

**Chinese economy**

## China policymakers clash over how to counter property slump

Xi's economic tsar Liu He worries Beijing underestimating impact of real estate and Covid restrictions



An apartment rooftop in Shenzhen. The housing ministry wants to keep up the pressure on developers by tightly regulating how they can use project revenues © Qilai Shen/Bloomberg

**Sun Yu** in Beijing and **Tom Mitchell** in Singapore YESTERDAY

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Chinese regulators led by vice-premier Liu He are concerned that the government is underestimating the economic impact of its crackdown on the property sector and Covid-19 lockdowns in Shanghai and other cities, according to officials and policy advisers.

But other senior officials have opposed efforts by Liu, President Xi Jinping's longtime [financial and economic adviser](#), to ease the pressure on the real estate sector, six Beijing-based government officials and policy advisers told the Financial Times.

The policy disagreements within the Chinese government highlight the difficult choices it faces as it tries to shore up growth in the world's second-largest economy while also pursuing a tough zero-Covid strategy and taming heavily indebted property developers.

China's gross domestic product was [up 4.8 per cent year on year](#) in the first quarter, but a 3.5 per cent fall in retail sales in March suggested anti-Covid controls were slowing an economy already suffering from real estate market woes. On Tuesday, state media reported that Xi called for accelerated investment in a wide range of critical infrastructure sectors but did not specify an amount or timeframe for the effort.

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Liu, who heads a powerful committee that co-ordinates policy between the central bank and China's banking, securities and other regulators, has supported recent moves by many regional governments to [ease restrictions](#) on property purchases.

But according to the officials and policy advisers, two other vice-premiers — Han Zheng and Hu Chunhua — have sided with the housing ministry in wanting to maintain the pressure on developers by tightly regulating how they can use project revenues.



Chinese vice premier Liu is concerned that the government is underestimating the economic impact of its crackdown on the property sector © Saul Loeb/AFP/Getty Images

Liu's Financial Stability and Development Committee wants to give debt-laden developers more freedom to deploy revenues from buyers who pre-pay for their homes. Over the past year, local governments have [ringfenced sales revenues](#) so they are only used to complete the relevant project.

“It is already common for lenders, be they banks or bond investors, to give repayment extensions to developers,” said a government adviser who shared Liu's concerns. “Continued weakening of the industry may cause bad debts to spike and the entire financial sector to go under.”

An executive at Sunac, a large developer based in the port city of Tianjin, said real estate firms should be allowed to use sale proceeds from new projects to pay off debts owed on older projects to [help avoid defaults](#).

“If we have collected Rmb1bn (\$150mn) in revenue that would be spent over three

“If we have collected Rmb100bn (\$15.3bn) in revenue that would be spent over three years on one project, why can’t we earmark Rmb100bn of that for use elsewhere and [repay it] later on,” said the executive, who asked not to be named.

Han and Hu’s supporters argued that fears about the impact on China’s largely state-owned banking sector were overblown. “Not every bank will go under,” one of the people said. “We can always have healthy banks bail out troubled ones.”

While Liu has long been regarded as China’s most powerful economic and financial official, Han is the highest-ranking of the three vice premiers. Han sits on the Chinese Communist party’s most powerful body, the politburo standing committee, and is considered a leading candidate to replace Li Keqiang as premier next year.

Liu has also urged local governments in areas affected by Covid lockdowns to [protect supply chains](#) and help companies resume operations.



The port city of Tianjin. A property executive said companies should be allowed to use sale proceeds from new projects to pay off debts owed by older projects © Zhang Peng/LightRocket/Getty Images

But confronted with China’s worst economic conditions and outlook since at least the [beginning of the pandemic](#), financial policymakers have responded over recent weeks with only modest easing measures.

Their reticence stems in part from fears that stronger stimulus measures would have only limited effectiveness, especially in regions brought to a standstill by Covid containment lockdowns.

Liu and Yi Gang, governor of the People's Bank of China and a highly respected technocrat who was appointed central bank chief at Liu's insistence, are also wary of broad-based rate cuts. They fear these could [undermine progress](#) over the past five years at stabilising China's overall debt-to-GDP ratio.

Liu and Yi also share growing concerns that with US interest rates now higher than China's for the first time in years, rate cuts could [weaken the renminbi](#) and spark destabilising capital flight.

"Current economic policy may not be [aggressive] enough," said an influential Beijing academic, who asked not to be named because he didn't have university approval to speak with the media. "But since the US began raising rates, the renminbi has begun to depreciate. If we [cut rates] renminbi depreciation could get out of control."

Almost every expression of policy support from the PBoC and central government's state council over recent weeks has been qualified by caveats that they would not resort to "flood-like stimulus" and remained determined to "keep macro debt levels generally stable".

On Tuesday, such central bank comments halted a sharp sell-off sparked by fears that harsh lockdown measures in Shanghai [might be extended to Beijing](#).

The comments by the PBoC reiterated pledges to use "prudent" monetary policy to support small and medium-sized enterprises, which have borne the brunt of the lockdowns, while also promising to boost banks' lending capacity.

But [similar assurances](#) by Liu in mid-March, as the benchmark CSI 300 index was poised to fall to a two-year low, had only a temporary effect. The rally quickly faded when the PBoC announced only a 25 basis-point cut in banks' [reserve requirement ratios](#), potentially releasing just about Rmb500bn in new lending into China's Rmb114tn-a-year economy.

"Liu and Yi are afraid of reinflating bubbles," said one person who has worked closely with Yi. "They want to provide liquidity to those who need it, but think they can do that [through bank reserve requirement cuts and targeted lending guidelines] rather than using broad measures."

"Opening up the flood gates is great for other parts of the country that are not affected by lockdowns but for those that are, it's not going to make much difference."

*Additional reporting by Emma Zhou in Beijing*

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