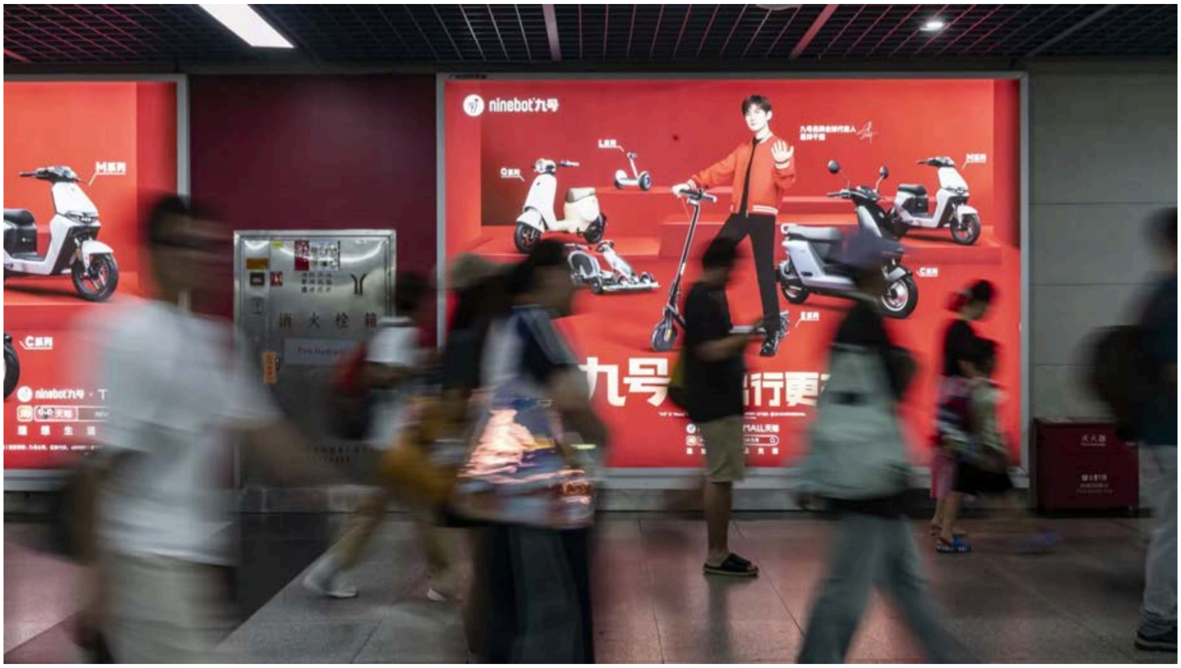
Chinese economy

# China loosens monetary policy stance for first time in 14 years

Markets rally as Communist party officials to meet in coming days to discuss country's economic policy




China's consumer price index rose 0.2% year on year, a five-month low, in November © Qilai Shen/Bloomberg

**Joe Leahy** in Beijing and **William Sandlund** in Hong Kong and **Ian Smith** in London
DECEMBER 9 2024

China's leaders have changed their stance on monetary policy to "moderately loose" from "prudent" for the first time in 14 years, sending stocks and bond prices higher as investors bet policymakers were taking the economic situation more seriously.

The announcement on Monday from the Communist party's politburo, which is headed by Xi Jinping, comes as leaders prepare to hold an annual meeting this month to lay out the economic agenda for next year.

The politburo said authorities "must implement more proactive fiscal policies and moderately loose monetary policies".

It added that authorities needed to "strengthen extraordinary countercyclical adjustments and . . . vigorously boost consumption, improve investment efficiency and expand domestic demand in all directions".

China's 10-year bond yields fell to a record low of 1.92 per cent, continuing a sweeping rally and defying warnings of a "bubble" in government bond prices. Bond yields move inversely to prices. Hong Kong's Hang Seng China Enterprises stock index closed up 3.14 per cent after the policy announcements.

"To escape the debt-deflation loop, Chinese policymakers need to ramp up fiscal measures to boost consumption," said analysts at Brown Brothers Harriman. "As such, the latest politburo announcement is encouraging."

China last adopted a "moderately loose" stance in late 2008 after the global financial crisis and ended it in late 2010. The change of stance on Monday was taken by investors as a sign the leadership was taking China's economic problems more seriously.

Morgan Stanley economists said it was the first time China's leadership had added the word "more" to its description of its proactive fiscal policy since the Covid-related downturn in 2020. They said it was the first time ever the leadership had added the word "extraordinary" — which Morgan Stanley translated as "unconventional" — to its description of necessary "countercyclical adjustments".

The statement suggested that boosting demand, especially consumption, would be the priority next year, with supply chain upgrades and innovation coming second, the Morgan Stanley economists said. But they cautioned: "While the tone is very positive, implementation remains uncertain."

The Chinese economy has been dogged by deflationary pressures for months on the back of a property slump, prompting the government to announce a monetary stimulus in September and fiscal measures in November mainly targeting local government debt.

The economy flirted with outright deflation in November, data released on Monday showed, adding to pressure on Communist party officials to do more to revive consumer sentiment.

China's consumer price index rose 0.2 per cent year on year, a five-month low and below a Reuters poll of analysts that forecast a gain of 0.5 per cent. On a month-on-month basis, prices dropped 0.6 per cent from October to November.

The country's producer price index, which measures the prices of goods sold by Chinese manufacturers, declined 2.5 per cent year on year, compared with analysts' forecasts for a 2.8 per cent drop and a decline of 2.9 per cent in October, continuing a two-year run of falling factory gate prices.

The Communist party is expected to hold one of its top annual economic policy meetings, the Central Economic Work Conference, in the coming days, with analysts waiting eagerly for any signs of a more concerted push to revive household spending.

"The Chinese economy continues to flirt with deflation, highlighting the inadequacy of the stimulus measures thus far in restoring private sector confidence, reviving domestic demand and putting growth back on track," said Eswar Prasad, professor at Cornell University.

Beijing's stimulus measures in the past few months have included monetary measures and a Rmb10tn ($1.4tn) debt swap plan that aims to enable local governments to catch up on salary and supplier payments that have fallen into arrears.

But more economists and scholars in China are calling for greater efforts to lift household spending.

Some hope the Central Economic Work Conference will focus on these concerns, though the high-level leadership meeting is more likely to signal the direction of policy rather than include detailed announcements.

*Additional reporting by Wenjie Ding in Beijing*