

—The macroeconomy—

## **Mizuho China Business Express Economic Journal** (No. 58)

### **Summary**

China's real GDP (gross domestic product) grew by 6.7% y-o-y in April–June, the same level as January–March. June's economic indicators were mixed, with some up slightly and some down slightly on May. If moves to eliminate overcapacity and other structural reforms accelerate from the 2H onwards, this will place more downward pressure on the economy. The question is whether China will be able to promote structural reform while maintaining jobs and growth.

#### **1. June's economic indicators deteriorated slightly on the whole**

- **Growth hit +6.7% in April–June too**
- **Investment fell slightly**
- **Retail sales of consumer goods accelerated slightly**
- **Property prices continued to grow at a slower pace in first-tier cities**
- **Exports and imports both fell**
- **The CPI growth rate slowed, mainly due to stable vegetable prices**
- **There was a net increase in new loans, with total social financing also increasing**

#### **2. Movement on the employment and earnings environment and to eliminate overcapacity**

- **'China faces challenges in maintaining household income growth' (National Bureau of Statistics)**
- **'Strict penalties will be applied for failure to reach targets for eliminating overcapacity' (National Development and Reform Commission)**

## 1. June's economic indicators deteriorated slightly on the whole

### •Growth hit +6.7% in April–June too

On July 15, the National Bureau of Statistics announced that China's real GDP (gross domestic product) had grown by 6.7% on the same period last year (all figures from here on refer to 'same-period previous-year' growth unless otherwise specified) in both January–June and April–June<sup>1</sup>. This was the same level as recorded in January–March (+6.7%), when growth had dipped to its lowest level since January–March, 2009 (+6.2%), some seven years ago<sup>2</sup>. Nonetheless, this remained within the government's targeted range of between 6.5 and 7 percent (see Fig. 1). Growth was up 1.8% on the previous quarter.

At a press conference on July 15, Sheng Laiyun, Spokesperson of the National Bureau of Statistics, explained the current state of the Chinese economy using five Chinese characters: “(1) 稳, (2) 进, (3) 新, (4) 好, (5) 难<sup>3</sup>.” With regards to (1) “稳”, he said (a) growth<sup>4</sup>, (b) employment, (c) inflation and (d) incomes/consumption were all moving stably. Under the (2) “进” heading, Sheng explained that: (a) a glance China's industrial structure showed the tertiary sector accounting for 54.1% of China's GDP from January to June, up 1.8%Pt on the same period last year; (b) the GDP contribution rate of final consumption expenditure hit 73.4%, up 13.2Pt%; (c) a regional breakdown showed the value-added industrial production figure in China's central and western regions topping that of eastern China and the nationwide average; (d) supply-side structural reforms were bearing fruit<sup>5</sup>. As for (3) “新,” Sheng pointed out that the number of newly-registered enterprises had hit 14,000 from January to June, up on the 12,000 figure from the same period last year. Turning to (4) “好,” the spokesman said that energy consumption per unit of GDP had fallen by 5.2%. Though the PPI (Producer Price Index) remained in negative territories, the figure had improved for the sixth successive month, while the profits of industrial enterprises rose by +6.4%.

With regards to (5) “难”, though, Sheng noted that: (a) a global economy recovery was unlikely based on the international environment, with trade remaining sluggish and the number of uncertain factors increasing; (b) domestically, the Chinese economy was at a key stage when it came to structural adjustment and structural transition/upgrading, with the adjustment pains continuing to be felt and the real economy still struggling, comparatively speaking.

A glance at contribution levels by demand item shows the negative contribution of net exports improving from -1.4Pt in January–March to -0.7Pt in January–June. This helped to compensate for the slump in final consumption expenditure (from 5.7Pt to 4.9Pt). The contribution of gross fixed capital formation hit +2.5Pt, more-or-less unchanged on January–March's +2.4Pt (see Fig. 2).

<sup>1</sup> National Bureau of Statistics, July 15, 2016: 上半年国民经济运行总体平稳、稳中有进 (China's overall economy moved calmly and stably over 1H, 2016) [http://www.stats.gov.cn/tjsj/zxfb/201607/t20160715\\_1377652.html](http://www.stats.gov.cn/tjsj/zxfb/201607/t20160715_1377652.html)

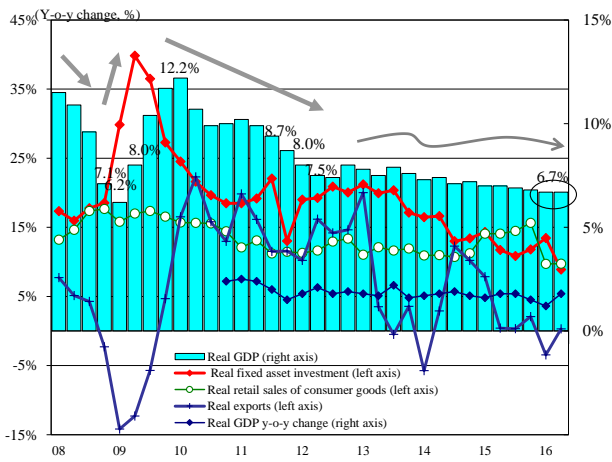
<sup>2</sup> However, nominal GDP stood at RMB 34,063.7 billion in January–June 2016 compared to RMB 15,689.8 billion in January–June 2009, with GDP now 2.2 times bigger than it was seven years ago.

<sup>3</sup> See footnote 1.

<sup>4</sup> At constant 2010 prices to GDP growth was RMB 23 billion higher than the same period last year, which shows that the Chinese economy is growing stably.” (NBS spokesperson Sheng Laiyun).

<sup>5</sup> 去产能 (Elimination of excess capacity): 1H coal production = -9.7%, 1H crude steel production = -1.1%. 去库存 (Elimination of real-estate stock): The floor space of commercial residential building stock at the end of June was down 21 million m<sup>2</sup> on the end of March. 去杠杆 (deleveraging): The debt ratio of industrial enterprises above a designated size fell by 0.5Pt at the end of May.

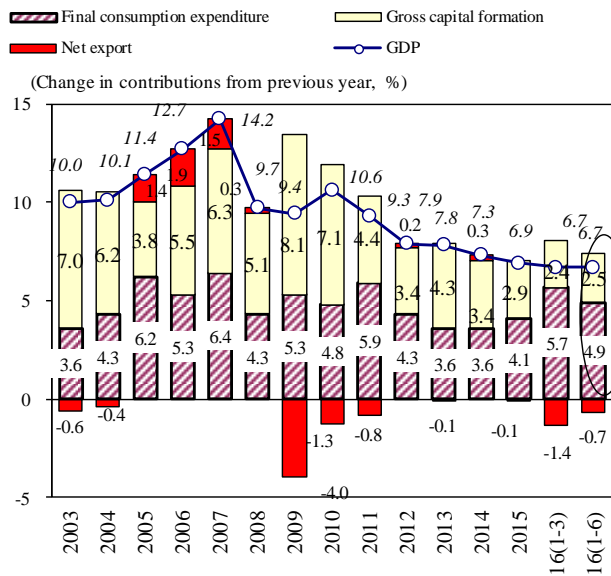
**Fig. 1: GDP and major economic indicators (quarterly)**



Note: The real RMB value of exports is indexed using the production price index (PPI); the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI).

Source: National Bureau of Statistics of China, CEIC

**Fig. 2: Breakdown of GDP by demand item**

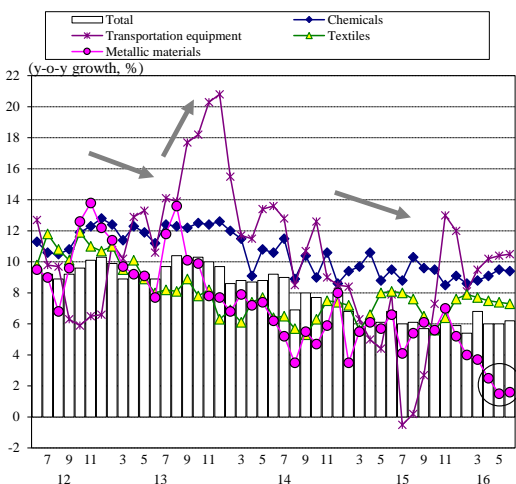


Source: National Bureau of Statistics of China, CEIC

**Investment fell slightly**

June’s economic indicators were mixed, with some up slightly and some down slightly on May. At +6.2% year-on-year (+0.5% month-on-month), value-added industrial production in June was up on May’s figure of +6.0% y-o-y (see Fig. 3). At +6.0%, meanwhile, the aggregate figure for January–June was down on 2015’s figure of +6.9%.

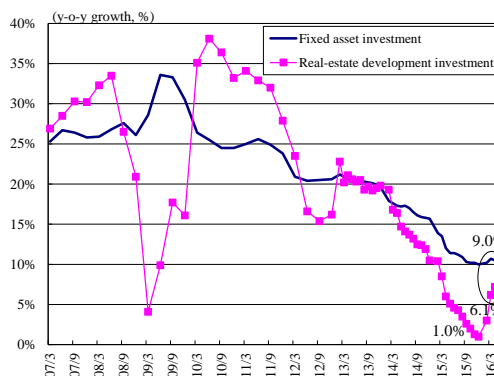
**Fig. 3: Value-added industrial production**



Note: The value-added industrial production amount. The figure for January shows the aggregate year-on-year change for the period January–February. Transportation equipment has meant automobiles since March 2012.

Source: CEIC

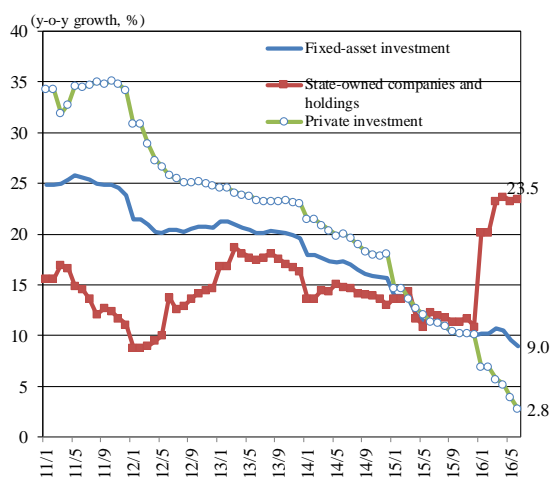
**Fig. 4: Fixed asset investment**



Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question. The figures for the end of March, June, September, and December were listed until the end of 2012; the monthly figures were listed from 2013 onwards.

Source: National Bureau of Statistics of China, CEIC

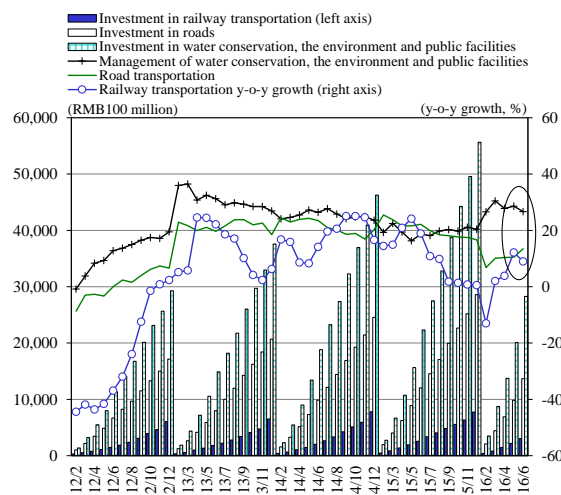
**Fig. 5: Fixed asset investment  
(State/private investment)**



Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question.

Source: National Bureau of Statistics of China, CEIC

**Fig. 6: Fixed asset investments in railways, roads, water conservation and the environment**



Note: The figures show the cumulative results and a same-period previous-year comparison for periods lasting from the beginning of the target year until the month in question.

Source: National Bureau of Statistics of China, CEIC

Nominal fixed asset investment stood at a cumulative +9.0% over January–June, a slowdown on January–May’s +9.6% and 2015’s +10.0% (the standalone figure for June was +0.5% m-o-m). At +7.3%<sup>6</sup>, meanwhile, the standalone figure for June was down on May’s +7.4%. The aggregate data for January–June shows investment in real-estate development falling to +6.1% (January–May: +7.0%) (see Fig.4).

Private investment has only recorded single-digit growth entering 2016, with the aggregate figure for January–June standing at just +2.8% (see Fig. 5). Sheng Laiyun, spokesman for the National Bureau of Statistics of China (NBS), said the slowdown was due to three factors. Firstly, since the structure of the Chinese economy began shifting, manufacturing, a traditional industry that accounts for around 50% of aggregate private investments, has faced severe overcapacity, with the price of industrial products falling and corporate appetite for investment slumping. Secondly, private investment faces high entry barriers in some regions, with these restrictions creating an unfavorable climate for investment, even though businesses are keen to invest. Thirdly, many private firms are small businesses and they face difficulties getting loans or high funding costs when they can procure loans<sup>7</sup>.

At the same time, investment in the management of water conservation, the environment and public facilities was up by 26.7% in January–June. Though this was up slightly on 2015’s figure of +20.4%, it was down slightly on January–May’s of +28.6% (see Fig. 6).

**•Retail sales of consumer goods accelerated slightly**

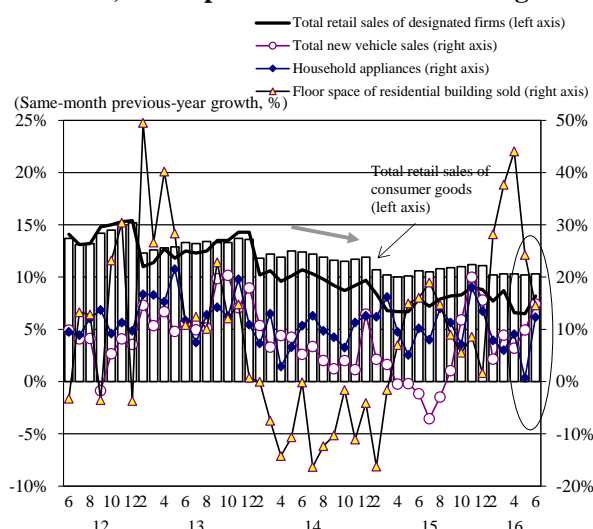
Nominal retail sales of consumer goods grew by 10.6% in June, up on the +10.0% recorded in May. Even with inflationary factors removed from the equation, real growth stood at +10.3%, a slight acceleration on May’s figure

<sup>6</sup> The aggregate figure for January–June was used to calculate the monthly result and the y-o-y rate of change.

<sup>7</sup> See footnote 1.

of +9.7% (+0.9% m-o-m) (see Fig. 7). The aggregate figure for January–June stood at +10.3%, down on the +10.7% recorded in 2015. Internet retail sales grew by 28.2% to hit RMB 2,236.7 billion (goods: RMB 1,814.3 billion/+26.6%), with net shopping accounting for 14.3% of all retail sales of consumer goods.

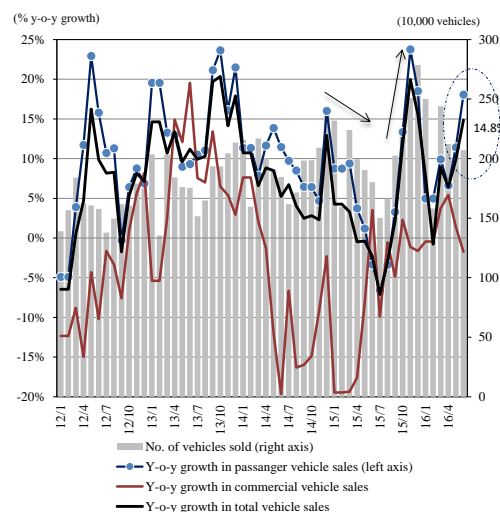
**Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold**



Note: Designated firms: firms with an annual turnover of RMB 5 million or over; the household appliance data also refers to sales by these designated companies; February = the cumulative results for January–February.

Source: CEIC

**Fig. 8: Number of vehicles sold (by passenger vehicles and commercial vehicles)**



Note: The figure for January and February shows cumulative y-o-y growth for the period January–February.

Source: China Association of Automobile Manufacturers, CEIC

The floor space of residential buildings sold grew by 14.6% (163.48 million m<sup>2</sup>) in June. The figure for January–June stood at +27.9% (643.02 million m<sup>2</sup>), with the floor space of residential buildings sold expanding for 14 successive months since April 2015, when the standalone monthly figure returned to positive territories for the first time since December 2013. At +14.6%, though, June’s standalone figure was down on May’s +24.2%. The recovery in homes sales has been supported by two factors. Firstly, the authorities have acted to prop up the property market. The People’s Bank of China (PBOC) has lowered deposit and lending rates six times since November 2014, for example, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (on March 30, 2015) and the down payment rate for first-time homebuyers was lowered to 25% (on September 30, 2015). Secondly, capital flooded into the real estate market on the back of the wealth effect that accompanied the phase of bullish stock prices from April 2015 to the end of June, for example, with funds also fleeing from stock markets into the real estate market during the subsequent slide in stock prices.

2.0707 million new vehicles were sold in June (+14.8%). Though this number was down on May’s figure of 2.0917 million, the pace of growth was up on May’s +9.9% (see Fig. 8). The recovery continues to be propelled by the cut in the purchase tax on small vehicles<sup>8</sup> (instituted in October 2015). A total of 12.806 million new vehicles

<sup>8</sup> On September 29, 2015, the Finance Ministry and the State Administration of Taxation issued Notice No. 104 [2015], 财政部 国家税务总局关于减征 1.6 升及以下排量乘用车车辆购置税的通知 (Finance Ministry and State Administration of Taxation Circular on the lowering of the purchase tax on passenger vehicles with emissions of 1,600cc or less.) This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016. <http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html>

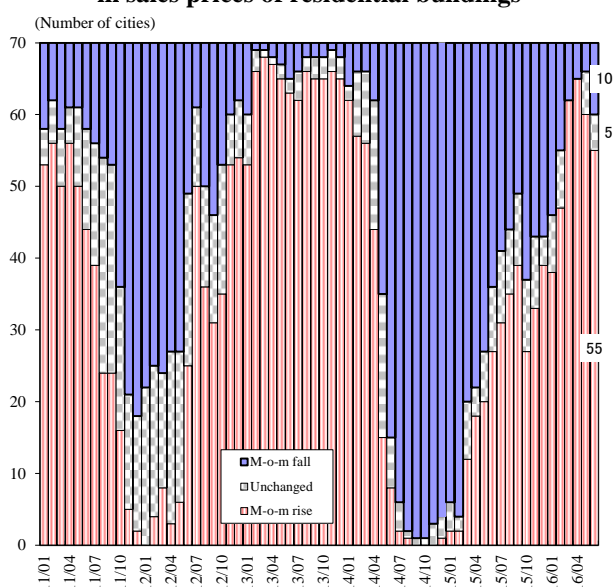
were sold over January–June, with sales growing by +8.0% (2015: +4.6%; 2014: +6.8%).

**• Property prices continued to grow at a slower pace in first-tier cities**

In June, 55 of the 70 cities surveyed saw the price of new homes rising on the previous month, down five cities compared to May. Ten cities saw new home prices falling on the previous month, up from four cities in May. Five cities saw prices moving flatly on the previous month, down from six cities in May (see Fig. 9). Fifty-seven cities reported prices rising on a year-on-year basis, up seven cities on May, while 12 cities saw prices falling on the previous year, down from 18 cities in May.

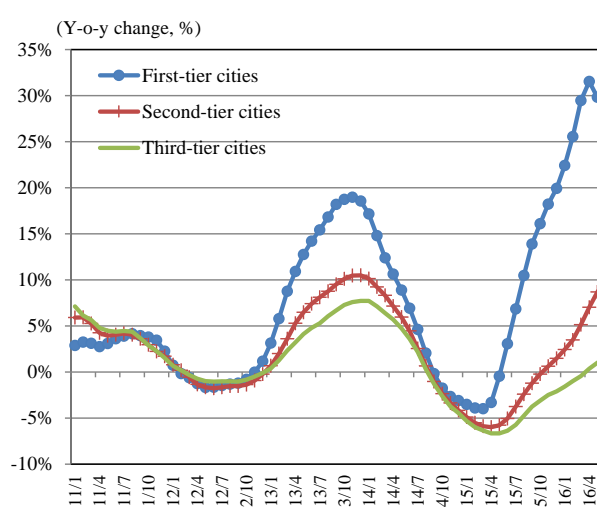
In June, prices in Shanghai and Shenzhen grew by 27.7% and 46.7%, respectively, a slowdown on April’s peak (of +28.0% and +62.4%, respectively). This reflected a policy shift in these cities away from stimulus measures to tightening measures<sup>9</sup>. On the other hand, prices rose at a faster pace in the second-tier cities and third-tier cities (see Fig. 10)<sup>10</sup>.

**Fig. 9 Number of cities recording m-o-m changes in sales prices of residential buildings**



Source: National Bureau of Statistics of China, CEIC

**Fig. 10 New-homes prices (Y-o-y)**

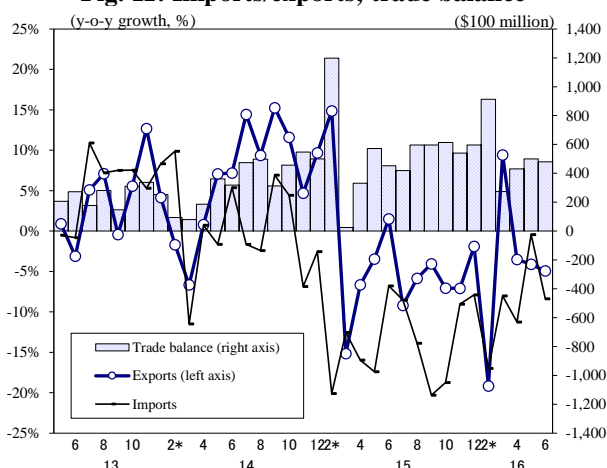


Note: First-tier cities: Beijing, Shanghai, Guangzhou, Shenzhen  
 Second-tier cities: Tianjin, Chongqing, Hangzhou, Nanjing, Wuhan, Shenyang, Chengdu, Xi’an, Dalian, Qingdao, Ningbo, Changsha, Jinan, Xiamen, Changchun, Harbin, Taiyuan, Zhengzhou, Hefei, Nanchang, Fuzhou  
 Third-tier cities: 45 cities other than above  
 Source: CEIC

<sup>9</sup> In March 25, Shanghai raised the down payment rate for second homebuyers from 40% to 50–70%. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both of these amount to a tightening of the rules on purchases by non-resident buyers. Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July, for example. Source: Economic Information Daily, July 14, 2016 - 房地产现严重分化因城施策将是下半年楼市政策主线 “China’s acute property price bifurcation problem: Metropolitan real-estate measures in 2H influenced by the regional policies”, etc. [http://www.china.com.cn/shehui/2016-07/14/content\\_38877726.htm](http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm)

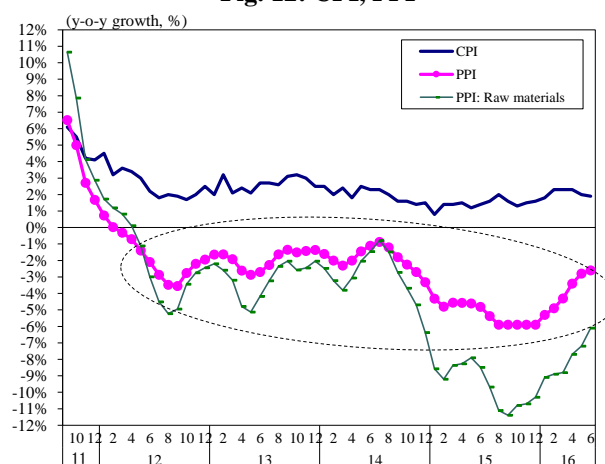
<sup>10</sup> At 27.7%, though, Shanghai’s growth rate in June was unchanged on May. Examples of rising house prices in second-tier cities: Xiamen +33.6%, Nanjing +29.7%, Hefei +29.0%, Hangzhou +17.2%, etc. In June, the nationwide property price rate of change stood at +5.5% (a simple average calculated from the rates of change in each region).

**Fig. 11: Imports/exports; trade balance**



Note: \* Same-period previous-year growth and cumulative figures for January–February.  
Source: China Customs Statistics

**Fig. 12: CPI, PPI**



Source: National Bureau of Statistics of China, CEIC

**Exports and imports both fell**

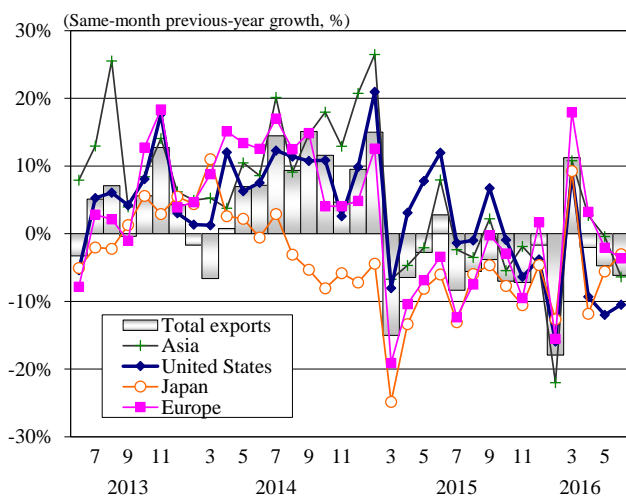
Exports were down 4.8% in June (\$180.38 billion), while imports fell by 8.4% (\$132.28 billion), with the trade surplus standing at \$48.11 billion. Both exports and imports were down on May’s figures of -4.1% and -0.4%, respectively. Aggregate exports for January–June were down by 7.7% (\$985.48 billion), while imports fell by 10.2% (\$727.19 billion), with the trade surplus hitting \$258.29 billion. Total trade fell by 8.7% in the same period, a slight dip on January-May’s figure of -8.6% (see Figs. 11, 13 and 14).

Bai Ming, a senior researcher with a Ministry of Commerce think tank, said the prolonged trade slump was down to both external and domestic factors. With regards to the former, Bai pointed to the shift of low-value-added industries to Southeast Asia and the repatriation of high-end industries to the West, with trade frictions also flaring up frequently. With regards to domestic factors, meanwhile, he said the overall economy was slowing as China lost its advantage when it came to labor costs<sup>11</sup>.

<sup>11</sup> International Business Daily, July 15, 2016: 外贸供给侧结构性改革须提速(China needs to accelerate overseas trade supply-side structural reforms)  
<http://finance.china.com.cn/roll/20160714/3812191.shtml>



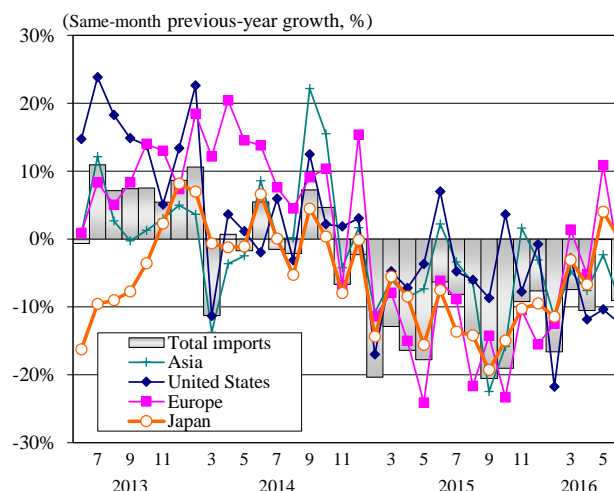
**Fig. 13: Exports by major region**



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.

Source: China Customs Statistics, CEIC

**Fig. 14: Imports by major region**



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.

Source: China Customs Statistics, CEIC

**•The CPI growth rate slowed, mainly due to stable vegetable prices**

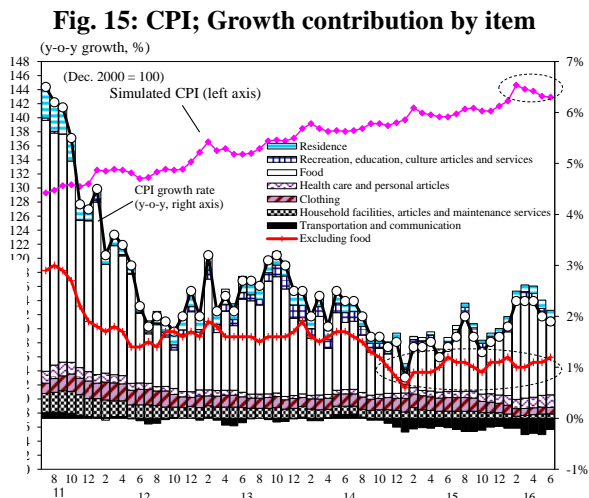
In June, CPI (Consumer Price Index) growth stood at +1.9%, down on May’s figure of +2.0%. At -0.1%, though, CPI growth contracted at a slower pace, an improvement on May’s figure of -0.5% m-o-m (see Fig. 12). At +2.1%, the average figure for January–July came in below the government’s target of +3.0%. A breakdown of the CPI data shows food prices rising 4.6% in June, down on May’s figure of +5.9% (see Fig. 15). The cost of vegetables had risen by 6.4% in May as production was hit by the cold weather, but it then dipped by 6.5% in June. Pork prices rose by 30.1% in June, down on May’s figure of +33.6% (see Fig. 16)<sup>12</sup>. At 54.87 million tons, pork output dipped by 3.3% y-o-y in 2015. As with 2007 and 2011, this points to the impact of the pork cycle<sup>13</sup>, with prices continuing to rise on the whole on falling output. At +1.2%, June non-food price rises also rose slightly on May (+1.1%). Air fares rose by 3.8% and travel costs by 2.1% on the approach a summer, a time when many people take vacations. The PPI (Producer Price Index) remaining in negative territories in June for the 52nd successive month. At -2.6%, though, the pace of the contraction was down on May’s figure of -2.8% (see Fig. 12). On a monthly basis, the PPI stood at -0.2% in June, an improvement on May (-0.5% m-o-m). A breakdown of the constituent PPIs shows ‘Extraction of Petroleum and Natural Gas’ standing at -19.9%, ‘Processing of Petroleum, Coking, Processing of Nucleus Fuel’ at -11.8%, ‘Mining and Washing of Coal’ at -6.9%, ‘Manufacture and Processing of Non-Ferrous Metals’ at -6.1%, and ‘Manufacture of Chemical Raw Material and Chemical Products’ at -5.4%. The contribution

<sup>12</sup> National Bureau of Statistics, July 10, 2016: 国家统计局城市司高级统计师余秋梅解读 2016 年 6 月份 CPI、PPI 数据 (Yu Qiumei, a senior statistician at the National Bureau of Statistics, deciphers the June 2016 CPI and PPI data.) [http://www.stats.gov.cn/tjsj/sjjd/201607/t20160710\\_1375635.html](http://www.stats.gov.cn/tjsj/sjjd/201607/t20160710_1375635.html)

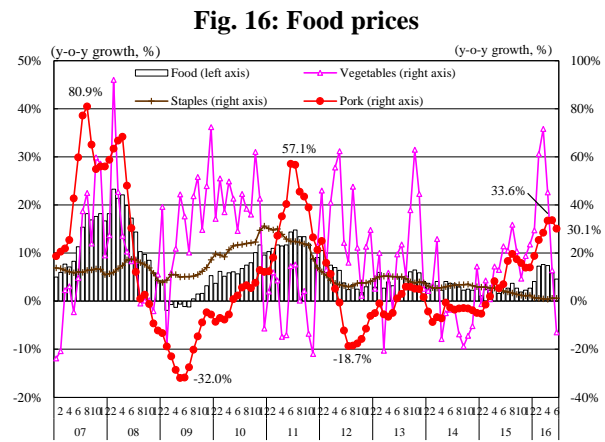
<sup>13</sup> This is a cycle whereby: farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs. According to 全年猪价将维持高位 供求矛盾没有根本改变 (Pork prices to remain high throughout the year, with the supply and demand contradiction essentially unchanged,) an article in the China Securities Journal on June 15, 2016, disease and the cold weather has seen the piglet death rate in Hubei, Henan, Hebei, Shandong, Liaoning and Fujian rise above 30%, its worst level in three years, so there is a relatively strong possibility that pork prices will continue trending upwards at a fast clip until the end of 2017. <http://finance.sina.com.cn/china/gncj/2016-06-15/doc-ifxszkzy5290780.shtml>



rate of these five sectors to the overall PPI data came in around 58%, with the contribution level falling by 1.5%Pt<sup>14</sup> (NBS).



**Fig. 15: CPI; Growth contribution by item**  
 Note: The contribution rate of each item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by Mizuho Bank (China) based on the m-o-m growth rate for each month, with December 2000 as the base month.  
 Source: National Bureau of Statistics of China, CEIC



**Fig. 16: Food prices**  
 Note: The figures in the graph denote the highest, lowest and most-recent prices of pork  
 Source: National Bureau of Statistics of China, CEIC

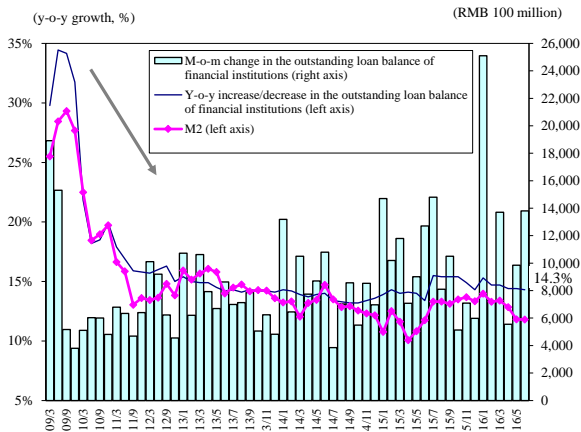
**There was a net increase in new loans, with total social financing also increasing**

According to the PBOC, the M2 money supply increased by 11.8% in June, down on May’s figure of +12.8% and below the government’s target of +13% (see Fig. 17). Sheng Songcheng, head of the PBOC’s Financial Survey and Statistics Department, put the slowdown in money-supply growth down to four factors: the fact that the M2 balance was already swollen; a decline in the amount of bank acceptance bills; the large-scale issuance of municipal bonds; and a decline in the amount of funds outstanding for foreign exchange<sup>15</sup>. New bank loans increased by a net RMB 1.38 trillion in June, up from RMB 985.5 billion in May. Total social financing also expanded by a net RMB 1.63 trillion, up from RMB 659.9 billion in May. A glance at the details reveals that: RMB loans, entrusted loans, trust loans and non-financial-institution equity issuances increased; corporate bonds shifted from a net decrease to a net increase; and foreign currency loans (converted into RMB) and bankers’ acceptances (undiscounted balance) decreased at a slower pace (see Fig. 18).

<sup>14</sup> See footnote 12.

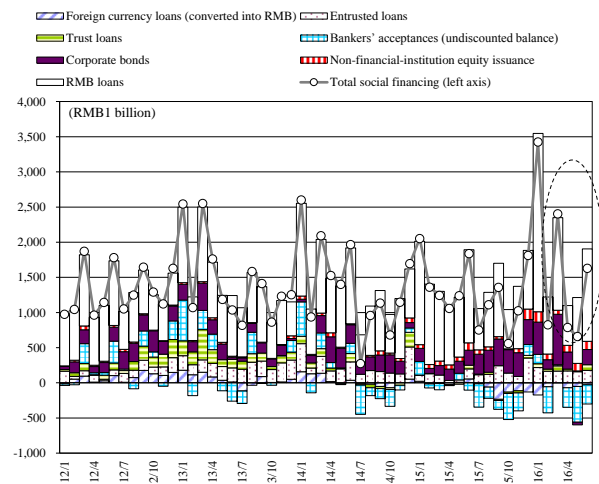
<sup>15</sup> Chinese Financial News, July 17, 2016: 稳健货币政策为发展和转型营造良好环境 (Prudent (neutral) monetary policy is needed to create a healthy environment.)  
[http://www.financialnews.com.cn/yw/pl/201607/t20160718\\_100533.html](http://www.financialnews.com.cn/yw/pl/201607/t20160718_100533.html)

**Fig. 17: Financial institution lending; the money supply**



Note: The graph shows end-of-quarter figures up until the end of 2012. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.  
Source: PBOC, CEIC

**Fig. 18: Total social financing**

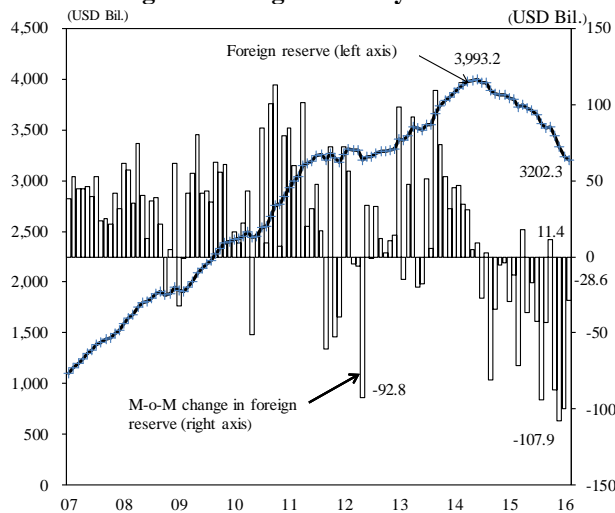


Source: PBOC, CEIC

On July 15, the China Banking Regulatory Commission (CBRC) announced that the non-performing loan (NPL) ratio of China's major commercial banks risen from 1.75% at the end of March to 1.81% at the end of June. This was the highest level since the 2.04% recorded at the end of March, 2009<sup>16</sup>.

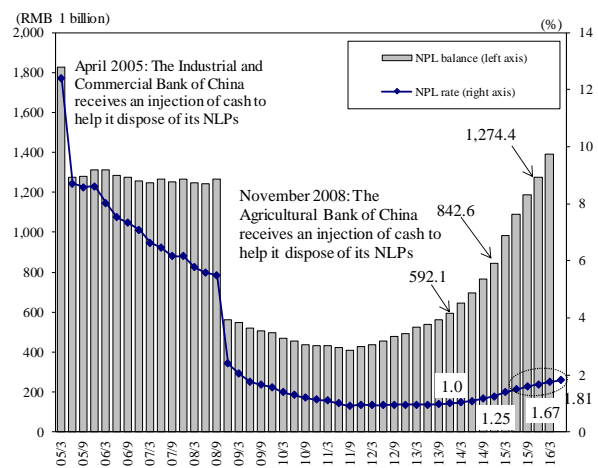
Foreign currency reserves stood at \$3,191.7 billion in June, up \$13.34 billion on May (see Fig. 19).

**Fig. 19: Foreign currency reserves**



Source: People's Bank of China, CEIC

**Fig. 20: NPL ratio of major commercial banks**



Note: The figures in the graph show the NPL ratio at the end of 2013, 2014, 2015 and June, 2016.  
Source: China Banking Regulatory Commission (CBRC), CEIC

## 2. Movement on the employment and earnings environment and to eliminate overcapacity

From here on, the key issues for the Chinese economy will probably be: the conditions surrounding the employment and earnings environment; and the extent to which China pushes forward with the elimination of overcapacity and

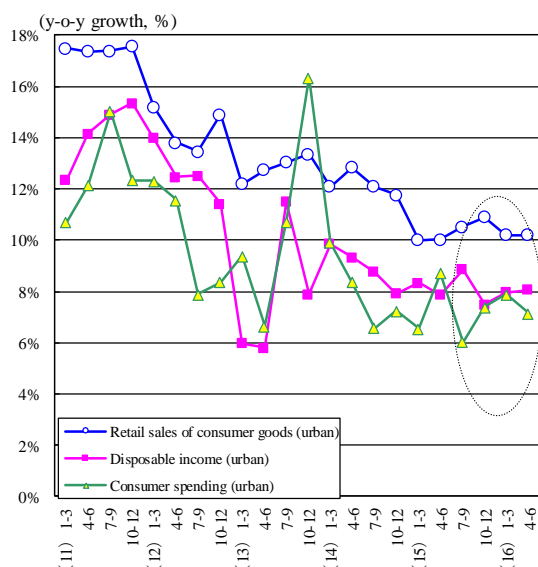
<sup>16</sup> CBRC website, July 15, 2016: 中国银监会召开 2016 年上半年全国银行业监督管理工作暨经济金融形势分析会议 (The CBRC held a 1H 2016 National Banking Supervision Work Conference and a meeting to analyze the economic and financial situation.)  
<http://www.cbrc.gov.cn/chinese/home/docView/E0A63BCC04564FB088A197A579FB5632.html>

other supply-side structural reform.

**▪ ‘China faces challenges in maintaining household income growth’ (National Bureau of Statistics)**

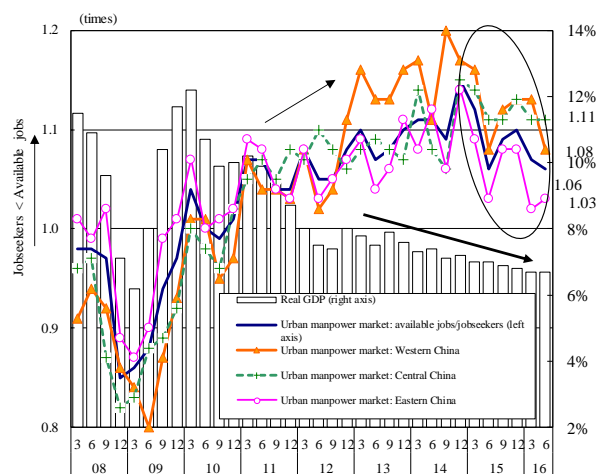
Wang Pingping, head of the Household Survey Office, Department of Household Surveys, National Bureau of Statistics’ (NBS), said disposable household income in January–June had risen by a nominal 8.7% to hit RMB 11,886. With inflationary factors removed from the equation, the real growth rate stood at +6.5%, close to the +6.7% real GDP growth rate recorded over the same period (see Fig. 21)<sup>17</sup>. Wang also said that although the pace of wage growth had kept up with the pace of economic growth, it would be challenging to maintain this relationship going forward. As for factors holding back wage growth, Wang pointed to the elimination of overcapacity in the steel and coal industries together with the falling price of agricultural goods. Wang also said the situation requires ‘close attention’.

**Fig. 21: A comparison of (urban) retail and wage statistics**



Source: CEIC

**Fig. 22: The jobs-to-applicants ratio and real GDP growth rate**



Source: Ministry of Human Resources and Social Security, National Bureau of Statistics of China, CEIC

**▪ ‘Strict penalties will be applied for failure to reach targets for eliminating overcapacity’ (National Development and Reform Commission)**

China produced over 800 million tons of crude steel in 2015, around half the global total. The Chinese authorities announced at the end of 2015 that they would eliminate overcapacity in the steel sector. In the ‘Opinions of the State Council on resolving overcapacity in the iron and steel industry,’<sup>18</sup> released February 1 this year, the State Council (central government) announced concrete plans to cut iron and steel production by 100 to 150 million tons within

<sup>17</sup> National Bureau of Statistics, July 17, 2016: 王萍萍：上半年全国居民收入与经济增长基本同步 (Wang Pingping says household incomes generally kept pace with economic growth in the 1H, 2016.) [http://www.stats.gov.cn/tjsj/zxfb/201607/t20160717\\_1378315.html](http://www.stats.gov.cn/tjsj/zxfb/201607/t20160717_1378315.html)

<sup>18</sup> The State Council of the People’s Republic of China, February 4, 2016: 国务院关于钢铁行业化解过剩产能 实现脱困发展的意见 国发〔2016〕6号 (Opinions of the State Council on resolving overcapacity in the iron and steel industry, No. 6 (2016).) [http://www.gov.cn/zhengce/content/2016-02/04/content\\_5039353.htm](http://www.gov.cn/zhengce/content/2016-02/04/content_5039353.htm)

five years.

In response, the Ministry of Human Resources and Social Security (China's Ministry of Health, Labour and Welfare) released 'Policy opinion regarding the review of personnel in the steel and coal industries'<sup>19</sup> as of April 7. This document called for new companies to employ more workers in the event of any takeovers or mergers. It also said free job training would be offered to help workers back into work. Companies with at least 100 displaced workers would also have to hold job fairs. Companies would also offer welfare support to redundant employees within five years of mandatory retirement age who have difficulties finding new jobs. Under the plan, the central government will provide grants to firms struggling to pay wages and so on<sup>20</sup>.

At the same time, the State Administration of Work Safety, a body affiliated with the State Council, and other agencies released a set of opinions<sup>21</sup> on April 15 that called for a review of safety standards as well as moves to restrain productive capacity as part of efforts to guide the steel and coal industries along the path of sound development. For example, productive activities that fail to meet national safety standards will be shut down and pressed to take corrective measures. Furthermore, if firms fail to take such measures within six months or if they fail to meet safety standards even after taking corrective measures, they will be ordered to cease all activities.

The PBOC (China's central bank) et al. also released 'Opinions on eliminating overcapacity and moves to resolve problems in the steel and coal industries' on April 18<sup>22</sup>. This proposed that lending should be strictly curtailed when it comes to new productive capacity in the steel and coal industries that violates regulations. It also suggests that lending should be restricted or stopped when it comes to firms with long-term deficits who lack repayment abilities and market competitiveness, for example, or productive capacity that has fallen behind the curve.

Baosteel in Shanghai and Wuhan Iron & Steel Group in Wuhan, Hubei Province, two central SOEs overseen by the State-owned Assets Supervision and Administration Commission of the State Council, also announced plans to restructure. This could involve the two companies merging their operations.

Despite all these moves, 'The gap between supply and demand (for steel and coal) remains virtually unchanged' (Economic Daily)<sup>23</sup>. China produced 329.9 million tons of crude steel in January–May, down 1.4% on the same

<sup>19</sup> 「人力资源社会保障部 国家发展改革委等七部门关于在化解钢铁煤炭行业过剩产能实现脱困发展过程中做好职工安置工作的意见」  
[http://www.mohrss.gov.cn/gkml/xxgk/201604/t20160413\\_238000.html](http://www.mohrss.gov.cn/gkml/xxgk/201604/t20160413_238000.html)

<sup>20</sup> In a press conference on July 8, Xin Changxing, Vice-Minister of the Ministry of Human Resources and Social Security, said, amongst other things, that: Around 800,000 workers would be impacted by moves to eliminate overcapacity in the steel and coal industries, with the government working in a solid and careful manner to resettle them based on their employment desires and family status; though there are many job opportunities in some large cities, other cities that depend on steel and coal will face difficulties when it comes to resettlement, while some enterprises will face business difficulties and this will impact workers' incomes; Older workers in the steel and coal industries will be need to be offered training to help them find reemployment.  
<http://www.gov.cn/xinwen/2016zccfh/17/wzsl.htm>

<sup>21</sup> 「国家安全监管总局 国家煤矿安监局关于支持钢铁煤炭行业化解过剩产能实现脱困发展的意见 安监总管四〔2016〕38号」  
[http://www.chinasafety.gov.cn/newpage/Contents/Channel\\_5330/2016/0418/268566/content\\_268566.htm](http://www.chinasafety.gov.cn/newpage/Contents/Channel_5330/2016/0418/268566/content_268566.htm)

<sup>22</sup> The PBOC et.al.: 「关于支持钢铁煤炭行业化解过剩产能实现脱困发展的意见」  
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3051040/2016042114172962416.pdf>

<sup>23</sup> Economic Daily, July 9, 2016: 去产能各地年底必须交账 (Overcapacity in each region to be eliminated at the end of the year.)  
<http://finance.china.com.cn/roll/20160709/3804037.shtml>

period last year. Though overall output declined, the details reveal that steel output actually increased in Hebei Province, Jiangsu Province and Shandong Province, the three top provinces when it comes to steel production. Hebei Province, China's biggest steel-producing region, churned out 83.52 million tons, up 0.3% on the same period last year, while Jiangsu Province produced 45.91 million tons (up 2.2%) and Shandong Province 29.2 million tons (up 5.5%). This increase was because the price of steel materials began rising entering 2016. Some companies that had temporarily ceased operations in 2015 also began producing again<sup>24</sup>.

However, demand for steel is approaching saturation point and the price of steel materials may start sliding again from here on. If this happens, it will probably lead to the closure of some zombie firms. It is likely that the governmental policies outlined above will come into effect from the second half of 2016 onwards.

The authorities have introduced some even-tougher measures. On July 7, the National Development and Reform Commission (NDRC) et al. held a nationwide teleconference to discuss the problem of overcapacity in the steel and coal industries. It emphasized that strong questions should be asked of regional governments and enterprises that fail to hit targets when it comes to eliminating overcapacity<sup>25</sup>. The State Council has already assigned 2016 production-cut targets to regional governments and central SOEs, who have in turn signed written pledges to achieve these targets. The NDRC instructed each ministry, regional government and directly-controlled municipality to allocate the responsibility for hitting these regional targets among cities, prefectures and companies by July 15. Specific targets for cutting production were assigned right down to the individual plant level, with each party given until the end of July to submit timetables for achieving these targets.

If moves to eliminate overcapacity and other structural reforms accelerate from the 2H onwards, this will place more downward pressure on the economy. The question is whether China will be able to promote structural reform while maintaining jobs and economic growth.

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<sup>24</sup> 21st Century Business Herald, June 30, 2016: 三钢铁大省产量不减反增 去产能陷入怪圈 (Output actually increases in China's three largest steel-producing provinces as moves to eliminate overcapacity slip into a vicious cycle.)  
[http://epaper.21jingji.com/html/2016-06/30/content\\_42737.htm](http://epaper.21jingji.com/html/2016-06/30/content_42737.htm)

<sup>25</sup> China Securities Journal, July 8, 2016: 钢铁煤炭去产能未达标将严肃追责 (Strict penalties will be applied for failure to reach targets for eliminating overcapacity in the steel and coal industry.)  
<http://money.163.com/16/0708/05/BRE9DVPN002524SO.html>

NDRC: 我委会同有关部门召开全国电视电话会议加快推进钢铁煤炭行业去产能工作 (The NDRC held a nationwide teleconference with related agencies to discuss speeding up efforts to eliminate overcapacity in the steel and coal industries.)  
[http://www.sdpc.gov.cn/gzdt/201607/t20160708\\_810808.html](http://www.sdpc.gov.cn/gzdt/201607/t20160708_810808.html)

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