China Policy

China starts active fiscal stimulus to revive growth

Chinese policymakers have shown stronger commitment to economic growth as they have started to launch more active fiscal stimulus. China's legislature, the National People's Congress, approved a cabinet plan yesterday (24 Oct) to raise the general fiscal deficit ratio for 2023 from 3% to 3.8% of GDP. The legislature also renewed through 2027 an authorization for the cabinet to front-load at most 60% of next year's local government bond quota. Meanwhile, President Xi made his first visit to the PBOC since taking office for a decade. These policies or moves indicate the policymakers' increased focus on restoring market confidence and shoring up the economy. We believe China will maintain its GDP growth target at around 5% for 2024 with higher broad fiscal deficit ratio and stronger credit policy loosening. The central bank may launch additional cuts in RRR, deposit rates and LPRs into next year. We maintain the GDP growth forecast for 2023 at 5.2% and slightly revise up the forecast for 2024 from 4.8% to 4.9%.

- **Fiscal policy will be more proactive ahead.** The legislature approved a plan to raise the general fiscal deficit ratio for 2023 from 3% to 3.8% of GDP, well above the 3% set in March which the cabinet generally considers an upper limit. China has rarely adjusted the budget mid-year as it only did this in 2008 global financial crisis and 1998 Asian financial crisis. The rise in general fiscal deficit ratio was even higher than in 2020 when global economy was in a recession caused by the Covid-19 pandemic, indicating that a new round of fiscal stimulus is on the way. The central government will carry the additional deficit worth RMB1tn and transfer those funds to local governments to support infrastructure projects in this year and next. The legislature also renewed through 2027 an authorization for the cabinet to front-load at most 60% of next year's local government bond quota. In other words, local governments can use up to 60% of their next year's new bond quotas in November and December, facilitating stronger fiscal expansion in next several months. To relieve local governments' contingent debt burden, the cabinet kicked off a program last month to allow provincial governments to swap high-interest shadow borrowing for lower-interest public bonds. Meanwhile, large state-owned banks were encouraged to restructure matured loans to LGFVs to lower their debt burden. We believe the fiscal policy will be more expansionary in next several quarters.

- **The policymakers will continue to make efforts to boost market confidence.** The budget revision indicates Chinese policymakers' stronger commitment to restoring market confidence and shoring up the economy as market sentiment and economic growth remained weak after the policy easing in the past two months. Although GDP growth beat expectations in 3Q23, severe challenges are likely to persist into 2024 including property market stress, deflation pressure and global economic uncertainty. The Chinese policymakers may continue to launch supportive policies ahead to boost market confidence and economic growth momentum. The PBOC may launch additional cuts in RRR, deposit rates and LPRs in next several quarters. Municipal governments may further loosen property policy to stabilize the property sector. In addition, China will continue to improve ties with the US and other countries to lower geopolitical risks. Foreign Minister Wang Yi is scheduled to meet the US Secretary of State Antony Blinken in Washington

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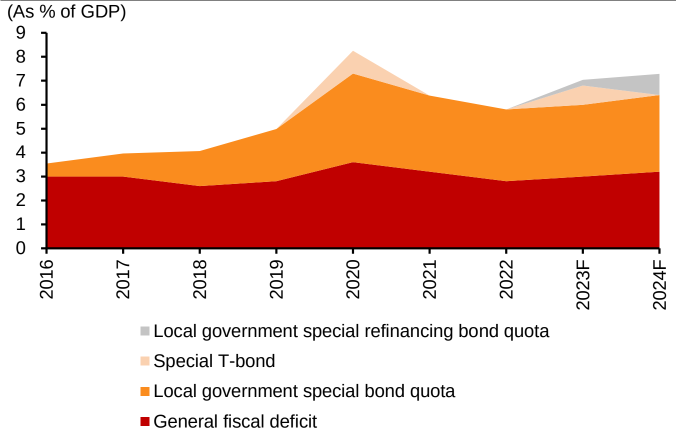
later this week, preparing for a probable Xi-Biden summit in November. Meanwhile, a delegation of Chinese business, cultural and sports figures, like basketball star Yao Ming, is due in New York for a series of public engagements. In addition, Australia's Premier will visit China in early November as the two countries continue to repair their bilateral relationship.

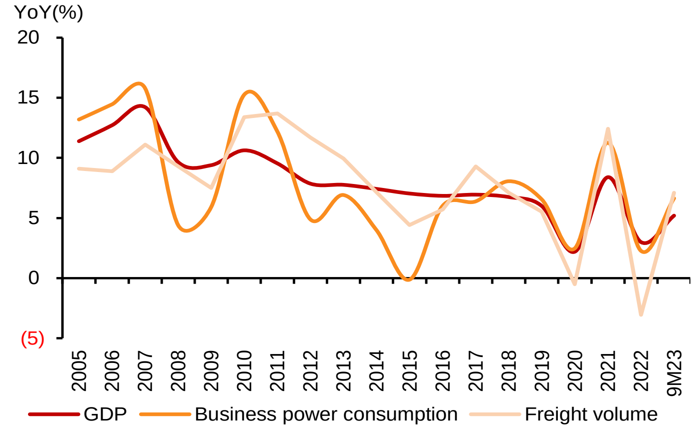
- **China's economy may mildly recover in next several quarters with GDP growth at 5.2% in 2023 and 4.9% in 2024.** Supported by continuous policy loosening and low base, China's economy may mildly recover in next several quarters. We expect the housing sales may gradually narrow its YoY declines and retail sales & service consumption may further improve. We maintain the GDP forecast for 2023 at 5.1% and slightly revise up the forecast for 2024 from 4.8% to 4.9%. The stronger fiscal stimulus and better growth prospect will mildly boost renminbi bond yields, exchange rates and commodity prices. It may slightly slow the disinflation pace in the US.

Figure 1: China's broad fiscal deficit ratio



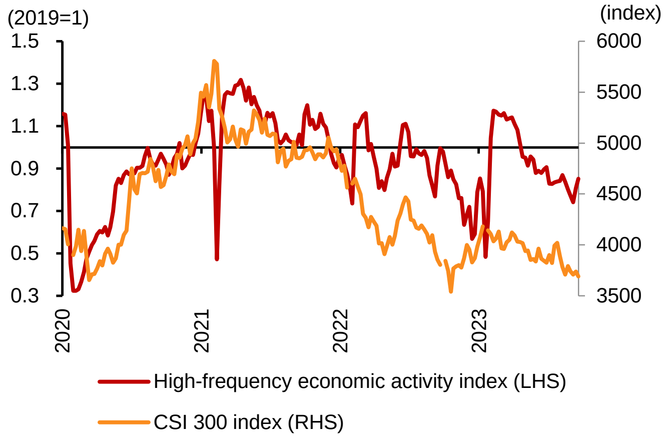
Source: Wind, CMBIGM

Figure 2: China's economic growth



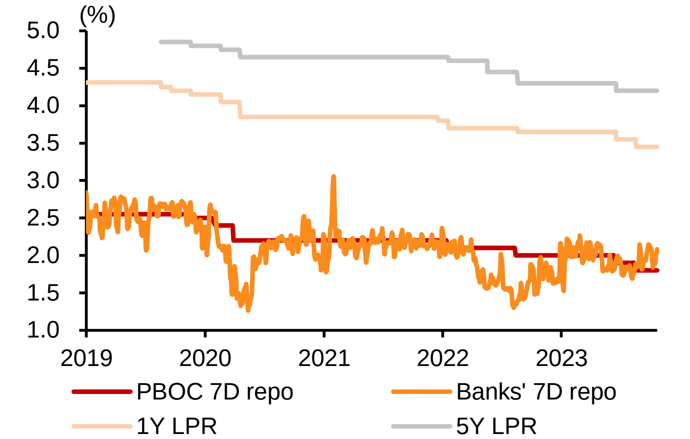
Source: Wind, CMBIGM

Figure 3: Economic activity & A-share price



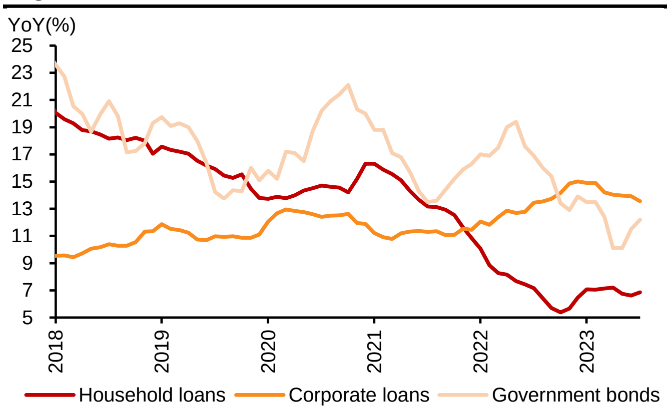
Source: MoF, CMBIGM

Figure 4: PBOC policy rates



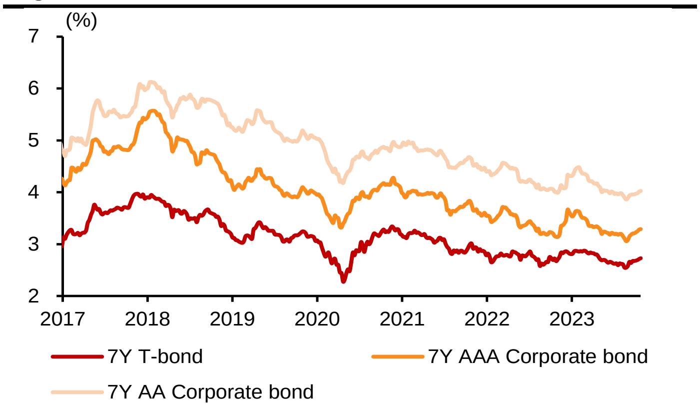
Source: MoF, CMBIGM

Figure 5: Growth of credit to real sectors



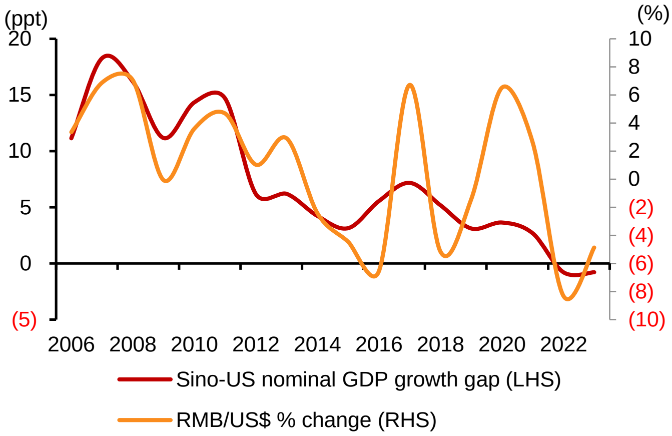
Source: Wind, CMBIGM

Figure 6: Bond rates



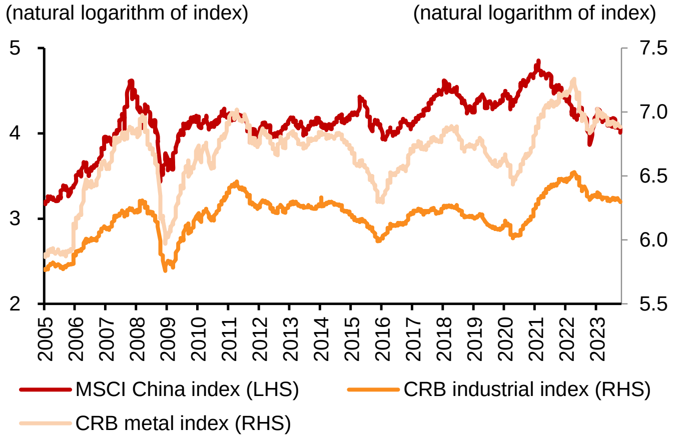
Source: Wind, CMBIGM

Figure 7: Nominal growth gap & US$/RMB % change



Source: Wind, CMBIGM

Figure 8: MSCI China Index & commodity price



Source: Wind, CMBIGM

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