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China Tries to Jolt Ailing Economy

Central bank cuts interest rates and dangles loans for stock-market investors as concerns around world's second-largest economy intensify

By Jason Douglas Follow

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The People's Bank of China said further easing is in the pipeline. PHOTO: BLOOMBERG NEWS

China's central bank announced a blitz of measures to support the country's weakening economy and energize its moribund stock market, an unusually broad package that signals growing unease in Beijing after a run of downbeat numbers on jobs, spending and inflation.

Economists said that while the blast of support is welcome, it won't be enough to pull China's economy out of a low-growth rut marked by falling prices, a festering real-estate crisis and spiraling tensions over trade.

Instead, Beijing needs to get a firmer grip on the real-estate downturn and take robust steps to boost consumption if it is to spark a durable revival in the economy, many economists said.

The People's Bank of China said Tuesday that it would cut its benchmark interest rate and lower the amount of cash that banks need to hold in reserve—a bid to free up more resources for lending. It also said it would cut the interest rate payable on existing mortgages and lower down payments for second homes.

At a press conference in Beijing, PBOC Gov. Pan Gongsheng said further easing is in the pipeline, with another reduction in bank reserve requirements expected before year-end.

The central bank also announced it would offer 500 billion yuan in loans, equivalent to roughly $70 billion, to funds, brokers and insurers to buy Chinese stocks as part of an effort to lift the country's ailing stock market. It said it would put up another 300 billion yuan to finance share buybacks by listed companies.

Plunge Protection

China's benchmark index rose after the central bank said it would offer loans to buy stocks

CSI 300 Index

Source: FactSet

The CSI 300 index, China's stock benchmark, closed 4.33% higher Tuesday after the measures were announced. Hong Kong's Hang Seng surged 4.13%. Yields on Chinese government bonds, which move inversely to prices, climbed as investors rushed to buy stocks instead.

Still, the CSI 300 is down 2.3% since the beginning of the year, and has lost about one-third of its value from three years ago, highlighting how China's slowing economy has thumped investor confidence.

The flurry of easing measures comes on the heels of data showing activity in China's economy weakening over the summer. The data indicates that the economy is at risk of missing the government's official growth target of around 5% for the full year. Investment banks including Goldman Sachs and UBS have cut their forecasts for economic growth this year to below that goal, saying more government and central-bank support is needed to drive faster growth.

"The PBOC's actions suggest that the government is finally coming to terms with the grim situation the economy is in," said Eswar Prasad, a professor of trade policy at Cornell University and a former head of the International Monetary Fund's China division.

The PBOC's package follows a move by the U.S. Federal Reserve last week to deliver a long-awaited cut in interest rates, shifting its focus from an all-out fight against inflation to supporting the labor market.

High interest rates in the U.S. tend to weaken other countries' currencies against the dollar and channel foreign capital toward U.S. stock and bond markets. For the PBOC, which is wary of capital flight and anxious to prevent China's currency from weakening uncontrollably, the Fed's move brought a degree of relief from those pressures, providing more space to prop up the economy.

"The Fed cut has opened the door for monetary policy injection. The People's Bank of China will likely ease more, and ease more frequently," Raymond Yeung, chief economist for Greater China at ANZ, said in a note to clients.

But the big question is whether the package unveiled Tuesday will provide much of a boost to the economy, or if easier central-bank policy is really what China's economy needs.

Borrowing costs are already low, yet credit data suggests households and businesses aren't that interested in borrowing. Consumer confidence is near record low levels, reflecting anxiety over jobs in a weak economy and the cost of the meltdown in property. Barclays estimates that the property crunch since 2021 has incinerated some $18 trillion in household wealth, equivalent to around $60,000 per family.

Julian Evans-Pritchard, head of China economics at Capital Economics in Singapore, said the measures were a step in the right direction, "but are not really enough to drive a turnaround in the economy."

What is missing is more aggressive fiscal support, he said. Weakening activity is hitting tax revenue and local governments are struggling to spend their borrowing quota on viable infrastructure projects. The central government in Beijing needs to borrow and spend more to drive up growth and inflation, he said, and should give its local counterparts more freedom to use their borrowing quotas to support consumption.

Above all, the housing market remains China's biggest economic problem. Rather than trim rates to prop up already-weak demand for homes, many economists say the government needs to let home prices fall further and take bolder steps to clear an enormous backlog of unfinished homes to restore confidence in the market. Consumer spending will only get back to prepandemic rates of growth if households see light at the end of the tunnel after more than three years of real-estate pain, they said.

Among Tuesday's measures was a cut to borrowing costs for existing mortgages. Cuts to benchmark loan rates only feed into existing loans in January each year, and China doesn't allow homeowners to refinance as they do in the U.S. Lower rates on existing loans would therefore leave more money in homeowners' pockets, potentially giving consumption a boost.

However, the PBOC said it would also allow banks to cut deposit rates to offset some of the squeeze on their margins from lower lending rates, which might dull the effect of the move on spending, said Evans-Pritchard.

Pan, the PBOC governor, told reporters Tuesday that he expects the rate on existing mortgage loans to fall on average by around half a percentage point. The minimum down payment for a second home will be cut to 15% of the value from the current 25%, Pan said. China's main policy rate, the central bank's seven-day reverse repurchase rate, will be trimmed to 1.5% from 1.7%.

—Xiao Xiao contributed to this article.

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Corrections & Amplifications
The name of the governor of the People's Bank of China, Pan Gongsheng, was incorrectly given as Pan Gonsheng in an earlier version of this article. (Corrected on Sept. 24)