



Asia and Pacific Department

China's Economic Rebound: 2023 and Beyond

MARCH 2023

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Roadmap

Context

Medium-term

Securing a balanced
recovery

Ending the property
crisis

Roadmap

Context

Medium-term

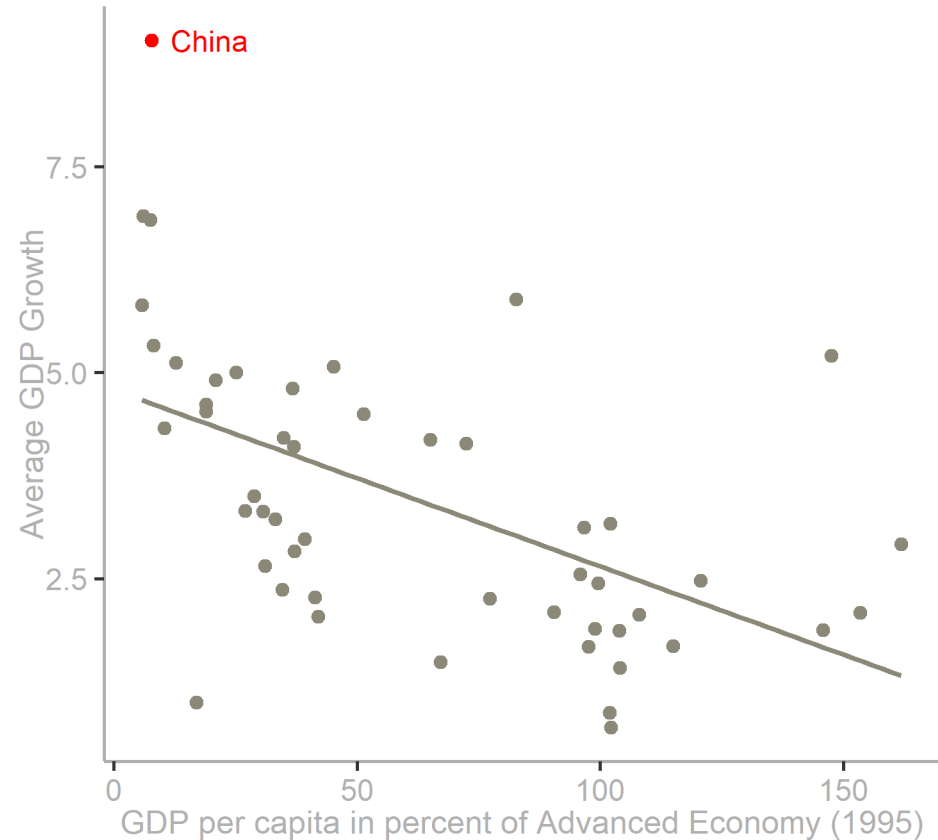
Securing a balanced
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Remarkable growth...China is now world's...

GDP Growth by Income, 1995-2019

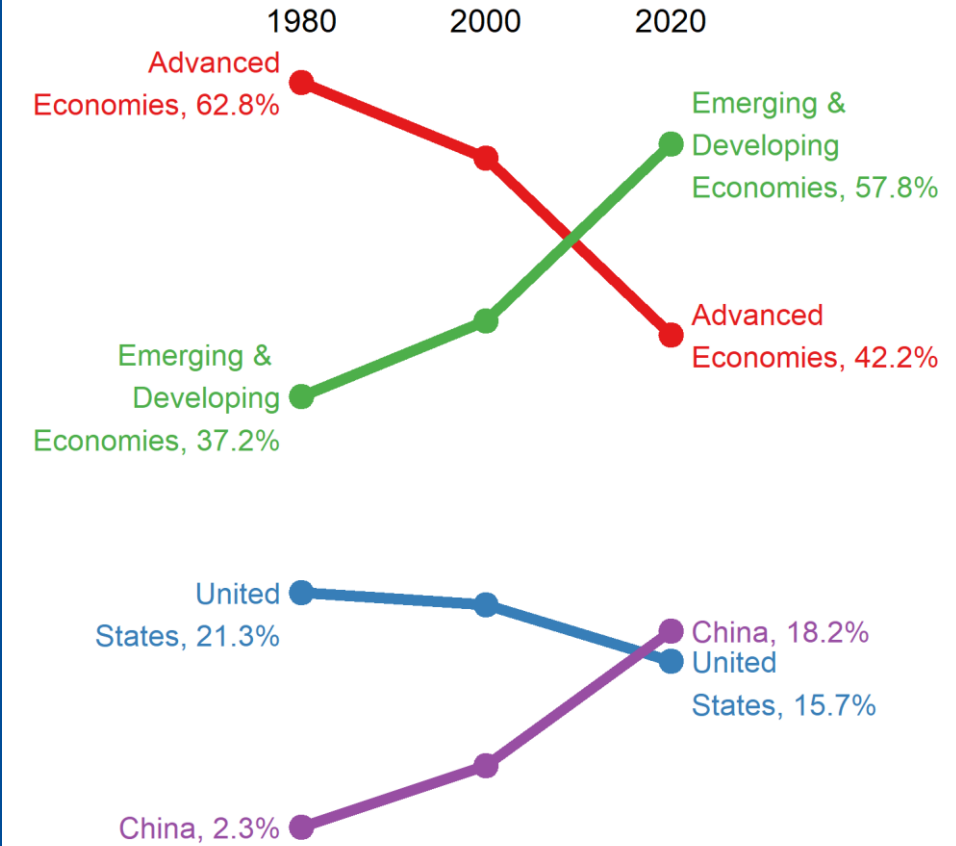
50 Largest Economies (2019)



Source: WEO, October 2022. Note: UAE is excluded

Changing Shares of World Output

Percent of world (PPP basis)

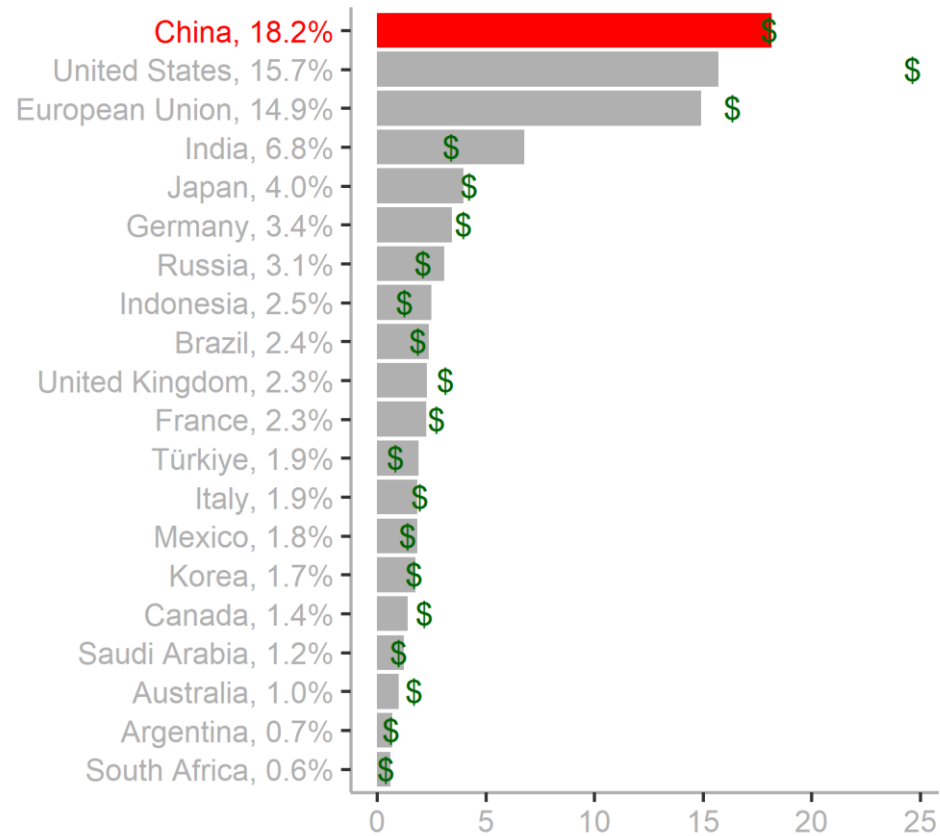


Source: WEO, October 2022

...1st or 2nd biggest economy. But not rich.

Share of World GDP

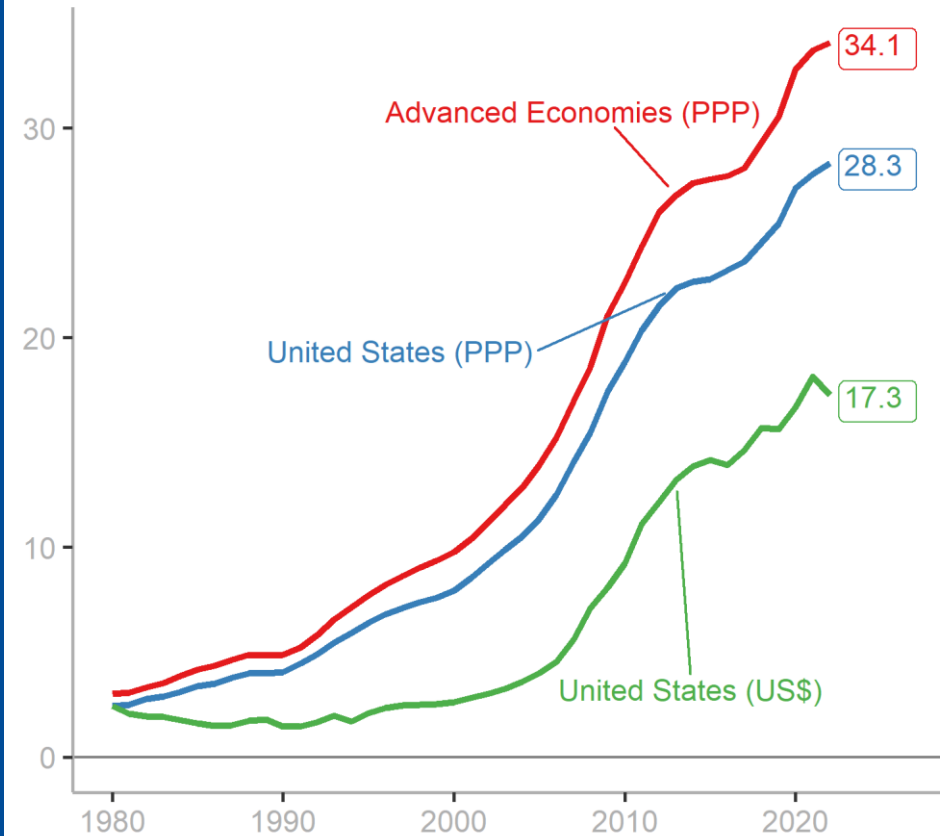
Based on PPP (% of world), 2022 (\$ = US\$ share)



Source: WEO, October 2022

China: Income Convergence, 1980-2022

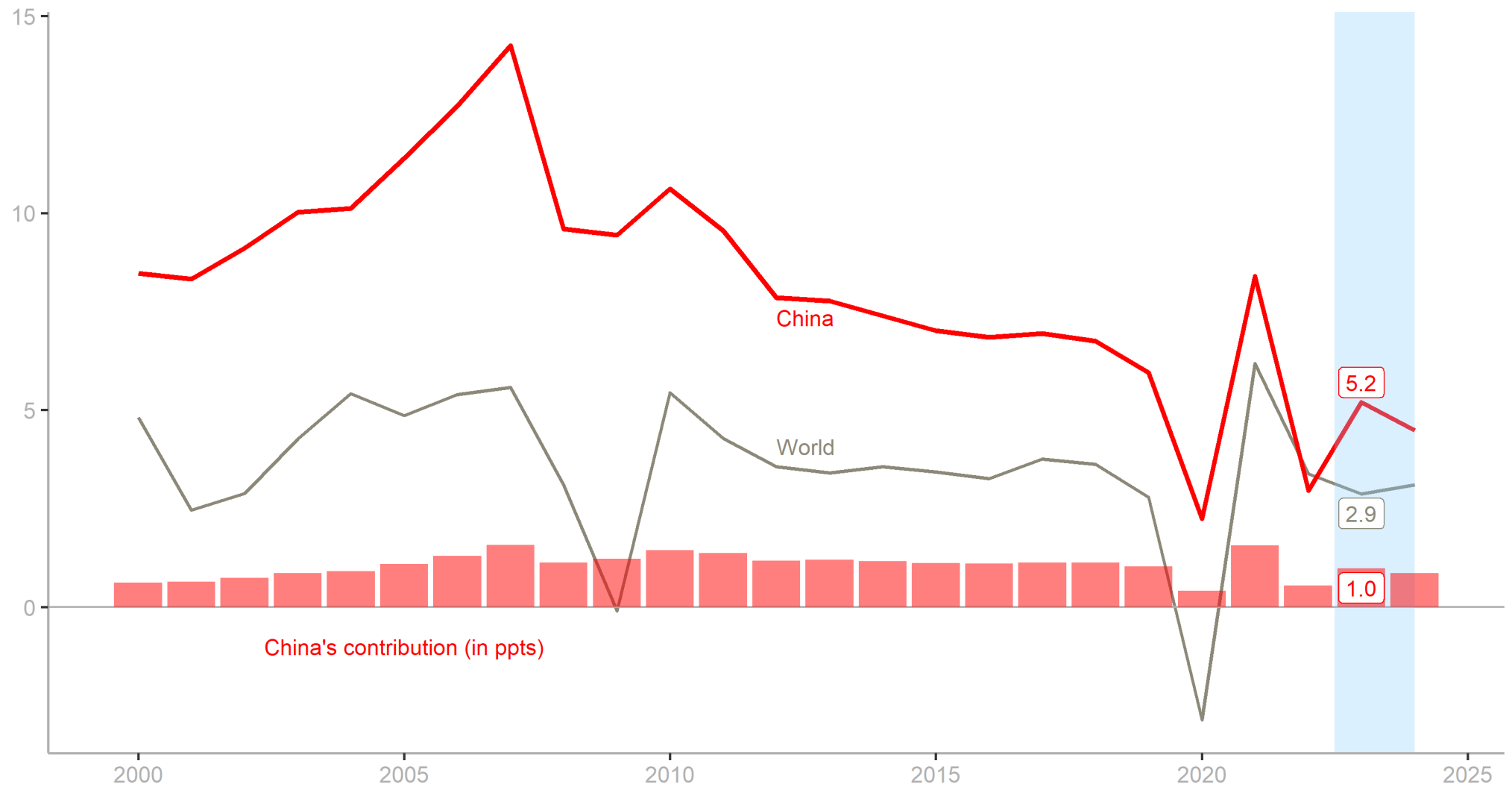
Per capita GDP, (in %)



Source: WEO, October 2022

China's Contribution to Global Growth

In %, except bars are ppts, 2000 - 2024

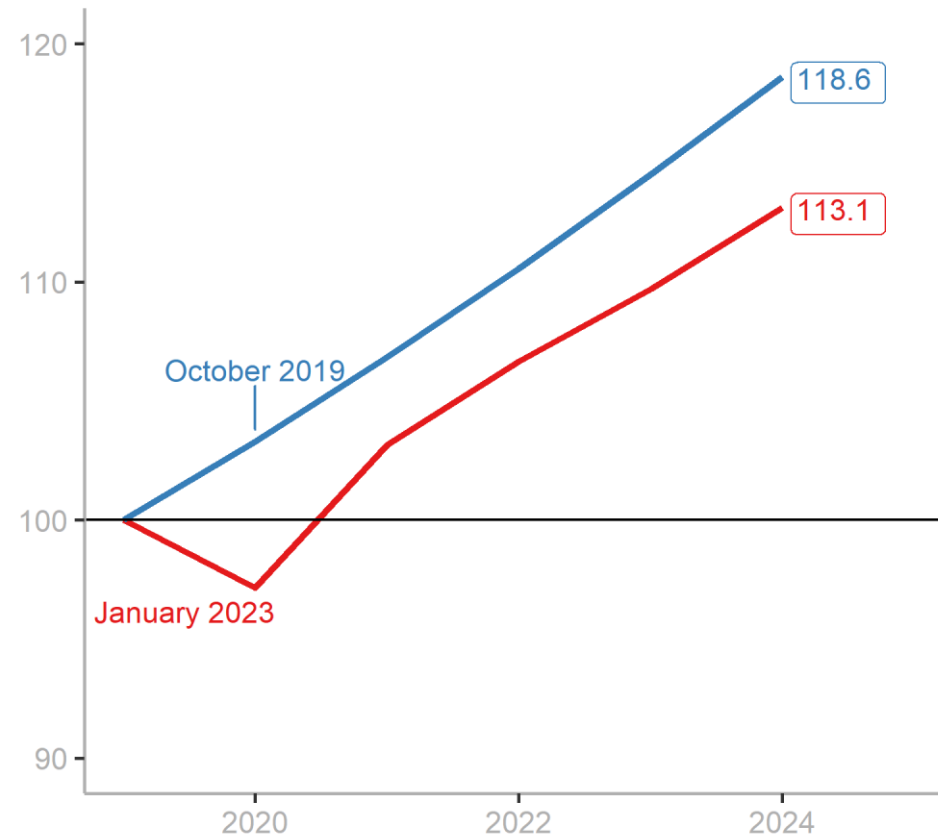


Source: WEO, October 2022

GDP Scarring

World: GDP Scarring

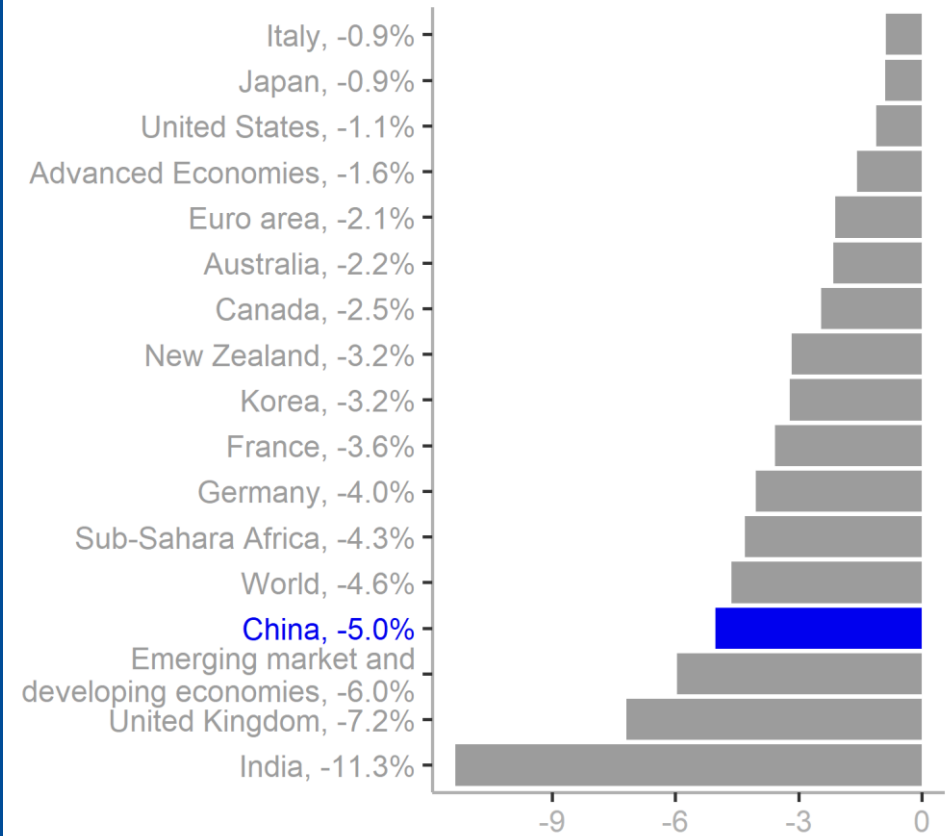
Index (2019 = 100), 2019 - 2024



Source: WEO

GDP Scarring, 2024

Real GDP relative to pre-pandemic forecast (in %)

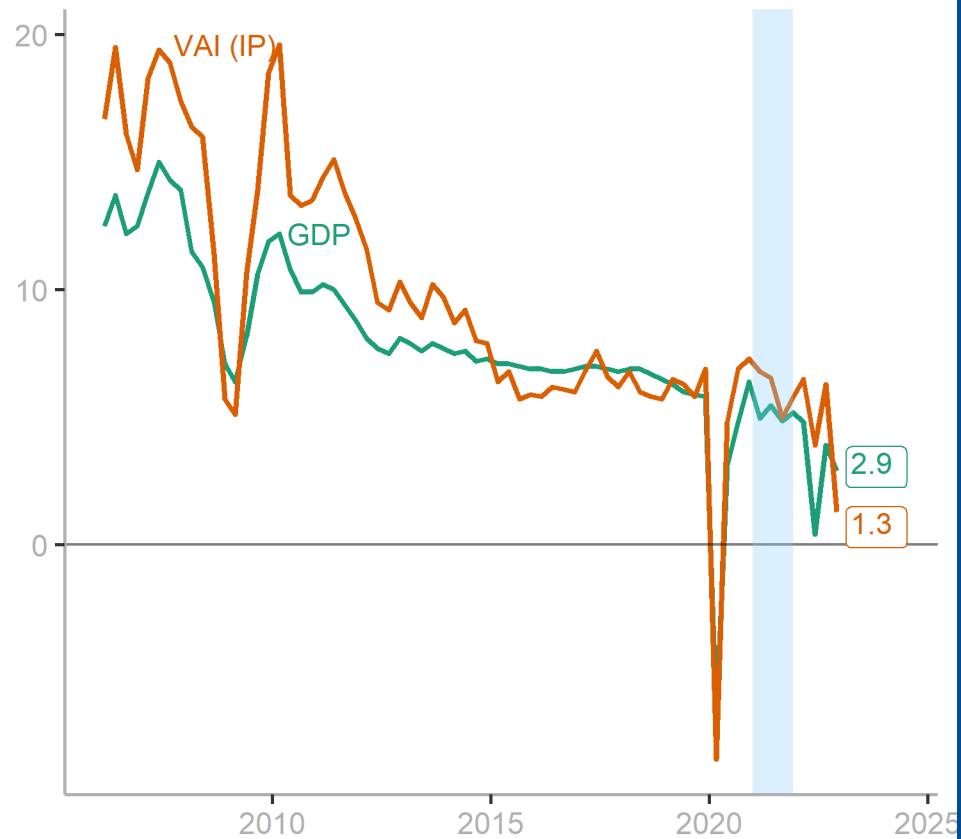


Sources: WEO

GDP Quarterly

China: GDP and VAI

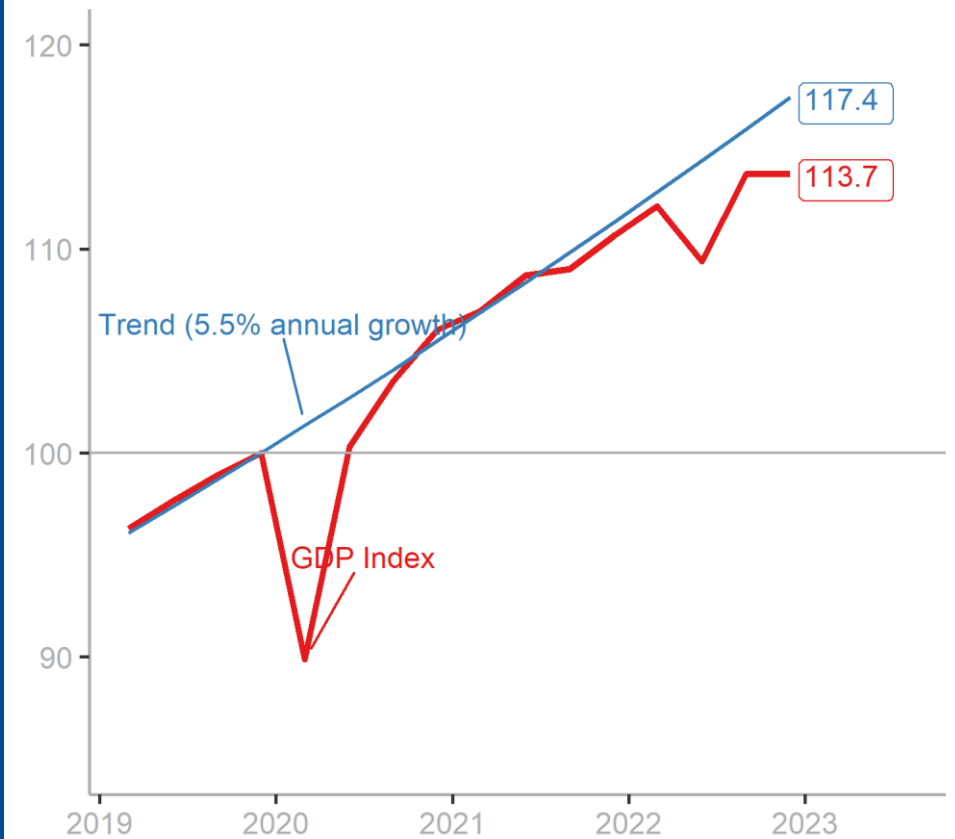
Real growth (in %, y/y), 2007 Q1 to 2022 Q4



Source: CEIC and staff estimates. 2021 are annualized 2-year growth rates

China: Real GDP Index

Seasonally Adjusted (2019Q4 = 100), 2010Q4 to 2022Q4



Source: CEIC

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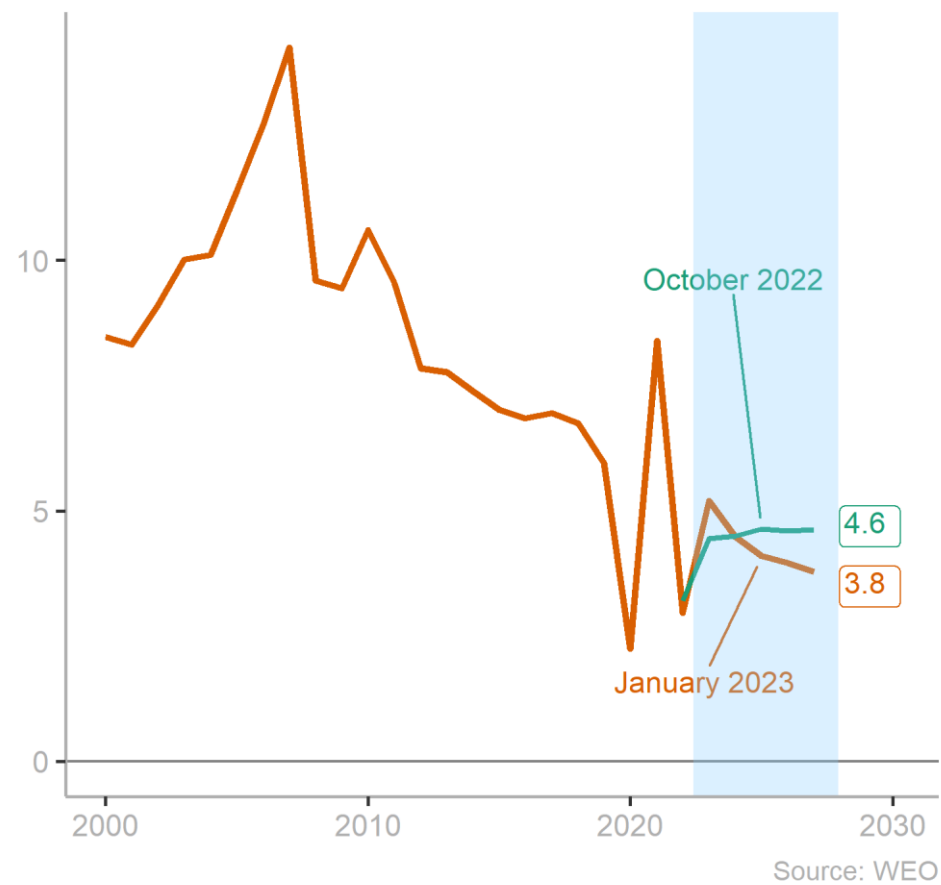
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Outlook

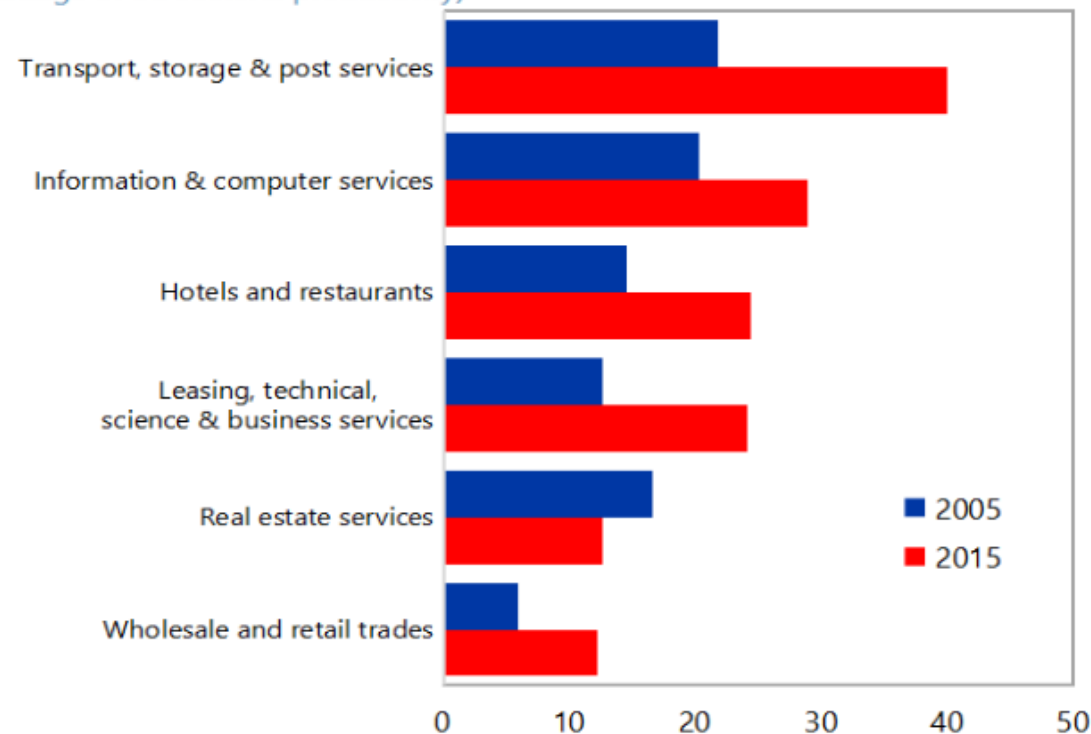
China: GDP Forecast Vintages

Growth (in %), 2000 - 2027



Productivity Convergence within Services

(in percentage of US sectoral productivity)



Sources: National Bureau of Statistics; World KLEMS Database.

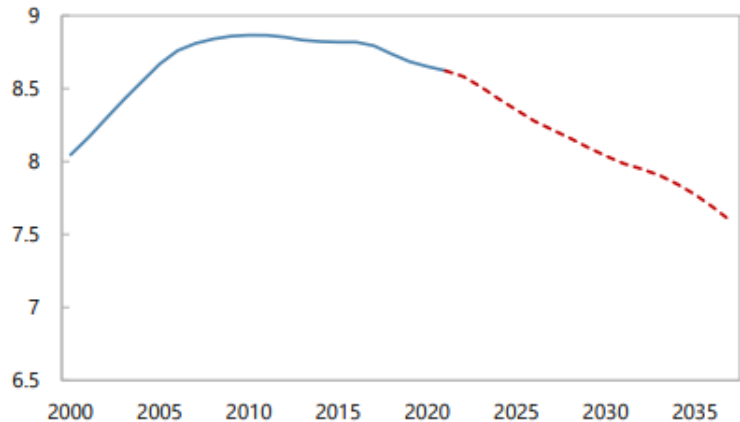
Source: Min Zhu, Longmei Zhang and Daoju Peng (2019), *China's Growth Potential—A Stocktaking and Reassessment*, IMF WP/19/263.

Productivity Growth

Backdrop

The population is shrinking...

Estimated Workforce
(In hundred thousand people)

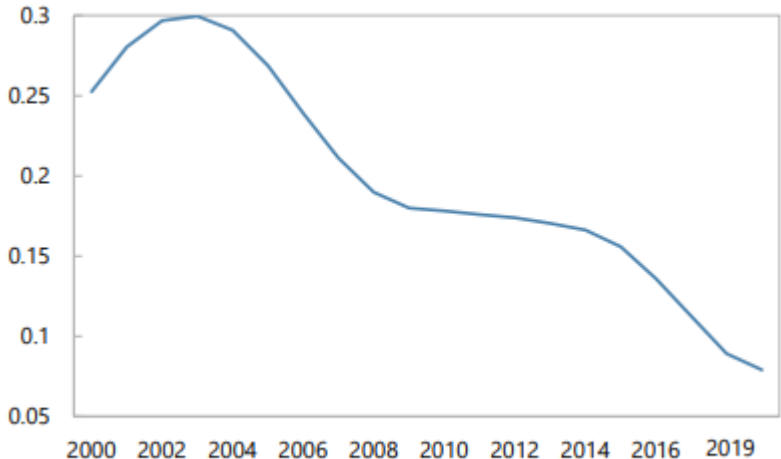


Sources: United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects 2022; and IMF staff calculations.

... capital faces diminishing returns...

Marginal Product of Capital

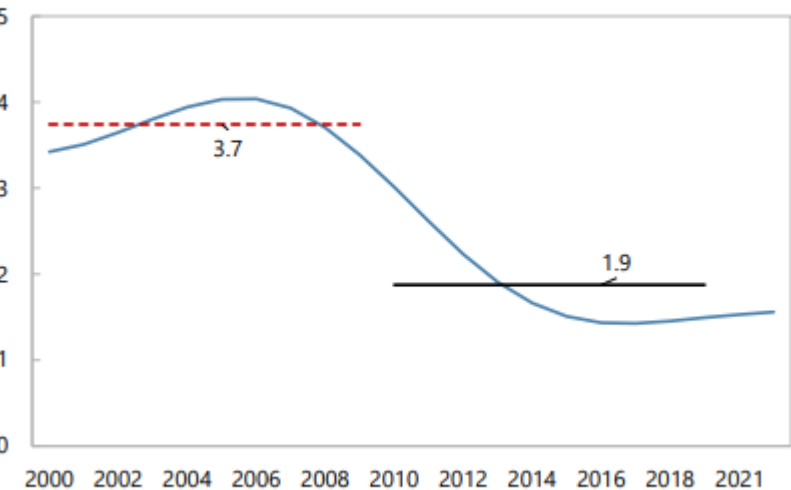
(Marginal product of capital = ratio of change in output to change in capital stock)



Sources: Penn World Table, 10.0 and IMF staff calculations.
Note: Ratio has been smoothed using HP filter.

... and productivity is stagnating.

Estimated Aggregate TFP Growth
(In percent, detrended)

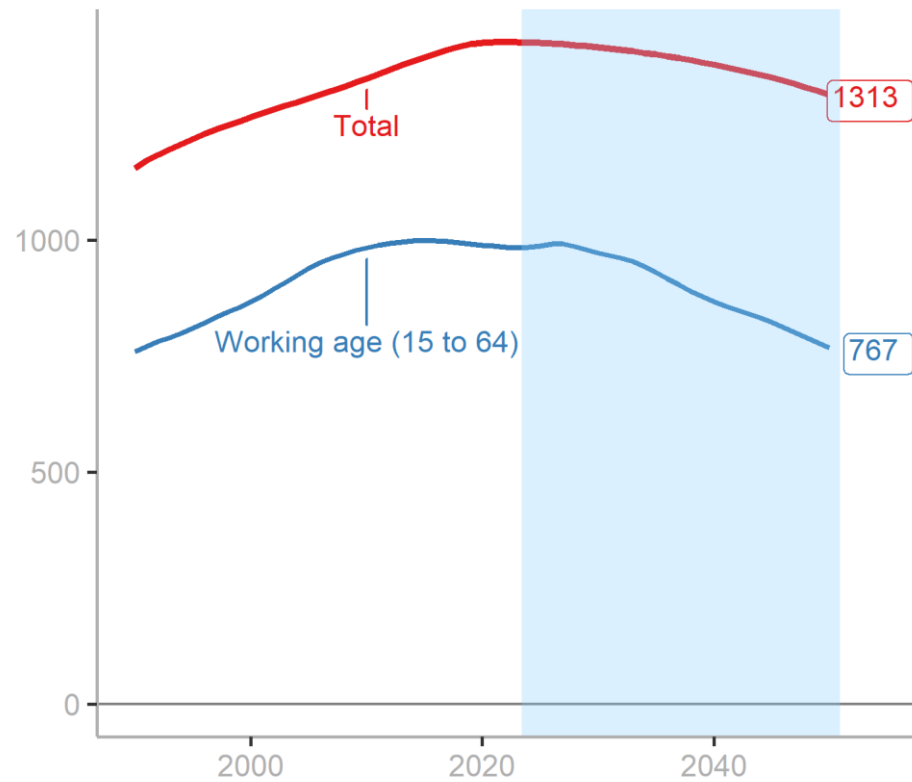


Source: IMF staff estimates.

Demographics

China: Population

Millions, 1990 to 2050

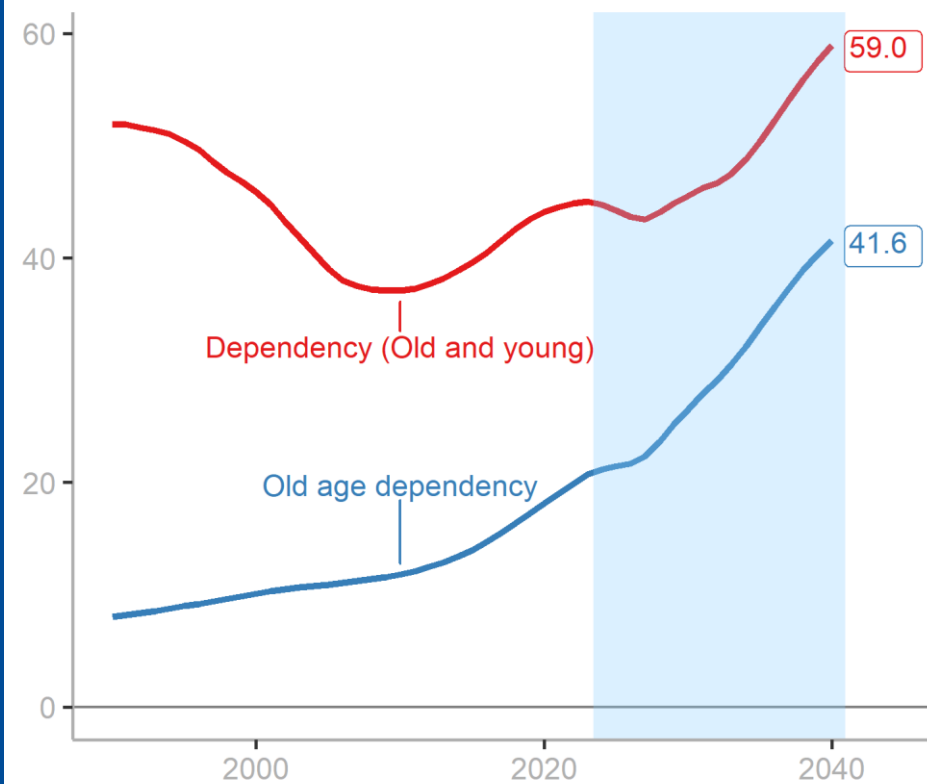


Source: United Nations, Department of Economic and Social Affairs,

Population Division (2022). World Population Prospects: The 2022 Revision

China: Dependency Ratios

In %, 1990 to 2040



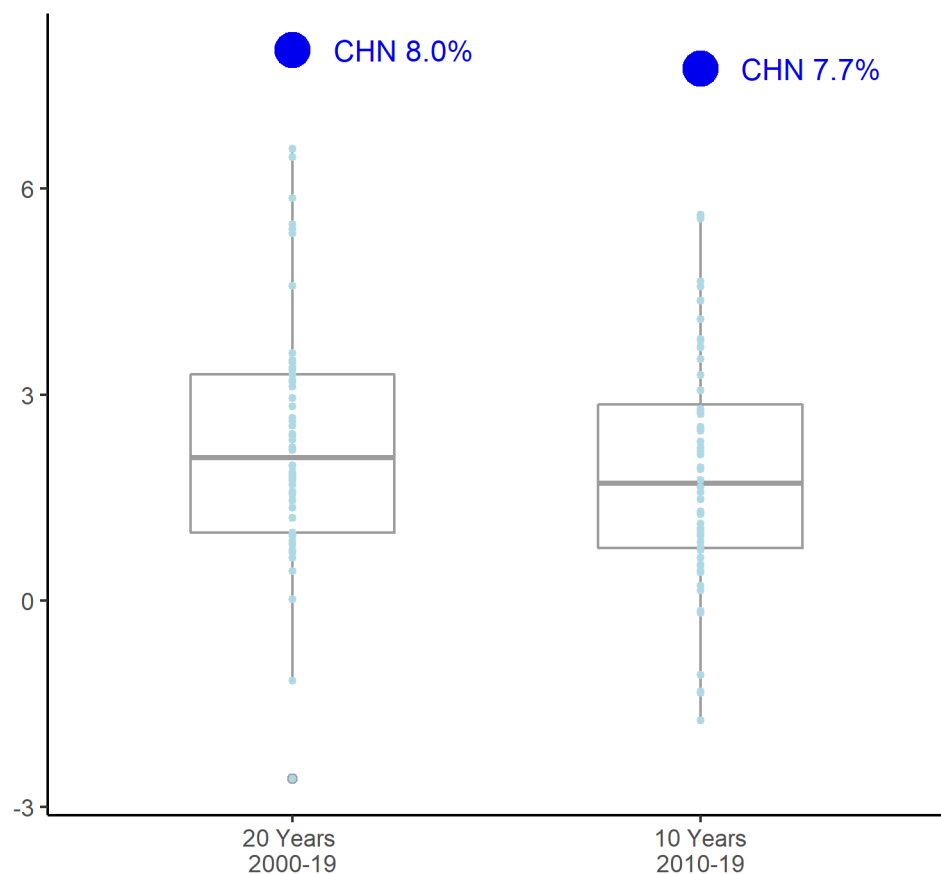
Source: United Nations, Department of Economic and Social Affairs,

Population Division (2022). World Population Prospects: The 2022 Revision

Consumption: Both fast growing and low?

China Consumption: World's Fastest Growing

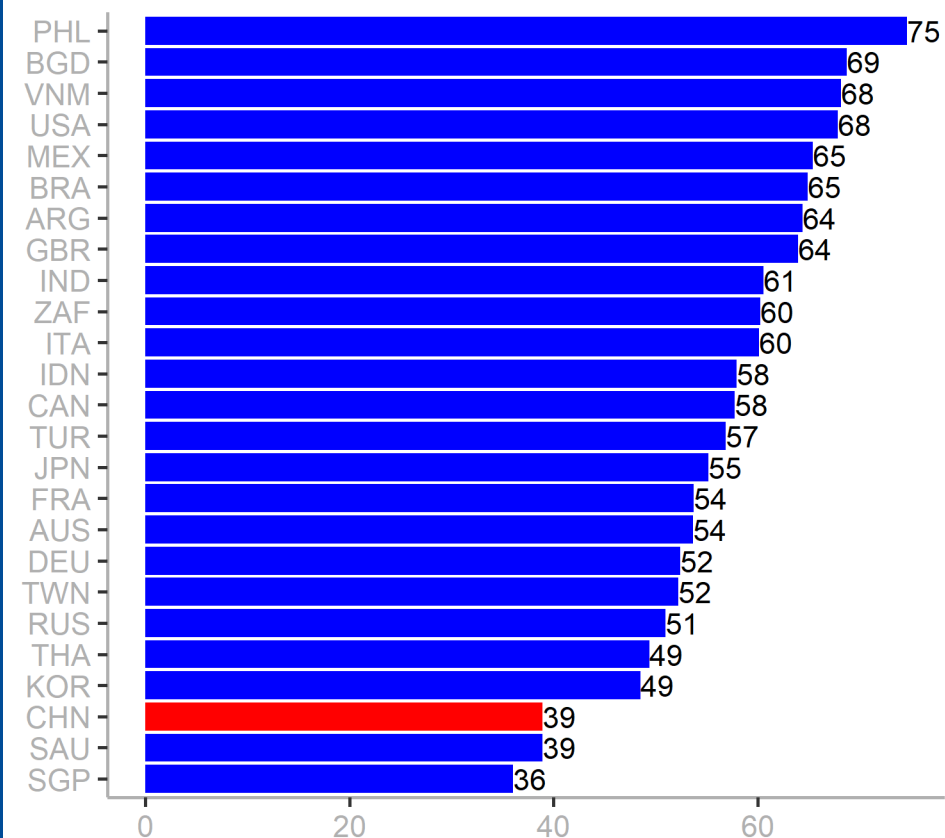
Annualized Growth in Real Household Consumption per Capita



Source: PWT 10.0; Note: Sample is 60 largest economies

Consumption to GDP, 2019

In % GDP

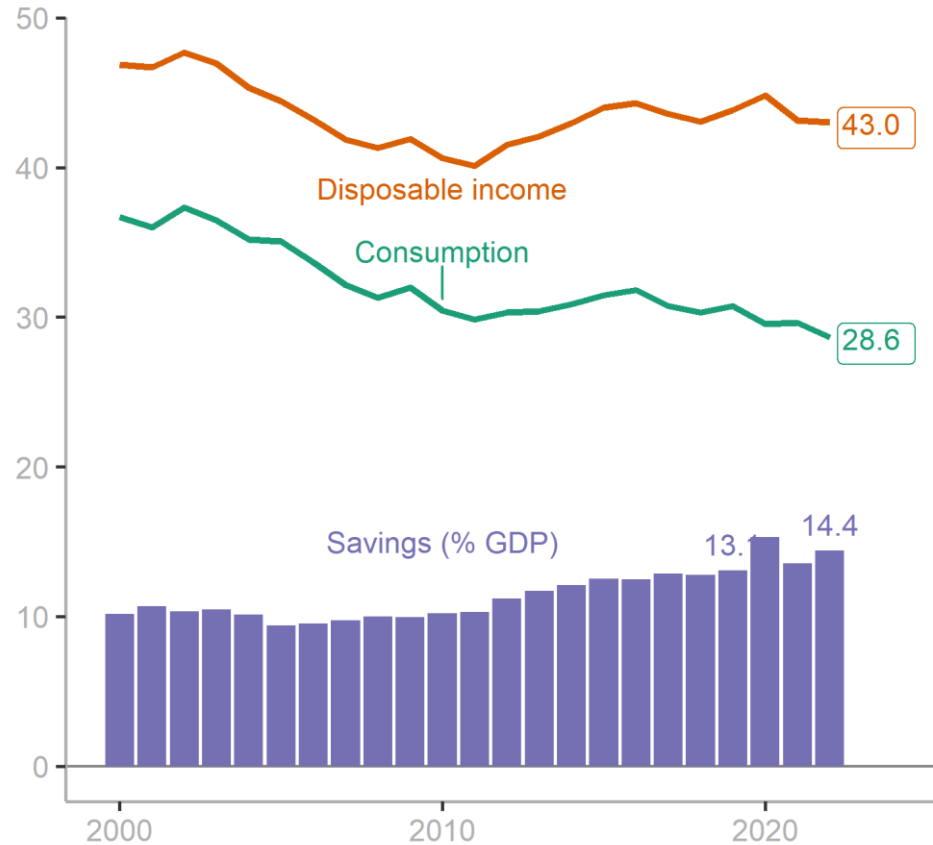


Sources: PWT 10.0; Note: G20 + selected Asian Economies

Pandemic: Savings Up as Consumption Lagged

China: Household Survey

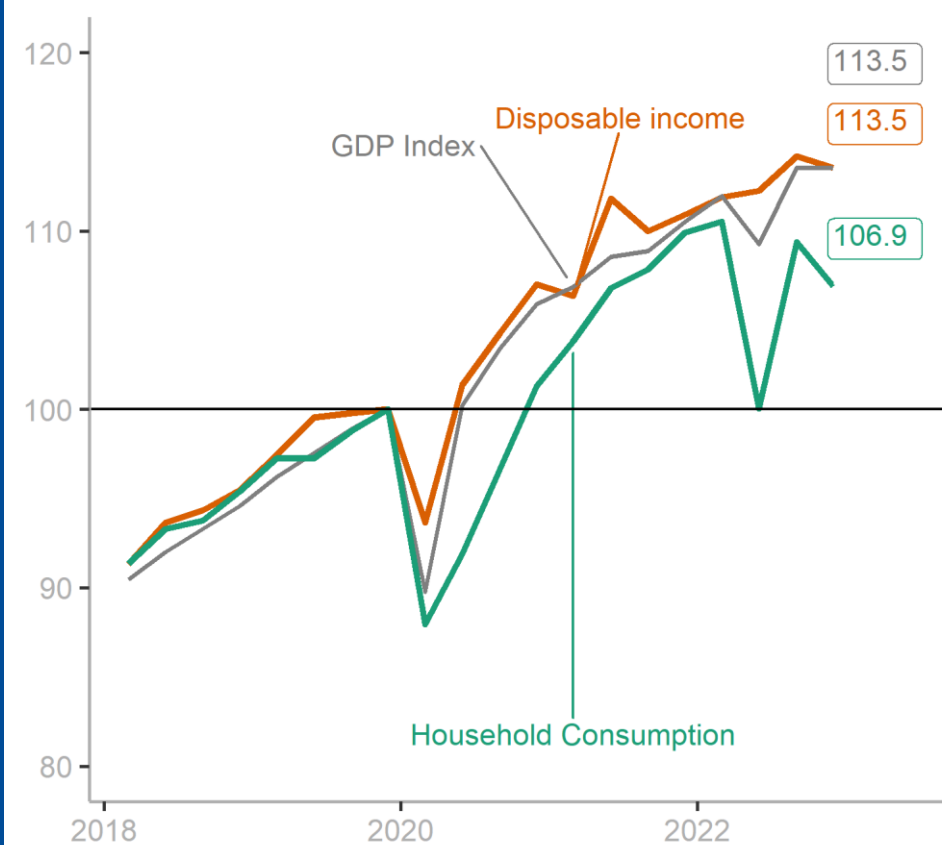
In % of GDP, 2000 to 2022



Sources: CEIC

China: Real GDP, Income, Consumption

Index (2019Q4 = 100) 2018 to 2022

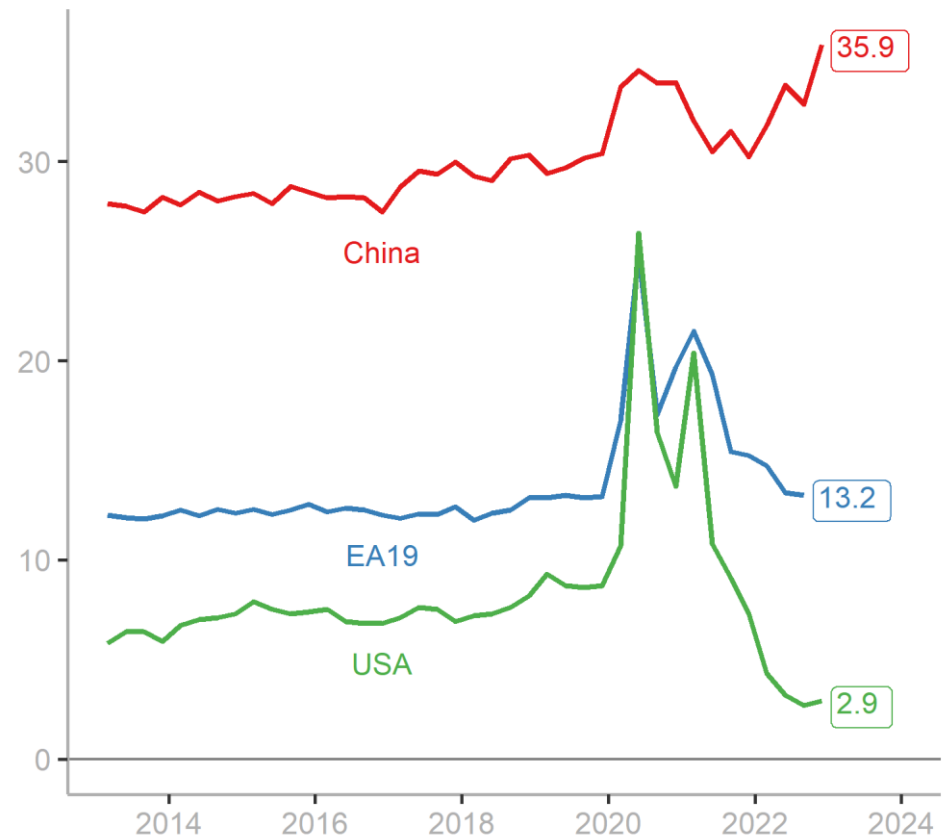


Sources: CEIC

Tale of Three Economies

Household Savings Post Covid

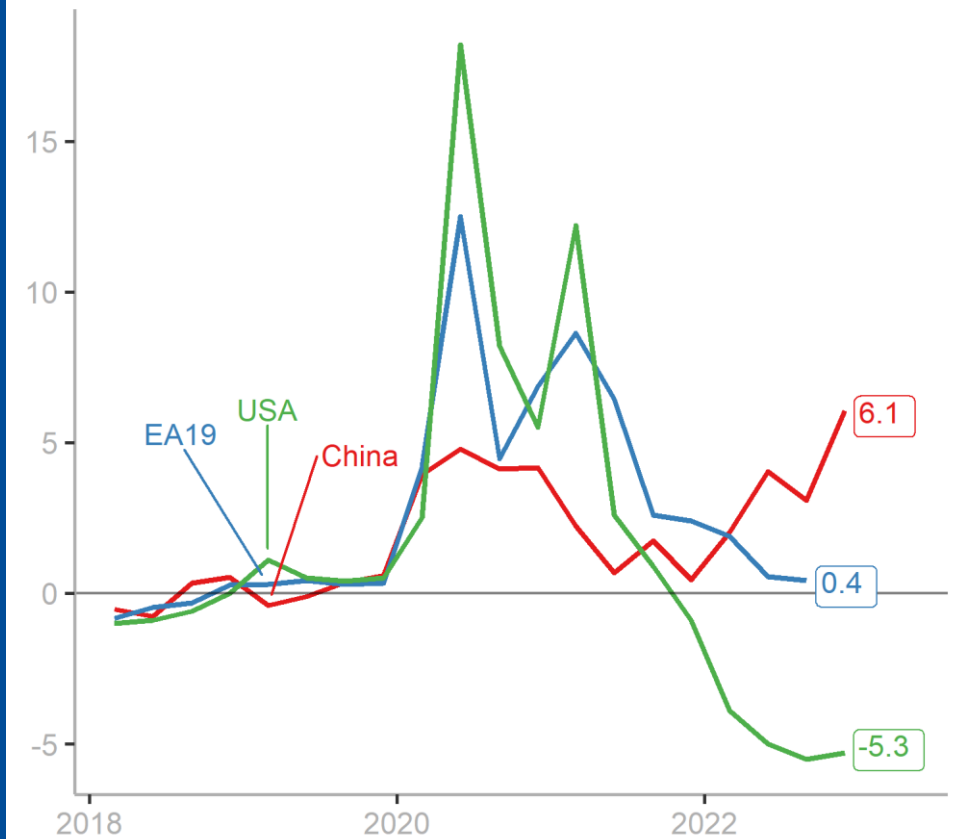
Quarterly SAAR, in % of disposable income (Last obs: 2022Q4)



Sources: CEIC; FRED; Staff Calculations

COVID Increased Household Savings

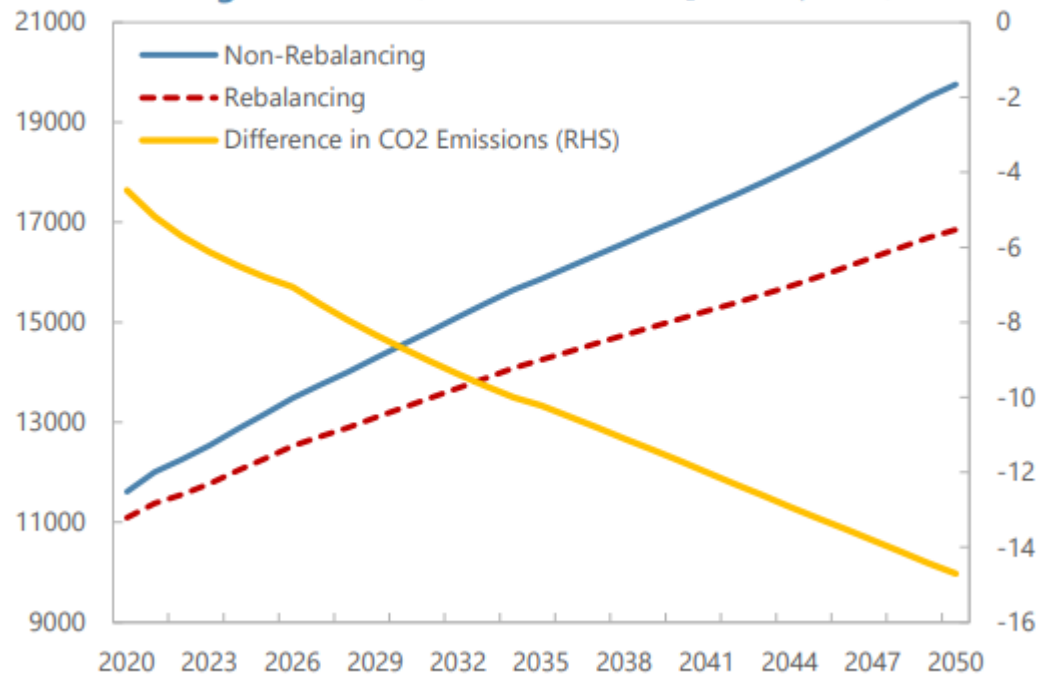
Deviation from 2018-19 average (in ppts) (Last obs: 2022Q4)



Sources: CEIC; FRED; Staff Calculations

Climate: Rebalancing and Financing

CO₂ Projections for China's Rebalancing vs. Non-Rebalancing Scenarios (LHS: Metric tons of CO₂, RHS: in percent)



Sources: IMF-ENV model; IMF World Economic Outlook; and IMF staff calculations.

Issuance of Green Bonds

(In billions of US\$)



Sources: Bloomberg; BloombergNEF; Climate Bonds Initiative; WIND; and IMF staff calculations.

Roadmap

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Unbalanced recovery: prospects and policies

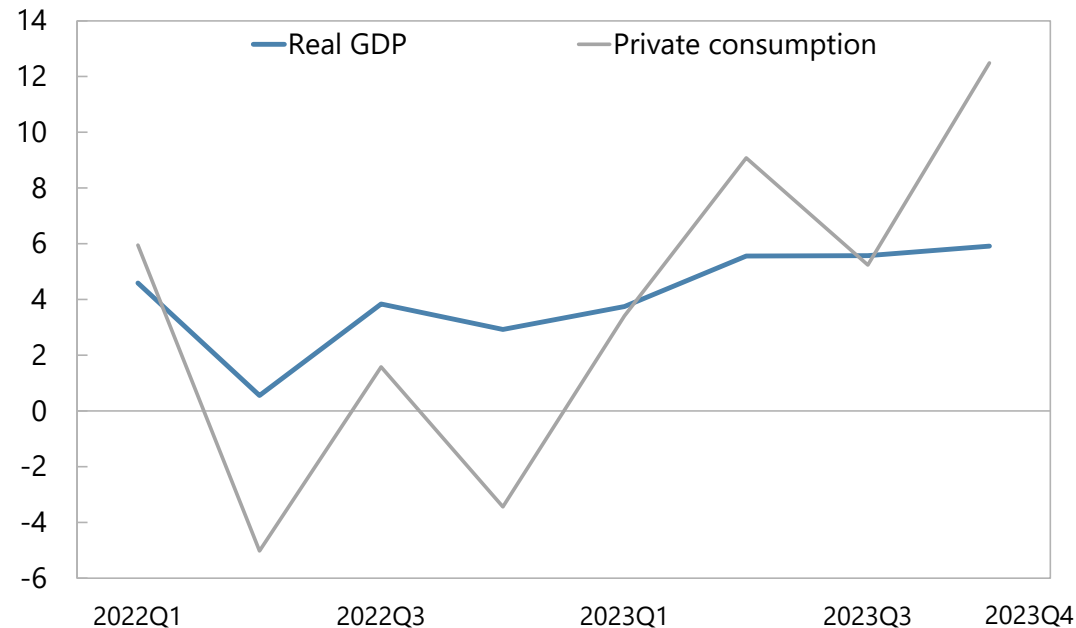


Near-term recovery as COVID waves subside

In the near term, a strong, private consumption-led recovery is expected...

Growth and Private Consumption

(Real growth in percent, year-on-year)

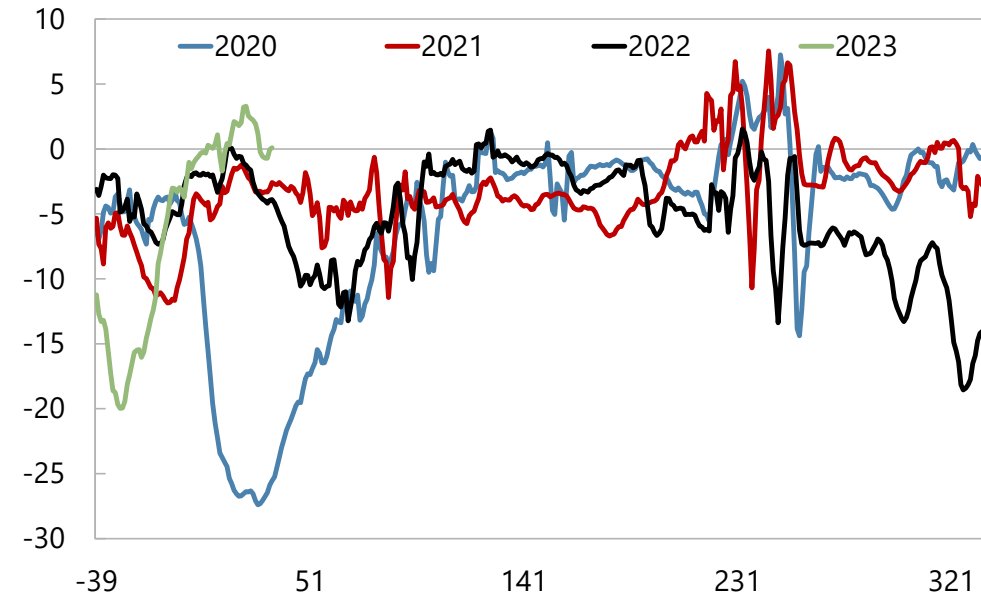


Source: IMF staff calculations.

... as COVID waves subside and mobility increases.

Mobility Index: Deviation from Pre-Pandemic Level

(Average 2017 - 2019)



Sources: Wind; and IMF staff calculations.

Note: Number of days from Chinese new year. Congestion-Mobility index based on ratio of actual trip time to trip time without traffic.

Unbalanced recovery: prospects and policies

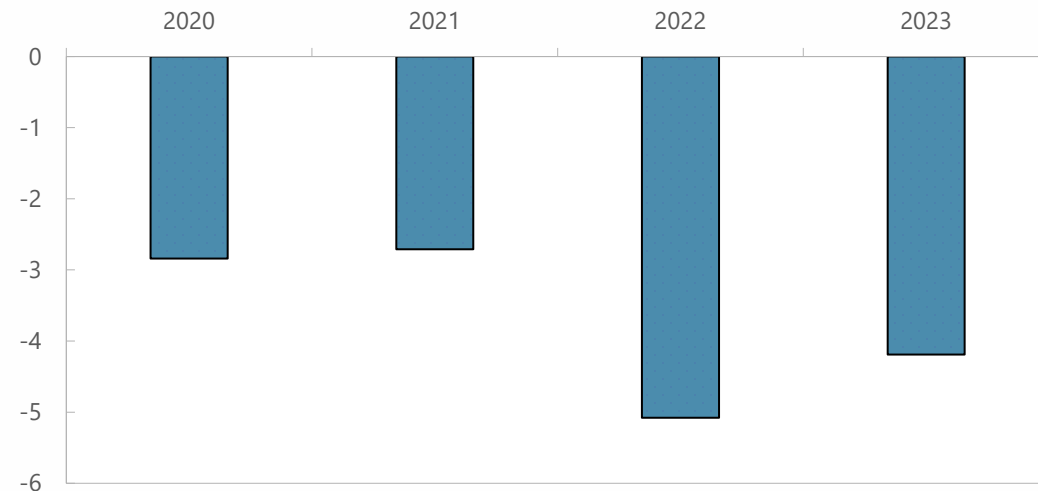


Overall lack of balance

Stepping back, however, the pandemic led to a significant setback for rebalancing toward consumption...

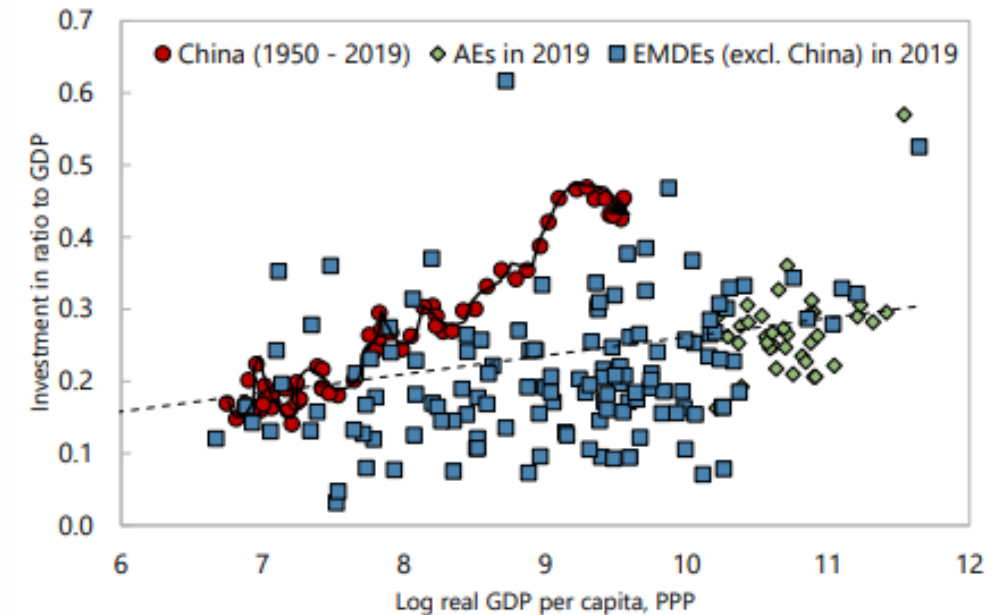
Private Consumption Share of GDP

Difference v. Jan 2020 WEO



... when investment was too high to begin with.

Growth with Excessive Investment



Sources: Penn World Table; and IMF staff calculations.

Unbalanced recovery: prospects and policies

With risks to the downside and signs of still significant slack

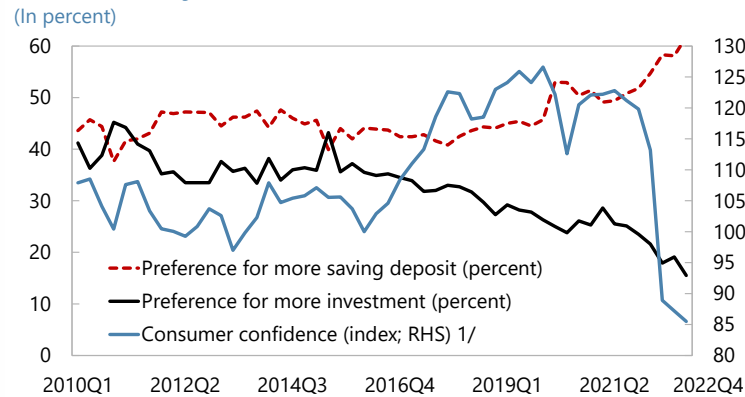


Moreover, despite the improved near-term outlook, confidence has yet to fully bounce back...

... significant slack remains...

... and inflationary pressures remain muted.

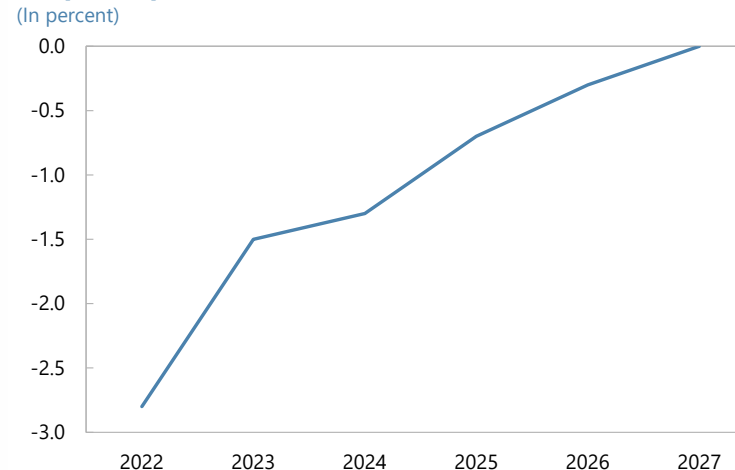
Confidence by Businesses and Consumers



Sources: CEIC Data Company Limited; and IMF staff calculations.

1/ The Consumer Confidence Index ranges between 0 (most pessimistic) to 200 (most optimistic), with 100 being neutral.

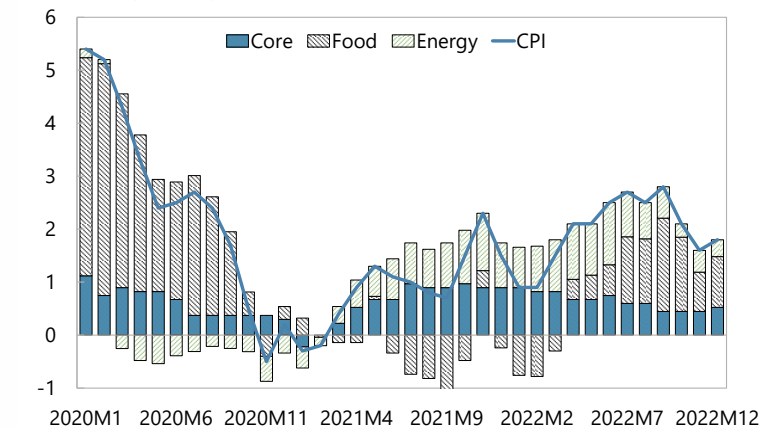
Output Gap



Sources: IMF World Economic Outlook database; and IMF staff calculations.

CPI Inflation

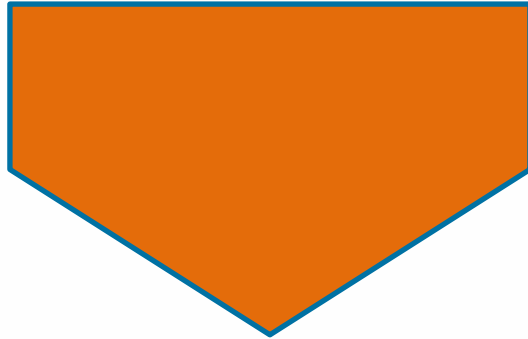
(In percent, year-on-year)



Sources: National Bureau of Statistics China; and IMF staff calculations.

Unbalanced recovery: prospects and policies

With risks to the downside and signs of still significant slack



Downside risks

- Weak consumption recovery amid persistently high precautionary savings
- Deepening of the property sector contraction
- Broad-based deleveraging
- Premature policy tightening
- Weaker global growth, including due to further tightening in global financial conditions
- Rising geopolitical tensions



Upside risks

- Stronger-than-expected consumption rebound (possibly with higher-than-expected inflationary pressures)
- Pro-growth reforms that lift medium-term growth

Unbalanced recovery: prospects and policies

Macro policy recommendations



Given balance of risks, still-significant output gap and muted inflation:

- *Fiscal policy should avoid premature tightening, remaining neutral*
 - *with support reoriented toward strengthened social protection*
- *Some further monetary policy loosening warranted*
 - *Relying on interest rate-based measures*

Unbalanced recovery: prospects and policies

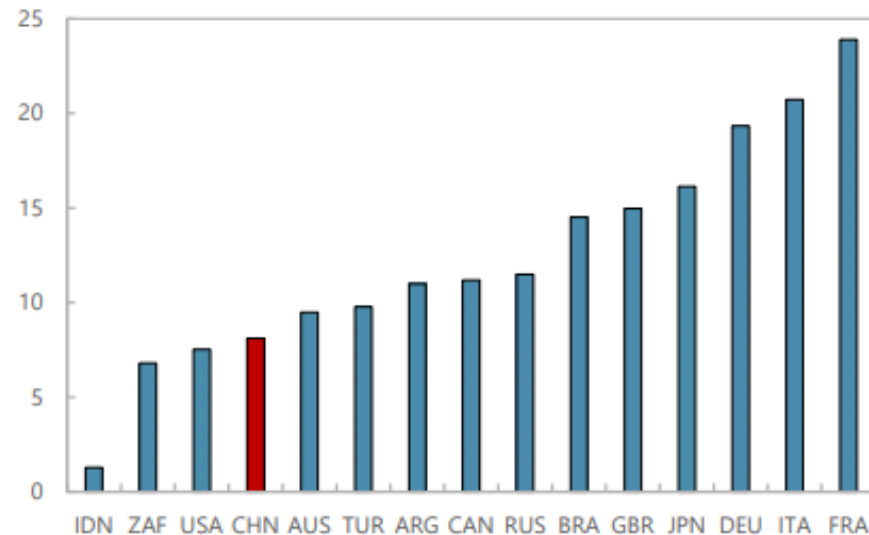
Reorienting fiscal support to build a stronger social protection system...



Durably reducing precautionary savings would require reorienting fiscal support to strengthen social protection...

G20 Social Protection Expense, 2018

(In percent of GDP)

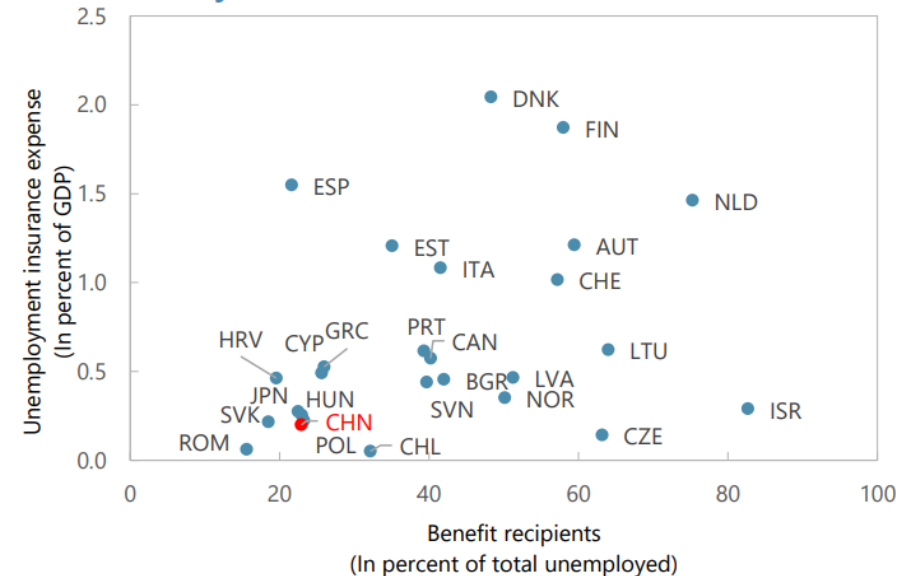


Sources: Government Financial Statistics (GFS); and IMF staff calculations.

Notes: General Government, except Argentina and Brazil, which are central government including social security funds. 2. Health spending is excluded. 3. Data not available in GFS for India, Korea, Mexico, and Saudi Arabia.

... including by expanding the coverage and adequacy of unemployment insurance.

China: Unemployment Benefit Coverage and Adequacy Are Both Relatively Low for China



Sources: Organisation for Economic Co-operation and Development; Global Financial Data; and IMF staff calculations.

Notes: All data as of 2018 except for Cyprus, which is 2016.

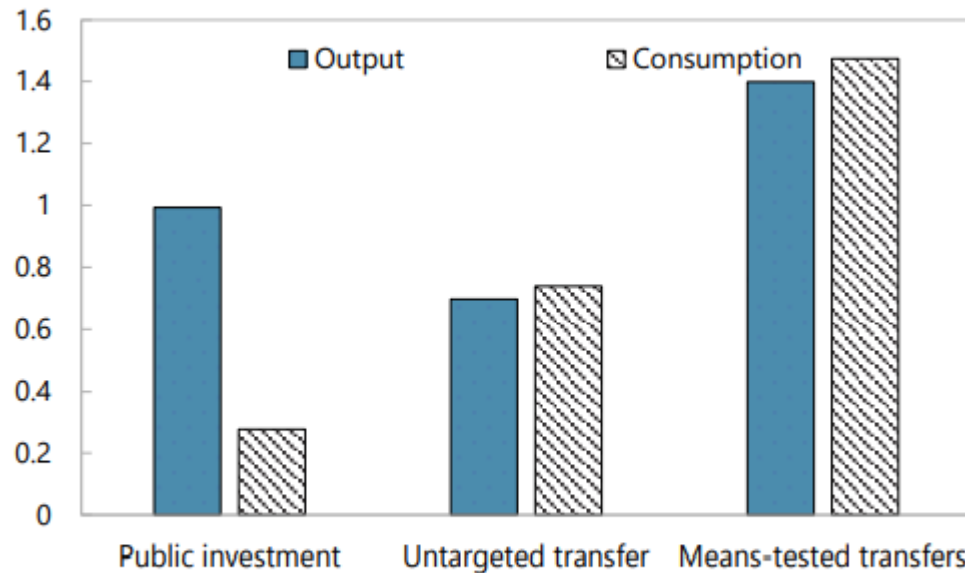
Unbalanced recovery: prospects and policies



... and making fiscal policy a more effective macro stabilization tool

These reforms would also help make fiscal policy a more effective stabilization tool...

Estimated Fiscal Multipliers



Source: IMF staff calculations.

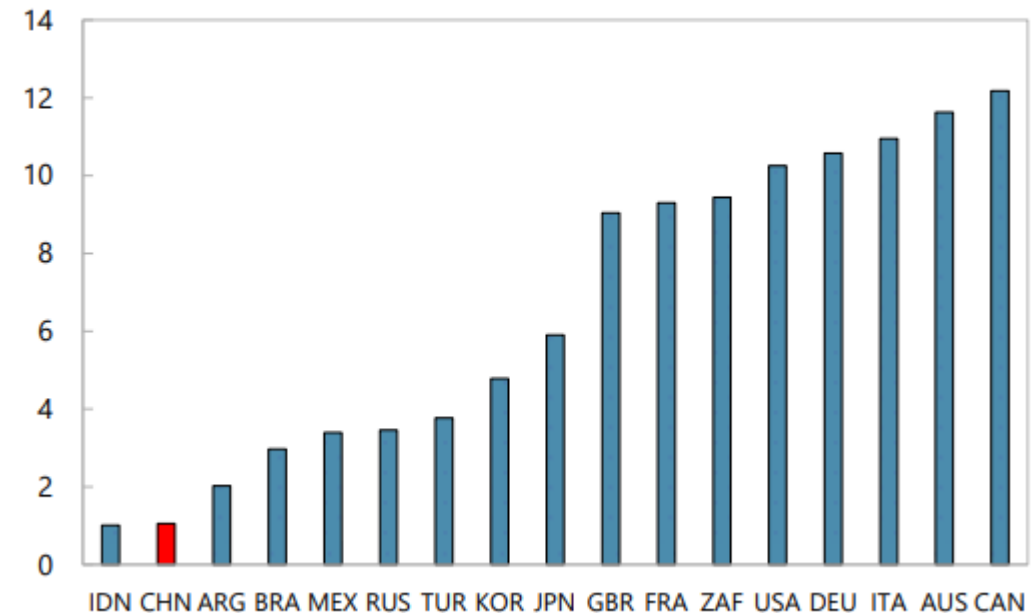
Notes: Estimated multipliers from a general equilibrium model calibrated to China.

See SIP on fiscal multipliers.

... and this would be further enhanced by adopting a more progressive tax system.

G20: Individual Income Tax, 2019

(In percent of GDP)



Source: IMF World Revenue Longitudinal Database.

Unbalanced recovery: prospects and policies

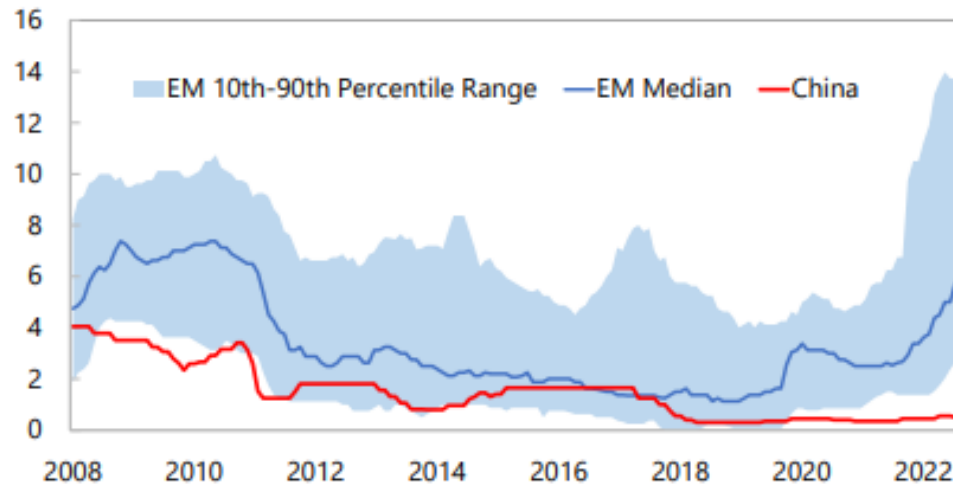


Quantity-based monetary policy has been favored...

Monetary policy's reliance on interest rates is very low...

Selected Emerging Markets: Monetary Policy Usage

(In percentage points, three-year rolling sum of changes in policy interest rate)



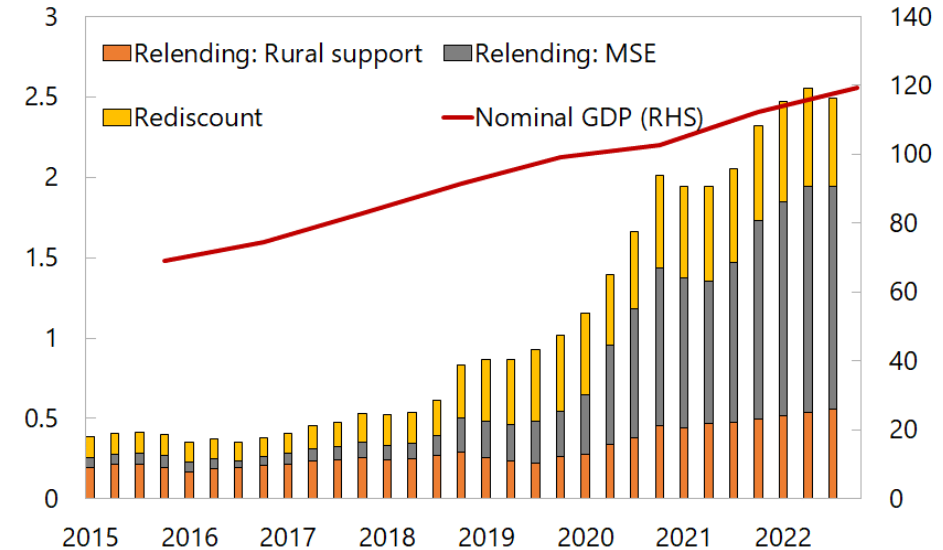
Sources: Haver Analytics; and IMF staff calculations.

Note: Data is calculated using rolling sums of absolute values of policy rate changes.

... and credit-based tools have been playing an increasing role.

PBC Rediscount and Relending Facility Credit Outstanding

(In trillions of RMB)



Source: CEIC Data Company Limited.

Note: MSE = micro and small enterprise

Unbalanced recovery: prospects and policies

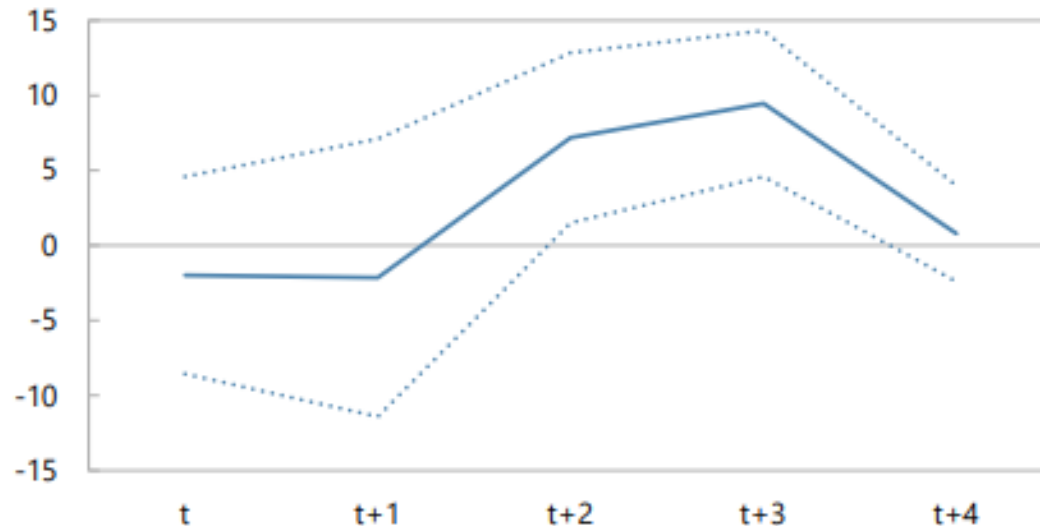


... although price-based monetary policy is estimated to be more effective

Interest rate-based monetary policy significantly lifts investment of credit-constrained firms...

Interest Rate Shock: Small Firms

(In percentage points)

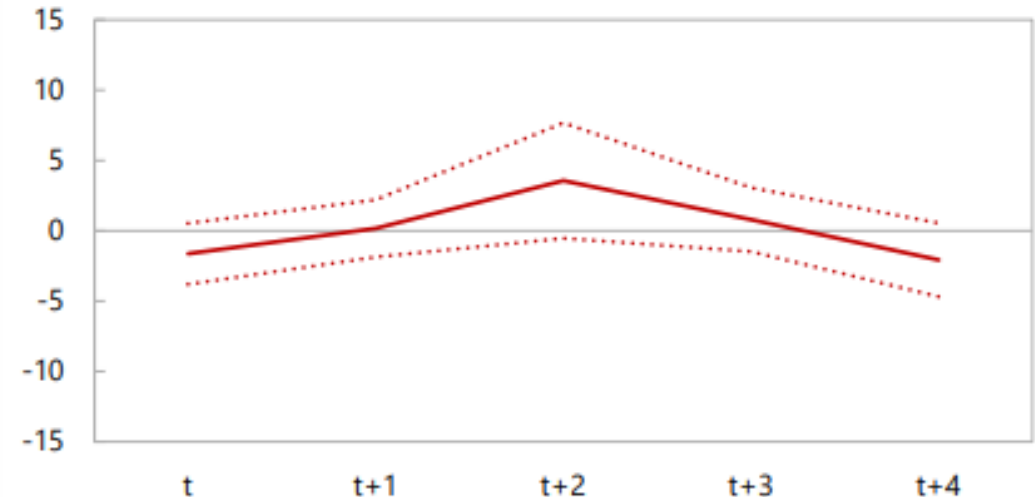


Sources: Capital IQ; CEIC Data Company Limited; WIND; Bloomberg; and IMF staff calculations.
Notes: Each time period t is one half-year. Interest rate shocks are unexpected 25 basis point decreases to the 1-year interest rate swap rate on days of monetary policy announcements. Credit policy shocks are unexpected 12.5 percentage point increases in credit above trend levels. Confidence intervals shown are 90 percent.

... and this effect is larger and more significant than the one from quantity-based monetary policy.

Credit Policy Shock: Small Firms

(In percentage points)



Sources: Capital IQ; CEIC Data Company Limited; WIND; Bloomberg; and IMF staff calculations.
Notes: Each time period t is one half-year. Interest rate shocks are unexpected 25 basis point decreases to the 1-year interest rate swap rate on days of monetary policy announcements. Credit policy shocks are unexpected 12.5 percentage point increases in credit above trend levels. Confidence intervals shown are 90 percent.

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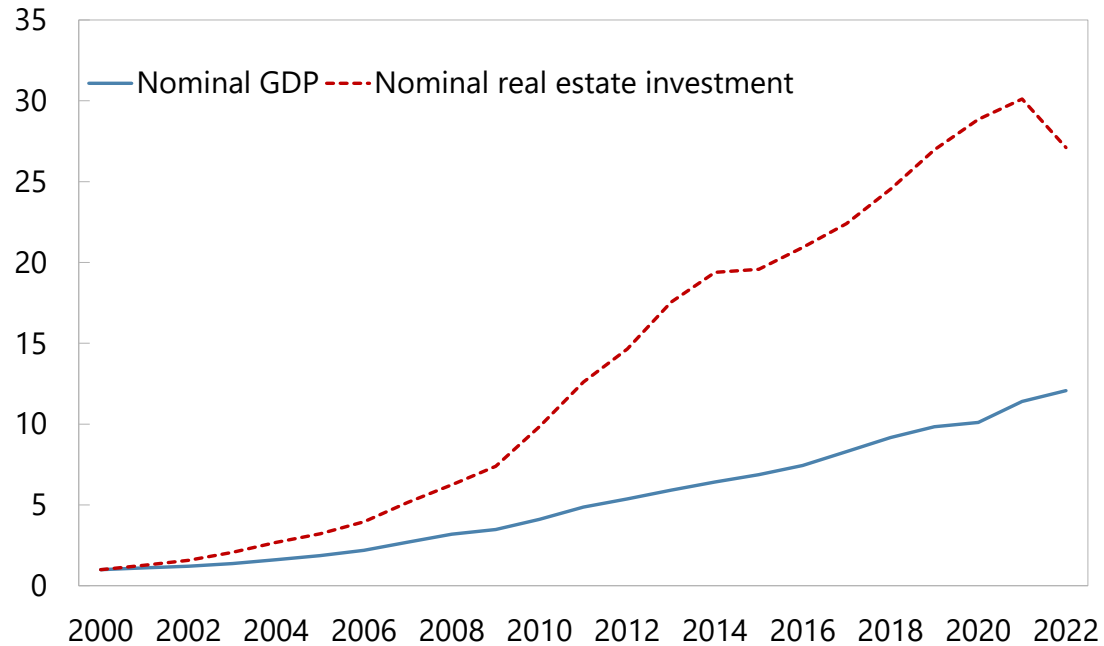
Real estate crisis

Background

Concern about property sector risks date from mid-2010s...

GDP and Real Estate Investment

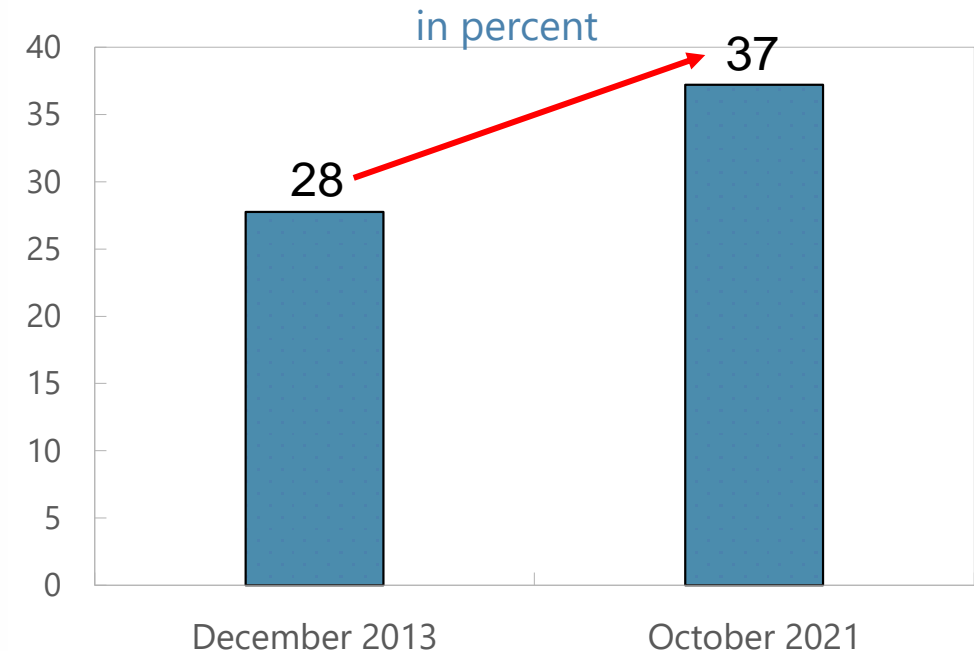
(2000 = 1)



Sources: Haver Analytics; CEIC Data Company Limited; National Bureau of Statistics China; and IMF staff calculations.

... and in response to tightened regulations, developers increased funding from pre-sales, shifting risks to households.

Pre-sales as Share of Total Developer Funding



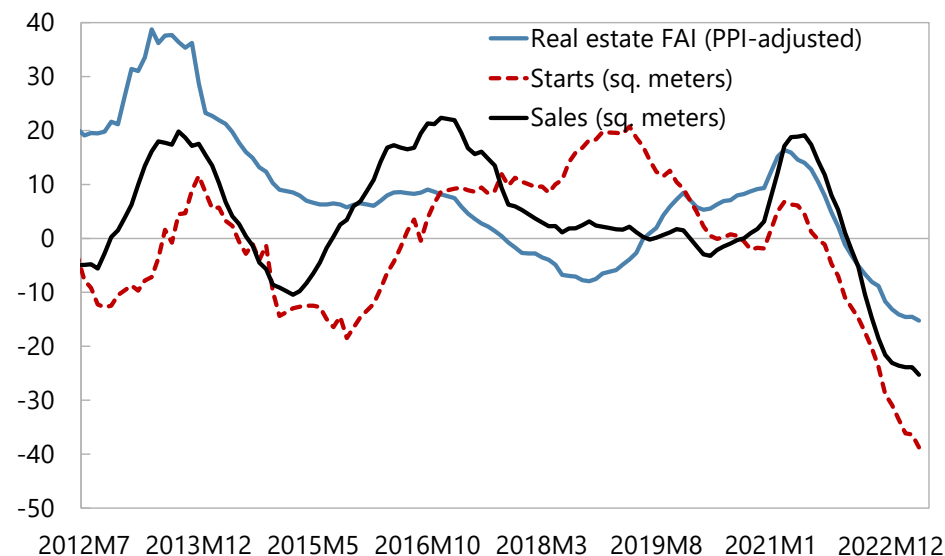
Real estate crisis

The ongoing contraction

On the back of renewed regulatory tightening, markets and homebuyers lost confidence in the sector...

Selected Real Estate Indicators

(In percent, 12M moving sum, year-on-year change)

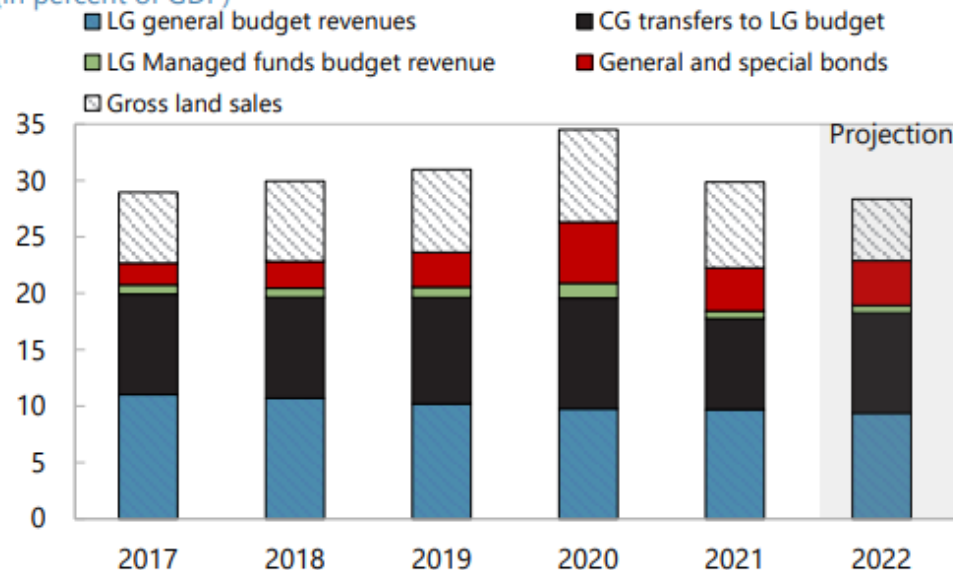


Sources: CEIC Data Company Limited; and IMF staff calculations.

... with the rapid slowdown also prompting a sharp decline in local government land sale revenues.

Local Government Budget Financing 1/

(In percent of GDP)



Sources: CEIC Data Company Limited; Ministry of Finance 2022 budget; and IMF staff calculations.

1/ Local government general budget and local government managed fund budget. Excludes off-budget financing.

Real estate crisis

Stepped-up response, but restructuring remains slow

Authorities have stepped up their response to the crisis...

China: Selected Property Sector Support Measures in 2022

Demand-side measures

- Easing city-level home purchase restrictions, reducing downpayment ratio minimums, and increasing targeted subsidies for home purchase
- Lowering nationwide mortgage rates
- Rebate for individual income tax for home transactions

Supply-side measures

- Quantitative credit growth targets (RMB 1 tn) and window guidance to support developer financing and mortgage loans
- Bond guarantee schemes for selected developers (RMB 30 bn)
- Forbearance for nonperforming loans to property developers
- Relaxed presale escrow requirements for qualifying developers
- Postponement of property loan concentration limits for banks

Restructuring and other measures

- Policy bank-funded special loan facility for completion of troubled unfinished housing projects (RMB 200 bn)
- PBC interest-free funding facility for commercial bank lending to support completion of troubled unfinished housing projects (RMB 200bn)
- Local government troubled project rescue funds (RMB 45 bn)
- Mortgage repayment moratoria and waived credit reporting impact for borrowers affected by delayed housing delivery or COVID
- Guide financial institutions to increase support for rental and affordable housing development, including through purchasing and re-purposing unsold apartments.

Source: IMF staff.

... but pressures remain high.

- Sales in December 2022: 1/3 below a year earlier, with weakness also among healthy, non-SOE developers.
- Restructuring remains slow:
 - Completion funding insufficient, while homeowners awaiting delivery would face disproportionate losses.
 - Forbearance policies further limit credit incentives to restructure.



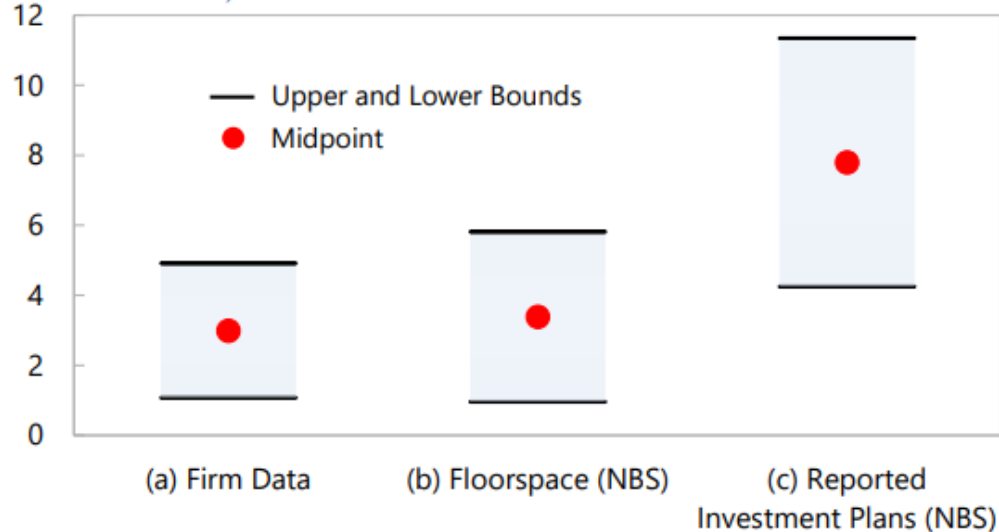
Real estate crisis



Gross completion cost estimate vary due to data gaps, but net of sales and recoveries would be manageable.

Ranges of Estimates of Gross Completion Costs for Troubled Pre-Sold Housing Projects

(In percent of GDP, assumes no funding from additional home sales or restructuring-related recoveries)



Sources: Capital IQ; CEIC Data Company Limited; WIND; National Bureau of Statistics China; and IMF staff calculations.

Measures should be comprehensive, including to address moral hazard.

- Legal reforms to pre-sales model.
- Structural reforms to allow durable market transformation:
 - Alternative savings options.
 - Fiscal reforms for local governments.

Thank You