# China stimulus measures fall short of market demands

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When the People's Bank of China (PBoC) launched financial market stimulus measures at the end of last month, the stock market, which had been on a sharp downward trend since 2021, went on a tear.

It came to a shuddering halt yesterday when the CSI Index plunged 7.1 percent, in what was the biggest single-day fall since February 2020 at the start of the pandemic.

The reason for the sell-off was the failure of the Chinese government to back up the financial measures with any significant action on the fiscal front.

In a sign of growing concern in ruling circles, it was announced that Finance Minister Lan Fo'an will hold a briefing on Saturday morning to introduce measures to shore up growth and will take questions from journalists. Without the announcement, the slide would likely have been even bigger.

Following the PBoC move, the CSI index had risen by more than 30 percent, on expectations that the financial measures would be followed by major government fiscal action.

Such measures are widely regarded as necessary to stimulate the economy and break out of the deflationary cycle, which has lowered growth forecasts and raised fears it will fall short of the official 5 percent growth target for this year.

The signs of yesterday's fall were apparent when markets re-opened on Tuesday after the Golden Week holiday break.

After rising by a further 10 percent when trading opened, the market fell back after a morning press conference by the chair of the National Development and Reform Commission (NDRC), Zheng Shanjie. He expressed "full confidence" that the target would be met, but announced no significant changes in government economic policy.

In reaction to the decision, Hong Kong's Hang Seng index fell 9.4 percent, its worst day since October 2008, having risen by 11 percent over the previous five days.

The government said it would bring forward to this year 100 billion yuan ($14 billion) in spending scheduled for 2025, add another 100 billion in spending this year on key areas of the economy, and continue to issue ultra-long bonds to finance development projects.

But these measures fell far short of what is considered necessary. There have been calls for stimulus measures of between 1 trillion and 3 trillion yuan, equivalent to $142 and $427 billion. Some influential voices, including a former PBoC official, have called for a boost of more than 10 trillion yuan, equivalent to around $1.4 trillion, or 8 percent of China's GDP, to lift the economy.

The boost in the market was fuelled by comments from major US finance houses. Goldman Sachs urged its clients to buy Chinese stocks, issuing a note headed, "If not now, when," and that "this time is different in terms of a policy response by the government."

The BlackRock investment house told its clients that the policy signal "suggested that major fiscal stimulus may be coming."

A significant initiative by the government may yet take place. All eyes will be on Saturday's Ministry of Finance briefing. But if there is a major initiative it will be an indication that the state of the Chinese economy, weighed down by the crash of the real estate and property market, falling industrial profits and stagnant consumption spending, is worse than previously thought.

The response to the NDRC was uniformly negative, with at least one analyst pointing to the dangers inherent in the stock market rise. The government was clearly hoping the share rise would boost its support among better-off sections of the upper middle class who have been battered by the slump in the property market.

"This is what happens when you feed the monster," said Alicia Garcia-Herroro, chief Asia-Pacific economist at the financial firm Natixis, "Every day you need to increase

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the amount of food, or it turns against you.

"I don't know what the chairman of the NDRC was thinking with this. Frankly the more they wait to clarify, the worse it can be because people will realise there's no fiscal side to this stimulus—that it's all monetary, propping up stocks and so on. And that's quite dangerous."

Other comments were in a similar vein.

Xin-Yao Ng, an investment director at Abrdn Asia, told Bloomberg the ball was in Beijing's court to prove its desire to restore confidence. "My sense is that about a 5 trillion yuan direct stimulus might be needed to keep the market up, or a 10 trillion yuan or above stimulus will allow the market to rally on."

Another senior economist at Natixis, Gary Ng, said "nothing much is new compared to previous announcements and the latest commitment to stimulus was weaker than market expectations. The front-loading of fiscal spending will only help stabilise growth and will not be enough the engineer a sharper rebound."

Christopher Beddor of Gavel Dragonomics, which specialises in analysis of the Chinese economy, said policymakers probably did not feel a lot of pressure because of the surge in the market from the end of September. "But if markets start to slump on no news in the next few days, they will feel compelled to do more," he said.

In other words, policymakers may have walked into a trap of their own making. The measures to boost the market have fuelled the demand for more. But if further measures are undertaken on the fiscal side, this may only heighten the sense that the Chinese economy is in serious trouble.

According to a report in the *Wall Street Journal*, Ting Lu, chief China economist at the Japanese finance house Nomura, issued a warning last week that in a gloomy scenario, a stock-market sugar high could be followed by a crash, similar to what took place in 2015, and that stimulus packages in coming weeks may only have a limited impact in overcoming the economy's many challenges.

Some of those challenges were highlighted in comments by Aaditya Mattoo, the World Bank's chief economist for East Asia and the Pacific, reported in the *Financial Times*. He said the measures of recent weeks were "not a substitute for the deeper structural reforms needed to boost longer-term growth."

Even if they had some impact, consumers "may be reluctant to splurge" because any one-time transfer "would not boost longer-term incomes or addressed concerns about ageing, illness and unemployment."

However, the Chinese government is extremely reluctant to boost social services, with president Xi Jinping having denounced "welfarism." At the same time it is opposed to the kind of all-embracing stimulus measures of the past, because of concerns over the rise of debt and the financial instability it could cause.

The government's central policy is the development of "high quality productive forces," based on new technology to boost the Chinese economy. But this strategy requires markets for exports and they are being closed off by the developing trade war initiated by the US. This includes the banning of the export of high-tech components to China necessary for manufacturing, as well as bans and tariffs on Chinese exports.

These issues were referred to obliquely by Zheng Shanjie at his press conference, when he noted that China was facing a complex environment at home and abroad.

It got more complex last Friday when the European Union decided to impose a tariff of up to 45 percent on Chinese electric vehicles. The tariffs, which will apply for the next five years, were imposed despite opposition within the EU from automakers who fear it will rebound on them.

Five countries out of the 27 members, including Germany, voted against the tariff while a further 12 abstained. Reflecting the views of German car makers who opposed the move, Mercedes-Benz said the tariffs were "a mistake that can lead to far-reaching negative consequences" and urged China and the EU to reach a negotiated solution.

Talks are reported to be ongoing, but China has already retaliated with temporary bans on brandy from Europe and has said it is considering broader tariffs on European goods.

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