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State Council's “33 measures in six areas” stimulus package

On Wednesday 25 May, the State Council held a special online meeting on “stabilizing the economy”, in light of several domestic and international challenges hampering the growth outlook. During the teleconference, a stimulus packages including “33 measures in six areas” approved by an earlier State Council Executive Meeting¹ was presented to line ministries and local governments attending the event. This involved around 100,000 online participants and was termed “unprecedented”.²

Keynote speakers included Premier Li Keqiang, National Development and Reform Commission (NDRC) Chairman, He Lifeng, Minister of Finance (MoF), Liu Kun, and the People's Bank of China (PBoC) Governor, Yi Gang.

1. http://www.gov.cn/premier/2022-05/23/content_5691961.htm
2. <https://www.globaltimes.cn/page/202205/1266548.shtml>

Highlights of the meeting:

- **Downward pressure on the economy continues to increase**, hinting at economic conditions being weaker than in 2020, when the pandemic first struck. Great attention was given to the deteriorating unemployment rate, with emphasis on youth unemployment – at a record 18.2 percent in April.³ Concerns were also raised over opportunities for the expected 10 million graduates in 2022, as well as micro, small and medium enterprises (MSMEs). The silver lining was the Government's confidence of only subdued inflationary pressures.⁴
- **Widespread economic slowdown**: On the domestic side, it was pointed out that manufacturing growth slowed significantly, with a low proportion of companies resuming work following COVID-19 control measures. On the international front, exports have also been under pressure.
- **Two main challenges were identified** as needing attention to stabilize the economy: the fragility of MSMEs and difficulties in industrial and supply chains.
- **Two groups were singled out as being among the most impacted by the current slowdown**: households relying on income from micro- and small- enterprises or self-employment in the industrial and commercial sectors, along with youth, including college graduates.

Against this backdrop, China's top leadership focused on how to stabilize the economy, stressing the following measures:

- **"Maintaining stability" of the economy was squarely at the center**, in the context of increased uncertainty and downward pressures due to, among other factors, the recent impact of the pandemic and the war in Ukraine. It was noted that:

- The aim is to coordinate pandemic control with economic and social development.
- "A favorable development environment" is needed for convening the 20th National Congress of the Communist Party of China (CPC) in autumn.
- Slow growth, beyond its impact on employment and livelihoods, was also highlighted in the context of avoiding long-term challenges and systematic risks.
- Potential financial risks may stem from the consequences of credit flows to the real economy having decreased significantly in April. Total social financing flows, a broad measure for credit to the economy, halved compared to April 2021.⁵

3. Youth unemployment climbed further in May, up to 18.4 percent (National Bureau of Statistics).

4. For reference, April and May inflation was stable at 2.1 percent (1.5 percent in March), at the highest level since December 2021 (National Bureau of Statistics). World Bank's June outlook estimates China's 2022 inflation at 2.3 percent.

5. <http://www.chinadaily.com.cn/a/202205/13/WS627e3beca310fd2b29e5ca01.html>. For reference, credit flows recovered somewhat in May, suggesting that the policy support is having an impact. Private credit demand, however, remains soft due to the uncertain outlook. Source: PBoC data, <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4574548/index.html>

- **Reiterating a positive growth target for Q2:** While acknowledging that economic momentum remains fragile and growth is currently not on target, a call was made for the unemployment rate to improve and for positive – albeit “not high” – growth in the second quarter.
- **Re-emphasizing the role of exports,** it was noted that the strong performance of both imports and exports contributed greatly to the 8.1 percent annual growth seen in 2021. To stabilize exports and imports this year, there was a call for more international flights and easing travel restrictions for foreign companies.
- **Expanding “effective” investment** was mentioned several times, pointing to:

- Directing infrastructure investments towards projects relating to livelihoods, such as water infrastructure, irrigation projects and refurbishing old communities.
- Facilitating the smooth implementation of major infrastructure projects included in the 14th Five-Year-Plan.
- To support investment, MoF reported the issuance of RMB 1.67 trillion in special purpose bonds from January to May, a far greater amount than in the same period last year.⁶

- **Local authorities are set to play a critical role in the recovery.** Representatives of local governments and authorities were identified as key actors. They were urged to take innovative actions to stabilize the economy and will be held accountable for implementing the measures. Sub-national representatives were also directly called upon to guarantee:

- **Food security:** Emphasis was given on the need to achieve agriculture production targets as planned, while addressing constraints imposed by COVID-19 prevention and control measures. Local governments were reminded of their “basic responsibility” in this regard and that they will be “held accountable” if food production is not stabilised.
- **Energy security:** Despite the economic slowdown, official estimates point towards likely energy shortages over the summer, fueling a return to reliance on coal to fill the gaps. Again, it was pointed out that it is the responsibility of local governments to ensure that energy supply is stable and reliable.
- **Implementation of social measures:** Local governments are also responsible for securing adequate funding to ensure the continuation and targeted implementation of social security programs (e.g., pro-poor programs, unemployment insurance, etc.). Local authorities were asked to find ways to raise income and reduce expenditures. To accelerate implementation of the measures announced, the State Council stated that it will send out 12 inspection teams.⁷

6. MOF data point to issuance of local governments' special-purpose bond from January to April 2022 having more than doubled versus the same period last year. http://yss.mof.gov.cn/zhuantilanmu/dfzgl/sjtj/202105/t20210525_3707994.htm

7. On 26 May, 12 State Council inspection teams were stationed in Liaoning, Jiangsu, Zhejiang, Anhui, Fujian, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan and Shaanxi, attending meetings with local officials on the implementations of the support measures.

Key takeaways and possible impact on SDG attainment

► **A clear sense of urgency was delivered by the country's economic leadership.** Local authorities were put at the forefront of efforts to limit the impact of COVID-19 restrictions on the economy.

Data – from April in particular – point to a significant slowdown of the economy in Q2. A weak Q2 GDP is likely to impact 2022 average growth, raising uncertainty around the ability of the Government to meet its 5.5 percent target. This was already a possibility, given the modest 4.8 percent growth recorded in Q1. That said, the State Council meeting may well have been aimed at preparing the ground for subdued growth in 2022. In this context, it is worth noting that:

- China has missed its growth target only twice before, and only marginally: in 1998 (7.8 percent versus a target of 8 percent) and in 2014 (7.4 percent versus a target of 7.5 percent).
- China's PMI indices, leading indicators of growth, were deep in negative territory in April. They have somewhat rebounded in May, albeit still signaling a small contraction in activity versus April, in both manufacturing and services.⁸
- International financial institutions are now forecasting China's 2022 GDP at around 4.5 percent,⁹ while the World Bank's June outlook downgraded 2022 growth to 4.3 percent.

MSMEs – constituting the vast majority of the 150 million Chinese registered enterprises, as well as the 290 million migrant workers, along with youth, took center stage. Specifically, they were identified as more vulnerable to the economic slowdown, while also vital for maintaining social stability. Indeed, most measures presented in the May package focus on easing financial constraints and liquidity issues for MSMEs and thus aim at stabilizing employment, with specific incentives for young employees.

► **Uncertainties remain however in how far government departments at the national and local level will be able to strike a balance between the three parallel priorities:** i) COVID-19 prevention and control, ii) stabilizing the economy, and iii) ensuring social safety. Following the State Council meeting, relevant actors proceeded to operationalise the meeting's guidelines, but challenges may persist in their abilities (e.g., departments' mandate) and capacities (e.g., financing resources) for effective implementation. For example:

- **Local governments may have limited ability to adequately respond.** This is owing in particular to pre-existing financial constraints at local levels, following the downturn in the real estate sector, as well as changing financial rules for debt management and development of investment vehicles by local governments. These pre-existing conditions were exacerbated by the impact of the economic slowdown, exemplified by the significant fall of fiscal revenues recorded in April. The tax refund policy implemented in April resulted in a 37.5 percent YoY revenue drop.¹⁰ Even when excluding this factor, the national fiscal revenue fell by 5.9 percent YoY.¹¹ The new measures are likely to add pressure for fiscal transfers from the central to local governments and on the overall fiscal deficit.¹²

8. http://www.stats.gov.cn/english/PressRelease/202206/t20220601_1857846.html

9. Bloomberg investment bank survey, 24 May 2022.

<https://www.bloomberg.com/news/articles/2022-05-25/china-growth-target-in-tatters-as-covid-zero-hammers-economy#xj4y7vzkg>

10. <https://mp.weixin.qq.com/s/BqnnENdeXn786rYO-hst6A>

11. http://www.gov.cn/xinwen/2022-05/18/content_5690904.htm

12. The March Government Report expected a fiscal deficit of 2.8 percent of GDP this year, down from 3.1 percent in 2021 and 3.7 percent in 2020.

- **The impact of measures supporting the informal sector and migrant workers may only be marginal.** Tax relief and subsidies to MSMEs mainly ease pressures on registered enterprises (not individuals). While the MoF will expand unemployment insurance coverage, targeted support schemes should follow to reach informal sector workers. Addressing these issues to ensure effective access to benefits for those most at risk will be key to protecting livelihoods and stabilizing consumption, along with the economy.
- **Measures to support consumption might only be partially effective,** considering the impact on mobility due to COVID-19 prevention and control. This is particularly true for the five distressed sectors identified,¹³ including catering, entertainment and tourism. Some experts recommend direct cash transfers to boost consumption. However, limited fiscal space is expected to constrain the roll-out of a nationwide cash transfer programme. As such, the Government's priority is to protect the country's 150 million market entities, which include all enterprises, self-employed people and rural cooperatives.

► **To better support environmental SDGs, greening stimulus packages would need to recalibrate the balance between short-term priorities (e.g., growth) and long-term goals (e.g., 2030 and 2060 dual carbon targets).** The current set of measures puts relatively little emphasis on green growth. The focus of the economic stimulus is primarily on infrastructure, particularly transport infrastructure – local railways, roads and aviation – somewhat neglecting investments into green sectors. On the consumption side, the spotlight is on promoting car sales, which could have adverse implications for carbon emissions. Furthermore, the efficient use of coal is at the center of the energy security strategy, with only a few references to renewables. A recent analysis shows that at least 18 thermal power projects, including coal powered, started construction between January and April, with a total capacity of 12.8 gigawatts (GW), while another 19 projects were approved for construction.¹⁴

This raises uncertainty around the level at which China will peak carbon emissions. The infrastructure-led growth to stabilize the economy,¹⁵ coupled with concerns around energy security and the call to avoid energy shortages, may increase coal demand towards the second half of the year.

That said, there are also positive signs regarding emissions. Estimates show that carbon emissions have been falling for three consecutive quarters until March 2022, on the back of the real estate slowdown, strong growth in clean energy and the impact of lockdowns.¹⁶ Furthermore, central and local governments have ambitious targets for wind and solar power installations during the 14th five-year plan period. Some experts believe that if fully realised, these targets could offset the additional growth in energy demand, enabling coal consumption and emissions to peak before 2025. In this respect, matching record new capacity in wind (2020) and solar (2021) with investments in grid and storage technologies will be key to maximizing the effective use of renewables.¹⁷

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