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### China's stimulus plan: easing local government debt burdens

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- ◆ Policymakers announced a RMB12trn plan aimed at reducing the debt burden on local governments
- ◆ Debt swaps could save RMB600bn in interest payments and help local governments to pay creditors
- ◆ Further support for property and consumers is on the table and could be announced early next year

#### China data review (October 2024)<sup>1</sup>

- **Retail sales** rose by 4.8% y-o-y in October boosted by consumer trade-in programmes. The growth in sales of home appliances almost doubled to 39% y-o-y, from c20% in September, while auto sales continued their climb, rising by 3.7% y-o-y. However, services-related retail sales were softer, while restaurant and catering sales saw a mild contraction of 0.3% y-o-y.
- The **property investment** drag deepened in October to 12.3% y-o-y, from a decline of 9.4% y-o-y in September, despite some recent improvement in property sales. Home sales in volume terms fell by 1.3% y-o-y, a marked improvement from September (-10.6%). This suggests more support is likely needed for the improvement in sales to broaden out and stabilise the sector.
- **Industrial production** growth softened a touch to 5.3% y-o-y in October, though the overall pace was still healthy. Sectors facing excess capacity, such as non-metal minerals (-2.6% y-o-y) slowed, while, high-end manufacturing areas, such as information communications technology production (10.5% y-o-y) and equipment manufacturing (6.6%), continued to outperform.
- **Infrastructure** spending remained buoyant on the back of accelerated special local government bond issuance (SLGB), rising 9.1% y-o-y in October. For the remaining two months of the year, infrastructure should still be supported as more funds from SLGB come through.
- **Headline CPI** dropped to 0.3% y-o-y in October, with energy being the major drag. **Core CPI** (0.2% y-o-y) has stayed tepid in recent months as consumer demand has yet to regain significant momentum. Meanwhile, **PPI deflation** deepened a touch to 2.9% y-o-y, with concerns still on property-related industries and excess capacity in some sectors.
- **Exports** rose by 12.7% y-o-y in October, with integrated circuits (17.7%) and laptops (15.7%) the key bright spots. Aside from the low base, some export demand may have been postponed due to typhoon disruptions in September. Meanwhile, **imports** fell 2.3% y-o-y, largely due to falling oil imports, which dropped 25% y-o-y and contributed 3.7ppt to the decline in overall imports.

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<sup>1</sup> Source: Wind, HSBC

**China announced a RMB12trn package**

**China’s stimulus plan: easing local government debt burdens**

The National People’s Congress Standing Committee, China’s top legislative body, approved a **RMB12trn package, largely for debt swaps**, on 8 November to help ease the local government debt burden. The local government debt ceiling will be raised by RMB6trn to replace existing hidden debt, earmarks RMB800bn of special local government bonds per year over the next five years for debt swaps and repays RMB2trn of hidden debt from shantytown renovation due from 2029. The plan should help local governments save on financing costs (estimated to save RMB600bn in interest costs over five years) and assist them to make overdue payments to contractors.

**More than meets the eye**

**The package will help to avert a liquidity crunch**

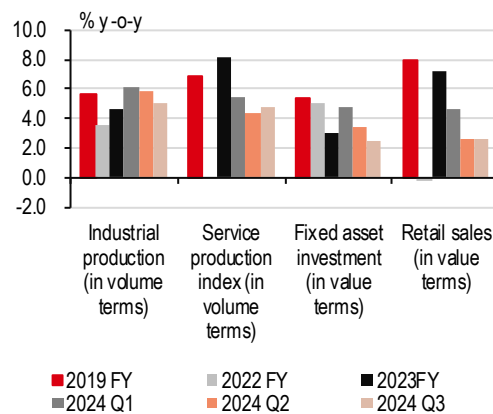
At first glance, the package might seem disappointing, as there are no specific measures to support domestic consumption or other areas of much-needed stimulus, such as real estate. However, the stimulus is not only sizable (c10% of GDP) but also reduces the debt burden, which can help free up more fiscal space to be used for productive investment. Indeed, the central government has set a firm deadline for local governments to resolve hidden debt, which is incurred outside the statutory government debt budget, by 2028. Over the past few years, the economic slowdown and housing correction have pressured local government finances, leading to a focus on debt repayment, which, in turn, creates further contractionary pressure on the economy. **The large-scale debt swap should alleviate a liquidity crunch** for local governments and the real economy, while long-term fiscal reforms may better align local government spending and resources, as stressed at the Third Plenum.

**Fiscal support on the table**

**More stimulus measures are in the works**

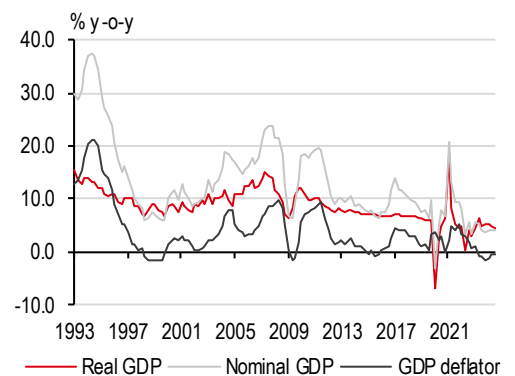
We view the local debt swap as only **one part of the broader stimulus package**, with additional fiscal support in focus for 2025. For example, the Finance Minister noted that policy measures to support the property sector and expand domestic demand are under consideration, while the Premier said that “there is a relatively large space for financial and monetary policies, and the policy tools are even more abundant” (Xinhua, 5 November). Although China is likely to meet its c5% growth target this year, domestic consumption remains subdued and external uncertainties are rising, given the US election results. Further announcements could be made at the Politburo meeting and the Central Economic Work Conference, often held by mid-December, though fiscal details are likely to be unveiled next March during the Two Sessions.

**The economic recovery has lost steam since Q2 2024**



Source: Wind, HSBC

**China is in its second longest deflationary streak (six quarters)**



Source: Wind, HSBC

**Key upcoming China economic data**

Date	Indicator	Prior
20 Nov	Loan Prime Rate 1Y	3.10%
20 Nov	Loan Prime Rate 5Y	3.60%
30 Nov	NBS Manufacturing PMI	50.1
2 Dec	Caixin Manufacturing PMI Final	50.3
4 Dec	Caixin Services PMI	52.0
9 Dec	Producer Price Index (PPI) y-o-y	-2.9%
9 Dec	Consumer Price Index (CPI) y-o-y	0.3%
10 Dec	Exports y-o-y	12.7%
10 Dec	Imports y-o-y	-2.3%
16 Dec	Retail Sales y-o-y	4.8%

Source: LSEG Eikon

**Performance of key A-share indexes\***

	Current	Year-to-	
		Date	Last 1yr
Shanghai Composite	3,380	13.61%	10.59%
Shenzhen Composite	2,060	12.10%	7.21%
CSI 300	4,040	17.74%	12.77%

 \* Past performance is not an indication of future returns.  
 Source: LSEG Eikon. As of 14 November 2024 market close.

# Disclosure appendix

## Important disclosures

### Additional disclosures

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