Macro Note

China: PBOC eases monetary policy to cushion tariff impact

Wednesday, 07 May 2025

Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Ho Woei Chen, CFA
Economist
Ho.WoeiChen@uobgroup.com

- China announced its first stimulus package since the tariff escalation from 2 Apr 'Liberation Day'. It has cut banks' reserve requirement ratio (RRR) by 0.5% point and key interest rates by 0.1% point while providing additional support to targeted areas including service consumption, elderly care, equipment upgrading, consumer goods trade-in program, agriculture and the small & medium enterprises. These represent the key drivers in China's boost for the local consumption and industrial sector. China also indicated strong support for financial market stability which remains important to anchor domestic sentiment.

- The US dollar weakness provided the opportunity for PBOC to ease monetary policy while the timing of the stimulus also reinforces the view that China does not expect a quick resolution to its trade war with US even as they are reported to be commencing discussions.

- In addition to the moves today, we see further room in 2H25 for 20 bps more cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 20 bps) and 50 bps cut to banks' RRR. These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025.

China cuts RRR and key interest rates, provides targeted support to sectors

The People's Bank of China (PBOC) announced cuts to the banks' reserve requirement ratio (RRR) and key interest rates at a press briefing on Wed (7 May). The 10 measures unveiled today are China's first stimulus package in response to US' tariff escalation since the 2 Apr 'Liberation Day' and follows the late-Apr Politburo meeting where policymakers pledged to "fully prepare" emergency plans and cut the RRR and policy rates "at a proper time".

Measures announced on 7 May	
1)	The RRR will be lowered by 0.5% point effective from 15 May to release CNY1 tn in long-term liquidity. Previous cut was by 0.5% point on 27 Sep 2024.
2)	Key interest rates will be cut by 10 bps effective from 8 May. The 7-day reverse repo rate will fall to 1.4% from 1.5%. The overnight, 7-day and 1-month standing lending facility (SLF) rates will be cut to 2.25%, 2.40% and 2.75% respectively. The rate cuts are expected to drive the loan prime rates (LPR) down by 10 bps.
3)	The RRR for auto financial companies and leasing firms will be cut in phases to zero from 5%.

Right By You

4)	Rates on structural relending tools for commercial lenders and pledged supplementary lending for policy banks will each decline by 0.25% point.
5)	The housing provident fund loan rate will drop by 0.25% point.
6)	The quota for technology relending loans will increase by CNY300 bn to CNY800 bn to support equipment upgrading and the consumer goods trade-in program.
7)	A CNY500 bn relending tool will be set up for services consumption and elderly care.
8)	The allowance for the relending tool for agriculture, small and medium-sized enterprises will be expanded by CNY300 bn.
9)	To combine a CNY500 bn swap facility for securities firms, funds and insurers with CNY300 bn in quota for stock repurchases. The two stock market support tools were announced in Sep 2024.
10)	A debt risk-sharing tool will be created allowing the PBOC to provide low-cost relending funds to encourage purchases of bonds of technology firms.

Source: Bloomberg, UOB Global Economics & Markets Research

Our take on the easing measures:
The cuts to banks' RRR and key interest rates are in line with expectation as recent US dollar weakness provided the opportunity for PBOC to ease monetary policy, coming ahead of the FOMC decision tonight.

China's central bank also provides additional support to targeted sectors with rates on structural relending tools for commercial lenders and pledged supplementary lending for policy banks to be cut by 25 bps and the housing provident fund loan rate to drop by 25 bps. PBOC announced new re-lending facilities for service consumption and elderly care as well as an increase in quota for relending loans to support equipment upgrading, consumer goods trade-in program, agriculture and the small & medium enterprises. These represent the key drivers in China's boost for the local consumption and industrial sector.

Overall, the size of the stimulus package may be slightly smaller compared to that in Sep 2024 where the 7-day reverse repo rate was cut by 20 bps along with 0.5% point cut to banks' RRR and a slew of measures to support the housing market (such as lower down-payment ratios, mortgage rate cut, re-lending program for affordable housing) and financial markets.

However, the policymakers have continued to indicate strong support for financial market stability which remains important to anchor domestic sentiment. China Securities Regulatory Commission (CSRC) said that China fully supports its sovereign fund, Central Huijin and PBOC in serving the function as a quasi-stabilization fund, potentially limiting the extend of any market sell-off.

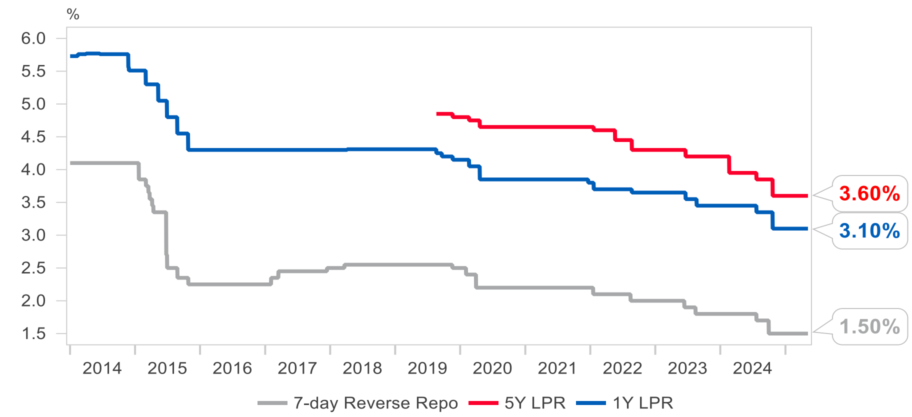
The timing of the stimulus reinforces the view that China does not expect a quick resolution to its trade war with US even as they are reported to be commencing discussions. More stimulus measures will be needed to bolster domestic demand if China's economic downturn becomes more pronounced in a prolonged negotiation process.

In addition to the moves today, we see further room in 2H25 for 20 bps more cut to the benchmark 7-day reverse repo rate (with loan prime rates to fall by 20 bps) and 50 bps cut to banks' RRR. These moves will bring the 7-day reverse repo rate, 1Y LPR and 5Y LPR to 1.2%, 2.8% and 3.3% by end-2025.

Overall, we still maintain China's GDP growth in 2025 at 4.3%. Based on current US tariff setting, we expect China's economy to weaken sharply with growth to slip to around 4.6% y/y in 2Q25 and below 4% y/y in 2H25 (1Q25: 5.4% y/y). There is a high degree of uncertainty in our estimate, depending on when we get a breakthrough in the US-China trade negotiations and the eventual tariff rates as well as policy measures to offset the external challenges.

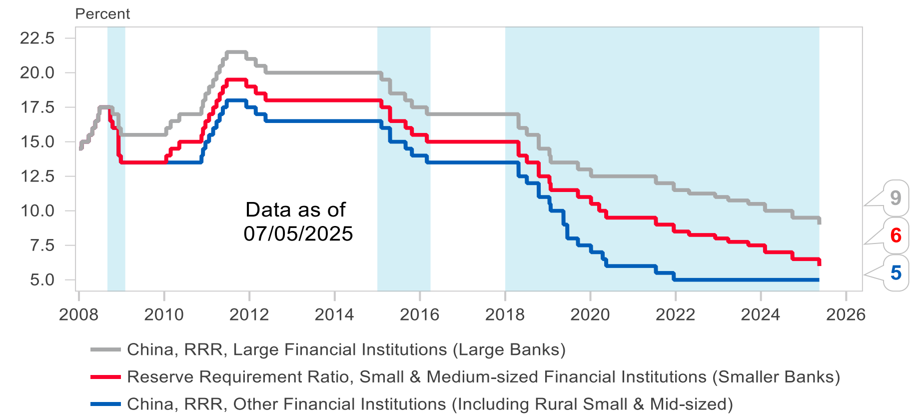
Monetary policy easing set to continue amid the weak growth and price backdrop

Source: Macrobond, UOB Global Economics & Markets Research



RRR cut to release low cost long-term funds to the banking sector

Source: Macrobond, UOB Global Economics & Markets Research



The PBOC has cut banks' RRR by 50 bps effective from 15 May				
Date of announcement	Effective Date	Type	Change (bps)	Amount released (CNY bn)
07-May-25	15-May-25	Broad	-50	1,000
24-Sep-24	27-Sep-24	Broad	-50	1,000
24-Jan-24	05-Feb-24	Broad	-50	1,000
14-Sep-23	15-Sep-23	Broad	-25	500
17-Mar-23	27-Mar-23	Broad	-25	500
25-Nov-22	05-Dec-22	Broad	-25	500
15-Apr-22	25-Apr-22	Broad	-25 to -50	530
06-Dec-21	15-Dec-21	Broad	-50	1,200
09-Jul-21	15-Jul-21	Broad	-50	1,000
03-Apr-20	15-Apr & 15-May	Targeted	-100	400
13-Mar-20	16-Mar-20	Targeted	-50 to -100	550
01-Jan-20	06-Jan-20	Broad	-50	880
06-Sep-19	16-Sep-19	Broad	-50	800
06-Sep-19	15-Oct & 15 Nov	Targeted	-100	100
06-May-19	15-May-19	Targeted	-100	280
04-Jan-19	15-Jan & 25-Jan	Broad	-100	800
07-Oct-18	15-Oct-18	Targeted	-100	750
24-Jun-18	05-Jul-18	Targeted	-50	700
17-Apr-18	25-Apr-18	Targeted	-100	400

Source: PBOC, UOB Global Economics & Markets Reseach est.

Movements of LPR on fixing dates (changes, in bps)

	Aug 19	Sep 19	Nov 19	Feb 20	Apr 20	Dec 21	Jan 22	May 22	Aug 22	Jun 23	Aug 23	Feb 24	Jul 24	Oct 24
1Y LPR	-6	-5	-5	-10	-20	-5	-10	0	-5	-10	-10	0	-10	-25
5Y & above LPR	0	0	-5	-5	-10	0	-5	-15	-15	-10	0	-25	-10	-25

Source: UOB Global Economics & Markets Research

UOB's Forecast Of 7D Reverse Repo & Loan Prime Rate (LPR)

	07 May	2Q25F	3Q25F	4Q25F	1Q26F
7D Reverse Repo	1.50%	1.40%	1.20%	1.20%	1.20%
1Y LPR	3.10%	3.00%	2.80%	2.80%	2.80%
5Y LPR	3.60%	3.50%	3.30%	3.30%	3.30%

Source: UOB Global Economics & Markets Research

Disclaimer