

# China Policy

## A shift from Covid control to boosting growth

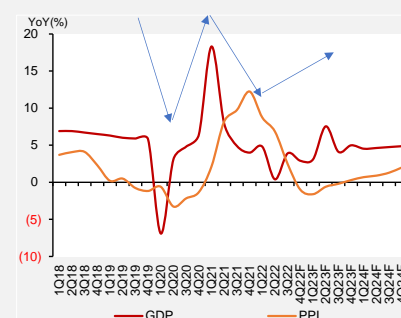
The politburo held a meeting yesterday, mapping out the policy stance for 2023. The meeting indicates a policy shift from Covid control to boosting growth next year. China's new leaders have made a stronger commitment to growth with an ambitious growth target probably at 5%. China's reopening may be faster than market expectations amid the pro-growth shift. The country is bracing for the peak of the epidemic in Jan-Feb 2023. Both fiscal policy and monetary policy should be more accommodative next year with higher broad deficit and additional RRR & LPR cuts. 2023 is somewhat similar to 2009 as China will become the main source of stimulus when global economy sees a recession. China's new leaders will be more pragmatic with more friendly policy stance towards private businesses including those internet giants, as they will try their best to boost entrepreneurship, innovation and employment.

- A stronger commitment to economic growth with the target probably at 5%.** China's new leaders have made a stronger commitment to growth at the politburo meeting as they vowed to push for an overall improvement of the economy. We believe the new leaders may set an ambitious target at 5% for 2023 GDP growth. Moreover, GDP growth will once again become the most important KPI for local governments in 2023. It is highly possible for China to achieve around 5% growth as we maintain our forecast at 4.9% for 2023.
- China's reopening probably much faster than market expectations amid the pro-growth shift.** The policymakers have already shifted their focus from Covid control to economic growth. Local governments are required to accelerate vaccination for the elderly with the third dose coverage ratio target for population aged 60-79 at 95% and the first dose coverage ratio target for population over 80 years old at 90% by the end of January 2023. The first dose coverage ratio for population over 80 years old was only at 76.6% in end-November. There will be mass population movement and gathering around Chinese New Year holiday in late January. China is bracing for the outbreak of the epidemic as some officials may hope it can peak soon. That means people can get rid of fear faster and economic activities can restart earlier.
- More accommodative policies with a shift from supply-side reforms to demand boost.** The politburo has pledged to expand demand for 2023. It may be an important change of policy framework as the top leaders placed more emphasis on supply-side reforms in the past five years. We believe both fiscal policy and monetary policy will be more easing in 2023 than in 2022. If overseas recession is more severe than expected, China may launch more stimulus next year. We expect broad deficit may rise from 5.8% of GDP in 2022 to over 6% in 2023. Liquidity and credit policy should remain easing as the central bank may cut RRR and LPRs for twice. The new leaders have also promised to boost consumers' willingness to expand, indicating that some consumption-stimulus policies may be launched next year.
- Significant change of policy stance towards capital.** The politburo has called for great efforts to significantly boost market confidence, indicating a significant change of attitude towards capital. Meanwhile, the policymakers also vowed to take more efforts to attract foreign capital. China will speed up the rectification of internet platform giants as well as the introduction of a

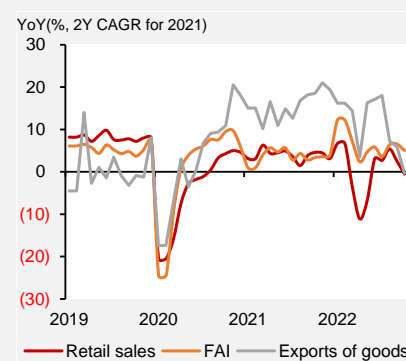
**Bingnan YE, Ph.D**

(852) 3761 8967

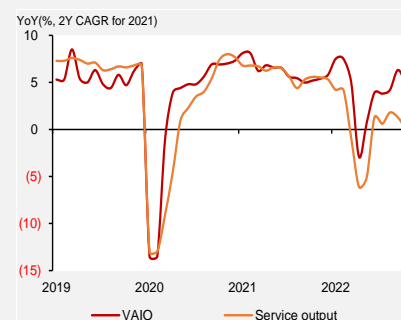
yingbingnan@cmbi.com.hk



Source: Wind, CMBIGM



Source: Wind, CMBIGM



Source: Wind, CMBIGM

normal regulatory framework to lower policy uncertainty. China's new leaders will be more pragmatic with a more friendly policy stance towards private businesses, as they will try their best to boost entrepreneurship, innovation and employment.

**Figure 1: Economic Targets**

		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	3.0	3.0	5.0	4.9
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	-	4000.0	4000.0
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	11.5	11.8	in line with nominal GDP growth	10.5

Source: Wind, CMBIGM estimates

**Figure 2: Focus of Politburo's December meetings on economic work**

<b>2022 Dec Meeting</b>
1 Support overall improvement of the economy
2 Significantly boost market confidence
3 Adopt proactive fiscal policy and prudent monetary policy with stronger support to growth
4 Strengthening the coordination of various policies
5 Optimize Covid control measures
6 Form synergy in promoting high quality development
7 Ramp up efforts to attract top talents in high tech field
8 Optimize tax collection scheme in platform economy
9 Take more efforts to attract foreign capital
<b>2021 Dec Meeting</b>
1 Improve Covid control measures
2 Ensuring stability in economic development
3 Optimize import and export structure
4 Improve macro prudential policy to promote sustainable growth
6 Improve service sector development
7 Encourage sustainable growth and development of SMEs
8 Accelerate China's advanced manufacturing development
<b>2020 Dec Meeting</b>
1 Focus on demand-side reform
2 Increase consumption and demand-led growth
3 Strengthen anti-monopoly regulation and prevent the unreasonable expansion of capital
4 Ensure stable and healthy development of property market
5 Enhance supply chain independence
6 Strengthen China's technological and scientific innovation
7 Continue to improve China's ecosystem
8 Covid preventions and control measures

Source: Wind, CMBIGM estimates

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## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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