CHINA

Table 1	2020
Population, million	1402.7
GDP, current US$ billion	14423.9
GDP per capita, current US$	10283.2
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	5.4
Upper middle-income poverty rate ($5.5)[a]	23.9
Gini index[b]	38.5
School enrollment, primary (% gross)[c]	101.9
Life expectancy at birth, years[c]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent estimate (2016), based on grouped data.
(c) WDI for School enrollment (2019); Life expectancy (2018).

Economic growth is projected to rebound to 8.1 percent in 2021, largely reflecting statistical base effects. GDP growth would stabilize around 5.4 slightly below its earlier trend rate by 2022, as fiscal consolidation and deleveraging weigh on growth. Amid improving labor market conditions, poverty reduction is projected to return to its pre-COVID-19 trend. Over the medium term, structural reforms to rebalance growth and make it more inclusive and environmentally sustainable are crucial to secure further gains in broad-based income growth.

Key conditions and challenges

While China's economy has recovered relatively swiftly, the COVID-19 shock has accentuated pre-existing imbalances and highlighted structural challenges. The pandemic and ensuing recovery have caused imbalances in the structure of aggregate demand to relapse, as households increased savings, government support stressed investment, and external imbalances widened. Corporate and household debt levels, which were already high before the pandemic, have increased further, eroding deleveraging gains made over the past years. China will need to return to the policy of de-risking adopted prior to COVID-19 to prevent a further rise in leverage in the economy. But this will be challenging because corporate and household balance sheets have been strained by the crisis and signs of distress may multiply as regulatory forbearance ends and extraordinary liquidity support is wound down.

Entrenched economic tensions, most notably persistent bilateral frictions with main trading partners over trade and technology, continue to pose risks to China's growth prospects, especially since external imbalances have resurfaced as a result of the COVID-19 shock. China's current account surplus widened notably to 2.0 percent of GDP in 2020 from 1.0 percent of GDP in 2019.

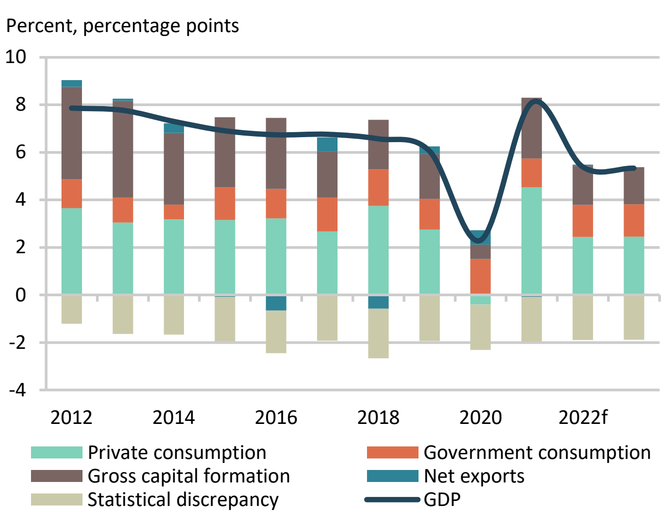
Despite this year's cyclical rebound, China's economy is projected to slow over the medium-term, reflecting longer-term structural trends. Adverse demographics, tepid productivity growth, large regional disparities and the legacies of excessive borrowing and environmental pollution will continue to weigh on growth. Unless structural reforms to rebalance China's economy are accelerated, the slowdown in potential growth is likely to steepen, undermining prospects for further gains in broad-based income growth.

Recent developments

Following a collapse in the first quarter of 2020, economic activity in China has normalized faster than expected, aided by an effective pandemic-control strategy, strong policy support, and resilient exports. Fourth quarter GDP growth accelerated to 6.5 percent yoy, bringing 2020 full year GDP growth to 2.3 percent. Meanwhile, labor markets conditions have improved, and employment has returned to pre-COVID levels.

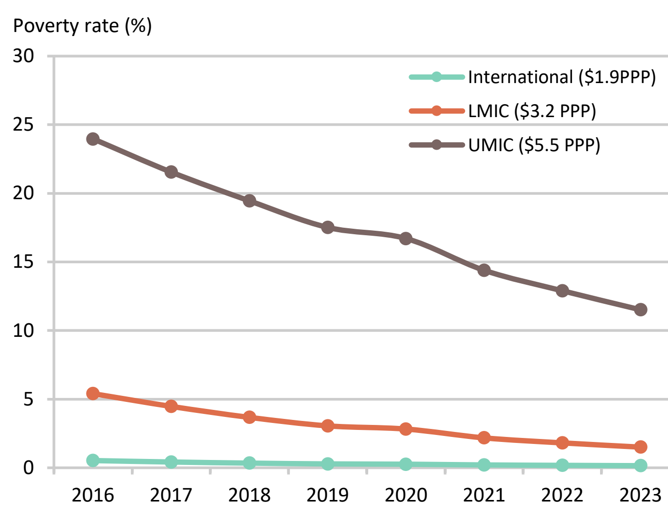
China's recovery has broadened but remains unbalanced. While investment and net exports were running above pre-COVID levels in Q4 2020, consumption continued to lag. This is consistent with supply-side GDP data which suggests industrial production and construction are overshooting while slack remains in the service sector. Amid a resurgence of local COVID-19 cases, China adopted additional lockdown measures at the start of this year, further dimming prospects of a full recovery of consumption and services.

FIGURE 1 China / Real GDP growth and contributions to real GDP growth



Sources: National Bureau of Statistics; World Bank staff estimates.

FIGURE 2 China / Poverty estimates and projections



Sources: World Bank staff estimates using tabulated data from China NBS.

As economic activity recovered, both fiscal and monetary policy support have moderated since Q3 2020. Public investment in infrastructure, which initially drove much of the acceleration in investment, has started to moderate in the second half of 2020 on receding policy support. Meanwhile, the PBOC has refrained from further monetary easing and policy rate cuts, leading to moderating credit growth since November 2020.

Despite the COVID-19 shock, the government announced in November 2020 that it reached its goal of elimination of extreme (rural) poverty, as measured using the official 2010 poverty standard (equivalent to $2.3/day per person, 2011 PPP). At a higher line of $5.50/day per person (2011 PPP), typical of upper-middle income countries, poverty is expected to have declined in 2020, albeit only marginally, from 17.5 percent in 2019 to 16.7 in 2020, representing 10 million fewer poor people.

Outlook

Real GDP growth is projected to rebound to 8.1 percent in 2021, as consumer spending and business investment continue to catch up, along with improving labor market conditions and incomes.

GDP growth would stabilize slightly below its earlier trend rate by late 2022, as the needed fiscal consolidation and deleveraging will weigh on growth. The structure of domestic demand will gradually shift in favor of private domestic spending.

Tracking the economic recovery, poverty reduction at the $5.50 per day poverty line is expected to return to a pace similar to the one observed prior to COVID-19. For 2021, poverty is expected to decline to 14.4 percent, representing 32 million fewer poor people than in 2020.

Risks to China's economic recovery are high but broadly balanced. On the downside, recurrent COVID-19 flareups could continue to disrupt economic activity and especially private consumption. The vaccine rollout has proceeded gradually in China, and it is unlikely a majority of the country's adult population will be vaccinated this year. A growing policy divergence between China and major trading partners could also lead to persistent or even rising external imbalances. The COVID-19 shock has accentuated preexisting and interconnected vulnerabilities of corporate, bank and government balance sheets. which will weigh on China's growth. On the upside, a swift and widespread rollout of an effective vaccine would boost consumer and business confidence and support stronger growth.

Navigating near-term uncertainty will require an adaptive policy framework that is carefully calibrated to the pace of the recovery both in China and the rest of the world. A premature policy exit and excessive tightening could derail the recovery. Along with flexible and supportive monetary policy, China could use its fiscal space to hedge against downside risks to growth and ensure a smooth rotation from public to private demand.

Over the medium term, market oriented, structural reforms would help avoid a sharper decline in potential growth, reduce external imbalances and lay the foundation for a more resilient and inclusive economy. Establishing a unified social security system with portable pension and employment benefits for rural and urban residents would reduce inequality, lower the need for precautionary savings and therefore help boost consumption-based growth.

TABLE 2 China / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.8	6.0	2.3	8.1	5.4	5.3
Private Consumption	9.5	6.6	-1.0	11.5	6.0	5.8
Government Consumption	10.4	8.4	9.7	7.2	8.1	8.0
Gross Fixed Capital Investment	5.3	4.5	1.4	5.8	4.1	4.0
Exports, Goods and Services	4.0	2.5	1.6	5.4	3.3	3.3
Imports, Goods and Services	7.9	1.0	-1.7	6.0	3.5	3.5
Real GDP growth, at constant factor prices	6.8	6.1	2.3	8.1	5.4	5.3
Agriculture	3.3	3.3	3.0	3.4	3.3	3.3
Industry	5.8	5.6	2.3	6.5	4.7	4.7
Services	8.1	6.9	2.2	10.0	6.2	6.0
Inflation (Consumer Price Index)	2.1	2.9	2.5	1.8	2.0	2.0
Current Account Balance (% of GDP)	0.2	1.0	2.0	1.4	1.1	0.9
Net Foreign Direct Investment (% of GDP)	0.7	0.4	0.7	0.7	0.8	0.8
Fiscal Balance (% of GDP)[a]	-4.6	-6.4	-11.8	-8.5	-7.1	-6.6
Debt (% of GDP)	38.6	42.0	52.3	56.0	59.3	61.8
Primary Balance (% of GDP)	-3.6	-5.1	-10.7	-7.2	-5.7	-5.0
International poverty rate ($1.9 in 2011 PPP)[b]	0.3	0.3	0.3	0.2	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b]	3.7	3.1	2.8	2.2	1.8	1.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b]	19.5	17.5	16.7	14.4	12.9	11.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
(b) Last grouped data available to calculate poverty is for 2016 provided by NBS. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass through 0.72 to per capita household consumption.