ISSN 2616-5902 Vol. 4, Issue 13: 9-13, DOI: 10.25236/AJBM.2022.041302

Analysis of the Role of Special Bonds (SB) under the New Normal of Economy (NE)

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Abstract: *In 2022, Entering the third year after the outbreak of the COVID-19 epidemic, the economy didn't recover as quickly as expected. In 2020, IMF predicted that it would take at least two years for the global economy to recovered before the epidemic situation. It seems that the economic growth in the United States and Europe is sluggish at present. The epidemic situation has further developed on a global scale, low investor confidence, unstable economic expectations, in such a new normal economy (NE), the role of government investment in activating economic vitality is particularly prominent. As an innovative bond product in China, special bonds is one of the important tools of government investment. This article will be based on the Macro-economic situation of the study, point out the pain and difficulty of our current economy, further elaborate on the moderating role played by special bonds in promoting stable macroeconomic growth.*

Keywords: *Special bonds, New normal economy, Macroeconomic situation*

1. Introduction

When CPC Secretary General Xi visited Henan in 2014, he first proposed that we should adapt to the status quo of the New normal of economy development. The new normal means that our economy has slowed down from an annual GDP growth rate of 10% in the past to a growth rate of about 7% since 2012. Meanwhile, Economic structure transformation and upgrading, in particular, the outbreak of the COVID-19 pandemic at the end of 2019, and then the intensification of trade friction between China and the United States, the outbreak of war between Russia and Ukraine and other global situation is severe. In the 14th Five-Year Plan, it is clearly put forward that the economic development road is dominated by the domestic big circulation, and the domestic and international double circulation promotes each other. There has also been a fundamental transformation in the core of economic growth from quantitative to qualitative. The New normal of economy (NE) is based on this environment. In the current economic situation, the core of the work from the central government to the local government is to promote all-round economic recovery. In order to achieve the elementary object of "stabilizing employment, finance, foreign trade, foreign investment, investment and expectations" and "ensuring residents' employment, basic livelihood, market players, food and energy security, supply chain stability and grass-roots operation[1]". Fiscal policy has gone through too tight, easing and then active. As a new government financing tool, special bond is an important part of active fiscal policy.

2. Analysis of the current macroeconomic situation under the new normal economy

2.1. Analysis of macroeconomic situation in 2021

The past 2021 was the opening year of the 14th Five-Year Plan, Throughout the year, the economic data showed a solid economic recovery in the first half of the year. With the local outbreak of the epidemic in the second half of the year and the turbulence in the international trade futures market, China's economic growth has generally slowed down. Real GDP increased by 0.6% in the first quarter of 2021[2]. Analysis from the main economic data, Fixed investment grew by an average of 19.9% year-on-year, of which the investment structure was also further optimized. High-tech industries are growing rapidly and the vitality of private investment is enhanced, Year-on-year growth of 21% in the first quarter. Consumption, one of the troika driving economic growth, did not perform as well as expected in 2021.It did not show the retaliatory consumption after the epidemic, and in general the residents' consumption was not fully released. Although residential consumption reached 17.6% in the first quarter, which was caused by a low base. And then the growth rate slowed rapidly in April, mainly due to the slow growth of residential income. In the first quarter, the average real growth of per capita disposable income was only 4.5%, which was 2.3 percentage points lower than that before the epidemic. Meanwhile, unemployment rate climbs, with data showing higher levels than the same period before the outbreak. Residents are more cautious in their consumption of staples showing negative growth compared to the same period before the epidemic. In the second half of 2021, the overall economic growth slowed down, the main reason is that the local outbreak of the epidemic dampened the confidence of enterprises and consumers, leading to a sharp drop in the level of consumption of the population. In addition the level of infrastructure investment construction slowed down, prompting a significant slowdown in the growth rate of fixed asset investment. On the whole, the lack of domestic demand leads to weak supply, therefore, "stabilizing employment and ensuring people's well-being" is the main theme for the second half of the year. The unemployment rate declined in September, which was lower than that of the same period in 2020.The overall positive employment situation will be reflected in consumption after.

In summary, the overall economic situation in 2021 is better than in 2020.In particular, the increase in investment in fixed assets has been the main driver of economic growth, but the economy still fluctuates significantly due to the impact of the epidemic, the growth of the tourism industry is slow and remains low.

2.2. Analysis of the macroeconomic situation in the first quarter of 2022

The macroeconomic situation in the first quarter of 2022 was characterized by an partial growth and local decline due to the complex international markets. As GOC (the government of China) continues to launch various policies conducive to economic growth, the growth rate of major economic indicators has accelerated significantly. Investment in fixed assets increased by 11.2 percentage points in the first quarter[3], which was higher than that of the same period in 2020 and 2021.Among them, the most significant growth rate of the manufacturing sector increased by 23.9 percentage points over the same period in 2020 and 2021.At the same time, the growth rate of real estate investment dropped significantly compared with the same period of the previous two years. Commercial residential buildings sales and land acquisitions continue to grow negatively. In terms of consumer spending, various economic indicators are generally higher than the same period in 2020 and 2021.It is worth mentioning that restaurant revenue came out of the negative growth dilemma. However, compared with the end of 2021, social consumer goods fell by 9.8%, especially restaurant revenues fell by 20.3% directly. As a result of this, the unemployment rate in the first quarter of 2021 is significantly higher than at the end of 2020, youth unemployment rate reaches all-time high since 2018.

Generally speaking, in the first half of 2022, the economy suffered multiple shocks from internal and external environment. The impact of the domestic COVID-19 epidemic continues to gain momentum. The international war between Russia and Ukraine led to the escalating Global Geopolitical Conflict. China's economy faces unprecedented challenges.

2.3. Summary

Through the analysis of the macro-economy in 2021 and the first quarter of 2022, it is found that China's economy has been growing steadily for a long time and a cyclical fluctuation in the short term. Fixed asset investment continues to rise, residents' income increases but growth rate is not high. Social consumption rises and then falls with significant fluctuations and unemployment rate continues to rise. In general, our economy is showing complex growth but deviating from its normal growth trajectory. With inflationary pressures and continued interest rate hikes in Europe and the US, China's macroeconomy will face more uncertainties.

3. Overview of special bonds

3.1. Definition of special bonds

Special bonds are a new type of local government financing tool that emerged with the implementation of the new budget law in 2015. Initially there were only six varieties of special bonds. The development to 2020 special bonds have a wider scope of use, and the areas involved must be related to the people's vital interests. Special bonds must have the following four characteristics; First, the issuing entity must be the provincial government[4], one project corresponds to one special bond. It guarantees

ISSN 2616-5902 Vol. 4, Issue 13: 9-13, DOI: 10.25236/AJBM.2022.041302

the matching of debt servicing capacity and the scale of debt raising, reduces the government's invisible debt, and reduces financial risks. Second, the corresponding project must be a public benefit project that can generate revenue. Due to the long investment cycle, low returns and other factors can not rely solely on social capital to build, with government credibility as a guarantee to issue special bonds can reduce the difficulty of financing. Third, the issuance of special bonds must be in accordance with the Notice of the General Office of the National Development and Reform Commission on Special Bonds. Fourth, special bonds are not counted in the fiscal deficit, which is conducive to the state's control of debt risk.

3.2. Status of issuing special bonds

In terms of issue size, since the issuance of special bonds in 2015, the amount climbed rapidly to 109.99 billion yuan by 2016. Issue size declined in 2017 due to policy and regulatory tightening. By 2022, the issuance scale of special bonds will be further expanded.

According to the information released by the Ministry of Finance on July 27, the total amount of special bonds issued from January to June this year reached 3,406.2 billion yuan, of which the new special bonds in June alone amounted to 137.24 billion yuan[5].

In terms of issuance speed, the Central Economic Working Conference clearly proposes to speed up the issuance of special bonds in this year. Speed up the use of funds to achieve the early start of construction and see the physical works as soon as possible. In the "Package of Policy Measures to Solidly Stabilize the Economy" dated May 31, 2022, it is clearly stated that all provincial governments need to basically complete the issuance of special bonds this year by the end of June under the guidance of policies and regulations, and aim to basically use them by the end of August. Provinces have been guided by the policy to meet the actual local situation target requirements and supporting measures. Under the guidance of the policy, the provinces put forward the target requirements and supporting measures in line with their respective local realities

In terms of the scope of the bond issue, The State Council clearly proposed to expand the use of last year's base once again. The new scope includes municipal projects such as renovation of old neighborhoods, vocational education, emergency facilities and public healthcare, in addition to covering high-tech infrastructure projects such as artificial intelligence and 5G networks.

From the bond issuance requirements, it is further clarified that special bonds must be for large projects, and each special bond cannot be less than 20 million yuan in principle[6]. At the same time, the provincial governments must do better in the preliminary work of declaring special bonds, such as studying the revenue of the projects in advance to further ensure that the revenue can cover the principal and interest.

4. The necessity of issuing special bonds

4.1. Reduce the risk of invisible local debt

Special bonds as an innovative financing tool helps control the debt risk of local governments. Presviously, local governments did not have a stable source of financing, the tax Distribution System Reform has led to too few tax sources for local governments. At the same time, the separation of administrative and financial powers has stretched the funds of local governments, and in times of economic recession, some local governments with weak economic bases have formed many invisible debts in order to stimulate the economy. In the construction of some important large-scale urban infrastructure projects, the government can only entrust or set up corresponding platform companies for financing. The financing platform company is not directly responsible for one or two projects but contracts the projects to the corresponding construction enterprises, resulting in the separation of financing and construction responsibilities, which causes problems such as slow availability of funds, slow construction progress and poor project quality. This in turn has contributed to uncontrollable project returns further exacerbating the debt risk of the financing platform. The emergence of special bonds ensures that a project is matched with one type of debt instrument, safeguards the capital security of the project, unifies the responsibility of fund supervision and project construction management, clarifies who is responsible and the scope of responsibility, ensures the use of funds and the speed of disbursement, the project risk is controlled and the rights and interests of investors are protected.

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4.2. Improve the financial management system

The issuance of special bonds has broadened the financing channels of local governments and further promoted the reform of the fiscal and taxation system. This has a positive effect on sorting out the relationship between local and central government and reducing the pressure on local taxation. The special bonds make it clear that the provincial governments have the authority to raise special debts, so that each province can fully control the overall situation of the provincial debts and allocate the amount of bonds according to the situation of different regions, further strengthen the province's resource deployment capacity. It also helps the central government to coordinate the national bond situation by supervising the provincial governments.

Through the issuance and management of special debts, the Ministry of Finance has also gradually made the government's means and methods of debt management more comprehensive and reasonable, further enhancing the efficiency of the use of special debt funds and promoting the continuous improvement of the relevant systems by local governments. The central government also encourages local governments to further explore new varieties of special bonds based on the special bonds. Establish a system of one-to-one correspondence between projects, bonds and revenues to form a more standardized and powerful "revenue debt".

Special bonds as a new type of bonds are necessary to increase the diversity of local bonds. Secondly, diversified bond varieties can also enhance the trading attributes of bonds in the market, activate the vitality of the bond market, and pry more private capital to participate in infrastructure. This has an important role to play in building a better government bond system and improving financial management.

5. Promoting effect of special bonds on economy

The role of special bonds in stimulating investment has become increasingly prominent. At present, China's economy continues to face greater downward pressure, stabilizing growth and promoting reform has become a top priority. To achieve this goal, the state has introduced a number of measures to actively promote the implementation of major projects on the ground, and has achieved remarkable results. At present, there are still some constraints in the implementation of various measures. Especially in the process of landing major infrastructure projects, the tight capital is the key. Governments at all levels need to further exert the "blood transfusion" function of special bonds to ensure steady growth of investment to hedge the downward pressure on the economy.

In order to better cope with the complex international and domestic economic environment, this year's Central Economic Work Conference will emphasize "safeguarding the intensity of fiscal spending and accelerating the progress of spending" to fully implement an active fiscal policy. Special bonds as an important part of fiscal policy can build infrastructure better and faster, thus enhancing economic vitality and making up for the shortcomings of the fund, so special bonds have the important function of pulling the whole society to invest in capital. In the year since January 2021, China has accumulated 290 billion yuan of new special bonds. The construction of 1,349 major infrastructure projects is funded by the special bonds issued this year plus social capital, with the total construction amount of all projects reaching 1.6 trillion yuan[7]. The use of this series of special bond funds implemented the important instruction of "moderate and advanced infrastructure investment" put forward by the Central Economic Work Conference. Based on the goal of better meeting the people's aspirations for a better life, the quality of services provided by public facilities must be improved, with the financial support provided by special bonds.

Overall, special bonds have an engine role in stabilizing economic fundamentals, boosting social investment, and deeply stimulating market potential. According to the relevant data from the National Bureau of Statistics, Through the guidance of a series of policy measures such as advancing the special bond issuance program and accelerating the use of bond credits, infrastructure investment in June 2022 improved by 0.4 percentage points growth to 7.1% compared to January-May. In total, more than 23,800 projects were supported, of which about 13,000 were newly started and 10,800 were under construction, and these projects contributed strongly to the construction of major strategic national facilities. On the one hand, it helps the country's economic transformation and high-quality development, and on the other hand, it plays a vital role in expanding domestic demand, releasing investment potential, creating more jobs, raising national income and boosting investor confidence.

Since 2022, China's economic downside risks have been further strengthened, superimposed on the international turmoil, the continued interest rate increase in developed countries in Europe and America

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and continued recurrence of COVID-19 outbreak, this has led to a decline in consumer confidence in the country. Especially since this year by a series of financial risks caused by the turmoil in the real estate market, the reliance on investment in infrastructure to promote economic development has further strengthened, the proper and effective use of special bonds has a positive effect on stabilizing growth and preserving investment in the economy.

6. Conclusions

The emergence of special bonds has an important role in enhancing the financing capacity of local governments, enriching the variety of government bonds, and promoting the market vitality of government bonds. Especially in the new normal economy (NE), instability and uncertainty in domestic and international markets are the norm, slow economic growth is the norm, and increased investment risk is the norm. Based on this background, special bonds enhance the security through the credibility of the government, and at the same time, the project itself is profitable. Such bonds ensure the security of funds and increase the liquidity of the market, so this new type of financial instrument plays an important role in increasing market confidence. Through the analysis of this paper, the advantages and functions of special bonds are further clarified, and the future research focus is how to improve the use efficiency of special bonds more scientifically and efficiently.

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