

China Is Offering Half Measures To Fix Economy

BY KATRINA NORTHROP

While China's technological advances—from artificial intelligence to space—have dazzled the world, much of its economy is in the dumps. A collapsing property market hasn't found a bottom, legions of college graduates can't find jobs and companies are struggling to turn a profit.

But instead of pulling out the big guns to deal with its deep-rooted problems, Beijing has mostly deployed half measures, some economists said. It is a sign of how intractable China's economic difficulties are—and the structural challenges leader Xi Jinping faces in addressing them.

In the past month, Beijing has rolled out a steady drip of measures, including mortgage subsidies, fresh capital for state banks and some new infrastructure investment. The piecemeal approach may help China hit its modest growth target for this year, but it is far from enough, some economists said.

"This is not the big bazooka," said Frederic Neumann, HSBC's chief Asia economist. The government's "m a r g i n a l" measures will have only an incremental impact, he said.

Xi is seeking to drive China to global superiority in cutting-edge technologies, even as the domestic economy languishes. This reflects his focus on making China impervious to Western pressure and his message to the Chinese people: Enduring financial hardship is sometimes necessary to serve greater national goals.

The problems are becoming more urgent. China's gross domestic product expanded 4.3% in the second quarter compared with the same period last year, the slowest in more than three years and just under Beijing's target of 4.5% to 5% this year.

Much of the growth comes from exports, particularly the chips and tech equipment feeding the global AI boom. Electronics manufacturing used for the AI sector drove more than half of the country's quarter-on-quarter expansion in the second part of the year, according to Capital Economics, making Chinese growth highly dependent on the continuing tech bonanza.

Beijing is trying to respond. It just started subsidizing mortgages for first-time buyers to reduce the cost of homeownership, as the country's epic property crash extends into its sixth year. The central government is directly funding the policy, a decision experts say reflects Beijing's sense of urgency about bolstering the real-estate market.

But the policy has a small scope. The mortgage subsidy of 1 percentage point will run for one year and applies to homes that are less than 1,300 square feet and valued at less than \$223,000. It will only cover 16% of total transactions and 12% of new home sales, according to a Morgan Stanley estimate.

"It is quite limited," said Dan Wang, China director at Eurasia Group, a consulting firm. The modest discount is "not like lifelong support" for mortgages, she added.

If the government were willing to take bolder action, Wang added, it could eliminate price floors to let the market bottom out. But this would expose homeowners to huge volatility, a political and social risk Beijing is unwilling to take. "They just don't want the prices to adjust too drastically—they want to control the decline," she said.

Last week, officials reached for tools to lift infrastructure investment—the sort of spending that generated huge growth in China's go-go years. The central bank cut interest rates for a tool, called pledged supplementary lending, used to support government-backed projects. They also expanded the program to channel funding in areas like power grids, communications and logistics.

Taken together, the moves are “a nudge, not a game changer,” Barclays analysts wrote last week, and are far smaller than the stimulus package from September 2024.

These measures follow Beijing’s push to shore up state banks earlier in September, when it announced a \$54 billion capital injection into eight of the largest banks and insurers. That followed a more than \$70 billion injection last year.

Financial institutions in China are facing an increasing crunch: Beijing directs banks to lend to troubled sectors, like real estate and financing vehicles for local governments, whose revenues have been decimated by the property crash.

This squeeze is visible in Chinese banks’ sinking net interest margins—the difference between what they earn on loans and pay out on deposits.

September’s injection is too small to fix the issue, said Nicholas Borst, director of China research at Seafarer Capital Partners. Instead of recognizing many bad loans in one fell swoop and dealing with the financial consequences, Beijing has opted to “extend and pretend,” Borst said.

Despite the difficulties, Chinese officials project confidence. In a speech last week marking China’s national day, Xi said the country’s economy has “continued to progress despite mounting pressure” and pledged to “improve people’s livelihoods and meet the targets and tasks set for the year.”

4.3%

Second-quarter rise in gross domestic product from year earlier period

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