IN CHINA, WE PREFER USE OF FISCAL TOOLS THAN MONETARY ONES

By Edward Cole

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Late on July 23, China announced further steps to boost domestic demand. These included an additional 65 billion yuan (USD9.5 billion) of tax cuts (in addition to 1.1 trillion yuan of reductions already planned this year), as well as faster implementation of tax rebates and special bonds for infrastructure investment, to name a few.

We believe the government's move shows it doesn't want the central bank to do all the heavy lifting. We would also point out that the government balance sheet appears to have some room to afford these measures:

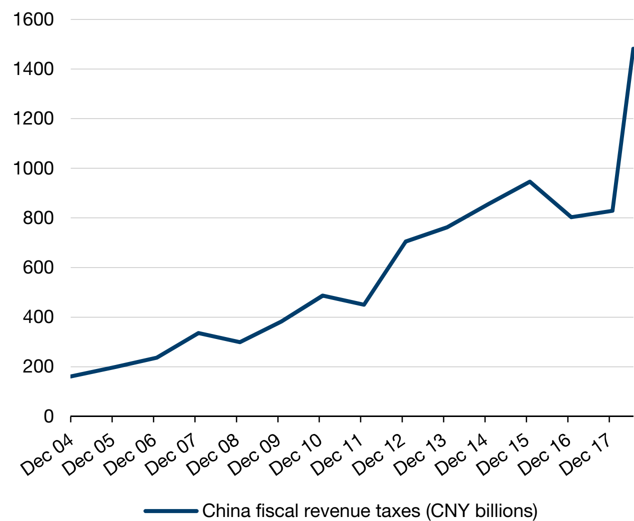
First, the tax burden measured by government revenue stood about 30% of GDP in 2015, according to recent official figures.[1]

Secondly, China's official budget deficit is about 2.6% of GDP as of March 2018.[2]

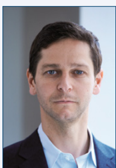
And **finally**, as shown in the chart, tax revenue growth is booming.

Given that Beijing seems intent on continually engineering soft-landings, we would view fiscal tools as preferable to continually reaching for monetary policy tools at the first sign of stress. However, the recent cuts in the reserve requirement ratio and large liquidity provisions suggest that this is probably wishful thinking on our part.

China's Tax Revenue



Source: Bloomberg.



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1. http://www.xinhuanet.com/english/2017-01/17/c_135989239.htm
2. https://www.reuters.com/article/us-china-parliament-debt/china-reassures-that-fiscal-policy-still-expansionary-despite-deficit-cut-idUSKCN1GJ095

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