
China in Focus

Economics
China

Policy support ramping up

- ◆ Large fiscal space, but details yet to come through; stock market tools are now being implemented
- ◆ Private enterprise promotion law proposed with emphasis on creating fair competition to shore up confidence
- ◆ We see more fiscal stimulus forthcoming to help reach this year's growth target

China data review (Q3 and September 2024)¹

- **GDP** rose by 4.6% y-o-y in Q3 supported by an improvement in domestic activity in September. The key driving force has been the recent rollout of expanded consumer trade-ins and equipment upgrading programs since August, helping to lift growth of industrial production and retail sales both in y-o-y and m-o-m terms.
- **Retail sales** grew by 3.2% y-o-y in September with home appliances (+20.5% y-o-y, from 3.4% in August) and autos (+0.4% y-o-y, from -7.3% in August) the key beneficiaries of the consumer trade-in program. Meanwhile, **Industrial Production** picked up 5.8% y-o-y as manufacturing sector purchases of equipment rose 16.4% year-to-date through September.
- **Property** investment declined by 9.4% y-o-y in September, although the pace moderated from the 10.2% y-o-y fall in August. Recent policy easing measures in tier-1 cities have led to stronger sales, while mortgage payment adjustments and extended loan provisions should also provide support.
- **CPI inflation** rose a modest 0.4% y-o-y in September, reflecting sluggish consumption trends in prior months. **PPI deflation** deepened to -2.8% y-o-y due to weak domestic activity, particularly from the property sector, as well as softer global commodity prices.
- **Export** growth softened to 2.4% y-o-y in September (from 8.7% y-o-y in August) on the back of extreme weather (e.g. typhoons in the Yangtze River Delta), global shipping events (e.g. US shipping strike) and a high base. **Imports**, meanwhile, rose by a muted 0.3% y-o-y (from 0.5% y-o-y in August) given a less favourable base and ongoing weakness in domestic demand.

¹ Source: Wind, HSBC

Policy support ramping up

Since 24 September, many departments have held press conferences, with a package of incremental policies covering monetary support, stocks, property sector, private enterprises, people's livelihood, industry and other aspects. We detail key announcements below.

Tackling the challenges

More support measures under discussion

The Ministry of Finance (MoF)'s 12 October press conference was a mixed result for markets. On the one hand, it fell short of announcing a specific fiscal amount but noted that **additional bond issuance and fiscal deficit increases were under discussion**. Indeed, Caixin reported on 13 October that policymakers are considering issuing RMB6trn of special government bonds to swap local government debt. The upcoming State Council executive meeting and the National People's Congress Standing Committee meeting will be the key meetings to watch.

Central government may increase its debt limit

On the other hand, the meeting helped to address key issues facing China's economy: **resolving local government debt and stabilising the property market**. The Finance Minister stated that "a significant one-time increase in the debt limit will be used for local government debt swaps", the strongest measure to support resolving local government debt in recent years. There is also the possibility that **central government debt could be used** to alleviate some of the burden.

Meanwhile, proceeds from special local government bonds (SLGB) will be permitted **to acquire land or unsold commercial housing** for the first time to stabilize the housing market, which should help improve property developer liquidity and produce positive wealth effects to support consumption.

Rejuvenating the housing market

New policies aimed at boosting the property market

Officials from bodies including the Ministry of Housing and Urban and Rural Development, MoF and People's Bank of China (PBoC) held a joint press conference on 17 October to introduce two key policies for the property sector: **using cash resettlement to renovate 1 million homes in urban villages** (i.e. compensating residents financially instead of providing alternative housing or physical relocation), and **increasing lending for "whitelist" projects** to RMB4trn by year end (from RMB2.23trn), to complete unfinished, partly-sold housing projects.

More policy support is likely on the way

Funding for the program is set to come from a mix of SLGB, policy bank loans and commercial bank loans. Indeed, MoF officials have noted that there is still RMB2.3trn of SLGB available to be used this year, some of which we think could go towards the housing sector. Overall, the policy stimulus measures announced since the end of September should provide tailwinds for growth, but we think that **more fiscal support is needed, and a more specific package is likely on the way**.

More than just fiscal

New laws being drafted to lift business confidence

Fiscal aside, **other policies are rapidly being implemented to shore up the economy and markets**. Examples include the PBoC's new RMB500bn liquidity facility for the stock market, the State Administration for Market Regulation's measures to strengthen financing support for small and medium enterprises, and the new private economy promotion law from Ministry of Justice and National Development and Reform Commission to address matters including fair competition, financing, and innovation, which is aimed at boosting market confidence.

Key upcoming China economic data

Date	Indicator	Prior
21 Oct	Loan Prime Rate 1Y	3.35%
21 Oct	Loan Prime Rate 5Y	3.85%
31 Oct	NBS Manufacturing PMI	49.8
1 Nov	Caixin Manufacturing PMI Final	49.3
5 Nov	Caixin Services PMI	50.3
7 Nov	Exports y-o-y	2.4%
7 Nov	Imports y-o-y	0.3%
9 Nov	Producer Price Index (PPI) y-o-y	-2.8%
9 Nov	Consumer Price Index (CPI) y-o-y	0.4%
15 Nov	Retail Sales y-o-y	3.2%

Source: LSEG Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	3,262	6.54%	2.79%
Shenzhen Composite	1,907	3.75%	2.73%
CSI 300	3,925	10.41%	4.09%

* Past performance is not an indication of future returns

Source: LSEG Eikon. As of 18 October 2024, market close

Disclosure appendix

Additional disclosures

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