Chinese central bank unleashes major financial stimulus

Nick Beams
25 September 2024

The People's Bank of China (PBoC) has unleashed a series of financial stimulus measures, highlighting the mounting concern in the Xi Jinping regime over the lowered Chinese growth rate and fears that it will not meet the official target of "around 5 percent" for this year.

The decisions were announced at a one and a half hour briefing by the PBoC governor and other officials on Tuesday.

However, in the absence of any moves by the government for a fiscal stimulus—that is, increased government spending—doubts were immediately raised that the financial measures, while providing a boost, will be sufficient.

The measures are largely directed to the financial system, the stock market and better-off sections of the middle class, who form the social base of the regime.

The main decisions were a cut in the central bank's base interest rate from 1.7 percent to 1.5 percent, and a reduction in the reserve requirement rate (RRR) by 0.5 percentage points while signalling a further cut of 0.25 to 0.5 percentage points later this year. The PBoC said the reduction would add 1 trillion renminbi ($142 billion) in liquidity to the banking system.

A note issued by Goldman Sachs, reported by the *Financial Times*, said the "rare simultaneous cut of policy rates and RRR, the relatively large magnitude of cuts and the unusual guidance on further policy easing indicated policymakers' growing concerns over growth headwinds."

Other measures were aimed at trying to boost the stock market and the property sector. The central bank said 500 billion renminbi ($71 billion) would be provided to help brokers, insurance companies and funds buy stocks, with 300 billion available to help companies make share buybacks.

Announcing the decision to make available a total of $114 billion, the central bank governor Pan Gongshen said it was the first time the PBoC had "innovated" and used such measures. He indicated they could be doubled or tripled if they worked.

The measures saw a rise in the benchmark CSI share index of 4.3 percent, but it is still down 40 percent from its peak in 2021.

Another significant move aimed at shoring up support in the better-off sections of the middle class was the decision to reduce the minimum down payment on a second home purchase from 25 percent to 15 percent.

The PBoC will also try and boost the property market by ramping up its re-lending program for state-owned firms to acquire unsold property by providing 100 percent of the principal of bank loans for these purchases, lifting it from the 60 percent it announced last May.

The very sharp downturn in the property market has weighed heavily on consumer confidence and spending. According to calculations by Barclays, as reported in the *Wall Street Journal*, the "property crunch since 2021 has incinerated some $18 trillion in household wealth."

Central bank governor Pan said the new measures were intended to "support the stable growth of China's economy" and promote a modest rebound in prices. Economists have warned that the slowdown in growth risks pushing China into a deflationary cycle.

Pan gave a more upbeat assessment. "The Chinese economy is recovering and the monetary policies introduced by our bank this time will help support the real economy, incentivise spending and investment and also provide a stable footing for the exchange rate."

This is not the view of economists, both in China and internationally, who insist that the government must

© World Socialist Web Site

intervene with a fiscal stimulus package to boost the economy. There is no indication that it has any intention of doing so, even though such measures were employed in the past, because it fears they will add to debt, with the potential to cause major financial problems.

The official line of the government is to develop what President Xi calls "high quality productive forces," based on high-tech and more efficient methods of production, and increase exports to the rest of the world.

But there is no indication that this strategy is providing a boost to the domestic policy, which critics of the government say is necessary. Moreover, it is running into obstacles in the form of increased tariffs imposed on Chinese goods.

Consequently, while the PBoC measures were broadly welcomed, they were regarded as being insufficient.

The size of the "big bazooka," which many are calling for, was outlined in a speech given by a former top government adviser to an economic policy conference, held last week on the eve of the PBoC announcement.

Liu Shijin, former director of the State Council's Development Research Centre, whose remarks were reported in the *South China Morning Post*, said the stimulus package should be at least 10 trillion renminbi, or $1.42 trillion.

He said it should be funded by ultra-long-term bonds and be directed to addressing gaps in social facilities.

"A key area is to significantly improve basic public services for new citizens, particularly rural migrant workers moving to the cities, in areas like affordable housing, education, health care, social security and elderly care."

The focus on these areas reflects concerns, in sections of the regime and their economic advisers, that the falling growth rate means a decline in the prospects for the working class and could lead to major class struggles. The Chinese leadership used to say that 8 percent growth was needed to maintain "social stability." Now it will struggle to make 5 percent, with most forecasters predicting a continuing downward trend.

While not specifying the size of the fiscal boost, numerous commentators and analysts insisted the PBoC measures were not enough.

Morgan Stanley said the boost to the stock market was "an absolute positive move," but said improvement and a rebound rally was "more dependent on macro recovery as well as corporate earnings growth bottoming out."

Julian Evans-Pritchard, head of China Economics at Capital Economics based in Singapore, told the WSJ the central bank's measures were a step in the right direction, "but are not really enough to drive a turnaround in the economy" and more aggressive fiscal support was missing.

Liu Chang, a macro economist at BNP Paribas Asset Management, told the FT that while the stimulus was "certainly positive," officials needed to act "very quickly in the weeks ahead to implement additional measures if they wish to get to the 5 percent target."

"In this regard, we think there is still a worrying lack of urgency behind their words around stimulus," he continued.

An FT editorial comment summed up the general sentiment, saying the measures failed to grapple with the reality of China's economic challenges.

"Domestic demand is saddled by high precautionary saving rates and low confidence in the private sector," it said. "Beijing's desire for export-led growth is also under pressure from the intensifying trade war with the US. The latest measures are poorly targeted for these problems, and may largely be a cosmetic effort to hit Beijing's annual 5 percent economic growth target."

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site