Roadmap

Context

Securing a balanced recovery

Medium-term

Ending the property crisis
Roadmap

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Medium-term

Securing a balanced recovery

Ending the property crisis
Remarkable growth...China is now world’s...

GDP Growth by Income, 1995-2019
50 Largest Economies (2019)

- China

Changing Shares of World Output
Percent of world (PPP basis)

- Advanced Economies, 62.8%
- Emerging & Developing Economies, 57.8%
- Emerging & Developing Economies, 37.2%
- Advanced Economies, 42.2%
- United States, 21.3%
- United States, 15.7%
- China, 18.2%
- China, 2.3%

Source: WEO, October 2022. Note: UAE is excluded
...1\textsuperscript{st} or 2\textsuperscript{nd} biggest economy. But not rich.

### Share of World GDP

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>18.2%</td>
</tr>
<tr>
<td>United States</td>
<td>15.7%</td>
</tr>
<tr>
<td>European Union</td>
<td>14.9%</td>
</tr>
<tr>
<td>India</td>
<td>6.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>4.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>3.4%</td>
</tr>
<tr>
<td>Russia</td>
<td>3.1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.4%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.3%</td>
</tr>
<tr>
<td>France</td>
<td>2.3%</td>
</tr>
<tr>
<td>Türkiye</td>
<td>1.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.9%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.8%</td>
</tr>
<tr>
<td>Korea</td>
<td>1.7%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.4%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1.2%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.0%</td>
</tr>
<tr>
<td>Argentina</td>
<td>0.7%</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Source: WEO, October 2022

### China: Income Convergence, 1980-2022

Per capita GDP, (in %)

- **Advanced Economies (PPP)**: 34.1%
- **United States (PPP)**: 28.3%
- **United States (US$)**: 17.3%

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

October 2019
January 2023

GDP Scarring, 2024
Real GDP relative to pre-pandemic forecast (in %)

- Italy, -0.9%
- Japan, -0.9%
- United States, -1.1%
- Advanced Economies, -1.6%
- Euro area, -2.1%
- Australia, -2.2%
- Canada, -2.5%
- New Zealand, -3.2%
- Korea, -3.2%
- France, -3.6%
- Germany, -4.0%
- Sub-Saharan Africa, -4.3%
- World, -4.6%
- China, -5.0%
- Emerging market and developing economies, -6.0%
- United Kingdom, -7.2%
- India, -11.3%

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

Trend (5.5% annual growth)

Source: CEIC
Roadmap

**Context**
- Securing a balanced recovery

**Medium-term**
- Ending the property crisis
Outlook

China: GDP Forecast Vintages
Growth (in %), 2000 - 2027

Productivity Convergence within Services
(in percentage of US sectoral productivity)

Productivity Growth

Backdrop

The population is shrinking…

... capital faces diminishing returns…

... and productivity is stagnating.
Demographics

**China: Population**

Millions, 1990 to 2050

- **Total**: 1313
- **Working age (15 to 64)**: 767

**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

- **Dependency (Old and young)**: 59.0
- **Old age dependency**: 41.6

**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

Consumption to GDP, 2019
In % GDP

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

Sources: PWT 10.0; Note: G20 + selected Asian Economies
Pandemic: Savings Up as Consumption Lagged

China: Household Survey

In % of GDP, 2000 to 2022

- Disposable income: 43.0
- Consumption: 28.6
- Savings (% GDP): 13.1
- 14.4

Sources: CEIC

China: Real GDP, Income, Consumption

Index (2019Q4 = 100) 2018 to 2022

- GDP Index: 113.5
- Disposable income: 113.5
- Household Consumption: 106.9

Sources: CEIC
Tale of Three Economies

Household Savings Post Covid
Quarterly SAAR, in % of disposable income (Last obs: 2022Q4)

- China: 35.9
- EA19: 13.2
- USA: 2.9

COVID Increased Household Savings
Deviation from 2018-19 average (in ppts) (Last obs: 2022Q4)

- China: 6.1
- USA: 0.4
- EA19: -5.3

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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Rebalancing</th>
<th>Rebalancing</th>
<th>Difference in CO₂ Emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>11,000</td>
<td>-</td>
<td>11,000</td>
</tr>
<tr>
<td>2023</td>
<td>13,000</td>
<td>-6</td>
<td>12,940</td>
</tr>
<tr>
<td>2026</td>
<td>15,000</td>
<td>-12</td>
<td>14,908</td>
</tr>
<tr>
<td>2029</td>
<td>17,000</td>
<td>-18</td>
<td>16,822</td>
</tr>
<tr>
<td>2032</td>
<td>19,000</td>
<td>-24</td>
<td>18,764</td>
</tr>
<tr>
<td>2035</td>
<td>21,000</td>
<td>-30</td>
<td>20,698</td>
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<tr>
<td>2038</td>
<td>23,000</td>
<td>-36</td>
<td>22,634</td>
</tr>
<tr>
<td>2041</td>
<td>25,000</td>
<td>-42</td>
<td>24,578</td>
</tr>
<tr>
<td>2044</td>
<td>27,000</td>
<td>-48</td>
<td>26,522</td>
</tr>
<tr>
<td>2047</td>
<td>29,000</td>
<td>-54</td>
<td>28,464</td>
</tr>
<tr>
<td>2050</td>
<td>31,000</td>
<td>-60</td>
<td>30,400</td>
</tr>
</tbody>
</table>

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

**Issuance of Green Bonds**

(In billions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Only aligned with Chinese standards</th>
<th>Aligned with commonly accepted international...</th>
<th>Based on International Capital Market’s Green Bond Principles</th>
<th>Based on Climate Bonds Initiative Green Bonds Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2020</td>
<td>60</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2022</td>
<td>90</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

Context

Medium-term

Securing a balanced recovery

Ending the property crisis
Unbalanced recovery: prospects and policies

Near-term recovery as COVID waves subside

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

… as COVID waves subside and mobility increases.

Growth and Private Consumption
(Real growth in percent, year-on-year)

Source: IMF staff calculations.

Mobility Index: Deviation from Pre-Pandemic Level
(Average 2017 - 2019)

Source: 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.
Stepping back, however, the pandemic led to a significant setback for rebalancing toward consumption… … when investment was too high to begin with.

Unbalanced recovery: prospects and policies
Overall lack of balance

Private Consumption Share of GDP
Difference v. Jan 2020 WEO

Growth with Excessive Investment
Moreover, despite the improved near-term outlook, confidence has yet to fully bounce back… … significant slack remains… … and inflationary pressures remain muted.

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
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…**

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

**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.

**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...

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

**Estimated Fiscal Multipliers**

<table>
<thead>
<tr>
<th></th>
<th>Output</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public investment</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Untargeted transfer</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Means-tested transfers</td>
<td>0.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: IMF staff calculations.
Notes: Estimated multipliers from a general equilibrium model calibrated to China. See SIP on fiscal multipliers.

**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…

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

Source: Haver Analytics; and IMF staff calculations.
Note: Data is calculated using rolling sums of absolute values of policy rate changes.

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**...

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

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Securing a balanced recovery

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Real estate crisis
Background

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

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

GDP and Real Estate Investment
(2000 = 1)

Pre-sales as Share of Total Developer Funding
in percent

Sources: Haver Analytics; CEIC Data Company Limited; National Bureau of Statistics China; and IMF staff calculations.
Real estate crisis
The ongoing contraction

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

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

Selected Real Estate Indicators
(In percent, 12M moving sum, year-on-year change)

Sources: CEIC Data Company Limited; and IMF staff calculations.
Real estate crisis
Stepped-up response, but restructuring remains slow

Authorities have stepped up their response to the crisis…

… 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 estimates vary due to data gaps, but net of sales and recoveries would be manageable.

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.

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.
Thank You