People's Bank of China

China's central bank resists large-scale coronavirus stimulus

Policymakers unmoved by US Fed's surprise rate cut, preferring tailored measures

There is no sign of any short-term fiscal stimulus from China's central bank to help deal with the economic consequences of coronavirus © AFP via Getty Images

Tom Mitchell in Singapore YESTERDAY

China's central bank barely blinked this week when the US Federal Reserve cut its main policy rate to soften the economic impact of the coronavirus pandemic.

Chinese stocks hit a two-year high on Thursday as investors anticipated a fresh stimulus push from the People's Bank of China, and in a front-page commentary earlier this week the official China Securities Journal noted that the surprise decision to reduce US interest rates by half a percentage point had "opened a window" for the PBoC to adjust rates as well.

But there has been no hint of any big-bang surprise from the PBoC, which subsequently said it would not issue any "short-term stimulus" measures to boost the property sector, one the country's most important economic engines.

"Liquidity seems to be broadly ample and the financial plumbing continues to function. You don't want to go beyond that," said one adviser to China's central bank.

That is in sharp contrast to other affected countries — both South Korea and Italy have launched fiscal stimulus packages to help deal with the economic consequences of the virus.

It is not clear what manufacturers or consumers would be able to do with a sudden infusion of cheap credit, given that companies are struggling to get operations back up to full speed and tens if not hundreds of millions of people are still subject to varying restrictions on their movement.

For example, sales of passenger cars fell by 80 per cent year-on-year in February not because of a lack of credit, but because car companies could not make any cars and would-be buyers could not venture out to dealers' showrooms.

Even in late February, when it was clear that president Xi Jinping's initial efforts to restart the world's second-largest economy were faltering, the PBoC made only a 10-basis point cut in its seven-day reverse repo rate, to 2.4 per cent.

The PBoC is headed by Yi Gang, a well-regarded technocrat, but overall policy is ultimately decided by a Financial Stability and Development Committee headed by vice-premier Liu He, president Xi's most trusted economic adviser. Another important member of the commission is Guo Shuqing, who effectively co-heads the PBoC as its Communist party secretary and separately runs China's banking and insurance regulator.

Ever since Mr Liu wrested control of day-to-day economic and financial policy from premier Li Keqiang and the State Council in 2016, he, Mr Yi and Mr Guo have focused on reining in high debt levels triggered by a massive credit stimulus unleashed during the 2008-09 global financial crisis.

"More cuts from the PBoC are probably on the cards," said Chen Long at Plenum, a Beijing-based consultancy. "But any move from the Chinese central bank is unlikely to match the Fed's . . . The PBoC seems more in line with the view that the [coronavirus epidemic] is a supply-side shock and easing monetary policy can only help to a certain extent."

So far the PBoC and central government have focused on measures to relieve the financial stresses building on companies and their bank creditors. Mr Chen estimates the various relief measures announced by the government to be worth Rmb1tn, or about 1 per cent of gross domestic product. These include reductions in employers' required social insurance payments, lower electricity fees and VAT waivers.

On Wednesday China's aviation regulator announced a subsidy for domestic and international carriers. At regional and local government level, seven provinces recently announced investment projects worth Rmb25tn, with

Rmb3.5tn of that amount to be spent this year.

"Chinese policymakers generally have an affinity for modest and targeted macroeconomic policy moves," said Eswar Prasad at Cornell University and a former head of the IMF's China division. "This is one way of balancing the potential benefits of those moves with medium-term risks."

But, he added, the forthcoming calendar of economic data releases is likely to put pressure on the central bank to take further action: "These are desperate times and we may soon see the government take more drastic measures as weak data roll in and if it looks like the epidemic is being contained", so that the economy can start to pick up again.

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A handful of sentiment index readings over the past week reported record low figures indicating a massive contraction in manufacturing and service sector activity last month, but broader economic indicators for January and February will not be available until later this month.

Becky Liu, economist at Standard Chartered, expects the PBoC to cut its medium-term lending facility this month and possibly its benchmark deposit rate too. She calls the latter a "powerful tool to lower banks' funding costs", which have risen over the past three years.

The PBoC is also concerned about a rapid strengthening of the renminbi in the wake of the Fed's move this week. Since February 24, the renminbi has gone from 7.03 to the dollar to 6.94.

"There is clearly pressure on the PBoC to loosen policy," said the PBoC adviser. "But the PBoC will be inclined to provide targeted support as opposed to blanket support. They are very concerned about things that could create difficulties further down the road."

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