

China Policy

Further monetary easing to defy tariff shock

China has launched additional monetary stimulus with a stronger commitment to boosting stock and property markets to defy the tariff shock. The stimulus policies would mildly ease liquidity and credit conditions, and encourage risk-taking in stock and property markets. But these policies cannot fully offset the negative impacts of the tariff shock on China's economy, as we expect China's GDP and CPI growth rates to be lowered by 1ppt and 0.2ppts in 2025. After reviewing the tariff's damage on China's economy and the progress of the Sino-US trade talks, Chinese policymakers might launch additional fiscal stimulus in 2H25 to boost household consumption. China's GDP growth might slow from 5.4% in 1Q25 to 4.5% in 2Q25 before mildly rebounding to 4.7% in 2H25, in our view.

- **New package of policies to ease liquidity & credit condition and boost stock & property markets.** The package of policies includes: 1) RRR cut by 50bps (incremental liquidity supply by RMB1trn); 2) temporary RRR cut from 5% to zero for auto financial companies and financial leasing firms; 3) LPR cut by 10bps; 4) structural relending and PSL rate cut by 25bps; 5) housing provident fund loan rate cut by 25bps; 6) more quotas for various relending loans targeting to support technology, service consumption, elderly care, agriculture and SMEs; 7) combination of the two stock market support tools with a total quota of RMB800bn; 8) creation of a debt risk-sharing toll to provide low-cost relending funds to encourage purchases of bonds of technology firms; 9) stronger funding support to Central Huijin as the stock market stabilisation fund; 10) deregulation on insurers' investment in stocks to support the stock market; and 11) introduction of financing policies to help stabilize the property market. These policies will ease liquidity & credit conditions and boost sentiment in stock & property markets. We expect money market rates and loan rates might moderately decline with a mild increase of risk-taking in stock and property markets.
- **Stock, FX and property market performance as a key driver for policy dynamics.** Chinese policymakers believe that the stock market performance reflects investors' expectations on China's economic prospects, which could in turn affect consumer and business behaviour in the economy. RMB exchange rates are also considered as an indicator for the strength of the economy and financial system. Therefore, weakening of RMB may restrain the room of PBOC's rate cuts to stimulate the economy. The recent sharp slide of US dollar has provided an opportunity for the PBOC to further cut the interest rates. The property market performance is key for economic growth, consumer confidence, local government revenue and financial system stability. Boosting the stock and property markets before the Sino-US trade dialogue might have special significance as it could show China's economic strength and resilience in the process of playing against the US.
- **Additional fiscal stimulus might come in 2H25.** We believe the additional monetary stimulus cannot fully offset the negative impacts of the tariff shock on China's economy. The tariff shock might respectively lower China's GDP and CPI growth rates by 1ppt and 0.2ppts by reducing exports, undermining confidence, disrupting supply chains and intensifying deflation pressure. Monetary policy is used to expand liquidity and credit supply to encourage risk-taking with leverage. With high uncertainty and low confidence, however, both businesses and consumers are reluctant to increase debt to take risks. Therefore, fiscal policy is needed to directly expand aggregate demand and boost economic activities. Fiscal policy can also do a better job than monetary policy in targeted support to special groups of people or sectors to improve economic resilience. We expect China may expand its fiscal stimulus in 2H25 with more trade-in subsidies for durables, child-birth subsidies for couples, social endowment subsidies for the rural elderly and unemployment insurance subsidies for the unemployed.

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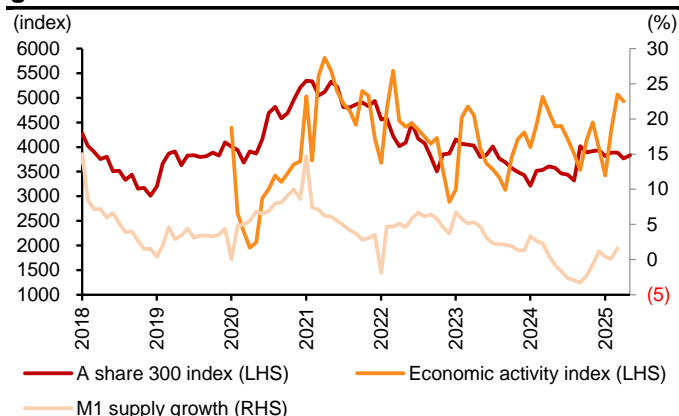
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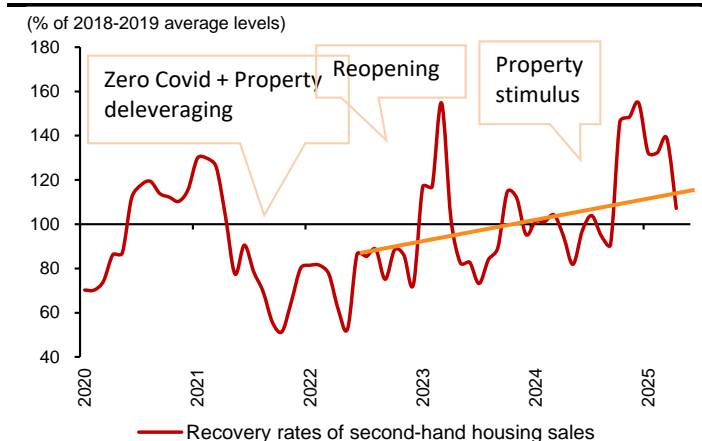
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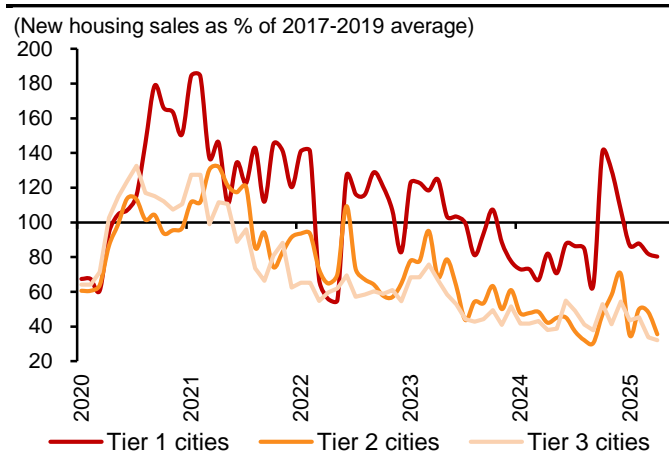
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Figure 1: Equity index, economic activity and M1 growth

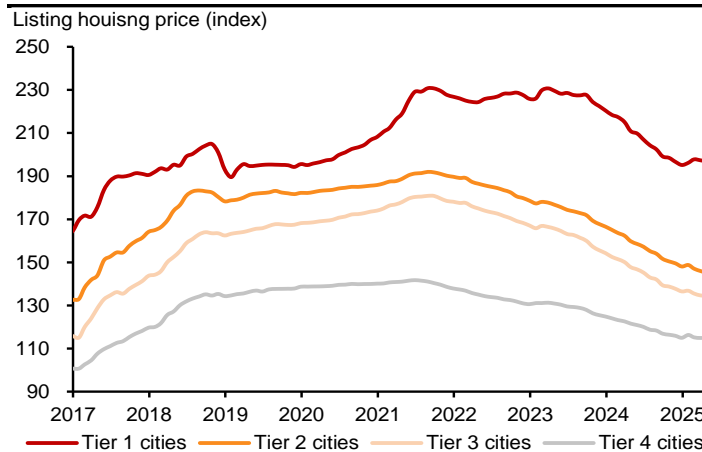
Source: Wind, CMBIGM

Figure 2: Recovery rate of second-hand housing sales

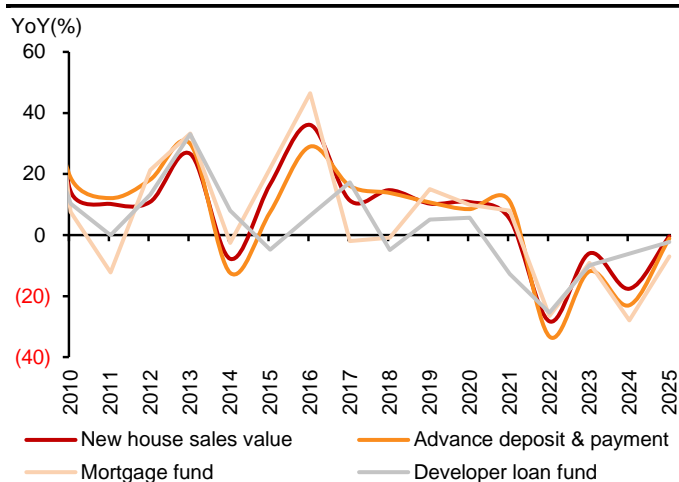
Source: Wind, CMBIGM

Figure 3: Recovery rate of new housing sales

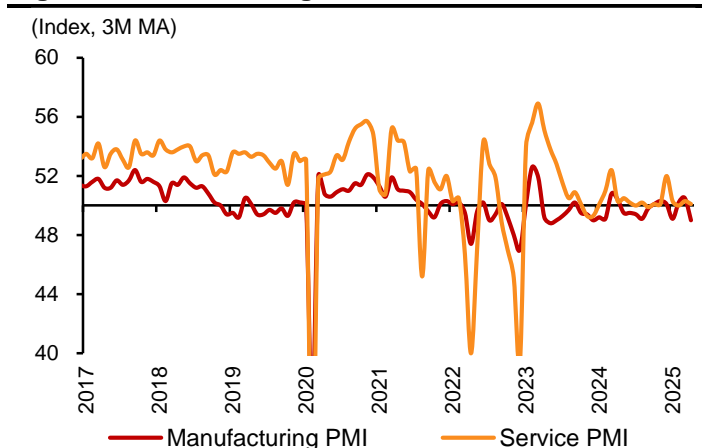
Source: Wind, CMBIGM

Figure 4: Listing price of second-hand housing

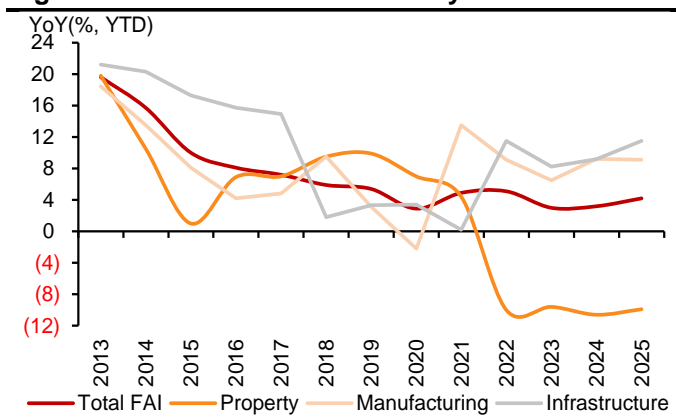
Source: Wind, CMBIGM

Figure 5: New house sales & fund source for investment

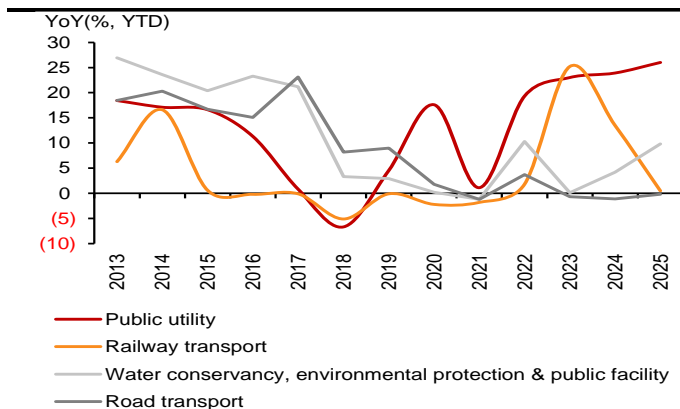
Source: Wind, CMBIGM

Figure 6: Manufacturing and service PMI

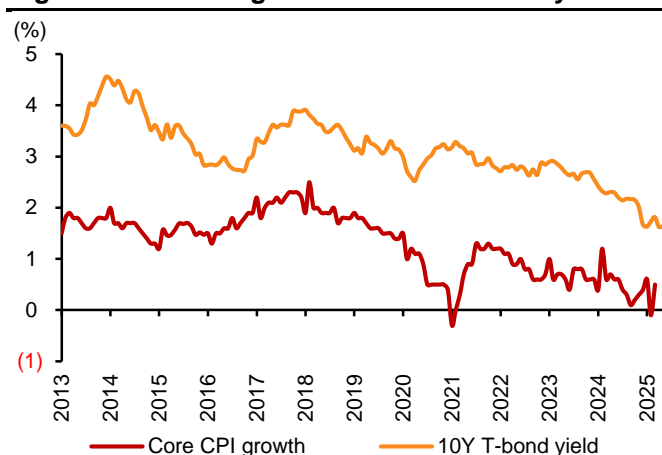
Source: Wind, CMBIGM

Figure 7: Fixed asset investment by sector

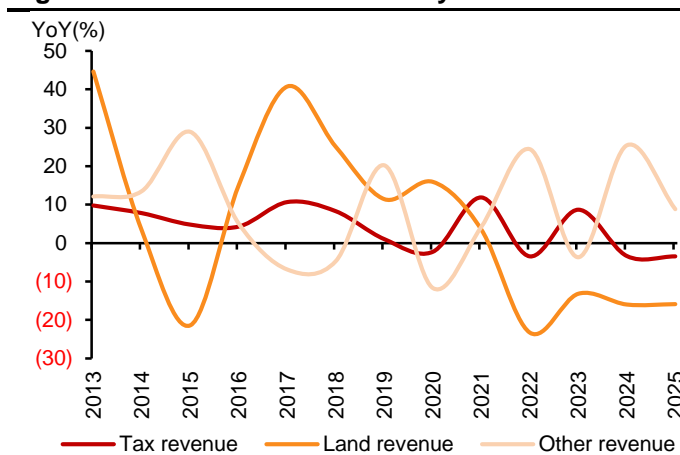
Source: Wind, CMBIGM

Figure 8: Fixed asset investment dominated by central & local SOEs

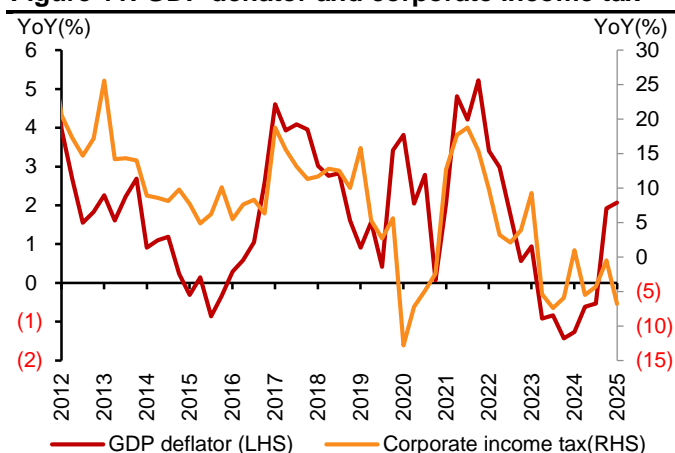
Source: Wind, CMBIGM

Figure 9: Core CPI growth and 10Y T-bond yield

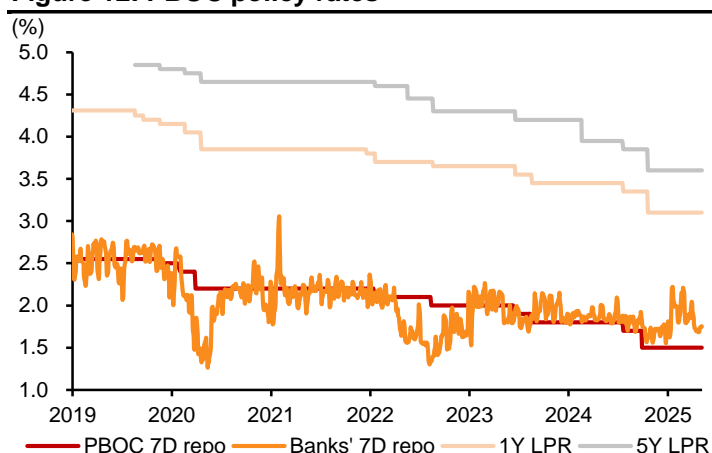
Source: Wind, CMBIGM

Figure 10: Government revenue by source

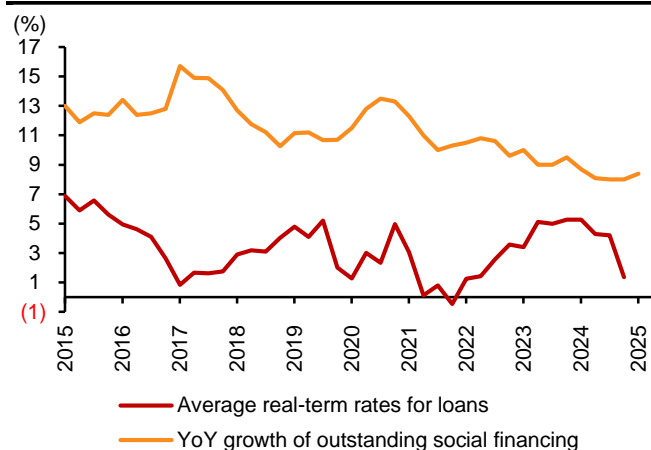
Source: Wind, CMBIGM

Figure 11: GDP deflator and corporate income tax

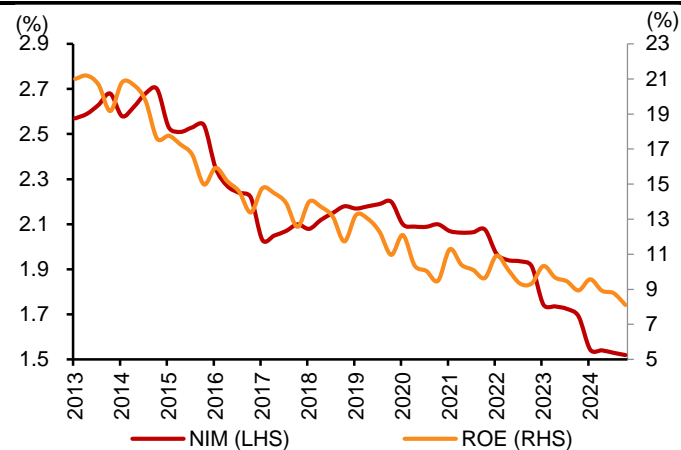
Source: Wind, CMBIGM

Figure 12: PBOC policy rates

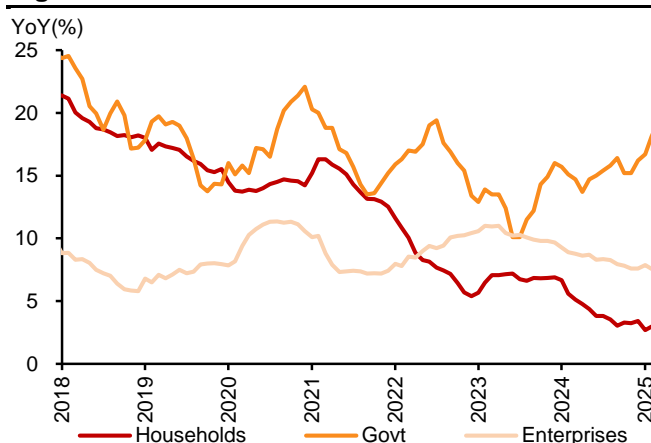
Source: Wind, CMBIGM

Figure 13: Real-term loan rates and TSF growth

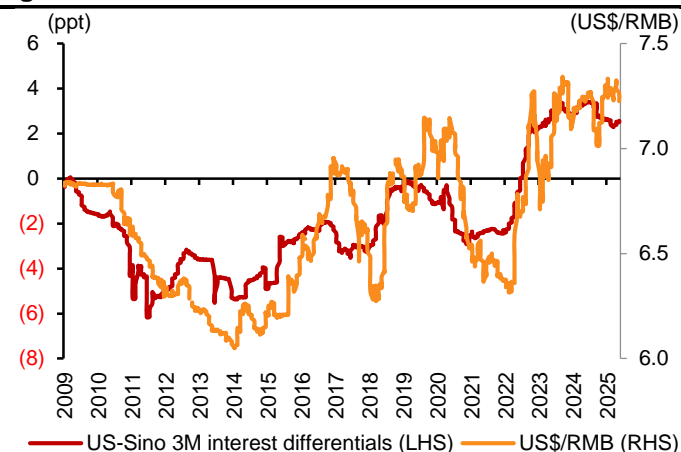
Source: Wind, CMBIGM

Figure 14: Banks' NIMs & ROE

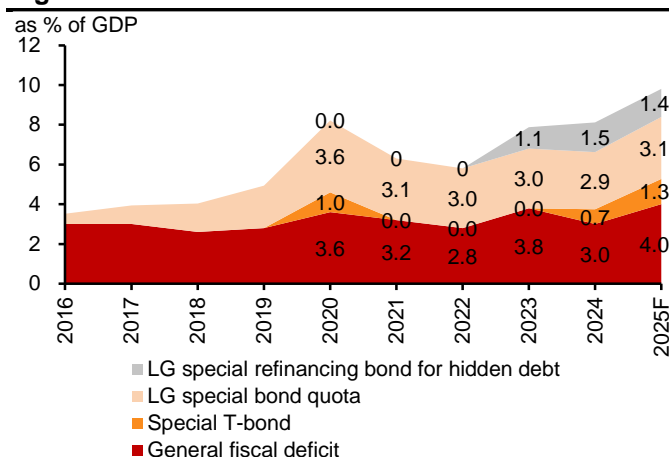
Source: Wind, CMBIGM

Figure 15: Growth of credit to real sectors

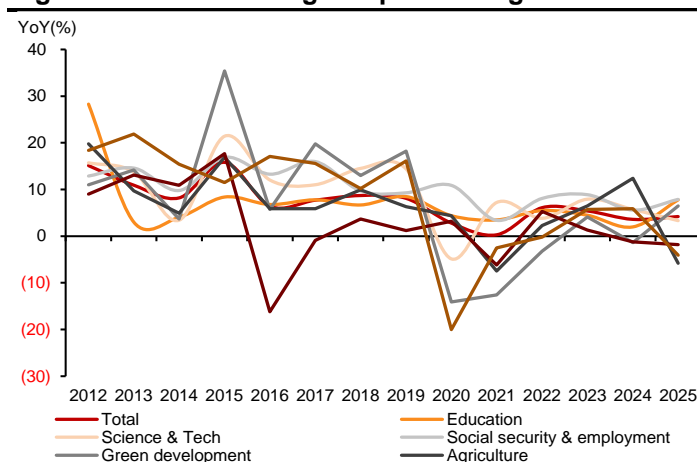
Source: Wind, CMBIGM

Figure 16: US\$/RMB rates & interest differentials

Source: Wind, CMBIGM

Figure 17: Broad fiscal deficit ratio

Source: Wind, CMBIGM

Figure 18: General budget expenditure growth

Source: Wind, CMBIGM

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