

# CHINA

Table 1	2021
Population, million	1412.4
GDP, current US\$ billion	17755.1
GDP per capita, current US\$	12571.2
International poverty rate (\$1.9) <sup>a</sup>	0.1
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	1.7
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	15.8
Gini index <sup>a</sup>	38.2
School enrollment, primary (% gross) <sup>b</sup>	103.2
Life expectancy at birth, years <sup>b</sup>	76.9
Total GHG Emissions (mtCO <sub>2</sub> e)	12892.3

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2019), 2011 PPPs.  
b/ Most recent WDI value (2019).

With rising external headwinds and domestic challenges, economic growth is projected to slow to 5.0 percent y/y in 2022. By 2022, 10.8 percent of the population in China are expected to fall below the \$5.50/day per person poverty line (2011 PPP). The near-term outlook is highly uncertain with risks tilted to the downside amid frequent COVID outbreaks, an ongoing housing market correction, and the war in Ukraine.

## Key conditions and challenges

After a swift rebound, China's economic recovery lost momentum in the second half of last year. Domestic demand has slowed, and the global economic environment has worsened significantly with the war in Ukraine. In addition, COVID incursions have become more frequent and widespread. China is currently experiencing the largest COVID wave since the end of the national lockdown in March 2020 with more than 50,000 cases since the start of 2022.

Over the medium term, China's potential growth is decelerating due to structural factors. The economy has embarked on a structural slowdown reflecting adverse demographics, tepid productivity growth and rising constraints to a growth model that relies excessively on investment. To avert a sharper slowdown China needs to revive productivity growth and rebalance the economy along multiple dimensions: from exports and investment to greater reliance on domestic consumption, from state-led to more market-driven growth, and from high to low-carbon growth.

## Recent developments

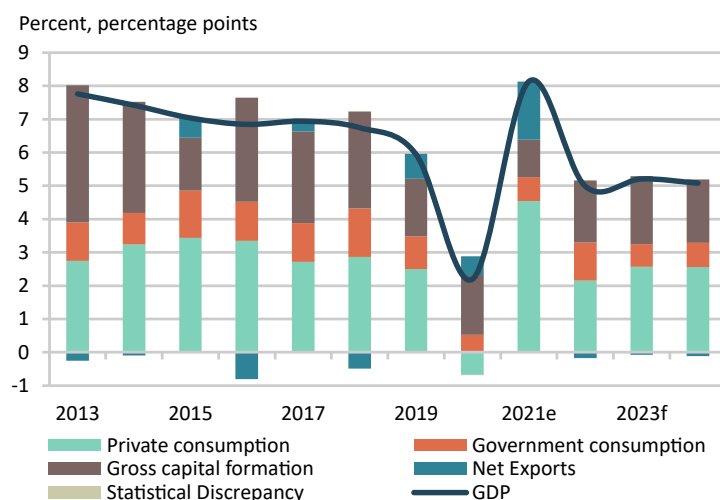
Full-year GDP growth in 2021 accelerated to 8.1 percent y/y. After a strong rebound in the first half of 2021, growth cooled

rapidly and remained below potential since the second half of 2021, as significant fiscal policy and regulatory tightening, a downturn in the housing market, and frequent COVID outbreaks weighed on economic activities.

The surveyed urban unemployment rate returned to 2019 levels and about 12.7 million new jobs were created in 2021, exceeding China's annual target of 11 million new urban jobs. After a marked slowdown in 2020, disposable household income grew strongly in 2021 by 8.1 percent y/y with faster growth among rural households. With rising household income, per capita consumption expenditure also accelerated by 12.6 percent y/y. As overall conditions improved, the poverty rate resumed its pre-pandemic declining trend, and is expected to fall below 12.3 percent in 2021 when considering the upper-middle income countries' poverty line of \$5.50/day per person (2011 PPP).

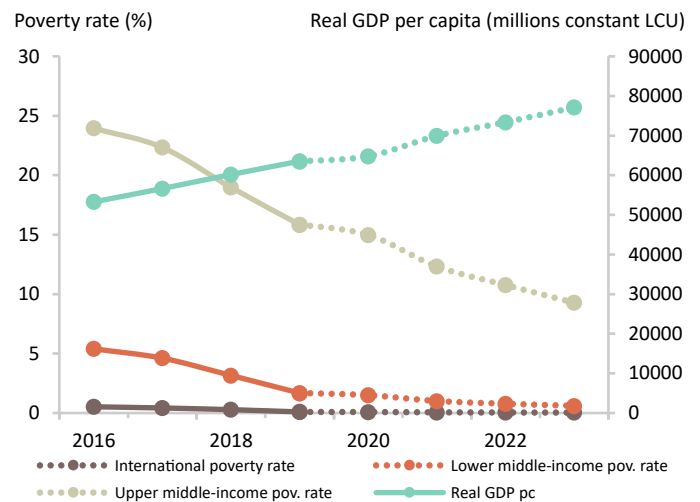
Although activity data for the first two months point to a robust start in 2022, COVID outbreaks, a challenging external environment, housing market downturn and a still-sluggish consumption recovery hint at further downside pressure on near-term economic activity. Faced with growing downside pressure on growth, policymakers have shifted to a more accommodative monetary and fiscal policy stance. While the government set the 2022 quota for special local government bond issuance to finance infrastructure projects at RMB 3.65 trillion, the actual quota might be substantially higher at about RMB 4.7 trillion due to the carryover of last year's bond proceeds. In addition, the State

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



Source: China's National Bureau of Statistics; World Bank staff estimates.

**FIGURE 2 China / Actual and projected poverty rates and real GDP per capita**



Source: World Bank. Notes: see Table 2.

Council extended some of the tax and fee reduction policies for SMEs to the end of 2023. The PBOC has implemented multiple policy easing measures since last December including cuts in various interest rates and regulators have finetuned housing policies in recent months to support the real estate sector.

## Outlook

On the back of increasing headwinds, China's GDP growth is expected to slow to 5.0 percent in 2022. The recent and widespread Omicron wave will further delay the recovery in private consumptions and service-led activities. On the external side, China is expected to face a decline in its terms of trade as well as a decline in export demand, with the growth contribution of net exports likely turning negative in 2022.

Private investment growth is expected to weaken as manufacturing investment slows owing to weaker external demand, and real estate investment remains subdued with the authorities maintaining their focus on reining in financial risks in the property sector. The growth projection assumes substantial loosening of fiscal policy to stem these headwinds which are expected to lead to accelerated infrastructure investment. Given the projected economic growth for 2022, the poverty rate measured at \$5.50/day per person is expected to fall to 10.8 percent, with more than a third of the poor residing in urban areas. The decline represents 22 million fewer poor people than in 2021.

The outlook is highly uncertain with risks tilted to the downside. The key downside risk are more severe and protracted COVID outbreaks, which could impair production and domestic supply chains with knock on effects on investor and

consumer confidence and trigger larger and more prolonged economic disruptions. Meanwhile, more severe financial stress among property developers could create negative spillovers to upstream sectors and weigh on investment and consumption. On the external side, risks could transmit through a stronger than expected slowdown in global demand and a longer lasting shock to commodity prices. In a downside scenario with a more dominant COVID shock growth could slow to 4.0 percent in 2022. While China has policy space to act, using excessive stimulus to boost investment could further aggravate domestic imbalances and delay the shift towards high quality growth. In light of these considerations, should China face further negative shocks, policy makers may want to settle for lower growth and maintain policy buffers rather than jeopardize hard-won rebalancing gains.

**TABLE 2 China / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	6.0	2.2	8.1	5.0	5.2	5.1
Private Consumption	6.5	-1.8	12.2	5.6	6.6	6.5
Government Consumption	6.0	3.2	4.3	7.1	4.1	4.4
Gross Fixed Capital Investment	5.3	3.2	2.7	4.2	5.1	4.8
Exports, Goods and Services	2.2	1.4	17.5	3.8	3.1	3.0
Imports, Goods and Services	-1.7	-1.7	9.9	5.8	4.3	4.3
<b>Real GDP growth, at constant factor prices</b>	6.0	2.2	8.1	5.0	5.2	5.1
Agriculture	3.1	3.1	7.1	3.2	3.1	3.1
Industry	4.9	2.5	8.2	4.8	4.6	4.5
Services	7.2	1.9	8.2	5.4	6.0	5.8
<b>Inflation (Consumer Price Index)</b>	2.9	2.5	0.9	2.2	2.0	1.9
<b>Current Account Balance (% of GDP)</b>	0.7	1.9	1.8	1.3	1.2	1.1
<b>Net Foreign Direct Investment (% of GDP)</b>	0.4	0.7	1.2	0.9	0.9	0.8
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-4.6	-8.6	-4.4	-7.1	-5.5	-4.3
<b>Debt (% of GDP)</b>	38.5	45.4	45.1	49.3	51.4	52.3
<b>Primary Balance (% of GDP)</b>	-3.6	-7.4	-3.2	-5.8	-4.1	-3.0
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>b,c</sup></b>	0.1	0.1	0.1	0.0	0.0	0.0
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>b,c</sup></b>	1.7	1.5	1.0	0.8	0.6	0.5
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>b,c</sup></b>	15.8	15.0	12.3	10.8	9.3	7.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	2.5	1.5	5.8	2.3	1.7	1.2
<b>Energy related GHG emissions (% of total)</b>	81.8	81.9	82.0	81.8	81.7	81.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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 2019 provided by NBS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2021 to 2024.

c/ Projections based on GDP growth estimates, using a neutral distribution assumption with pass through 0.85 to per capita household consumption.