

China Policy

Cabinet calls for accelerating infrastructure investment

The state council held a meeting on 29 March, calling for accelerating government special bond issuance and infrastructure investment in 2Q-3Q22. We expect the fixed asset investment in infrastructure sector especially in energy, storage service, water conservancy and social housing may noticeably rebound in 9M22. The cabinet meeting indicates the policymakers are not optimistic about China economy. Infrastructure investment is considered as an important means to stabilize growth. The cabinet meeting may boost investors' preference for those stocks with low valuation and high exposure to infrastructure projects in the short term.

- **State council warned of rising downside risk for China economy.** The cabinet said China's economy is facing new challenges with rising downward pressure. The pro-growth policy should be released sooner rather than later, while the policy with negative impact on market expectations should be avoided. China should make a policy plan to deal with greater uncertainty.
- **Cabinet required accelerating issuance of local government special bond to boost infrastructure investment.** The state council required the first batch of the special bond quota at RMB1.46tn must be used before the end of May, while the remaining quota at RMB2.19tn must be used before the end of September.
- **Infrastructure investment may moderately rebound in 9M22.** The state council said the fundraising from local government special bond will be mainly used in projects in transport, energy, environmental protection, social housing and water conservancy. The fixed asset investment (FAI) in infrastructure sector jumped 8.6% in 2M22 after rising 0.2% in 2021. We expect infrastructure investment may further rebound in 2Q-3Q22. However, the shrinkage of land revenue and strict control over local government contingent debt should restrain the upside room for infrastructure investment in the medium term.
- **Which sectors have rapid FAI growth?** In 2M22, leasing & business service, gas supply, storage service, water conservancy, information tech service, mining, manufacturing, education and scientific & tech service saw rapid growths at 20% or even higher. Due to the pandemic and property sector stress, tunnel transport, railway transport, water transport and construction experienced significant declines in FAI in the first two months.
- **Which areas have high fiscal expenditure growth?** In 2M22, fiscal expenditures on science & tech, transportation, energy saving & environmental protection, education and community development respectively rose 15.5%, 14%, 11.9%, 9.1% and 7.6%, compared to the growth of 7.2%, -6.2%, -12.6%, 3.5% and -2.5% in 2021.
- **Implications for the stock market.** The cabinet meeting indicates the policymakers are not optimistic about China economy. Infrastructure investment is considered as an important means to stabilize growth. The cabinet meeting may boost investors' preference for those stocks with low valuation and high exposure to infrastructure projects in the short term.

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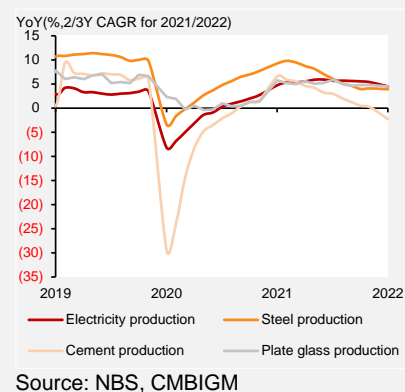
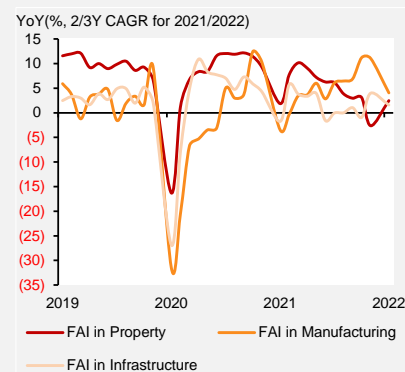
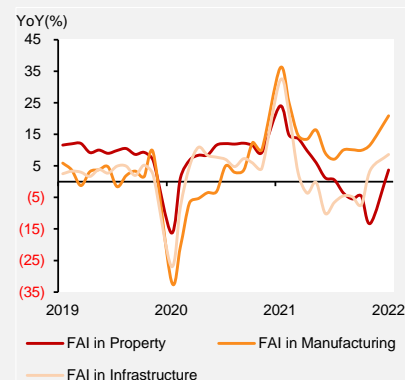
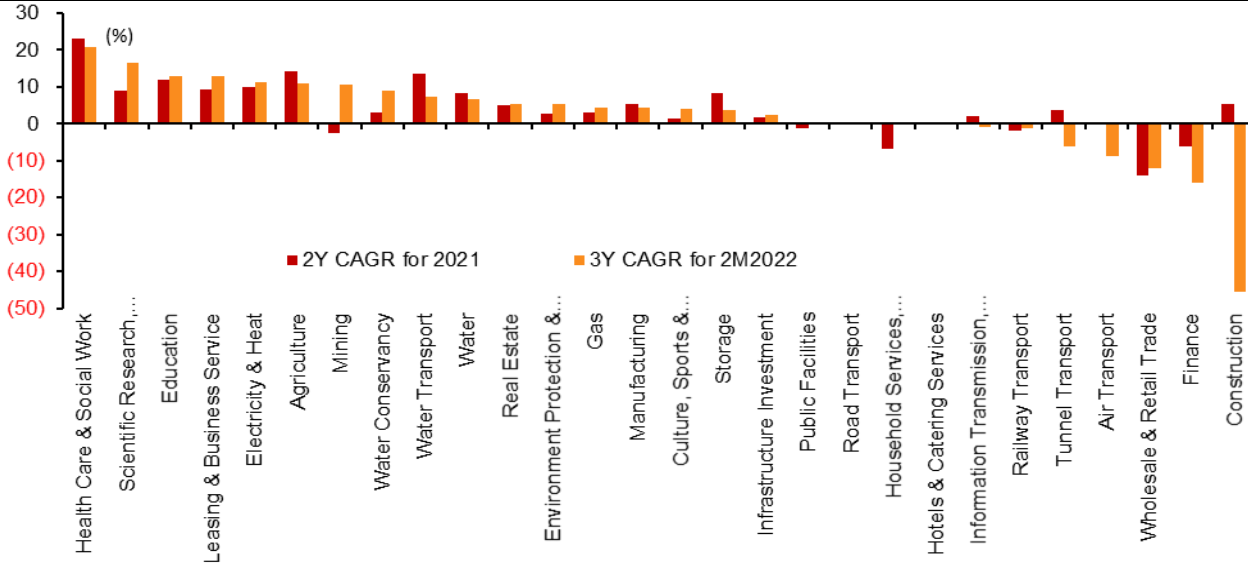
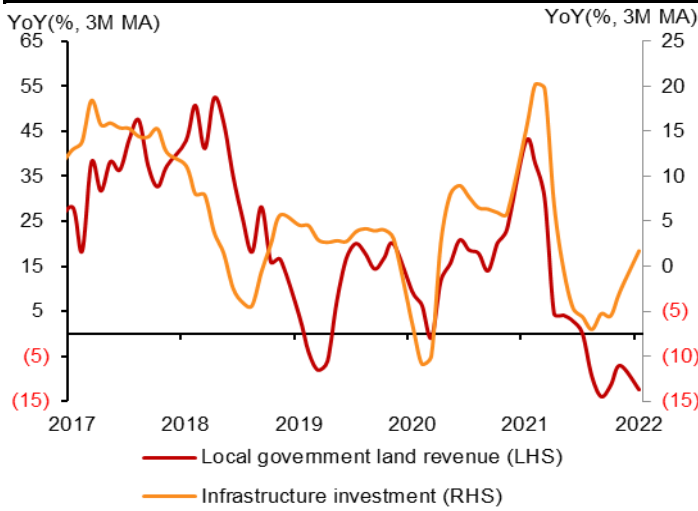


Figure 1: China's FAI Growth by Sector



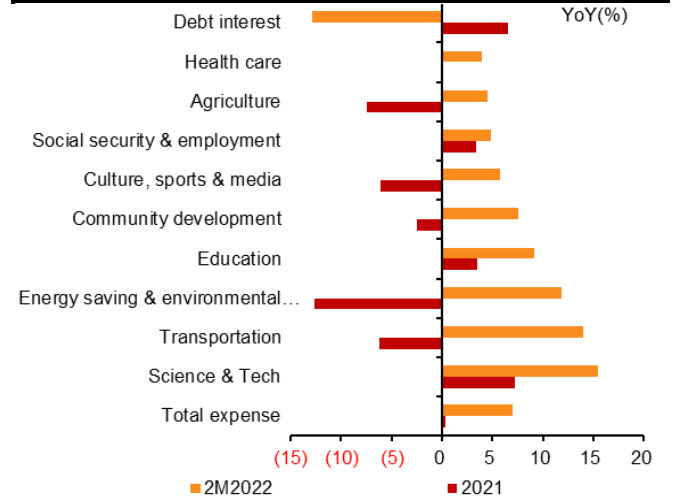
Source: NBS, CMBIGM

Figure 2: Land Revenue & Infrastructure investment



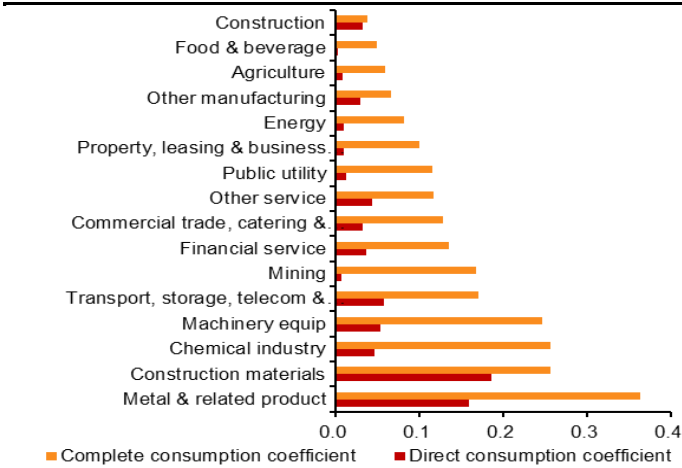
Source: WIND, CMBIGM

Figure 3: Fiscal Expenses on Main Items



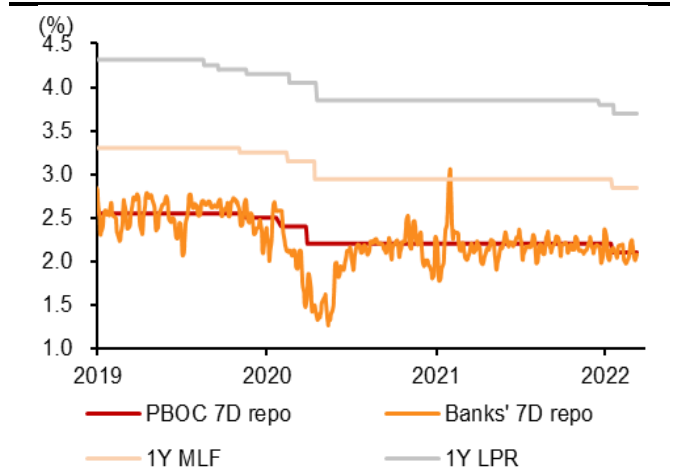
Source: WIND, CMBIGM

Figure 4: Input-Output Coefficient for Construction



Source: WIND, CMBIGM

Figure 5: PBOC Policy Rates



Source: WIND, CMBIGM

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