Chinese central bank measures boost stock market, but economic problems mount

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Financial stimulus measures announced by the People's Bank of China (PBoC) last week have had their intended effect in leading to a stock market surge. The CSI index of Shanghai- and Shenzhen-list companies jumped 8.5 percent on Monday, its biggest single-day rise since 2008, bringing the cumulative rise over the previous week to 24 percent.

However, the market is still 31 percent lower than its high in 2021. While the PBoC's actions have been welcomed in financial circles, the general sentiment is that much more must be done to lift the economy, not least because financial stimulation has lost the effectiveness it had in the past.

There is now what one report described as a "deafening" call for more radical action by the government, centering on the need for a fiscal boost of around $1.4 trillion as proposed recently by Liu Shijin, a former top official at the PBoC.

In a recent article, Ambrose Evans-Pritchard of the London-based *Telegraph* reported comments from Freya Beamish and Rory Green of the financial firm TS Lombard. They said the monetary transmission mechanism was broken and the economy was heading for an outright contraction in GDP growth next year.

"We've both been covering the economy for our entire careers and we've never been more worried about Chinese growth. Policymakers have chosen demand deflation and that is what they are getting," they said.

By demand deflation they mean the refusal of the government to initiate fiscal stimulus measures because of their desire to reduce debt.

In a post earlier this week, hedge fund billionaire Ray Dalio, the founder of Bridgewater Associates, who has a long history of activity in China, welcomed the central bank's measures. He called on the government to "do what it takes," recalling the pledge of former European Central Bank governor Mario Draghi at the height of the crisis of the euro in 2012. But that would "require a lot more than has been announced," Dalio said.

One of the main issues confronting policymakers is what to do about the housing and real estate crisis. Following the global financial crisis of 2008, real estate and construction became a key pillar of Chinese economic growth, accounting for as much as 30 percent of GDP, according to some estimates.

Today, the real estate crisis has become one of the main forces dragging down the economy. From 1980 to 2010, China's growth rate was around 10 percent per annum. According to the IMF, it will only be 4 percent over the next five years, while other projections are lower.

The extent of the housing crisis was highlighted in an analysis published by the *Wall Street Journal* this week. It said the real estate bust had left behind "tens of millions of empty housing units," which left city authorities "with homes they might never be able to fill."

It cited a tally of estimates by economists which indicate that "the country could have as many as 90 million empty housing units."

Another earlier report in the *Journal* estimated the paper loss on housing real estate at $18 trillion.

One of the measures being called for by those advocating a fiscal stimulus is for increased social security measures, so that households are encouraged to spend, thereby providing a boost to the economy via increased consumption spending.

But at least so far, the government is opposing such measures. Chinese President Xi Jinping is on record as saying that "welfarism" fosters "lazy people who get

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something for nothing."

The central thrust of Xi's economic strategy is focused on the development of "high quality productive forces" in the area of high-tech, producing goods for export. But this program is running into obstacles being erected by the major potential markets.

The US is continually escalating bans on the export of high-tech components to China and restricting the import of its goods with connections to the internet, particularly electric vehicles, on "national security" grounds, while other countries are looking to raise tariffs on Chinese goods.

The significant downturn in the Chinese economy is not only a major problem for the ruling regime, because of the danger that it will erode its social base among the upper middle class and set in motion struggles by the working class. It also has vast global implications under conditions where, since 2008, China has been a major contributor to world growth.

The situation in Hong Kong is an indication of what could develop more rapidly as the mainland economy deteriorates.

A report on Bloomberg this week pointed to a significant downturn in the real estate market, particularly at the high end with some properties selling at a 50 percent discount.

The downturn extends more broadly, according to the report, with a funding squeeze "putting Hong Kong businesses and individuals under strain in a way not seen for decades."

"China's economic slowdown is undercutting demand for everything from real estate to dining in a sharp reversal from the boom years. Historically high interest rates and falling property prices are prompting sellers to offer larger discounts, leading to a downward spiral. Weak consumer spending is depressing sales at retail businesses leading to the closure of outlets and further undermining public confidence."

So-called small and medium enterprises, which employ about 45 percent of Hong Kong's private sector workforce, are being hit hard. More than three-quarters of them have failed to recover to pre-pandemic levels and more than a third expect conditions to worsen next year.

Corporate failures are on the rise. In the eight months to August, 305 companies were wound up by a court order with the level of bankruptcies on track to surpass last year's total of 354, the highest level since 2010.

Retail sales fell by 12 percent in July compared to a year earlier.

The article cited the comments of Angus Chang, the deputy manager of a food company. He said that Hong Kong's economy was "totally different before the pandemic and after the pandemic."

"The structure of the economy is based in property and stocks, so when those markets are so weak, you cannot grow. No one likes to buy things or spend money. It's painful," he said.

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