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SMELLING THE COFFEE: EXTENSIVE MEASURES BY THE CHINESE CENTRAL BANK

24 September 2024

Difficult times are ahead for the global economy and red flags abound. The IMF's global economic projections indicate a growth rate of 3.2% in 2024 with balanced risks and 5% GDP growth in China, the world's second-largest economy. What injects an element of conjecture and speculation in the overall scenario is the disarray in the Chinese economy and "*the trilemma of the central banks*" (Gita Gopinath) transcending the traditional dilemma of reducing inflation without significantly damaging growth and avoiding financial instability. An unenviable situation!

In this overarching setting, People's Bank of China Governor Pan Gongsheng announced extensive support measures to shore up the deepening economic deceleration and facilitate borrowing money for households and companies. Such measures included slashing the reserve requirement ratio, or RRR, by 50 basis points in the near term, cutting the 7-day repo rate by 0.2 percentage points, followed by a 0.2-0.25% cut in the loan prime rate.



Due to mounting defaults and delinquencies, this multi-pronged strategy would help 50 million households and 150 million people, reducing household interest expenses by an average of about 150 billion yuan (\$21 billion) annually. The impact of these sledgehammer measures was manifested in China's 10-year government bond yield plummeting to a record low of 2 %. The share prices, especially for real estate developers, got a boost. Hong Kong's Hang Seng index jumped 3.6%, while the Shanghai Composite index was up 3.4%. The CSI 300 and Shanghai Composite Indexes rose over 1%.

These welcome measures aimed at combating sluggish growth and deflationary pressures also reduced pressure on the Chinese yuan. However, since the macro-economic fragility fundamentally stems *inter-alia* from declining exports, real estate disruptions, high youth unemployment, falling foreign investment, and low consumer confidence, it remains to be seen whether such structural monetary policy measures cure the disease or its symptomatic manifestations.