

## ***Additional Monetary Easing Implemented in the Face of Further Signs of Economic Weakening***

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Chinese economy has shown further signs of weakening. The real GDP growth rate slowed down to 7.0% yoy in the first quarter of this year from 7.3% in the previous quarter. March figures for major economic indicators were all below the market expectations with industrial production decelerating to 5.6% yoy in March from the average growth of 6.8% in January and February, fixed asset investment (urban area, cumulative to date) edging down to 13.5% (13.9% for the average of the previous two months) and retail sales to 10.2% (10.7% for the average of the previous two months), thus suggesting further weakening of the economy (Table 1). In the housing market, an increased number of cities, mainly the large-sized, recorded a rise in housing sales price from the level in the previous month, but price has continued to fall in the rural areas which are struggling with high level of housing stocks.

The factors for a further deceleration of the economy include a stagnant export demand in addition to the weakening domestic demand that reflects restraint of excessive investment and a sluggish housing market. Exports showed a substantial drop of 15.0% yoy in March that led to a weaker growth of 4.9% in the first quarter as compared to the growth of 8.6% in the previous quarter. While exports to the US and ASEAN accelerated, those to Europe, which continues to be in economic stagnation, Japan and NIEs decelerated. Manufacturers PMI in March (as reported by the National Bureau of Statistics) had, with the increase in production after the Chinese New year, recovered to 50, which is the threshold level for growth in the economy, but export order index and others are still on a sluggish level.

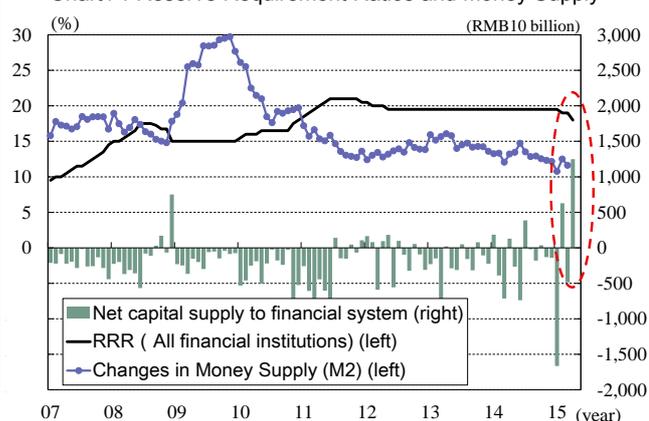
On April 20 the PBOC reacted to this phase by lowering RMB reserve requirement ratio (RRR) by 1% point. This lowering of RRR for all depository financial institutions followed the cut of 0.5% point implemented in February, and the current cut will increase by around RMB 1.2 trillion the "net capital supply to the financial system", i.e., the available amount of fund the financial institutions can additionally put for lending, that is far exceeding the amount of increased capital of RMB600 billion supplied by the previous cut. It is expected this measure will help sustain the economy to a substantial degree. In the background of this strengthened monetary easing, there seems to have been an intention to prevent beforehand an abrupt economic slowdown through lowering the funding costs to corporations and at the same time to secure the stability in the financial market by supplying liquidity ahead of the introduction of deposit insurance system slated for in May. It is highly probable that the government will continue to underpin the economy by mobilizing both fiscal and monetary measures to avoid the sharp economic slowdown as the downward pressures on the economy of the structural reforms are expected to stay for the moment to come.

Table1: Main Economic Indicators (China)

	2014				2015			evaluation
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Exports (YoY, %)	15.3	11.6	4.7	9.7	15.0	▲ 15.0		negative
Imports (YoY, %)	7.0	4.6	▲ 6.7	▲ 2.4	▲ 20.2	▲ 12.7		negative
Fixed Assets Investment (YTD, YoY, %)	16.1	15.9	15.8	15.7	13.9		13.5	negative
Retail Sales (YoY, %)	11.6	11.5	11.7	11.9	10.7		10.2	weak
Industrial Production (YoY, %)	8.0	7.7	7.2	7.9	6.8		5.6	negative
Manufacturing PMI	51.1	50.8	50.3	50.1	49.8	49.9	50.1	weak
Non-manufacturing PMI	54.0	53.8	53.9	54.1	53.7	53.9	53.7	positive
CPI (YoY, %)	1.6	1.6	1.4	1.5	0.8	1.4	1.4	-
PPI (YoY, %)	▲ 1.8	▲ 2.2	▲ 2.7	▲ 3.3	▲ 4.3	▲ 4.8	▲ 4.6	-

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.  
 2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.  
 3) Evaluation is made based on the judgment as compared to the data for 6 months before.  
 Source: China National Bureau of Statistics, BTMU

Chart1 : Reserve Requirement Ratios and Money Supply



Note: Net capital supply to financial system is estimated from the changes of the required reserve money (deposit outstanding x RRR to all financial institutions).  
 Source: Compiled by BTMU Research Office based on the data of the PBOC.

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