

## Chapter 4

# Policy Recommendations



In addition to the policy simulation of the impact of the economic slowdown in the US and Europe, we also analyzed and forecasted China's current economic situation. The results showed that: in the first half of 2022, the unexpected pandemic impact forced the government to stabilize the economy through the unexpected growth of infrastructure investment; In the second half of the year, the downward pressure on exports further strengthened the need to accelerate the growth of infrastructure investment. In the long run, the steady growth of the manufacturing sector and its transformation and upgrading are fundamental to promoting economic growth, accelerating the transformation of growth drivers, and achieving high-quality development. More importantly, the transformation and upgrading of the manufacturing sector are related to the long-term growth of labor productivity, which is the basis for ensuring the growth of people's real income and the fundamental driving force for the growth of consumption.

To this end, we proposed: As to stabilize investment, first, we will continue to work together with monetary and fiscal policies to consolidate the foundation for the transformation and upgrading of the manufacturing sector. In recent years, the policy dividend aimed at domestic high-tech enterprises has begun to accelerate and promote the transformation and upgrading of the Chinese manufacturing industry. High-end products have been constantly appearing and gradually occupying the market. Macroeconomic policies in the second half of 2022 should continue to adhere to the current policy tone: monetary policy should continue to implement the financial services for the real economy, and ensure that the new RMB loans to non-financial enterprises and institutions account for no less than 60.0%. Further reduce the financing cost of enterprises to stimulate the growth of private investment, which is more sensitive to the change of interest rate. Improve the efficiency of market allocation of credit resources, promote the adjustment of investment structure, and enhance investment efficiency. Make full use of structural monetary policy to promote the development and expansion of advanced manufacturing. Through

tax and fee cuts, the fiscal policy will fully serve the potential development of high-tech manufacturing and the employment stability of micro-, small and medium-sized enterprises.

At present, when the manufacturing industry enters the stage of transformation and upgrading, it needs the guarantee of credit funds and policy support more. Small and medium-sized manufacturing industries that cater to the domestic market provide a guarantee for employment. We also need to provide financial services to the real economy to meet capital needs, and cut taxes and fees and costs. Through the joint efforts of monetary and fiscal policies, we will continue to consolidate the financial foundation for the transformation and upgrading of the manufacturing sector, accelerate the repair and improvement of the industrial and supply chains of the manufacturing sector, and further enhance the efficiency and resilience of exports. In the long term, only the high-end manufacturing industry with science and technology innovation as the core and the middle- and low-end manufacturing industry with stable employment growth can help our economic development structure optimization, quality improvement, power transformation, scientific and technological innovation, and high-quality development.

Second, financial security and project reserves are the main conditions to support the rapid growth of infrastructure investment since 2022. However, the expected rapid growth of infrastructure investment is not sustainable. Policy preparations should be made to avoid the possible problems caused by the expected rapid growth of infrastructure investment. At the same time, the implementation of the fiscal policy of tax and fee reduction in the stage of economic downturn should also pay full attention to and alleviate the contradiction between local governments' revenue and expenditure.

Third, at present, the downward pressure of investment growth is increasing, and there are many views that advocate supporting the growth of real estate investment through policies. However, in the long term, with the continuous progress of China's aging population and the urbanization rate has increased to more than 60.0%, the space for the continuous expansion of the real estate industry has been significantly reduced. In the short term, the past few rounds of real estate expansion have led to high household debt ratios, which have largely been the main factor restraining the rapid growth of household consumption expenditure. Therefore, while properly handling the debt risks of real estate enterprises, we should continue to adhere to the principle of housing and housing speculation, and implement policies to stabilize real estate investment.

As to stabilize consumption, first, we need to stabilize the growth of personal income through stable employment, fully ensure the employment needs of special groups, and speed up the recovery of consumption. While stabilizing the total amount of employment, we should focus on improving the structure and quality of employment. It is necessary to guide the coordinated development of industrial transformation and employment promotion in order to achieve stable growth of employment, especially in high-income positions.

Second, full attention should be paid to the asymmetric impact of the pandemic shock on employment and income growth in different regions and income groups.

The expansion of fiscal spending should continue to be more oriented to people's livelihood. On the demand side, tax cuts should be made to increase the per capita transfer income of residents, especially targeting the regions and low-income groups most affected by the pandemic.

Third, we need to expand the middle-income group and narrow the income gap. Through rural revitalization, after eliminating absolute poverty in rural areas, we will steadily and vigorously improve relative poverty, etc.

In addition, under the trend of deglobalization, we should unswervingly promote globalization, and make preparation for the possibility of new geopolitical conflicts.