

## Local governments to China's rescue as risks mount

There are more risks emerging from China's economy: Covid, real estate, regulations on the internet industry and the recent drought. These have resulted in a high jobless rate and lower wages. The central government believes that local governments can help restore growth



Real estate continues to be a drag on China's economy. Pictured: a residential construction site in Huaian, eastern China

### The economy is facing many headwinds

These are tough times for China. Covid-19 – and the government's tough approach to any new outbreaks – continues to be a drag on the country's economy, notably in the leisure and travel sectors. Real estate is of growing international concern and there are real worries of a major crash; confidence in the sector has nose-dived as many developers go bankrupt. We still have no update on the completion rate of uncompleted residential projects after funds were allocated for these projects. In addition, [severe droughts](#) have led to electricity shortages, notably in western China. On top of this, there are now even more regulations in place for the internet sector.

All of this is bad news for the jobs market. Labour demand is not recovering as fast as we had thought it would, and wages seem to be coming down in some important industries, including

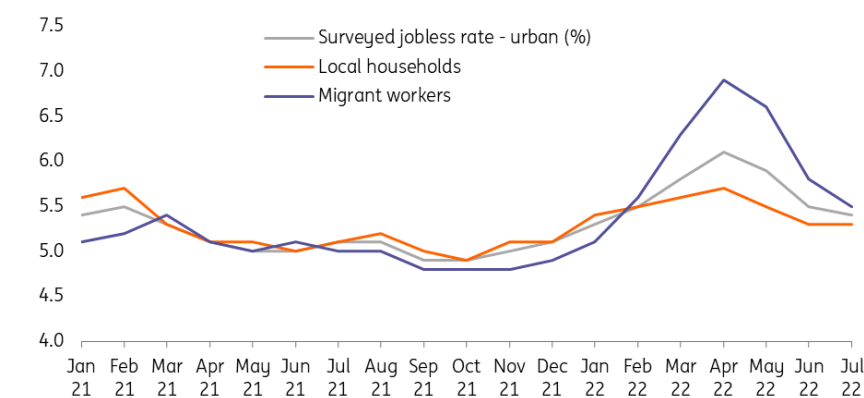
technology.

## Real estate is still the main problem

The financial difficulties of residential property developers have come to the public's attention and some mortgage borrowers have requested delays to repayments on uncompleted residential property sites. Cash tightness is the main characteristic of financially weak property developers, meaning they do not have enough cash to pay their suppliers and complete projects.

The government does not appear to be giving up on deleveraging reforms. Funds are being pooled by policy banks and the central bank in China, and there is also some support from local governments where the uncompleted projects are located. But these support measures are only to be used to finish uncompleted projects so that mortgage borrowers will continue to repay the banks. It could take several quarters to see a positive effect from the announced measures, and it could take years to finish all of the uncompleted projects.

## China's surveyed jobless rate



Source: CEIC, ING

## Local governments to the rescue?

The risks we mention affect the job market negatively. The surveyed jobless rate in urban areas was 5.4% in July 2022, compared to the recent low of 4.9% in September and October 2021. Migrant workers have been hardest hit as they're predominantly employed across the construction industry's value chain, including raw material mining and processing.

The jobless rate might not fall back to 4.9% without further fiscal stimulus. But what kind of stimulus can quickly stop the economic slowdown?

The central government believes that local government officials have the answer. Recently, it explicitly pressured all local governments to stimulate their local economies. Some could hand out consumption subsidies and others could speed up the construction of infrastructure. These measures should at least stop the GDP growth rate from falling towards 2% ([our forecast is 4%](#)) in 2022.

We believe that pressing local governments can help, especially given the timing (just before the 20th Party Congress in October). Those who can prop up their local economies without giving up long-term investment plans might be able to advance their careers in the 20th Party Congress.