

# Unleash Economic Growth with Greater Countercyclical Policy Efforts<sup>1</sup>

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**Abstract:** *The main challenge facing the current economy is the lack of effective demand. If we can solve this key issue, many other issues could be solved easily. Increasing aggregate effective demand, whether by expanding consumption or investment demand, ultimately requires credit growth, which mainly relies on measures in three aspects: the first is to expand government borrowing to a minimum of 11 trillion yuan to increase expenditure; the second is to ease monetary policy enough to achieve a growth rate of more than 11% for social financing; the third is to stabilize the real estate market through both supply- and demand-side measures.*

The main challenge facing the current economy is the lack of effective demand. If we can solve this key issue, many other issues could be solved easily. According to our estimates, if effective demand reaches a reasonable level, with core CPI around 2%, the nominal GDP growth rate in 2023 would be 3.0 percentage points higher than the actual nominal GDP growth rate. This roughly corresponds to an increase in nominal GDP of 3.8 trillion yuan, with household, corporate, and government incomes increasing by 2.3 trillion yuan, 900 billion yuan, and 600 billion yuan, respectively. This will provide strong support for creating more employment opportunities, reducing overcapacity, boosting expectations, resolving hidden risks, and coping with external shocks.

Increasing aggregate effective demand, whether by expanding consumption or investment demand, ultimately requires credit growth. More credit in the economy means more money in the pockets of households, businesses, and the government, higher spending and income, and greater profits and investments.

Credit expansion mainly relies on measures in three aspects: the first is to increase government borrowing to boost expenditure; the second is to further ease monetary policy; the third is to stabilize the real estate market. From international and historical experience, as long as the counter-cyclical policy is strong enough, credit can go up, and the issue of insufficient demand can be greatly alleviated.

## **Specifically:**

1. Expand government borrowing to a minimum of 11 trillion yuan to increase expenditure. To achieve the 5% economic growth target in 2024, broad fiscal expenditure (public fiscal expenditure + government fund expenditure) will have to reach about 40 trillion yuan, and the government will need to borrow at least 11 trillion yuan to achieve the target. 11 trillion yuan is equivalent to 8.2% of GDP, which wouldn't threaten fiscal sustainability.

Currently, China features a low inflation rate, and the private sector's savings exceed investments, so by expanding government borrowing to increase expenditure, economic resources that the private sector cannot fully digest can be better utilized, which will not lead to inflation and will crowd in rather than crowd

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out private sector spending. Looking ahead, if China's general government debt/GDP is maintained at the current level, the corresponding broad deficit rate is between 6%-7%. During the period of implementing counter-cyclical policy, the deficit rate can be significantly higher than this average level, and a general fiscal deficit of 8%-9% wouldn't threaten future fiscal sustainability.

2. Ease monetary policy enough to achieve a growth rate of more than 11% for social financing. First, announce a core CPI inflation target of around 2% to guide social expectations and increase consumption and investment. Second, lower real interest rates to create a monetary policy environment favorable for private sector investment and consumption. Third, make full and good use of pledged supplementary lending (PSL) to support affordable housing construction, public infrastructure construction, and urban village transformation. According to our

estimates, achieving a 5% economic growth target requires additional social financing of about 44.8 trillion yuan, an 11.4% increase from last year. Achieving this target requires about 3 trillion yuan of PSL.

Stabilize the real estate market through both supply- and demand-side measures. Stabilizing the real estate market is essential for stabilizing the macroeconomy. To stabilize the real estate market, on one hand, is to rely on government credit and regulatory policy adjustments to help real estate companies restore normal financing channels; on the other hand, measures such as canceling purchase restrictions, lowering mortgage rates, providing preferential loan rates to first-time home buyers, and helping developers resolve sunk assets such as buildings for both commercial and residential use and parking spaces should be adopted to improve the cash flow of real estate companies. 🏠