

China: State Council Spells out Consumption Policies for 2010

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The State Council meeting yesterday spelled out eight consumption policies in 2010. Most of them are in line with market expectations. But two changes can be viewed as negative by the market or some market participants: an effective increase in the auto purchase tax by 2.5ppts, and the resumption of the business tax for sales of properties held for less than 5 years from 2010.

These eight points from the State Council are:

- 1) "Continue the rural subsidy program for electronics products." This is in line with market expectation.
- 2) "Extend the go-rural policy for auto". This is also expected and has little impact on auto sales anyway.
- 3) "The old-for-new swap program for electronics will continue." This is in line with market expectations.
- 4) "Continue the subsidy program for agriculture machinery and further increase subsidies". This is largely in line with expectations.
- 5) "Expand the pilot program for new energy automobiles from 13 cities to 20 cities, and initiate a pilot program in 5 cities for individual purchases of new energy cars". This is new and a small positive for auto makers.
- 6) "The auto purchase tax will be adjusted to 7.5% for cars with engine size smaller than 1.6 liters for 2010". This means a 2.5ppt rise in the tax rate. It is unexpected and a negative for auto demand in 2010.

7) "The previous policy of exempting the business tax on sales of properties held for less than 5 years will be restored in 2010." This change is consistent with the announced policy schedule (the government officially stated at end-2008 when the rule was changed to exemption for sales of properties held for less than 2 years, that this temporary change would expire at the end of 2009) and is in line with our expectation. However, for some bullish observers who have been wrongly predicting that the govt would continue the same business tax policy in 2010, it could be a negative. On a fundamental basis, we think this is a right policy to limit speculative demand and prevent property bubbles.

8) "Extend the policy of reducing social insurance premiums for selected individuals". This is broadly positive of the low income population.

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