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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.

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