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China Economy

Policy support and demand boost

Against the backdrop of pandemic sweeping across the globe, the Politburo Meeting on 27 Mar provided guidelines for coronavirus protection and economic recovery, which emphasized on work resumption across the industry chain. Most relevant for capital market investors, the meeting set tones for policy supports that are to follow. Fiscal expansion and consumption demand boost will be primary market focus. We also expect policy stimuli to be quite tailored and targeted, so as not to blow up over-supply or asset bubbles. Another issue to address would be the fairness of supportive policies so that incompetence should not be compensated disproportionately.

- **Fiscal policy vowed for three measures, 1) Raise deficit ratio.** We expect official deficit ratio, to be announced during the NPC&CPPCC, to reach or even exceed 3.0%. **2) Issue special treasury bond.** Back in history, special T bond was issued twice, once in 1998 to enhance capital position of the "Big 4" banks (RMB 270bn) and the other in 2007 to fund initial capital for CIC (RMB 1.55tn). Details of this time's issuance have not been specified yet. We expect special T bond will provide relief for coronavirus-stricken areas, industries, and firms, for example via the form of enhancing capital position of policy banks. **3) Increase issuance of local government special bond (LGSB)** and urge effective use of the proceeds to foster infrastructure investment. We estimate new LGSB issuance to exceed RMB 3tn as opposed to RMB 2.15tn in 2019. Overall treasury and local government bond issuance could amount to RMB 10tn in 2020 (vs. RMB 8.8tn in 2019).

- **Monetary policy – aims for a decline in lending rate and maintaining liquidity at reasonable levels.** So far, the PBoC has launched targeted lending tools totaling RMB 1.15tn, including relending and rediscount quota RMB 500bn, special relending funds of RMB 300bn and special relending for policy banks of RMB 350bn. In addition, the targeted RRR cut in Mar released RMB 550bn. In regards to lending rate, weighted average lending rate for general loans was 5.49% in Feb, down 25bp from YE19. Going forward, the PBoC will continue to guide down lending rate via LPR, MLF and market interest rates.

- **Expand residents' consumption demand.** Although "revenge spending" is likely to occur in some areas, for overall consumption, however, we think it is actually difficult to achieve an "organic" V-shaped rebound due to a rise in unemployment rate and decelerating income growth. There has to be external forces, which we expect will come in a myriad of forms. To just list a few, **1)** Step up public consumption by reasonable amount to trigger residents' demand; **2)** For big-ticket items, such as cars and household appliances, as well as most-affected types of consumption, e.g. travel, price discounts or tax rebates may come into play; **3)** Coupons have already been distributed in provinces with relatively ample fiscal resources and are likely to spread ; **4)** In directly-stricken areas, we expected subsidies and coupons to residents.

- **Supply side** – The meeting urged work resumption across the industry chain, conditional on effective control of COVID-19. Very likely, policy support will put emphasis on core firms in the industry chain and filter through upstream and downstream firms or industries.

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YoY growth (%)	Jan to Feb 20	2019A
Industrial value-added	-13.5	5.7
Fixed asset investment	-24.5	5.4
- Manufacturing FAI	-31.5	3.1
- Real estate FAI	-16.3	9.9
- Infrastructure FAI	-31.5	3.8
Retail sales value	-20.5	8

Source: NBS, CMBIS

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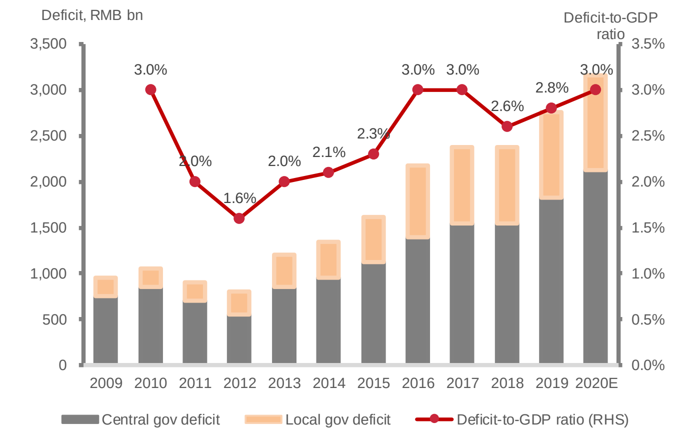
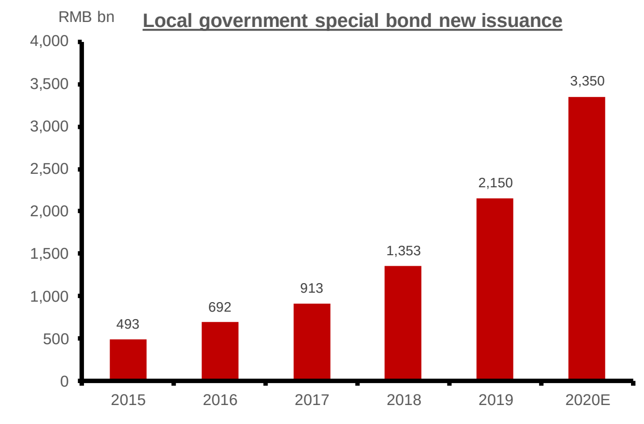
Figure 1: Fiscal deficit estimated at 3.0% of GDP in 2020



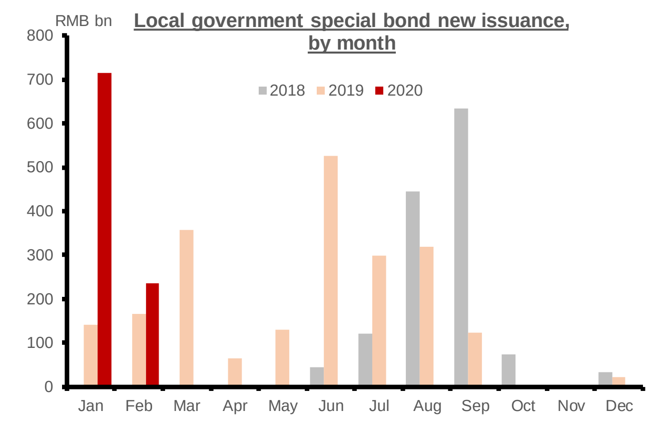
Source: Government work reports, CMBIS

Figure 2: We estimate local government special bond issuance to exceed RMB 3tn in 2020



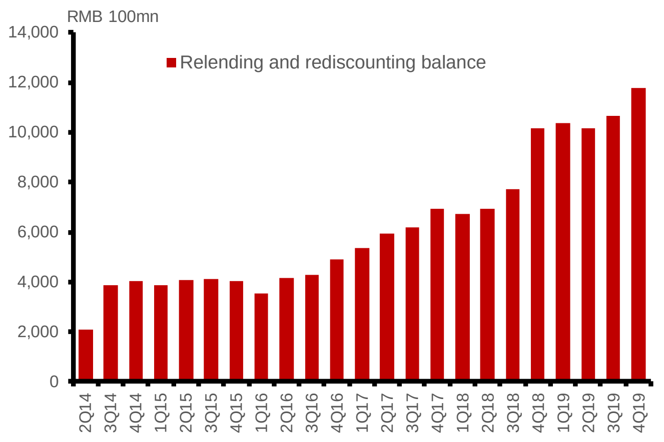
Source: Ministry of Finance, CMBIS estimates

Figure 3: In Jan-Feb, RMB 949.8bn new local government special bond were issued



Source: Ministry of Finance, CMBIS estimates

Figure 4: Relending and rediscounting balance of FIs ~RMB 1.2tn at YE19; quota increased by RMB 800bn in Feb



Source: PBoC, Wind, CMBIS

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