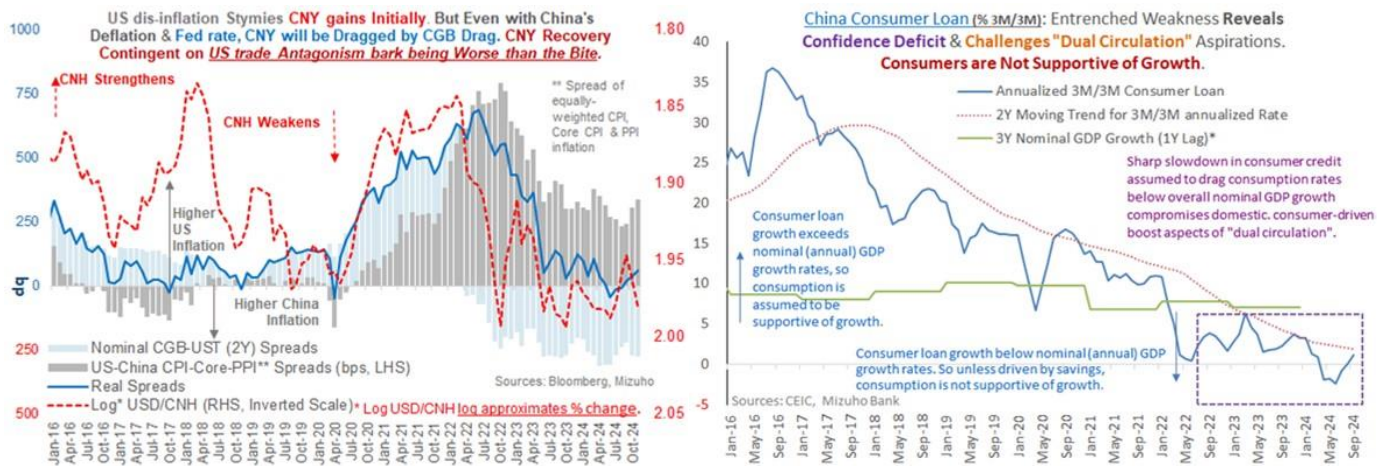


Macro Brief – China: Pushing on a String Risks

“It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!” – **Red Queen, Through the Looking Glass**



- With no convincing signs of a ground-up pick-up in consumption and confidence, **Beijing is confronted by the risk of “too little, too late” stimulus.**
- In fact, excitement about the CEWC’s allusion to “*moderately loose*” monetary policy – exceptional easing stance by Beijing’s standards – may prove premature, possibly misguided.
- Especially given that **on most broader measures** (loans growth to aggregate financing) **credit growth** was a **significant shortfall**, *indicative of both demand and supply restraints.*
- To be sure, **China’s loans growth** was not all that grim, with *some signs of a buoyancy in “shadow banking”.*
- Nonetheless, the underlying growth in **consumer credit is languishing too far below** what may be considered sufficient to sustain broad-based growth at 4-5%.
- Another worry is that “**policy lags**” argument to console **disappointment and counsel patience** (on pipeline stimulus) elsewhere not only **loses potency for China** but may inadvertently prolong and deepen economic pain.
- For one, and most importantly, **China’s system of credit guidance/quasi-quota ought to shorten policy lags** considerably.
- And so, **misguided “patience”** (based on experience elsewhere) **may turn out to be miscalculated delays** that *unnecessarily amplify pain and further hobble the desired recovery.*
- Moreover, bias for credit to be directed to SOEs (state-owned enterprises) may in aggregate mask distributional unevenness that could suppress growth multipliers.
- In addition, this may be further exacerbated by unhealthily low net interest margins that dis-incentivize banks from lending.
- The upshot is that **PBoC must seriously confront the risk that it is currently “pushing on a string”**, with policy efficacy impaired.
- And so, **the PBoCs risks being lulled into misleading comfort about sufficiency of on policy stimulus.**
- Whereas historical gauges of policy response maybe flawed.

- **Down the line**, this could translate into **significant pressures on Chinese bond yields** as *deflation risks mock futile efforts to reflate the economy*.
- And it may take ever **more effort to support CGB yields and the CNY** *when pushing on a string*.

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