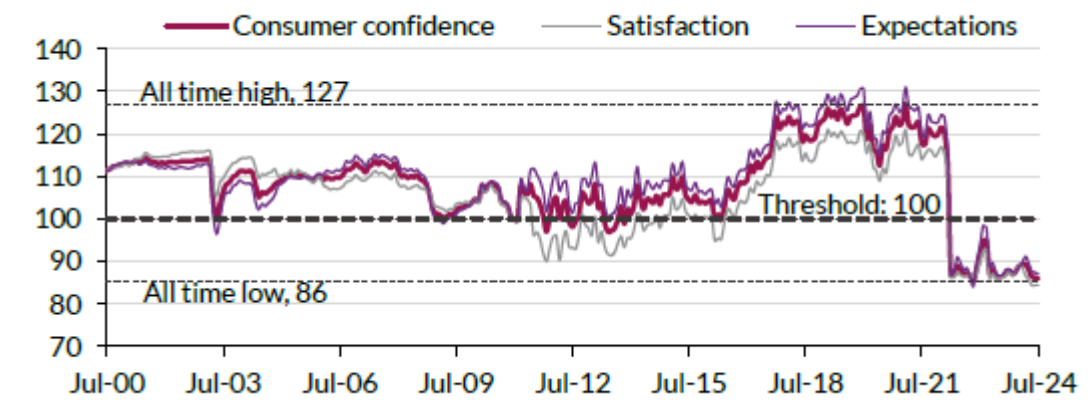


China's monetary package is still more signal than stimulus

The People's Bank of China (PboC), China's Securities Regulatory Commission (CSRC) and National Financial Regulatory Commission today announced a series of measures like cuts to policy rate and mortgage rates, an RRR cut, support measures for real estate and the Chinese stock market (US \$100 bn), and gave forward guidance on cuts. Even though these are stronger measures than those attempted thus far, in our view just monetary easing is unlikely to have a meaningful impact on an economy saddled by historically low consumer confidence. Additional liquidity may only reduce the slowdown in M2 growth, and even industry may not take more loans given significant overcapacity.

Exhibit: China's all-time low consumer confidence needs more fiscal help



Source: Axis Bank Business and Economic Research

China's monetary policy moved away from an incremental approach

China's monetary policy package includes several rate cuts: a 50-bps cut to the reserve requirement ratio (RRR), a guidance to reduce mortgage rates by 50 bps, and an upcoming 20-bps cut to its benchmark policy rate. Additionally, measures such as lower down-payments for second homes, cheap funding for land acquisition, and more coverage under a previously announced program for buying unsold homes target the property sector. New tools – a swap (US \$ 70 bn) and re-lending facility (US\$42 bn) – aim to divert long-term capital investments towards stocks, away from low-risk bonds. Bundling these announcements departs from the piecemeal approach used so far.

Mortgage relief akin to fiscal stimulus; modest impact of other measures

The PboC estimates that lower mortgage rates will reduce annual interest outlays of households by US \$21 bn; a fiscal stimulus of 0.1 % of GDP. Impact of other measures may be even more modest: the 50bps RRR cut will release 1tn yuan in excess liquidity, but falling money multiplier shows that liquidity is not a constraint; the 7-day reverse repo benchmark rate cut is not effective immediately i.e. a signal, not stimulus.

Reversing the weak consumer sentiment needs larger fiscal support

The stock market reaction to the new stabilization tools was positive, but the impact on economic momentum may be limited, in our view. Even industry, already struggling with overcapacity, may not take cheap loans for growth. Consumer sentiment, at an all-time low in July 2024, will see limited boost from these measures. Weak retail sales and deflation have elevated concerns about China's ability to hit its 5% growth target. These steps can slow the downside, but a solid recovery is likely to require more forceful fiscal support, which has not been forthcoming yet, likely because of weak revenue collections as well as political constraints.

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