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China Economic Report 2023

Update

Key Economic Indicators Summary

- In the first nine months of 2023, China's GDP increased by 5.2% YoY, providing a strong basis for the annual GDP growth target of 5%. However, the year-on-year growth figures are owing to the low-base effect. Sustaining growth in 2024 will be more challenging: GDP growth forecasts fall in the range from 4% to 5%; an official target was not announced yet.
- The economic recovery in 2023 was largely driven by the rebound of services and consumption thanks to the post-Covid business reopening. Total retail sales of consumer goods in the first three quarters grew by 6.8% YoY, even as households continued saving a massive share of disposable income.
- The property crisis, high debt levels, and weak external demand (except from Russia) all weigh on China's economy. The property sales continued their downward trend and real estate investment dropped by 9.1% YoY in the first three quarters. Consumer sentiment was affected by the perception that asset prices may continue falling.
- Industry suffers from deflationary pressure, resulting from oversupply (incl. inventories) and weak external demand: The producer price index (PPI) fell 3.0% year-on-year in November, marking the 14th straight month of decline, while the consumer price index (CPI) dropped 0.5%. The Purchasing Manager Indexes (PMI) show rather neutral business expectations: The manufacturing industry PMI stood at 49.4 percent in November, while the services PMI posted slightly positive at 50.2.
- While monetary policy remained loose, the growing interest rate differential resulted in large capital outflows and a weaker currency. The government tries to attract foreign direct investment (but FDI is coming down) and announced some (albeit moderate) fiscal stimulus by issuing special bonds that will lift the budget deficit to 3.8% of GDP.
- In the first three quarters, the urban surveyed unemployment rate averaged 5.3% (migrant workers are not taken into account). The National Bureau of Statistics of China stopped releasing the urban youth (aged 16 to 24) unemployment rate in August 2023, when it stood at 21.3%.

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Key Economic Growth Indicators	Average YoY Growth		
	Pre-Covid (2017-2019)	Covid time (2020-2022)	**After Covid (2023 Q1-Q3)**
GDP	6.6%	4.6%	**5.2%**
Retail sales of consumer goods	9.0%	2.8%	**6.8%**
Investment in fixed assets	6.2%	4.3%	**3.1%**
Total value of exports	6.1%	11.9%	**0.6%**
Total value of imports	9.8%	8.4%	**-1.2%**
Disposable income (per capital)	6.5%	6.3%	**6.3%**
Fiscal revenue	5.8%	2.5%	**8.9%**
Fiscal expenditure	8.2%	3.1%	**3.9%**

Source: National Bureau of Statistics of China

Economic Policy Updates

- **Private sector support**: In July, the State Council published general guidelines on promoting the private economy. As a follow-up, in August, the National Development and Reform Commission (China's macroeconomic planner) released a list of *28 measures*. It assigned one or more ministries to each action point. Major measures include promoting fair market access, extending supportive tools on inclusive loans for SMEs, optimizing government services for private enterprises, etc.
- **Fiscal stimulus**: The State Council decided to extend several preferential tax policies and fee cuts, but remained rather reluctant to offer fiscal stimulus until it lifted its 2023 budget deficit ratio from 3 percent to around 3.8 percent in October and announced the issuance of an additional CNY 1 trillion (CHF 114.3 billion) in government bonds. This targeted stimulus aims at funding the construction of "natural disaster infrastructure". It was the first time that China has adopted an intra-year budget adjustment since 2000 when facing after effect of the Asian financial crisis.
- **Monetary policy**: Throughout the year, the PBOC has cut several policy rates (including MLF, one-year LPR, five-year LPR and the financial institutions' RRR) to support cheap lending while ensuring adequate liquidity. In response to the widening gap in interest rates, the Chinese yuan depreciated and touched 7.3294 against the dollar in September – the lowest level against the dollar in almost 16 years. The CNY is also depreciating against CHF and reached 8.4194 in July – its lowest level since 2011.
- **Property crisis unresolved**. The main challenge for economic policymaking was to defuse the property crisis and contain spillover risks on the financial sector and certain industries. The crisis began in 2020 when the government restricted new borrowing by property developers in an effort to de-leverage the sector. Against the backdrop of demographic trends – China's population has begun decreasing in 2023 – a housing oversupply became apparent, speculative demand for flats ceased and the property bubble burst in 2021. More than half of China's top 50 developers (by sales in 2020) went into default by 2023.
- **Impact on public finance**: Real estate and related industries are estimated to constitute about 30% of China's GDP, making it the single biggest contributor to China's economy. Chinese local governments' revenue is highly dependent on land sales. The share of land sale revenue in total revenue was 30% in 2021, with another 19% from property-related taxes. The property crisis together with

pandemic response measures heavily affected local governments' ability to spend and forced many into austerity.

- **Government response**: Governments at all levels are ramping up efforts to counter the crisis. Measures like relaxing home purchase restrictions or adjusting mortgage rates did not yield major impacts. Some local regulators simply ordered developers to stop cutting prices, while the central government nudged financial institutions to meet the reasonable funding needs of property developers. Multiple commercial banks started to meet with the developers to discuss financing needs in November. In support of the construction sector, the government floated the "three big programs" – building affordable housing, renovating urban villages, and constructing facilities like school gymnasiums that have both everyday and emergency uses.

Foreign Trade and Investment Updates

- **Exports and imports**: China's foreign trade was stagnating in 2023 but the contraction trend was narrowing towards the end of the year. For the first three quarters in 2023, in CNY terms, exports of goods grew by 0.6% YoY while imports declined by 1.2% YoY. In US dollar terms, exports and imports show bigger contraction (-5.7%YoY and -7.5% YoY), due to the depreciation of the CNY. In the first nine months, China's exports of services dropped by 8.2% while imports of services grew 22.4% (both in CNY terms).
- **Sino-Swiss trade**: Chinese trade with Switzerland was cooling down in the first eleven months. Swiss exports excl. gold to China decreased by 3.1% YoY and imports from China were down by 11.9% YoY.
- **Trade surge with Russia**: China's foreign trade landscape is changing. Both export and import growth declined with almost all traditional trade partners in the first 10 months of 2023, with Russia being the only outlier (cf. table). By the end of November, trade between China and Russia exceeded USD 218 billion. Russia thus reached a (still relatively modest) share of 4% of China's total foreign trade.

Jan-Nov 2023	China's **export growth** (YoY)	China's **import growth** (YoY)
United States	-13.8%	-7.0%
Japan	-8.6%	-14.1%
South Korea	-7.8%	-20.1%
EU	-11.0%	-1.0%
ASEAN	-5.5%	-5.1%
Russia	50.2%	11.8%

- **Continuing trade friction**: US-China trade tensions continue to evolve. In July, China unveiled restrictions on exports of eight gallium and six germanium products, which are widely used in chips and computers. In August, Joe Biden signed an executive order that will prohibit or restrict certain US investments in Chinese entities in three sectors - semiconductors and microelectronics, quantum information technologies and certain artificial intelligence systems. In October, the US tightened its export controls on AI chips to China. As a counter move, China announced that it will require export permits for graphite, a key material for electric vehicle (EV) batteries, starting December. Similarly, China also started to require exporters to report rare-earth types and their export destinations in November.
- **Car exports surge.** In 2023, China surpassed Japan to become the world's largest car exporter. The export growth was driven by oversupply of electric vehicles in the domestic market. Most of the made-in-China EVs are exported to Europe because of the region's relatively low import tariffs and high demand. In September, the European Commission formally launched an anti-subsidies probe into EV manufactured in China.
- **FDI downward pressure**: Foreign direct investment (FDI) in China declined significantly. In the first three quarters of 2023, the total realized FDI value reached CNY 920 billion (CHF 105 billion), a contraction of 8.4% compared to 2022. The trend reflects revised expectations and uncertainty on

China's future growth and the current investment sentiment of "de-risking" amid growing geopolitical tensions.

- **Optimize business environment**: China's State Council released a document in August on "further optimizing the foreign investment environment and intensifying efforts to attract foreign investment". The document contains 24 measures ranging from facilitating cross-border data flows to better protection of intellectual property rights and clarifying localization requirements.