

China embraces stimulus measures; to inject \$81 billion into five main banks—New York Times (By Keith Bradsher Sep 17, 2014)

Economic Stimulus Measures of PRC

- The central bank reportedly agreed to lend 100 billion renminbi (\$16.2 billion) to each of the country's five main banks, including:
 - Industrial and Commercial Bank of China,
 - China Construction Bank,
 - Agricultural Bank of China,
 - Bank of China, and
 - Bank of Communications.
- China became the latest country to embrace economic stimulus.
- China's measure is narrowly targeted, because
 - All the five banks are controlled by the government, and
 - The Central bank is closely regulated to provide loans to favored sectors, like high-technology industries.

The Background of Stimulus Measures

- Chinese economy seemed to slow somewhat over the summer, although still expanding faster than most countries around the world.
- Industrial production, retail sales, imports and foreign direct investment have all slackened in China, even as exports are booming.
- A day before the measures, the European Central Bank begins a program to provide banks with extremely low-rate loans, provided that:
 - the banks promptly relend the money in the private sector.
 - the banks would not lend the money to households for home purchases.

Market Reactions to the Measures

- Stock markets in much of Asia surged on Wednesday morning.
- Share prices climbed about 1 percent in early trading in Taiwan; Hong Kong; Manila and Seoul.
- Tokyo market was also up slightly.
- The [Shanghai stock market](#) was flat, and shares fell 0.7 percent in Shenzhen as investors appeared to worry about whether the central bank's move signaled real difficulties for the economy.

¹ http://articles.economictimes.indiatimes.com/2014-09-17/news/54024711_1_china-construction-bank-agricultural-bank-commercial-bank

Economists' Comments

- The measure is more limited than reducing the percentage of a bank's assets that it must keep as reserves, as the central bank gets to decide in three months whether to extend the loans or call them in.
- Extra loans would have the same short-term effect as cutting that the reserve ratio by half a percentage point.