

**China's battle against slowdown still far from won**  
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China will probably need to ease monetary policy for the first time in two years in coming months to prevent the economy from losing too much momentum, according to economists who doubt the "mini stimulus" announced so far this year can do the job.

Beijing has fast-tracked spending on railways and other projects in the country's poorer regions and also cut taxes for small businesses, in what looks like a carbon copy of the fine-tuning that helped the economy tide over a soft patch last year.

This time, though, Beijing will also need monetary easing – such as the first cut to bank reserve ratios since May 2012 – and other steps to bring the economy back to desired cruising speed, economists say.

"The measures will do some help but probably not enough. We think there may be monetary easing," said Kevin Lai, senior economist at Daiwa Capital Markets in Hong Kong.

Economists with top government think tanks believe a cut in the amount of commercial banks' cash tied up in central bank reserves is probably part of the "policy reserves" that Premier Li Keqiang has mentioned to reassure nervous investors.

In fact, the existence of these reserves helped give the leadership the confidence it needed last December to keep its economic growth target for 2014 steady at 7.5%, they say.

"When we set the 7.5% target, we have taken such (mini stimulus) policies into consideration. We are just rushing them out now," said Zhu Baoliang, chief economist at State Information Centre, a top government think tank.

Economists polled by Reuters expect first-quarter GDP figures due on April 16 to show growth slowing to 7.3%, from 7.7% for the whole of 2013. That would be near the minimum level needed to ensure stable employment and the slowest growth in five years. Many analysts see further slowdown in the second quarter, despite the announced steps.

Partial information might suggest that the authorities could spend more than last year. There are plans to build 6,600km of new railway, 1,000km more than last year. This year's central government budget also set aside 457.6 billion yuan (RM241.57 billion) for affordable housing, railways, energy saving, water conservation and agriculture – 20 billion yuan more than 2013.

But Sun Junwei, China economist at HSBC in Beijing, reckons this year's stimulus total will probably not be bigger than last year and could add up to 1% of GDP, though this is just a very rough estimate. Others do not even try to come up with a figure, saying there is just not enough information to go on.

Beijing's refusal to detail its spending plans reflects a concern that it could be seen as abandoning reforms in favour of pump-priming, such as the massive 4 trillion yuan spending spree it pursued in the wake of the 2008-2009 global financial crisis.

And with Li ruling out raising the budget deficit and many local governments broke, economists say Beijing's room for maneuver is not as big as his assurances might suggest.

"There could be some more policy measures, but the room is relatively limited," said You Hongye, an economist at China Essence Securities in Beijing.

One source of funding is the crackdown on official extravagance, which has hurt consumption but produced savings that now could be spent on social infrastructure or healthcare.

Government economists also expect the authorities to combine targeted extra spending with reforms that can produce growth dividends fairly quickly.

So steps like reducing red tape or lowering barriers for private investment in protected sectors will probably be fast-tracked, while more fundamental but initially painful ones targeting bad debts and overcapacity will probably have to wait.

There is no agreement how soon those pro-growth steps could take effect.

Economists are also divided over the timing of the possible cut in commercial banks' required reserves, even though there is a broad consensus that such a move is on the cards.

Some believe policy easing is already overdue.

"I don't think it's appropriate to keep monetary policy tight as we promote reforms and adjust structures," said Tang Jianwei, senior economist at Bank of Communications in Shanghai.

Economists believe a further slowdown in the economy and an outflow of capital could trigger a cut in bank reserves, but the chances of an interest rate cut, which would signal full-blown policy easing, looks slim as such a move would undermine central bank efforts to curb rapid growth of shadow banking.

Some, such as Li Heng at Minsheng Securities in Beijing, expects a reserve cut in the first half of the year, while Daiwa's Lai has penciled in a cut in the third quarter.

How much of a slowdown can Beijing tolerate is also a matter of debate.

Some government economists believe Beijing could accept growth of 7.3–7.4% this year and cut next year's growth target to 7%.

One reason Beijing is not hitting the panic button yet is that the services sector that accounts for most jobs continues to do reasonably well. Another is that part of the slowdown is driven by the government itself and its crackdown on excess capacity, pollution and efforts to rein in shadow financing.

Finally, as the Chinese population ages, the pool of excess labour shrinks and it no longer needs to grow as fast as in the past decades to create enough jobs. – Reuters, April 7, 2014.