

Economic Analysis

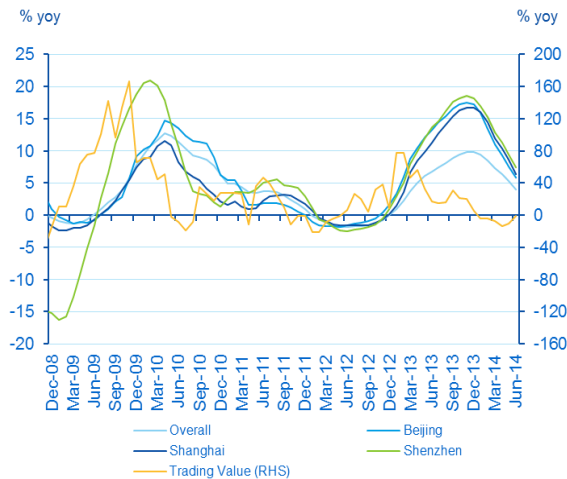
China announced new stimulus measures to boost the property market

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On September 30th, the People's Bank of China (PBoC) and China Banking Regulatory Commission (CBRC) jointly issued stimulus measures to lift some existing tightening policies on the property market and encourage banks to extend more mortgage loans with lower interest rates. The loosening measures are aimed to boost housing demand, which reflects the authorities' concern of the sluggish housing market and economic growth. We don't think the stimulus measures are able to significantly revive the investment-driven demand for property; in addition, it will take time to pass through to other related industries.

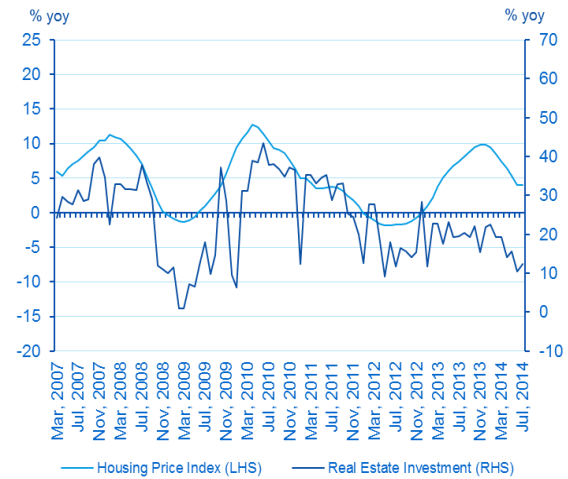
- **Key points in the new rules on the property market include:** (i) second-home buyers will be offered preferential terms of mortgage loans (specifically minimum 30% down payment requirement and up to 30% discount of the benchmark mortgage rate) as long as they have paid off their first-home mortgage; (ii) a ban on mortgages for third-home buying is to be lifted; (iii) banks will be allowed to issue Mortgage-base Securities (MBS) and special financial bonds (covered bonds) in support of mortgage loan extension; and (iv) more property developers will be allowed to issue bonds in the interbank bond market to raise funds.
- **The loosening of tightening measures on the property market is aimed to boost housing demand.** Indeed, the sluggish property market has become the major risk to China's growth outlook (Figure 1), as it started to exert negative spillover effects on production activities in related industries (see our [China Flash](#)). (Figure 2) We believe that these new stimulus measures can boost housing demand by increasing the affordability of second-home purchase and will partially offset the downturn in the property market. However, we don't think that they are able to significantly revive the investment-driven demand for property and, as a consequence, lead to the overheating in the property market again.
- **Two caveats are noteworthy:** first, the effectiveness of these stimulus measures are dependent on the general liquidity condition in the banking sector, which necessitates more liquidity injection by the central bank; second, it will take a longer period of time for the improvement in the property sector if any to pass through to other related industries. That said, manufacturing activities could remain subpar in the next couple of months.

Figure 1
The housing price has been in the decreasing trend since Q3 of the last year



Source: CEIC and BBVA Research

Figure 2
The sluggish real estate investment has exerted negative spillover effects on production activities



Source: CEIC and BBVA Research

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