Box 1.4:

Will Risks China Faced in 2023 Carry Over to 2024?

China's 2023 economic recovery was bumpy, marked by a delayed consumption pick-up, real estate sector challenges, subdued external trade, and cautious sentiment. The effects of the pandemic lingered for several months after the economy reopened. The much-anticipated 'revenge' consumption rebound did not fully materialize as households remained cautious, and investment was hampered by subdued business sentiment and strains in the real estate sector (Figure 1.4.1). Some sectors also faced significant supply chain challenges, including related to adverse geopolitical events and tensions between China and the United States.

Despite the challenging conditions, China's economy grew by 5.2 percent, reflecting its resilience in various aspects. Policy measures implemented by Chinese authorities played a crucial role in keeping the economic recovery broadly on track. Labor market conditions improved gradually, with the urban surveyed unemployment falling significantly to 5.2 percent in 2023, and per capita disposal income rising by more than 6 percent. These positive developments supported household spending, which remained resilient throughout the year. Enterprises in strategic emerging industries continued to thrive in many provinces and cities.

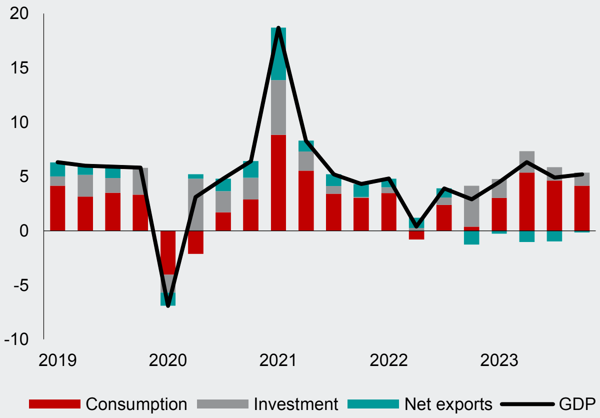
China's growth momentum is expected to pick up moderately in 2024. China's macro fundamentals remain sound, paving the way for a more stable economic recovery in 2024 following the challenges of 2023. Consumption should remain the primary driver of growth, supported by further improvements in labor market conditions. Investment is anticipated to gain greater traction in the later part of 2024, driven by the expansion of traditional infrastructure, the construction of modern and advanced infrastructure, and substantial investments in high-tech manufacturing and services. Real estate investments are expected to recover gradually as overall conditions in the sector improve and confidence starts to return. The real estate sector has seen nascent signs of stabilization with prices for Tier-2 and Tier-3 cities bottoming out (Figure 1.4.2). The property sector's drag on growth has halved from –3.7 percent in 2022 to –1.8 percent in 2023, and is on track to diminish further in 2024. Exports are forecast to pick up, benefitting from the global electronics cycle turnaround and providing a further lift to growth.

However, China's outlook is subject to some risks and uncertainties. The real estate recovery requires careful management to alleviate strains related to overstretched property developers and to restore confidence. Financial strains faced by some local governments may also persist. Concurrently, high leverage remains a vulnerability in certain sectors of the economy. Orderly deleveraging is therefore necessary to enable enterprises—particularly small and medium-sized ones—to become more financially resilient, invest more, and enhance their competitiveness. Globally, forces driving geoeconomic fragmentation could remain formidable. In this regard, China's efforts to strengthen cooperation with partner economies to shape conditions for trade, investments, and technological gains should yield good results. At the same time, perennial challenges, such as those related to population aging, socioeconomic disparities, and climate change, could weigh on the economy's growth potential.

China has ample policy space and capacity to navigate through these challenges. Fiscal soundness remains intact amid continued efforts at fiscal consolidation (Figure 1.4.3). China's external position remains robust, characterized by a healthy current account surplus and substantial foreign currency reserves (Figure 1.4.4). Domestically, China hosts well-organized and efficient supply production networks and supply chains—enabling it to mitigate the effects of intermittent global supply chain disruptions and continue supporting regional production and trade. On the financial front, the banking system continues to be well-capitalized (Figure 1.4.5). China therefore continues to have moderate room to ease monetary and credit policies further. In addition to the recent approach of measuredly reducing the reserve ratio requirements and loan prime rates for banks, the authorities continue to have many macroprudential levers at their disposal to support the domestic economy, particularly the real estate sector's recovery (AMRO 2024b).

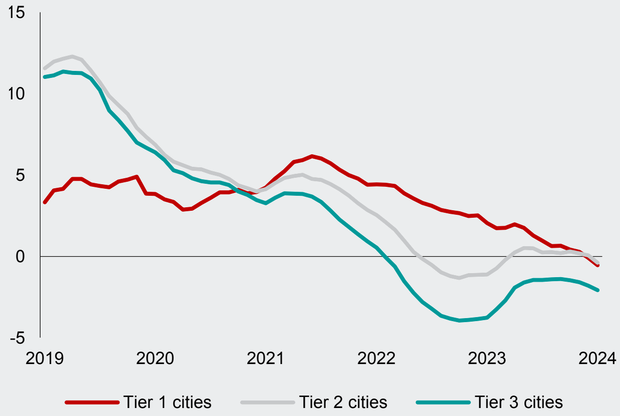
This box was written by Suan Yong Foo.

Figure 1.4.1. China: GDP Growth
(Percent, year-on-year; percentage points)



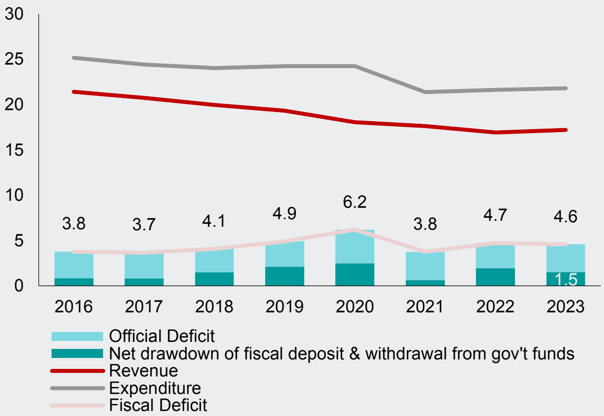
Source: China authorities via WIND.

Figure 1.4.2. China: Property Price Index, by City Tiers
(Percent, year-on-year)



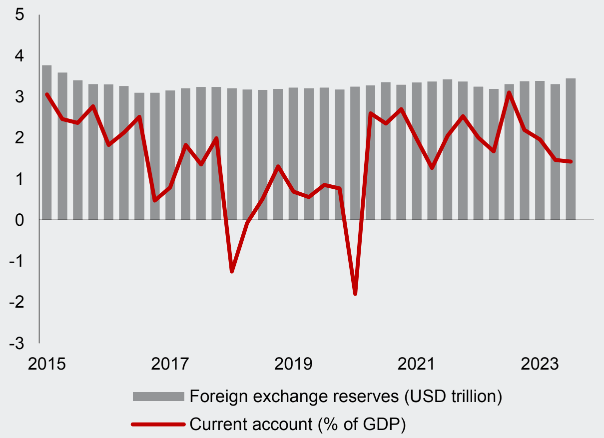
Source: CEIC data.
Note: Data refer to property price indexes of newly constructed, residential properties.

Figure 1.4.3.China: General Public Budgetary Account Balance
(Percent of GDP)



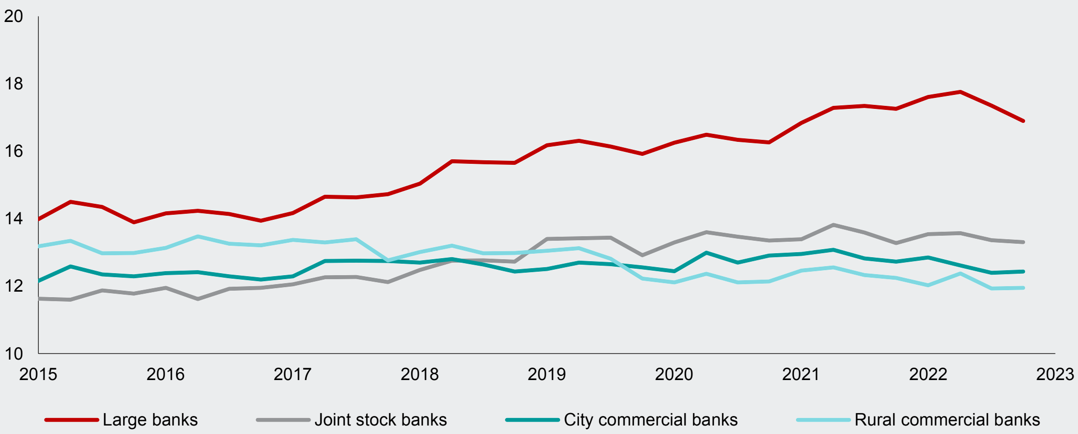
Source: China National Bureau of Statistics; CEIC; AMRO staff calculations.

Figure 1.4.4. China: Balance of Payments
(Trillions of US dollars; percent of GDP)



Source: China authorities; CEIC.

Figure 1.4.5. China: Banking System Capital Adequacy Ratio
(Percent)



Source: China authorities; CEIC.