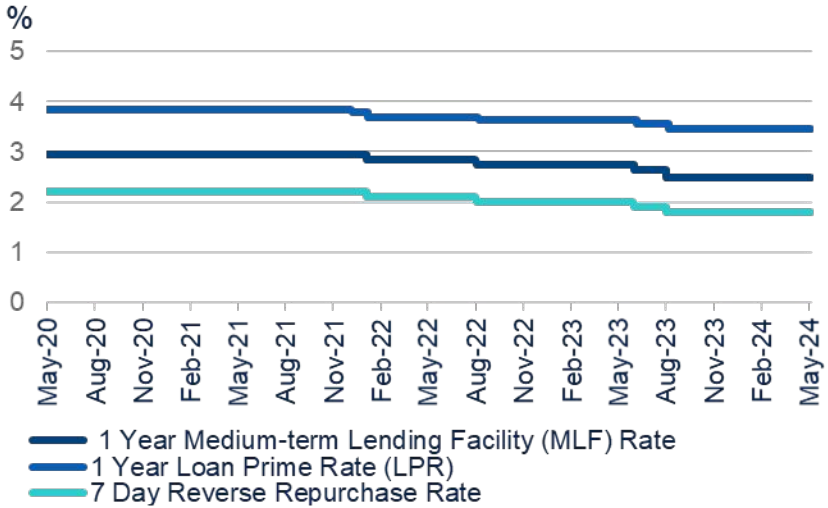
M2 ALSO DECLINED TO 7.2% FROM 8.3%



Source: CEIC and BBVA Research.

Monatary policy outlook: remains expansionary but more targeted and constrained by US FED’s delay of rate cut

WE FORECAST THE PBOC WILL LPR 1-2 TIMES IN 2H 2024 FROM PREVIOUSLY 2-3 TIMES



Source: CEIC and BBVA Research.

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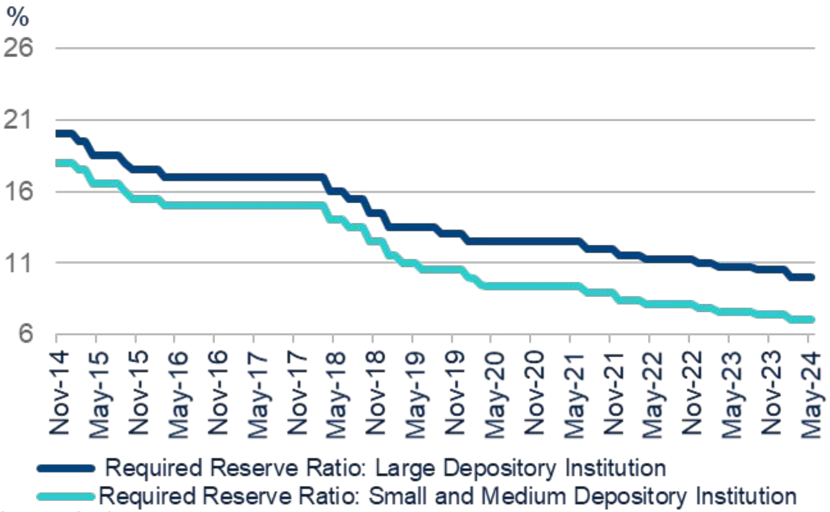
…ALSO TO CUT RRR THREE TIMES (50 BPS EACH) IN 2024, PROVIDING LIQUIDITY FOR RECOVERY



Source: CEIC and BBVA Research.

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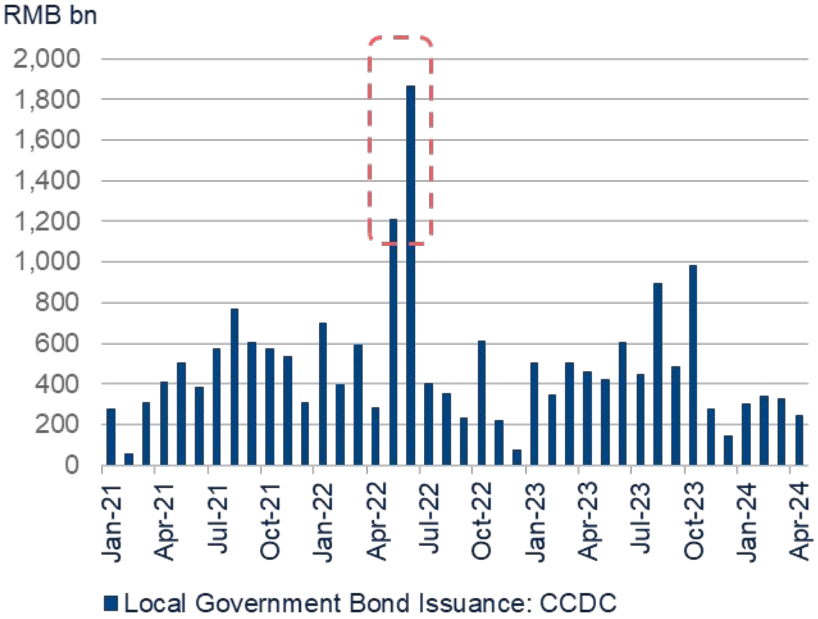
The monetary policy in 2024 will coordinate with the expansionary fiscal policy to support technology advancement, high-end manufacturing, green economy transformation, SMEs, inclusive finance, digital economy etc.

2024 Fiscal policy: will prioritize fiscal easing instead of monetary easing amid weak sentiments, and will focus on central gov. bond issuance but not tax cut

THE EXTRA RMB 1 TRILLION GOV. BOND ISSUANCE AT END-2023 WILL PARTIALLY SWAP LOCAL GOVERNMENT DEBT



Source: CEIC and BBVA Research.

- The 2024 fiscal Budget is set to be at 3% announced in March “two sessions”, but the actual fiscal déficit may reach 3.5-3.8%.
- Starting from 2024, Chinese government will issue long-term government bond every year (2024: RMB 1 trn).
- PBoC could purchase gov bond in the secondary market.
- The expansionary fiscal policy will focus on supporting national strategic projects, high-end manufacturing, technology advancement, SMEs and poverty relief.
- The expansionary fiscal policy will expand central government debt (21% of GDP, still low in international comparison; 1/5 for China’s total gov debt) but contain local government debt, as the central government balance sheet is more healthy and robust.
- The central government debt will swap part of local government debt in a larger scale in the future.

Forecast: China's main economic indicators: Baseline scenario

	Baseline scenario						
	2019	2020	2021	2022	2023	2024(F)	2025(F)
GDP (%)	6.1	2.3	8.1	3	5.2	4.6	4.2
CPI (%)	2.9	2.6	0.9	2	0.2	0.6	1.5
PPI (%)	-0.3	-1.8	8.1	4.2	-3	-0.6	1
Interest rate (LPR, %)	4.1	3.85	3.8	3.6	3.45	3.25	3.15
RMB/USD exchange rate	7	6.5	6.36	6.9	7.1	7.1	6.9

China's forecasting: decomposing GDP growth

	Baseline scenario						
	2019	2020	2021	2022	2023	2024(F)	2025(F)
GDP（%）	6.2	2.3	8.1	3.0	5.2	4.6	4.2
Personal consumption	6.27	1.70	7.90	1.50	6.50	4.80	4.00
Government consumption	8.50	1.60	10.00	1.00	7.00	4.50	4.00
GCFC	5.00	1.40	6.20	2.80	4.00	4.00	5.00
Inventory Change	-0.80	-12.30	2.50	5.80	2.20	2.20	5.00
Export	-0.10	3.60	30.00	12.00	-1.50	2.70	2.21
Imports	-1.00	-1.05	29.00	8.00	-1.50	2.00	3.20

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China Economic Outlook

June 2024

Creating Opportunities