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China: When Will the Central Bank Ease?

Two recent statements from China's government leaders point strongly in the direction of a monetary policy shift. One is the Ministry of Industry's reported assertion that industrial output should grow 11% on average during 2011 and in 2012. Implicitly, this assessment indicates that the government sees industrial-output growth dropping down to single digits in the next few months, from a nearly 14% year-on-year pace in September (and throughout the year).

The second statement is Prime Minister's Wen Jia Bao's assertion that the government will make policy changes at a "suitable time and by an appropriate degree", a pronouncement (reasonably) understood to mean that a monetary policy loosening is already being discussed at the highest levels.



That a policy shift in an easing direction is coming is consistent with DE's view of the Chinese economy's present conditions, trends and risks.

We have recently argued that the incipient *soft-landing* apparently underway would probably need to be supported in the quarters ahead by a moderate-to-strong easing of monetary policy.

In fact, as we pointed out in an earlier note, the monetary policy turnaround has already started, with the authorities emphasizing the need to relax credit for smaller firms.

The question now is the timing of interest rate and reserve-requirement reductions, which in light of the aforementioned official statements can reasonably be viewed as "sooner, rather than later", *possibly* as early as before the end of the year, but unlikely to be delayed—*if present trends persist in both output and inflation* --past the first quarter of 2012.