

STIMULUS OR STUNT? DECODING CHINA'S STIMULUS PLAN

To combat China's recent economic challenges, the PBOC made an announcement on September 24, 2024 that sparked a 27% rise in the CSI 300 Index. However, expectations for a larger fiscal stimulus fell short, leading to a correction. Despite attractive valuations, what should investors consider as they await further clarity on the stimulus being provided by Beijing.

By Charles Spencer Buchanan, CPA, CFA.

China is grappling with economic challenges, including weak domestic demand, sluggish consumer confidence, and deflationary pressures. China's economy grew 4.6% in the third quarter, the slowest pace in six quarters. To stabilize its economy, on September 24th, 2024, the People's Bank of China (PBOC), made a significant announcement aimed at boosting economic confidence and supporting markets. This included interest rate cuts, a re-lending facility for companies to buy back shares, and housing market support.

What has happened since the PBOC announcement?

The announcement on September 24th came just before China's National Golden Week holiday from October 1st to October 7th. Following the PBOC conference, markets expected Beijing to introduce a significant fiscal stimulus package, potentially up to 2 trillion yuan (\$283 billion). Consequently, the CSI 300 Index, which tracks the 300 largest and most liquid stocks traded on the Shanghai and Shenzhen exchanges, rose 27% between September 24th and October 8th, where it peaked after markets reopened after the holiday.

However, the NDRC (National Development and Reform Commission), a key agency in China responsible for planning and implementing economic policy, held a briefing a week after the PBOC announcement where it announced a much smaller fiscal stimulus than anticipated, advancing only 200 billion yuan (\$28 billion) in spending from next year's

budget. The market reacted strongly, dropping back 7% the day after its October 8th peak.

In a briefing on Saturday October 12th, 2024, China's Finance Minister, Lan Fo'an, outlined the government's plans to support the country's struggling economy but did not provide specific numbers on new fiscal stimulus measures. Despite promises of support for the property sector and potential government borrowing, market sentiment remained negative, and the CSI 300 Index closed on October 17th 11% lower than its October 8th peak.

The government has pledged to hit its 5% GDP growth target but has yet to clarify the scale of its fiscal interventions, leading to uncertainty. While further stimulus measures are anticipated, there are also concerns over local government debt. Beijing may expand the use of Local Government Financing Vehicles (LGFVs), which take on debt for infrastructure projects. However, China's minister of finance was not clear on how much or when potential fiscal stimulus might arrive.

The CSI 300 Index rebounded on Friday October 18th, gaining 3.6%, driven by optimism following President Xi Jinping's comments on prioritizing technology development and the PBOC launching swap and relending schemes to support capital markets with as much as 800 billion yuan (USD 112.38 billion) injected into the stock market.

Other Crises: Monetary vs. Fiscal Policy

Looking at recent monetary crises, an economy's monetary and fiscal policies typically work in tandem. Monetary policy interventions involve central banks adjusting interest rates and providing liquidity through quantitative easing while fiscal policy interventions are government actions such as increased public spending, direct stimulus payments, tax relief, and support for businesses and individuals.

	programs (Fed, global central banks)	billion recovery fund
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Crisis	Monetary Policy	Fiscal Policy
2008-2009 Global Financial Crisis (USA)	- Near-zero interest rates - Quantitative easing (buying Treasury bonds, MBS)	- ARRA: \$787 billion stimulus - TARP: \$700 billion for banks
2011-2012 European Debt Crisis	- ECB cut interest rates to historic lows - SMP, LTROs, OMT to stabilize eurozone - Mario Draghi's 'whatever it takes' speech	- EFSF, ESM with EURO 500 billion lending capacity - Country-specific bailouts (Greece, Ireland, Portugal, Spain) - Austerity measures (spending cuts, tax increases)
2015-2016 Chinese Stock Market Crash	- Interest rate and reserve ratio cuts - Direct market interventions (IPO suspension, stock purchases)	-Infrastructure investment, social housing programs - Market stabilization fund, broker funding for stock purchases - Pension funds allowed to invest in stocks
2020 COVID-19 Financial Crisis	- Near-zero interest rates globally - Enormous QE (Fed), PEPP (ECB) - Emergency lending	- \$2.2 trillion CARES Act (stimulus payments, unemployment benefits) - EURO 750

The Chinese response to the 2015-2016 stock market crash focused on direct market intervention, including halting trading, restricting short selling, suspending IPOs, and encouraging state-owned enterprises and brokers to buy shares to stabilize the market. In contrast, the U.S. response to the 2008-2009 global financial crisis involved large-scale bailouts, such as the Troubled Asset Relief Program (TARP), which provided liquidity to struggling banks and corporations.

In terms of communication, China's response was less transparent, with sudden policy changes that often led to increased volatility. The U.S. government, on the other hand, emphasized transparency, with regular updates from the Federal Reserve and Treasury Department.

What Investors Need to Consider
Investors must await further policy announcements. But they must also manage uncertainty surrounding the upcoming U.S. elections. While a Harris victory may offer a more stable environment for investing in China, a Trump win could lead to greater economic and geopolitical uncertainty.

CSI 300 Index



Why Buy? The CSI 300 Index offers attractive valuations, especially compared to the extremely high P/E ratios found in stocks listed on the S&P 500 and other major indices. There is also tremendous potential upside as government stimulus supports economic recovery. Key sectors like technology and green energy align with China's growth goals, and state-backed interventions provide stability.

Why Not? Economic slowdown, local government debt, and geopolitical risks pose significant challenges. Market unpredictability, regulatory concerns, lack of transparency, and global economic uncertainty could weigh on the CSI 300's performance.