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China Says Its Economy Will Expand About 5 Percent, a Cautious Target

Last year China's economy grew 3 percent, one of its worst performances. Now leaders are expecting a revival, but it will rely partly on public spending.

By Keith Bradsher

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China's government said it expected the country's economy to grow "around 5 percent" this year, a goal that may be attainable as activity rebounds quickly but will still require considerable public borrowing and spending on roads, rail lines and other infrastructure.

Li Keqiang, who will finish his decade as the country's premier in the coming days, announced the target on Sunday at the opening of the annual session of the National People's Congress.

"This year, it is essential to prioritize economic stability and pursue progress while ensuring stability," Mr. Li said.

The new goal represents a sharp increase from the 3 percent growth that China officially reported for 2022, a year when the economy was smothered by the strict "zero Covid" policy. But the new target is more modest than last year's target, which had been "around 5.5 percent."

"This growth target, while modest from the perspective of recent decades but moderately ambitious relative to last year, indicates the return of growth as the lodestar for economic and financial policies," said Eswar Prasad, a Cornell University economist.

A two-month lockdown in Shanghai last spring disrupted factory production and triggered a lasting nosedive in consumer confidence and spending from which China is only now emerging. Some Western economists have suggested that last year's actual growth may have been even lower than the 3 percent that the government reported.

Ever since the global financial crisis in 2008, China has experienced a decline in the economic returns on its public spending. The days of routine annual growth of 8 percent to 10 percent are over, most economists believe.

Yet the government is still investing heavily in sparsely populated areas, after having already built highly automated ports and a world-leading network of high-speed rail lines. The new national budget, also released Sunday, called for $550 billion of special bonds to be issued by local and provincial government agencies, much of it for infrastructure.

That is a smaller increase in special bond issuance from last year than most economists expected. Weak revenues from the sale of long-term leases on state land could also prevent local governments from continuing to splurge on infrastructure.

Last month, the International Monetary Fund, in lowering its China growth forecasts for the next four years, warned that the country needed to transition from its dependence on public spending to policies that do more to spur consumer spending. That could include cutting taxes on employers' payrolls, which could prompt employers to pay more money directly to workers.

Even a few weeks ago, growth of around 5 percent this year would have seemed like a lofty ambition.

Exports have slumped on faltering demand in the West. The country's real estate sector is in a slow-motion crash: Dozens of developers are insolvent and have stopped buying land, depriving local governments of a dependable source of revenue they need to pay civil servants or invest in infrastructure.

But an abrupt end to "zero Covid" in early December has produced at least a temporary turnaround in the economy. A report last week showed factory activity accelerating at its fastest pace in more than a decade.

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