FOCUSECONOMICS Economic Forecasts from the World's Leading Economists

China Economic Outlook

April 24, 2018

The economy continued to defy fears of a slowdown in Q1, with GDP expanding 6.8% annually for the third consecutive quarter. Strong private consumption and robust real estate and service investments were behind the resilient growth. While exports remained upbeat due to healthy global demand, vigorous domestic demand prompted imports to surge, diminishing the external sector's overall contribution to growth. Slower credit growth and lower property sales in March signal that domestic demand will likely cool in Q2. Moreover, trade disputes between with the U.S. are clouding the outlook for the all-important external sector. On 23 March, China decided to retaliate with tariffs on 128 U.S. products worth about USD 3 billion in response to levies on aluminium and steel. While President Xi Jinping adopted a more conciliatory tone in April, officials stated that China will strike back against any punitive measure.

China Economic Growth

With the much-needed economic rebalancing coming alongside resilient growth, the economy appears to be in a sweet spot. That said, downside risks include a cooling housing sector, ongoing financial deleveraging and a potential trade war with the United States. Panelists forecast the economy will grow 6.5% in 2018, which is unchanged from last month's forecast. In 2019, the economy is seen growing 6.3%.

China Economy Data

	2012	2013	2014	2015	2016

	2012	2013	2014	2015	2016
Population (million)	1,354	1,361	-	-	-
Population (million)	1,354	1,361	-	-	-
GDP per capita (USD)	6,333	7,124	-	-	-
GDP per capita (USD)	6,333	7,124	-	-	-
GDP (USD bn)	8,575	9,694	-	-	-
GDP (USD bn)	8,575	9,694	-	-	-
Economic Growth (GDP, annual variation in %)	7.9	7.8	-	-	-
Economic Growth (GDP, annual variation in %)	7.9	7.8	-	-	-
Consumption (annual variation in %)	9.1	7.3	-	-	-
Consumption (annual variation in %)	9.1	7.3	-	-	-
Investment (annual variation in %)	20.6	19.6	-	-	-
Investment (annual variation in %)	20.6	19.6	-	-	-
Industrial Production (annual variation in %)	10.0	9.7	-	-	-
Industrial Production (annual variation in %)	10.0	9.7	-	-	-
Retail Sales (annual variation in %)	14.3	13.1	-	-	-
Retail Sales (annual variation in %)	14.3	13.1	-	-	-
Unemployment Rate	4.1	4.1	-	-	-
Fiscal Balance (% of GDP)	-1.6	-1.9	-	-	-
Fiscal Balance (% of GDP)	-1.6	-1.9	-	-	-
Public Debt (% of GDP)	14.4	14.6	-	-	-
Public Debt (% of GDP)	14.4	14.6	-	-	-
Money (annual variation in %)	13.8	13.6	-	-	-
Money (annual variation in %)	13.8	13.6	-	-	-
Inflation Rate (CPI, annual variation in %, eop)	2.5	2.5	-	-	-
Inflation Rate (CPI, annual variation in %, eop)	2.5	2.5	-	-	-
Inflation Rate (CPI, annual variation in %)	2.6	2.6	-	-	-
Inflation Rate (CPI, annual variation in %)	2.6	2.6	-	-	-
Inflation (PPI, annual variation in %)	-1.7	-1.9	-	-	-

	2012	2013	2014	2015	2016
Inflation (PPI, annual variation in %)	-1.7	-1.9	-	-	-
Policy Interest Rate (%)	6.00	6.00	-	-	-
Policy Interest Rate (%)	6.00	6.00	-	-	-
Stock Market (annual variation in %)	3.2	-6.7	-	-	-
Stock Market (annual variation in %)	3.2	-6.7	-	-	-
Exchange Rate (vs USD)	6.23	6.05	-	-	-
Exchange Rate (vs USD)	6.23	6.05	-	-	-
Exchange Rate (vs USD, aop)	6.31	6.15	-	-	-
Exchange Rate (vs USD, aop)	6.31	6.15	-	-	-
Current Account (% of GDP)	2.5	1.5	-	-	-
Current Account (% of GDP)	2.5	1.5	-	-	-
Current Account Balance (USD bn)	215	148	-	-	-
Current Account Balance (USD bn)	215	148	-	-	-
Trade Balance (USD billion)	230	258	-	-	-
Trade Balance (USD billion)	230	258	-	-	-
Exports (USD billion)	2,049	2,209	-	-	-
Exports (USD billion)	2,049	2,209	-	-	-
Imports (USD billion)	1,819	1,952	-	-	-
Imports (USD billion)	1,819	1,952	-	-	-
Exports (annual variation in %)	8.0	7.8	-	-	-
Exports (annual variation in %)	8.0	7.8	-	-	-
Imports (annual variation in %)	4.3	7.3	-	-	-
Imports (annual variation in %)	4.3	7.3	-	-	-
International Reserves (USD)	3,312	3,821	-	-	-
International Reserves (USD)	3,312	3,821	-	-	-
External Debt (% of GDP)	8.6	8.9	-	-	-
External Debt (% of GDP)	8.6	8.9	-	-	-

Sample Report

5 years of China economic forecasts for more than 30 economic indicators.

China Economy Overview

Economic Overview

The Chinese economy experienced astonishing growth in the last few decades that catapulted the country to become the world's second largest economy. In 1978—when China started the program of economic reforms—the country ranked ninth in nominal gross domestic product (GDP) with USD 214 billion; 35 years later it jumped up to second place with a nominal GDP of USD 9.2 trillion.

Since the introduction of the economic reforms in 1978, China has become the world's manufacturing hub, where the secondary sector (comprising industry and construction) represented the largest share of GDP. However, in recent years, China's modernization propelled the tertiary sector and, in 2013, it became the largest category of GDP with a share of 46.1%, while the secondary sector still accounted for a sizeable 45.0% of the country's total output. Meanwhile, the primary sector's weight in GDP has shrunk dramatically since the country opened to the world.

China weathered the global economic crisis better than most other countries. In November 2008, the State Council unveiled a CNY 4.0 trillion (USD 585 billion) stimulus package in an attempt to shield the country from the worst effects of the financial crisis. The massive stimulus program fueled economic growth mostly through massive investment projects, which triggered concerns that the country could have been building up asset bubbles, overinvestment and excess capacity in some industries. Given the solid fiscal position of the government, the stimulus measures did not derail China's public finances. The global downturn and the subsequent slowdown in demand did, however, severely affect the external sector and the current account surplus has continuously diminished since the financial crisis.

China exited the financial crisis in good shape, with GDP growing above 9%, low inflation and a sound fiscal position. However, the policies implemented during the crisis to foster economic growth exacerbated the country's macroeconomic imbalances. Particularly, the stimulus program bolstered investment, while households' consumption remained relatively low. In order to tackle these imbalances, the new administration of President Xi Jinping and Premier Li Keqiang, beginning in 2012, have unveiled economic measures aimed at promoting a more balanced economic model at the expense of the once-sacred rapid economic growth.

Economic History

After Mao Zedong's death in 1976, Deng Xiaoping—who was the core of the second generation of Chinese leadership—became China's paramount leader and pushed ahead bold reforms that reshapec the country's economy. At the Third Plenum of the 11th Central Committee of the Communist Party of China, held in December 1978, Deng announced the official launch of the Four Modernizations—agriculture, defense, industry and science and technology—which marked the beginning of the reform and opening-up policies. Economic reforms under Deng's era increased the role of market mechanisms and reduced government control over the economy. The measures included, among others, breaking down the collective farms, opening up China to foreign investment, encouraging business entrepreneurship, establishing Special Economic Zones and introducing market incentives in the state-owned companies. Moreover, China started to participate in the global economy and the country joined the International Monetary Fund (IMF) and the World Bank in 1980.

In early 1990s, Jiang Zemin—the third generation of Chinese leadership—became the new paramount leader of the country and his administration implemented substantial economic reforms. Under his mandate, most of the state-owned companies, except large monopolies, were privatized or liquidated, thus expanding the role of the private sector in the economy at the cost of leaving millions unemployed. During the same period, President Jiang and Premier Zhu Rongji reduced trade barriers; ended state planning; introduced competition, deregulation and new taxes; reformed and bailed ou the banking system; and drove the military stratum out of the economy. In addition, Jiang guided China to join the World Trade Organization in December 2001, which buttressed the country's trade.

In 2002, Jiang Zemin stepped down as General Secretary of the Communist Party, thereby initialing the transition to the fourth generation of leadership, led by President Hu Jintao and Premier Wen Jiabao. The Hu-Wen administration tried to reduce the income gap between the coastal cities and the countryside, as China's skyrocketing growth mostly benefited just one part of the population. They increased subsidies, scrapped agricultural taxes, slowed privatization of state assets and promoted social welfare. Despite the government's efforts to prevent the country from overheating, by the mid-2000s the economy experienced an unprecedented economic growth mainly due to booming exports, resilient private consumption, soaring manufacturing and massive investment. However, the 2008 global financial crisis forced the Chinese authorities to launch an aggressive stimulus package and adopt a loose monetary policy.

The fifth generation came to power in 2012, when President Xi Jinping and Premier Li Keqiang took the reins of the country. The new Xi-Li administration unveiled an ambitious reform agenda in an attempt to change the country's economic fundamentals and ensure a sustainable growth model. In this regard, authorities expressed their willingness to tolerate lower growth rates as a necessary condition to push forward economic reforms. Xi coined the term "Chinese Dream" as his contribution to the guiding ideology of the Communist Party of China. Although vague, the "Chinese dream" emphasizes people's happiness and the idea of a strong China.

The Chinese dream has endured some growing pains. Although still solid, economic growth has slowed. In 2015, the Chinese economy missed its 7.0% growth target for the year by 0.1 percentage points, marking the first time in two decades that growth has come in below target. Investment in manufacturing and infrastructure is slowing as the nation shifts from an investment driven growth model t one more focused on consumer demand.

China's Balance of payments

China's external position is extremely solid. The current account has recorded a surplus in every year since 1994. The capital account followed suit and only recorded two deficits in the last 20 years. Thi situation of surpluses in the both the current and the capital put pressure on the national currency and prompted the Central Bank to sterilize most of the foreign currency that entered the country. As a result, China's foreign exchange reserves skyrocketed to almost USD 4.0 trillion in 2014. The current account surplus reached its peak in 2007, when it represented 10.1% of GDP. Since then, however, the surplus has since narrowed as the currency strengthened and domestic demand increased.

China's capital account has bold controls, which implies that the country lacks the freedom to convert local financial assets into foreign financial assets at a market-determined exchange rate and vice versa. The new Xi-Li administration and the People's Bank of China vowed to accelerate interest rate liberalization and capital account convertibility. In this regard, Chinese authorities have started to implement some measures, such as removing a cap on foreign-currency deposit rates in Shanghai and releasing some controls on the currency.

The capital account benefited from strong inflows of Foreign Direct Investment (FDI). FDI has performed strongly in the last decade, with record inflows of USD 118 billion in 2013, thereby becoming the second largest recipient of foreign investment. Among the countries that invest more in China are Hong Kong, Singapore, Japan, Taiwan, and the United States. In addition, China's outward investment soared in recent years and, according to some analysts, the country could become a net exporter of capital in the coming years.

China's Trade Structure

China has experienced uninterrupted trade surpluses since 1993. Total trade multiplied by nearly 100 to USD 4.2 trillion in only three decades and, in 2013, China surpassed the United States as the world's biggest trading nation.

The opening of the country and the government's massive investment programs have prompted the country to become a major manufacturing hub. This situation fostered trade growth, particularly after China joined the World Trade Organization in 2001. As an economy highly integrated into the global trade system, the country benefited from a steady improvement in its terms of trade since 2000. However, the global economic downturn in 2008-2009 led the country to reduce manufacturing output, thus dragging on China's trading sector.

Moreover, the country has engaged in several bilateral and multilateral trade agreements that have opened new markets for its products. In 2003, China signed the Closer Economic Partnership Arrangement with Hong Kong and Macau. A Free Trade Agreement (FTA) between China and the ASEAN nations came into effect on January 2010, which created the world's third largest free trade are in terms of nominal GDP. China also established, among others, FTA with countries such as, Australia, Chile, Costa Rica, Korea, Pakistan, Peru, New Zealand, and Singapore. Moreover, there are other FTAs under negotiation with the Gulf Cooperation Council, Japan, Norway and Sri Lanka.

Exports from China

Electronics and machinery make up around 55% of total exports, garments account for 13% and construction material and equipment represent 7%. Sales to Asia represent over 40% of total shipments, while North America and Europe have an export share of 24% and 23%, respectively. Although exports to Africa and South America expanded rapidly, they only account for 8% of total shipments.

Due to favorable global trade conditions and China's accession to the World Trade Organization in December 2001, the country has experienced an astonishing growth of 26.9% annually in real goods and services exports during the 2002-2008 period. **Imports to China**

In order to supply factories and support China's rapid development, the country's imports are mostly dominated by intermediate goods and a wide range of commodities, including oil, iron ore, copper and cereals. China's soaring demand for raw materials pushed global commodity prices up leading up to 2015, thereby boosting the coffers of many developing nations and commodity-exporting economies. However, since the end of the commodities super cycle at the end of 2014, global commodities prices have fallen partially due to a decrease in demand from China. The acceleration that many of those same developing and commodity-exporting economies experienced has dramatically decreased since the end of 2015.

Supply of imports into China is mostly dominated by Asian countries, with a combined share of around 30% of total imports. Purchases from Europe and the U.S. account for 12% and 8%, respectively. As a major global buyer of commodities, imports from Africa, Australia, the Middle East and South America have increased strongly in the last decade to represent a combined share of around 50%.

In parallel with skyrocketing exports, growth in imports of real goods and services soared in the 2002-2008 period, recording an annual average expansion of 24.4%. Imports experienced a contraction in 2009 due to the global crisis, but recovered quickly in 2010 and 2011. In the 2012-2013 period, imports recorded a modest increase of 7.2%.

As the construction boom fades in China, fewer natural resources are demanded. This has pulled down global prices for base metals, energy products, as well as other resources. Imports contracted a sharp 14.3% in 2015 as the Chinese economy adjusted to its new growth dynamics.

China's Economic Policy

Economic growth soared in the last few decades mainly due to the country's increasing integration into the global economy and the government's bold support for economic activity. However, the successful economic model that lifted hundreds of millions out of poverty and fueled the country's astonishing economic and social development has also brought many challenges. Severe economic imbalances, mounting environmental issues, rising economic inequality and an aging population are the key questions that the new administration lead by President Xi Jinping will have to tackle in the near future in order to ensure the country's sustainability.

China's Fiscal Policy

Before 1978, China had a highly centralized fiscal system, which mainly reflected the country's planned economic system. The central government collected all revenues and allocated all the spending of the administration and public institutions. In parallel with the reforms implemented in the country for Deng Xiaoping, the government started to decentralize the fiscal system.

In 1994, the government launched a bold fiscal reform in order to struggle against a rapid decline in the tax/GDP ratio, which dampened the government's ability to conduct macroeconomic and redistribution policies. The flagship of the reform was a new taxation system and the adoption of a tax-sharing scheme, where the most lucrative sources of tax revenues, such as the Value-Added Tax and the Enterprise Income Tax, were administered by the central government.

The result of this reform was a steady increase in revenues, which jumped from 10.8% of GDP in 1994 to 22.7% of GDP in 2013. While expenditures followed suit and increased at a double-digit rate in the same period, the fiscal deficit was kept in check. In the 1994-2013 period, the government's fiscal deficit averaged 1.4% of GDP.

The new system, however, left local governments with fewer sources of revenue. As a result they had to rely on land sales and indirect borrowing (mostly so-called "shadow banking") to finance their activity. In addition, local governments put in place off-budget local government financing vehicles to raise funds and finance investment projects.

Although debt is still at manageable levels, an increase in the reliance on shadow banking and the rapid pace of debt accumulation is worrisome. In an effort to increase revenue sources for local governments, in August 2014, the National People's Congress passed amendments to the budget law, allowing provincial government to issue bonds directly and increase transparency. This move paves the way for local governments to raise debt in the bond market.

China's government debt is almost entirely denominated in local currency and owned by domestic institutions. In addition, the government has cash savings equivalent to 6% of GDP in the People's Bank of China. This situation shields the economy against government debt crises. In 2015, public debt amounted to 15.6% of GDP.

China's Monetary Policy

Under the guidance of the State Council, the People's Bank of China (PBOC) formulates and implements monetary policy, prevents and resolves financial risks, and safeguards financial stability. The PBOC's main objectives are: ensuring domestic price stability, managing the exchange rate and promoting economic growth. At the beginning of each year, the State Council establishes guiding targets for GDP, the Consumer Price Index (CPI), money supply (M2) and credit growth. The PBOC's policy rate is the one-year lending rate. The Central Bank recently vowed to maintain a "prudent" monetary policy while conducting policy fine-tuning at an appropriate time during the National People's Congress (NPC) in March of 2016.

The Central Bank manages money supply through Open Market Operations (OMO), which are conducted with both domestic and foreign currencies and comprise repo and reverse repo, government securities and PBOC bills. The Bank also uses the reserve requirement ratio to influence lending and liquidity. Other instruments that the Central Bank uses to manage and adjust liquidity in the banking system are short-term loans, short-term liquidity and standing lending facility operations.

The agenda of China's top authorities include bold reforms on interest rate and monetary policy management in order to adopt a more market-driven approach.

China's Exchange Rate Policy

The IMF labels China's exchange rate regime as a crawl-like arrangement. The speed and direction of the crawling peg is decided by Chinese authorities according to domestic and international economic developments. The PBOC classifies its regime as a managed floating exchange rate regime based on market supply and demand with reference to an undisclosed basket of currencies. The U.S. dollar is likely to represent a large stake of the basket. The yuan fluctuates in an intraday trading band around an official midpoint rate. On 15 March 2014, the PBOC widened the trading band from +/-1 to +/-2.

From 1995 to 2005, China kept its currency fixed versus the U.S. dollar at around 8.28 CNY per USD. This was the case until 2005, when it switched to a managed float of the currency to facilitate a controlled appreciation of the CNY. However, in the wake of the global financial crisis, China pegged its currency to the USD at 6.82 CNY per USD from June 2008 to June 2010.Since then, the PBOC has made a number of revaluations to the currency in order to bring it closer to it market value.

While the Chinese yuan is freely convertible under the current account, it remains strictly regulated in the capital account. Chinese authorities expressed their willingness to allow the yuan to be fully convertible in the near future.

Chinese authorities are gradually enhancing the use of the currency in other parts of the world in order to promote the yuan as a global reserve currency. Although the process is far from being completed, China has already established trade settlements with selected countries and launched a series of currency swap agreements with more than 20 central banks. In addition, China is rapidly expanding the yuan's offshore market. The opening up of the country's capital market will be a crucial step in the yuan's journey to becoming a major reserve currency.

Sample Report

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China Facts

	Value	Change	Date
Bond Yield	3.62	-0.40 %	Apr 25
Exchange Rate	6.33	-0.19 %	Apr 25
Stock Market	3,118	-0.34 %	Apr 25

China Economic News

China: Growth in house prices accelerates in March

April 18, 2018

House prices in 70 large- and medium-sized cities rose 0.4% in March in month-on-month terms according to a weighted average index calculated by Thomson Reuters from data issued by the National Bureau of Statistics (NBS).

China: Economic growth off to a solid start in 2018

April 17, 2018

China's economy started 2018 on strong footing, continuing to defy concerns of a potential slowdown, likely thanks to robust private consumption.

China: Industrial production growth slows in March

April 17, 2018

Industrial production grew 6.0% in annual terms in March, down from the 7.2% expansion recorded in the January–February period and falling short of market expectations of a 6.2% rise.

China: Growth in retail sales picks up steam in March

April 17, 2018

Nominal retail sales grew 10.1% on an annual basis in March, accelerating from the 9.7% rise recorded in the January-February period.

China: Investment growth moderates in Q1

April 17, 2018

China's urban fixed asset investment expanded 7.5% annually in the January–March period, down from the 7.9% expansion registered in the first two months of the year.

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Taiwan
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Nordics

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Finland
Iceland
Norway
Sweden
more
South-Eastern Europe

International Reserves
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Energy

Brent Crude Oil
Coking Coal
Gasoil
Gasoline
Natural Gas

Thermal Coal
Uranium
WTI Crude Oil
Base Metals

Alumina
Aluminium
Copper
Iron Ore
Lead

Nickel
Steel (Europe)
Steel (USA)
Tin
Zinc
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