China Economic Perspectives

Policy loosening entering third stage?

Economics

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The State Council held a meeting on policy, chaired by PM Li Qiang.

The meeting was worth noticing for several reasons:

The meeting statement said counter cyclical policy supports should be stepped up in light of "the emerged problems existing in the economy now" in order to achieve the annual economic targets. The tone of previous statements on the economy in recent weeks had been mostly more benign. In general, the tone of the current statement of the economy tends to be less benign when policy makers have a greater sense of urgency.

An incrementally greater sense of urgency can happen because of more weak macro data and weak equity market performance.

There were some comments on policy measures worth noting:

- The meeting called for the rollout of a set of practical and effective incremental policy measures.
- Step up interest subsidy programs to expand fixed asset investments and enhance consumption.
- Increase relending quota for technology innovation and equipment upgrading.
- Roll out measures to stabilize the real estate market.
- Encourage local authorities to initiate pilot programs.

We believe maybe we are entering the third phase of policy loosening this year:

- The first change was in late July when the Politburo meeting sent loosening signals but there were limited follow-ups for a month.
- The second phase started in late August when the state media published a number of high-profile articles on the economy and different ministries held a number of meetings highlighting the need to utilize existing funds sitting on the accounts of government entities to accelerate existing fixed investment projects before the end of 3Q (see here).
- The final stage is in 4Q, new policy measures will be rolled out to ensure the 4.5% lower bound of the target range is reached.

See here for our expectation of policy loosening.

The relationship between policy statements like the one today and implementation isn't always close. We have to monitor the implementation closely to see if the signal translates into policy actions, possibly before the start of the week-long October 1st National Day holiday.

Compared to the September 2024 policy loosening, this year's loosening is expected to be (1) less high profile and incremental, (2) relatively more fiscally focused (although today's meeting did mention the adjustment of monetary policy tools), and (3) more investment-focused.



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We expect some macro data to improve in September and 4Q, especially those closely related to GDP, e.g. IP and Service Output Index. On the other hand, data such as FAI have a much weaker relationship with GDP. A low base and more support should push the FAI growth rate higher but our conviction level on this is much lower.

Valuation Method and Risk Statement

N/A