

China – The Economic Working Conference set the tone for 2016

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- The central committee of China's communist party held the annual Economic Working Conference between 18 and 21 December. The conference listed five major tasks for 2016: (1) Reduce over-capacity. (2) De-stocking. (3) De-leveraging. (4) Lower corporate costs. (5) Improve weak links in the economy.
- The meeting pointed out that supply-side policy should be given more attention in order to stabilize growth. The conference highlighted that promoting the supply-side structural reform is an innovation to help China to adapt to, as well as to lead, the new norm of the economy. In the coming years starting from 2016, China will promote the supply-side structural reforms on top of appropriate expansion of aggregate demand. China will maintain macro policy stability in order to create a stable macro environment for structural reform. China will enhance the strength of active fiscal policy through tax cuts and the periodic increase of the budget deficit. Steady monetary policy should be adapted with flexibility. China will maintain adequate liquidity and appropriate growth of total social financing. China will increase the degree of direct financing, lower funding costs and further develop the exchange rate mechanism.
- China will adapt a set of policies to resolve over-capacity in the economy. The meeting statement pointed out that the balance between social stability and structural reform should be dealt with care. Policies regarding restructuring non-performing asset, re-employment, and unemployment benefits should be initiated. Capital markets should support mergers and acquisitions. Generally, more mergers and acquisitions and less bankruptcy should be seen during the consolidation of over-capacity. China will cut the cost for corporates through channels such as tax cuts, clean up of inappropriate administrative costs, lowering the social welfare burden on corporates, reduction of electricity cost via electricity price reforms, lowering logistics costs.
- In order to resolve inventory in the property market, effective demand should be increased through "citizenization" of migrant workers. Policies in "Hukou" reform should be implemented in order to help migrant workers to form the expectation to purchase property or own a long term lease. China will expand the public leasing to "non-Hukou" residents. China will encourage the development of the leasing market. China will encourage property developers to change their marketing strategies and adapt appropriate price reduction as part of efforts to destock inventory. Consolidation of property developers will be promoted. In addition, obsolete restrictive measures in the property market should be revoked.

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- China vows to prevent and resolve financial risk. China will continue to resolve local government debt risk through a local government debt swap scheme, comprehensive debt stock management and improvement of the local government bond issuance mechanism. According to the meeting statement, China will make further progresses in SOE reform, speed up the establishment of state-asset investment companies and operating companies. China will speed up fiscal reform. China vows to develop an equity market with comprehensive financing function, solid fundamentals, effective regulations, sufficient protection for investors.
- 2016 is the first year for the 13th Five Year plan, this economic working conference essentially sets the stage for the commencement of the new five-year plan. It is encouraging that the supply-side structural reform is highlighted by the conference. We expect supply-side policies to become more significant in terms of China's macro policy mix in 2016. Destocking the housing inventory is listed as the top five tasks for the coming year. We expect more individual pro-housing market policies to be announced in the coming months. In our assessment, the GDP growth target may be set at 6.6% for 2016. The term "periodic increase of fiscal deficit" is interesting; the fiscal deficit may be lifted to 2.8/2.9% of GDP (vs. 2.3% for 2015). The M2 growth target may be set around 13/14% (vs. 12% for 2015). The economic development targets are usually released after the National People's Congress approves them in March 2016.

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