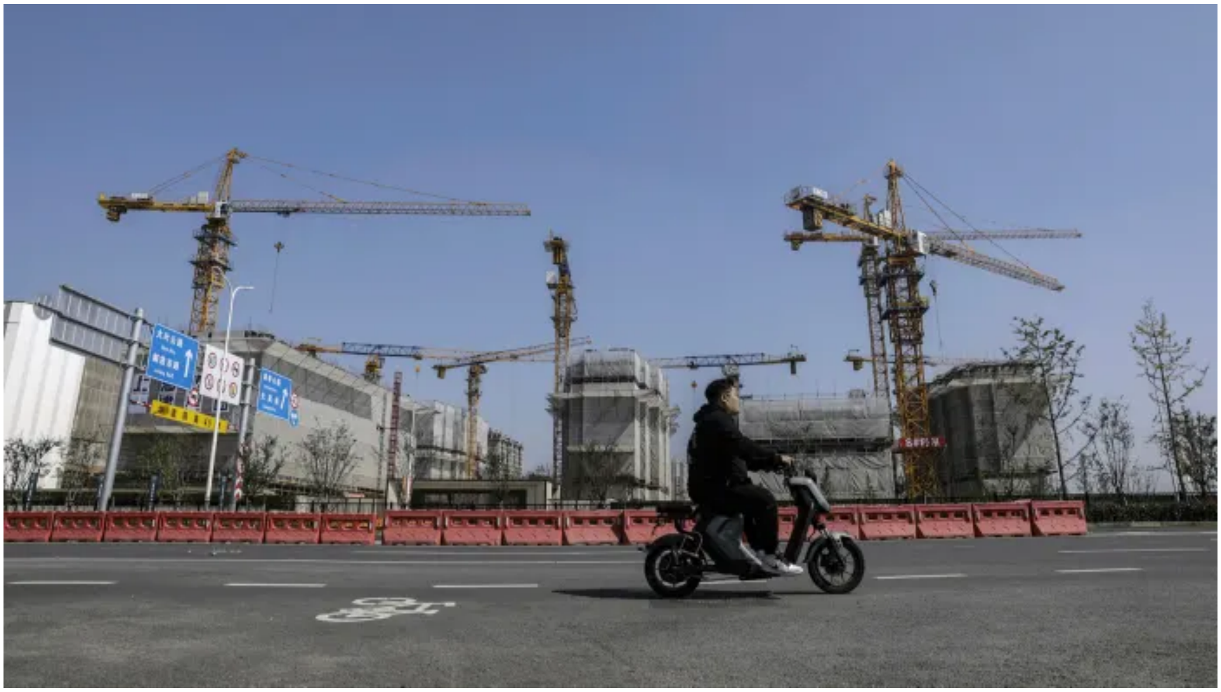
Chinese economy

Five things to watch for as China reports fourth-quarter GDP

Data to be published on Monday will show whether recovery continues to accelerate



Residential buildings under construction in the Fengxian district of Shanghai. China has recently taken steps to curb property lending in a bid to control financial risks. © Bloomberg

Tom Mitchell in Singapore and **Sun Yu** in Beijing JANUARY 16 2021

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China's latest economic output data that will be published on Monday will probably present Xi Jinping's administration with another opportunity to trumpet the country's rapid recovery from the coronavirus pandemic.

Economists expect the National Bureau of Statistics' gross domestic product figures for the final three months of 2020 to cement the bouceback in the world's second-largest economy after its historic downturn last year.

Recent virus outbreaks in Hebei, the province surrounding Beijing, showed that China was not immune from a significant resurgence of the disease. But its economic recovery and outlook for the coming year are still the stuff of envy for big economies in North America, Europe and the developing world.

Here are five things to look out for.

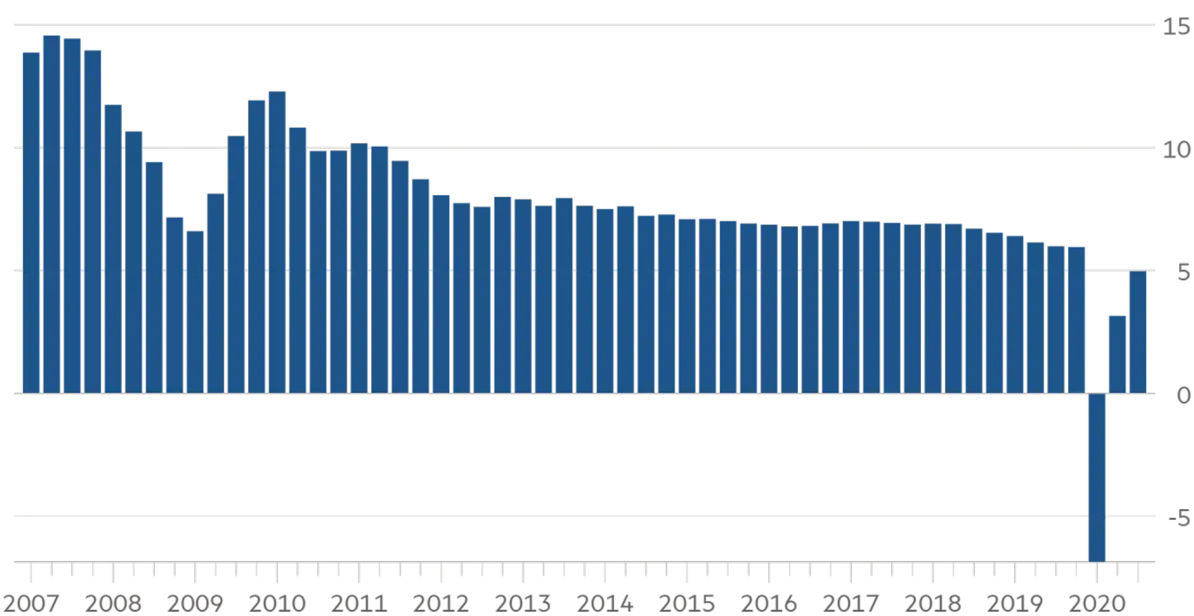
Accelerating growth?

The Chinese economy contracted by a historic 6.8 per cent year-on-year in the first three months of 2020, but avoided a formal recession — two consecutive quarters of shrinking output — by logging growth of 3.2 per cent and 4.9 per cent respectively in the second and third quarters.

Larry Hu, chief China economist at Macquarie, estimated that the pace of recovery stepped up further in the final quarter of 2020 to 6.1 per cent. That would mean the economy expanded by 2.3 per cent over the course of the full year. Macquarie thinks the pace will continue to increase this year and the economy will grow by as much as 8.5 per cent in 2021.

Chinese economy powers through pandemic

Annual % change in gross domestic product



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The IMF has estimated 2020 growth at 1.9 per cent, and forecasts 7.9 per cent growth for this year.

But fresh travel constraints may pose a headwind to growth in the first quarter: Beijing, Shanghai and other large regions are encouraging their residents not to travel in the run-up to next month's Chinese new year holiday, making it harder for the government to revive relatively weak consumption.

Risk-on or risk-off?

It was Liu He, Mr Xi's trusted economic adviser, who convinced the president to declare financial risks a matter of national security in 2017. Since becoming vice-premier a year later, Mr Liu has launched repeated campaigns to stamp out risky financial activities, most recently targeting China's bond industry and financial technology companies.

The restraint continued even during the depths of the coronavirus pandemic, with Beijing refraining from broad-based stimulus measures and the economic handout programmes adopted in western countries, most notably the US and UK.

"Liu He has put financial sector risks in the foreground ever since he moved to his current position," said Eswar Prasad, a China finance expert at Cornell University. "Even during that very difficult period for the economy in the second quarter [of 2020] they did not open the floodgates of stimulus."

The IMF has urged Beijing to do more, saying it should adopt "fiscal, monetary and structural policies [aimed at] strengthening private demand".

Property lending curbs

The biggest engine of the Chinese economy is the property sector. In a recent article, Guo Shuqing, head of China's banking regulator, declared that lenders' exposure to the sector was the country's "biggest grey rhino risk" — meaning clear and present dangers that are often neglected.

On December 31, the central bank and banking regulator imposed caps on banks' lending to property developers and home buyers. As a result one of the country's largest banks, China Construction Bank, will have to reduce its mortgage lending from 34.4 per cent of total lending to 32.5 per cent.

The limits are even stricter on smaller banks whose caps will be reduced to just 22.5 per cent, reflecting the central bank's concerns about the financial health of regional lenders.

But Chinese regulators always tread carefully when cracking down the property sector, wary of the effects it could have on the broader economy. Banks will have a four-year grace period to meet the new rules which took effect on January 1.

Regions' fiscal strains

China's overall growth performance can often mask deep regional divides. These will become apparent as provinces confirm their own fourth-quarter growth estimates in the coming weeks.

A series of bond defaults late last year highlighted just how much some regions are struggling in the wake of the pandemic. Officials in northeastern Liaoning province and central Henan refused to help some of their largest and highest-profile state-owned enterprises to meet coupon payments, triggering runs on the debt of other SOEs in the two provinces.

While the situation has since stabilised, more defaults are expected this year, putting even more strain on already-stretched regional governments.

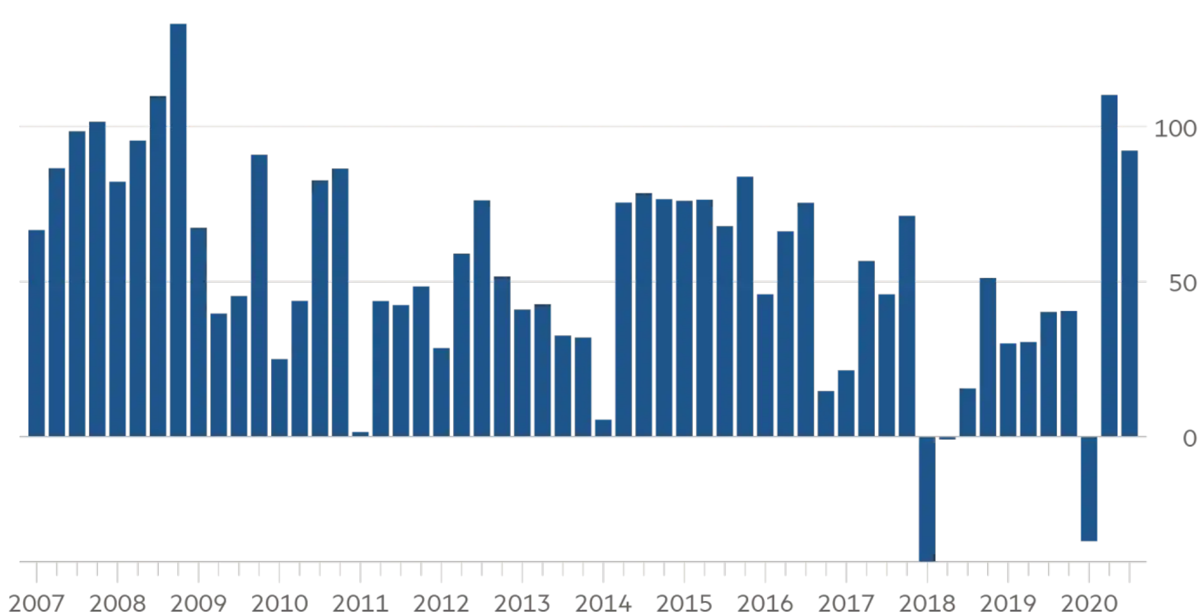
Surging exports

As China's coronavirus outbreak began to spread around the world early last year, a dual economic crisis seemed to loom for Mr Xi's government: demand shocks both at home and abroad.

Instead, Beijing reaped an unexpected bonus. While domestic demand has not recovered as strongly as officials would like, China's export machine has surged.

Surging exports boost China trade surplus

Current account balance ($bn)



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According to figures released on Thursday, exports grew 18.1 per cent year-on-year in December and 3.6 per cent for the full year, yielding an annual trade surplus of $535bn — China's largest in five years.

Western countries' inability to contain the pandemic fuelled overseas demand for everything from Chinese-made personal protection equipment — up 13 per cent year-on-year in December — to laptops, up 54.5 per cent, and furniture, up 27.5 per cent.

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