Greater China — Week in Review

16 December 2024

Highlights: new economic framework for 2025

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Volatility in China's equity market increased last week as investors digested key takeaways from the Politburo meeting and the Central Economic Working Conference (CEWC). In contrast, China's bond market extended its rally, with 10-year government bond yields falling below 1.8%, driven by rising expectations of further monetary easing.

There are four notable shifts in the policy tone from the Politburo meeting, reflecting a strategic recalibration by China's leadership.

Firstly, the monetary policy stance will shift to being moderately loose, marking a significant departure from the prudent monetary policy regime in place since 2011. We anticipate the PBoC will lower the 1-year Loan Prime Rate (LPR) by 40bps in 2025 and reduce the reserve requirement ratio (RRR) by an additional 100bps, providing substantial liquidity support to the economy.

Secondly, fiscal policy will become more proactive, signaling an intensification from the current proactive fiscal stance. The last instance of a more aggressive fiscal approach was during the onset of the COVID-19 pandemic when China raised its fiscal deficit target. Similarly, we expect the fiscal deficit target for 2025 to increase to 4%, which will create incremental fiscal spending about CNY1.3-1.5 trillion. Additionally, the issuance of local government special bonds and long-term special bonds is likely to expand, underscoring the government's commitment to driving growth through fiscal channels. Although, a CNY 2-3 trillion additional spending is needed to counter any potential impact of changing external environment in 2025.

Thirdly, for the first time, the policy language includes the term "extraordinary" to describe counter-cyclical adjustments, signaling a readiness to employ bold and innovative measures. This opens the door for potential large-scale interventions, such as stabilization fund for both property and equity markets.

Fourthly, the policy explicitly mentions maintaining stability in both the property and equity markets, with the latter being included for the first time. This highlights policymakers' intent to strengthen the wealth effect, boost investor confidence, and stabilize financial markets as a pillar of economic growth.

Building on the guiding principles outlined at the Politburo meeting, the Central Economic Working Conference (CEWC), held two days later, provided additional details on China's economic policy direction. The meeting previewed that China will further lower interest rates and the reserve requirement ratio (RRR) while increasing its fiscal deficit, aligning with market expectations. However, in keeping with tradition, the CEWC refrained from providing specific numerical targets, which will only be finalized during the National People's Congress (NPC) next March.

Beyond reiterating the tone set by the Politburo, the CEWC introduced three additional key messages:

Firstly, among the nine key economic tasks for 2025, boosting consumption was given top priority. A new concept, "Special Action to Boost Consumption," was introduced, likely integrating efforts to promote consumption with improving social welfare. The focus will be on raising incomes, reducing the financial burden on low- and middle-income groups, and increasing basic pensions and healthcare fiscal subsidies. This underscores China's recognition that sustainable consumption growth depends on enhancing welfare, lifting incomes, and reviving income expectations, rather than relying solely on subsidies.

Secondly, the meeting emphasized the "comprehensive rectification of involutionary competition" and the standardization of behaviors by local governments and enterprises. This builds on the July Politburo directive to prevent "involutionary" vicious competition. Key approaches include leveraging technological innovation, establishing guidelines for building a unified national market, coordinating fiscal and tax reforms, and encouraging local governments to shift their focus from investment-led growth to fostering consumption-driven growth.

Thirdly, the proposal to "explore and expand the macroprudential and financial stability functions of the central bank" signals a strengthened role for the PBoC in stabilizing real estate and equity markets. This move reflects the increasing importance of the central bank in supporting broader financial stability and ensuring market confidence. This may set the floor for China's equity market.

Overall, the new economic framework for 2025 has been established, providing a strategic direction for policy priorities. We still believe that China is in the "whatever it takes" mentality coming into support for growth in 2025. The market now awaits detailed numerical targets to complement and operationalize this framework.

Key Developments	
Facts	**OCBC Opinions**
▪ China concluded its Politburo meeting on 9 December and Central Economic Working Conference on 12 December.	▪ There are four notable shifts in the policy tone from the Politburo meeting, reflecting a strategic recalibration by China's leadership. ▪ Firstly, the monetary policy stance will shift to being moderately loose, marking a significant departure from the prudent monetary policy regime in place since 2011. We anticipate the PBoC will lower the 1-year Loan Prime Rate (LPR) by 40bps in 2025 and reduce the reserve requirement ratio (RRR) by an additional 100bps, providing substantial liquidity support to the economy. ▪ Secondly, fiscal policy will become more proactive, signaling an intensification from the current proactive fiscal stance. The last instance of a more aggressive fiscal approach was during the onset of the COVID-19 pandemic when China raised its fiscal deficit target. Similarly, we expect the fiscal deficit target for 2025 to increase to 4%, which will create incremental fiscal spending about CNY1.3-1.5 trillion. Additionally, the issuance of local government special bonds and long-term special bonds is likely to expand, underscoring the government's commitment to driving growth through fiscal channels. Although, a CNY 2-3 trillion additional spending is needed to counter any potential impact of changing external environment in 2025. ▪ Thirdly, for the first time, the policy language includes the term "extraordinary" to describe counter-cyclical adjustments, signaling a readiness to employ bold and innovative measures. This opens the door for potential large-scale interventions, such as stabilization fund for both property and equity markets. ▪ Fourthly, the policy explicitly mentions maintaining stability in both the property and equity markets, with the latter being included for the first time. This highlights policymakers' intent to strengthen the wealth effect, boost investor confidence, and stabilize financial markets as a pillar of economic growth. ▪ Building on the guiding principles outlined at the Politburo meeting, the Central Economic Working Conference (CEWC), held two days later, provided additional details on China's economic policy direction. The meeting previewed that China will further lower interest rates and the reserve requirement ratio (RRR) while increasing its fiscal deficit, aligning with market expectations. However, in keeping with tradition, the CEWC refrained from providing specific numerical targets, which will only be finalized during the National People's Congress (NPC) next March. ▪ Beyond reiterating the tone set by the Politburo, the CEWC introduced three additional key messages: ▪ Firstly, among the nine key economic tasks for 2025, boosting consumption was given top priority. A new concept, "Special Action to Boost Consumption," was introduced, likely integrating efforts to promote consumption with improving social welfare. The focus will be on raising incomes, reducing the financial burden on low- and middle-income groups, and increasing basic pensions and healthcare fiscal subsidies. This underscores China's recognition that sustainable consumption growth depends on enhancing welfare, lifting incomes, and reviving income expectations, rather than relying solely on subsidies. ▪ Secondly, the meeting emphasized the "comprehensive

	rectification of involutionary competition" and the standardization of behaviors by local governments and enterprises. This builds on the July Politburo directive to prevent "involutionary" vicious competition. Key approaches include leveraging technological innovation, establishing guidelines for building a unified national market, coordinating fiscal and tax reforms, and encouraging local governments to shift their focus from investment-led growth to fostering consumption-driven growth. ▪ Thirdly, the proposal to "explore and expand the macroprudential and financial stability functions of the central bank" signals a strengthened role for the PBoC in stabilizing real estate and equity markets. This move reflects the increasing importance of the central bank in supporting broader financial stability and ensuring market confidence. This may set the floor for China's equity market.

Key Economic News	
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▪ China's aggregate social financing (ASF) increased by CNY 2.3 trillion in November, with the stock growth rate holding steady at 7.8% YoY.	▪ However, the RMB loan stock growth rate slowed by 0.3 percentage points to 7.7% YoY, as new yuan loans amounted to just CNY 580 billion, representing a YoY decline of approximately CNY 510 billion. This drop was primarily driven by reduced corporate loan demand. Local governments, having received debt restructuring funds, replaced earlier loans, while increased corporate bond financing may have partially crowded out corporate loans. Notably, medium- and long-term loans to corporates declined by nearly CNY 240 billion YoY in November. ▪ On a more positive note, medium- and long-term household loans increased by CNY 300 billion, a YoY rise of CNY 66.9 billion, supported by housing loans. This was attributed to a recovery in real estate sales and reduced early repayment of housing loans following the implementation of lower existing mortgage rates on October 25. ▪ Local government bond issuance and corporate bond issuance were the primary drivers of ASF growth. Corporate bond issuance rose by over CNY 100 billion YoY, supported by a sharp decline in market interest rates, which boosted financing activity in the corporate bond market. ▪ Meanwhile, M1 growth rebounded by 2.4 percentage points to -3.7% YoY, aided by a recovery in real estate sales, base effects, and local government debt repayments. This recovery also contributed to a rebound in the M1-M2 growth differential. Following the rollout of a comprehensive set of stimulus policies at the end of September, the differential has improved for two consecutive months in October and November, reflecting enhanced financial circulation within the real economy.
▪ In November, China's export growth in dollar terms moderated to 6.7% YoY, down from 12.7% YoY in October. Imports contracted at a faster pace, falling 3.9% YoY compared to a 2.9% YoY decline previously. Consequently, the trade surplus expanded to USD 97.4 billion.	▪ Notably, exports to the U.S. and EU rose 8% YoY and 7.23% YoY, respectively, outpacing the headline growth rate. This suggests front-loading activity in anticipation of a potential trade war following Trump's victory. This trend may continue to support China's export performance in the near term.

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