China’s central bank to cut RRR

China's central bank, the People's Bank of China, will cut the reserve requirement ratio by 0.5 percentage points but has offset this with a liquidity withdrawal elsewhere. The net injection is not a lot, but enough to push down interest rates for the whole curve, which supports economic growth

Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

PBoC cuts the RRR

China's central bank will cut the RRR by 0.5 percentage points from 15 December. After this move, the average RRR for all banks will be 8.4%. But the cash released by this cut will be partially offset by repaying liquidity injections via the Medium Lending Facility. So the net injection from this policy action will be around CNY 1.2 trillion, which is equivalent to an average month's new yuan loan.

Impact is moderate but good news for infrastructure financing

The liquidity injected will push short- and long-term interest rates moderately lower.

But banks will still decide on whether to turn this liquidity into loans. If they do, real estate developers with high levels of debt should be avoided. The better alternative for banks would be to support state-backed infrastructure or increase mortgage-lending. Mortgages would also facilitate home sales, thus supporting the more prudent real estate developers which do not have urgent debt repayments.

Given this RRR cut, we expect that fixed asset investment in infrastructure, transportation and telecommunications will rise in 2022, and should be the main engine of economic growth.

Fiscal stimulus will focus on SMEs

This RRR cut is not targeted at small and medium-sized enterprises so we expect that there will be more low-interest rate financing schemes for SMEs, which will be part of the fiscal stimulus. We are waiting for the draft of the economic work report to evaluate how much fiscal stimulus is likely. We expect two large items in the draft; one for SMEs, another for achieving the zero carbon emissions target.

The message is clear - stability

This RRR cut gives a signal to the market that the government has turned from aggressive policy actions in the second half of this year to stabilising the economy in 2022.

We forecast GDP growth of 5.4% for 2022 from a high base of 8.9% in 2021.

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