

China Policy

China signaled further policy easing to boost growth

The state council held a meeting yesterday, indicating further policy easing to boost economic growth. The cabinet vowed to further cut the RRR to maintain ample liquidity condition. Banks were guided to lower outstanding loan rates or provide loan extension for micro business and expand bond financing to private enterprises. The central government promised more interest subsidies to enterprises as an incentive to expand their equipment capex. The state council also pledged to support the healthy development of internet platforms and housing market. We expect China to maintain easing macro policies and gradually reopen its economy in 2023. Meanwhile, the new cabinet team will adopt pro-business stance to boost the confidence. We expect the GDP growth to reach 3.3% in 2022, 4.9% in 2023 and 4.5% in 2024.

■ China will maintain prudent monetary policy with easing bias in 2023.

The PBOC should provide ample liquidity supply as money market rates may remain at low levels with moderate increases in 2023. We expect further RRR cuts in next four quarters. The central bank will maintain easing credit policy especially to manufacturing, technology, service and SMEs. The loan prime rates have additional moderate room to decline. The PBOC will also loosen credit supply to property developers and further lower mortgage rates for first-home & second-home buyers. Banks are encouraged to extend their matured loans to SMEs, property developers and LGFVs.

■ Fiscal policy will remain proactive with possible higher broad deficit in 2023.

Due to economic slowdown and property slump, both general fiscal revenue and land income were lower than the levels in the budget plan in 2022. Local governments relied on asset sales, trade credit and LGFV borrowing to meet the gap. Looking forward, broad deficit is expected to rise from 5.8% of GDP in 2022 to 6.1% of GDP in 2023. The government will provide more tax credit and interest subsidies to stimulate enterprises to increase equipment investment and R&D expenditures.

■ China may gradually reopen its economy in 2023.

China has already started to adjust its zero-Covid policy. The policymakers target a smooth transition, but it is easier said than done. We see a risk of large-scale spread of Covid-19 virus or even out of control around the Chinese New Year holiday in January 2023 as people travel and gather as a tradition. China has to face the moment. In the reopening process, demand for medicine & health care may increase noticeably. There will be a sharp resumption in air & railway transportation, travel, catering, hotel, sports, recreation, clothing and cosmetics. However, the resumption in housing market and durables may be gradual and slow. The impact of the reopening on China's labor participation and inflation should be limited as the virus becomes very weak and global economy sees a recession ahead.

■ New cabinet team will adopt pro-business stance to boost confidence in 2023.

We expect the policy will be more friendly for property & internet sectors as the new policymakers focus on resuming confidence and boosting growth after taking office. They may set the GDP growth target at around 5% for 2023.

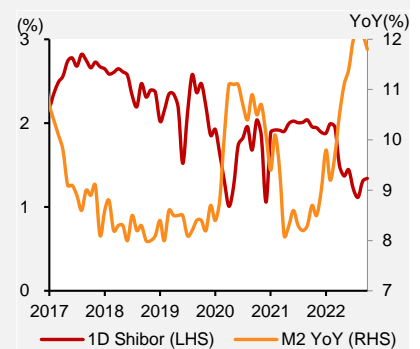
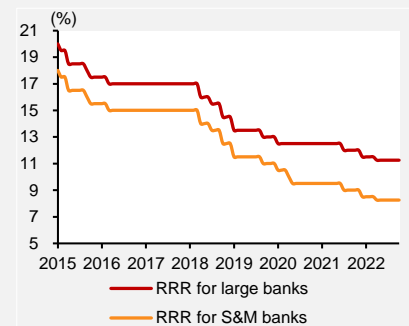
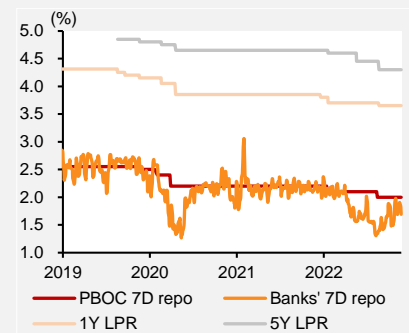
■ We maintain our forecast for China's GDP growth at 3.3% in 2022, 4.9% in 2023 and 4.5% in 2024.

China has led the US in policy adjustments and

Bingnan YE, Ph.D

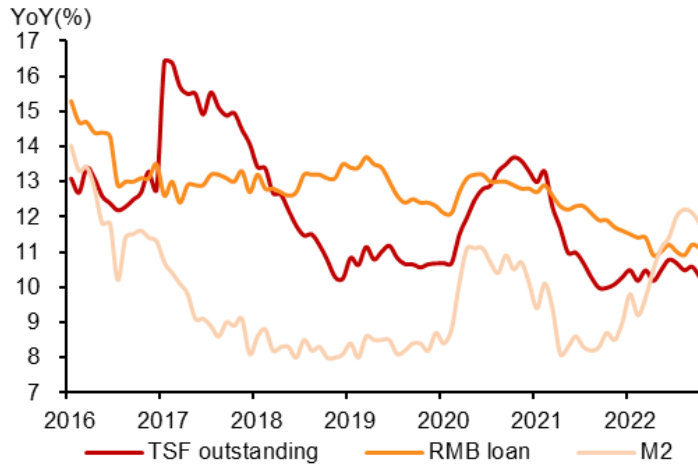
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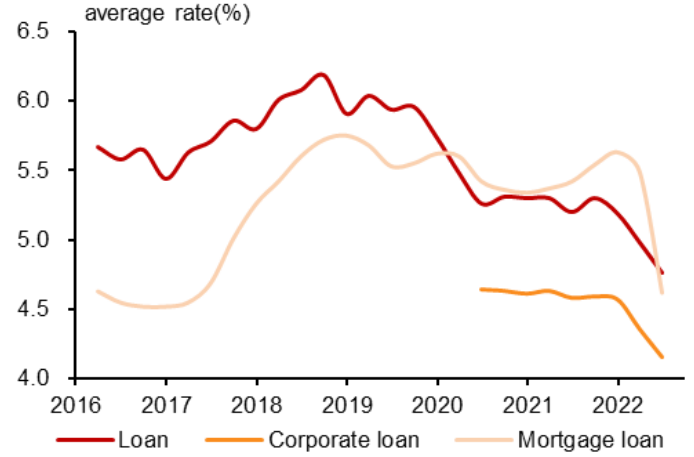
business cycle. China's economy started to slow down from 2H21, experienced a hard landing in 2Q22 and slowly resumed from 2H22. It should remain in a gradual resumption in 2023-2024.

Figure 1: China's Credit & M2 Growth



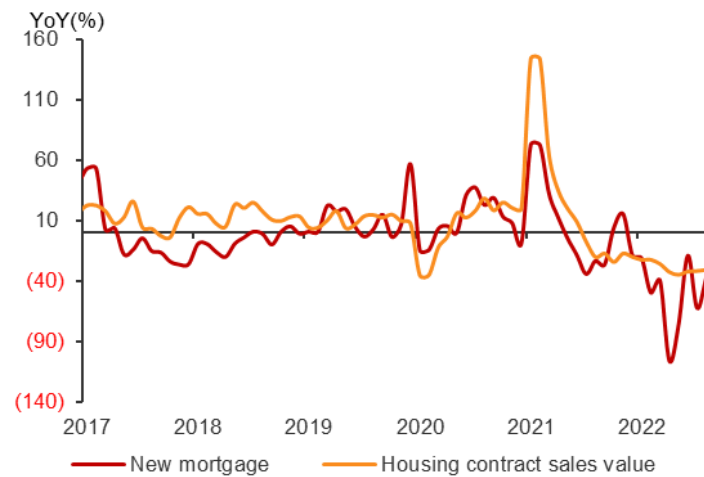
Source: Wind, CMBIGM

Figure 2: Average Rates of Outstanding Loans



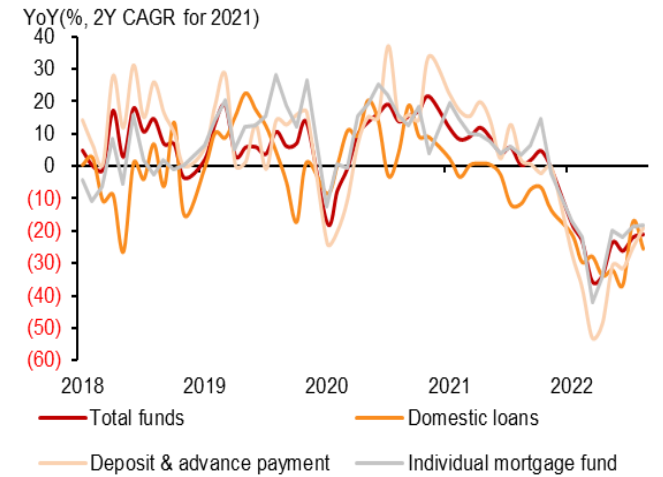
Source: Wind, CMBIGM

Figure 3: New Mortgage & Housing Sales



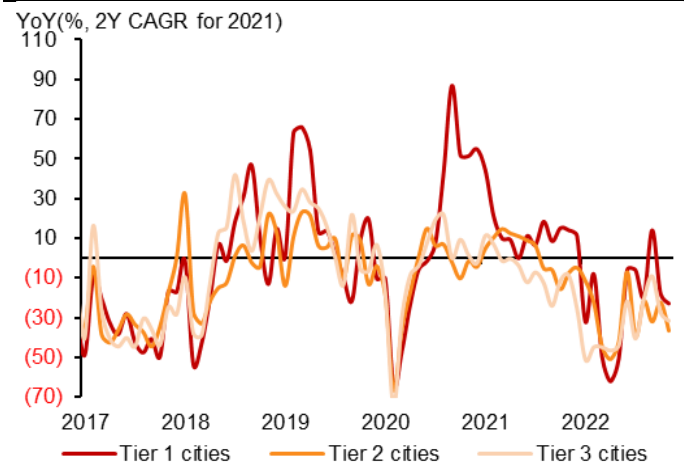
Source: Wind, CMBIGM

Figure 4: Fund Source for Property Development



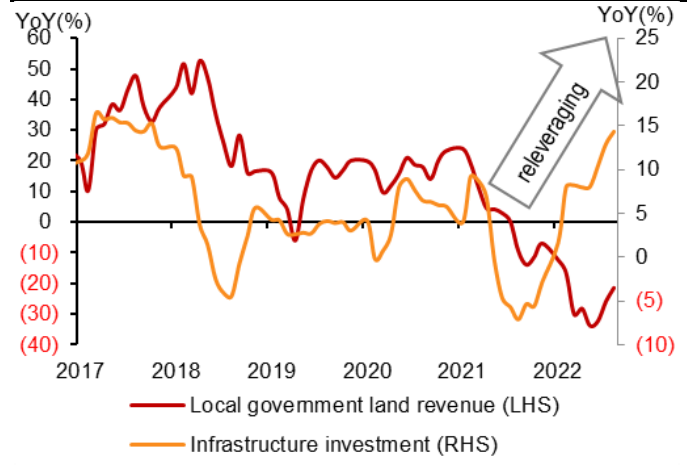
Source: MoF, CMBIGM

Figure 5: Housing Sales in 30 Large Cities



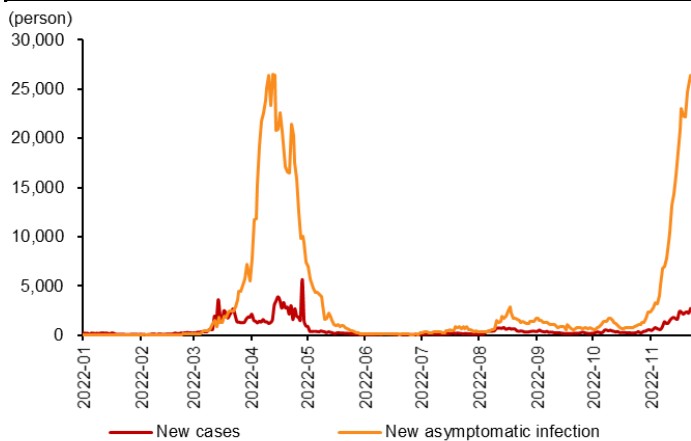
Source: Wind, CMBIGM

Figure 6: Land Income and Infrastructure Investment



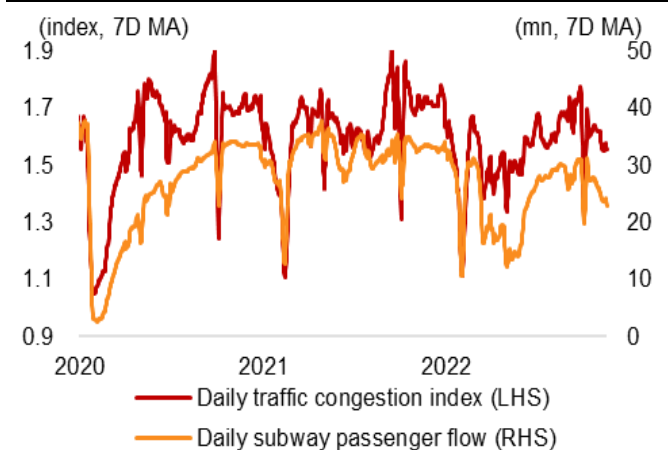
Source: Wind, CMBIGM

Figure 7: New Covid-19 Cases



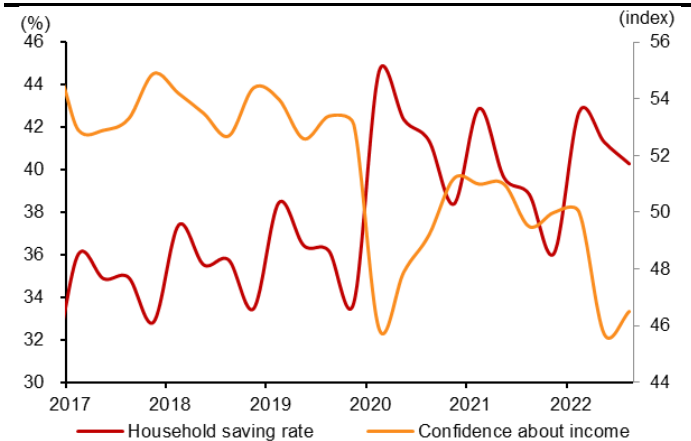
Source: Wind, CMBIGM

Figure 8: Mobility Index in Tier-one Cities



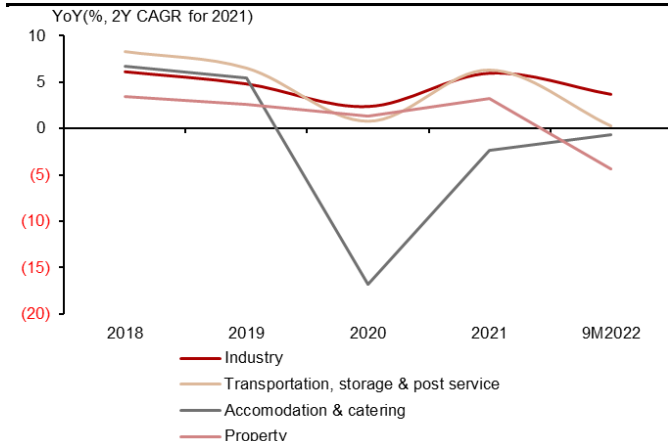
Source: Wind, CMBIGM

Figure 9: Household Saving Rate & Confidence Index



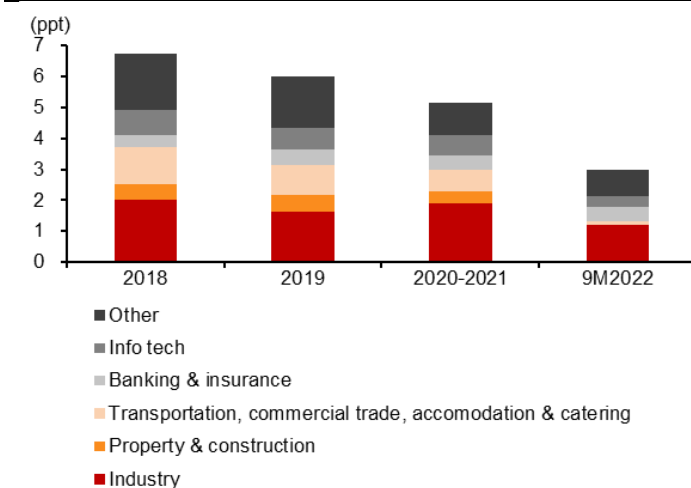
Source: Wind, CMBIGM

Figure 10: GDP Growth in Selected Sectors



Source: Wind, CMBIGM

Figure 11: Sector Contribution to China's GDP Growth



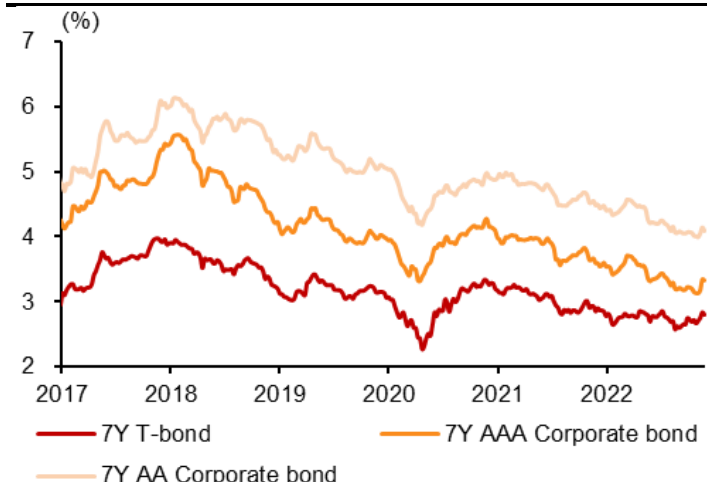
Source: Wind, CMBIGM

Figure 12: Money Market Rates



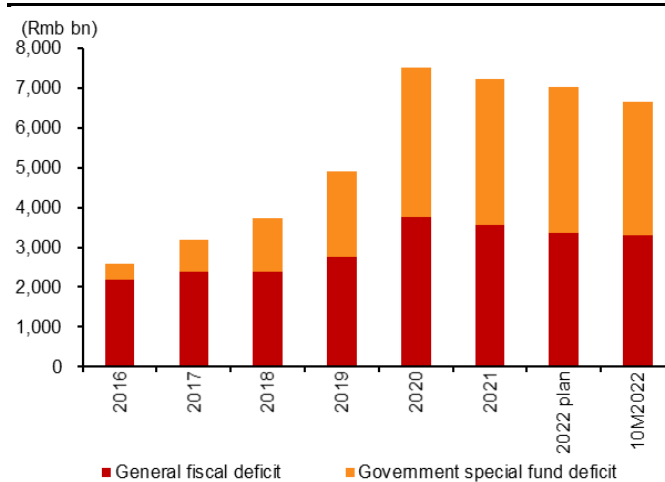
Source: Wind, CMBIGM

Figure 13: Bond Market Rates



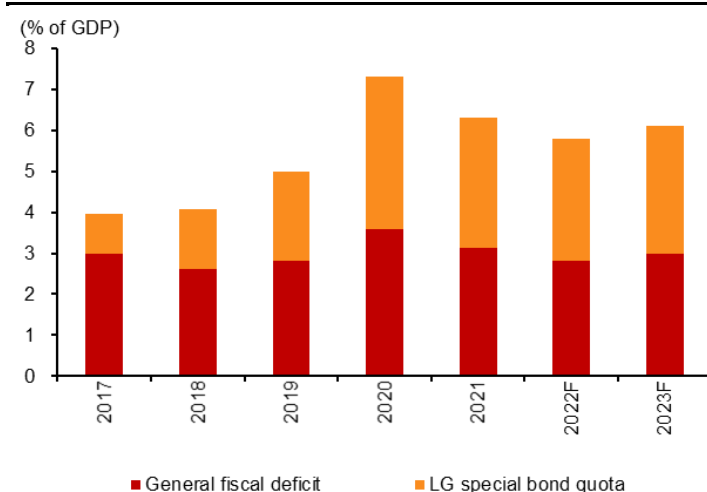
Source: Wind, CMBIGM

Figure 14: Broad Fiscal Deficit



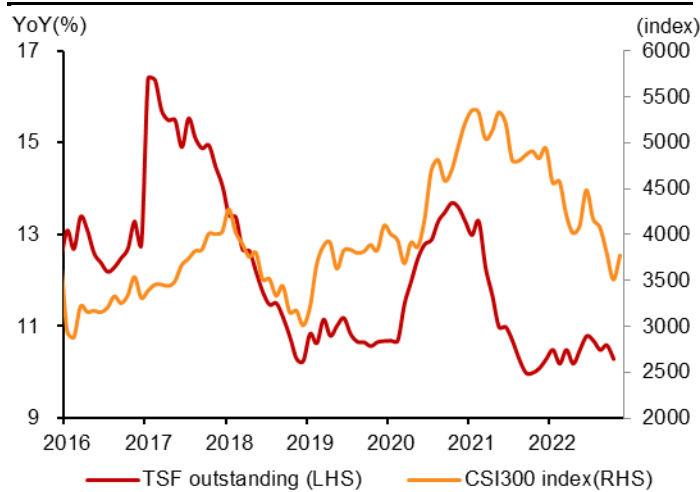
Source: Wind, CMBIGM

Figure 15: Broad Deficit Ratio



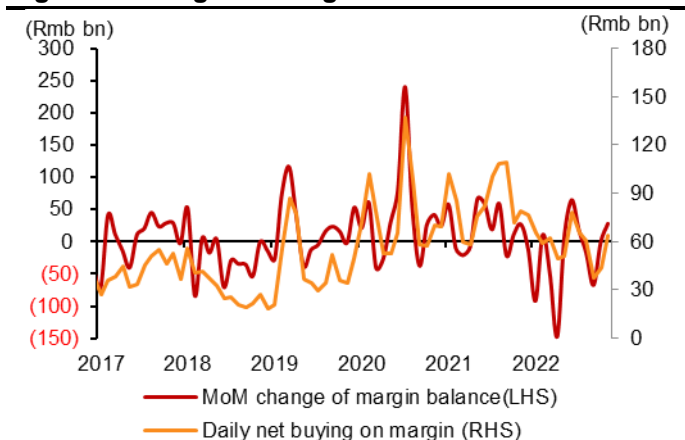
Source: Wind, CMBIGM

Figure 16: TSF Outstanding Growth & A Share Index



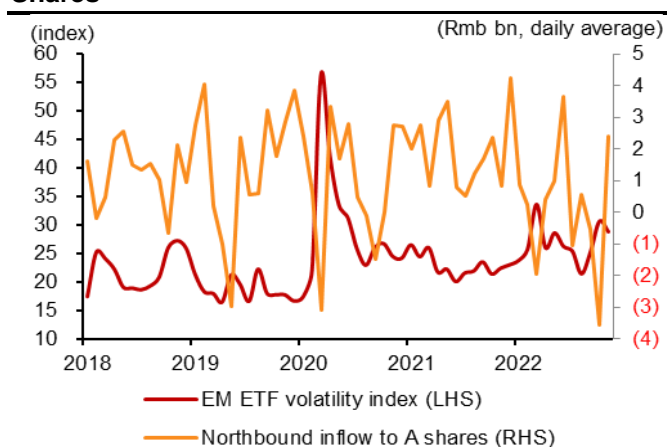
Source: Wind, CMBIGM

Figure 17: Margin Trading in A Share Market



Source: Wind, CMBIGM

Figure 18: EM Volatility & Northbound Inflow into A Shares



Source: Wind, CMBIGM

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