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Outlook for the Chinese Economy in 2024

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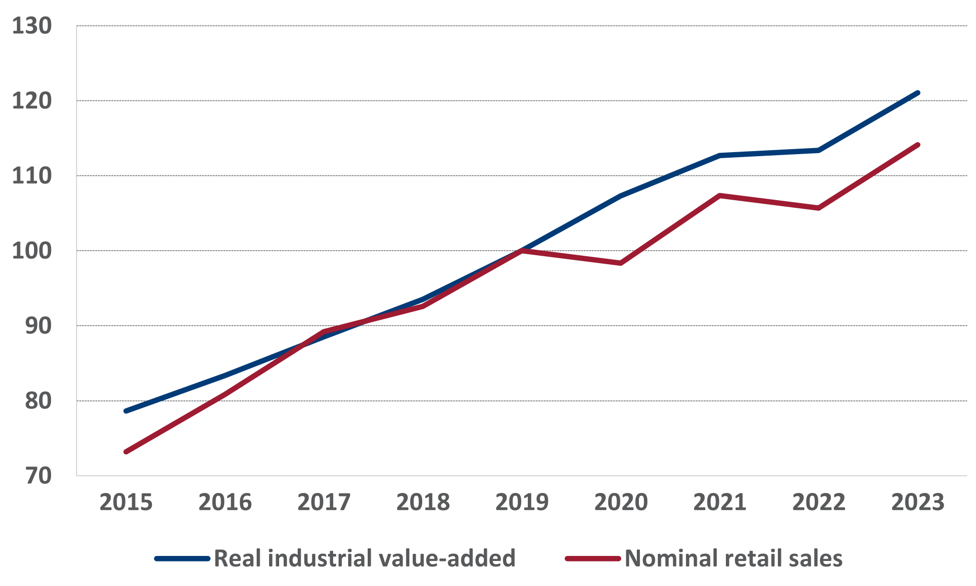
The annual session of the National People's Congress (NPC) in China reiterated the GDP growth target of "around 5%" for 2024. This was widely expected and reflected the targets set by the provinces at the start of the year. The limit for growth considered consistent with the target remains undefined, but achieving this level may prove challenging, considering that the base effect of the weak growth seen in 2022 is over, and that a number of factors suggest that domestic demand continues to recover gradually.

China's economy grew 5.2% in real terms in 2023. In nominal terms, growth was 4.6%, with the GDP deflator in negative territory (-0.5%) for the first time since 2009, during the Great Financial Crisis. Other high-frequency indicators are also pointing to a mismatch between production and domestic demand. In retail, for example, the growth trajectory continues to run below that of industrial production, prolonging a gap seen since 2020 (Figure 1).

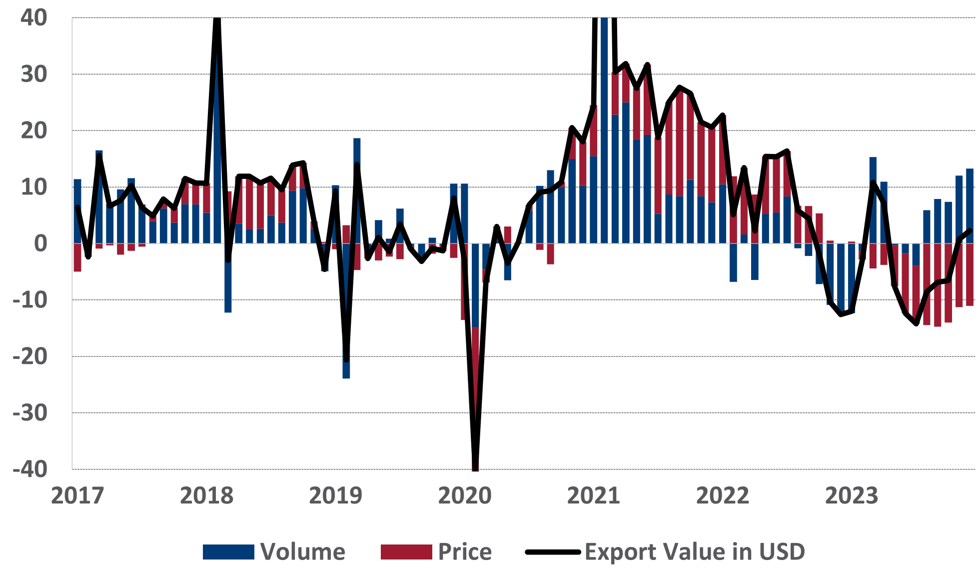
Figure 1: China, Retail Sales x Industrial Production (Index, 2019 = 100)



Source: BOCOM BBM, NBS

Exports, in turn, show that the surplus output is going abroad, as China diversifies its international trade to include more high-tech services and goods such as electric vehicles. In 2023, the value of exports in dollars fell, but the merchandise trade surplus remained significant at around USD 800 billion, close to the highest since records began. A breakdown of exports shows that the volume increased while the price decreased (Figure 2). In other words, China exported more for less.

Figure 2: China, Exports – Price x Volume (%, YoY)



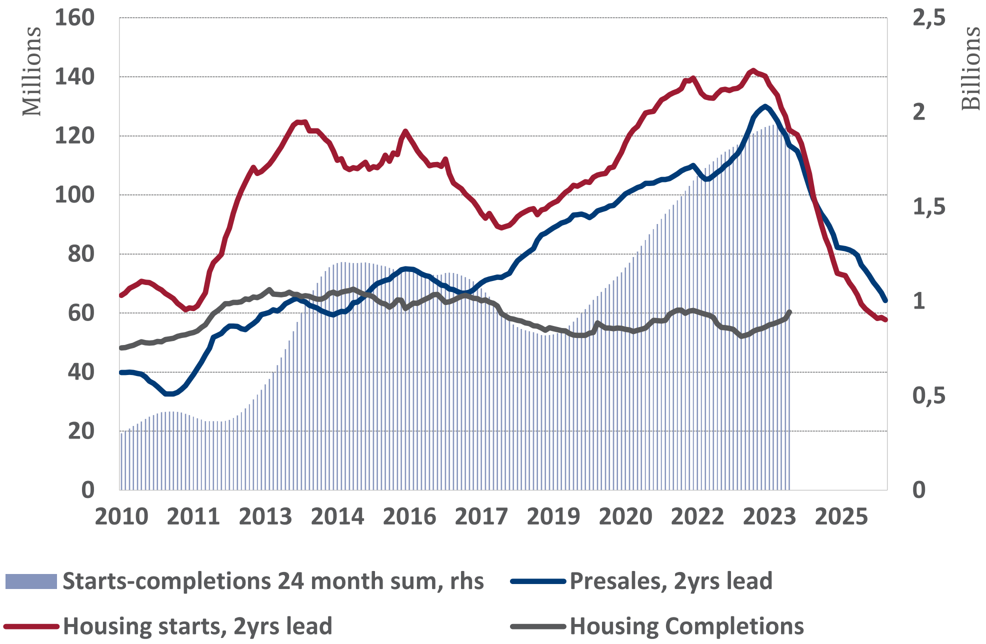
Source: BOCOM BBM, GAC CCS

This trend has global implications in view of China's position as the world's largest exporter of goods. The fall in the prices of China's exports is good news for the global disinflation process, which is ongoing and continues to benefit from tradables disinflation. However, it may also fuel geopolitical conflicts and trade wars via increases in tariffs on Chinese exports, as recently proposed by Donald Trump during his presidential campaign.

On the home front, Chinese inflation is in negative territory for the fourth consecutive month, owing largely to falling prices of food and consumer goods. Similarly, the fall in international commodity prices is reflected in producer price deflation. The generalized downtrend in Chinese price indices has led to a rise in interest rates in real terms, offering plenty of room for monetary policy stimulus by the PboC, China's central bank, as exemplified by the recent 25 basis point cut in the five-year loan prime rate (LPR), the sharpest for several years.

In the real estate sector, the indicators point to an increase in the volume of property deliveries, so that the volume behind schedule is shrinking, albeit still very high (Figure 3).

Figure 3: China, Delayed Presold Housing



Source: BOCOM BBM, NBS

Besides growth, the NPC session also set several other targets and priorities for the year. One of the most important is the target for the deficit, which is RMB 4.06 trillion. In terms of fiscal stimulus, this must be added to the amount raised via issuance of special bonds by local governments (RMB 3.8 trillion) and the central government (RMB 1 trillion), as well as last year's fiscal reserve (RMB 2.1 trillion). All this totals RBM 11 trillion, or 8% of GDP in 2024, and could prove important to stimulate consumption sufficiently to achieve this year's GDP growth target.

Chinese growth is relevant to Brazil's economic outlook, as a large proportion of the soybeans and iron ore produced in Brazil is shipped to China. Although the Brazilian agricultural sector's direct impact on GDP is about 6%, its indirect impact on other sectors of the economy, such as industry and transportation, is substantial, making agriculture a key driver of economic growth for Brazil. In addition, it affects commodity prices in dollars, influencing the economy's income via this channel. These risks should be considered in conjunction with the effects of climate change, which have led to a significant grain crop loss this year.

Nevertheless, we project GDP growth of 1.7% in 2024, driven mainly by strong job creation, above-inflation minimum wage hikes, early payment of court-ordered government debts (*precatórios*) and the rapid recovery of the credit market. In this context of growth in real disposable household income and expectations of de-anchored inflation, the disinflation process may become slower, keeping inflation above the target for 2024 and 2025. Our other projections are shown in the table below.

PROJEÇÕES ECONÔMICAS	2020	2021	2022	2023	2024P	2025P
Crescimento do PIB (%)	-3.3%	4.8%	3.0%	2.9%	1.7%	2.0%
Inflação (%)	4.5%	10.1%	5.8%	4.6%	3.7%	4.0%
Taxa de Desemprego (dez.,%)	14.7%	11.7%	8.3%	7.4%	8.4%	8.5%
Taxa Selic (%)	2.00%	9.25%	13.75%	11.75%	9.50%	8.75%
Contas Externas						
Balança Comercial MDIC (US$ bn)	50	61	62	99	87	78
Balança Comercial (US$ bi)	32	36	44	81	67	58
Saldo em Conta Corrente (US$ bi)	-28	-46	-48	-29	-34	-43
Saldo em Conta Corrente (% do PIB)	-1.9%	-2.8%	-2.5%	-1.3%	-1.5%	-1.8%
Política Fiscal						
Resultado Primário Governo Central (% do PIB)	-9.8%	-0.4%	0.5%	-2.1%	-0.8%	-0.8%
Dívida Bruta do Governo (% do PIB)	86.9%	77.3%	71.7%	74.3%	77.8%	79.4%