

China Policy

Economic rebalancing as the priority

The Politburo meeting yesterday signals a shift of China's macro policy towards economic rebalancing with a dual focus on boosting household consumption and addressing rat-race supply competition. Although the meeting did not provide many specific policy details, the logic and direction of the policy are already clear. Whether China can escape deflation will be a key indicator for assessing the effectiveness of economic rebalancing. We expect China to boost consumption through measures such as extending subsidies for durable goods, promoting service consumption, strengthening social security, increasing transfer payments, and expanding consumer credit supply. To reduce supply-side competition, China may eliminate local protectionism, address excess capacity, and standardise local investment incentives. The deflationary outlook for some industries may gradually improve. However, the policy implementation window may not open until 4Q25 when durable goods retail sales will sharply slow down due to higher year-on-year bases and lower policy stimulus effects and China may have stronger motivation to advance economic rebalancing after a potential trade deal with the US. Both renminbi exchange rates and Chinese stocks may gain further upward momentum in 4Q25, in our view.

■ **Macro policy shift towards economic rebalancing.** China's weak household consumption and excess capacity are creating deflationary pressures, damaging corporate profits and confidence, suppressing asset prices, lowering interest rates, threatening banking stability and causing trade tensions. The Politburo has vowed to boost domestic consumption and address rat-race competition, which is a strong signal for economic rebalancing. The policy direction for China's economic rebalancing is to stimulate domestic consumption, reduce manufacturing capacity, expand fiscal stimulus, support a strong RMB, increase imports and reduce exports.

■ **How to boost domestic consumption.** **First** is the trade-in subsidies for autos, home appliances, mobile phones and other durables. Building on the successful experience in 4Q24, China has expanded the trade-in program to a budget of RMB300bn in 2025, with potential upward adjustments in 4Q25. **Second** is to support service consumption growth. The Politburo said prioritizing integrated development of culture, sports, tourism and commerce. For example, sports events and festivals will be linked to tourism packages to boost local economies. **Third** is social security enhancement to boost consumer confidence. The MoF will provide Chinese households childcare subsidies with RMB3,600 per child under 3 years old, costing about RMB100bn annually. The government is also planning to provide free preschool education and the annual fiscal spending is estimated to reach RMB400bn. We expect these two policies could boost household consumption by 0.6% and nominal GDP by 0.25%. Additionally, the government plans to expand social security for part-time workers and gig economy participants and enhance tiered welfare systems for low-income groups, potentially through increased transfer payments. **Fourth** is fiscal interest subsidies for service business loans and consumer loans. To promote the growth of service sector and consumer spending, the government will provide discounted-interest loans to service enterprises and consumers. This aims to lower financing costs and unlock pent-up demand. **Fifth** is agricultural deflation in a gradual manner. It will benefit farmers by lifting their disposable income and consumption and alleviate deflationary pressure by boosting food prices.

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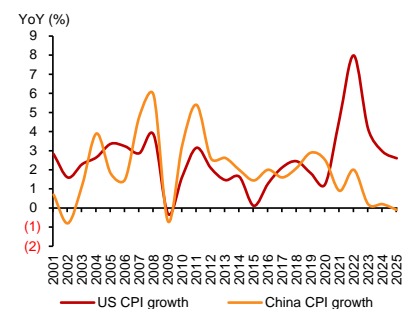
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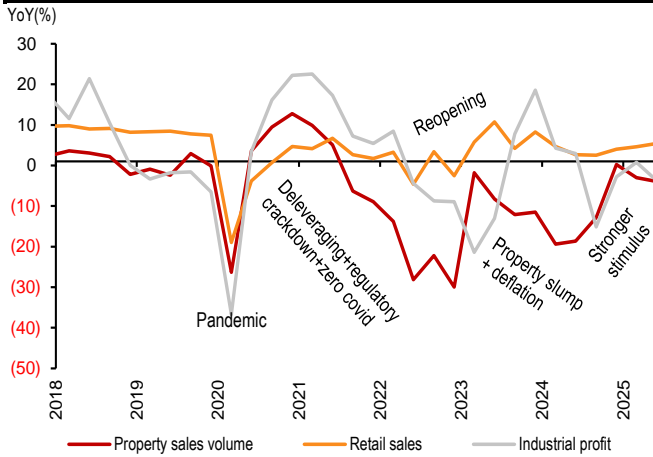


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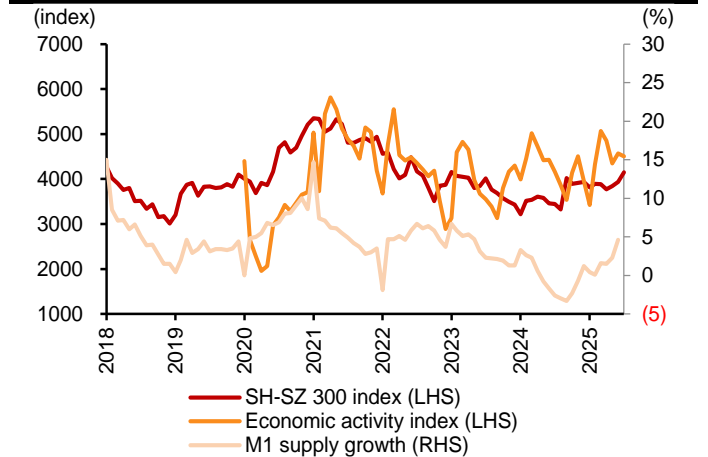


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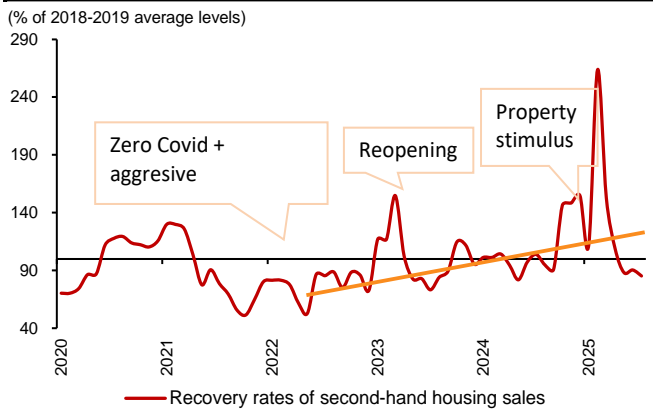
- **How to address rat race competition.** **First** is to build a national unified market by dismantling local protectionism, harmonizing market rules and improving logistics connectivity. **Second** is to control capacity expansion in targeted sectors like steel, cement, non-ferrous metals through environmental and technological standards. **Third** is to restrict local governments' competition in investment promotion through tax cuts, land price discounts or various subsidies to attract businesses.
- **Fiscal and monetary policy outlook.** We expect fiscal policy and monetary policy to remain accommodative and stable in 3Q25 as the economic growth in 1H25 was higher than the 5% target. Fiscal policy will accelerate existing budget execution, emphasizing efficiency over additional stimulus. Monetary policy will remain accommodative with easing liquidity condition. In 4Q25, China might expand its fiscal stimulus and loosen monetary policy with additional RRR and LPR cuts for two reasons. First, GDP growth might drop to below 5% as exports are likely to soften and durables consumption growth is expected to sharply slow down due to higher comparison base and lower policy stimulus effect. Second, China is likely to make stronger commitment to economic rebalancing after a possible trade deal with the US.
- **Implications for the market.** 3Q25 might see a weakening of fundamentals and increased deflation pressure with no additional easing policies. Bond yields and RMB exchange rates may mildly decline with fluctuations in Chinese stocks. 4Q25 may witness renewed momentum in bond yields, RMB exchange rates and Chinese stocks thanks to possible additional fiscal expansion and consumption stimulus. Economic rebalancing policies are generally favourable for leading companies in consumer staples, raw materials, industry, financials and agriculture.

Figure 1: Major economic indicators

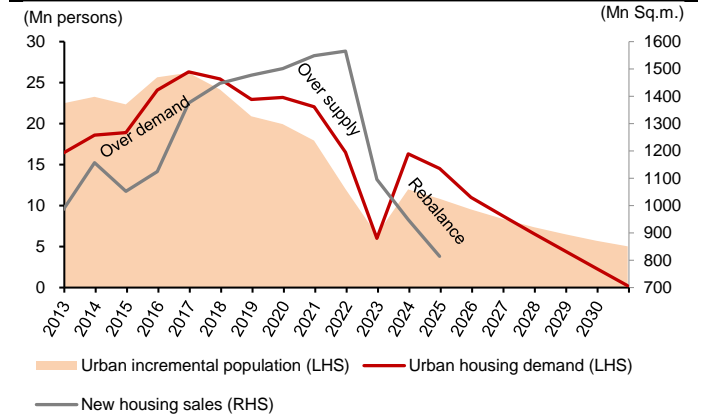
Source: Wind, CMBIGM

Figure 2: Equity index, economic activity and M1 growth

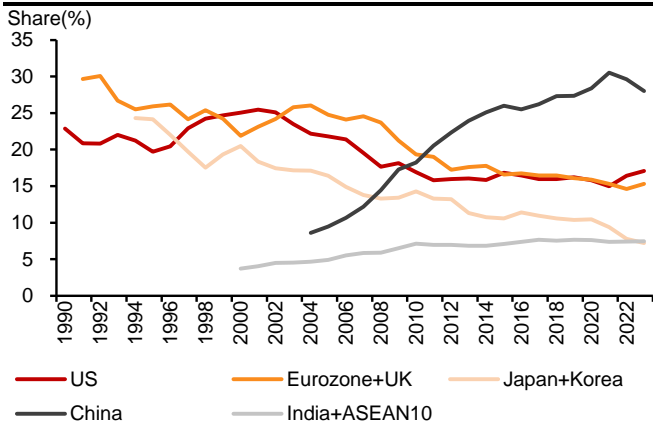
Source: Wind, CMBIGM

Figure 3: Recovery rate of second-hand housing sales

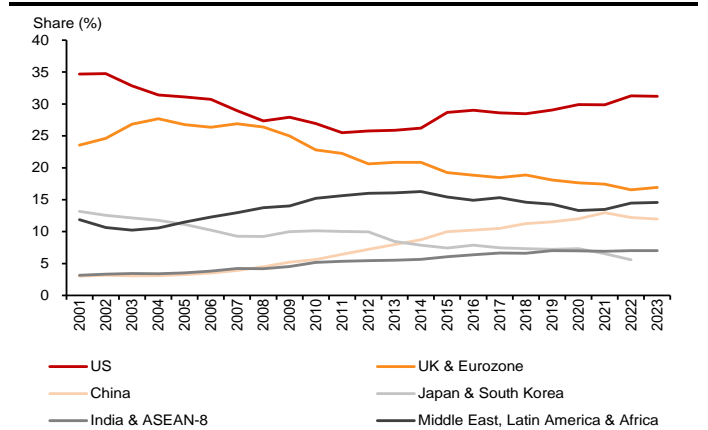
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Figure 4: Housing demand and new housing sales

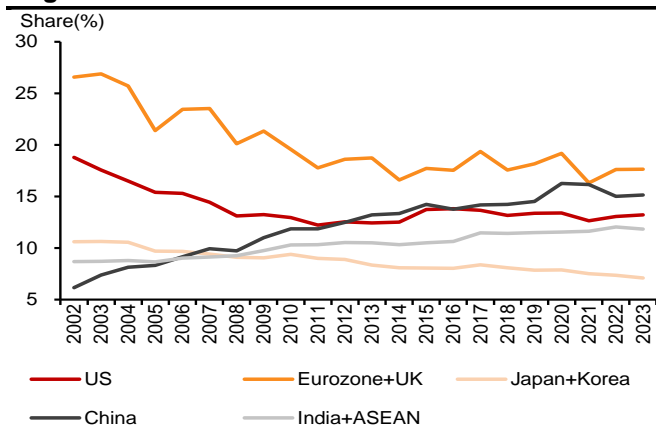
Source: Wind, CMBIGM

Figure 5: Share of major economies in global manufacturing GDP

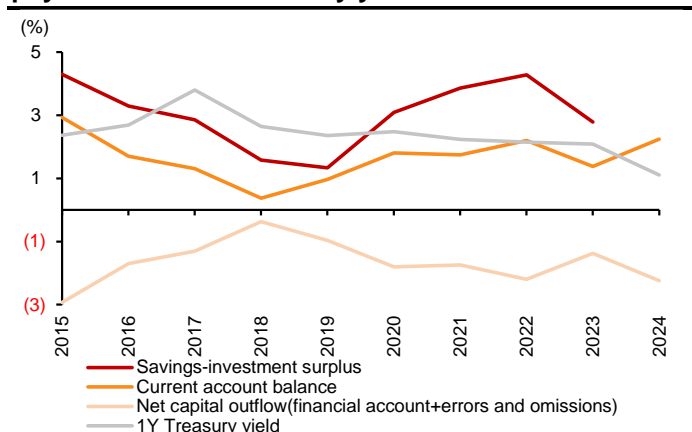
Source: Wind, CMBIGM

Figure 6: Share of major economies in global household consumption

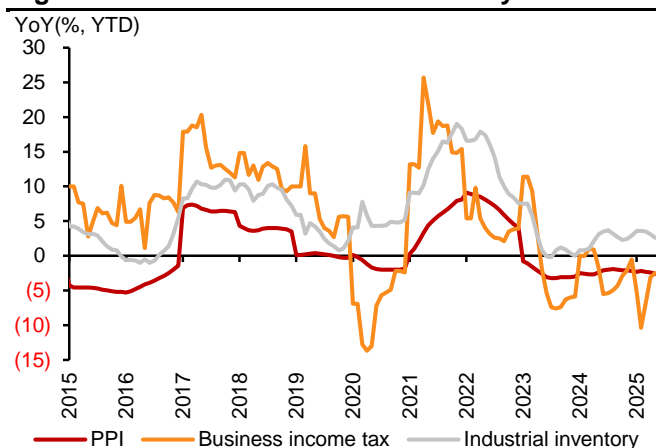
Source: Wind, CMBIGM

Figure 7: Share of major economies in global trade of goods

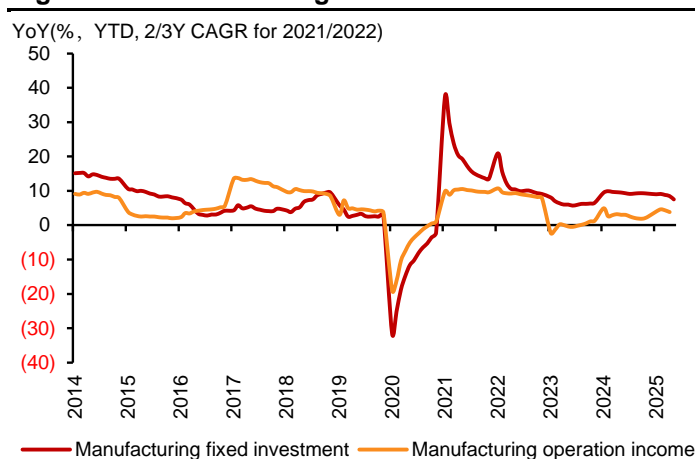
Source: Wind, CMBIGM

Figure 8: Savings-investment surplus, balance of payments and 1Y Treasury yield

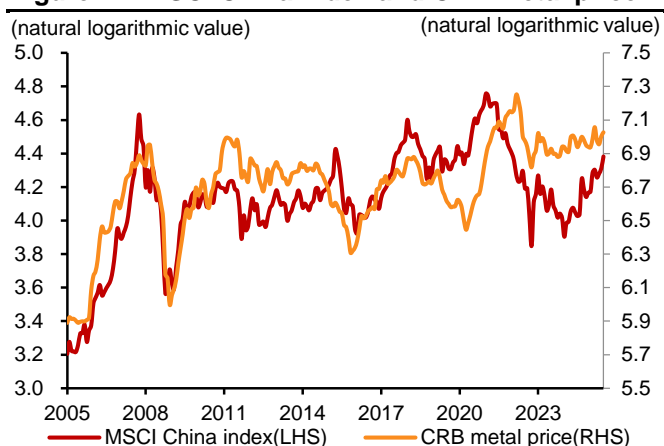
Source: Wind, CMBIGM

Figure 9: PPI and industrial business cycle

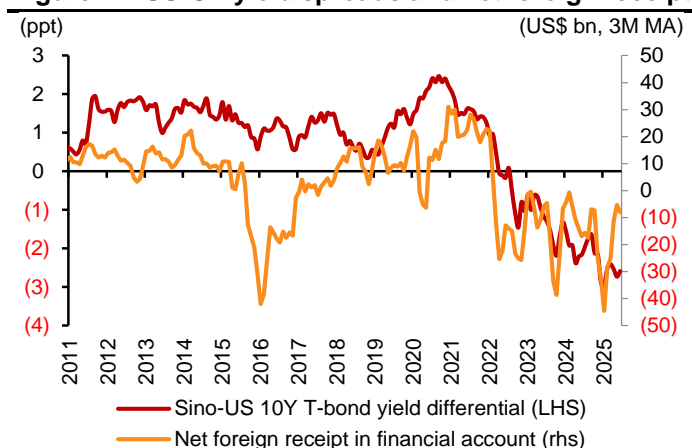
Source: Wind, CMBIGM

Figure 10: Manufacturing investment and income

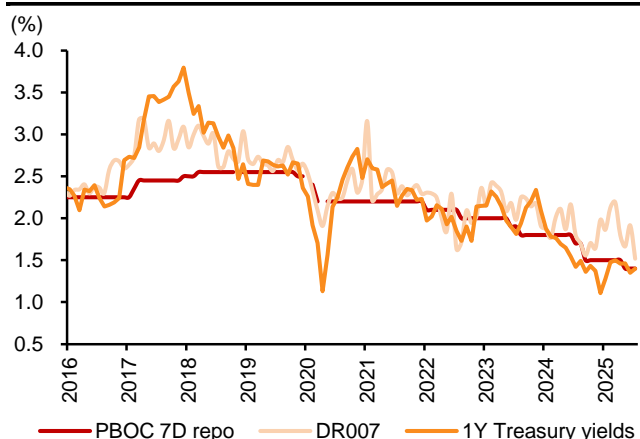
Source: Wind, CMBIGM

Figure 11: MSCI China index and CRB metal price

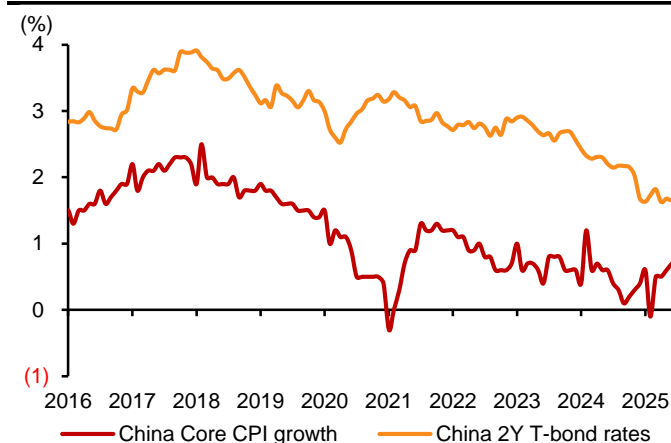
Source: Wind, CMBIGM

Figure 12: US-CN yield spreads and net foreign receipt

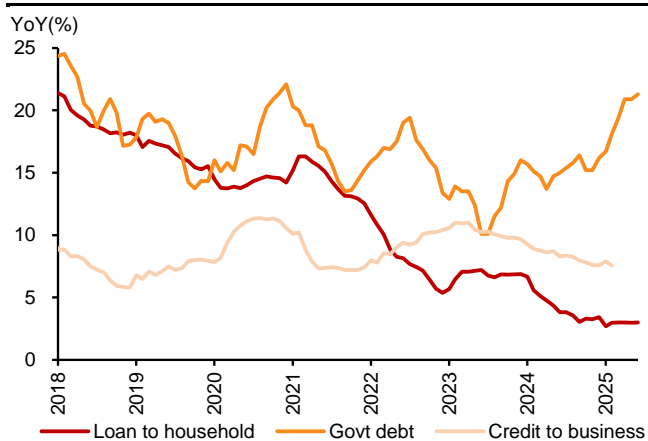
Source: Wind, CMBIGM

Figure 13: PBOC policy rates, banking liquidity and 1Y Treasury yield


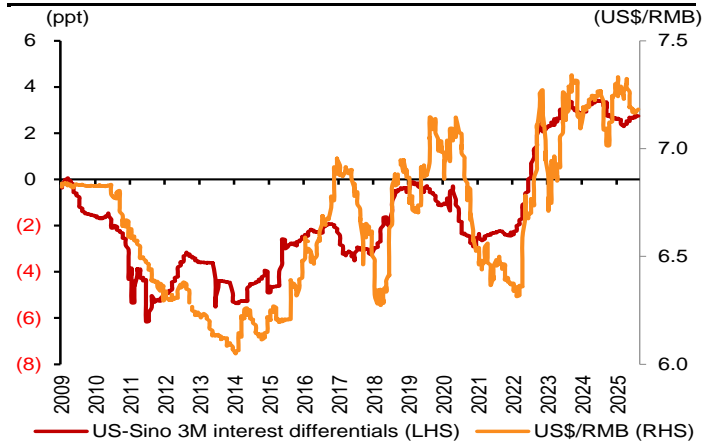
Source: Wind, CMBIGM

Figure 14: Core CPI growth and 2Y Treasury yield


Source: Wind, CMBIGM

Figure 15: Loan to real economy sectors


Source: Wind, CMBIGM

Figure 16: US\$/RMB rates & interest differentials


Source: Wind, CMBIGM

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