

China's economic tool kit 2020

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Outline

- 1 Overall assessment of 2020 economy**
- 2 Monetary policy**
- 3 Fiscal policy**
- 4 Regulatory options**

Our forecast of China in 2020

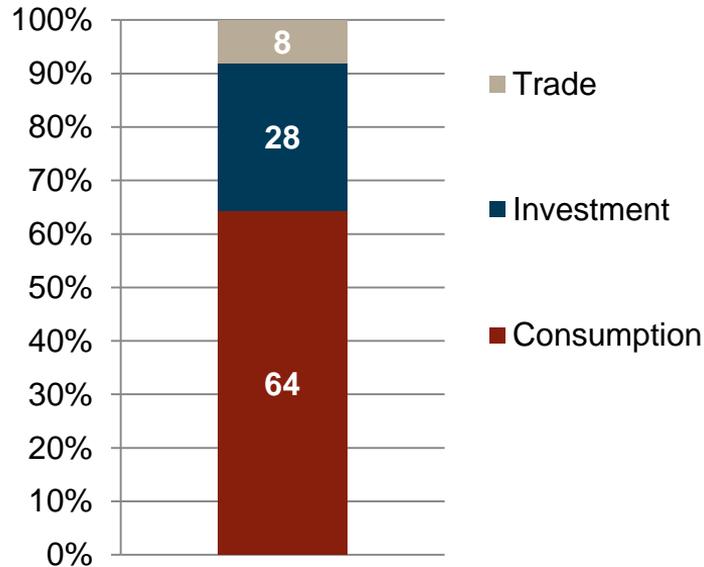
Balance growth and inflation

	2019 estimate	2020 forecast
Real GDP (% change)	6.1	5.9
Nominal GDP (US\$, bn)	13,813	14,585
GDP per head (US\$)	9,935	10,454
Private consumption (% of GDP)	39.8	40.2
Government purchases (% of GDP)	15.5	16.4
Investment (% of GDP)	42.1	41.5
Exports (% of GDP)	18.9	18.3
Exchange rate LCU:US\$	6.9	7.1
Inflation (% change)	2.9	4.9

Where is growth from in 2019?

Trade is becoming less relevant for growth

Contribution to GDP growth in 2019 (%)



- Consumption is the most important driver
 - Within consumption: private consumption contributes to 67% (government purchases 33%)
- Traditional Investment engine slowed
 - Within investment: property contributes 37%, infrastructure 17% and manufacturing 16% (all slowed significantly from 2018)
 - Investment in health, education, culture and R&D accelerated
- “Quality growth”

Key messages from CEWC for 2020 plan

CEWC promises to rely on fiscal policy

- 2020 “moderately prosperous society”
 - Double real GDP from 2010
- Monetary policy to be “**prudent**”
 - But more credit to strategic industries (advanced manufacturing)
- Fiscal policy to be “**active**”
 - Infrastructure in western China, municipal pipe networks, rural roads, rural telecommunication network
- Three key development areas
 - Yangtze River Delta; Greater Bay; Jing-Jin-Ji (Xiongan)
- Three tough battles:
 - Poverty > pollution > financial risks
 - Financial system is “generally healthy”
 - Marginally relax housing market (demand side)
 - Relax local government financing
- Make SOE more efficient

China's tool kit: monetary policies

Issuing credit is becoming less effective in boosting growth

- Reserve requirement ratio (RRR) -- effective
 - Fueling housing market
 - Inflation pressure
- Deposit and lending rates -- limited
 - Limited impact
 - Currently already low: deposit rate 1.5%, lending rate 4.35%
 - Target emerging industries and private firms, not property developers
 - But SOE will benefit the most
- Down payment ratio -- limited
 - Drive up home transactions and related consumption (cars, household appliances)
 - Currently high (30% for 1st house and 60% for 2nd one)
 - Target small cities
- Window guidance: Direct credit to certain industries
- Financial market intervention: Ask SOEs to buy back stocks

China's tool kit: fiscal policies

Infrastructure building is key: basic network + upgrade

- Tax cuts -- limited
 - Cut VAT and corporate fees
 - Lower income tax
- Local government borrowing
 - **Infrastructure** building – effective
 - Local officials lack incentive to borrow
 - Increasing quota for local bonds will benefit rich provinces (lower financing costs)
- Regional integration plan
 - **Infrastructure** building: roads, rails, digital networks
- Rural development
 - Urbanisation: abandon hukou, land reform
 - **Infrastructure**: roads, water supply, coal to gas, toilets
- Subsidise R&D – long-term impact
 - 5G, smart cities

China's toolkit: regulatory policies

Targeted relax for housing restrictions

- Home buying policies
 - Abolish hukou requirement in small cities
 - Household debt-to-GDP ratio 52% in 2018 (from 18% in 2008)
- Affordable housing
 - Government supplied rental homes
- Export tax rebate
 - Counter trade war
- Consumption upgrade
 - Stricter emission regulation to upgrade car models
 - 5G phones
 - Energy-saving household appliances
- Agriculture
 - Government purchase for key crops

2020 is a challenging year for foreign investors

Political risks are up



- Foreign investment has to help China to realise its policy goals
 - Energy security
 - Food security
 - Healthcare and medicine
 - Technology upgrade
 - Taiwan's TSMC under US pressure to stop supply to Huawei; abandoned Nanjing Plant Expansion
- Digital governance
 - Social credit system expand

Thanks!
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