

China Policy

China signals stronger policy to boost growth

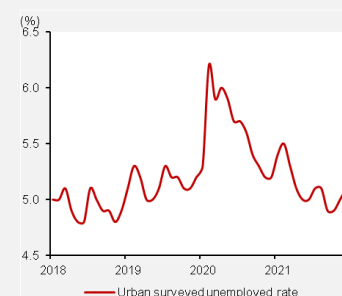
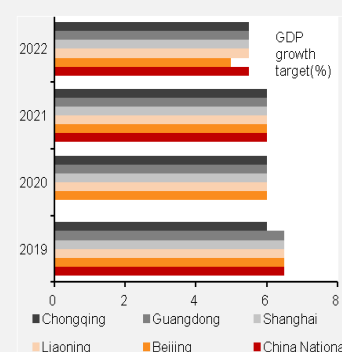
The National People's Congress opened its annual session on 5 March and Premier Li Keqiang mapped out major development targets and policies for 2022 in the working report. The GDP growth target is in line with our expectations yet higher than market consensus, indicating stronger policy support ahead. There is no specific target for energy saving this year as China will be more pragmatic with more flexibility in pushing forward energy transition and carbon reduction. Fiscal deficit is lower than market consensus, but tax cut and fiscal expenditure growth is stronger than expected. Monetary policy should be more easing ahead with possible additional RRR and LPR cut. Consumption stimulus will mainly focus on service activity resumption. Infrastructure investment will focus on water conservancy, transportation network, new energy generation base and gas supply network.

- GDP growth target higher than market consensus.** China sets its GDP growth target at 5.5% for 2022, in line with our expectations yet higher than the Bloomberg consensus of 5%-5.5%. The government acknowledged the 5.5% growth target is not easy to achieve and requires a huge effort, implying stronger policy support this year.
- Unemployment rate target more aggressive than expected.** China targets keeping urban registered unemployment rate within 5.5% instead of around 5.5% in 2022. It indicates that the government would prioritize the employment stability in supporting the growth.
- No specific target for energy saving this year with a more flexible and long-term perspective.** There is no specific target for energy saving in 2022. China will consider the goal of reducing energy consumption per unit of GDP by 13.5% in the "14 Five-Year Plan" within five years. The energy crunch last September and the recent Russia-Ukraine tensions remind China of the great importance of energy security. China would be more pragmatic with more flexibility in reducing carbon emission to avoid threatening energy security or disrupting economic activity. We expect a rebounding of coal production this year. But China will not change its commitment to energy transition and carbon reduction. China will accelerate the development of new energy and meanwhile use coal and thermal power as the backup or reserve energy.
- Fiscal deficit below consensus, yet tax cut & fiscal expenditure stronger than expected.** Broad fiscal deficit is planned to decline from 6.3% of GDP in 2021 to 5.8% of GDP in 2022. General fiscal deficit and local government special bond quota is planned to respectively decline from 3.1% and 3.2% of GDP in 2021 to 2.8% and 3% of GDP in 2022. But tax cut and fiscal expenditure growth will be stronger than expected. Total tax cut and credit is expected to reach RMB2.5tn in 2022, including RMB1tn tax cut for SMEs, individual business, manufacturing & selected services and RMB1.5tn VAT credit refunds for all enterprises. The VAT credit refunds would improve cash flow condition for manufacturing, science & tech service, public utility and transportation service sectors and encourage enterprises' equipment purchase. General fiscal revenue and expenditure is planned to respective increase 3.8% and 8.4% in 2022, compared to the increase of 8.1% and 1.8% in 2021. Major support for stronger tax cut and fiscal spending growth comes

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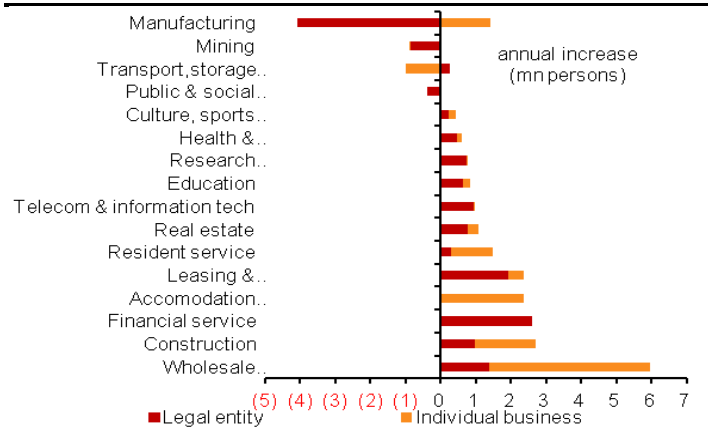
from revenue overruns last year and a huge amount of dividend payout & undistributed profit handovers of selected state-owned financial institutions and enterprises.

- **More easing monetary policy ahead.** The cabinet calls for an expansion of new loans and a decline of loan contract rates to corporate sector. We expect another possible RRR cut and LPR reduction within this year. M2 growth may rise from 9% at end-2021 to 9.8% at end-2022.
- **Consumption stimulus focusing on service consumption resumption.** The cabinet vows to resume consumption in tourism, catering, accommodation, movies, recreation and other services by more scientific and accurate virus control. It is possible to see China adjust its strict zero Covid policy in a gradual manner from the summer season. The cabinet encourages local government to boost upgrading demand for green smart home appliance, indicating central government will not provide subsidies to stimulate home appliance consumption. We believe the market sentiment for home appliance sector is closely linked to the dynamic of housing sales. Confidence over home appliance sector cannot fundamentally improve until the housing market stabilizes.
- **Infrastructure investment focusing on water conservancy, transportation network, new energy generation base and gas supply network.** The Russia-Ukraine tensions make China pay more attention to the grain and energy security issue. The government will allocate more infrastructure funds into water conservancy, transportation network, energy production base and gas supply network. To facilitate a power system dominated by new energy, China plans to establish large-scale wind power and photovoltaic power generation bases in desert and Gobi areas and to transform coal power as the backup or reserve energy.

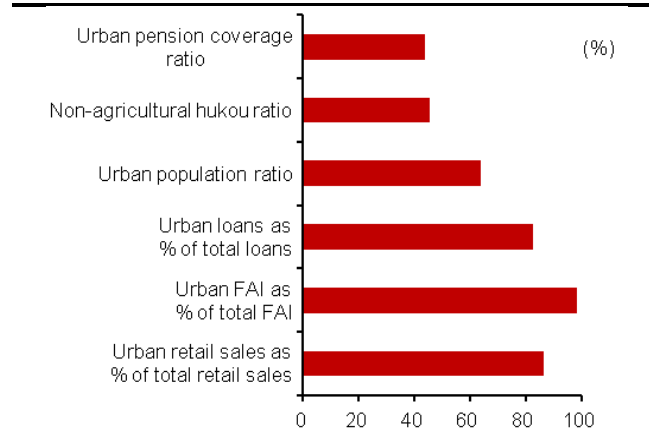
Figure 1: China's Growth & Development Targets

		2020		2021		2022F	
		Target	Actual	Target	Actual	Target	Forecast
GDP	YoY(%)	-	2.3	6 or higher	8.3	5.5	5.2
CPI	YoY(%)	<=3.5	2.5	3.0	1.4	3.0	2.1
Urban incremental employment	mn	9.0	11.9	11.0	12.7	11.0	12.0
Urban unemployment rate	(%)	6.0	5.2	5.5	5.1	5.5	5.1
General fiscal revenue	YoY(%)	-3.9	-3.9	10.7	10.7	3.8	3.8
General fiscal revenue	YoY(%)	2.9	2.9	0.3	0.3	8.4	8.4
General fiscal deficit	(Rmb bn)	3760	3760	3570	3570	3370	3370
General fiscal deficit as % of GDP	(%)	3.6	3.7	3.2	3.1	2.8	2.8
LG special bond quota	(Rmb bn)	3750	3750	3650	3650	3650	3650
LG special bond quota as % of GDP	(%)	3.6	3.7	3.3	3.2	3.0	3.0
M2	YoY(%)	Notably higher than last year	10.1	in line with nominal GDP growth	9.0	in line with nominal GDP growth	9.8
Energy consumption per unit of GDP	YoY(%)	-1.6	-0.1	-3.0	-2.7	-	-2.5

Source: Wind, CMBIGM estimates

Figure 2: Annual Increase of Employment by Sector

Source: NBS, CMBIGM

Figure 3: Urbanization Rates

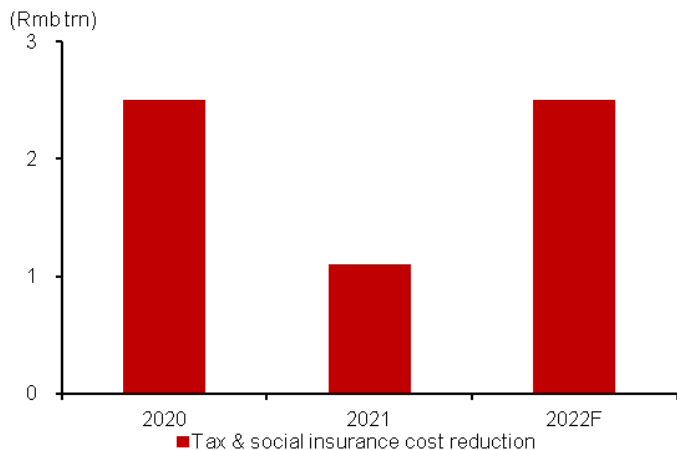
Source: NBS, CMBIGM

Figure 4: China's Fiscal System

		2017	2018	2019	2020	2021	2022F
General fiscal revenue	YoY(%)	7.4	6.2	3.8	(3.9)	8.1	3.8
General fiscal expenditure	YoY(%)	7.6	8.7	8.1	2.8	1.8	8.4
Special fund revenue	YoY(%)	31.8	22.8	12.0	10.6	4.8	0.6
Special fund expenditure	YoY(%)	30.1	32.2	13.7	28.8	(3.7)	22.3
State-owned capital revenue	YoY(%)	0.0	(0.1)	6.6	20.3	8.5	(1.0)
State-owned capital expenditure	YoY(%)	16.6	35.2	5.3	10.8	5.5	34.1
Social insurance revenue	YoY(%)	11.6	38.5	10.9	(13.3)	24.9	5.8
Social insurance premium	YoY(%)	18.1	35.0	2.9	(14.4)	35.7	6.7
Social insurance expenditure	YoY(%)	8.1	6.2	3.8	5.5	12.1	5.2
Broad deficit	% of GDP	4.0	4.1	5.0	8.3	6.3	5.8
General fiscal deficit	% of GDP	3.0	2.6	2.8	3.6	3.1	2.8
LG special bond quota	% of GDP	1.0	1.5	2.2	3.7	3.2	3.0
Anti-virus special T-bond	% of GDP				1.0		

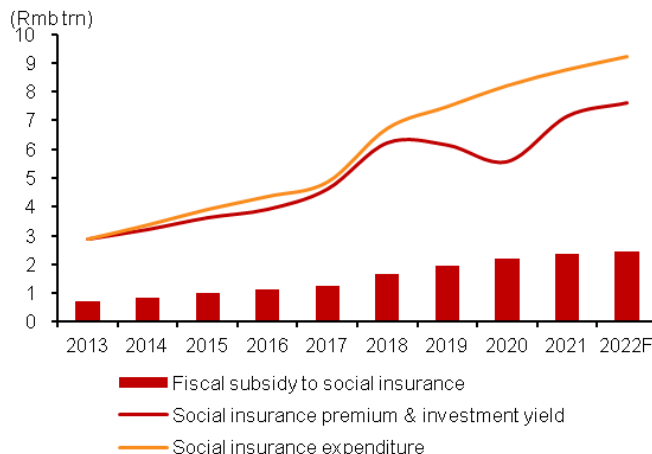
Source: MoF, CMBIGM estimates

Figure 5: Tax & Social Insurance Cost Reduction



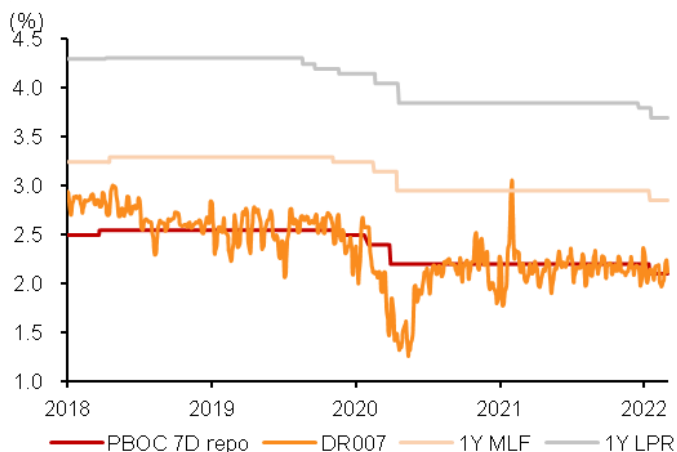
Source: MoF, CMBIGM

Figure 6: Rising Deficit in Social Insurance System



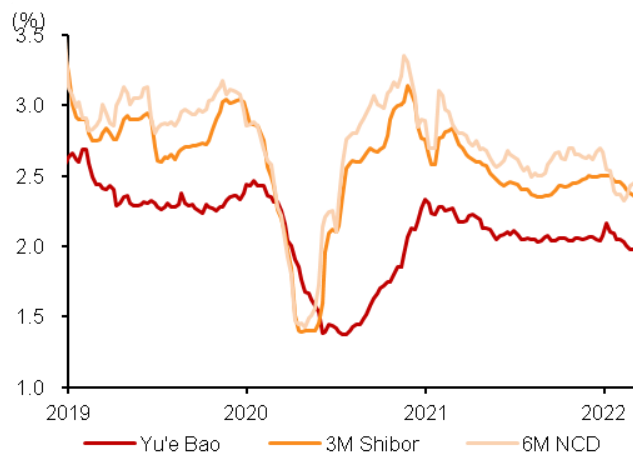
Source: MoF, CMBIGM

Figure 7: PBOC Policy Rates



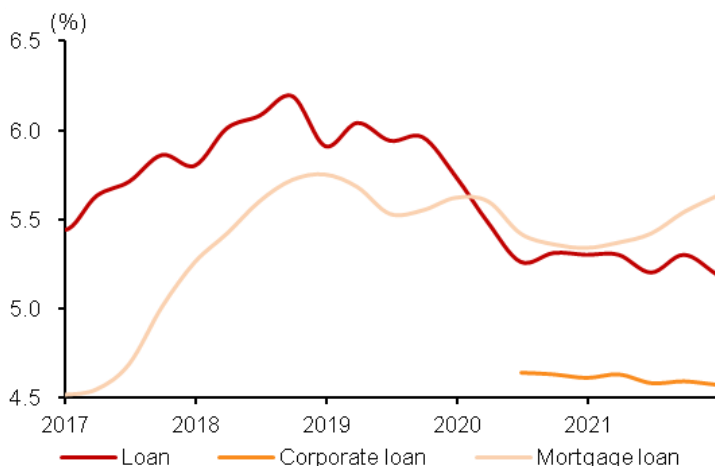
Source: Wind, CMBIGM

Figure 8: Money Market Rates



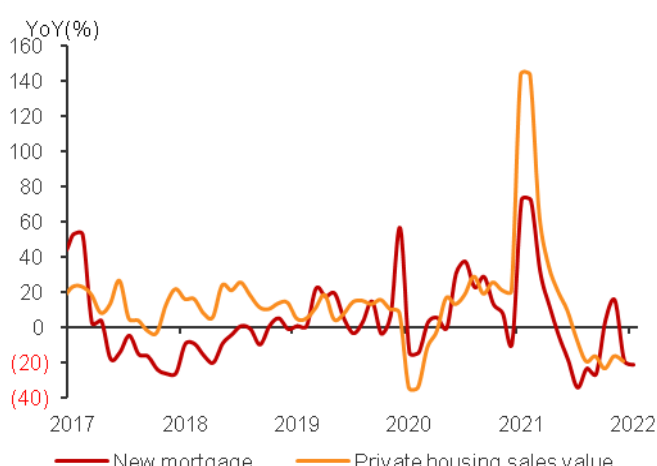
Source: Wind, CMBIGM

Figure 9: Average Rates of Outstanding Loans



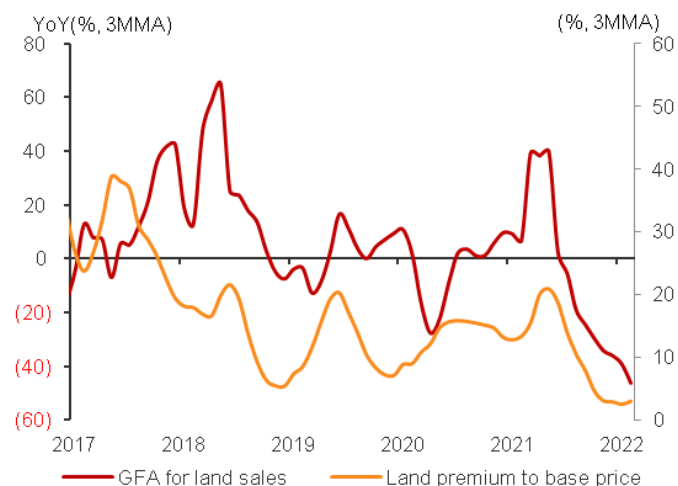
Source: Wind, CMBIGM

Figure 10: New Mortgage and Housing Sales Value



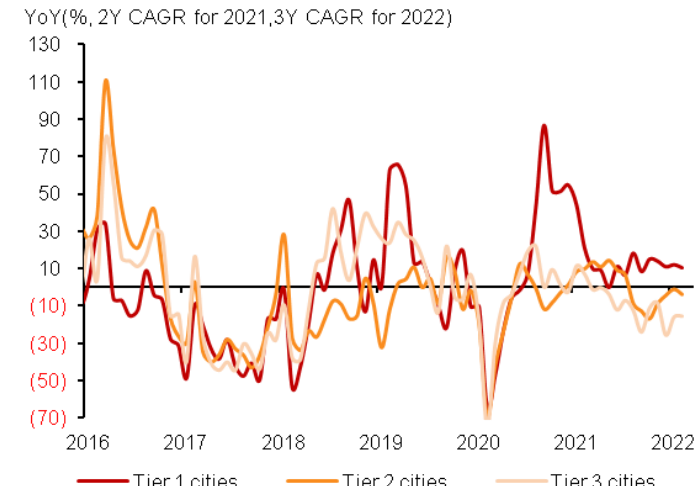
Source: Wind, CMBIGM

Figure 11: Land Market Performance



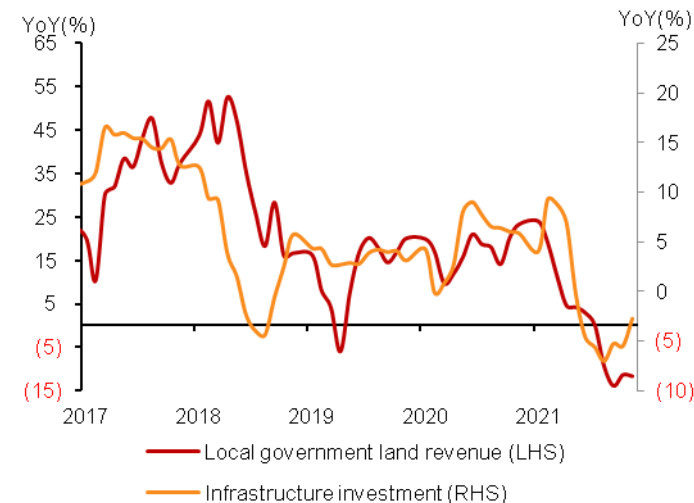
Source: Wind, CMBIGM

Figure 12: Housing Sales by Cities



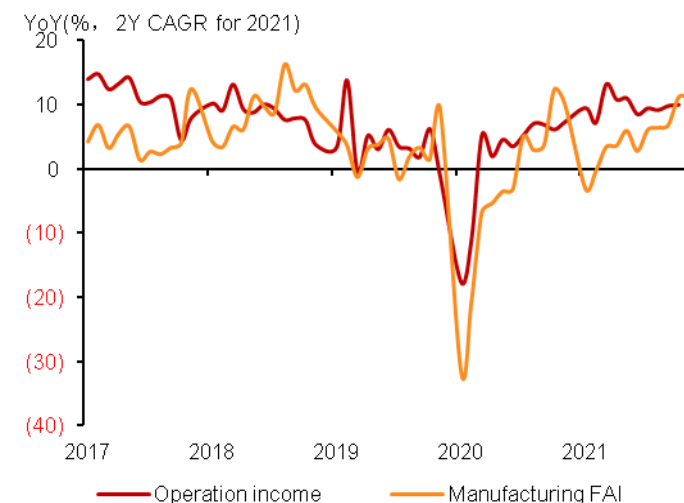
Source: Wind, CMBIGM

Figure 13: Land Revenue & Infrastructure Investment



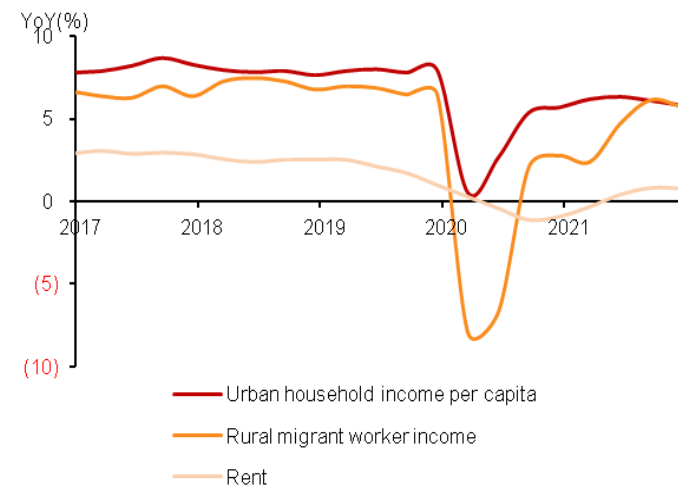
Source: Wind, CMBIGM

Figure 14: Manufacture Revenue & FAI



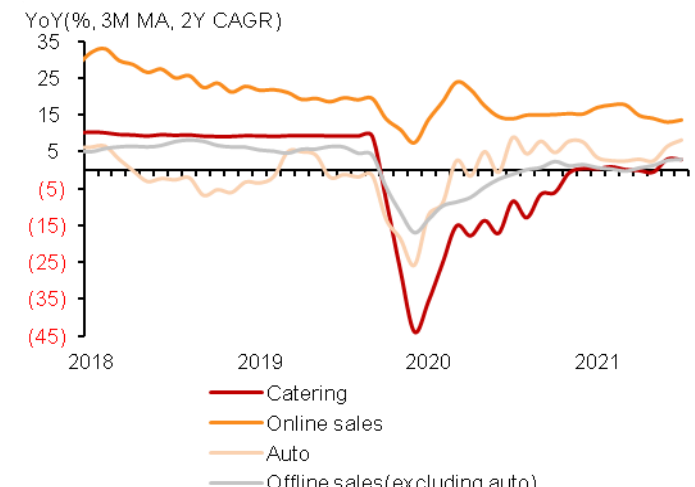
Source: Wind, CMBIGM

Figure 15: Household Income Growth



Source: Wind, CMBIGM

Figure 16: Retail Sales



Source: Wind, CMBIGM

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