

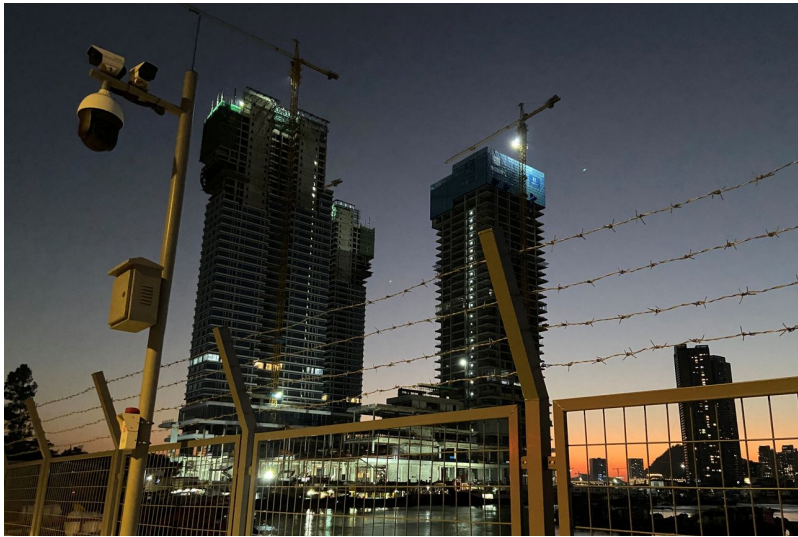
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China's Latest Challenge Is Engineering a Soft Landing for a Sputtering Economy

Policy makers want to stimulate growth, but they are constrained by policies designed to rein in debt and speculative behavior



Beijing is committed to policies that achieve longer-term goals such as purging speculative behavior, especially in the property sector. A real-estate project in Shenzhen, Guangdong province.

PHOTO: DAVID KIRTON/REUTERS

By [Stella Yifan Xie](#) [Follow](#)

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HONG KONG—Chinese leaders are trying to reverse a sharp growth slowdown without abandoning policies that triggered much of the weakness to begin with—a tricky task that could test Beijing's ability to engineer a soft landing for the world's No. 2 economy.

In recent weeks, China has unveiled a handful of policy-easing measures to prevent a downward spiral in the housing market and rekindle overall growth, which slowed significantly in the third quarter. The latest steps include making mortgages more easily obtainable and an unexpected cut this week in the amount

of cash banks are required to hold, which could lower financing costs for businesses.

Economists expect more steps in the weeks ahead, including possible moves to accommodate faster credit growth and tax cuts for small businesses. Some economists see scope for China to lower benchmark interest rates, which have been held steady since April 2020.

Beijing may have to significantly step up policy-easing to prevent a hard landing of the economy in the coming months, [Nomura Holdings](#) analysts wrote in a recent note to clients.

But many economists believe authorities will be reluctant to resort to much more aggressive stimulus, such as a major expansion in bank lending or spending on infrastructure like bridges and airports.

Officials are also committed to policies imposed during the past year, backed by leader Xi Jinping, to achieve longer-term goals such as reducing debt and purging speculative behavior, especially in the property sector. China's central bank said on Monday it would avoid flooding the economy with stimulus.

“This typifies the contradictions between Beijing’s attempt to impose market discipline and curb credit-fueled financial market imbalances while maintaining a stable growth trajectory at the same time,” said Eswar Prasad, a professor of trade policy and economics at Cornell University.

China’s economic policy dilemmas are likely to intensify in the coming months. The top echelon of China’s Communist Party is expected to go through a power reshuffle later next year, and Chinese leaders typically want strong economic performance to ensure stability ahead of major political events.

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What should China do to maintain its economic growth? Join the conversation below.

The Omicron variant of Covid-19 is adding fresh uncertainty to the outlook.

While China continues to record small numbers of Covid-19 cases, it has maintained strict lockdown rules that have damped consumer sentiment, and the emergence of Omicron makes it less

likely leaders will be comfortable rolling back restrictions.

For a while after the pandemic began, China's economy looked relatively strong. It was the only major economy to expand in 2020. Activity remained so solid in early 2021 that it all but ensured China would achieve solid growth for the full year, with gross domestic product expected to expand by about 8% in 2021.

Reassured by that outlook, Chinese leaders expanded crackdowns on technology, private education and real-estate companies to help root out irrational investment and reduce social inequality.

But economists say some of the moves, especially policies that restricted borrowing for highly leveraged real-estate developers, may have overshot, causing a bigger slowdown than expected. Some developers have defaulted on debts. Data from the China Real Estate Information Corp. shows that sales by China's top 100 developers dropped for the fifth straight month in November, falling 37.6% in value from a year earlier.

Many economists are projecting growth of around 5% in 2022, which would be one of the lowest rates in decades. Some say it could come in lower if the real estate slowdown worsens and becomes more like one that began in 2014, when the market was plagued by falling prices and high inventories.

In the wake of the 2014 housing downturn and the 2008 financial crisis, China unleashed large amounts of stimulus, including cuts in interest rates and ramped-up property and infrastructure investments.

Those responses gave quick jolts to the economy, but saddled China's financial system with too much debt. They also cultivated a mentality among investors and home buyers that China's government wouldn't allow major losses in investments or home values for fear of social unrest.

This time, China has been treading carefully, with more-modest easing steps.

Since late September, authorities have eased restrictions on mortgage loans, loosened land bidding rules, and promised steps to make it easier for developers to pay off debts, which could enable them to kick-start new projects faster.

Regulators also plan on making it easier for developers to issue local bonds in the interbank bond market to replenish funding.

In late November, Chengdu, a megacity in central China, became the first major city to accelerate loan approvals for developers and home buyers, as well as letting builders more easily use funds raised from selling unconstructed apartments.

“Reasonable funding demand from property developers and homebuyers should be guaranteed,” said Chengdu’s housing authority in a statement. New home prices in Chengdu dropped 0.6% in October from a month ago, the steepest decline in more than four years, official data shows.

Other smaller cities including Harbin, Yiwu and Changchun have adopted measures to stabilize their property markets, including offering subsidies for college graduates to buy first homes.

“While such fine-tuning has helped cushion the blow to some extent, its impact shouldn’t be exaggerated,” said Ting Lu, an economist at Nomura Holdings. He predicted that the property market downturn could get worse in coming months, as people in more cities across China believe home prices might keep falling and hold off on buying, even if credit becomes more widely available.

In Rui’an, a city in southeastern China, factory owner Zhou Guofang said he owns two apartments but has held off buying another for investment purposes because of the recent turmoil in the housing market. Average prices of existing homes in the city have dropped by about 5% this year, he said.

The 28-year-old Mr. Zhou said he has been bombarded with calls from banks offering him cheap business loans this year, but he has no plan on expanding capacity at his factory. He would rather put money into property, which he says used to consistently beat inflation, but he isn’t confident enough to pull the trigger now.

Still, some analysts caution that the recent cut in the reserve requirement ratio and any further potential easing to support struggling small businesses could end up inflating asset bubbles like properties again.

“Policymakers have plenty of tools but much less room for maneuver going forward,” said Wei Yao, chief China economist at Société Générale. As a result, she said, “China’s central bank is unlikely to either loosen or tighten monetary policy sharply in the next few years.”

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