

China Flash

China fiscal stimulus package: key takeaways

In the recent month, especially the past week, Chinese government has implemented a series of supportive measures to stabilize the growth momentum, which has been moderating more than expected, especially in April. This recent wave of stimulus measures resembles, in many aspects, the unprecedented stimulus package in 2009 and 2010, reviving the hope of another large fiscal stimulus. To help put this new development into perspective, below we provide key takeaways on the new measures implemented (hereafter the “new package”) (Table 1).

- **The new package has a similar composition to the post-Lehman one** (Table 2). In particular, both packages rely heavily on infrastructure spending, consumption subsidies to encourage the purchases of durable goods by households, and more accommodative financing. A difference this time around is that the new package will pay more attention to tax cuts, such as speeding up the pilot program to replace turnover tax by value-added tax to reduce double taxation.
- **The new package focuses on energy saving and innovation.** Projects approved by NDRC so far are in line with the Five-year Plan, covering industries of clean energy, energy conservation and environmental protection, biotechnology, new generation information technology, new energy cars, and new materials.
- **In terms of scale, the new package so far is more limited than the previous one,** as the authorities are aware of the smaller fiscal capacity available, especially as regards the existing local government debt issue, the aftermath of the massive post-Lehman stimulus package. Hence, the measures so far are generally smaller in size and have a shorter time span (1 year) than the previous ones.
- **Infrastructure investment will bear the lion share of the package again.** So far, approved key projects by NDRC in May include airports, subways, highways, railroads, and hydro projects. The key question remains in how they will be financed. Part of the solution may hinge on corporate bonds, the scale of which is reported (but not confirmed) to exceed 0.5 trillion RMB this year.
- **On consumption, current subsidies cover similar types of products as in the past but have a smaller scale.** Subsidies for purchase of home appliances, for example, will amount to 26.5 instead of 35 billion RMB and only for energy-saving products. Announced subsidies on vehicles are now only 7-8 billion RMB, also targeting energy efficient automobiles.
- **The credit front is also becoming more accommodative.** Current credit target for 2012 is 8-8.5 trillion RMB. Learning from the 2008 experience of SMEs' lack of access to credit, new initiatives such as allowing SMEs to issue bonds through private placement has been implemented. Moreover, Wengzhou has established a pilot project to test measures of financial liberalization and innovation for SME financing.

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Table 1

Recent policies announced

Date	Event
30/05/2012	The State Council approved a plan to boost the development of seven strategic emerging industries in line with the 12th 5YP, which aims to maintain the country's long term economic growth.
29/05/2012	The government announced plans to spend between RMB 1-2 billion per year to support R&D in energy-saving vehicles, according to an official from the Ministry of Finance (MOF). Separately, starting from July 1 the local tax office of Beijing announced that it will commence a pilot program to replace the current turnover tax (which causes double taxation) with a value-added tax (which does not), following a trial in Shanghai in 2011.
28/05/2012	The Ministry of Finance announced new measure to subsidize qualified manufacturers for the sales of energy-saving air conditioners by RMB 240-400 per unit and LCD TVs by RMB100-400 per unit for one year, starting from June 1, 2012.
25/05/2012	NDRC approved several large steel mill expansion projects worth about RMB 100 bn
23/05/2012	During the State Council meeting, Premier Wen Jiabao further urged to speed up the implementation of projects included in the 12th FYP to support economic growth
21/05/2012	NDRC approved around 100 projects in a single day, most of which are in the clean energy sectors. The number was almost equal to the total number of projects approved during the first 20 days in May.
20/05/2012	Premier Wen Jiabao stepped up his rhetoric on the importance of implementing policies to "maintain stable and relatively fast growth." Specific measures mentioned include tax cuts, support for consumption, and allowing private investment in infrastructure projects.
18/05/2012	PBoC cut RRR, the second time in 2012
16/05/2012	The State Council announced to launch a new, nationwide round of subsidies (RMB 26.5 bn) for purchases of energy-efficiency home appliances and another RMB 6 bn to promote energy saving vehicles
08/05/2012	NDRC approved a new batch of airport infrastructure projects
27/04/2012	The State Council announced to implement more fiscal and taxation policies to help SMEs tackle financing problems, including raising the VAT and sales tax thresholds and expanding enterprise income tax until 2015.

Source: NDRC, media reports and BBVA Research

Table 2

Comparison with the previous stimulus packages

		2009 - 2010	2012 -
Consumption Subsidy	Home appliances	35.0 bn RMB/per year for subsidizing home appliances including TVs, refrigerators, mobile phones, washing machines, air conditionings, computers, energy-saving lamps	26.5 bn RMB/per year for subsidizing energy-efficient home appliances including air conditioning, flat-panel TVs, refrigerators, washing machines and water heaters
	Automobiles	Purchase tax deduction on passenger cars below 1.6 Liters from 10% to 5% (later back to 7.5%); 5 bn RMB on rural subsidy program for new light vehicles or mini passenger cars below 1.3 Liters; 5 bn RMB on trade-in subsidy (6000 per vehicle, later 18000 per vehicle) 2009 -2010	6 bn RMB to promote energy saving vehicles below 1.6 Liters for the 12th FYP period; 1-2 bn RMB/per year for R&D on energy saving vehicles sectors

Source: media reports and BBVA Research



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