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China: Minor Tweaks, Stable Trends

- The Politburo meeting on July 30 prioritised sustainable and high quality growth amid increasing downside pressures;
- The statement no longer mentions "structural deleveraging" (still included in April 2019) but firmly rejected the old playbook of aggressive, credit-fuelled stimulus as it highlighted that the property market will not be used to boost short term growth rates.
- We think the government will still focus on targeted easing and reform policies to stabilise growth. We expect further gradual slowdown in real GDP growth in H2 to 6.2% by year-end.

The Politburo meeting yesterday signalled no major shift in policy stance. The statement was more dovish on China's growth outlook but did not pledge any additional strong easing measures in H2. The meeting acknowledged that *"domestic economic growth is facing new challenges and more downside pressures."* Policy focus will be shifted to **"stabilise high quality, healthy and sustainable growth".**

Some key highlights of the policy outlook include:

The statement did not mention any language on deleveraging but instead reiterated that China will not use the property market to boost short term growth rates. The statement also signals more tolerance for slower growth rates with more emphasis on the quality of growth. We expect government policies to continue its focus on targeted easing and reforms to stabilise growth rates but we don't expect any additional aggressive stimulus coming through in H2.

The top priority has shifted towards stabilizing growth to prepare for the 70th anniversary of People's Republic of China on October 1. **The Politburo has pledged more support to final consumption demand, especially rural sector consumption via more reforms and more effective implementation of earlier announced fiscal easing policies** including tax cuts and social insurance fees cuts. The proactive fiscal easing policies will also focus on stabilising manufacturing sector investments and new urban infrastructure. In addition to reiterating that property easing measures will **not be used to boost short term growth, the statement also noted that authorities will prevent speculation in both the property and the stock markets.**

For monetary policy, the statement did not emphasize the use of "counter-cyclical policies" but instead added the priority of "maintaining ample liquidity". **We think the PBoC will continue to use targeted easing policies such as targeted RRR cuts and targeted medium term lending facilities (TMLF) to support the manufacturing sector and the private sector in H2.** Although interest rate reforms were not highlighted in the statement, the overarching goal of using reforms rather than credit stimulus to support growth means we could see the pace of interest rate reforms accelerate in H2.

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For US-China trade tensions, **the statement said that China should "effectively manage trade frictions" without elaborating in great details.** The focus has been decisively shifted towards supporting domestic demand (over the export sector) hence we do not expect any major Chinese concessions unless the US reciprocates; neither do we expect any major escalation being initiated by the Chinese negotiation team.

Overall, we think the easing policies in H2 will more about minor tweaks and tougher enforcement on effective implementation of previously announced easing policies. We don't expect aggressive additional stimulus to boost growth rates. We think real GDP growth will gradually slow to 6.2% by year-end.

Table 1: Key Language Comparison For Politburo Meeting Statements

	Assessment on Growth	Macro Policy Priority	Fiscal Policies	Monetary Policies	Other Policies
July 2019	We are now facing **new risks and challenges**. Domestic economic **downside pressure is increasing**.	Continue supply side reforms and **enhance sustainable, high quality growth.** Firmly push for reform and opening up policies.	Proactive fiscal policy with more efficiency; **focus on implementation of tax and fee cuts.**	Prudent monetary policy will be neither too tight nor too loose. **Liquidity will be kept at reasonably ample levels.**	Manage trade frictions effectively. **Property market will not be used to boost short term growth rates.** Keep inflation stable. Prepare for 70th Anniversary of PRC by emphasising positive results.
April 2019	Growth was stable but downside pressures (both cyclical and structural) still exist.	Use supply side reforms to stabilise demand, stick to structural deleveraging and minimise risks in fighting the "three battles".	Proactive fiscal policy with more efficiency.	Prudent monetary policy that is neither too tight nor too loose.	Implement different housing policies for different cities. Prevent property market speculation. Deepen ongoing opening up policies.
October 2018	Stable growth with some changes. Risks are emerging for some struggling corporates. External conditions have changed profoundly.	Wait for some earlier easing policies to take effect. Stick to supply side reforms and deepen "opening up".	Proactive fiscal policy.	Prudent monetary policy.	Stabilise employment, financial sector, trade, foreign investments, fixed assets investments and market expectations.
July 2018	Stable growth with some profound change in external conditions.	Deepening supply side reforms, push for deleveraging at controlled the pace and scale.	Proactive fiscal policy to adjust structures and expand domestic demand.	Prudent monetary policy to keep overall money supply stable. Keep liquidity at reasonable ample levels.	Prevent property prices from rising further. Prepare for China's first imports expo. Deepen opening up policies.

Source: Xinhua News, NWM