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Topics *Chinese government decided economic policy for 2024*

At China's annual Central Economic Work Conference, policies for economic administration in 2024 were announced, and their focus is on tackling the real-estate market slump and generating demand. While this policy direction is appropriate, individual measures lack impact, and a rapid economic recovery is unlikely

■ Direction for action is appropriate

The Central Economic Work Conference was held in China on December 11-12, 2023. The purpose of the Central Economic Work Conference is for the Communist Party of China (CPC) and the government to determine policies for economic administration the following year. Below is a summary of the economic policies decided at the conference and a discussion of how they will impact the economy.

At this year's Central Economic Work Conference, the challenges facing the Chinese economy were presented and the policy stances on these challenges were determined. The government intends to steer the economy toward "rational growth" by emphasizing two central themes: 1) tackling the real-estate market slump and 2) generating demand.

Given that the Chinese economy is currently suffering from a real-estate slump and sluggish consumption, the various policies presented at the meeting are in line with the present situation and the basic direction can be said to be appropriate.

＜Summary of the 2023 Central Economic Work Conference＞

	Main Courses of Action and Areas of Focus
Assessment of Economic Conditions in 2023	・A year in which the economy recovered following the lifting of the zero-COVID policy
Challenges for Accelerating Recovery	・Inadequate demand, excessive production capacity in certain sectors, numerous hidden risks
Policy Stance	・Greater emphasis on growth, support for real-estate sector
Fiscal/Monetary Policy	・Appropriate fiscal expansion and tax cuts, higher quality and efficiency, maintenance of fiscal discipline
	・Appropriate monetary easing, digital economy, GX, expanded support for SMEs and microenterprises
Key Economic Policies for 2024	・Creation of an innovation-driven industrial system
	・Stimulation of latent consumption, expansion of demand through expanded investment in highly profitable businesses
	・Deeper reforms in key areas such as tax/fiscal policy and the financial system
	・Greater external openness
	・Integrated response to three major risks: real estate, local-government debt, and small and medium-sized financial institutions
	・Action on issues facing agriculture and rural communities/people
	・Integrated urban-rural development
	・Promotion of green/low-carbon development
	・Expansion of social security and creation of jobs

Source: Prepared by JRI based on reports from *People's Daily Online* and various media organizations
Note: Some abstract expressions have been paraphrased.

■ Overview of policies presented

As a specific measure to tackle the real-estate slump, action was promised to promote the early completion of properties as a means of helping companies overcome their cash flow problems. Notably, it was announced that not only state-owned enterprises but also private-sector firms would be eligible for assistance. This reflects the fact that most of the companies currently experiencing financial difficulties are large private real-estate developers. In China, private enterprises are generally less likely to receive financial support from financial institutions than state-owned ones are. But with the real-estate market still in the doldrums, the Chinese government can be viewed as having decided to make it clear that business continuity support would be provided to private firms as well.

Furthermore, the government positioned the cash-flow struggles of local governments and small- and medium-sized financial institutions as a serious risk in connection with real-estate slump, and indicated that it would work to reduce this risk in an integrated manner. The decline in real-estate prices has had a significant negative impact on the finances of local governments, which had been expanding infrastructure development in anticipation of increased revenues from land sales. In addition, it has been pointed out that some LGFVs (local government financing vehicles: urban development companies established by local governments) are struggling to repay their debts. If these entities were to fall behind on their debt repayments, the financial institutions that extended loans to them could find themselves in trouble. To forestall such a situation, the Chinese government is expected to authorize the issuance of "special re-financing bonds" to enable local governments to shoulder the debts of the LGFVs, and to take the initiative in restructuring local small and medium-sized financial institutions through mergers or takeovers by larger ones.

On the demand generation front, it was declared at the conference that the main policy thrusts for boosting personal consumption would be expanding markets in areas where demand among citizens is rising, such as health and the environment, and developing new engines for consumption such as travel and sports. Also announced was a policy to encourage the replacement of products with newer versions that are superior in terms of performance and energy efficiency. The government therefore looks ready to expand consumer spending through a raft of specific measures.

As for steps to stimulate capital investment, the conference saw the announcement of action to promote equipment upgrades, as well measures to enhance core technologies to gain an edge in international competition and measures to expand environmental investment. To catalyze these moves, a commitment to efficient execution of public investment was also emphasized. Regarding measures to boost exports, it was announced that the focus will be on developing new export drivers by expanding e-commerce and trade in services and intermediate goods.

To enhance the efficacy of these measures, an accommodative stance will be adopted for monetary policy, centered on ensuring that ample liquidity is provided. In addition, the Chinese government has instructed financial institutions to step up support for small and medium-sized enterprises (SMEs) and microenterprises, technological innovation, and green transformation (GX). On the fiscal policy front, it was openly acknowledged that there is room for fiscal expansion, with the government emphasizing that it is ready to ramp up spending if need be.

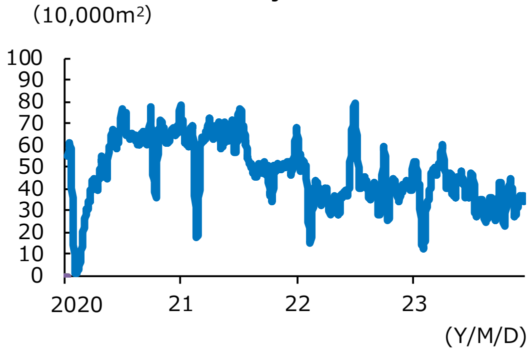
■ Inability to put the pedal to the metal also striking

Overall, though, the government has yet to put its foot down hard on the gas pedal for economic recovery, and there is an undeniable feeling that the steps it is taking are not powerful enough.

Specifically, the main focus in responding to the real-estate slump is on preventing, corporations, local governments, and financial institutions from going bankrupt. Apart from financial assistance, many other policies have already been implemented. Housing sales and housing starts continue to trend downward due to structural factors such as years of overinvestment and a declining population, and the new policies are expected to give housing demand only a limited boost.

With both fiscal and monetary policy, the authorities' stance remains restrained, with an emphasis on "moderate" easing. Fiscal policy, in particular, also emphasizes fiscal discipline, and the government has told ministries/agencies and

<Floor Area of Housing Sold in 30 Major Cities>



Source: Prepared by JRI based on data from Wind
Note: Trailing 14-day moving average

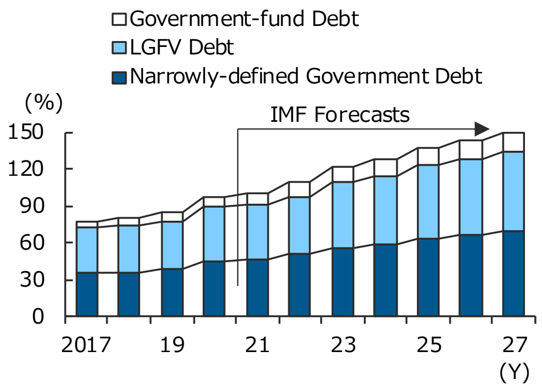
local governments to avoid large-scale spending increases.

The expansionary effect on consumption is also likely to be small. For example, while the government has declared its intention to promote the purchase of EVs and other vehicles that run on new forms of energy, it plans to gradually reduce the vehicle acquisition tax exemption for eco-cars, starting in 2024. It is essentially stepping on the gas pedal and the brake at the same time, so its measures are expected to have little effect on boosting sales. In addition, while the government has stated that it will work to improve household incomes, it has not presented any concrete measures for delivering on this pledge.

So looking ahead at the prospects for the Chinese economy in 2024 in light of the announcements at the Central Economic Work Conference, the real-estate slump appears unlikely to be overcome, and personal consumption is expected to remain wanting. Chances of a rapid economic recovery are therefore slim. China's real economic growth rate for the full year of 2024 is expected to slow from the previous year to 4.4%.

(Junya Sano)

<Outstanding Chinese Government Debt as Percentage of GDP>



Source: Prepared by JRI based on data from the IMF
Note: Narrowly-defined government debt = central + local public debt

Topics *Effect of auto sales increase on society in India*

Vehicle sales are booming in India, but the situation with traffic accidents and air pollution is becoming more serious, and the government is struggling to achieve balance in terms of the economy, society, and the environment.

■ Car sales are strong, but the number of road accidents is soaring

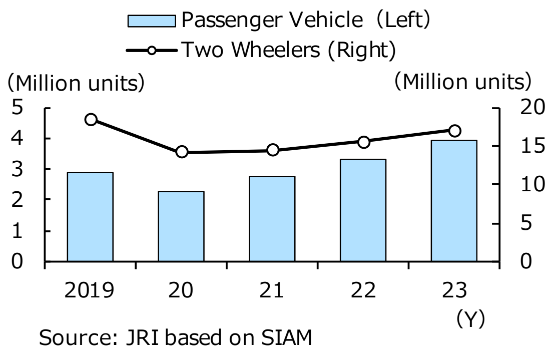
Automobile sales in India remain brisk, with annual sales of passenger cars and motorcycles expected to have reached approximately four million and 18 million units, respectively, in 2023.

Meanwhile, the government is struggling to deal with mounting problems associated with motor vehicles. A marked increase in the number of traffic accidents in 2023 attracted attention in India. The number of accidents on the roads decreased significantly in 2020, after restrictions were imposed in response to the COVID pandemic, but began to rise again after 2021. According to a report released by the government in October 2023, 160,000 people were killed and 440,000 were injured in traffic accidents in 2022. These figures were up by about 10% from the previous year. Although the number of traffic accidents per unit of population is low compared to other countries due to the small proportion of people owning cars, the number of fatalities is the highest in the world, and far higher than in China.

In an effort to cut the number of accidents, India's government has been gradually tightening automobile safety standards, yet remains cautious about introducing stricter regulations. The reflects concerns that tough rules could have a negative impact on the economy by increasing the production costs and sale prices of vehicles. A regulation requiring certain categories of passenger cars to be equipped with six airbags was scheduled to be introduced in October 2022, but the government subsequently postponed the timing that the rule would come into force until the end of 2023, and eventually backtracked altogether, declaring that the airbags would not be mandatory. In December 2023, recognizing the lack of progress in strengthening safety standards, the government pushed backed its target year for halving the number of fatalities from traffic accidents from 2024 to 2030.

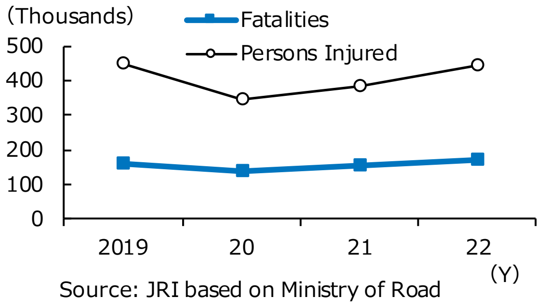
The biggest cause of road accidents in India is excessive speed by inexperienced motorcycle riders. Therefore, the most effective measure would be to ensure compliance with speed limits and with the obligation to wear a helmet. Some states are trying to raise awareness of the importance of compliance with traffic rules by imposing stricter penalties, such as fines and license suspensions, for violations, but it will take

<Auto Sales in India>



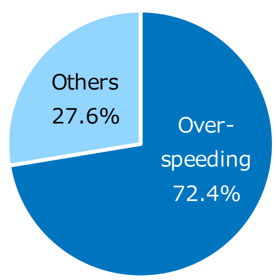
Source: JRI based on SIAM
Note: Data in 2023 is JRI's estimate.

<Number of Fatalities and Persons Injured in India>



Source: JRI based on Ministry of Road Transport and Highways

<Causes of Road Accidents in India> (2022)



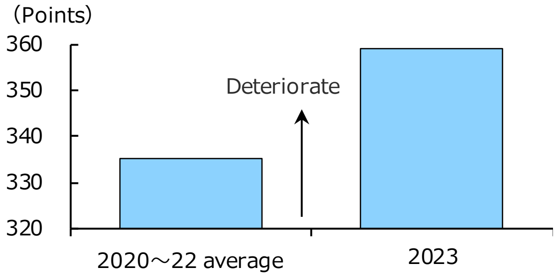
Source:JRI based on Ministry of Road Transport and Highways some time before these efforts bear fruit.

■ **Severe air pollution is constraining economic and social activities**

Air pollution in India is worsening as the volume of traffic increases. It decreased temporarily during the 2020 lockdowns, but subsequently deteriorated again, with the November-December 2023 Air Quality Index (AQI) in the Delhi metropolitan area and other inland locations worsening to higher levels than in typical years. This recent air pollution can be attributed to such factors as 1) emissions of pollutants from factories and thermal power plants, 2) the use of firecrackers and fireworks during Diwali (a major Hindu festival), 3) open burning by farmers, and 4) slow-moving air in inland areas. In addition, air pollutants emitted from automobiles, especially old diesel vehicles, are also having a significant impact. In response, the Delhi metropolitan government took measures such as limiting the entry of vehicles from outside the metropolitan area to electric vehicles (EVs) and vehicles complying with strict emission standards until the AQI falls below a certain level, and banning the use of medium-sized and large diesel vehicles except for the transportation of daily necessities. However, the air pollution failed to dissipate, and additional measures were taken, including the closure of schools and the suspension of various construction projects.

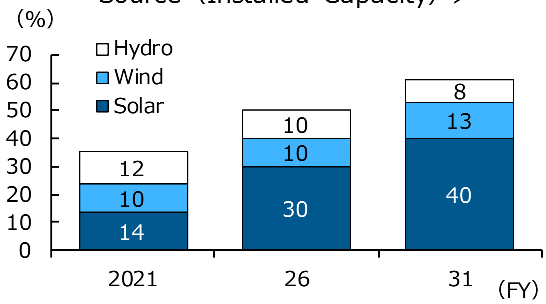
To balance economic growth and environmental protection, the Indian government has declared targets of EVs accounting for 30% of new passenger car sales and renewables providing 60% of power generated in 2030. However, the EV shift is still in its early stages, and these targets will not be easily achieved. In December 2023, the government released a status report on Phase-II of its FAME (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) Scheme for bringing about an EV shift in the domains of taxis, buses, and motorcycles. However, from April 2019 to the end of November 2023, the number of vehicles for which purchase subsidies had been granted was only 1.02 million for two-wheelers and 15,000 for four-wheelers. The Indian government has imposed high tariffs on EV imports (100% for vehicles priced at over US$40,000 and 70% for others), citing the country's widening trade deficit and the negative impact of imports on the domestic auto industry, and has also rejected a proposal by a Chinese automaker to build an EV plant in India. It is therefore difficult to see Chinese-made EVs, which are relatively affordable, driving the EV shift there.

<Air Quality Index in Delhi>
(November ～December)



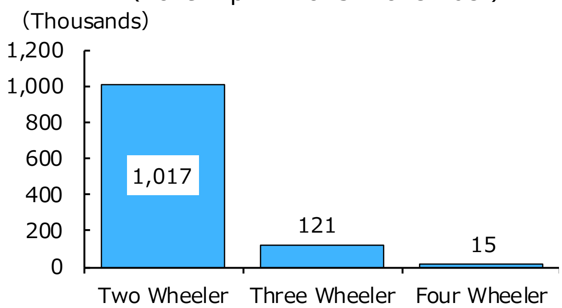
Sourece:JRI based on Central Pollution Control Board
Note: Data in 2023 is from Nov 1st to 13th Dec.

<Share of Electricity Production by Source (Installed Capacity) >



Sourece: JRI based on Ministry of Power "National Electricity Plan"

<Number of Vehicles Recieved Subsidy under FAMEⅡ>
(2019 April～2023 November)



Source:JRI based on Press Information Bureau

The government has also adopted a "vehicle scrappage policy," which is designed to catalyze the replacement of old vehicles with new vehicles with superior environmental and safety performance through the establishment of a vehicle inspection system that would bar non-compliant vehicles from the country's roads. However, the vehicle inspection facilities and scrapyards required for full implementation of the policy are still in the process of being constructed, and only large vehicles are currently subject to mandatory vehicle inspections. From June 2024, medium-sized and smaller vehicles are also expected to be made subject to compulsory inspections. However, it seems likely that some households and businesses will continue to use outdated vehicles despite knowing that they are illegal due to a lack of funds to replace them. To increase the effectiveness of such policies, it will be essential to clamp down harder on non-compliant vehicles.

(Shotaro Kumagai)