

## China: Fighting the coronavirus with a fiscal-monetary policy combination

China is using extra fiscal budgets and central bank lending to fight the effects of the coronavirus. It seems that policymakers do not want to confuse emergency policies with standard easing policies. We may not see broad-based economic policy actions in the near term



### Fiscal and monetary policy combination to fight against the coronavirus

With an official name of NCP (Novel Coronavirus Pneumonia), the Chinese government has initiated more fiscal stimulus and monetary easing to combat the effects of the virus. These are specific measures. They are different from the usual broad-based policies that are used when there is a need to support the overall economy.

#### Fiscal policies

Fiscal policies include tax concessions on companies that are directly affected by the NCP, eg, tourism and catering. Companies that manufacture medical supplies and medicines are exempted from taxes and are allowed to receive subsidies from the government.

## Monetary policies

Apart from ensuring ample liquidity in the financial system (injection of CNY1.7 trillion on 3 and 4 February), the central bank, [PBoC, sets up a CNY300 billion special re-lending fund](#). Banks will start distributing the money to selected companies on 10 February. Banks have to lend money to those companies at a rate of no more than 3.15%, which is 100 bps below the Loan Prime Rate, which is now at 4.15%. These companies are selected based on their nature, eg, manufacturing medical supplies and medicines or helping to combat the NCP in other ways.

The Ministry of Finance will subsidise half of the interest expense for these companies. The government expects that the actual interest costs for these corporates to be at most 1.6% per annum.

## Focused vs broad-based policy

With these very focused policies in place, we may need to wait for some time to see broad-based policy actions, eg, a cut in the reserve requirement ratio (RRR). It seems as though the government does not want to spare extra money for non-virus-specific activities.

We expect more focused policies to be announced if there is such a need. At the same time, we believe that broad-based monetary easing will be delayed until the economic recovery stage.

As such, our previous expectation of a RRR cut in March could be deferred to a later stage. But it does not mean that the liquidity in the financial system will be tight. Rather, it may be the opposite. We expect the PBoC to provide enough liquidity via open market operations to ensure that there is no emergence of spikes in interest rates, in order to limit the possibility of chaos in the market.