

August 4, 2020

China: Six stabilities, Six guarantees



Thus far, China is weathering the global recession better than most. With the IMF forecasting that all regions will experience negative growth this year, China is an outlier, with growth turning positive again in the second quarter (+11.5%, bringing growth in the first half to -1.6% yoy). However, the Politburo meeting – a key government meeting on economic topics with important policy implications – acknowledged that the near-term economic situation is still complex and challenging. To tackle this and keep the economy on course, the Chinese government is using a calibrated policy approach which aims to ensure six areas of stability, with six guarantees...

The Politburo meeting was held on July 30th, chaired by President Xi. The meeting focused on three topics:

• An announcement that the 5th Plenum session will be held in October, which

will discuss the next five-year plan (2021-2025) and long-term development plan by 2035.

- An assessment of the current economic situation.
- The plan for the economy in 2H20.

Below, our expert in Hong Kong have summarized the key takeaways.

1. Assessment of the near-term economic situation: "high instability and high uncertainty"

China's economic growth beat expectations notably in Q2. Yet, the near-term economic situation is still complex and challenging with a high degree of instability and uncertainty. Many of the problems are mid to long-term and tackling them will require prolonged efforts.

 Assessment of mid to long-term situation: "China has entered a stage of high-quality development"

From the global perspective, China is still in a period of strategic opportunities, but the global environment is becoming increasingly complicated, with higher instability and uncertainty. On the domestic front, China has entered a stage of high-quality development. China has various advantages in its growth trajectory, but in the meantime problems of unbalanced and insufficient development are still prominent.

• Policy continuation in the second half of 2020.

Economic policy continues to focus on

"six stabilities" (stable employment, finance, trade, foreign investment, investment, and expectations) and "six guarantees" (ensuring employment, basic livelihood, market entities, food and energy safety, stable supply chains and grassroots operations).

Two points are believed to be most

important: **Stable employment** and **protecting market entities**, *i.e. avoiding large-scale bankruptcy in the corporate sector. This has been a priority policy focus in the first half and continues to be.*

• Expanding domestic demand through structural reforms

"Dual-loop theory" is being promoted, i.e. relying mainly on the development of domestic loops and fostering the mutually reinforcing mechanism between domestic and international economic loops.

The Politburo meeting outlined key

areas to expand domestic demand via structural reform, such as consumption upgrade, new urbanization (develop city clusters around metropolitan areas), efficient investment (e.g. new infrastructural investment), continued openness policy, promotion of stable and healthy development of real estate market, etc.

• Continuous and targeted support from fiscal and monetary policies

The overall policy tone implies an ongoing rollout of fiscal stimulus, neutral monetary policy, and fine-tuning of housing lending policy towards less accommodative.

On the fiscal side, it was expressed that "fiscal policy should be more proactive and effective", and that the funding for construction of major projects should be guaranteed. On the monetary front, policy should be more flexible, reasonable and targeted, aiming to maintain a reasonable growth in money supply and total social financing, and to reduce financing cost for the corporate sector, particularly SMEs. Excessive monetary easing is to be avoided. Investors will have further insights into the health of the Chinese economy this week, with the Caixin Composite PMI due Wednesday and the Trade Balance due Friday.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified, All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www.bil.com.

