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Chinese leaders zero in on need for stimulus for economy

Policymakers expected to prioritise spurring high-tech rather than 'big bang' for consumption, analysts say

An automated robot seller gets ready to serve people at a robot kiosk in Beijing © Adek Berry/AFP/Getty Images

Joe Leahy in Beijing and **Thomas Hale** in Shanghai

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China's top leaders are expected to decide on additional stimulus measures for the world's second-largest economy this month after a sharp slowdown in second-quarter GDP.

The leaders are expected to focus on speeding up bond issuance at their next Politburo meeting to enable greater infrastructure spending in an economy in which exports are performing strongly but domestic demand is weak.

"Even a few months ago, my sense was that it was a pretty perilous time for the economy and with the additional loss of momentum, I think the time for action is certainly on their doorstep," said Eswar Prasad, professor at Cornell

University. "So we have to see what comes out of the Politburo meeting."

China's 2026 growth target of 4.5–5 per cent was already the lowest in decades and growth in the second quarter was even lower, official data showed this week, at 4.3 per cent.

While official media emphasised that first-half growth was 4.7 per cent, within the target range, the deterioration raises questions over the potential need for Beijing to act.

"For policymakers, the worry is that if the deceleration continues, then your target for the full year is at risk," said Hui Shan, chief China economist at Goldman Sachs.

Official quarterly and monthly data underlined China's "K-shaped" growth. Weak household confidence is undermining domestic demand, leading to greater pressure on government infrastructure spending and soaring exports — especially of chips and electronics hardware related to the AI boom — to drive growth.

Exports rose 27 per cent year on year in June. However, retail sales rose only 1 per cent and China's long property slump has shown signs of deepening, with investment in the sector collapsing 18 per cent in the first half of the year.

"To stabilise consumption, you probably need to see the housing market stabilise," said Adam Wolfe, emerging market economist at Absolute Strategy. While there were signs of this in China's biggest cities, "in smaller cities, it's going to take a long time", he said.

"The equilibrium price is probably still well below where we are," he added.

Senior Chinese policymakers have underlined the need to build up domestic demand and for consumption to drive more economic activity.

At a roundtable with business leaders and experts last Monday, China's Premier Li Qiang called for increased "countercyclical adjustments", a reference to economic stimulus. He also mentioned "stabilising" employment four times.

This week the State Council, China's cabinet which Li heads, approved its latest "five-year plan" for consumption, calling to sell more white goods and cars coupled with pledges to boost income and social security support.

In recent years, Beijing has used schemes such as trade-in programmes to let consumers upgrade household goods and vehicles at subsidised rates. But these have mainly frontloaded demand, leading to weaker retail figures this year, analysts said.

The new five-year plan implies a 3.7 per cent annualised increase in household consumption. The measures were "medium-term in nature" and skewed more to the supply side rather than lifting demand, Goldman Sachs said in a report.

Beijing still has options this year to steer the economy through the soft patch, analysts said.

Total government bond issuance at the end of June was 43 per cent of the Rmb11.9tn targeted for the full year, allowing room to accelerate in the third quarter.

In addition, the government could tap another Rmb1.8tn of previously approved but unused bond issuance quota. Beijing this year also created a Rmb800bn "policy-based financial instrument" of state-bank credit that could be deployed for fiscal support.

Goldman's Hui said while these measures should be enough to nudge quarterly GDP growth back into the target range, further support was possible, such as special sovereign bonds that Beijing has issued in recent years.

"If you get a negative shock such as from the trade war, or if the Iran war really escalates, or there is something that we don't even see yet on the horizon . . . there's no limit to how much they can do," Hui said.

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Analysts cautioned against expecting "big bang" support for consumption. Instead, policymakers have prioritised investment in advanced technology where China is competing with the US for global pre-eminence.

"We expect state resources to be allocated more towards frontier technologies — AI, semiconductors, quantum computing, and advanced manufacturing — rather than household wallets," Morgan Stanley economists wrote in a report.

Cornell's Prasad said concentration on technology and exports would "create a little bit of space" but would be of little help to deteriorating household income growth and employment prospects, especially among lower-income groups.

The "finely calibrated" headline growth figure for the second quarter sent "a message of some concern but not panic", he added. "There is this set of indicators that in tandem with decent-looking GDP growth is probably giving them some sense of false comfort."

Data visualisation by Haohsiang Ko in Hong Kong

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