

China: Local government bond issuance reveals stimulus target

China's credit report shows that local government bond issuance has experienced an abrupt decline, implying the limit for this year's fiscal stimulus may have already been reached



Source: Shutterstock

Local government issuance might have peaked for the year

Together with a sharp fall in loan growth, M2 annual growth has slowed from 8.3% year on year in September to 8.0% in October.

But what's more eye-catching is that local government bond net issuance growth has slowed down from CNY 738.9 billion to CNY 86.8 billion in October. The abrupt decline in new local government debt issuance at a time when the economy requires it the most indicates this year's new issuance of around CNY 4 trillion according to [a media report citing China Chengxin Credit Rating Group](#) might have reached this year's stimulus limit.

Regardless of whether the issuance is used for roll-over or new projects, it represents the local government's efforts to support the economy through fiscal stimulus.

[Read the media report citing China Chengxin Credit Rating Group](#)

A repeat of the 2009 stimulus?

The Chinese government's 2009 stimulus was CNY 4 trillion and was spread over 2009-2011. If the CNY 4 trillion in 2018, is followed by the same amount in 2019 and 2020, then this could end up being a repeat of the 2009 stimulus.

The substance of the stimulus is just as important as the amount itself. The stimulus in 2009 was mainly through infrastructure (that quietly went into real estate projects) and subsidies on consumer electronics and white goods to spur consumer demand.

This time around it is more for supporting research and development in high-tech industries, cutting taxes for private-owned enterprises (POEs) as well as for households, and some of the money may have gone into helping private companies ease their credit tightness.

This time, China's stimulus might not end up in real estate projects, but the money may still go into supporting at-risk POEs. We are concerned that after killing many state-owned 'zombie' enterprises, the Chinese government may need to prepare to combat a wave of privately-owned 'zombie' enterprises in a few years.

But first thing first, helping these privately-owned enterprises by preventing them from defaulting is imperative as it helps to safeguard the job market.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com