

China announces huge debt package ahead of 'forceful' stimulus

China has unveiled a RMB10tn programme to alleviate local government debt issues. The package, worth some \$1.4tn, was announced after the week-long National People's Congress



The announcement will free up local governments to implement more stimulus measures

A decisive move to address local government debt woes

China's National People's Congress concluded its week-long meeting on Friday with a press conference with the Ministry of Finance announcing RMB10tn of new measures to alleviate local government debt issues. There are also plans for new fiscal stimulus. The meetings were pushed to this week from October, allowing policymakers to be more agile with the major catalysts from the US election and Thursday's FOMC meeting.

The nature and proposed scale of the measures announced were well signalled through media reports ahead of time, and ultimately, the scale of the package came in line with expectations. The meeting voted to pass the resolution of the Standing Committee of the NPC's proposal of conducting a debt swap and increasing the local government debt limit by RMB6tn over three years, RMB2tn per year. Additionally, there will be RMB4tn of special local government bonds issued over the next five years starting with 2024; previously, markets had been speculating this would be used for purchases of unsold homes, but instead, this was targeted toward debt

repayment.

Finance Minister Lan Fo'an noted that the outstanding scale of hidden debt was around RMB14.3tn; with the measures approved today, the burden on local governments should be significantly alleviated. The Ministry of Finance also signalled a zero-tolerance approach for future hidden debt to avoid this sort of risk re-appearing in the future.

The initial market response appears to be negative; one potential impact of a Trump victory on China was its potential impact on the stimulus response, and markets may have been hoping for a larger-than-expected stimulus. However, as we noted [in our report earlier this week](#), there may be more to come once policymakers have more clarity on what a new Trump administration may do next year.

Measures will free up local governments to drive "forceful" fiscal policy

Why does this matter, and where does this leave us? Other than the obvious impact of addressing short-term debt risks, arguably the most important aspect is that it will free up local governments to once again implement stimulus measures where appropriate and necessary. These measures will likely take time to roll out, but today's moves at least set the foundation for further fiscal stimulus rollout. Indeed, the press conference also signalled that China would be implementing a more "forceful fiscal policy" next year.

Though it was not explicitly addressed, it is likely that local governments and SOEs will play a large role in the moves to stabilise the property market in the future. We anticipate there will be direct acquisitions of unsold homes to coordinate with the earlier PBOC policies to expand the re-lending programme to banks.

We suspect that markets will continue to look for long-awaited policies to support consumption, but this sort of policy was always likely to be implemented on a local rather than a national level. Possible measures include expanding trade-in and consumption voucher policies, adjusting tax brackets, or implementing tax incentives.

Stronger-than-expected export demand and the subsequent impact on industrial production in China have been a notable driver of growth this year. With a less supportive external environment expected in 2025, China will have to ramp up the domestic side of its economy in order to maintain stable growth next year. Regardless of short-term market reactions and continued questions on what form fiscal stimulus will ultimately take, today's moves represent a necessary step in this direction by likely freeing up local governments - the traditional executors of fiscal stimulus in China - to take action in the coming months.

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