China’s central bank joined its European counterpart in boosting liquidity to address weakening growth, underscoring a divergence in direction among the world’s biggest economies as the U.S. reduces stimulus.

The People’s Bank of China is injecting 500 billion yuan ($81 billion) into the nation’s largest banks, according to a government official familiar with the matter, signaling the deepest concern yet with an economic slowdown. Federal Reserve Chair Janet Yellen will announce another $10 billion cut to its monthly bond purchases after this week’s meeting, economists forecast, as she steers toward gradual interest-rate increases.

China’s credit expansion builds on targeted measures to shore up growth while stopping short of broad-based stimulus seen in the U.S. in the wake of the global financial crisis and still being pushed in Europe and Japan. By attaching a three-month term to its injection, China is taking a step down that path while maintaining control of a process designed to fuel demand for credit in an already debt-laden economy.

“It’s like quantitative easing with Chinese characteristics,” said Louis Kuijs, Royal Bank of Scotland Group Plc’s chief Greater China economist in Hong Kong, who formerly worked at the World Bank. “The threat is that growth is slowing down below the comfort level of policy makers and that will then also warrant further easing steps.”

The PBOC will funnel 100 billion yuan each to the five biggest banks for a three-month period, said the official, who asked not to be identified because the measure hasn’t been formally announced.

‘Easing Stance’

“It shows China’s monetary policy is leaning toward easing, and the easing stance may last throughout next year,” said Hua Changchun, a China economist at Nomura Holdings Inc. in Hong Kong. The lack of an official announcement shows that the PBOC “doesn’t want to send a strong signal” of policy easing, Hua said.

The Sina.com website earlier reported the injection and the PBOC didn’t respond to faxed questions. Bank stocks rallied in Hong Kong, the yuan halted a four-day slide and one-year interest-rate swaps dropped to the lowest level since June.
Not all analysts saw the move as policy stimulus. Chang Jian, chief China economist at Barclays Plc in Hong Kong, said it was “a normal liquidity operation.”

The injection is “mainly aimed at providing liquidity to pre-empt potential liquidity shortages in the banking system in the coming weeks,” Chang wrote. Cash needs for the coming National Day holiday, along with initial public offerings of stock, are among the reasons she cited.

**Slowdown Signs**

The weakest industrial-output expansion since the global financial crisis and moderating investment and retail sales growth shown in data released Sept. 13 underscored risks of a deepening economic slowdown. Those readings followed a second straight drop in imports and a 40 percent decline in the broadest measure of new credit for August, as well as indicators showing a manufacturing pullback.

The injection marks “the first clear policy response to weak August data” on the economy, Goldman Sachs Group Inc. economists including Beijing-based Song Yu wrote in a research note. “We expect monetary conditions to loosen modestly, which will provide some much-needed support for demand growth. Other policies may follow.”

Further steps may include accelerating planned fiscal spending, the Goldman analysts wrote. They estimated that the 500 billion yuan extension of funds through the standing lending facility, or SLF, is roughly equivalent to a half percentage-point cut in the reserve ratio, though such moves tend to have a larger impact.

**Biggest Banks**

The five largest banks are Industrial & Commercial Bank of China Ltd., Agricultural Bank of China Ltd. (601288), China Construction Bank Corp., Bank of China Ltd. and Bank of Communications Co. Press officers at the five lenders declined to comment.

“With growth slowing and regulators cracking down on shadow banking, it seems like the PBOC is trying to cut costs for preferred borrowers and sectors without reflating the property sector,” David Loevinger, former U.S. Treasury Department senior coordinator for China affairs and now a Los Angeles-based analyst at TCW Group Inc., said in an e-mail. “But it risks stepping back from a more market-based allocation of credit, which China sorely needs.”

The injection of funds underscored how the PBOC has yet to adopt the type of communication practices followed by its counterparts among the world’s largest economies. The European Central Bank, Fed and Bank of Japan typically issue press releases for significant policy actions.

**Draghi, Kuroda**

ECB President Mario Draghi this month announced a final round of interest-rate cuts and a plan to buy privately owned securities as he seeks to revive inflation in the 18-nation euro area. BOJ Governor Haruhiko Kuroda this month assured his prime minister he would do what’s needed to achieve an inflation target as he continues unprecedented easing.
Chinese Premier Li Keqiang said last week that the government can’t rely on monetary stimulus to spur economic growth. Yet like counterparts in Europe and Japan, he faces constraints from moderating tax-revenue gains.

In a speech at the World Economic Forum in the northern Chinese city of Tianjin earlier this month, Lisaid the government won’t be distracted by short-term fluctuations in individual economic indicators and will maintain its focus on structural adjustments and dealing with long-term issues.

‘Pessimistic Tone’

“A pessimistic tone that China may miss its whole-year economic growth target and the government needs to adopt strong stimulus measures such as an interest rate cut is getting louder,” according to a commentary by the official Xinhua news agency published yesterday. “These noises emerge repeatedly because: on one hand, they are not seeing the New Normal in China’s economy, and on the other hand, they are showing distrust in China’s reforms.”

Before the latest action, the central bank had made two targeted reductions in reserve ratios after instructions from the State Council, China’s cabinet. The first, in April, applied to some small rural banks and the second, detailed by the PBOC in June, covered most city commercial banks and non-county-level rural commercial banks and cooperatives.

“The PBOC has left itself a lot of flexibility,” Hu Yifan, chief economist at Haitong International Securities Co. in Hong Kong, said by phone. The injection has the same result as a reduction in the reserve-requirement ratio while being “more controllable,” she said.

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