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China Economics

Time to Think 2027: Growth, Policy and Key Questions – Takeaways from Monthly Call

CITI'S TAKE

Every month we host a call with either policymakers, economists or industry experts to discuss China macro and markets. This month's call, held on 28 Oct, focused on the 2027 outlook. We summarize the key views expressed during the call and Q&A.

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Growth target: "around 4.5%" — There was agreement on the call that the 2026 growth target is achievable, but pressure could build into 2027 (see: Approaching Inflection). In addition to **[1]** uncertainty over export resilience after a strong 2026, **[2]** persistently weak consumption, and **[3]** a growing drag from property on investment and government finances, a further headwind was flagged: **the inventory cycle**. Inventory accumulation explains negative FAI growth alongside investment's positive GDP contribution and could have added 1ppt to industrial production and 0.2–0.3ppt to GDP in 26Q1-3. It was felt that growth could slow to 4.2% YoY in 2027E, while policymakers might tune down the growth target to **"around 4.5%".**

Stimulus: more needed than our base case — To defend growth, a far more aggressive fiscal expansion was called for on the call, more than what we are expecting. An **upside case** was laid out where the **budget deficit rose to 5% of GDP** (vs. 4% in 2026) and the special bond quotas increased significantly in 2027, together lifting the **augmented fiscal deficit to ~11% of GDP** (+3ppts from 2026). The additional funds could be diverted to investment, with fiscal support seen as indispensable for two of the "**six networks**" — water networks and underground pipelines. On the revenue side, **taxation of overseas income/profit** should stay in place, and the **export VAT rebate cut** is likely to be expanded further; however, it was felt that **no new taxes or tax-rate hikes** (e.g., consumption tax, property tax) would be imposed in 2027. A new round of debt resolution was also thought to be necessary ahead of property-market stabilization. **Rate/RRR cuts are set to resume** next year, partly to stabilize capital markets.

2027 vs. 9.24 — On the call it was expressed that a greater need for **a "9.24"-style policy pivot** in 2027 than in September 2024 was needed. Back then, the main concern was an overly rapid property downturn; today, it is **external pressure** amid a record-high trade surplus. The 9.24 pivot's policy philosophy — favoring consumption and welfare — still holds, it was felt. On exports, despite the structural support from global green transition and the AI cycle, it was highlighted that export VAT rebate cuts and FX adjustments would aid rebalancing by weighing on price-sensitive goods. T**he RMB was expected to continue appreciating**, in a managed manner. One pushback from the Q&A was whether RMB strength can be sustained amid low interest rates, and whether appreciation would meaningfully aid rebalancing given the structural strength of exports.

Do the "right things" for consumption — A favorable base effect was forecast on the call that would lift retail sales growth to ~2% in both 26Q4E and 2027E. No quick fix for weak consumption was expected, but the view was that the government should still take the right structural steps, such as **enhancing the social safety net**. A dilemma facing policymakers on social security was flagged: tightening contribution collection would support expenditure but could hurt employment, particularly at SMEs. To navigate this trade-off, aligning social security contribution benchmarks with minimum wages was advocated, at least conditionally, alongside a transfer of SOE capital to social security funds. One Q&A feedback was that **eliminating policy surprises**, particularly on taxes and social security contributions, would support sentiment more than additional stimulus.

Property stabilization in 2029 — There was agreement with us that the shift toward completed-home sales would further weigh on property investment and government finances. The view was **home prices could stabilize by 2029**. Clearing secondary-market inventory — much of it is investment housing bought in 2015–21 and now underwater — could take three more years. Meanwhile, land acquired in 2023–24 should reach the market after a ~6yr development cycle, with lower land costs letting developers hold prices broadly flat. Once stabilized, it was expected

that prices would follow an L-shaped path. The drag on investment, however, should outlast price stabilization. Separately, the call flagged that the **manufacturing investment's downcycle** could deepen after booming in 2021–24.

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