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ECONOMY | CENTRAL BANKING

China Moves to Boost Bank Lending in Broad Effort to Prop Up Growth

Central bank sends signal that officials are eager to curb a stock selloff and support the economy

By Jason Douglas Follow

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Pan Gongsheng, governor of the People's Bank of China, announced the move on Wednesday. PHOTO: SHUBING WANG/REUTERS

SINGAPORE—China's central bank announced new steps to boost bank lending to households and businesses, an early move in what is expected to be a broad but restrained campaign by authorities to prop up growth this year after a lackluster 2023.

It comes on the heels of signs of gathering government support for China's swooning stock market, with investors detecting a rash of share buying by pension funds, insurers and other state-linked firms.

The cut to banks' reserve requirements—announced unexpectedly by People's Bank of China Governor Pan Gongsheng during a press conference on Wednesday in Beijing—sends a new signal that officials are feeling growing

pressure to curb the stock-market selloff, while also stepping up support for the broader economy.

Still, the move is unlikely to cheer economists who say that what the world's second-largest economy needs aren't cheaper or more abundant loans but rather a pickup in government spending, as well as more forceful efforts to bring a drawn-out real-estate crunch to a close and boost consumer confidence.

"The PBOC's action is a positive signal of the government's desire to stanch the loss in growth momentum and stabilize a floundering stock market," said Eswar Prasad, professor of trade policy and economics at Cornell University and a former head of the International Monetary Fund's China division. Still, he said, "This move by itself will be of limited potency at a time when business and household confidence is so weak."

Pan said the central bank would lower the amount of reserves banks need to hold against their deposits starting Feb. 5, freeing up around 1 trillion Chinese yuan, equivalent to $139 billion, that can then be funneled into new loans.

The timing came as a surprise. Many economists were anticipating a cut to banks' reserve requirements but not until later in the year. It is also unusual for the central-bank governor to announce such a move, which is typically telegraphed by the cabinet, known as the State Council.

Wednesday's reserve reduction marked the third such move in less than a year, following cuts of one-quarter of a percentage point first in March and again in September last year. The latest cut will take the average reserve requirement across all banks to around 7%, from 7.4% previously.

The central bank also intends to cut some key rates linked to loans for small firms and rural enterprises, effective Thursday, Pan said.

The announcement came after stock markets in mainland China were closed, but Hong Kong shares rallied in response. The Hang Seng Index, which includes the shares of many big Chinese companies, ended the day 3.6% higher, its strongest performance in months. On the Chinese mainland, the benchmark Shanghai Composite Index finished the day 1.8% higher.

It was the second bit of good news for investors in Chinese shares this week, after the State Council on Monday called for more to be done to stabilize the market. That led to widespread stock-price gains in mainland China and Hong Kong, clawing back some of their recent declines.

China's economy expanded 5.2% in 2023, a speedier pace than it achieved in 2022 but still one of the weakest growth rates in decades, excluding the troubled years of the pandemic.

Exports suffered as rising interest rates bit into consumer and business spending in the U.S. and Europe. Consumption started off strong but fizzled as households opted instead to sock away cash amid a painful, multiyear property bust that shows few signs of ending.

Growth was propped up by government spending on infrastructure and a surge in investment in manufacturing, especially in green technology and other emerging industries that China hopes will give it an edge in global markets as the world dials back its reliance on fossil fuels.

Li Qiang, China's premier, told business and political leaders gathered for the World Economic Forum in Davos, Switzerland, earlier this month that China's economy would have its ups and downs but that its long-term trajectory was assured. He said China had posted a healthy expansion in 2023 without resorting to the kind of massive stimulus that juices growth—but which also fosters instability and pushes up debt.

Officials have loosened homebuying restrictions in some cities and made small cuts to interest rates, for instance, disappointing economists who say that

China's rapid slowdown requires stronger medicine, as Beijing has done in the past.

Economists expect China to follow a similarly measured approach to stimulus this year, especially from the central bank. The PBOC hasn't pushed banks to cut benchmark lending rates this year, which were held steady on Monday.

Part of the reason is that the appetite for loans is subdued in China thanks to the troubles in the property market. Pan and other officials have also signaled concerns over the risk of a disorderly depreciation of the Chinese currency, though pressure on the yuan from rising interest rates in the U.S. has ebbed as the Federal Reserve hit pause on its rate-increase campaign.

Monetary policy is set to play a background role this year while fiscal policy moves to center stage, economists say, with the government expected to finance investment in areas like infrastructure and social housing.

The job of the central bank will be "basically ensuring there's enough liquidity. That's it," said Carlos Casanova, senior Asia economist at Union Bancaire Privée.

A more immediate concern for officials is a steep selloff in the stock market. Coming into Wednesday's trading session, China's benchmark CSI 300 had lost more than 40% of its value over the past three years, and was on track for its fourth year of declines. Hong Kong's benchmark index had already fallen 10% since the start of the year.

"The authorities are clearly concerned about the market sentiment," Raymond Yeung, chief economist for Greater China at ANZ Bank, told clients after Pan's unexpected announcement.

—Xiao Xiao in Beijing contributed to this article.

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Corrections & Amplifications

Raymond Yeung is chief economist for Greater China at ANZ Bank. An earlier version of this article misspelled his last name as Cheung. (Corrected on Jan. 24)

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