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China Policy

Politburo signals more active credit & property easing

The politburo held a meeting yesterday to map out economic policies for the second half year. The policymakers indicated further loosening of credit supply and property policy ahead. It pledged to activate capital market, expand consumption of durables and services and boost private business confidence. The politburo also vowed to resolve local government debt risks. The meeting came up with exciting policy goals, yet without specific plans on how to achieve those goals. Some investors may remain skeptical about the effectiveness of those abstract policies as the government's credibility has been damaged since last year. This could lead to an under-reaction of the market to policy changes. We believe this meeting marks an important change in policy attitude as the policymakers may become more active in policy easing in 2H23. If the leaders in China and the US could meet during the APEC Leader Summit in November to reduce geopolitical risk related to Taiwan Strait, then China will focus more on boosting economic growth while private business confidence can see better improvement next year.

- **Further credit loosening.** The politburo promised to increase the magnitude of counter-cyclical policy as it signaled further loosening of credit policy. The PBOC is likely to launch additional cut of RRR & LPRs in the second half year. Banks are encouraged to strengthen credit support to innovation activity, manufacturing and SMEs and roll over property developer debt and local government contingent debt.
- **Further property easing.** The politburo vowed to timely adjust real estate policies as there was a major change in supply-demand relations in the property market. We believe the policymakers are no longer worried about upside risks of housing prices as there is demand shrinkage and oversupply of housing in most cities. This judgement paves way for further loosening of property policies ahead. Looking into 2H23, more cities may abolish home-buying restrictions and lower down-payment ratios for first-home and second-home buyers. Tier-1 cities may be the last to ease related policies as housing demand is expected to remain weak. The politburo also said to accelerate the renovation of urban villages and increase subsidized housing supply in the 21 largest cities to improve people's living condition and stabilize property development investment.
- **To activate capital market.** The politburo said to boost capital market activities as they are of great importance for China's tech innovation and industrial upgrade. The policymakers did not give specific plans. We believe the restoration of investor confidence is the key to boost capital market activities.
- **To boost consumption of durables & services.** The politburo said to expand consumption by increasing household income and stimulate consumption of cars, electronic products and home goods and promote consumption of services like sports, leisure and cultural tourism. The policymakers also required to expand the middle-income group. However, they did not give specific plans on how to achieve those policy goals. We expect some municipal governments may provide consumer coupons in consumption of related items.

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- **To restore private business confidence.** The politburo required central ministries and local governments to set up regular communication mechanisms with private entrepreneurs and foreign companies. It encouraged private businesses to take risks with the animal spirit to increase growth potential. The politburo also said to stabilize foreign capital in China while increasing international flights in future.
- **To resolve local government debt risks.** The politburo said to make a package of plans to resolve local government debt risks and push for the risk resolution of small and medium financial institutions with high risks. Now, the central government is auditing the contingent debt condition of local government. After the auditing, the central government may propose a package of plans to relieve local government debt risks. In the short term, banks may be guided to roll over local government debt with lower rates. In the long term, local governments may be guided to reduce their roles in infrastructure construction.

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