

China Policy

Politburo maintains pro-growth stance while ruling out big stimulus

The politburo indicates continuous pro-growth policy without big stimulus at its meeting on economic condition last week. China will maintain accommodative credit policy while the possibility of additional fiscal stimulus is low. It is still too early for China to pivot toward policy tightening as the GDP growth remains below the potential growth and the reflation pressure is low. Top leaders also reiterate pro-business stance and commitment to open up. To boost consumer confidence and comprehensive recovery, China has to restore private business confidence as the private business absorbs over 80% of the urban employment. The leaders also pay attention to financial risks related to small & medium sized financial institutions, property sector and local government contingent debt, indicating more regulations over smaller financial institutions, continuous debt risk relief for property developers and stricter control over local government contingent debt expansion.

- **Growth is better than official expectations as the possibility of additional policy stimulus is low.** Top leaders said economic growth is better than their expectations as the triple pressure including demand shrinkage, supply shock and confidence weakening alleviates. They thought China's economy has achieved a good start in 1Q23 with a recovery in demand. The possibility of additional policy stimulus seems low in 2Q23 when the YoY growth of GDP may accelerate to above 7% thanks to base effect and further economic recovery.
- **Growth engine is not strong as the politburo maintains the pro-growth policy stance.** While the growth is better than expectations, top leaders acknowledged that the internal engine for growth is not strong as aggregate demand remains insufficient. Therefore, China will maintain the pro-growth stance to boost growth momentum. We do not think China will pivot toward policy tightening as its GDP growth remains below the potential growth and the reflation pressure is very low. Specifically, China's exports face downside risk amid overseas economic uncertainty while the recovery of private business confidence, domestic consumption and property market is gradual and slow.
- **China will speed up tech innovation and development of advanced industries.** The politburo emphasized China needs to become more self-reliant in science & technology as the country should strive to achieve breakthroughs in sectors that are relatively weak. It stated that China should double down on China's existing areas of strength like electric vehicle with investment in charging pile, energy storage facility and power grid transformation. The politburo also highlighted the development of generalized artificial intelligence as an area of great importance. China's industrial policy will mainly focus on semiconductor, new energy supply & vehicle, high-end manufacturing and digital economy.
- **China will maintain supportive macro policies to boost demand recovery.** Demand recovery is the key for economic growth this year. The politburo said China would maintain proactive fiscal policy and prudent monetary policy to support demand expansion. The leaders vowed to increase household income and support consumer spending especially in cultural & tourism services.

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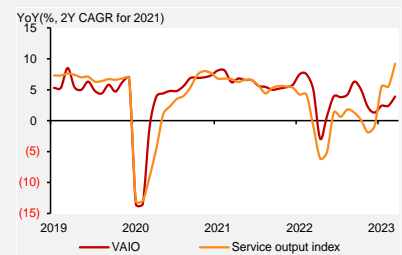
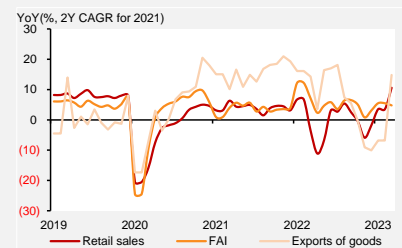
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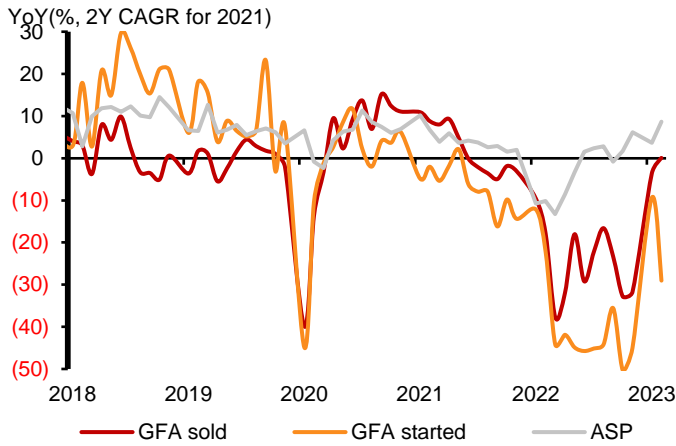
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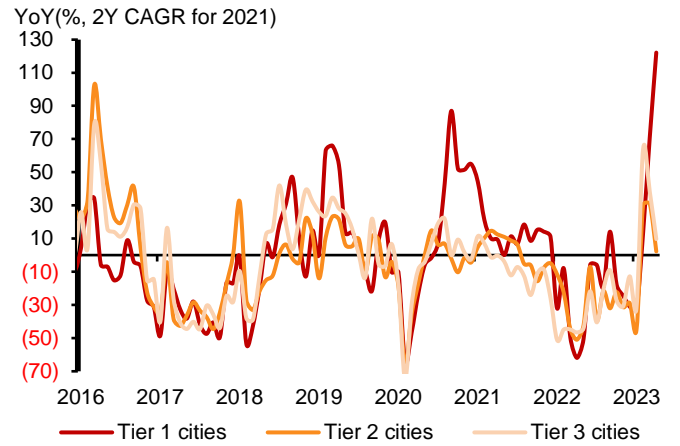
- **Leaders will continue to take pro-business measures to boost private business confidence.** The politburo vowed to improve business environment to facilitate fair competition for all kinds of enterprises. Top leaders indicated more pro-business measures to boost private business confidence. The leaders also encouraged internet platforms to take a lead in the innovation. Private businesses account for over 80% in China's urban employment. To restore consumer confidence, the policymakers have to boost the private business sentiment in future. The politburo also pledged high-level opening to foreign companies as it targeted to boost foreign trade and capital inflows.
- **China will continue to prevent and resolve financial risks.** The politburo said to relieve risks in small & medium banks, insurance companies and trust companies. Top leaders emphasized housing is for living and not for speculation indicating differential mortgage policy in different cities. In tier one and few tier two cities, housing market continued to recover and mortgage policy may remain stable. In lower-tier cities, housing market recovered slowly and mortgage policy may see further easing in future. The leaders vowed to control local government contingent debt, posting downside risk for some infrastructure investments dominated by LGFVs.

Figure 1: Property Market Indicators



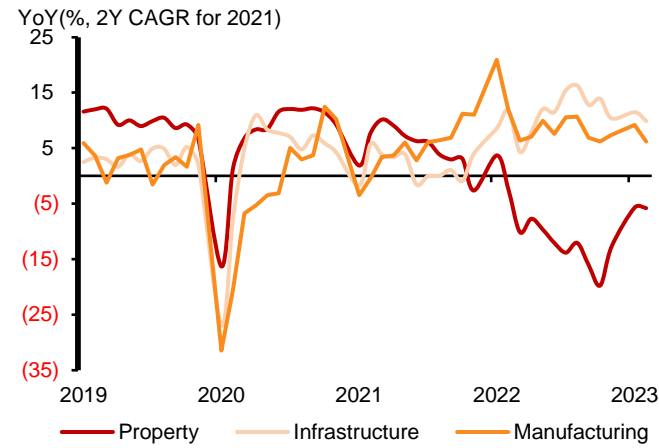
Source: WIND, CMBIGM

Figure 2: Growth of Commodity Building Sales



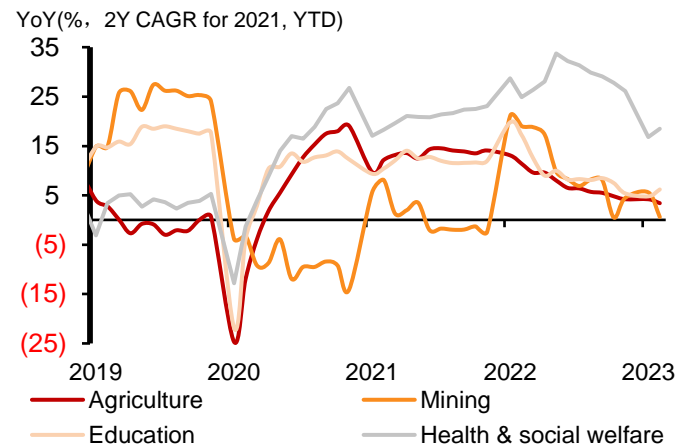
Source: WIND, CMBIGM

Figure 3: FAI by Sector



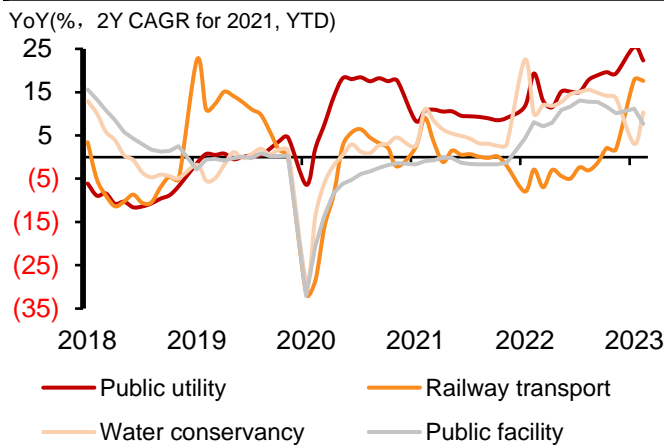
Source: WIND, CMBIGM

Figure 4: FAI in Agriculture, Mining & Social Service



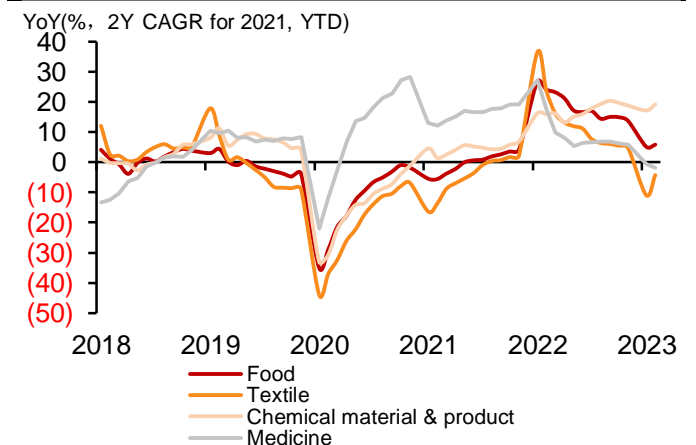
Source: WIND, CMBIGM

Figure 5: FAI in Infrastructure Sectors



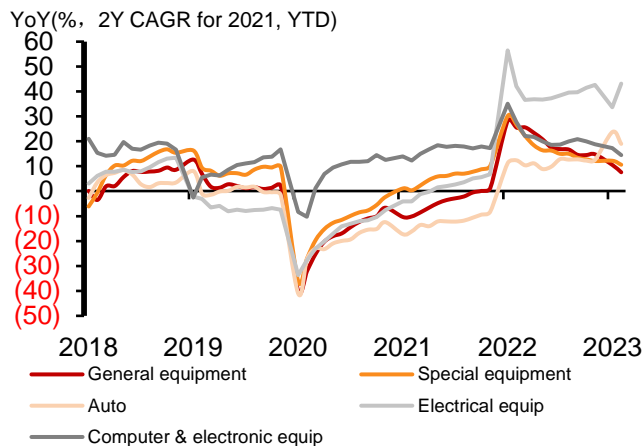
Source: WIND, CMBIGM

Figure 6: FAI in Manufacturing Industries



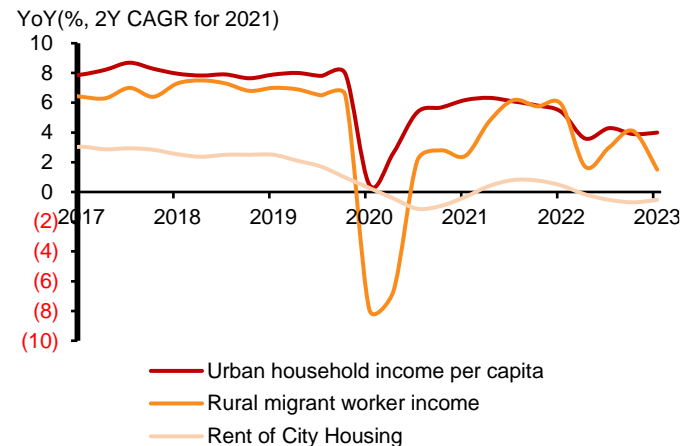
Source: WIND, CMBIGM

Figure 7: FAI in Manufacturing Industries (II)



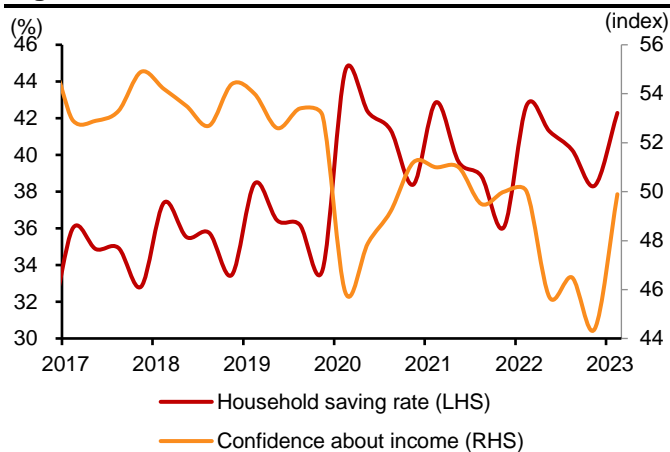
Source: WIND, CMBGM

Figure 8: Household Income & Housing Rent



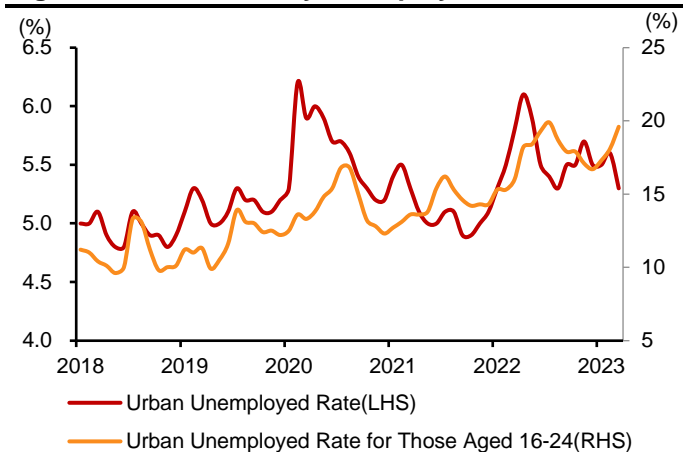
Source: WIND, CMBGM

Figure 9: Consumer Confidence



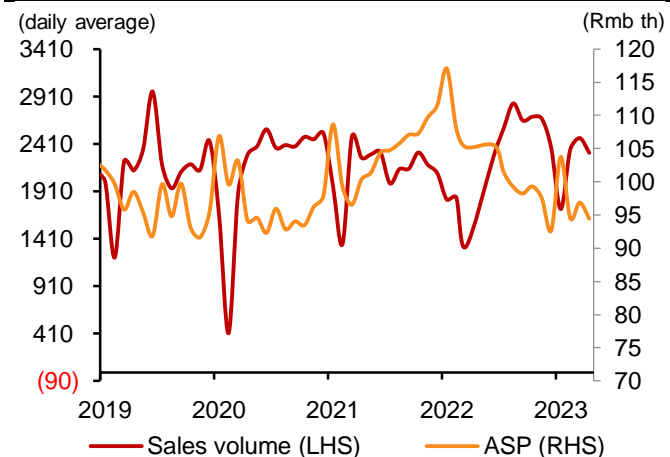
Source: WIND, CMBGM

Figure 10: Urban Surveied Employment Rates



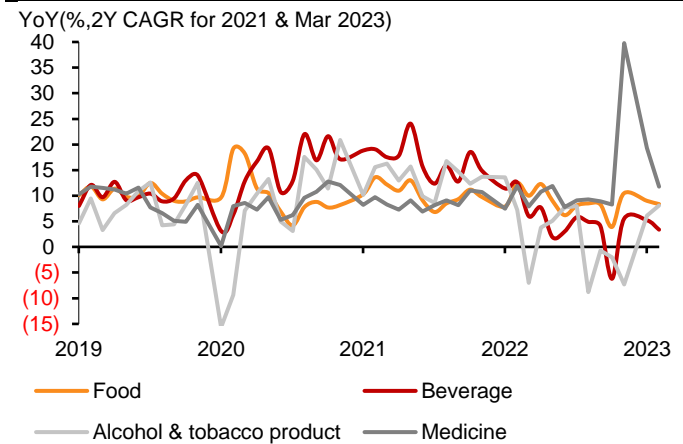
Source: WIND, CMBGM

Figure 11: Used Car Sales & Price in Shanghai



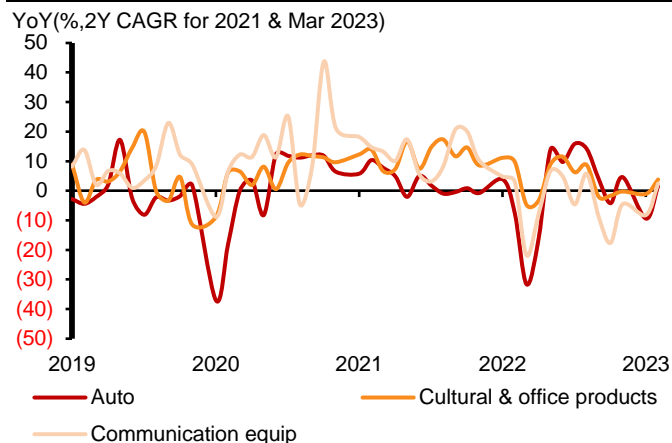
Source: WIND, CMBGM

Figure 12: Retail Sales of Staples



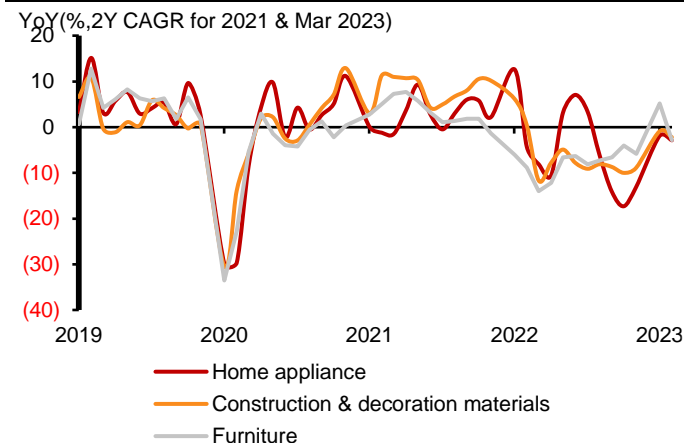
Source: WIND, CMBGM

Figure 13: Retail Sales of Auto & Electronic Equip



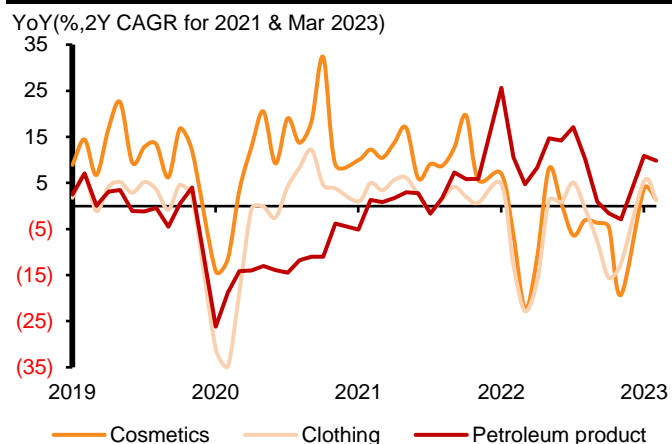
Source: WIND, CMBGM

Figure 14: Retail Sales of Furniture & Appliance



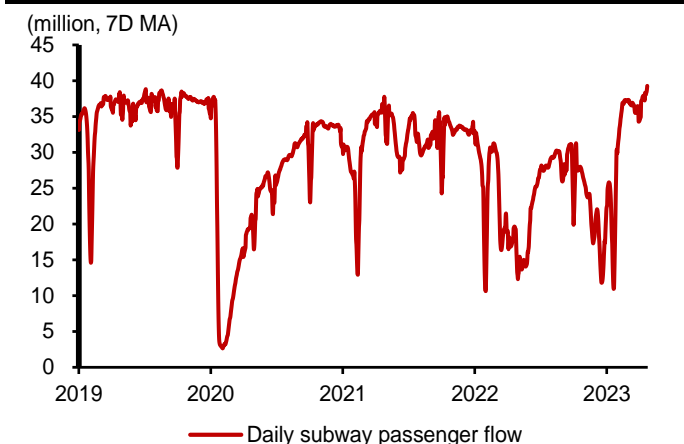
Source: WIND, CMBGM

Figure 15: Retail Sales of Non-durables



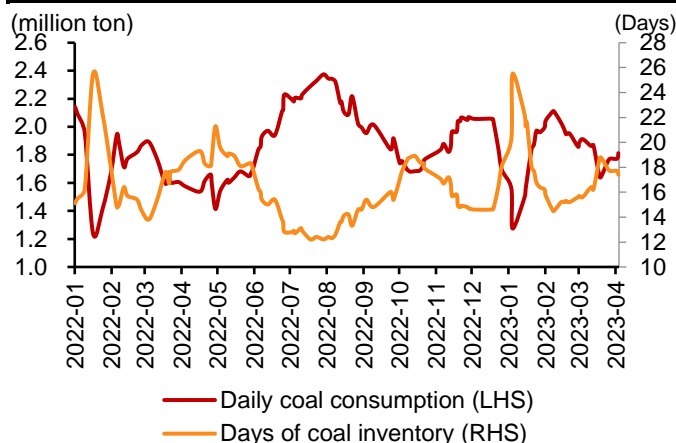
Source: WIND, CMBGM

Figure 16: Subway Passenger Flow in Tier-1 Cities



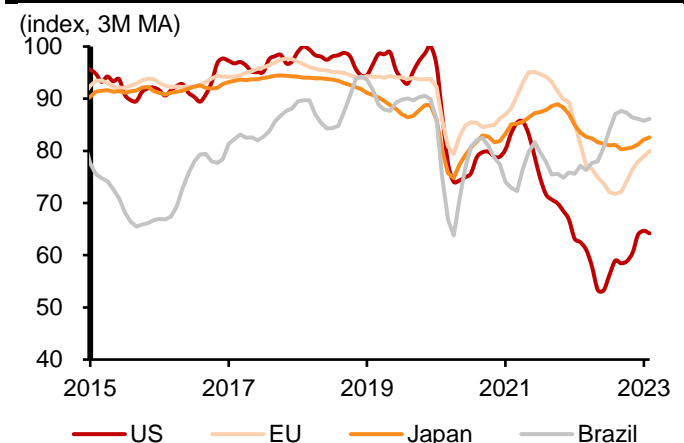
Source: WIND, CMBGM

Figure 17: Power Generator Coal Consumption



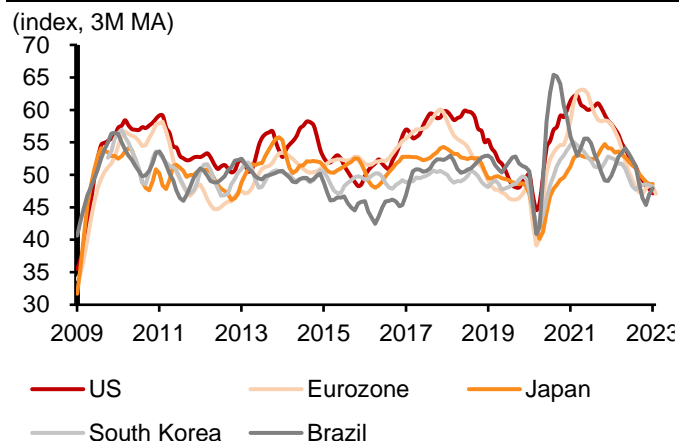
Source: WIND, CMBGM

Figure 18: Consumer Confidence Index



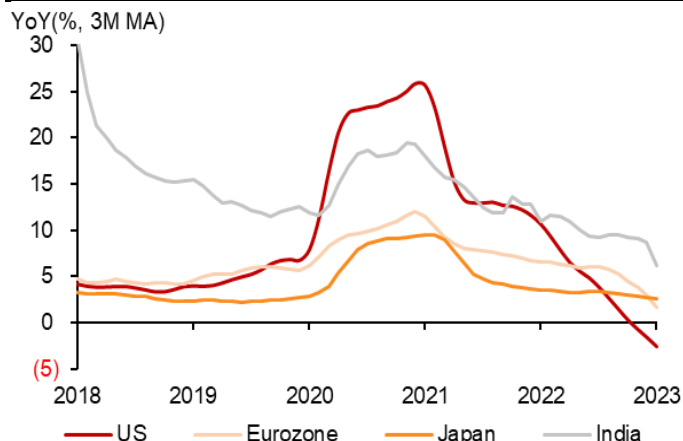
Source: WIND, CMBGM

Figure 19: Manufacturing PMI



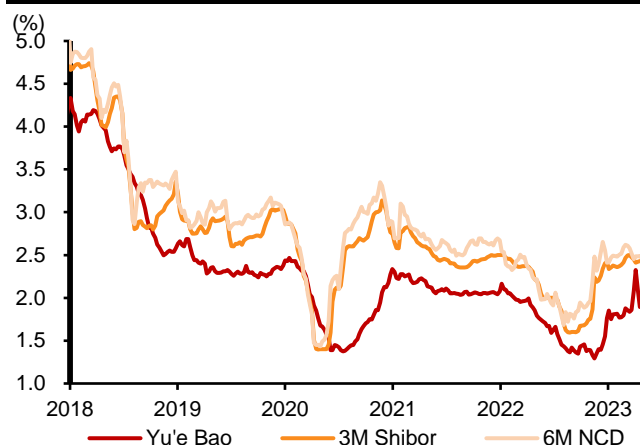
Source: WIND, CMBGM

Figure 20: M2 Supply Growth



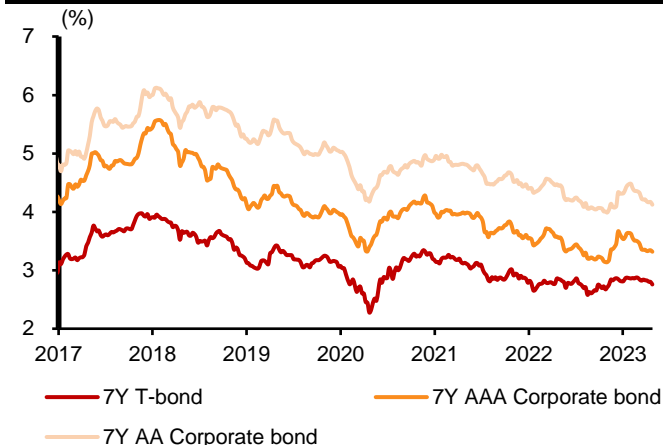
Source: WIND, CMBGM

Figure 21: China's Money Market Rates



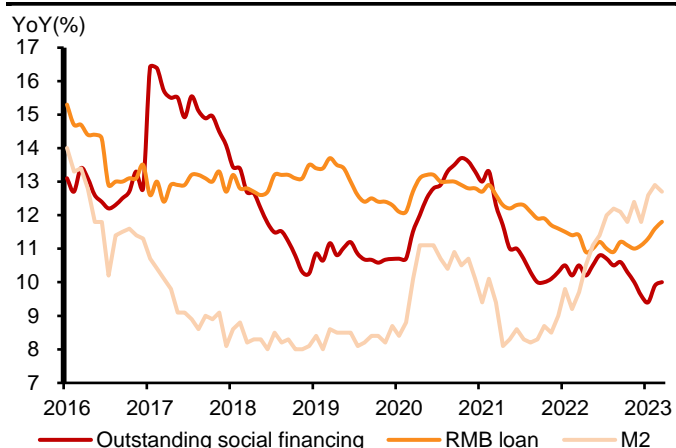
Source: WIND, CMBGM

Figure 22: China's Bond Rates



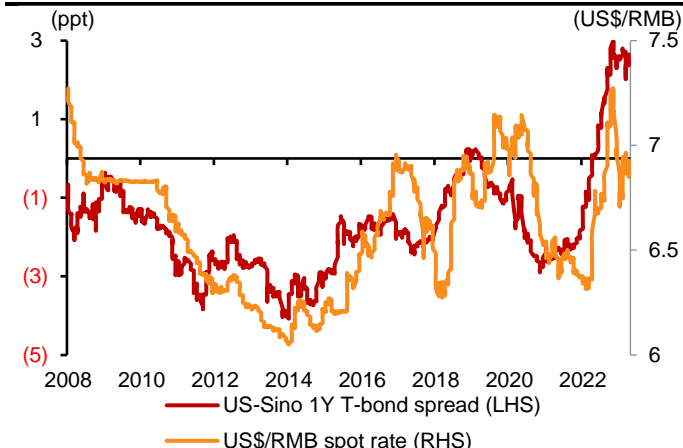
Source: WIND, CMBGM

Figure 23: China's Credit Growth



Source: WIND, CMBGM

Figure 24: US-Sino Spread & US\$/RMB Rate



Source: WIND, CMBGM

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