



**MEASURES TO STIMULATE  
THE DEVELOPMENT OF  
CHINA'S DOMESTIC ECONOMY**



## CHINA – IS THE ONLY COUNTRY WITH A LARGE ECONOMY TO SHOW POSITIVE GROWTH OF 2.3% AGAINST THE BACKDROP OF THE CORONAVIRUS PANDEMIC IN 2020.

Already by the end of the 4th quarter of 2020, the country was able to return to the «pre-pandemic» level of growth. Thus, while GDP declined at an annualized rate of 6.8% in the first quarter of 2020, it was able to return to a growth rate of 3.2% in the second quarter, 4.9% in the third quarter, and 6.5% in the fourth quarter. GDP in 2020 was 101.59 billion yuan (more than 15 trillion USD). The PRC government timely imposed strict restrictive measures to prevent the spread of coronavirus infection in early 2020 and adopted a number of anti-crisis measures aimed at maintaining and restoring the economy. According to the updated IMF World Economic Outlook (April, 2021), economic growth in China is expected to be 8.4% this year, with a decline of 5.6% in 2022.

However, despite the positive aspects, China's economic recovery this year is mainly driven due to the increased demand for medical equipment, personal protective equipment, household electrical appliances, automated equipment, etc. ***Retail sales within the country are recovering at a slow pace, which indicates still weak domestic consumption.***

In March 2021 plans for the 14th Five-Year Plan were approved and programs for the PRC's long-term development strategy through 2035 were announced. ***The main course of the coming period is the transformation of the PRC economy and the transition from quantitative to qualitative development.***

***The cardinal difference*** between the ***14th Five-Year Development Plan*** and the 13th is that it ***does not present specific targets for GDP growth.*** The indicative GDP growth rate for the current year 2021 is set at 6%.

***Late last year, the Chinese government adopted a «Dual circulation strategy» (DCS)<sup>1</sup>***, a new economic development paradigm aimed at stimulating domestic demand in the country as the main driver of growth.

However, it should be noted that over the past decade, since the global financial crisis of 2008-2009, China has been trying to readjust the economy by relying on its domestic reserves.

Achievement of the strategic goals of the 14th Five-Year Plan largely depends on the results of the current year 2021, as the basic basis for the five-year period. Thus, the operational tasks of the current period will be related to increasing economic activity and forming a good basis for achieving the goals of the next five-year plan.

<sup>1</sup> President Xi Jinping first introduced the idea at a Politburo meeting in May 2020.

Table 1: Key strategic projections for PRC development in 2021

Goals, Seq No.	Figure	Indicator
1	GDP growth	over 6%
2	Creation of new jobs in cities	more than 11 million
3	Consumer price index	about 3%
4	Unemployment rate in urban areas	5,5%
5	Grain production	over 650 million tons
6	Budget deficit indicator	3,2%
7	Reduce energy consumption per unit of GDP, while continuing to reduce pollutant emissions	up to 3%
8	R&D growth rate	over 7%
9	Special bond of local authorities	3.65 trillion yuan
10	Improving the quality of trade relations and the volume of foreign trade turnover and achieving a balance of payments	-
11	Increase in personal income	-

In the near term, the key challenge for the government is to properly balance macroeconomic measures to support the recovery of consumer demand, addressing the long-term effects of the pandemic, such as rising unemployment and increasing social inequality.

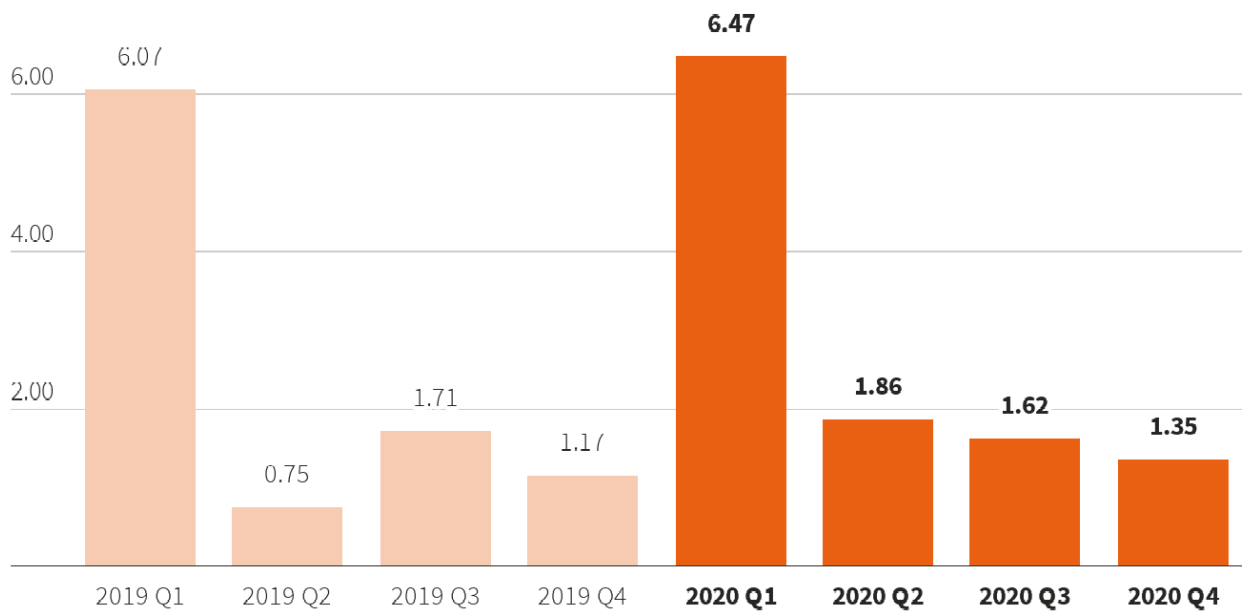
**China will continue to provide the necessary monetary support to the economy and does not intend to sharply curtail stimulus measures.** So far, China's central bank sees its main task as maintaining liquidity at a sufficiently high level for economic recovery and maintaining a stable yuan exchange rate. It will work to reduce external borrowing and regulate the volume of domestic lending. The planned introduction of a digital yuan is also partly related to financial stability.

**China's fiscal policy this year is expected to be «moderately proactive».** The government aims to achieve a relative stabilization of the debt burden. Thus, the government needs to control budget spending, given the high level of accumulated public debt at all levels combined with extra-budgetary activities. Fiscal incentives will be phased out as the economy recovers.

**China remains committed to a policy of openness and intends to attract more foreign investment.** This is evidenced by the new Foreign Investment Law passed in 2019 and taking full effect on January 1, 2020, expanding opportunities and protecting the rights of foreign investors.

One of the key tasks of the PRC leadership is **to stimulate consumer spending**, which in the current environment **is somewhat challenging**. We can identify a number of factors that hinder the growth of consumption..

- First off, amid the pandemic and uncertainty about the future development of the situation with coronavirus, the population of the country reduced their spending, began to increase savings.



Unit: trillion yuan  
 Source: the People's Bank of China

Figure 1. Growth of household savings in bank deposits, 2019-2020.

- In the second place, Chinese society as a whole is more inclined to save and conserve than to consume. Another reason is the low level of social protection.
- In the third place, one of the reasons for China's low level of consumption is the low growth rate of household income.
- And in the fourth place, over the past decade, the main driver of China's domestic demand growth has for many years been the massive construction of housing and commercial real estate. There are high risks of real estate market overheating. Therefore, one of the important measures to maintain stability in domestic markets is the application of strict restrictions on the housing market, which China has been actively introducing since 2017.

