# The shadow of Sisyphus in China's stimulus

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**Summary**

- The Chinese government have expanded its bond issuance and outlined its fiscal stimulus plan, focusing partly on local government debt relief to arrest the slide in property prices.
- China continues to rely on the wealth effect to spearhead efforts to boost household consumption, although the outlook is uncertain given the slow recovery in property prices and declining income effects.
- Indonesia may benefit from rising commodity prices and outward capital flows from China driven by the stimulus, but risks remain as the global economy remains prone to increases in oil prices.

- Political news has dominated the airwaves over economic news in Indonesia over the past two weeks. The presidential seat has officially passed to President Prabowo Subianto, who highlights the importance of programmes such as industrial down-streaming and food security for the country's growth potential. The president also announced his 'Red and White' cabinet on Sunday afternoon, which largely retained the same economic team from the previous administration, signalling the new government's commitment to fiscal prudence.
- The old but new economics team will face the same global and domestic challenges as the previous administration. Uncertainties over the pace and scale of the Fed's rate-cut cycle present the financial market dimension of the challenge, while the manufacturing slowdown due to supply imbalances in China highlights the real sector issues currently affecting Indonesia and the global economy. The news of the upcoming fiscal stimulus in China may help address this supply imbalance, although analysts have yet to agree on the level of fiscal spending required from Chinese authorities to alleviate the problem (estimates range from CNY 2 to 7 Tn).
- The drumroll that signals the arrival of Chinese fiscal stimulus has been sounding for some time. For instance, the central government has expanded its net bond issuance since May 2024 ***(see Chart 1)***, a departure from the recent past, when much of China's debt was driven by regional governments (either directly or through LGFVs) and the corporate sector (especially real estate developers). Minister of Finance Lan Fo'an has also indicated that **the central government is ready to increase its debt and deficit** (beyond the 3% of GDP target for 2024), outlining a four-point fiscal stimulus plan aimed at addressing multiple problems now besieging the Chinese economy.

## More of a stabiliser than a booster

- However, the four-pronged fiscal stimulus programme outlined by Chinese authorities does not seem to have generated much enthusiasm among foreign investors, as evidenced by the recent decline in Chinese stock indices. A successful intervention programme, in English, would imply a 'bazooka' approach that effectively boosts household demand and investments beyond the manufacturing sector, though the Chinese interpretation of a successful fiscal programme might differ. Hence, we will compare the four outlined Chinese fiscal initiatives against our two central concerns regarding the Chinese economy: the condition of its property sector and its anaemic household demand.

> ***"China will need to flip the relationship between local governments and property developers for the outlined fiscal initiatives to be successful"***

- **Chinese fiscal and monetary authorities have made significant efforts to address the downturn in the property sector.** For instance, the PBoC has cut the 5-year loan prime rate to a record low of 3.60%, with the latest 25 bps cut announced recently. The Chinese central government have also signalled its intention to increase the number of "whitelisted" developers, aiming to boost total lending to these property developers to CNY 4 Tn by the end of 2024 (the late reported outstanding loans are estimated to be around CNY 2.23 Tn).
- **Now, the central government will also look to designate local governments as "buyers of last resort" for unabsorbed residential properties**, allowing them to use the proceeds from provincial bond sales to purchase unsold flats or undeveloped land from developers. Surveys show that sentiment regarding China's real estate sector has been improving lately ***(see Chart 2)***, and property sales have also been reported to be picking up in some cities. However, the still-declining residential property prices indicate that much more needs to be done in the property sector, as the success of the Chinese government's strategy to use regional governments to absorb unpurchased residential properties (and undeveloped lands) will depend on numerous factors.
- **It is crucial to note that the initiative will mark a monumental shift in the relationship between property developers and regional governments.** Previously, regional governments often relied on land sales to property developers to balance their fiscal position, which enabled them to boost spending on infrastructures and public services or invest in local manufacturing champions. Now, regional governments are instead expected to purchase land and properties from developers, which is not an entirely enticing prospect in the short term given the equally strained condition of their balance sheets.
- Executing the initiative is no simple endeavour. **Regional governments may be reluctant to engage in such a property-buying spree, given the worsening balance sheet issues reported in several regions**. It is unsurprising, then, that debt management support for local governments is the first item mentioned in the four-point fiscal initiatives, underscoring its primacy over the other three measures. Alas, **it remains unclear how soon the outlined debt swap programme (LGFV bonds for longer-dated municipal bonds at lower yields) will fully take shape**, underlining our scepticism that a regional government-

driven boost in the demand for Chinese properties will arise from such a fiscal programme in the short-term.

## Small fortunes won't take you too far

- Our low expectation of the short-term effect of outlined fiscal interventions on the Chinese property market reinforces our concerns about the demand condition in the Chinese economy. **The central government may have signalled its intention to intervene more directly to support household consumption**, including plans to subsidise consumption for 'key groups' (such as low-income households and students). **However, given that residential properties account for up to 70% of Chinese household wealth, and the importance of the wealth effect on Chinese households' willingness to consume**[1], efforts to boost demand without first substantially reversing the decline in property prices would be akin to a Sisyphean task.

- Hence, **the widely anticipated Chinese fiscal stimulus may not significantly alter our expectations regarding the household demand condition in China, at least in its currently signalled form.** First, the proverbial wealth effect may not hit the Chinese household sector anytime soon, at a time when income growth is reported to be slowing ***(see Chart 3)***. Second, the anaemic domestic demand condition is bad news to inward-looking sectors (such as services). Despite the signalled capital injections to six of the largest state-owned Chinese banks, the still-weak outlook for the demand within the Chinese market may continue to limit banks' appetite to lend to businesses outside of the outward-looking manufacturing sectors ***(see Chart 4)*** – which cheap credit-fuelled manufacturing prowess has confined the global economy to a deflationary spiral (at least for imported goods) at least since 2022.

> ***"How oil reacts (and how the Fed reacts to it) may dictate how China's outlined stimulus will bless or doom the Indonesian economy"***

- Thankfully, there are some potential positives from the anticipated Chinese fiscal stimulus, particularly for commodity-producing economies such as Indonesia. Sentiment around the upcoming Chinese stimulus, combined with the Fed's outlook for rate cuts, could provide momentum for commodity prices to rally, which may help Indonesia restore its trade balance with China.

- Additionally, **Previous rounds of large-scale stimulus in China, like the one in 2016-2019, have coincided with booms in outward flows *(see Chart 5)***, leading to a surge in Chinese investments in Indonesia and other, more obscure investments (remember Guangzhou Evergrande FC and the Chinese Super League boom?). However, it may be more prudent to assume that the coming quarters may not replicate the investment booms of yesteryears, given the Chinese government's seemingly reduced commitment to the Belt and Road Initiative (BRI) and the tighter capital controls now in place.

[1] Li, C., & Zhang, Y. (2021). How does housing wealth affect household consumption? Evidence from macro-data with special implications for China. China Economic Review. DOI: 10.1016/j.chieco.2021.101655

- Another point of risk is that oil prices may turn out to be more sensitive to news of increased activity in China compared to other commodities. If this scenario materialises, it could exert dual pressure on the Indonesian economy. The first one, of course, is through the trade channel as terms of trade worsen. And second, through the financial channel as reduced expectations of a weaker USD—especially with former President Trump gaining ground against VP Harris—dampen demand for the Rupiah and other riskier assets. Indeed, we still expect BI to wait for the Fed before introducing further rate cuts, prioritising Rupiah stability while at the same time deploying macroprudential policies to pursue higher growth potential, with events like China's fiscal stimulus acting as a potential X-factor.

Chart 1

**Early start**

The Chinese government have just laid out their plan for an upcoming fiscal stimulus, but fiscal expansion may have already started since the past quarter

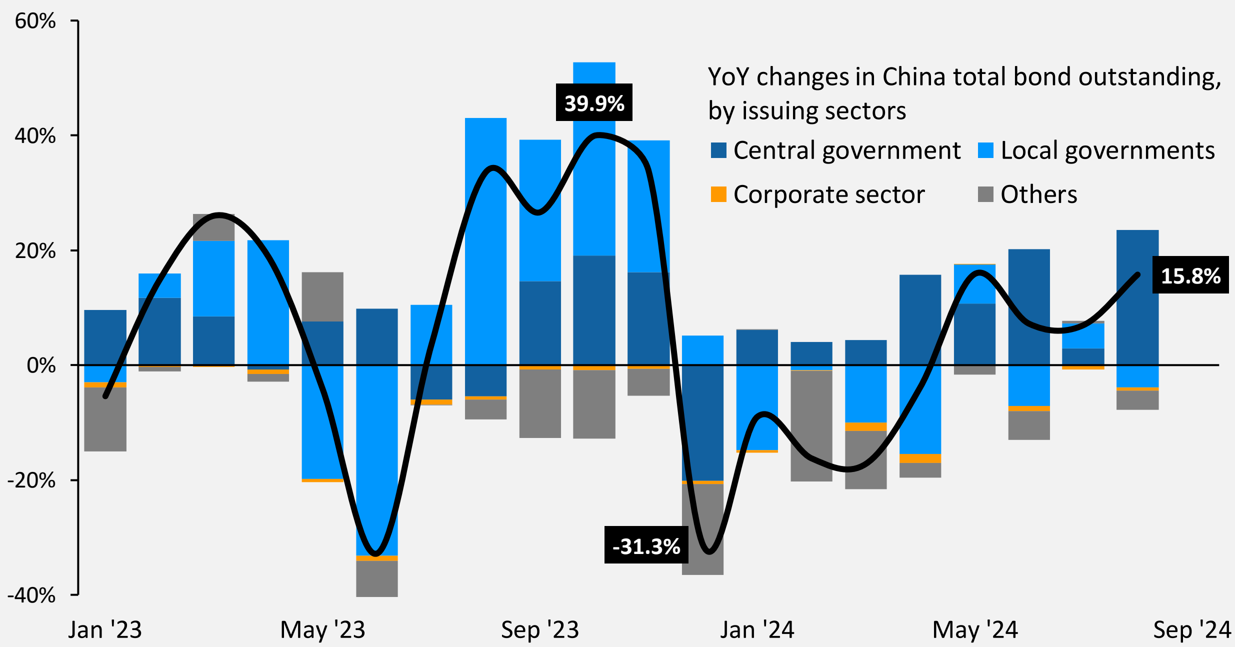


Chart 2

**A slow rush**

Sentiment towards China's real estate sector is starting to improve as authorities hint at 'mega' stimulus, but property prices are yet to turn around

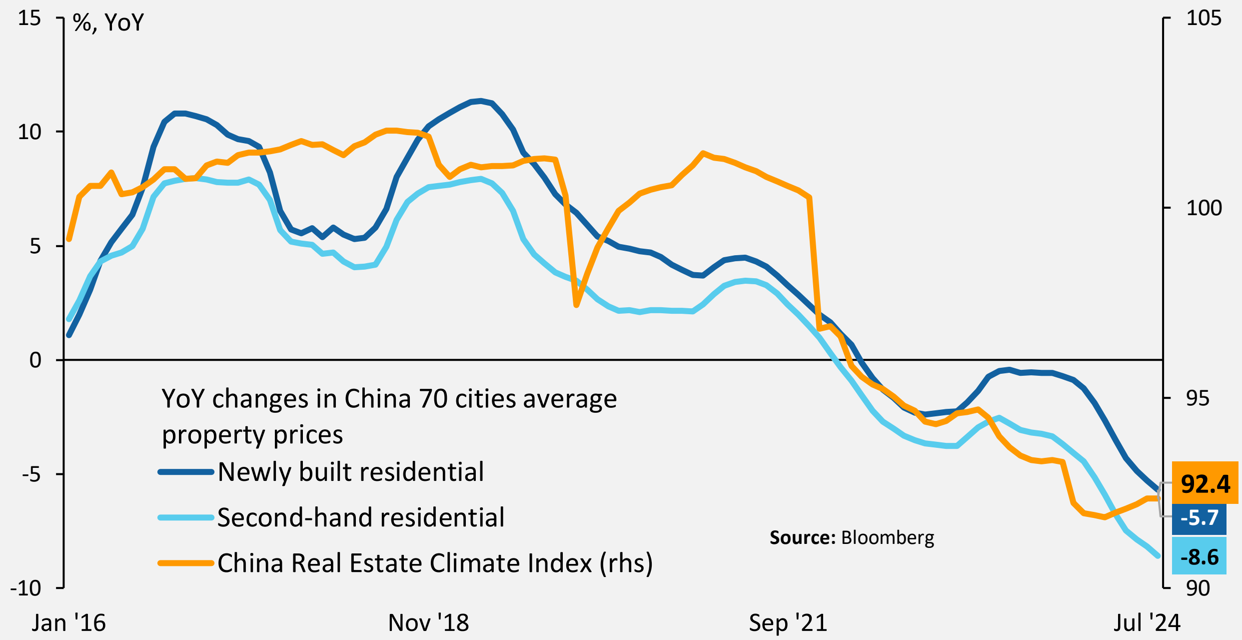



Chart 3

**Recovering wealth, lower income?**

Chinese households' slowing income growth may encourage them to increase their savings rate, adding another challenge to boosting consumption

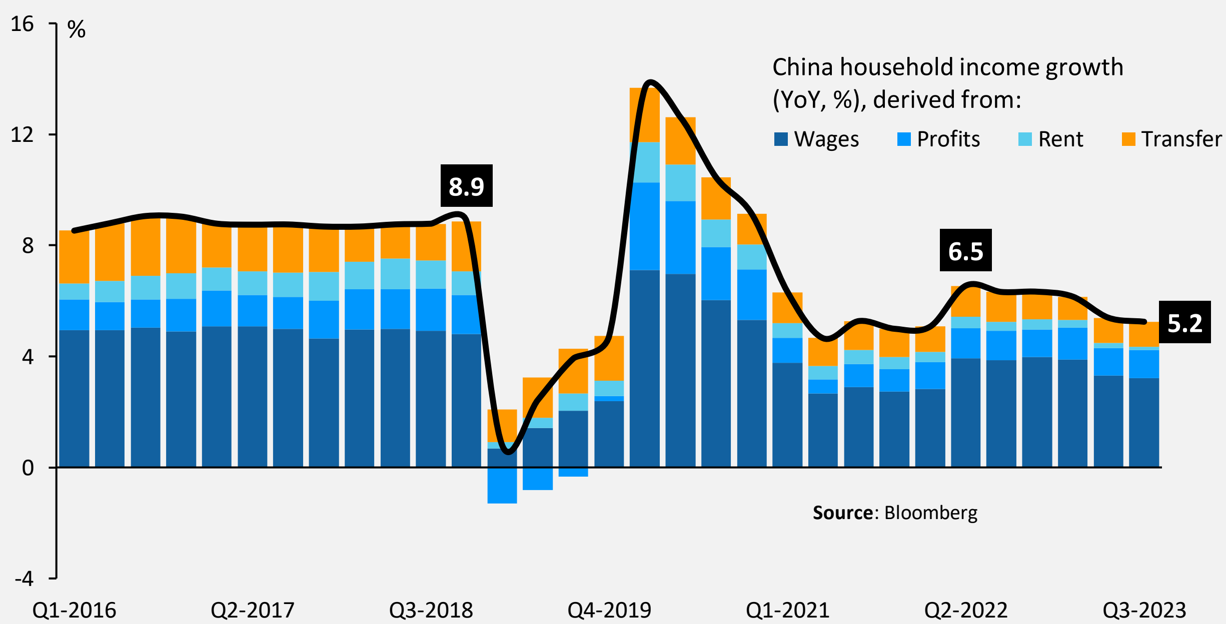
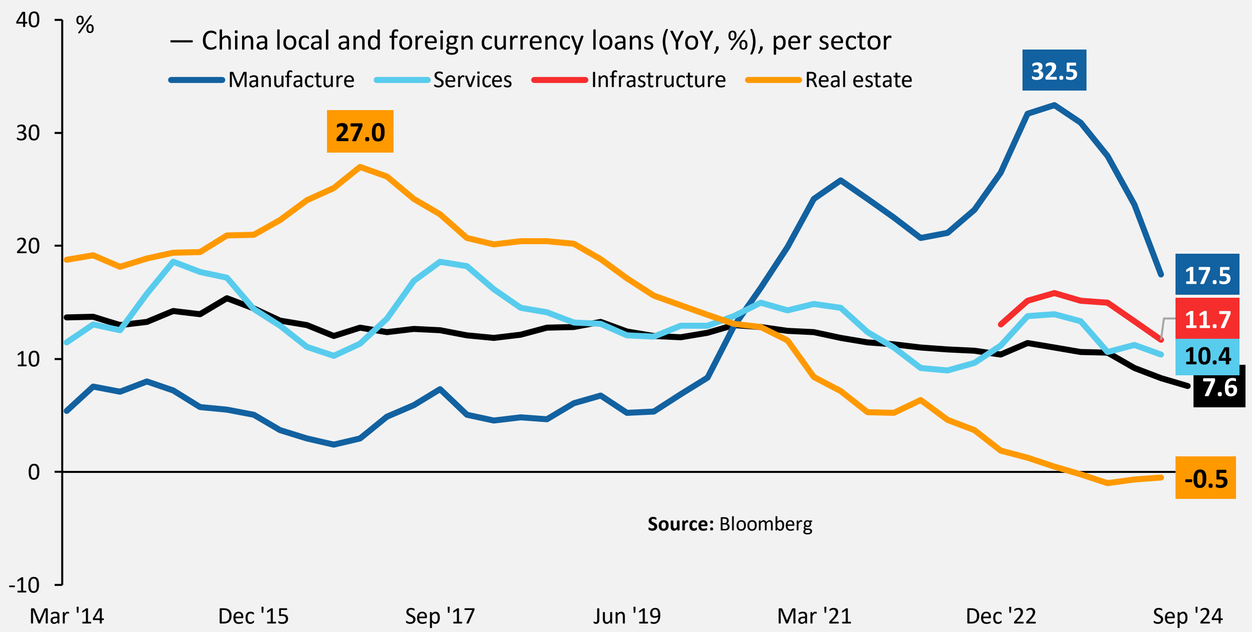


Chart 4
Chart 4

**Calming the loan givers**

Capital injections to state banks may encourage Chinese banks to be more adventurous in their lending, which has been concentrated in the industrial sector

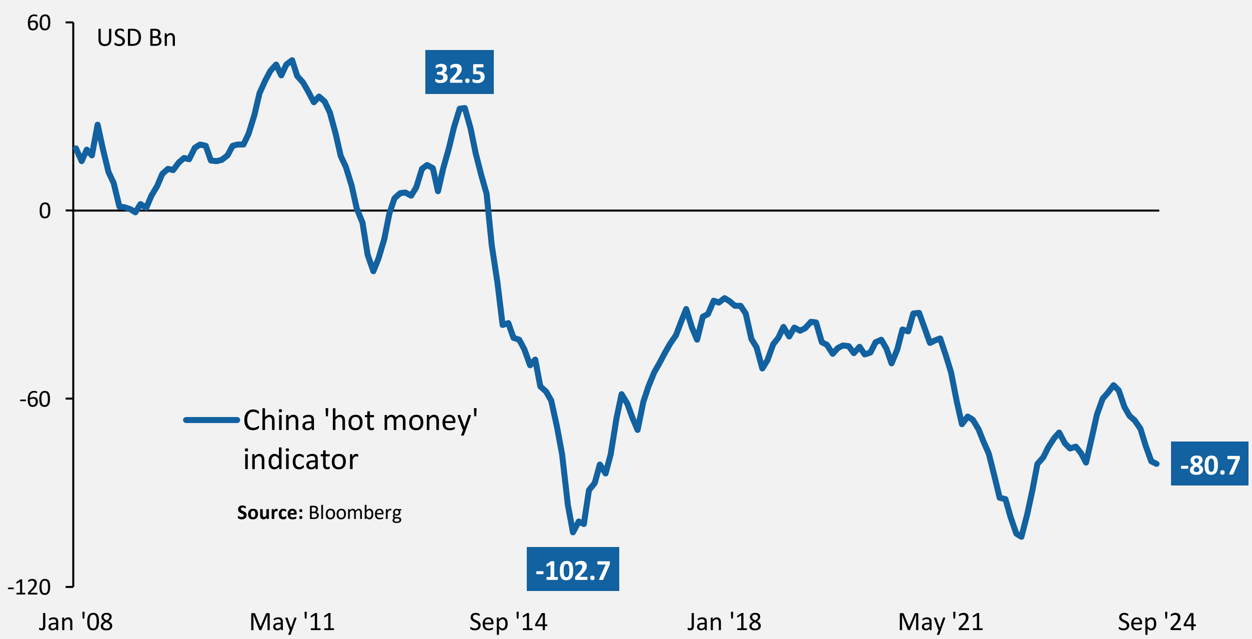



**Source:** Bloomberg

Chart 5

**Here comes the Chinese money (hopefully)**

China's previous experience with an asset price-based interventions have started a boom in capital outflows from China, which fund investments such as the Belt-and-Road Initiatives




**Source:** Bloomberg

## Economic Calendar

| | | Actual | Previous | Forecast* |
|---|---|---|---|---|
| 01 October 2024 | | | | |
| **ID** | **CPI Inflation YoY, %** | **1.84** | **2.12** | **2.1** |
| ID | S&P Global Manufacturing PMI | 49.2 | 48.9 | 49.5 |
| US | S&P Global Manufacturing PMI | 47.3 | 47.9 | 47 |
| 04 October 2024 | | | | |
| US | Non Farm Payrolls, K | 254 | 159 | 130 |
| 07 October 2024 | | | | |
| **ID** | **Foreign Exchange Reserves, USD Bn** | **149.9** | **150.2** | **149.0** |
| 08 October 2024 | | | | |
| ID | Motorbike Sales YoY, % | 3.7 | 7.4 | - |
| ID | Consumer Confidence | 123.5 | 124.4 | 124.5 |
| US | Balance of Trade, USD Bn | -70.4 | -78.9 | -72 |
| 09 October 2024 | | | | |
| ID | Car Sales YoY, % | -9.1 | -14.2 | - |
| ID | Retail Sales YoY, % | 5.8 | 4.5 | 3.2 |
| 10 October 2024 | | | | |
| US | Inflation Rate YoY, % | 2.4 | 2.5 | 2.3 |
| 13 October 2024 | | | | |
| CN | Inflation Rate YoY, % | 0.4 | 0.6 | 0.6 |
| 14 October 2024 | | | | |
| CN | Balance of Trade, USD Bn | 81.71 | 91.02 | 82 |
| 15 October 2024 | | | | |
| **ID** | **Balance of Trade, USD Bn** | **3.26** | **2.78** | **3.1** |
| **ID** | **Foreign Direct Investment YoY, %** | **18.55** | **16.6** | **-** |
| 16 October 2024 | | | | |
| ID | Loan Growth YoY, % | 10.85 | 11.4 | 11.5 |
| **ID** | **Interest Rate Decision, %** | **6.0** | **6.0** | **5.75** |
| 18 October 2024 | | | | |
| CN | Retail Sales YoY, % | 3.2 | 2.1 | 2.1 |
| 22 October 2024 | | | | |
| ID | M2 Money Supply YoY, % | 7.2 | 7.3 | - |
| 31 October 2024 | | | | |
| US | PCE Price Index YoY, % | | 2.2 | 2.4 |

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

## Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) |
|---|---|---|---|
| US | 5.00 | Sep-24 | 2.60 |
| UK | 5.00 | Aug-24 | 3.30 |
| EU | 3.40 | Oct-24 | 1.70 |
| Japan | 0.25 | Jul-24 | -2.60 |
| China (lending) | 2.00 | Sep-24 | 3.95 |
| Korea | 3.25 | Oct-24 | 1.65 |
| India | 6.50 | Feb-23 | 1.01 |
| Indonesia | 6.00 | Sep-24 | 4.16 |
| **Money Mkt Rates** | **22-Oct** | **-1 mth** | **Chg (bps)** |
| SPN (3M) | 5.08 | 5.91 | -83.2 |
| SUN (10Y) | 6.66 | 6.42 | 23.8 |
| INDONIA (O/N, Rp) | 6.25 | 6.18 | 6.1 |
| JIBOR 1M (Rp) | 6.63 | 6.66 | -2.2 |
| **Bank Rates (Rp)** | **Jul** | **Jun** | **Chg (bps)** |
| Lending (WC) | 8.81 | 8.82 | -1.72 |
| Deposit 1M | 4.78 | 4.70 | 7.49 |
| Savings | 0.65 | 0.67 | -1.66 |
| **Currency/USD** | **22-Oct** | **-1 mth** | **Chg (%)** |
| UK Pound | 0.770 | 0.751 | -2.53 |
| Euro | 0.926 | 0.896 | -3.25 |
| Japanese Yen | 151.1 | 143.9 | -4.79 |
| Chinese RMB | 7.124 | 7.047 | -1.08 |
| Indonesia Rupiah | 15,560 | 15,150 | -2.63 |
| **Capital Mkt** | **22-Oct** | **-1 mth** | **Chg (%)** |
| JCI | 7,789.0 | 7,743.0 | 0.59 |
| DJIA | 42,924.9 | 42,063.4 | 2.05 |
| FTSE | 8,306.5 | 8,230.0 | 0.93 |
| Nikkei 225 | 38,412.0 | 37,723.9 | 1.82 |
| Hang Seng | 20,499.0 | 18,258.6 | 12.27 |
| **Foreign portfolio ownership (Rp Tn)** | **Sep** | **Aug** | **Chg (Rp Tn)** |
| Stock | 3,558.2 | 3,684.6 | -126.37 |
| Govt. Bond | 870.6 | 852.3 | 18.28 |
| Corp. Bond | 6.9 | 7.0 | -0.02 |

| Trade & Commodities | 22-Oct | -1 mth | Chg (%) |
|---|---|---|---|
| Baltic Dry Index | 1,480.0 | 1,977.0 | -25.1 |
| S&P GSCI Index | 545.4 | 533.4 | 2.2 |
| Oil (Brent, $/brl) | 76.0 | 74.5 | 2.1 |
| Coal ($/MT) | 144.0 | 139.8 | 3.0 |
| Gas ($/MMBtu) | 1.77 | 2.20 | -19.5 |
| Gold ($/oz.) | 2,749.0 | 2,621.9 | 4.8 |
| Copper ($/MT) | 9,437.8 | 9,346.5 | 1.0 |
| Nickel ($/MT) | 16,054.3 | 16,274.4 | -1.4 |
| CPO ($/MT) | 1,022.0 | 958.5 | 6.6 |
| Rubber ($/kg) | 2.00 | 1.99 | 0.5 |
| **External Sector** | **Sep** | **Aug** | **Chg (%)** |
| Export ($ bn) | 22.08 | 23.44 | -5.80 |
| Import ($ bn) | 18.82 | 20.67 | -8.91 |
| Trade bal. ($ bn) | 3.26 | 2.78 | 17.37 |
| Central bank reserves ($ bn)* | 149.9 | 150.2 | -0.21 |
| **Prompt Indicators** | **Sep** | **Aug** | **Jul** |
| Consumer confidence index (CCI) | 123.5 | 124.4 | 123.4 |
| Car sales (%YoY) | -9.1 | -14.2 | -7.8 |
| Motorcycle sales (%YoY) | 3.7 | 7.4 | 24.1 |
| **Manufacturing PMI** | **Sep** | **Aug** | **Chg (bps)** |
| USA | 47.3 | 47.9 | -60 |
| Eurozone | 45.0 | 45.8 | -80 |
| Japan | 49.7 | 49.8 | -10 |
| China | 49.3 | 50.4 | -110 |
| Korea | 48.3 | 51.9 | -360 |
| Indonesia | 49.2 | 48.9 | 30 |

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
**For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwis

## Indonesia – Economic Indicators Projection

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E |
|---|---|---|---|---|---|---|
| Gross Domestic Product (% YoY) | 5.0 | -2.1 | 3.7 | 5.3 | 5.0 | 5.0 |
| GDP per Capita (US$) | 4175 | 3912 | 4350 | 4784 | 4920 | 5149 |
| Consumer Price Index Inflation (% YoY) | 2.7 | 1.7 | 1.9 | 5.5 | 2.6 | 1.9 |
| BI 7-day Repo Rate (%) | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 5.50 |
| USD/IDR Exchange Rate (end of the year)** | 13,866 | 14,050 | 14,262 | 15,568 | 15,397 | 15,650 |
| Trade Balance (US$ billion) | -3.2 | 21.7 | 35.3 | 54.5 | 37.0 | 32.6 |
| Current Account Balance (% GDP) | -2.7 | -0.4 | 0.3 | 1.0 | -0.1 | -0.5 |

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate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