Main messages

- **Recent developments**: Tight monetary conditions have hit the manufacturing sector, but services remain resilient, mainly in the US. The latter has prevented a faster disinflation, which together with geopolitical risks, have kept central banks cautious. Markets have scaled back aggressive monetary easing expectations, but financial volatility remains limited.

- **Inflation and rates outlook**: Inflation is expected to slow further moving ahead, as service pressures are likely to subside, assuming no new supply shocks emerge. That would set the conditions for the Fed and the ECB to gradually cut rates from the middle of this year onwards.

- **Growth outlook**: Growth is likely to lose steam, although not as much as expected, in the US, and to remain relatively weak in the Eurozone and China over the next few quarters. Some recovery is forecast from the second half of the year, driven by lower inflation and lower interest rates, but not in China, where structural deceleration factors are expected to prevail. Still, the Eurozone recovery will likely be weaker than anticipated.

- **Structural factors**: Geopolitics will significantly influence future economic dynamics, molding policies and global conflicts. It will potentially increase uncertainty and trigger supply shocks. Combined with other factors, such as demographics and fiscal policy, these shocks will pressure inflation, compelling central banks to keep policy interest rates above pre-COVID levels.
Global Economic Outlook
1Q24
Supply normalization and (surprisingly slow) demand weakening amid high interest rates have triggered an (incomplete) easing of growth and inflation

Main scenario drivers

Waning supply shocks: easing of commodity prices and bottlenecks, despite geopolitical tensions

Demand moderation, on monetary tightness, but backed by fiscal policy and labor markets

Recent macro trends

Declining inflation, which is still above targets, mostly on service pressures

Growth soft-landing: manufacturing weakness, but resilience services

Central banks and financial markets

Rate-hiking cycles seem over; focus on timing and speed of coming easing cycles

Limited financial volatility, despite the scaling back of sharp monetary easing expectations
The geopolitical context continues to be a source of concern; the conflict in the Middle-East has escalated somewhat, with limited economic effects so far.

**GEOPOLITICAL RISK AND ECONOMIC POLICY UNCERTAINTY IN G3 REGIONS (*)**
(INdexes: Average since 2019 equals to 0, 28-Day Moving Average)

![Graph showing economic policy uncertainty and geopolitical risk]

- **Beginning of Ukraine-Russia war**
- **Beginning of the Israel-Hamas conflict**
- **Red Sea disruptions**

(*) G3 regions: U.S., Eurozone and China.
Source: BBVA Research Geopolitics Monitor.
Despite geopolitical tensions, including the maritime disturbances in the Red Sea, commodity prices and bottleneck disruptions remain relatively low.

**BRENT PRICES**
(USD PER BARREL)

Source: BBVA Research based on data from Haver.

**BBVA RESEARCH BOTTLENECKS INDICATOR**
(INDEX)

Source: BBVA Research based on data from Haver Analytics.
The disinflationary trend has lost some steam in the last few months, amid resilient service inflation; in China, deflation fears remain alive.

Source: BBVA Research based on data from Haver.
Growth remains more positive in the US and in the services sector, but after a previous slowdown there are now preliminary recovery signs in other markets.

PMI INDICATORS
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)

Source: BBVA Research based on data from Haver.
Tight labor markets, fiscal policy and excess savings are still supporting growth, partially offsetting the contractionary impact of monetary policy.

Some factors continue backing activity, mainly the services sector, but less than before:

- **labor markets**: low unemployment and robust wage growth;
- **fiscal policy**: robust spending;
- **excess savings**: still supportive, but waning.

Anyway, monetary tightening has favored a gradual growth slowdown:

- **borrowing costs** have increased;
- **bank lending** has sharply eased;
- **exchange rate** has appreciated (at least in US);
- **inflation expectations** have remained broadly anchored (slightly above 2%).

(*) 2024 and 2025 figures: simulated paths consistent with BBVA Research activity and inflation forecasts. US data: average hourly earnings of production and nonsupervisory employees, total private. Eurozone data: compensation per employee. Source: BBVA Research based on data from the BLS and Eurostat.
Markets have scaled back their expectations for aggressive easing following the latest macro data and signs of caution from central banks.

**US: IMPLICIT RATE IN FED FUND FUTURES**

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<td>Current</td>
<td>End of 2023</td>
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**EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*)**

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<td>Current</td>
<td>End of 2023</td>
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</tbody>
</table>

Source: BBVA Research based on Bloomberg.

(*) Depo interest rates.
Source: BBVA Research based on Bloomberg.
Despite the recent increase in sovereign yields, the USD strength and fears on bank’s CRE exposition, volatility remains limited on markets soft-landing view.

**SOVEREIGN YIELDS AND VOLATILITY**  
(%, INDEX)

**US DOLLAR: DXY**  
(INDEX)

Source: BBVA Research based on Bloomberg.
Global outlook: weak growth will lead to an extra easing of inflation and rate cuts from mid-2024; still, price pressures and interest rates will remain relatively high.

**BBVA RESEARCH BASELINE SCENARIO: GDP GROWTH, INFLATION AND POLICY INTEREST RATES** (*) (**)  
(GDP GROWTH: %, INFLATION: YOY %, EOP, POLICY INTEREST RATES: %, EOP)

(*) Global GDP growth: 3.1% (+0.1pp in comparison to previous estimation), 3.1% (+0.1pp) in 2024 and 3.3% (+0.0) in 2025.  
(**) In the case of the Eurozone, interest rates on refinancing operations.

Source: BBVA Research.
U.S.: demand strength supports a higher growth in 2024, but a moderation is still likely ahead, which would allow a cautious Fed to cut rates from mid-year.

Internal demand and service inflation remains resilient, but further easing is likely on excess savings depletion and tight monetary conditions.

Extra inflation moderation (forecasts remain broadly unchanged) would pave the way for a monetary easing from May/24, which would take rates to 4.50% in Dec/24 and 3.0% in Dec/25, supporting a growth recovery from late this year.

A growth acceleration that jeopardizes the inflation convergence to 2% and keeps rates higher is possible, but not very likely; anyway, risks are balanced and a sharper decline of growth and inflation is also a possibility.

Risks: presidential elections, recession or financial stress on high rates, expansive fiscal stance.

U.S.: GDP GROWTH (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2022</th>
<th>2023</th>
<th>2024 (f)</th>
<th>2025 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.1</td>
<td>2.5</td>
<td>1.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>

(f): forecast.
Source: BBVA Research.
Eurozone: weak growth and declining inflation favor cautious cuts of ECB policy rates from Jun/24, which would then favor a mild recovery ahead

**EUROZONE: GDP GROWTH (%)**

- **Growth**: stagnation (no recession) in 2023 and beginning of 2024; cross-country divergence.
- **A recovery is likely from mid-year**, but 2025 GDP forecast was cut on prospects of larger fiscal consolidation given the new fiscal rules.
- **Inflation forecasts revised down on incoming data and lower energy prices**, despite service inflation and wage dynamism.
- **Policy rates**: 75 bps cuts this year and 100 bps cuts in the next one are expected.
- **Quantitative tightening** will continue, mainly through a reduction of the PEPP portfolio; new operational framework by 2Q24.
- **Risks**: geopolitical tensions, stagflation and sovereign debt tensions.

![GDP Growth Chart]

(f): forecast.
Source: BBVA Research.
China: targeted fiscal, monetary and regulatory policies are likely to sustain growth, but will not prevent a structural slowdown of GDP growth

- Activity, in particular the troubling real estate sector, will be backed by monetary and fiscal measures and some regulatory easing.
- Fiscal policy is expected to remain expansionary and more cuts in reserve requirements and policy rates are likely after the Fed starts reducing rates.
- A structural growth slowdown is likely on real estate problems, local government debt, ageing, US relationship…
- Inflation remains below zero, but is forecast to converge to 2% on supportive policies, pork price normalization, confidence improvement.
- Risks: real estate tensions, deflation, balance-sheet recession, weak FDI and financial inflows, geopolitical tensions.

**CHINA: GDP GROWTH**

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast 2023</th>
<th>Forecast 2024 (f)</th>
<th>Forecast 2025 (f)</th>
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<tbody>
<tr>
<td>2022</td>
<td>3.0</td>
<td>4.4</td>
<td>4.2</td>
</tr>
<tr>
<td>2023</td>
<td>5.2</td>
<td>4.6</td>
<td>4.2</td>
</tr>
</tbody>
</table>

(1Q24) Updated forecasts  
(4Q23) Previous forecasts

(f): forecast.  
Source: BBVA Research.
Over the next few years, geopolitics and other factors will likely help to keep inflationary pressures and interest rates higher than in the pre-COVID period.

- **Geopolitics** will be a source of uncertainty, supply shocks and price pressures:
  - conflicts in Ukraine and Middle-East, and potentially in other regions: pressure on energy and other input prices;
  - lack of coordination on key global issues: protectionism, climate policies, etc..
- **Other factors** potentially fueling inflation:
  - elections in the US and other regions (tariff increases, migration policies, etc.);
  - extreme weather events, climate policies;
  - tight labor markets, adverse demographics;
  - fiscal policy: strong spending (defense, green, social...); high public debt levels.
- **Productivity gains** could, at least partially, weaken inflationary pressures.

### NOMINAL POLICY INTEREST RATES (*)

<table>
<thead>
<tr>
<th>(%)</th>
<th>U.S.</th>
<th>Eurozone</th>
<th>China</th>
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<tbody>
<tr>
<td>7</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>1</td>
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<tr>
<td>5</td>
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<tr>
<td>0</td>
<td>10</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

(*) In the case of the Eurozone, interest rates on refinancing operations.

Source: BBVA Research based on data from the BLS and Eurostat.
China: the economy shows some bottomed-out signals
China’s 2023 GDP reached 5.2%, in line with our BBVA forecast and consensus, much higher than the 3% reading of 2022. Taking into account base effect, 2022-23 two-year average GDP growth dipped to 4.1%, off the pre-pandemic track of “higher-than-6%”. 2023 Q4 GDP and economic activities are also better than expected amid the recent policy support. The recent economic bottomed-out are supported by consumption, industrial production, infrastructure investment backed by the extra RMB 1 trillion government bond issuance and the exports resilience.

Risks in 2024 focus on real estate market, local government debt, deflation, dropping FDI/portfolio inflows and geopolitics, but the chance of systemic financial risks remains low at the current stage, given the prudent monetary policy and a series of precautionary financial regulation measures. Housing market remains the top priority, in particular, the potential disorderly liquidation of Evergrande in Feb 2024 might spillover to the financial markets.

China-US confrontations have seen some marginal improvement recently amid the high-level China-US communications, chief among them is Xi-Biden talk in APAC meeting last November. However, the newly elected Taiwan’s president and this year’s US president election could bring a lot of uncertainties to China-US relation. Both sides will continue fierce competition in the areas of trade and hi-tech in future.
We need a more “balanced” view on Chinese economy: FT/WSJ (downward bias) vs. Chinese government (upward bias)

RISKS
Short-term:
(1) Weak sentiments for enterprises and households
(2) Deflation
(3) Real estate crash
(4) Local government debt
(5) High unemployment rate at young age.
(6) FDI and portfolio deceleration

Long-term:
(7) Aging
(8) Geopolitical risks: China-US
(9) Democratic issues
(10) Supply chain relocation outside China

OPPORTUNITIES
Short-term:
(1) Monetary and fiscal policy room for stimulus measures
(2) Base effect/pork cycle reversion will support price.
(3) Green economy, digital economy and high-end manufacturing are three pillars of growth engine to compensate for housing investment slowdown

Long-term:
(7) Still largest population and high educational workers; urbanization and people moving from rural areas to tier-1 and 2 cities.
(8) China-US relation recent moderation and Taiwan issue maintains status quo
(9) Chinese-style socialism and growth-oriented reform and opening-up policy
(10) China’s complete industrial chain, large and comparatively cheap labor, good infrastructure still attract FDI inflows (world’s high-end manufacturing center)
The recent economic indicators are higher than market expectations and previous readings, except for the real estate investment and retail sales.

**ECONOMY**

- Industrial production
- Retail sales
- Fixed asset investment
- Real estate:
- Manufacturing:
- Infrastructure:
- Exports

**KEY RISKS**

1. Weak sentiments for enterprises and households
2. Deflation.
3. Real estate crash.
4. High unemployment rate at young age.
5. Geopolitics.

**POLICY**

**Monetary policy:**
Recent asymmetric LPR cut; we expect 2-3 LPR cuts and 2 RRR cuts in 2024;

**Fiscal policy:**
Newly announced extra RMB 1 trillion government bond issuance at end-2023. 2024 fiscal budget is expected to set at 3% in “two sessions”, while the actual fiscal deficit is anticipated to be 3.5-3.8%.
2023 GDP bounced back to 5.2%, showing bottomed-out signals; green economy and high-end manufacturing contribute significantly to growth.

2023 GDP ACHIEVED 5.2%, BUT 2022-23 TWO YEAR AVERAGE ONLY 4.1%, OFF THE PRE-PANDEMIC TRACK

FORECAST

<table>
<thead>
<tr>
<th>Year</th>
<th>2023Q1</th>
<th>2023Q2</th>
<th>2022Q3</th>
<th>2023Q4</th>
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<tr>
<td>Y/Y%</td>
<td>4.5</td>
<td>6.3</td>
<td>4.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Q/Q% (Haver SA)</td>
<td>2.8</td>
<td>0.1</td>
<td>1.4</td>
<td>0.8</td>
</tr>
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</table>

GREEN ECONOMY CONTRIBUTES 40% OF GDP GROWTH AND 80% OF INVESTMENT GROWTH IN 2023

Source: CREA (Center for Research on Energy and Clean Air) and Carbon Brief.
The main pillars of industrial production are green economy and high-end manufacturing sectors (EV, solar panels, lithium batteries and smart phone etc.)

NBS PMI FELL TO 49 IN DEC FROM 49.4; IP INCREASED TO 6.8% IN DEC FROM 6.6%

Source: CEIC and BBVA Research.

Focus on green economy and high-end manufacturing

Retail sales decelerated to 7.4% from 10.1%; consumption in service sector is stronger than durable goods

**RETAIL SALES DECELERATED TOGETHER WITH AUTO SALES**

![Graph](image)

**RETAIL SALES GROWTH IN CATERING SECTOR REMAINS STRONGER THAN OTHER SECTORS**

![Graph](image)

Source: CEIC and BBVA Research.
Some high frequency indicators show the retail sales picked up to the pre-pandemic level

HIGH FREQUENCY INDICATORS SHOW THAT RAILWAY PASSENGERS, MOVIE TICKETS AND AIRPLANE FLIGHTS RECOVERED TO PRE-PANDEMIC LEVEL

People movement during Chinese Lunar New Year reached historical high at 9 billion people/times, among which, the high-speed railway passengers increased by 18% than pre-pandemic while airplane passengers increased by 9% from 2019 level.

Source: CEIC and BBVA Research.
Retail sales is still constrained by: (i) high unemployment rate in young group (ii) “salary cap campaign” in finance etc. sectors and…

THE REVISED 16-24 UNEMPLOYMENT RATE IS 14.9% STILL HIGHER THAN HEADLINE UNEMPLOYMENT 5.1%

INCOME GROWTH IN BIG CITIES LOWER THAN PRE-PANDEMIC LEVEL

Notes: The revised statistic method of 16-24 unemployment rate excludes the survey on final year students at school. Source: CEIC and BBVA Research.
...and (iii) wealth effect: by sliding housing and stock prices

WEALTH EFFECT: STOCK MARKET DROPPING

Source: CEIC and BBVA Research

WEALTH EFFECT: CITY LEVEL DATA SHOW THAT HOUSING PRICE HAS A POSITIVE RELATIONSHIP WITH CONSUMPTION
2024 Investment outlook: housing FAI slowly picks up (narrow the drop to -5%); manufacturing FAI (7%) and infrastructure FAI will speed up to around 8%

FAI MARGINALLY PICKED UP TO 3% YTD Y/Y IN DEC FROM 2.9%; HOUSING INVESTMENT DIPPED TO -9.6% YTD Y/Y

(1) Manufacturing FAI will be supported by high-end manufacturing, digital economy, modern service industry, national security projects etc.; (2) Infrastructure FAI will be supported by the extra RMB 1 trillion government bond issuance at end-2023. (3) Real estate investment lags behind significantly.

THE MULTIPLIER EFFECT OF PUBLIC FAI TO PRIVATE FAI REMAINS LACKLUSTER

Source: CEIC and BBVA Research.
Both exports and imports growth turned to positive in December, showing resilience.

Exports improved to 2.3% in Dec from 0.5%; imports also improved to 0.2% from -0.6%.

China’s exports growth pick-up is supported by exports to Africa, EU and LATAM.

EV exports growth significantly higher than aggregate exports.

Source: CEIC and BBVA Research.
China’s imports from Latam: a diverging performance among Latam footprint countries

CHINA’S IMPORTS IN 2023 WAS WEAK FROM PERU, VENEZUELA AND THEN BRAZIL, BUT RESILIENCE FROM CHILE, ARGENTINA AND MEXICO

Source: CEIC and BBVA Research.
A deeper dive of the sharp drop of China’s FDI inflows (1): two different measurements tell us different stories

Nicholas R. Lardy (2023) provides an explanation for the differences between the SAFE and the MOFCOM FDI data. SAFE includes the following terms but MOFCOM does not:
1. IPOs in offshore markets
2. Foreign VC/PE
3. Reinvested profits and repatriated profits
4. Direct investments in the financial sector
5. Related foreign firms' bank borrowing (by USD and in foreign banks).


BUT BASED ON SAFE, FDI DIP ISTHE WORST IN THE PAST DECADES

BoP LEVEL (SAFE): FDI NET INFLOW DIPPED TO -11.8 BN. IN Q3 2023, FIRST NEGATIVE IN PAST YEARS

Source: CEIC and BBVA Research
A deeper dive of the sharp drop of China’s FDI inflows (2): Is the recent FDI drop structural or cyclical?

Cyclical factors

- The disappointing recovery in 2023, the falling industrial profits fell significantly which leads to sharp decline in retained reinvested profits (counted by SAFE).
- High funding costs of US dollar in 2022-23, have a negative impact on the PE/VC inflows to China; multinational firms are also reluctant to inject more money into China branches due to high financing costs.
- “Round-tripping” FDI (estimated to be 20%-50% of FDI inflows) declined; If the purpose of round-tripping FDI is to take advantage of cheaper funds from overseas, it collapsed in 2023 due to the rising overseas funding cost.

Structural factors

- Global value chain relocation away from China, caused by “decoupling” or “de-risking” policy adopted by the US and its allies.
- China’s rising labor costs also contribute to supply chain relocation.
- Due to the regulatory storms in China in 2021 and the US restrictions on technology investment to China, PE/VC investment in China’s technology sector has decelerated very fast recently.
- China might not need as much FDI as before in China’s new economic development stage and after becoming net creditor in 2000s. Based on Development Economy, when a country transforms from a low-income to middle-to-high income (or high income) economy, its labor cost will go up while they should have accumulated abundant capital for investment.

Conclusion: The structural factors are likely to persist in the future. That means, China’s FDI inflows won’t bounce back to their level of 1990s and 2000s even if the cyclical factors turn favorable again.
A deeper dive of the sharp drop of FDI inflows (3): China may not need as much FDI as before after becoming net creditor and in new development stage.

**DYNAMICS OF FDI INFLOWS ACROSS EMERGING MARKETS**

**CHINA BECAME THE WORLD’S LARGEST CREDITOR IN 2000S (BOP)**

**RECENT FDI INFLOWS ONLY COUNT FOR 1% OF TOTAL GDP, DECLINING FROM 5% IN 2000S**

Source: UNCTAD world investment report 2023, based on data from FDI Markets.
Deflationary environment is not easy to reverse amid deep real estate adjustment; recovery focus more on production side but not on demand side.

Why deflation in China? Supply and demand side mismatch matters: 1. Weak domestic demand and weak sentiments after reopening from Covid restrictions. 2. Service sector price decelerated due to the “salary cap campaign” in financial sector etc., together with high unemployment in young age group forms a negative “wage-price spiral”. 3. Pork cycle is one of the most important factors for CPI volatility; outside the swine flu period, pork supply expanded significantly leading to overcapacity. 4. Declining global commodity price dragged PPI, which spillover to CPI categories that related to commodity prices. 5. Central bank has never conducted QE-like policy as US, EU and Japan, conservative central banks indicates limited liquidity in the market.
China’s real estate market remains the primary risk of the economy in 2024

Recently the HK court ordered the liquidation of Evergrande. Although many bond and equity holders of Evergrande no longer have the illusion to recover money from Evergrande. There are still around 1 mn unfinished home units, its liquidation in HK could impede the already delayed delivery of these projects. Moreover, Evergrande can set an example for other HK listed Chinese developers which are mired in similar troubles and accelerate their liquidation. The time window of resolving China’s property sector troubles has become narrower.

IN TIER-1 CITIES, THE PRICE PERCENTAGE CHANGE RANGE IS WITHIN -5% TO 5%

BUT 90% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY

Source: CEIC and BBVA Research.
Some housing activity indicators bottomed out due to the recent stimulus, but housing sales, housing started and investment remain very sluggish.

People suggest several follow-up policy support in housing sector: (i) to comprehensively lifted all of restrained measures of housing purchase in tier 1 and 2 cities; (ii) to establish a nationwide real estate fund to purchase unfinished real estate or land from private developers to build indemnificatory apartment for migrant workers or low-income people in the cities.

Source: CEIC and BBVA Research
US FED “pivot” helps to support RMB Exchange rate (1)

RMB EXCHANGE RATE APPRECIATED TO 7.1 FROM 7.3 (3% appreciation) AFTER FED’S DEC MEETING SIGNALLING “PIVOT”

Source: CEIC and BBVA Research

THE MIRROR EFFECT OF RMB EXCHANGE RATE AND USD DXY PERSISTS”: A WEAKER USD DXY AND STRONGER RMB
US FED “pivot” helps to support RMB Exchange rate (2)

- In short term, the dominant factor of RMB remains the monetary policy dynamics between US and China. US rate cut expectation helps to mitigate the China-US interest rate reversion, supporting RMB.

- We believe FED rate cut in June will lead to RMB/USD appreciate to around 6.95 at end-2024. And end-2025 forecast remains at 6.8 (Bloomberg: consensus: 2024: 6.97, 2025: 6.8).

- Other short-term factors that leads to weak RMB include: (i) China-US long-term bond yield reversion; (ii) dipping Chinese stock price vs. uptrending US stock accelerated capital outflows; (iii) dipping exports and shrinking current account; (iv) growth slowdown.

- Long term will be a different story: (i) natural interest rate should be equivalent to its natural growth rate. China’s potential growth is still higher than the US (China 3.5%, US 1-1.5%), providing a justified support for portfolio inflows. (ii) A prerequisite of RMB internationalization is appreciation expectation.
Stock and bond markets underperformed, reflecting weak investors’ confidence

In addition to less optimistic economic outlook, rising geopolitical risks also dampen investors’ interest in China’s assets.

Source: CEIC and BBVA Research.
March “Two Sessions” set up economic targets and policy stimulus
**Main messages**

**Monetary policy**

Monetary policy remains expansionary in 2024 to support recovery. The most recent monetary expansion is the pledged supplementary lending (PSL) facility loans to policy banks to support infrastructure and 50 bps RRR cut, 25 bps targeted re-lending re-discount rate cut. We anticipate the PBoC to conduct another 2 RRR cuts and 2-3 LPR cuts after FED initiates the cut in June. Although deflation provides room for easing measures, monetary policy will be more targeted instead of universal.

**Fiscal policy**

2024 fiscal budget is expected to set at 3% in March “two sessions”, while the actual 2024 fiscal deficit is anticipated to be 3.5-3.8%. The highlight of the recent fiscal easing includes the newly announced RMB 1 trillion special government bond increasing fiscal deficit from 3% to 3.8% (the first time since 2020) which will stimulate infrastructure investment and help rebuild market sentiments.

**2024 March “Two Sessions”**

We anticipate the government will announce the 2024 GDP growth target to “around 5%”. In addition, the “two sessions” will also promulgate China’s 2024 inflation target, monetary target, emission target as well as a series of monetary and fiscal stimulus to support growth in 2024.
What do we expect for the 2024 March “two sessions”?

- We anticipate the 2024 March “Two sessions” will set up the 2024 economic targets, including growth target, inflation target, total credit target, among others.
- The “two sessions” will also promulgate a series of monetary and fiscal measures in 2024 to support economic growth and to deal with housing market crash etc.

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<th>2023 target</th>
<th>2023 actual</th>
<th>2024 target (expect)</th>
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</thead>
<tbody>
<tr>
<td><strong>GDP</strong></td>
<td>around 5%</td>
<td>5.2%</td>
<td>4.5-5%</td>
</tr>
<tr>
<td><strong>CPI</strong></td>
<td>3%</td>
<td>0.2%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>M2</strong></td>
<td>In line with nominal GDP growth</td>
<td>11.3%</td>
<td>In line with nominal GDP growth</td>
</tr>
<tr>
<td><strong>Total social financing</strong></td>
<td>In line with nominal GDP growth</td>
<td>9.5%</td>
<td>In line with nominal GDP growth</td>
</tr>
<tr>
<td><strong>Fiscal Deficit</strong></td>
<td>-2.8%</td>
<td>-3.8%</td>
<td>-3%</td>
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<tr>
<td><strong>Special Government Bond</strong></td>
<td>No issuance</td>
<td>RMB 1 trillion</td>
<td>No issuance</td>
</tr>
<tr>
<td><strong>Local Government Special Bond</strong></td>
<td>RMB 3.65 trillion</td>
<td>RMB 5.99 trillion</td>
<td>RMB 3.65 trillion</td>
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<td><strong>Survey unemployment rate</strong></td>
<td>5.5%</td>
<td>5.2%</td>
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A framework of counter-cyclical policy stimulus

COUNTER-CYCLICAL MEASURES

FISCAL POLICY

GOVERNMENT DEBT ISSUANCE
FISCAL DEFICIT RATE
SPECIAL GOVERNMENT BOND ISSUANCE

MONETARY POLICY

QUANTITY TOOLS:
PSL (pledged supplementary lending)

PRICE TOOLS:
LPR cut, Re-lending rate and rediscount rate cut, MLF cut

“Three projects”:
1. indemnificatory housing,
2. “village in the city” reconstruction,
3. public facilities under both normal conditions and in emergencies.

Infrastructure investment
Subsidizing high-end manufacturing and green economy sectors
Total credit growth keeps momentum but monetary policy transmission mechanism still weak

**TOTAL SOCIAL FINANCING AND NEW RMB LOANS BOUNCED BACK AMID EXPANSIONARY MONETARY POLICY**

TOTAL SOCIAL FINANCING AND NEW RMB LOANS BOUNCED BACK AMID EXPANSIONARY MONETARY POLICY

- **RMB trn**
- **% y/y**

![Chart showing RMB trn and % y/y for TOTAL SOCIAL FINANCING AND NEW RMB LOANS](chart-image)

- Other
- Net corporate bond
- Trust loan
- New loan (FX)
- Bank credit growth (RHS)
- Non-finan. enterprise equity
- Bank acceptance
- Entrusted loan
- New loan (RMB)

**Source:** CBIC and BBVA Research

**...ALTHOUGH M2 MARGINALLY DECLINED TO 9.7% FROM 10%**

![Chart showing M1 and M2 with yoy %](chart-image)

- Money Supply M1
- Money Supply M2
2024 Monetary policy outlook: remains expansionary as FED rate cut provides room for monetary expansion

ON TOP OF THE RECENT ASYMMETRIC 5-YEAR LPR CUT, WE FORECAST ANOTHER LPR 2 TIMES IN 2H 2024 AFTER FED CUT THE RATE...

...ALSO TO CUT RRR THREE TIMES (50 BPS EACH) IN 2024, PROVIDING SUFFICIENT LIQUIDITY FOR RECOVERY

The monetary policy in 2024 will coordinate with the expansionary fiscal policy to support technology advancement, high-end manufacturing, green economy transformation, SMEs, inclusive finance, digital economy etc.

The monetary policy in 2024 will ensure the total social financing and M2 to be in line with economic growth rate and inflation.
2024 Fiscal policy outlook: remains expansionary stance and will focus on efficiency

THE EXTRA RMB 1 TRILLION GOV. BOND ISSUANCE AT END-2023 WILL PARTIALLY SWAP LOCAL GOVERNMENT DEBT

- The 2024 fiscal budget might remain at 3% (will be announced in March “two sessions”), but the actual fiscal deficit may reach 3.5-3.8%.

- The expansionary fiscal policy will focus on supporting national strategic projects, high-end manufacturing, technology advancement, SMEs and poverty relief.

- The expansionary fiscal policy will expand central government debt (21% of GDP, still low in international comparison) but contain local government debt, as the central government balance sheet is more healthy and robust.

- The central government debt will swap part of local government debt. In 2024 Q4, the central gov issued RMB 1.39 refinancing debt to swap part of local government debt.

- The extra RMB 1 trillion issuance of central government debt at end-2023 will be mostly deployed in 2024.

Source: CEIC and BBVA Research
Forecast: China’s main economic indicators: Baseline scenario

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<th>2020</th>
<th>2021</th>
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## China’s forecasting: decomposing GDP growth

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