

China Policy

Reviving growth and restoring confidence as the priority in 2023

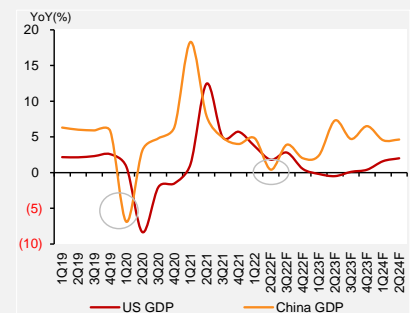
China's leaders sent strong pro-growth and pro-business signals at the Party's Central Economic Working Conference (CEWC) last Friday. With a new growth push, the leaders may have set the GDP growth target at 5% or higher for 2023. Restoring business confidence is one priority for China as the leaders pledged to create a favorable environment for the private sector and showed friendlier attitude to internet platform companies. China would adopt more accommodative fiscal & monetary policy with an increase of broad deficit ratio and further RRR & LPR cuts in 2023. Consumption resumption is the key for China to expand domestic demand. China will reopen its economy as soon as possible to resume consumer spending and service activity. Consumption may see near-term turbulence before a gradual resumption from March. China will further loosen credit policy for the property sector to boost housing market. Housing market may gradually stabilize from 2Q23 with a mild growth for some indicators in the second half year. China economy will be in a gradual resumption in next two years with the GDP growth up from 2.7% in 2022 to 5.1% in 2023.

- **A new growth push with the GDP growth target probably at “5% or higher”.** At the CEWC, China's leaders vowed to focus on reviving growth momentum in 2023. They should have set the GDP growth target for next year at the CEWC, but the specific number will not be released until next March during the National People's Congress meeting. New cabinet leaders seemed eager to show their determination to boost growth as they may set the GDP growth target at “5% or higher” for 2023. The ambitious goal sends a clear signal to local officials that economic growth once again becomes important KPI for them in 2023. Recently, officials in some provinces have already organized overseas trips to hunt for trade deals, indicating a pro-growth shift. Due to faster decline of overseas demand and the near-term turbulence after domestic reopening, we cut the GDP growth forecast for 2022 from 3% to 2.7%. We raise the GDP growth forecast for 2023 from 4.9% to 5.1% thanks to lower base.
- **More pro-business stance with confidence restoration as the priority for new cabinet.** The lockdowns, property market slump and tough regulation over capitals severely hurt business confidence in 2022. To restore business confidence, China's leaders vowed to encourage and support the development of private economy and private enterprises. They pledged to create a favorable environment for the private sector. The leaders also presented a friendlier face to internet platform companies as they vowed to support those companies to lead the growth, absorb more employment and compete in global market.
- **More accommodative policies with a shift from supply-side reform to demand boost.** China vowed to expand demand for 2023. This is an important change of policy framework as the policymakers placed more emphasis on supply-side reform in the past several years. There will be more loosening of both fiscal policy and monetary policy in 2023 than in 2022. As overseas economy may see a recession with disinflation, we expect China's exports of goods to drop by 3.5% in 2023 after rising 7% in 2022. China's reflation pressure after reopening should be mild as we expect the CPI growth may slightly rise from 2% in 2022 to 2.2% in 2023. Therefore, the key task for

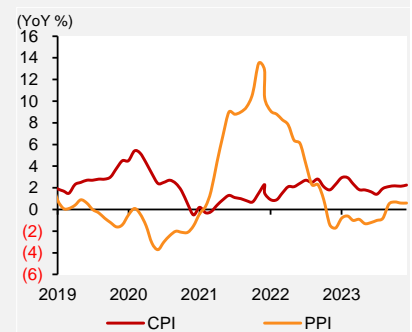
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Source: Wind, CMBIGM



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China is growth boost instead of inflation control. We expect China may launch moderate stimulus next year. Broad fiscal deficit may rise from 5.8% of GDP in 2022 to 6.2% of GDP in 2023. Liquidity and credit policy should remain accommodative as the central bank may cut RRR and LPRs for once or twice next year. New renminbi loans and social financing amount may respectively grow 11% and 10% in 2023 after rising 5.3% and 4.6% in 2022.

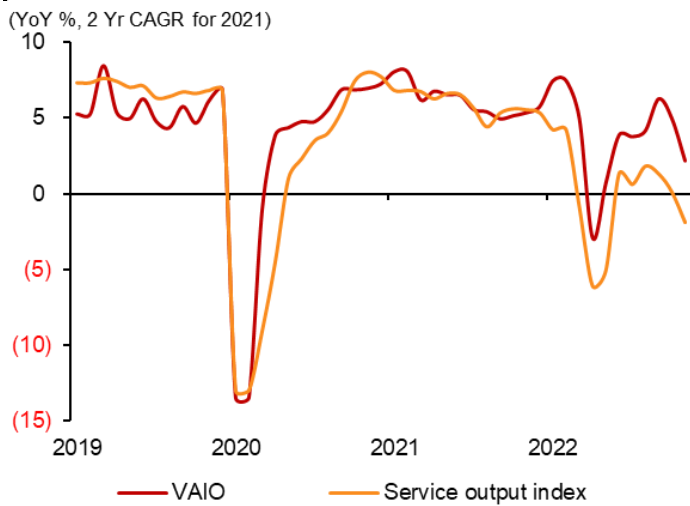
- **More emphasis on consumption resumption as China's reopening was faster than expectations.** China's leaders considered consumption resumption as the key to expand domestic demand. The pandemic and housing market slump caused significant damage to consumer confidence and spending. Household saving rate rose to 40% in 9M2022 and retail sales dropped 0.1% in the first eleven months this year. The leaders vowed to support employment and income growth, stabilize housing market and boost EV and elderly care consumption. We expect China would reopen the economy as soon as possible to resume consumption and service activity. The wave of Omicron virus may peak in January-February 2023. Consumption may see near-term turbulence before a gradual recovery from March. China may launch individual income tax cut and provide coupons to stimulate household consumption. We expect retail sales to grow 6.5% in 2023 after around zero growth in 2022.
- **More proactive attitude to boost property sector.** The leaders vowed to stabilize property market to avoid systematic risk in the financial system. They called for greater efforts to complete unfinished housing projects, meet financing demand of property developers and lower the debt risk of large developers. The leaders also pledged to boost housing demand and support the development of long-term rental housing. We expect the policymakers will encourage banks to expand loan supply to property developers and homebuyers. The down-payment ratio and mortgage rates for the second-home buyers may noticeably decline in future. We expect housing sales may gradually stabilize from 2Q23 and see a mild YoY growth in 2H23.
- **Faster institutional opening up and to attract more foreign capitals.** China vowed to push forward high-level opening up with easier market access for foreign companies. China showed its eagerness to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as the leaders tried to use the international standard to deepen structural reforms in the domestic. The leaders called for great efforts to attract more foreign capitals as foreign investors' confidence dropped significantly in recent two years. We expect capital outflow pressure may alleviate noticeably in 2023 as Sino-US interest spreads and foreign investor confidence about China rebounds after reopening in the country.

Figure 1: Government Economic Targets in China

		2020		2021		2022F			2023F	
		Target	Actual	Target	Actual	Target	Forecast	9M2022	Target F	Forecast
GDP	YoY(%)	-	2.3	6 or higher	8.3	5.5	2.7	3.0	5 or higher	5.1
CPI	YoY(%)	<=3.5	2.5	3.0	1.4	3.0	2.0	2.0	3.0	2.2
Urban incremental employment	mn	9.0	11.9	11.0	12.7	11.0	12.0	10.0	11.0	10.0
Urban unemployment rate	(%)	6.0	5.2	5.5	5.1	5.5	5.5	5.5	5.5	5.5
General fiscal revenue	YoY(%)	-5.3	-3.9	8.1	10.7	3.8	-1.5	-6.6	6.5	6.5
General fiscal expenditure	YoY(%)	3.8	2.9	1.8	0.3	8.4	6.2	6.2	5.0	5.0
General fiscal deficit	(Rmb bn)	3760.0	3760.0	3570.0	3570.0	3370.0	3370.0	3723.8	3970.0	3970.0
General fiscal deficit as % of GDP	(%)	3.6	3.7	3.2	3.1	2.8	2.8	-	3.1	3.1
Local govt special bond quota	(Rmb bn)	3750.0	3750.0	3650.0	3650.0	3650.0	3650.0	-	3950.0	3950.0
Local govt special bond quota as % of GDP	(%)	3.6	3.7	3.3	3.2	3.0	3.0	-	3.1	3.1
M2	YoY(%)	Notably higher than last year	10.1	in line with nominal GDP growth	9.0	in line with nominal GDP growth	12.5	12.4	in line with nominal GDP growth	11.0

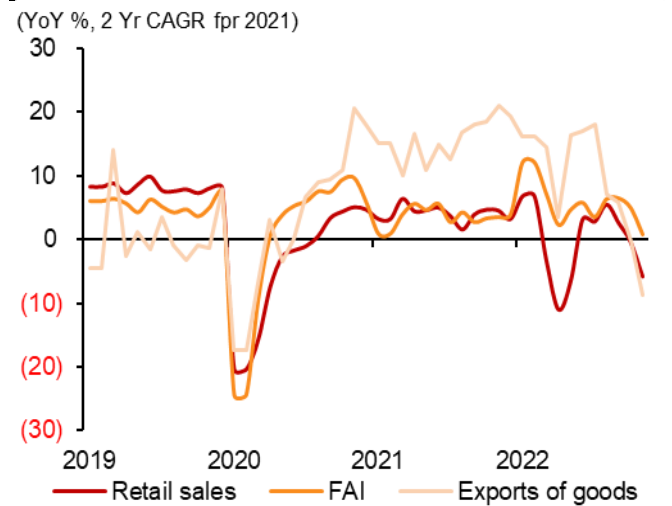
Source: Wind, CMBIGM

Figure 2: Output Growth in China



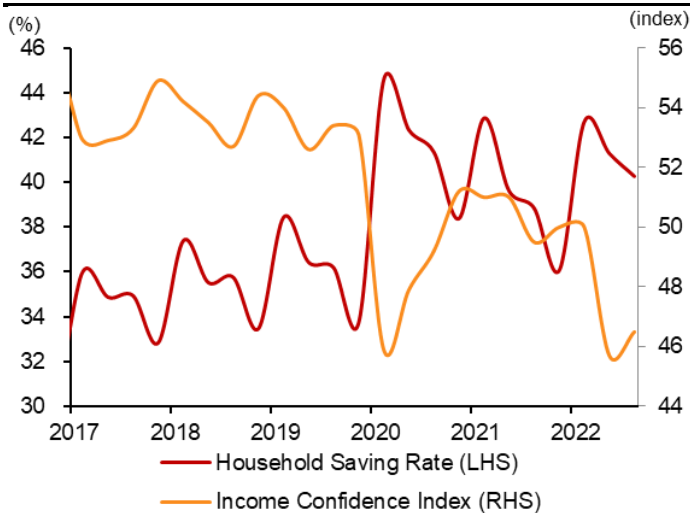
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Figure 3: Demand Growth in China



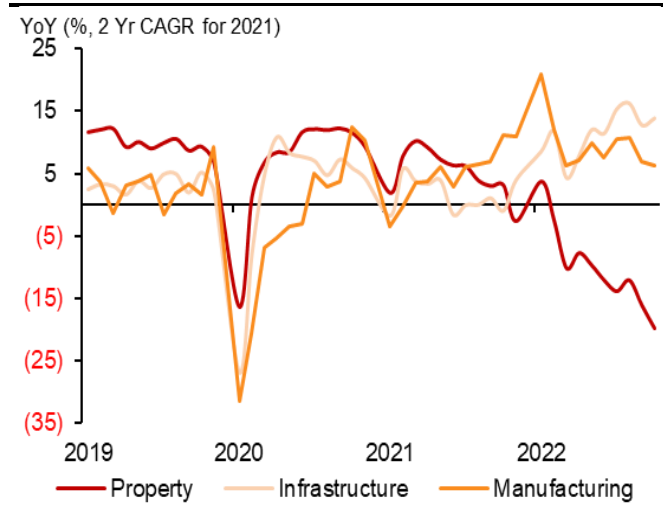
Source: WIND, CMBIGM

Figure 4: Household Saving Rate & Confidence



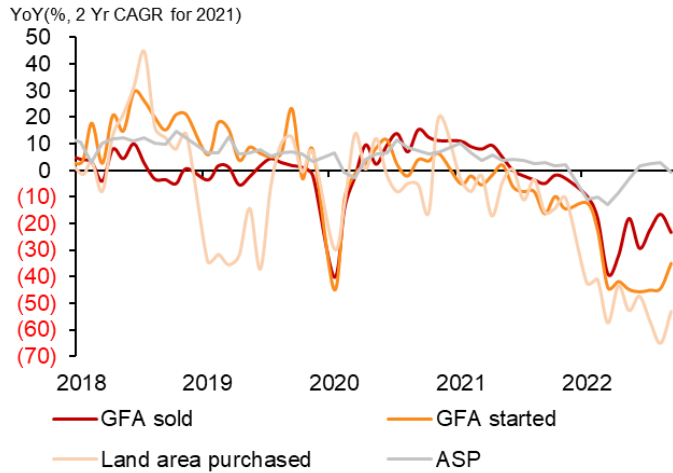
Source: WIND, CMBIGM

Figure 5: FAI Growth by Main Sector in China



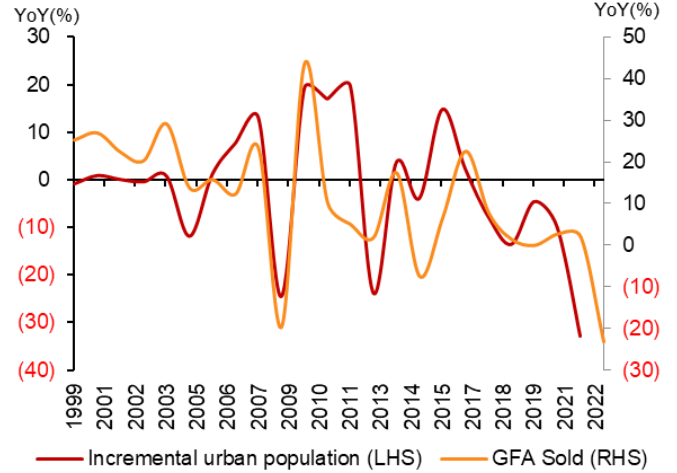
Source: WIND, CMBIGM

Figure 6: Property Market Indicators in China



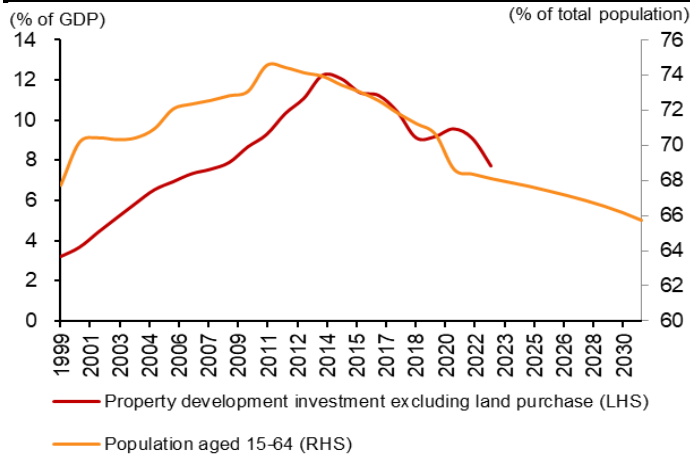
Source: WIND, CMBIGM

Figure 7: China's Urbanization & Housing Sales



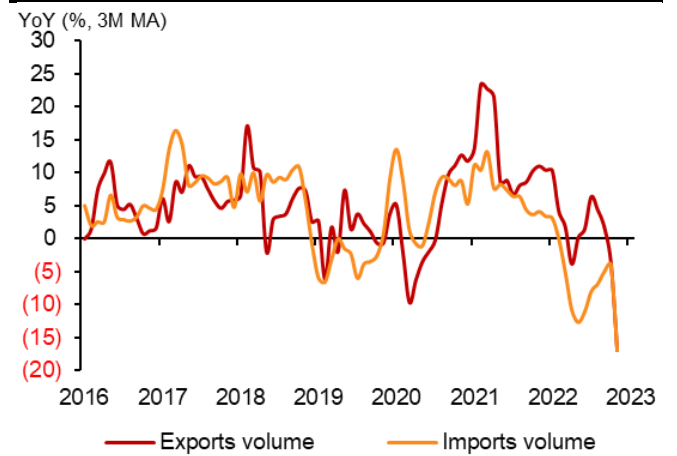
Source: WIND, CMBIGM

Figure 8: Demographic Structure & Housing Market



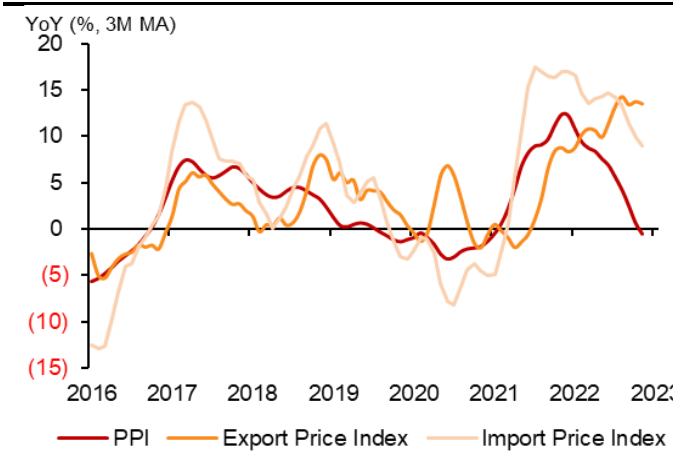
Source: WIND, CMBIGM

Figure 9: China's Exports and Imports Volume



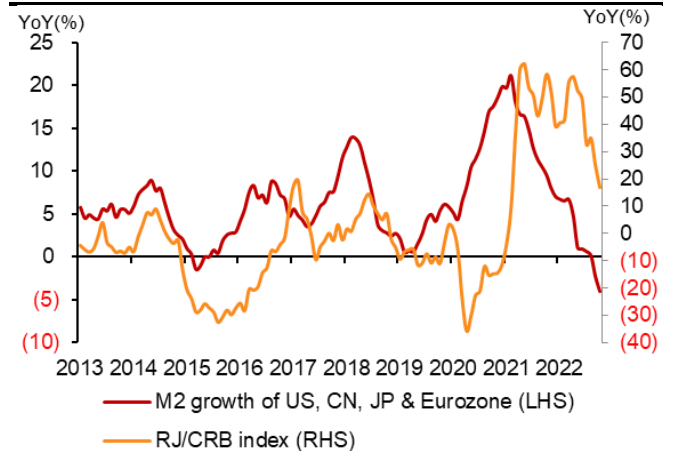
Source: WIND, CMBIGM

Figure 10: China's Exports and Imports Price



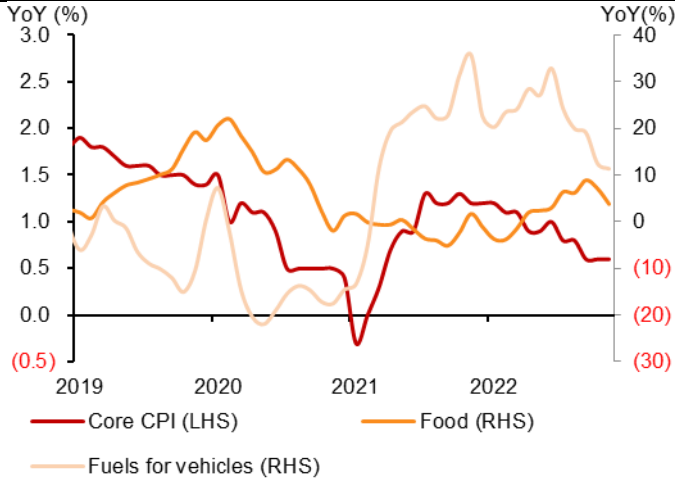
Source: WIND, CMBIGM

Figure 11: Monetary Cycle & Commodity Price



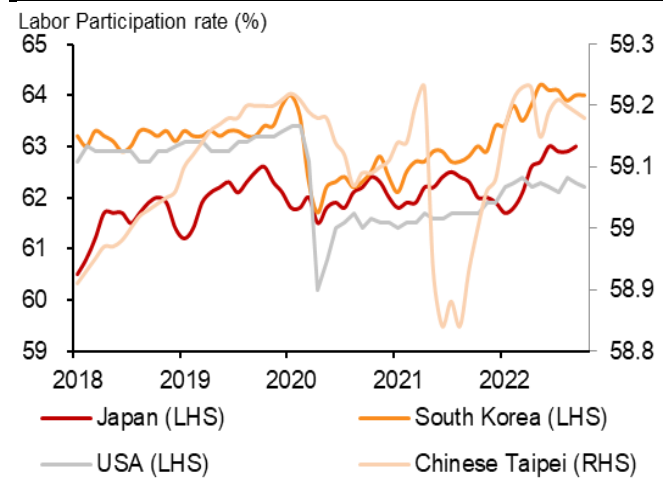
Source: WIND, CMBIGM

Figure 12: China's CPI Growth in Key Items



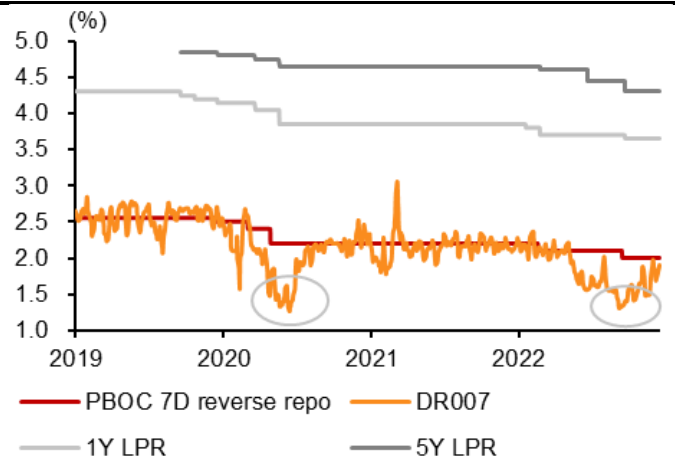
Source: WIND, CMBIGM

Figure 13: Labor Participation Rates



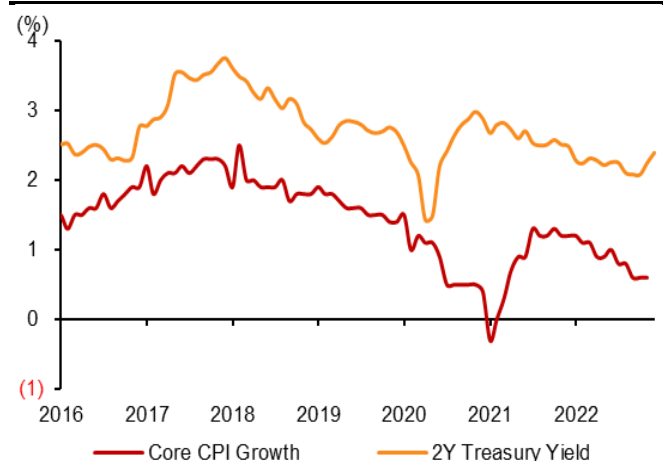
Source: WIND, CMBIGM

Figure 14: PBOC Policy Rates



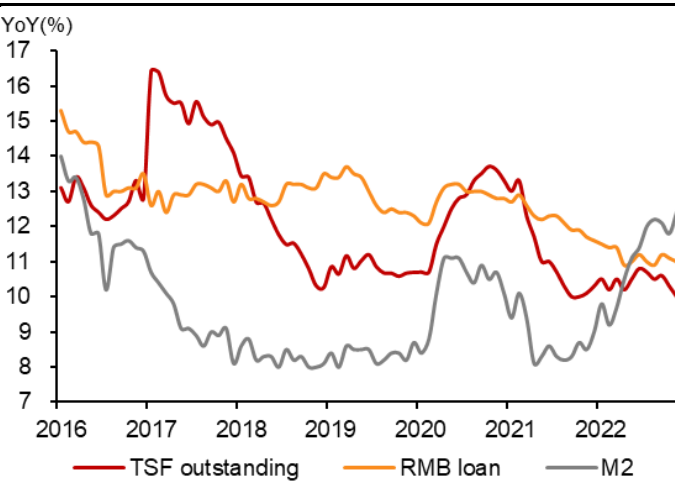
Source: WIND, CMBIGM

Figure 15: China Core Inflation & 2-Yr T-bond Rates



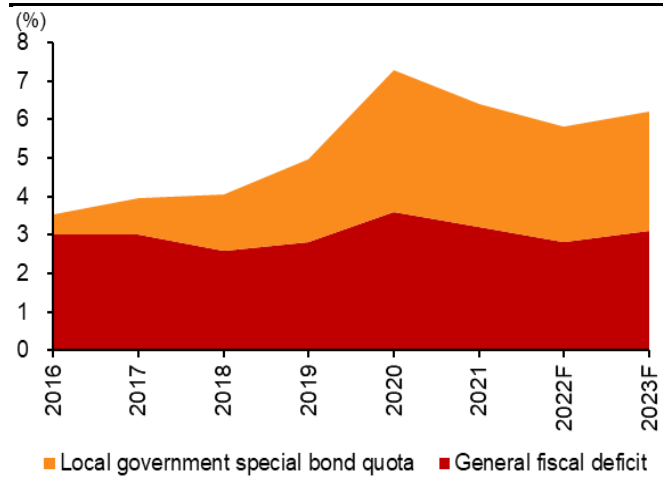
Source: WIND, CMBIGM

Figure 16: Credit & M2 Growth in China



Source: WIND, CMBIGM

Figure 17: China's Broad Deficit Ratio



Source: WIND, CMBIGM

Figure 18: Central Economic Working Conferences in Recent Three Years

	CEWC for 2021	CEWC for 2022	CEWC for 2023
Theme	Supply-side reform	Supply-side reform	Demand stimulus + supply-side reform
Target	to keep economic growth within reasonable range while facilitating tech innovation, economic restructuring and common prosperity	to keep economic growth within reasonable range	to improve economic growth and boost market confidence
Fiscal policy	More efficient & sustainable	More targeted and sustainable with additional tax cuts	More proactive policy with necessary expenditure growth and better combination of general fiscal deficit, special government bond quota and subsidy to special loans
Monetary policy	More flexible & targeted with stable real sector debt ratio	More flexible with moderate liquidity supply	More easing monetary policy with M2 & social financing growth in line with nominal GDP growth and stronger credit support to small business, innovation and green development
Key tasks	to strengthen national science & tech innovation capacity; to improve supply chain security; to further reform and open up; to improve seed tech & protect farm land; to enhance anti-monopoly regulation and curb disorderly expansion of capitals; to resolve housing problem in large cities; to push forward carbon peak and neutrality	prudent and effective macro policies, flexible micro management policies, supportive structural policies, further reform and opening up, social welfare improvement, a balance between carbon neutrality and energy supply security, a programmatic attitude towards common prosperity	to boost business sentiment and household confidence; to stimulate demand especially consumption (housing market, EV and elderly care); to accelerate development of modern industrial system (new energy supply system, AI, biotech, green tech, new information tech); to boost private business development; to attract more foreign capitals; to lower financial systematic risks
Housing market	house is for living not for speculation; to boost supply of low-rent subsidized housing; to monitor and control housing rent in the market	house is for living not for speculation; to supply more subsidized housing in cities; to support reasonable housing demand	To stabilize housing market; to complete unfinished housing projects; to meet financing demand of property developers; to support the consolidation in the sector; to lower the debt risk of large developers with an improvement of their liability condition; to lower moral hazard risk; to boost housing demand
Internet sector	to enhance anti-monopoly regulation and curb disorderly expansion of capitals	To launch negative list and positive list of sectors for capital expansion	to support the development of digital economy, to improve regulatory system; to support platform companies to lead the growth, absorb more employment and compete in global market
Covid policy	to enhance Covid control policy	to control Covid virus more precisely	to get over the outbreak period smoothly
Other policy	to optimize social security system; to optimize income distribution; to push forward common prosperity	to improve public service supply for migrant people in cities; to enhance labor right & social safety protection for part-time workers; to gradually unite local basic pension plans into a national pool; to allow couples to have 3 children	to promote employment among youth; to enhance labor right protection for the part-time workers; to unite local pension plans; to increase medical & healthcare supply in communities and rural areas; to boost childbirth rates; to gradually delay retirement for employees

Source: Xinhua News Agency, CMBIGM

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