

China Policy

China launches supportive policies to boost growth

China's 14 central ministries jointly announced a package of policies to relieve tax & financial burden for business and boost fixed asset investment. The policies include tax & social insurance cost reduction, financing cost relief & credit support, rent cost reduction, material cost relief, internet platform service fee reduction, scientific & accurate virus control to seek a balance and fixed asset investment stimulus. The policies indicate China tries to stabilize its economy, which is suffering from the property market stress and Covid-19 virus impact. The policies should help boost market confidence and facilitate a gradual stabilization of economic growth in 2Q22.

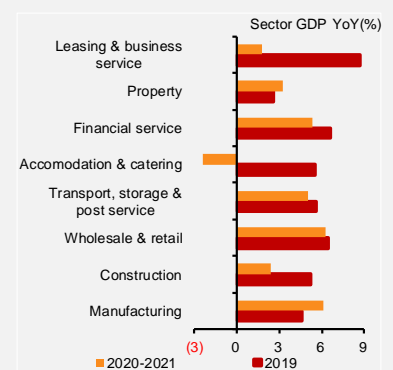
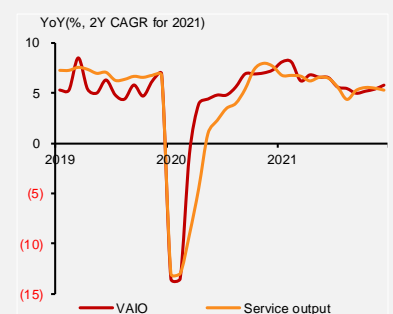
- Tax reduction & social insurance cost relief.** 1) The deduction of value added tax (VAT) will be increased by 10% and 15% respectively for producer service sectors and consumer service sectors. 2) Small low-profit enterprises and individual business can enjoy up to 50% exemption in resource tax, urban maintenance tax, property tax, urban land use tax, stamp tax (excluding securities transaction stamp tax) cultivated land occupation tax, education surcharge and local education surcharge. 3) Local governments are encouraged to grant taxpayers with difficulties in paying property tax and urban land use tax. 4) SMEs can deduct their equipment purchase expenditures (single transaction value over RMB5mn) more quickly from the VAT. For the equipment with 3-year depreciation period, SMEs can choose a one-off pre-tax deduction. For other equipment, SMEs can deduct half. 5) The VAT is exempted for public transport services. Railway and air transportation enterprises can suspend their prepayment of VAT. 6) Unemployment insurance rate and work-related injury insurance rates will be reduced moderately and the policy will be effective until 30 April 2023. 7) Unemployment insurance premiums will be refunded partially to service enterprises that do not lay off employees sharply. The refund rate for SMEs will increase from 60% to 90%. 8) In provinces with large surplus in unemployment insurance & work-related injury insurance, service enterprises are allowed to defer their insurance premium payment at most one year. **Total tax & social insurance cost reduction may exceed RMB1trn in 2022. SMEs in Southeast provinces will benefit the most.**

- Financing cost reduction & credit support.** Banks are encouraged to lower loan contract rates to business and expand credit supply to manufacturing, SMEs, green development projects and service business. 1) Banks are guided to transfer profits to the real economy with a decline of loan contract rates and account service fees, transfer & remittance fees and bank card swipe fees especially for service small enterprises and individual business. 2) Banks are required to increase credit support to manufacturing sector with continuing rapid growth of medium to long term loans to manufacturers. 3) The PBOC will provide low-cost refinancing supply as an incentive to stimulate regional banks to expand credit supply to small business. 4) The PBOC will provide special low-cost refinancing supply to encourage banks to increase credit support to carbon-reduction, coal-saving and clean-energy-use projects. 5) Banks are also encouraged to enhance credit support to the service sectors with difficulties in the virus impact. **According to the PBOC's estimation, the banking system reduced real sector's financial burden by RMB1.56trn in**

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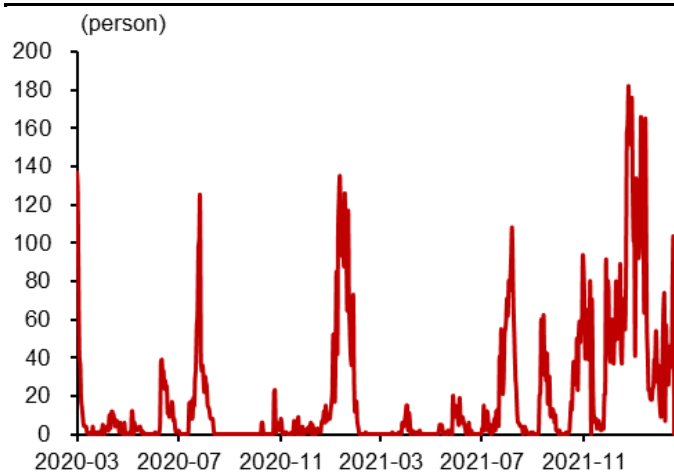


2020 in term of loan rate decline (RMB590bn), fee reduction & debt restructuring (RMB420bn), special monetary policy tools (RMB380bn), bond rate decrease (RMB120bn) and special low-cost refinancing loans (RMB46bn). We expect the financing cost relief in 2022 should be much smaller than in 2020.

- **Rent cost relief from state-owned property.** Small and individual business in the counties with medium or high pandemic risk can have a 6-month exemption period in renting state-owned commercial real estate. For urban districts in the medium or high pandemic risk list, state-owned property owners can provide 3 month of rent exemption for small and individual business. **China launched the similar policy in 2020 when the cost relief was estimated to reach over RMB500bn in 2020. The rent cost relief in 2022 should be smaller than in 2020.**
- **Energy and material cost relief.** 1) Various differential & punitive electricity price policies will be integrated into a unified tiered electricity price system for high-energy-consuming industries. For enterprises whose energy efficiency reaches the benchmark level, there will be no electricity price hikes. 2) The government and SOEs will take efforts to ensure supply and price stability of important materials like iron ore and fertilizers. The government will enhance regulation over commodity market, support enterprises to invest in domestic mining and promote recycling and comprehensive utilization of scrap metals, waste paper and other renewable resources. **We expect fixed investment in mining & metal recycling should maintain strong growth in 2022. Meanwhile, domestic production of coal & some minerals should pick up while their prices may gradually decline.**
- **Internet platform service fee reduction for catering business.** Internet platform companies are guided to lower service fees to catering business. For catering business in counties with medium or high pandemic risk, internet platform companies are guided to provide short-term preferential service fee policy.
- **Scientific and accurate virus control to seek a balance.** The government should improve the scientific nature and accuracy of epidemic prevention and control to reduce unnecessary lockdowns, the scope of medium and high-risk areas and the impact on people mobility and economic activity. **China will not give up the zero-covid strategy in the short term. But it will optimize its strategy operations to minimize the impact of the strategy on population mobility and economic activity. Meanwhile, China will closely monitor the actual effects of influenza treatment in some countries and assess when to begin gradually ease the pandemic control.**
- **Fixed asset investment stimulus.** 1) China will accelerate the construction of large-scale wind and photovoltaic power generation bases in the desert areas in the west regions. The central and eastern regions are encouraged to develop distributed photovoltaic power generation projects. Guangdong, Fujian, Zhejiang, Jiangsu and Shandong are supported to promote the development of offshore wind power. The construction of new power generation projects will drive investment in solar cell and wind power equipment. 2) China will promote the transformation and upgrading of coal-fired power. Thermal power generation projects will be upgraded with more flexibility to hedge against the instability of new energy power supply. 3) Energy-saving and carbon-reduction projects will be launched in steel, non-ferrous metals, construction materials & petrochemicals. 4) Telecom operators are guided to accelerate 5G network construction. Manufacturing industries are encouraged to speed up digital transformation. 5) Beidou

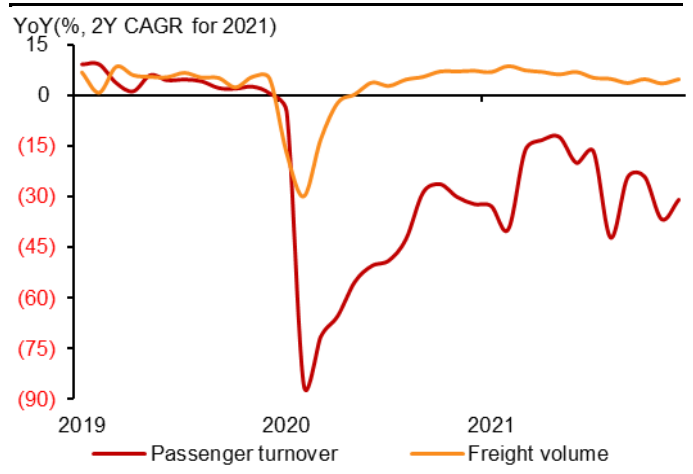
industrialization project will be launched to promote the large-scale application of Beidou system in major strategic regions. 6) China will accelerate the construction of big data centers, implement the “East Data and West Calculation” project and build up 8 national-level data center hubs (Yangtze River Delta, Beijing-Tianjin-Hebei, Guangdong-Hong Kong-Macao Greater Bay, Chengdu-Chongqing, Guizhou, Inner Mongolia, Gansu and Ningxia). 7) China will promote the development of real estate investment trusts (REITs) in infrastructure sector to boost fund raising and new investment. **The stimulus will help boost fixed asset investment in new energy generation & supply, upgrading of traditional energy use, 5G network, big data center and other infrastructure projects.**

Figure 1: New Covid-19 Cases in China



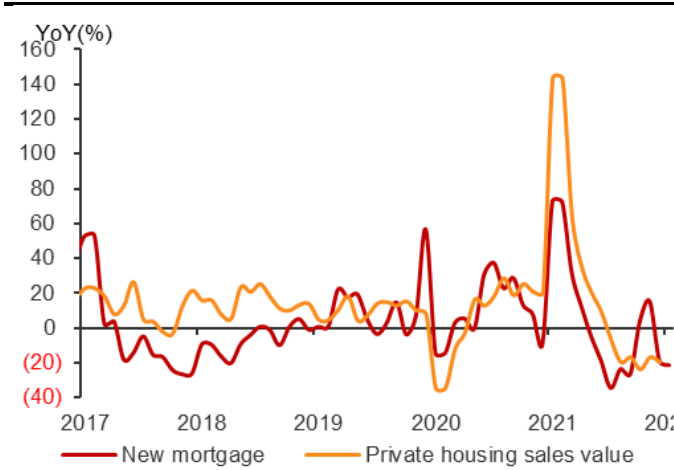
Source: Wind, CMBIS estimates

Figure 2: Passenger & Freight Transport



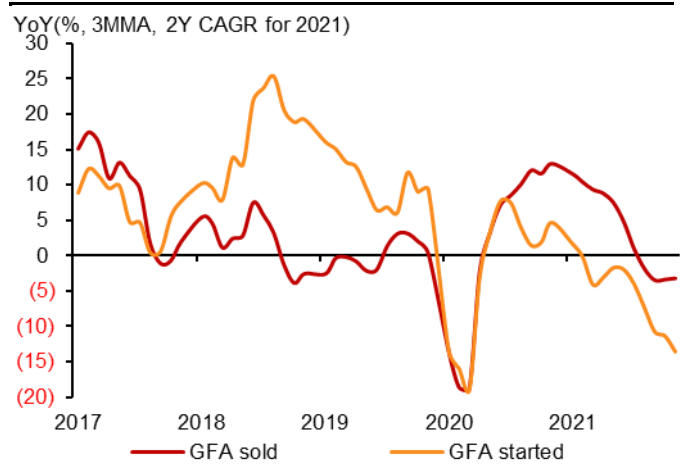
Source: Wind, CMBIS estimates

Figure 3: New Mortgage & House Sales Value



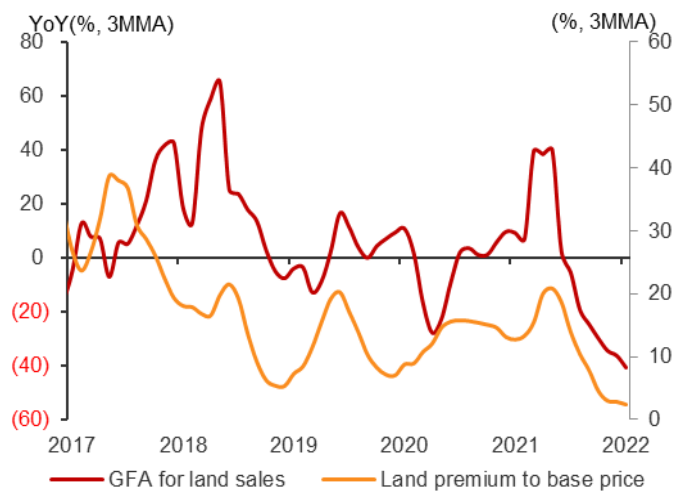
Source: Wind, CMBIS estimates

Figure 4: Housing Sales & Starts



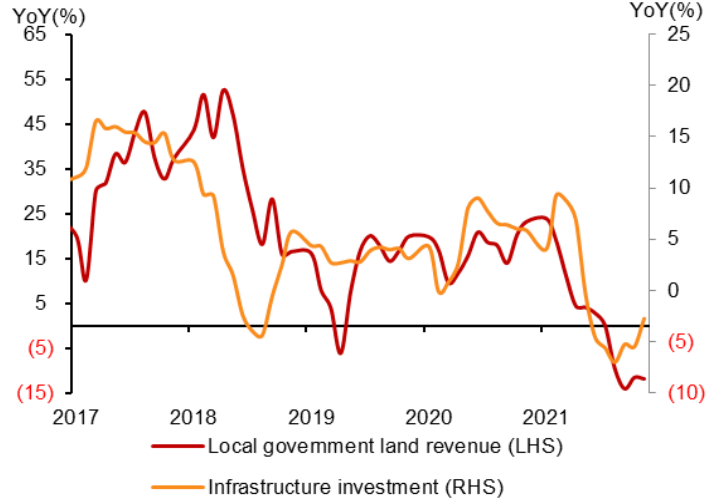
Source: Wind, CMBIS estimates

Figure 5: Land Market Performance



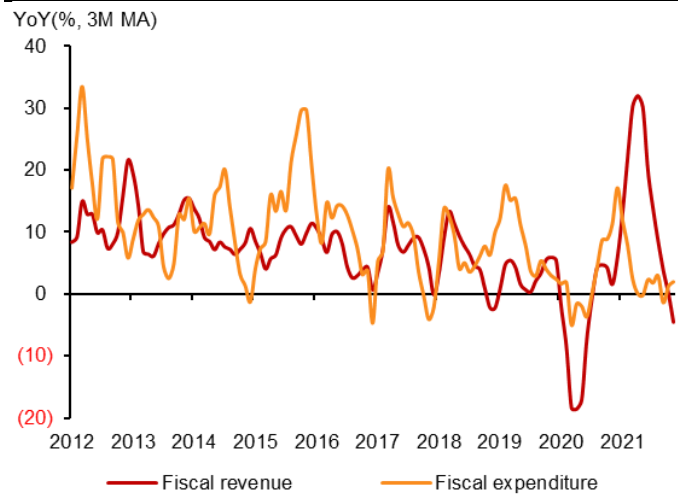
Source: Wind, CMBIS estimates

Figure 6: Land Revenue & Infrastructure Investment



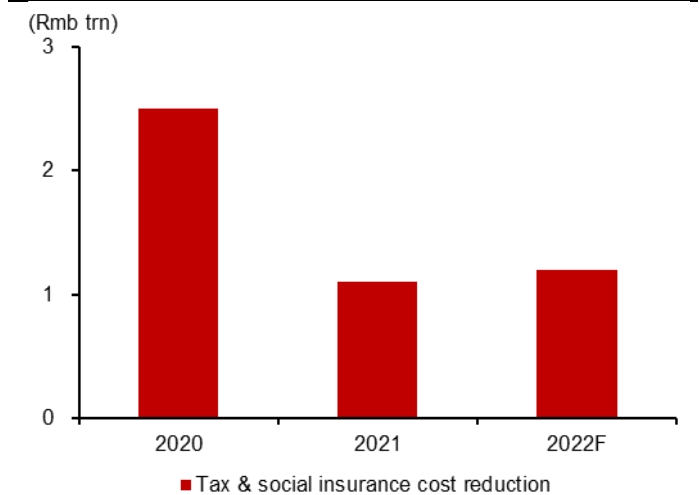
Source: Wind, CMBIS estimates

Figure 7: Fiscal Revenue & Expenditure



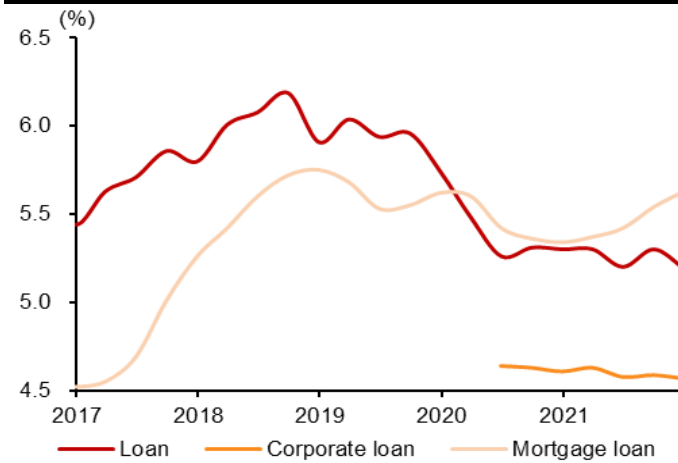
Source: Wind, CMBIS estimates

Figure 8: Tax & Social Insurance Cost Reduction



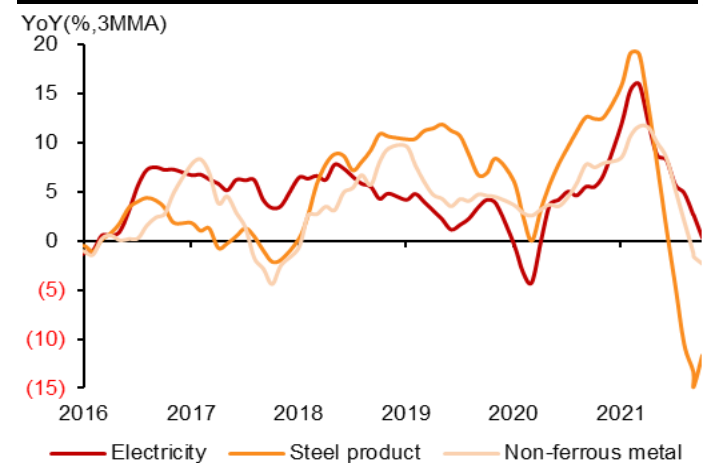
Source: Wind, CMBIS estimates

Figure 9: Average Rates of Outstanding Loans



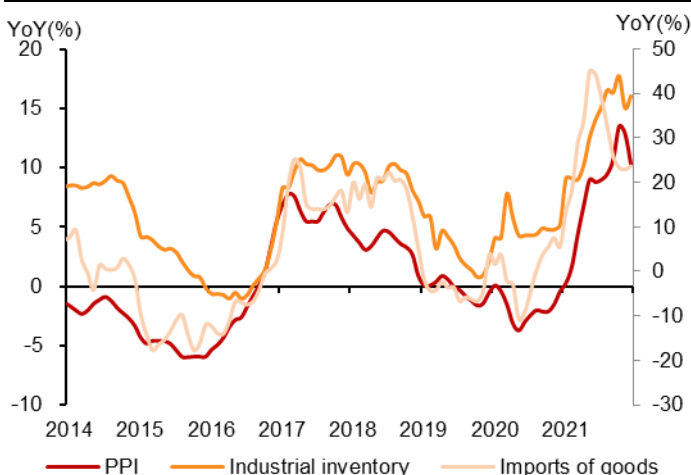
Source: Wind, CMBIS estimates

Figure 10: Industrial Production



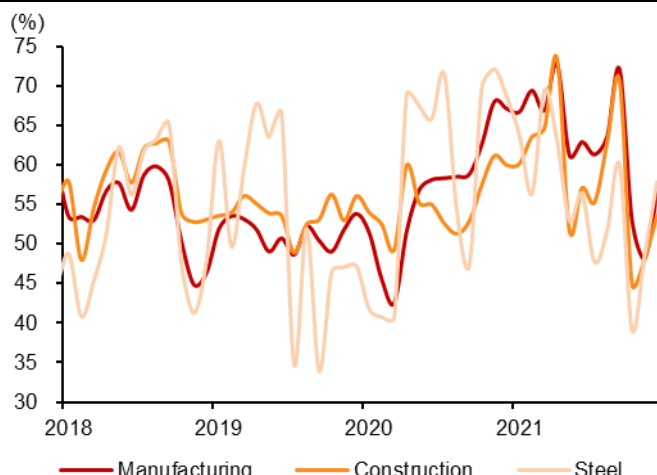
Source: Wind, CMBIS estimates

Figure 11: Industrial Inflation, Inventory & Imports



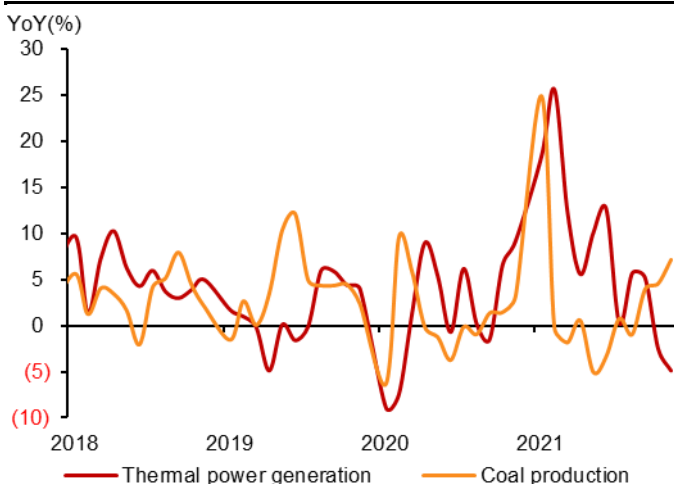
Source: Wind, CMBIS estimates

Figure12: Material Cost Index



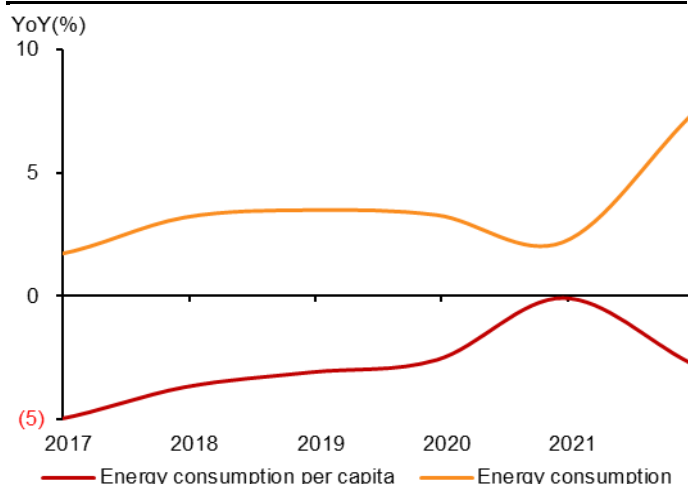
Source: Wind, CMBIS estimates

Figure 13: Thermal Power & Coal Production



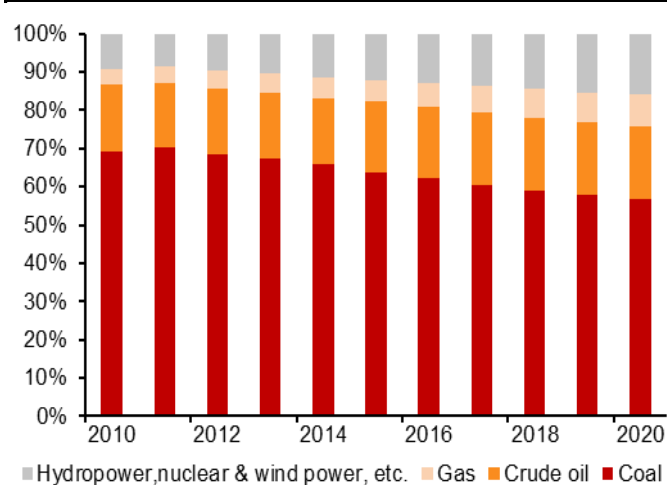
Source: Wind, CMBIS estimates

Figure14: Energy Consumption



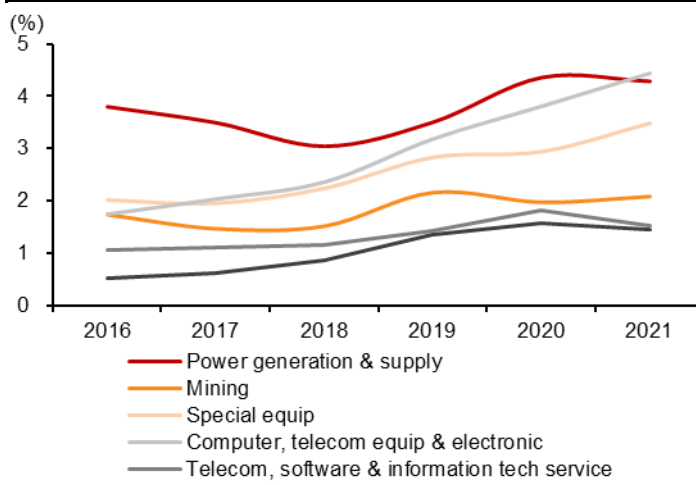
Source: Wind, CMBIS estimates

Figure 15: Structure of Energy Consumption



Source: Wind, CMBIS estimates

Figure16: Share in Total FAI



Source: Wind, CMBIS estimates

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