China’s finance ministry promises stimulus but gives few details

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The Chinese government has again failed to meet the demands of investors and the money markets for a major stimulus to the economy as deflationary forces continue to gather strength and exert downward pressure on economic growth.

At a major press briefing on Saturday, Lan Fo’an, the finance minister, said the government was ready to make funds available to local authorities and to put more money in the hands of banks to help boost the real estate market and lift consumer demand.

No details were provided, and Lan seemed to indicate that a plan was still under consideration. “After due procedures, we will release the number to society,” he said.

This was generally taken to mean that the details of any plan would be announced at the next meeting of the National People’s Congress (NPC) or at a meeting of its standing committee which is expected to convene in coming weeks.

Lan said the “countercyclical adjustment goes far beyond what I have mentioned” and that more measures were under discussion. “The central government, when it comes to increasing the deficit and increasing debt, we have significant room.”

How far that commitment extends is another question. It does not appear to be anywhere near the $1.4 trillion economic stimulus that a number of economists and analysts, including a former official of the People’s Bank of China, have said is necessary to boost the economy.

The general response by financial analysts and the representatives of major finance houses to Saturday’s announcement was ambivalent. While they were another step in the right direction, they were not specific enough.

Immediately after the Lan press briefing data were released showing why major fiscal action is considered necessary. They showed that deflationary pressures are increasing.

The consumer price index rose by 0.4 percent for the year to September, below forecasts of a 0.6 percent rise, and down from the 0.6 increase recorded in August. In the area of production, the data from the National Bureau of Statistics underscored the worsening trend.

The producer price index fell by 2.8 percent year-on-year. This was acceleration from a fall of 1.8 percent in August and was the sharpest decline for six months. Producer prices have now fallen for the 24th month in a row.

The bureau said the latest decline was driven by a fall in the ferrous metal smelting and rolling industry where prices were down 11 percent for the year. In the petrol, coal and other fuel processing industries, prices were down by 9.4 percent.

It remains to be seen what the market reaction will be this week. However, so far comments by financial analysts point to a negative response if not immediately, then at least over the longer term. The markets are looking for some flesh to be put on the bones of what have been general announcements of government plans.

When the People’s Bank of China announced financial stimulus measures at the end of last month, the stock market surged by 24 percent, but it fell back over the lack of detail on what the government planned on the fiscal front.

Alicia Garcia Herrero, Asia-Pacific economist at the financial firm Natixis, said it was difficult to understand why the government was not providing more clarity about what it intended to do. “I don’t think it will lift the market massively,” she said after Saturday’s briefing.

Raymond Yeung, chief economist for Greater China with the ANZ bank, said the market would be "disappointed." "Everyone was looking for a number, but the finance minister did not give us one."

One reason advanced in commentary on the lack of detail was that specific numbers have to be rubber-stamped by the NPC, but as another comment noted, the extent of any stimulus could have been at least indicated.

Most significantly the announcement did not give any indication that major measures will be taken to boost consumer demand which is widely regarded by economists as essential for reviving economic growth.

Jacqueline Rong, chief China economist at BNP Paribas, said: "The policy to support consumption sounds quite weak. It is still too early to call an imminent significant turnaround in deflationary pressure or a bottoming out of the property market which are two key issues faced by the Chinese economy."

The lack of measures to boost incomes and thereby consumption is not a surprise because the Chinese government, starting with President Xi Jinping, has declared its opposition to what it calls "welfarism" that leads to the development of "lazy people."

Moreover, boosting consumer demand to lift the domestic economy runs counter to the long-term economic strategy of the Chinese regime. It is seeking to rise up the global economic ladder by developing new high-tech industries to advance China's position in global markets. Stimulus measures directed to the domestic economy only increase debt.

Data to be released later this week are expected to show a developing two-track economy, marked by stronger trade numbers coupled with slowing domestic growth and an overall weakening in third quarter GDP.

However, the high-tech strategy is running into a major obstacle due to the rise of protectionist measures, tariffs on Chinese goods and outright bans that are being stepped up in the US and Europe.

According to a *Financial Times* report: "Analysts cautioned that if growth slows further and China's export engine begins to hit more roadblocks, such as protectionism from important trade partners, policymakers will have to take some more action."

According to Larry Hu, an economist with the financial firm Macquarie: "If the two-speed model [can] not continue, policymakers [will] have to escalate policy stimulus."

He also pointed to another issue confronting the government, namely that if exports weakened and domestic demand further slows, this could lead to social unrest.

The Chinese regime used to maintain that at least 8 percent growth was needed to maintain social stability. Now the growth rate could be even under the official target of 5 percent for this year.