

# China Policy

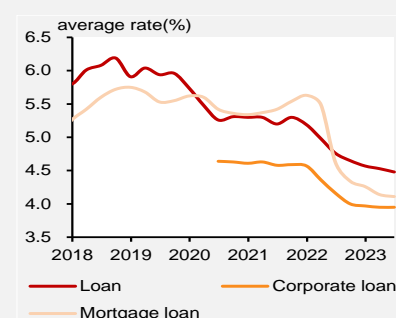
## New stimulus policy with stronger commitment to growth

The PBOC and banking regulator jointly announced to lower down-payment ratios and interest rates for first-home and second-home mortgages, paving the way for a possible stabilization of housing sales in core larger cities in 4Q23. The authorities also guided banks to moderately decrease interest rates of existing first-home mortgages. But the downside room for weighted average rates for existing mortgages may be limited within 25bps as the central bank cared much about banks' NIMs. To offset the impact of loan rate cut, banks had already been guided to decrease their term deposit rates by 10-25bps. Meanwhile, the MoF moderately raised children and elder care tax deductions for households to boost consumption. The actual impact should be limited. The new stimulus policies indicates the policymakers' stronger commitment to boosting economic growth as they may continue to launch supportive policies till the market confidence and business sentiment restores.

- To noticeably lower down-payment ratio and mortgage rates for first-home and second-home purchases.** The authorities set the minimum down-payment ratios for first-home and second-home mortgages respectively at 20% and 30%, paving the way for reductions to down-payment ratios in bigger cities. Currently, the minimum down-payment ratios for first-home mortgages were at 30%-35% in tier-one cities and a few core tier-two cities and 20% in most other cities. The minimum ratios for second-home mortgages were at 70%-80% in tier-one cities and 30%-40% in other cities. Therefore, down-payment ratios especially in larger cities have downside room in future. Meanwhile, the authorities kept the minimum rates for first-home mortgages unchanged at LPR minus 20bps, while lowered the minimum rates for second-home mortgages from 5Y LPR plus 60bps to 5Y LPR plus 20bps. It indicates a decline of second-home mortgage rates from 4.8% to 4.4% in most cities. In addition, the authorities allowed local governments to set their own down-payment thresholds and mortgage rate floors. Based on existing policy, cities with housing price declines for three consecutive months could set their first-home mortgage rates below the national minimum rates. According to PBOC's statistics, 100 out of 343 cities have lowered the floor for new mortgage rates or removed the minimum rates required. We believe the above policies will noticeably boost the upgrading demand in tier-one and tier-two cities as housing sales may see preliminary stabilization in September-October.
- To moderately lower existing mortgage interest rates for first-home buyers.** The authorities announced to lower interest rates of existing mortgages for first-home buyers. However, the existing mortgage interest rates after the adjustment should not be lower than the historical minimum interest rates when banks made those mortgage loans. This special requirement would limit the downside room of existing mortgage interest rates as the central bank tried her best to protect banks' NIMs. We estimate weighted average rates of existing mortgages may drop by 25bps at most with most contribution from lower tier cities. To alleviate the pressure on banks' NIMs, the PBOC had already guided banks to lower their term deposit rates by 10-25bps, which could basically offset the negative impact of mortgage interest rate cut on banks' NIMs.

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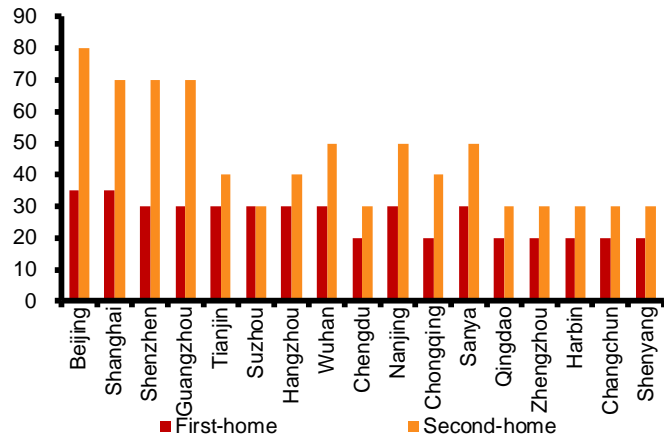
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Source: Wind, CMBIGM

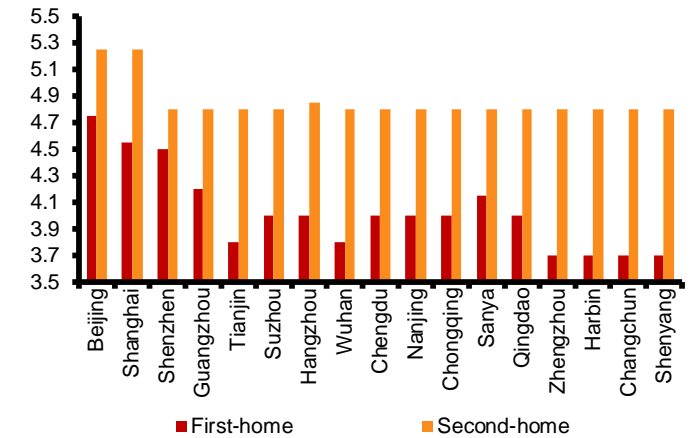
- **To raise children and elder care tax deductions for households.** The Ministry of Finance (MoF) announced to adopt higher additional deductions for individual income tax. Standards for special deductions for children's education and baby care were hiked by RMB1,000 (US\$137.2) per month to RMB2,000 (US\$274.4), while those for tending to elders was raised from RMB2,000 (US\$274.4) to RMB3,000 (US\$411.6). The deductions will ease financial burdens for families to raise children and care for the elderly and showed the government's stance to boost consumption. Based on our estimation, the higher tax deductions would increase households' disposable income by 0.1%-0.2% and boost China's GDP growth by 0.03-0.06ppt.
- **To signal stronger commitment to boosting economic growth ahead.** The new stimulus policy indicates Chinese policymakers' stronger commitment to boost economic growth in next several quarters as investor and business confidence remained weak. We expect China may continue to launch supportive policies till the market confidence and business sentiment restores.

**Figure 1: Down-payment ratios for First-home and Second-home mortgages**



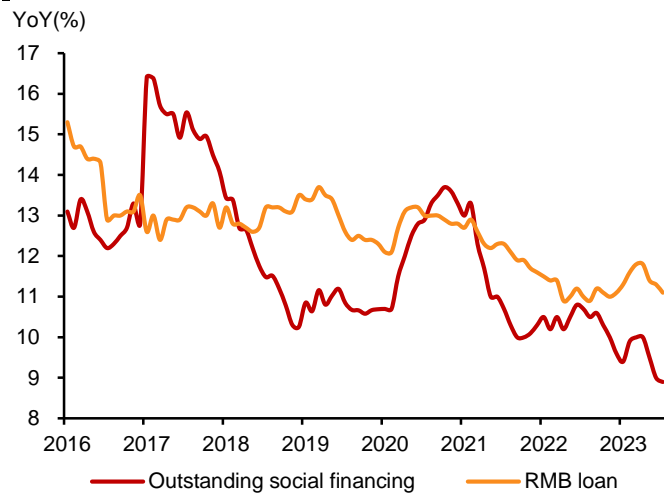
Source: Wind, CMBIGM

**Figure 2: Mortgage rates for First-home and Second-home**



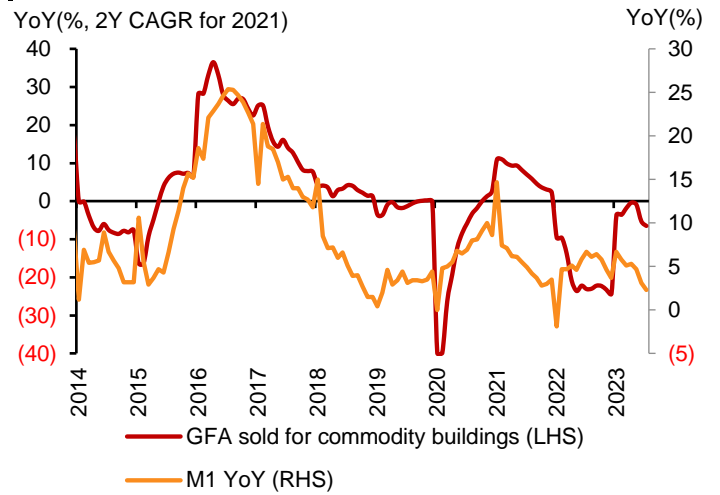
Source: Wind, CMBIGM

**Figure 3: China credit growth**



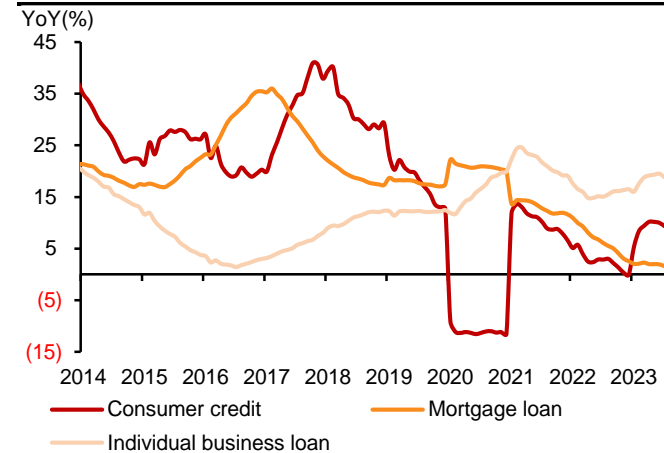
Source: Wind, CMBIGM

**Figure 4: Property sales and M1 growth**



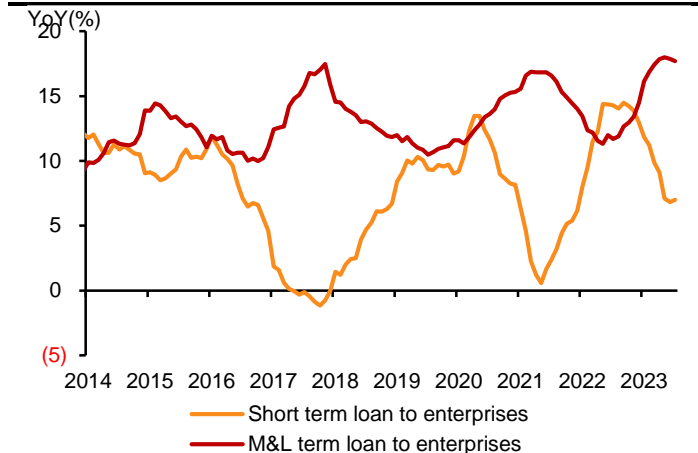
Source: Wind, CMBIGM

**Figure 5: Growth of individual loans**



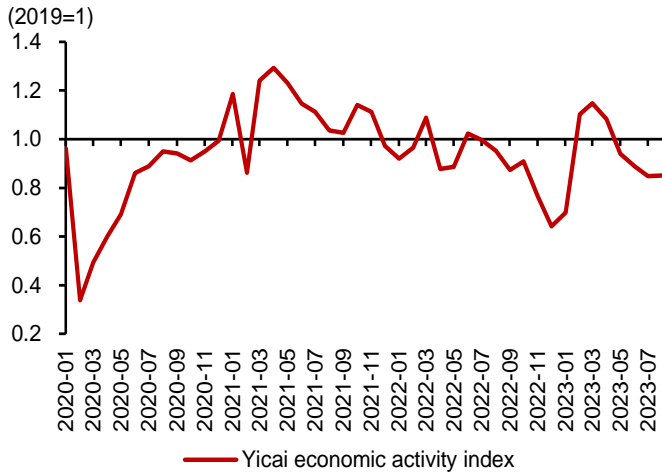
Source: MoF, CMBIGM

**Figure 6: Growth of loans to enterprises**



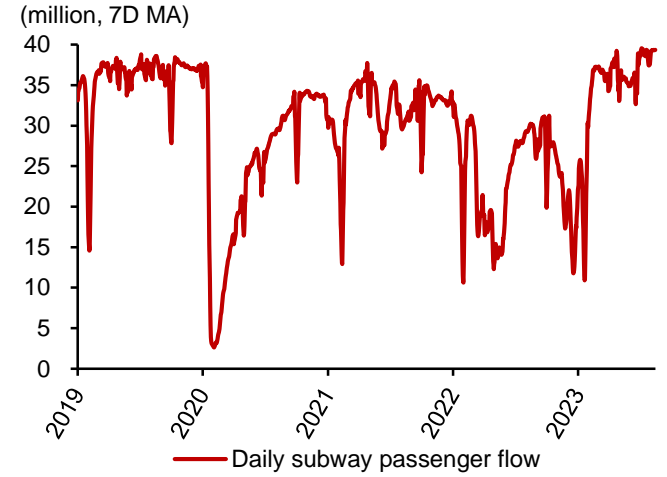
Source: MoF, CMBIGM

**Figure 7: Yicai Economic Activity Index**



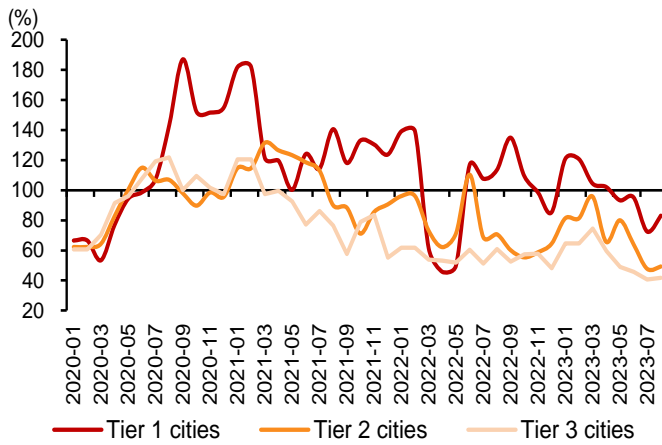
Source: Wind, CMBIGM

**Figure 8: Subway passenger flow in tier-1 cities**



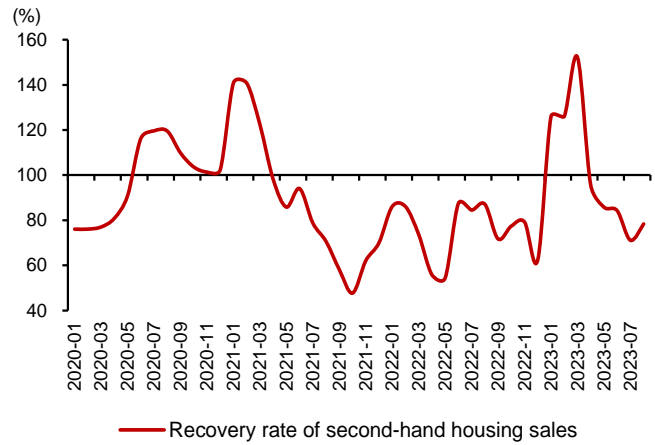
Source: Wind, CMBIGM

**Figure 9: Housing Sales Recovery Rates to 2019 in 30 Cities**



Source: Wind, CMBIGM

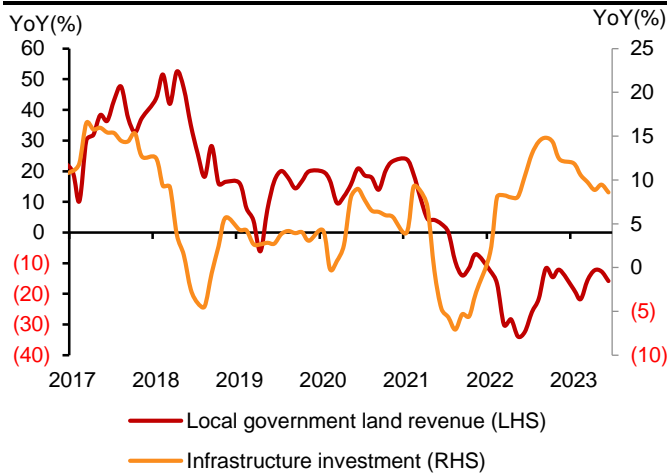
**Figure 10: Recovery rate of 2<sup>nd</sup> hand housing sales compared to 2019 in 11 selective cities**



Source: Wind, CMBIGM

11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 11: Growth of infrastructure investment**



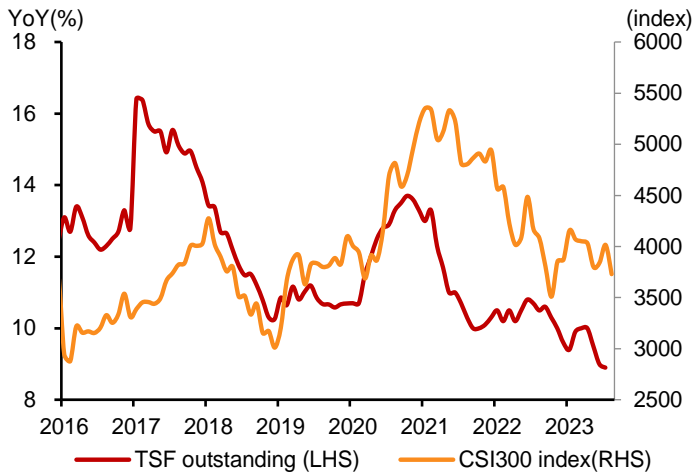
Source: Wind, CMBIGM

**Figure 12: Core CPI growth & 2Y T-bond rates**



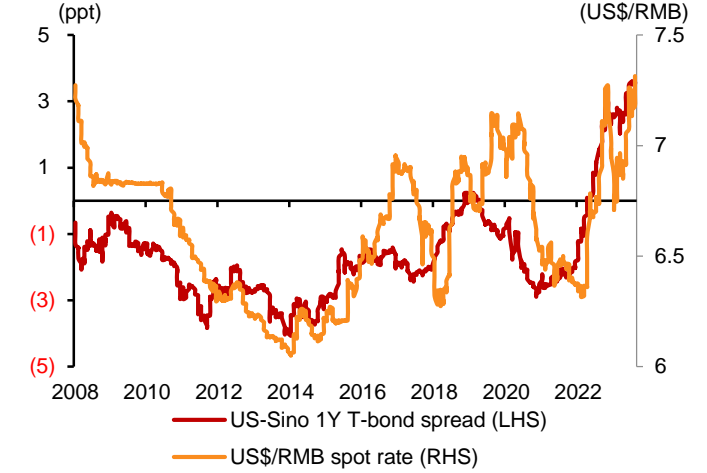
Source: Wind, CMBIGM

**Figure 13: Credit growth & CSI300 index**



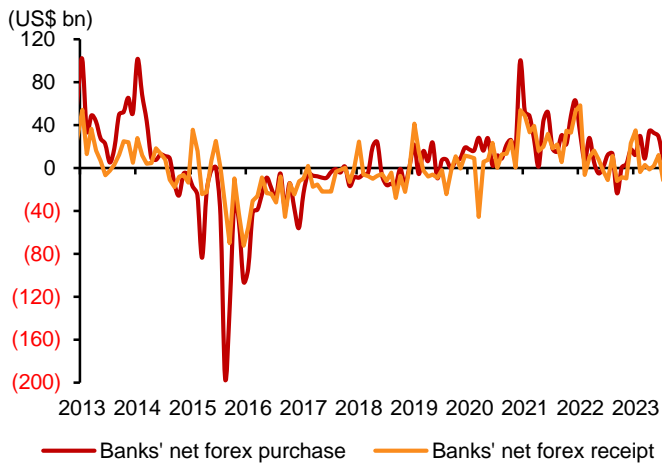
Source: Wind, CMBIGM

**Figure 14: US/RMB interest spreads & exchange rates**



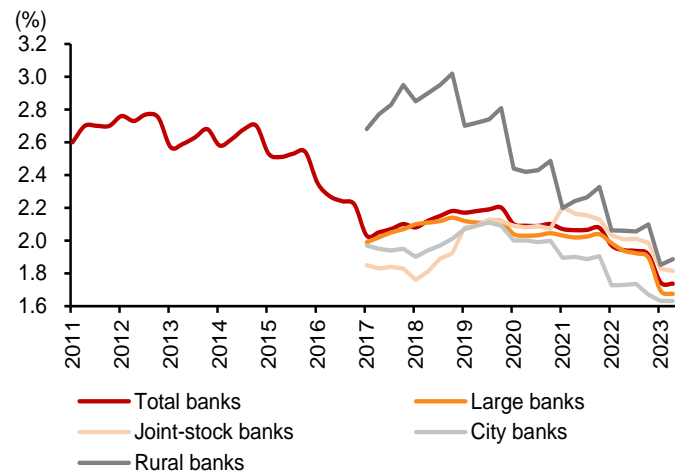
Source: Wind, CMBIGM

**Figure 15: Net forex inflow**



Source: Wind, CMBIGM

**Figure 16: Net interest margins of banks**



Source: Wind, CMBIGM

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