

## China gets set for a pivotal month of data and policy announcements

February was a quiet month in terms of economic data releases as the main activity data was not released due to the Lunar New Year, but policy support continued to be rolled out. March will feature the Two Sessions and the key economic data releases for the first two months of the year



The People's Bank of China in Beijing

### Limited data in February showed a continuation of recent trends

The limited data released in February showed low inflation, moderate credit growth, and some silver linings for consumption in China.

January CPI inflation data sparked discussion of deflation again, as headline CPI fell to the lowest level since 2009 at -0.8% year-on-year, dragged down by a record low in food inflation. Considering the more favourable base effects for February's data as well as the high-frequency data already available, we see a high likelihood that January's data could mark the low point for year-on-year inflation in the current cycle.

January's credit data slightly beat market expectations, with both aggregate financing (RMB 6.5tn) and new RMB loans (RMB 4.84tn) experiencing the typical start-of-year seasonal spike. Despite this, M2 growth fell to a 26-month low of 8.7% YoY. It is worth noting that January's data did not reflect the 50bp RRR cut, which came into effect on 5 February. Efforts to increase credit supply have been somewhat hampered by limited high-quality borrowers.

Reports on Lunar New Year travel activity showed encouraging signs in the travel and tourism categories. Tourism recovered to beat pre-pandemic levels, with domestic trips and spending over the holiday period up 19% and 8%, respectively, from 2019. Rail travel was also up 36% from 2019. Data illustrated that although volume rose sharply, per-trip spending was down as travellers tightened their purse strings.

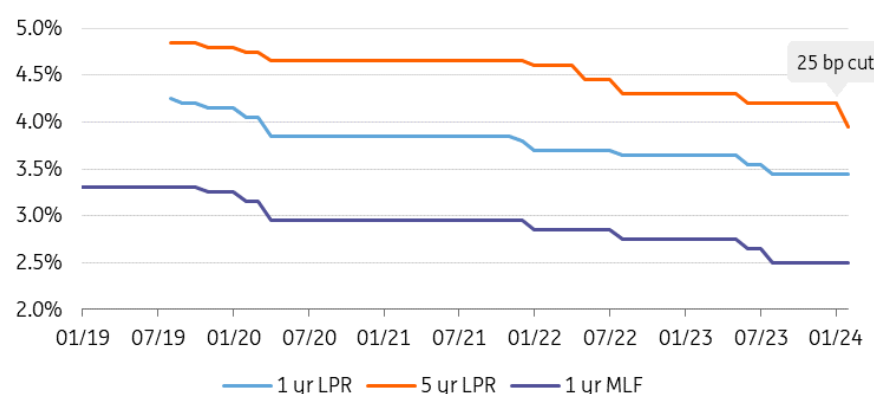
The upcoming combined January-February activity data will be more useful in gauging the overall economic momentum at the start of the year.

## PBoC surprised markets with a 25bp cut to five-year LPR, further easing ahead

The People's Bank of China (PBoC) kept the benchmark one-year LPR unchanged in February as expected, but surprised markets with a 25bp cut to the five-year LPR. This cut was the first time the PBoC has ever cut the five-year rate without moving the one-year rate, and it was also the largest cut to the five-year rate since switching to the new mechanism in 2019. The five-year rate is tied to the mortgage rate, and could be aimed at facilitating a housing market recovery.

While inflation certainly gives the PBoC plenty of room to consider more policy easing, if resistance to depreciation in the renminbi remains in place (early signs coming out of the Lunar New Year indicate this is the case), this will limit the PBoC's room for policy easing before there is a broader global environment of rate cuts. As a result, we expect PBoC easing to be limited to one 10bp rate cut and possibly another RRR cut in the first half of this year.

### PBOC key interest rates



PBOC, ING

## March to set the tone for 2024

Restoring confidence is the key imperative in the near term, as emphasised by Premier Li Qiang in a State Council meeting on 18 February. Market stabilisation measures remained an important

focus.

The Two Sessions will start on 4-5 March when we expect the 2024 growth target to be set at “around 5%” again, and the fiscal deficit target to be raised to 3.5% or higher to reflect a more proactive fiscal policy stance. The meetings will likely provide an update on top-level policy priorities.

We will also get the first look at the combined January-February economic activity data (FAI, retail sales, industrial production, and trade), and we expect this to show that momentum was soft at the start of the year.

## Author

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

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