UOB Investment Insights

Thinking Ahead

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China's Politburo meeting: Potential impact on the economy

- China's top leaders signalled more policy support for the domestic economy at the latest meeting of its Politburo, the China Communist Party's top decision-making body. What impact will this have on the economy?
- Pledges to support the property sector, boost consumption and resolve local government debt issues are potentially positive for the economy, but concrete details have not yet been announced.
- Avoiding large-scale stimulus, China has instead focused on targeted support measures intended to deliver aid to areas of the economy most in need. However, business and consumer confidence will take time to fully recover.

Targeted pro-growth policies to support the economy

- China's economic recovery has been uneven so far, and the Politburo statement mentioned that "economic operation is facing new difficulties and challenges, mainly due to insufficient domestic demand, difficulties in some enterprises' operations, many hidden risks in key areas, and a complex and severe external environment".
- In response, China's leaders used this Politburo meeting to signal more policy support for the economy but refrained from offering concrete policy details.
- Beijing promised "counter-cyclical" policy, which hints at prioritising domestic demand over industrial policy. This shift in priority is reinforced by the emphasis that goods and services demand should drive supply, as opposed to the prior focus of using industrial policy to increase supply output and stimulate economic activity.
    - This implies that China's leaders are aware of the rising contribution of services to GDP and that boosting consumption will kickstart other parts of the economy.
    - To add on, China has vowed to boost the consumption of electric cars and electronic products.
- To address property sector weakness driven by a crackdown on property developer debt, household speculation and slumping demand, the Politburo statement indicated it will "optimise and adjust" property policies at an appropriate time to promote the stable and healthy development of the sector.
    - Notably, Beijing's language on the housing market has softened, with President Xi Jinping's well-known warning that "property is for living, not for speculation" clearly omitted. This indicates the government's priority has shifted towards supporting property prices and developers.

- It has been reported that Chinese authorities are considering easing homebuying policies in some provinces by scrapping mortgage restrictions penalising second-time property owners, such as higher down payments and restrictive borrowing limits.
- Prior to this Politburo meeting, loan relief was already extended for property developers to ensure the timely delivery of homes under construction.

- The Politburo pledged to make stabilising employment "a strategic focus" in response to record-high youth unemployment.
- To address local government debt and the risk of defaults arising from a slump in land sales revenue, the Politburo vowed to deal effectively with the risks and "come up with and implement a series of new policies to reduce debt". According to media reports, this could involve loan restructuring where Chinese banks agree to lengthen the principal repayment date or modify the frequency of interest payments, and debt-swaps where the debt holder gets an equity holding in exchange for the cancellation of the debt.
  - While the annual quota for local government bonds was not raised, the Politburo called for a faster issuance of bonds and for provincial officials to make "good use" of the current bond quota. This signals Beijing will allow provincial governments to bring forward their borrowing to settle existing debt obligations and drive economic growth via infrastructure spending.
- In another sign that the crackdown on tech companies is over, the Politburo pledged to drive the healthy and sustained development of internet platform companies. Some restrictions on generative artificial intelligence (AI) services have also been loosened.
- The Politburo vowed to enliven China's capital market and restore investor confidence.
- On the monetary policy front the Politburo mentioned that the PBoC will roll out more targeted liquidity to support lending to favoured sectors and to keep the Chinese Yuan in a "basically stable" range.

Other recent policy announcements

- China's National Development and Reform Commission (NDRC) published a plan to encourage private companies to invest in key industries like clean energy, new infrastructure, advanced manufacturing, modern agricultural facilities, water conservation and transportation.
- China has vowed to boost the redevelopment of urban villages and will seek private sector collaboration in the development of cities, in order to boost property construction.
- The government has also signalled support for private sector companies, vowing to improve conditions for private businesses and outlined 31 measures that will treat private companies on a level footing as state-owned enterprises (SOEs) and cut market barriers.

Our View: Targeted support measures, but details and execution will be key

- Large-scale stimulus is out of the question, as the Chinese government is wary of fuelling another bubble.
- However, the pledge to ringfence local government debt risks and its support for the private sector and property market indicates the Chinese government is aware where the key risks lie, and offers

encouragement of targeted policy coordination going forward to achieve the official 2023 GDP target of "around 5%".

- While some have expressed concern that no details of specific policies have been announced, it needs to be highlighted that the Politburo sets the broad economic agenda.
- Specific policy details will come from the State Council, so keep an eye on announcements from that body over the coming weeks.
- Until then, it is difficult to assess the true economic implications of the Politburo's directives. In addition, policy execution will be key to ensure the full desired impact on the economy.
- One saving grace is that China avoided any fiscal or monetary policy easing during the COVID years, so it has policy ammunition left in its toolkit. If economic growth continues to slow, the Chinese government can do incrementally more.
- Monetary policy easing may also be on the cards, especially a reduction in the reserve requirement ratio (RRR), which will help increase the flow of money through the financial system and potentially spur economic growth.

What you can do

- In the short-term, China's economic growth may disappoint, and Chinese stock prices may continue to underperform global peers. That said, Chinese stock prices already trade at depressed levels, and further downside is probably limited.
- Be cautious in the short-term. The outlook is positive over a 24-month timeframe.
- Those who already hold an allocation to China should review their investment time horizon and risk appetite.
    - If you have the appropriate time horizon and risk appetite, holding positions with a medium-term timeline can reap rewards further down the road, given attractive valuations and supportive policies.
    - If you are considering buying into China or increasing your China exposure, structured products may be a more defensive way to participate as a clear entry point may only materialise once policy details are announced.
    - Most importantly, avoid concentration risk since the short-term outlook remains uncertain. Instead, maintain a diversified portfolio to meet your long-term goals.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and needs.

Right By You

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