POLICY REVIEW

Bonds to bolster disaster relief work

China's 1 trillion yuan issuance to strengthen infrastructure and promote consumption

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JIN DING / CHINA DAILY

China's issuing of an additional 1 trillion yuan ($136.7 billion) in government bonds will facilitate the reconstruction of areas hit hard by natural disasters, bridge the gap in disaster prevention and relief work, and bolster the nation's overall resilience to natural disasters, officials and experts said.

Noting that the bond issuance is slated for the final quarter of 2023 — with 500 billion yuan to be deployed this year and the balance next year — analysts said the huge amount will also expand demand and help get economic growth off to a good start in 2024.

The decision of the State Council, China's Cabinet, to issue additional government bonds was approved in late October by the Standing Committee of the National People's Congress, the nation's top legislature, along with a decision to adjust the 2023 central budget plan.

Over 7.5 trillion yuan worth of bonds were issued by China in the first three quarters of this year. The new issuance of bonds is expected to raise the nation's fiscal deficit ratio to approximately 3.8 percent this year, up from the target of 3 percent set at the start of the year, according to the Ministry of Finance.

The funds will be channeled toward eight major areas, including rebuilding disaster-hit areas, key flood control projects, natural disaster emergency capacity improvement, and urban drainage and waterlogging prevention and control, said Zhu Zhongming, vice-minister of finance.

Parts of Beijing, Tianjin and Hebei province were severely damaged by downpours this summer and require major post-disaster reconstruction. The more frequent occurrence of various extreme natural disasters in recent years has increased the requirements for China's disaster prevention, mitigation and relief capacity, experts said.

A total of 142 county-level regions and 5.53 million people in Beijing, Tianjin and Hebei were affected by the flooding, resulting in direct economic losses of approximately 166 billion yuan, said Gou Husheng, chairman of China International Engineering Consulting Corporation. He added that most of these regions are located in mountainous areas or flood storage areas with weak economic foundations.

The deficiencies in China's development of flood control infrastructure, disaster relief, and emergency responses were brought to light during the recent deluges, said Yang Ping, director of the Academy of Macroeconomic Research's Investment Institute. It's imperative for the government to expedite infrastructure construction to shore up weak links, Yang said. However, the mounting expenditure faced by affected localities makes it difficult to meet these demands primarily through subnational authorities' investment and financing capabilities, he added.

The central government's leverage ratio, by global standards, remains at a relatively low level among major economies, which leaves ample room for scaling up fiscal spending and policy regulation, he said, calling the new bond issuance "an important measure" to improve people's livelihoods, better coordinate security and development and advance high-quality development.

Following preliminary screening, more than 7,000 projects for post-disaster and prevention work have been found to qualify for support, and could benefit from the 1 trillion yuan issuance.

Meanwhile, local governments have stepped up preparedness for the projects, said Luo Guosan, director of the National Development and Reform Commission's Department of Infrastructure Development. These efforts have laid a solid foundation for channeling project funds in a targeted and timely manner, which will also increase economic activity as quickly as possible, Luo said.

The new bonds, issued for local use through transfer payments, are all listed as part of the central fiscal deficit, and debt servicing is borne by the central government. Subsidies to entice investment from the private sector could be raised, when appropriate, as part of the central government's efforts to boost support for local governments, said Yang Yongheng, associate dean of the China Institute for Development Planning at Tsinghua University, adding this will alleviate the pressure of considerable local debt.

In addition to helping rebuild areas devastated by this year's floods and improving infrastructure to cope with future natural disasters, analysts said that the bond issuance will help drive domestic demand and further consolidate the recovery of the economy. Data recently released by the National Bureau of Statistics showed that the country's GDP expanded by 4.9 percent in the third quarter, up 1.3 percentage points over the previous quarter and growing 5.2 percent year-on-year over the first three quarters.

The world's second-largest economy has grown faster than expected in recent months and could meet its annual growth target of around 5 percent, said Luo Zhiheng, chief economist at Yuekai Securities. However, despite the sustained economic recovery, problems such as insufficient aggregate demand and sluggish market confidence still exist, he said.

The announcement of the additional bonds overshot market expectations, signaling the country's commitment to pro-growth policies. It also provided a boost for infrastructure construction and helped drive overall demand to lay a solid foundation for the economy in the fourth quarter and next year, Luo said.

There should be no concern about meeting the yearly economic growth target, said Feng Jianlin, chief economist at Beijing FOST Economic Consulting Co. However, the challenge of sustaining growth will be greater next year.

While the first quarter of 2023 saw the best economic performance so far this year, the first quarter of 2024 will see greater pressure. In order to help the country's economy get a sound start next year, it's crucial to front load fiscal stimulus, Feng said.

Half of the additional bond issuance will be used this year and the other half will be saved for next year. This means the effects of pro-growth policies will be ongoing throughout the first half of 2024, and the economy's growth impetus rejuvenated, Feng added.

To improve fiscal support for the economy, China will also allow local governments to front load part of their 2024 bond quotas to maintain steady investment, expand domestic demand and strengthen weak links.

In addition, China will roll out a package of measures next year to assist real estate, manufacturing, infrastructure and other key sectors to secure economic growth, Feng said, adding that the bond issuance in November and December will put more strain on liquidity, increasing the possibility of the central bank cutting the reserve requirement ratio.

Policy Digest

Autumn grain purchases help boost food security

Companies in the country's major grain-producing areas have purchased over 40 million metric tons of grain from farmers so far this season, further ensuring food security in the nation during the winter, data from the National Food and Strategic Reserves Administration showed on Saturday.

The administration said that purchasing activities have been brisk, with grain prices remaining relatively stable.

Local governments should provide better services for farmers and safeguard their rights and interests, and strengthen their crackdowns on irregularities to maintain market order, it said.

It also called for efforts to closely monitor the prices of major autumn grain products, including rice, corn and soybeans, and provide region-specific countermeasures against adverse weather.

Measure aims to ensure fairness in bidding process

China will take measures against irregularities in determining the credibility of companies in the bidding process for projects in order to ensure fair market competition, the National Development and Reform Commission said in a notice published on Nov 8.

According to the NDRC, in some places across the country, methods used to determine how projects are awarded may give certain companies unfair advantages in the bidding process. Such methods disrupt fair market competition and hinder the establishment of a unified national market, and they must be curbed, the notice said.

The commission said local authorities must refrain from discriminating against any companies that are bidding for projects and are not allowed to use unauthorized criteria — including consideration of a company's establishment of local branches or its local tax payments — in determining their credibility, the notice said.

It also vowed to strengthen dynamic monitoring over such methods, saying that any violations that are uncovered will be investigated and made public. The commission said in the notice that it will work with relevant departments to promote the establishment of a unified credibility evaluation system for project bidders.

Nation making strides in intellectual property growth

The number of valid invention patents in China has exceeded 4.8 million, while that of invention trademarks reached 45.1 million as of September, the National Intellectual Property Administration said on Nov 8.

China has established itself as a leading region for intellectual property development, Shen Changyu, head of the NIPA, said at a news conference, adding that China has ranked first in the world for the number of international patent applications through the Patent Cooperation Treaty for four consecutive years.

According to Shen, the added value of patent-intensive industries and the copyright industry accounted for 12.44 percent and 7.41 percent of GDP, respectively, strongly promoting the high-quality development of the economy.

Shen said China has been continuously strengthening its efforts to protect IP rights. China has established a high-standard punitive compensation system for any infringement of IP rights; has built 103 national IP protection centers and rapid rights protection centers; and initiated the construction of national IP protection demonstration zones, he said.

In addition, China has continued to deepen international cooperation and exchanges on IP. The nation has promoted the mutual recognition and protection of 244 geographical indication products between China and the European Union, he added.

CHINA-XINHUA

New government program to help resolve provinces' hidden debts

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China has started a special refinancing bond program to service the outstanding hidden debts of the governments of a number of provincial regions, which analysts said marked a key step forward after the central government proposed a package of debt relief measures.

Starting from September, more than 20 provinces participating in the program have issued or announced issuance plans with the aggregate amount about 1 trillion yuan ($136.6 billion), according to a report released last month by Fitch Ratings, a global credit ratings firm.

The amount is equivalent to around 30 percent of the total bond value of local government financing vehicles — funding mechanisms that lower-level governments use to borrow money for projects — that is expected to mature in the next 12 months, according to the report. For example, South China's Guangxi Zhuang autonomous region issued a total of 12.5 billion yuan worth of bonds on Oct 30, according to a statement issued by local financial authorities.

As debt remains a significant constraint on local government efforts to stabilize growth, finding effective solutions to the debt burden remains high on the central and local governments' work agendas, said Wen Bin, chief economist at China Minsheng Bank.

The primary purpose of the program is to swap the costly, short-term hidden debt — money owed by LGFVs that doesn't appear on balance sheets of local governments — with special refinancing bonds that have longer maturities and lower interest rates and keep them on balance sheets for greater regulatory transparency, Wen said.

The issuance of special refinancing bonds will allay the market's concerns about the debt risks of LGFVs, enhance their liquidity and help restore refinancing capacity, said Luo Zhiheng, chief economist at Yuekai Securities, whose research focuses on China's fiscal policies and conditions.

In the meanwhile, it will also aid in clearing arrears owed to business and guarding against financial and economic hazards brought on by businesses' inability to collect accounts receivable, Luo added.

It is challenging to solely rely on the issuance of special refinancing bonds to solve the issue fundamentally, as noted by a report released by CITIC Securities. Additionally, local government debt is unevenly distributed among China's regions, with some areas facing higher levels of debt risks and greater repayment pressures.

Furthermore, the central government has taken a cautious stance on this debt resolution approach in order to prevent moral hazards. If investors believe authorities will constantly step in to save local governments or State-owned businesses, they may be enticed to take even bigger risks, said Qiao Baoyun, dean of the China Academy of Public Finance and Public Policy at the Central University of Finance and Economics.

Financial institution-led loan restructuring and LGFV asset disposal could also stand as viable options, but they might only be used sparingly, Qiao added.

Official data showed that outstanding local government debt totaled 38.89 trillion yuan by the end of September, while the official budget cap for the whole year is 42.16 trillion yuan.

The figure does not consider hidden debts introduced by LGFVs, for which estimates vary from less than 40 trillion yuan to more than 50 trillion.

Analysts said that a coordinated rescue package involving a combination of additional funding or refinancing channels and payment extensions, debt swaps and possible debt restructurings will be rolled out in a timely manner. The Political Bureau of the Communist Party of China Central Committee reaffirmed during a meeting in late July that it will prioritize a range of actions to mitigate the risks associated with local government debt.

In mid-August, the People's Bank of China, along with the country's top financial regulator and the securities regulator, vowed efforts to coordinate support and initiate more policies to prevent and resolve debt risks, strengthen risk monitoring and firmly hold the line on avoiding systemic risk.

The purpose of defusing debt concerns is to avoid the emergence of systemic risk through debt restructuring, which is a goal that can be achieved rather than paying off all debts, said Li Xuhong, a professor at the Beijing National Accounting Institute.

The majority of the projects and assets backed by the nation's local government bonds are of good quality, and the continuous economic recovery increases the repayment capacity of LGFVs, so the risk associated with local government bond debt is controllable, Li added.