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Mizuho Bank (China), Ltd.
Corporate Banking Coordination Division

—The macroeconomy—

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Summary

December's economic indicators deteriorated slightly on November on the whole. A glance at the GDP data for 2016 shows the contribution of consumption growing and the economy becoming more service-led. Though the economy continues to slow, it is also growing in scale, with China becoming more important as a market. The work conferences of the People's Bank of China and China Banking Regulatory Commission both focused on supply-side structural reform and risk prevention.

1. **December's economic indicators deteriorated slightly on November on the whole.**
   - **Growth accelerated to +6.8% in October–December**
   - **China's economy continues to increase by the size of an emerging-economy's GDP each year**
   - **Production and fixed asset investment slowed**
   - **Retail sales of consumer goods increased**
   - **More regions saw real-estate prices falling on the previous month**
   - **Exports and imports both deteriorated slightly; total trade fell again in 2016, though less so than in 2015**
   - **CPI growth slowed slightly while PPI growth moved at the +5% mark**
   - **New bank loans increased; total social financing fell slightly**

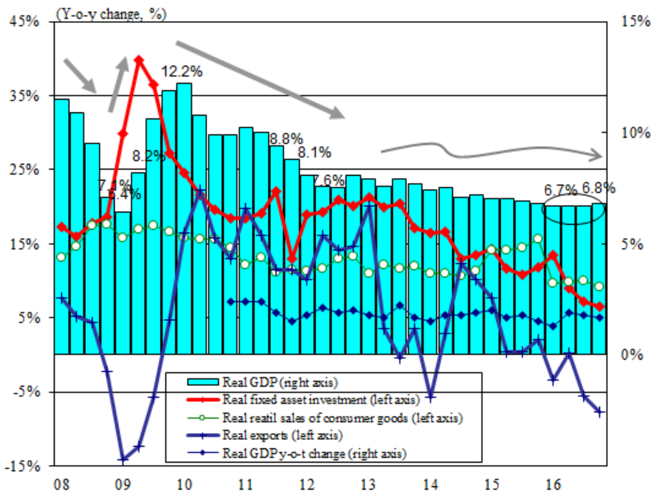
2. **Policy response: The work conferences of the PBOC and CBRC both focused on supply-side structural reform and risk prevention**
   - **'Actively guiding and stabilizing market expectations': (PBOC work conference)**
   - **'Enhance the impact of service improvements on the real economy from the central perspective of promoting supply-side structural reforms' (CBRC work conference)**

1. December's economic indicators deteriorated slightly on November on the whole.

• Growth accelerated to +6.8% in October–December

On January 20, National Bureau of Statistics (NBS) announced that China's real GDP growth rate had slowed to +6.7% year-on-year in 2016, while the figure for October–December stood at +6.8% on the same period last year (from here on, all figures refer to 'same-period previous-year' growth unless otherwise specified)[1]. The economy grew by 1.7% on the previous quarter (see Fig.1). A glance at contribution levels by demand item shows the contribution of total fixed capital formation rising by 2.8%Pt, up on January–September's figure of +2.5%Pt. This compensated for a slide in the contribution of final consumption expenditure (from +5.6%Pt in January–March to +4.3%Pt in January–December). At +4.3%Pt, though, the contribution of final consumption expenditure in 2016 was higher than in the previous year (+4.1%Pt). The contribution of net exports remained in negative territories from July–September onwards at -0.5%Pt, though this was an improvement on January–March (-1.4%Pt) and January–June (-0.7%Pt)(see Fig. 2).

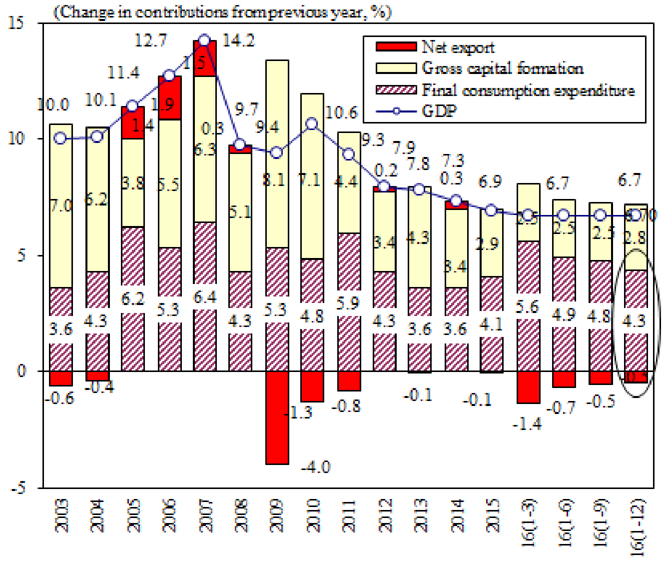
Fig. 1: GDP and major economic indicators (quarterly)



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

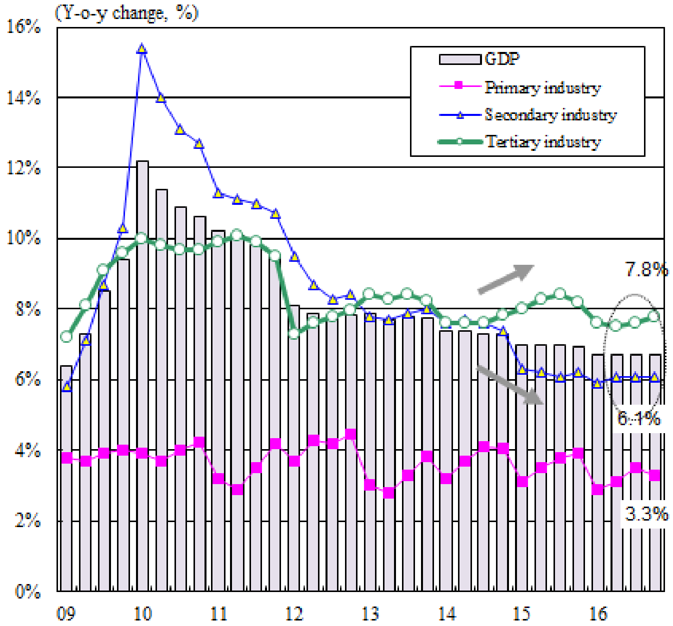


Source: National Bureau of Statistics of China, CEIC

A breakdown of the growth rate by industry shows the tertiary sector growing by +7.8%. Though the sector continues to offset the slowdown in the secondary industry, this result was down on 2015's result of +8.2%. Growth in the secondary industry also declined from +6.2% to +6.1% (see Fig.3).

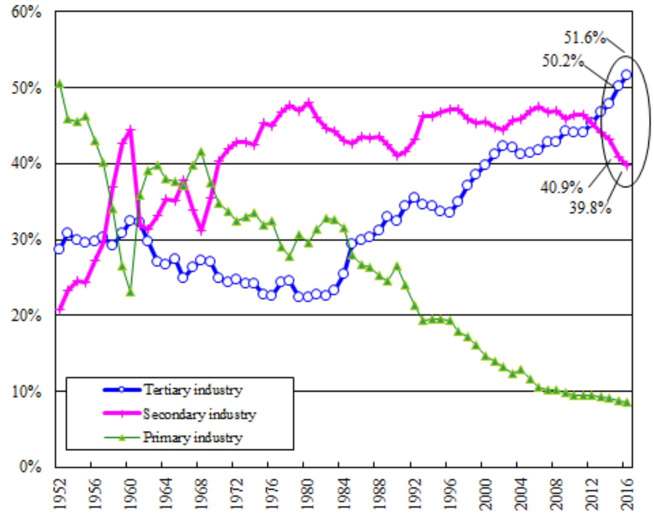
[1] National Bureau of Statistics, January 20, 2017: 2016 年国民经济实现"十三五"良好开局 (A Good Start for China's Economy during the 13th Five-Year Plan Period) http://www.stats.gov.cn/tjsj/zxfb/201701/t20170120_1455942.html

Fig. 3: GDP by sector



Note: The figures denote the most recent period
Source: National Bureau of Statistics of China, CEIC

Fig. 4: GDP composition by sector



Note: The figures around the circle show the contribution rate of the secondary and tertiary indistrues in 2015, 2016.
Source: National Bureau of Statistics of China, CEIC

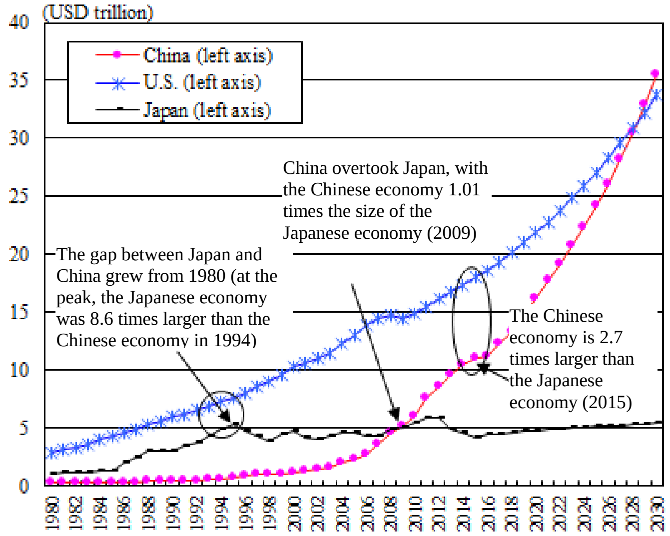
A breakdown of nominal GDP shows the contribution of the tertiary sector rising to 51.6% in 2016. This contribution has been rising since 2012, when it first topped the contribution of the secondary industry (45.31% to 45.27%). At 39.8%, the contribution of the secondary industry dipped below 40% for the first time since 1978, when China first opened its doors to foreign business (see Fig.4). These changes to the industrial structure seem to be impacting business confidence differently in different sectors like manufacturing and services.

• China's economy continues to increase by the size of an emerging-economy's GDP each year

At +6.7%, real GDP growth rate remained within the government's target range of between 6.5 and 7 percent in 2016. However, with headlines pointing out that the real GDP growth rate had fallen to its lowest level in 26 years (since the +3.9% recorded in 1990), the result seemed to reinforce the impression of an 'economic slowdown.' Yet nominal GDP rose by RMB 5.5 trillion y-o-y in 2016[2], with China's GDP growing by an average of RMB 5.7 trillion per annum from 2010 to 2015 (or around $1 trillion; equivalent to the size of Indonesia's nominal GDP in 2015)[3]. With the RMB also appreciating in tandem with this relatively fast economic growth, China could pass the U.S. to become the world's largest economy sometime around 2030. China surpassed Japan in terms of nominal GDP in 2009 and its economy was 2.7 times larger than Japan's by 2015, with China's presence as a market set to increase from here on[4] (see Fig.5).

[2] The RMB also depreciated in 2016, so the dollar-denominated figure of $141 billion was also impressive compared to previous years when the RMB had appreciated.
[3] Hajime Takata, Managing Executive Officer and Chief. Economist, Mizuho Research Institute: *Research TODAY* (January 23, 2017) - *Is China plus one realistic given China's large presence?*
http://www.mizuho-ri.co.jp/publication/research/pdf/today/rt170123.pdf?ad=ml
[4] India also continues to grow at the 7% mark, but its nominal GDP in 2015 was just $2 trillion, one-fifth the size of China's and around half the size of Japan's.

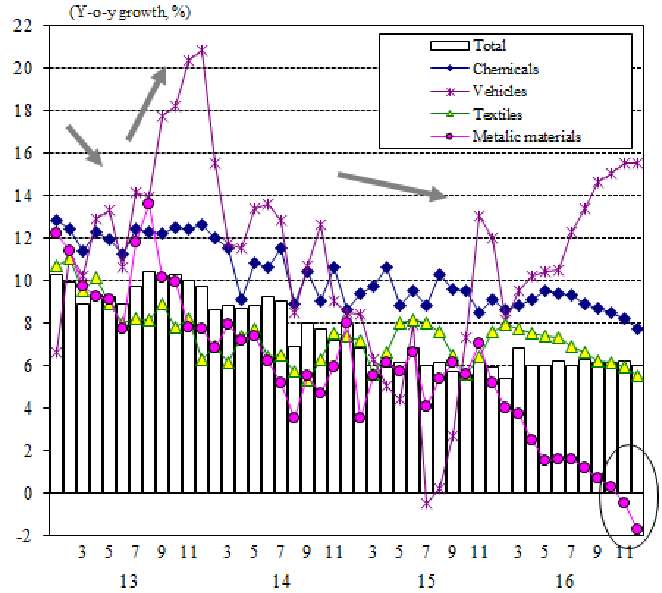
Fig. 5: Comparison of the GDPs of Japan, the U.S. and China (in US$)



Note: The figures for 2016–2021 are IMF forecasts (the 2016 figure for China is the actual result). The figures for 2022 onwards are extrapolated from the 2021 forecast for Japan and the average growth rate over 2016–2020 for China.

Source: IMF, World Bank

Fig. 6: 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.

Source: CEIC

• Production and fixed asset investment slowed

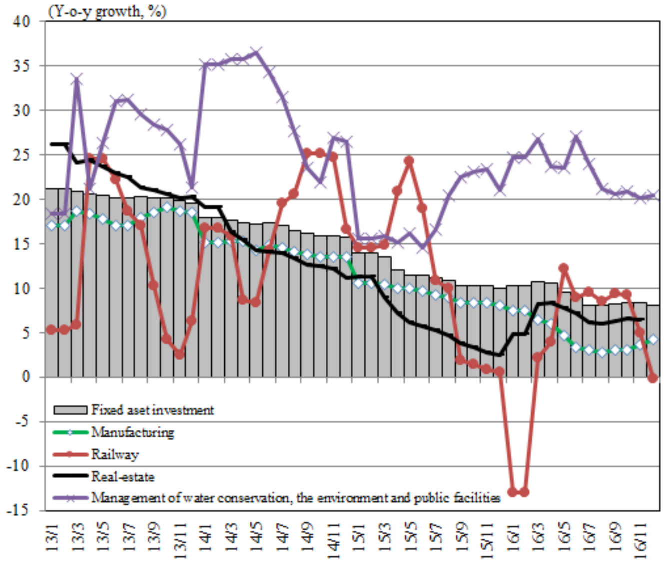
Many economic indicators released in December were down slightly on November overall. The value-added industrial production figure rose by 6.0% in December, a slight decrease on November's figure of +6.2% (+0.5% month-on-month) (see Fig. 6). At +6.0%, the figure for 2016 as a whole was also down on 2015's figure of +6.1%. The production of metallic materials (ferrous metal refining and strip processing) dipped (as it had also done in October and November), a phenomenon linked to moves to eliminate overcapacity.

At +8.1%, nominal fixed asset investment for 2016 as a whole was down on January–November's cumulative figure of +8.3% and 2015's +10.0% (the standalone m-o-m figure for December was +0.5%). At +6.5%[5], the December result was also down on November's +8.8%.

The aggregate data for January–December shows investment in real-estate development rising slightly to +6.9%, (January–November: +6.5%) (see Fig.7). Investment in the management of water conservation, the environment and public facilities grew by 20.4% in January–December, a modest increase on January–November's figure of +20.2%. This compensated for the slowdown in fixed asset investment in the manufacturing sector, which continues to grow at a lackluster pace while undergoing a gentle recovery.

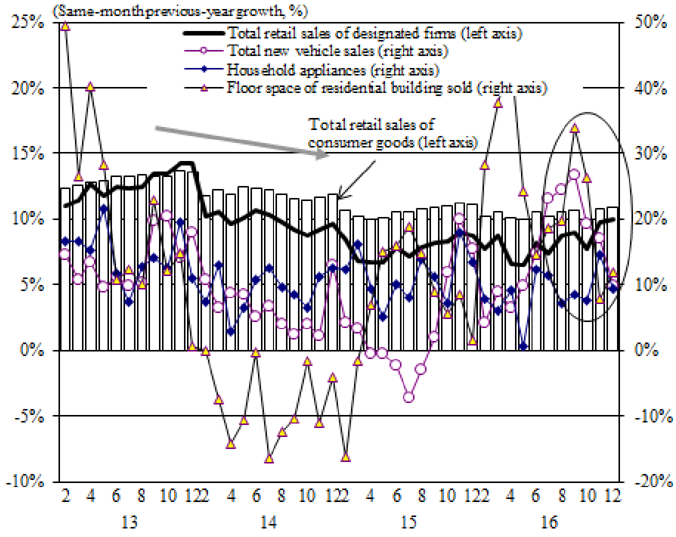
[5] The aggregate figure for January–December was used to calculate the monthly result and the y-o-y rate of change.

Fig. 7: 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.
Source: National Bureau of Statistics of China, CEIC

Fig .8: Retail sales of consumer goods; retail sales by item; floor space of residential building sold

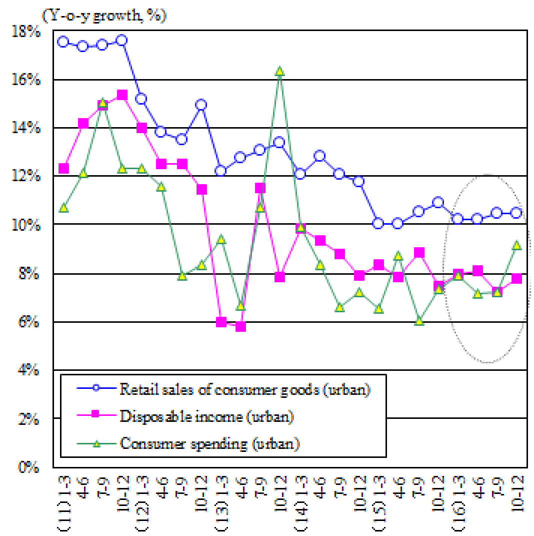


Note: Designated firms: firms with an annual turnover of RMB 5 million or over; the household appliance data also refers to sales by these designated companies; February = the cumulative results for January–February.
Source: CEIC

• Retail sales of consumer goods increased

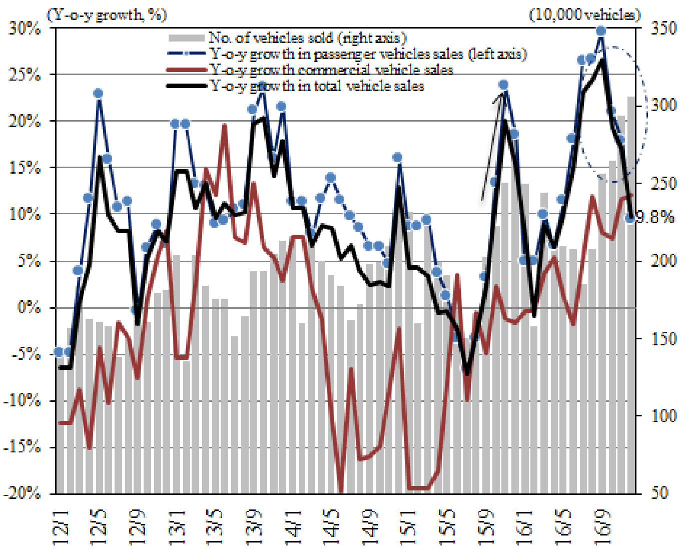
Nominal retail sales of consumer goods grew by 10.9% in December, up on the +10.8% recorded in November. Once inflationary factors were removed from the equation, real growth was unchanged on November at +9.2% (+0.9% m-o-m) (see Fig. 8). Retail sales grew by 10.4% for 2016 as a whole to hit RMB 33,231.6 billion. Though this was down on 2015's figure of +10.7%, consumption continued to move firmly on healthy employment and income conditions (Fig.9). Internet retail sales grew by 26.2% to hit RMB 5,155.6 billion (goods: RMB 4,194.4 billion/+25.6%), with net shopping accounting for 15.5% of all retail sales of consumer goods.

Fig. 9: A comparison of (urban) retail and wage statistics



Source: CEIC

Fig. 10: 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

3.057 million new vehicles were sold in December (+9.8%). The number of vehicles sold was up on November but the growth fell (November: 2.939 million, +17.1%) (Fig.10). With the tax break on small vehicles (instituted in October 2015) ending soon[6], it seems the rush in purchases slowed. 27.934 million vehicles were sold over 2016 as a whole, with sales growing by 13.7%. This was highest in recent years, second only to 2013's figure of +13.9% y-o-y (21.993 million vehicles sold). The figures for 2014 and 2015 were +6.8% and +4.6%, respectively.

The floor space of residential buildings sold grew by 22.5% (1573.49 million m^2) in 2016, up on 2015's figure of +6.5%. At +11.8%, the growth rate in December was up on November's +7.9%, but this represents a slowdown compared to the record +20–40% growth recorded mid-2016. The People's Bank of China (PBOC) lowered deposit and lending rates six times from November 2014, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (on March 30, 2015). The down payment rate for first-time homebuyers was also lowered to 25% (on September 30, 2015). With the authorities moving to prop up the real-estate market, housing sales recovered after bottoming out in April 2015. Thereafter, buying restrictions pioneering in Shanghai and Shenzhen[7] have subsequently spread to other cities with surging house prices[8], with homes sales in these cities now slowing.

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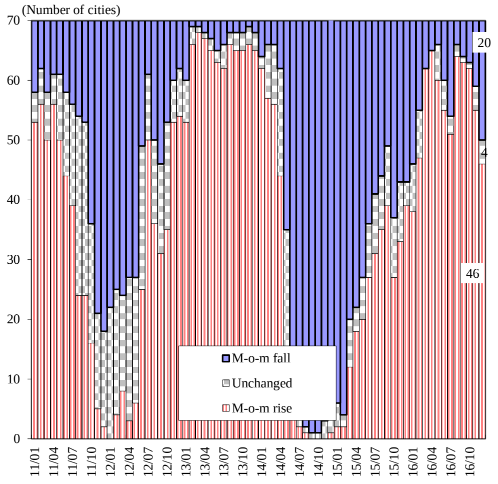
6 On December 15, the Finance Ministry and the State Administration of Taxation announced that the tax cut on purchases of new vehicles with low emissions would be extended one year to the end of 2017. However, the tax rate will rise from 5% to 7.5%, so the size of the cut (compared to the normal tax rate) will be halved in 2017 (2.5%).
Finance Ministry: 关于减征 1.6 升及以下排量乘用车车辆购置税的通知 (Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)
http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html
On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. 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

7 On 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 amounts to a tightening of the rules on purchases by non-resident buyers.

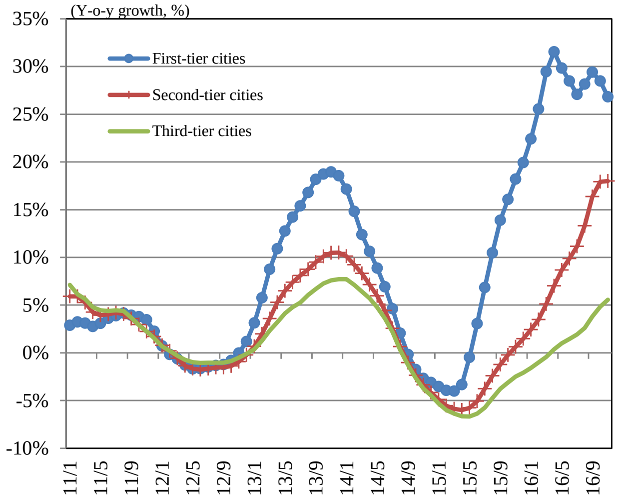
8 Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July, for example. Source: Economic Information Daily, July 14, 2016 - 房地产现严重分化因城施策将是下半年楼市政策主线 (China's acute property price bifurcation problem: Metropolitan real-estate measures in 2H influenced by the regional policies')
http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm
According to an article in the People's Daily on October 11 entitled 限购、限贷，近期已有 20 城市推出新举措楼市调控因城施策 (Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city), restrictions on housing purchases were introduced in 20 cities at the time the article was written.
http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html

Fig. 11: Number of cities recording m-o-m changes in sales prices of residential buildings



Source: National Bureau of Statistics of China, CEIC

Fig. 12: 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
Soruce: CEIC

• More regions saw real-estate prices falling on the previous month

In December, 46 of the 70 cities surveyed saw the price of new homes rising on the previous month, down nine cities compared to 55 cities in November. Twenty cities saw prices falling on the previous month, up from eleven cities in November, while four cities saw prices moving flatly on the previous month, the same as in November (see Fig. 11)[9].

Sixty-five cities still reported prices rising on a year-on-year basis, the same as in October and November. In December, prices in Shanghai and Shenzhen continued to grow at a fast clip at +26.5% and +23.5%, respectively, but this was down 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. The growth rate in second-tier cities also slid slightly from +18.0% to +17.5%, but the figure for third-tier cities rose from +5.6% to +6.0% (see Fig. 12)[10].

[9] National Bureau of Statistics, January 18: 2016 年 12 月份 70 个大中城市住宅销售价格变动情况 (Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in December 2016)
http://www.stats.gov.cn/tjsj/zxfb/201701/t20170118_1454976.html

[10] Examples of rising home prices rising in second-tier cities: Hefei+46.3%, Xiamen+41.5%, Nanjing+38.8% and Hangzhou+28.4% (December).

Fig. 13: Imports/exports; trade balance

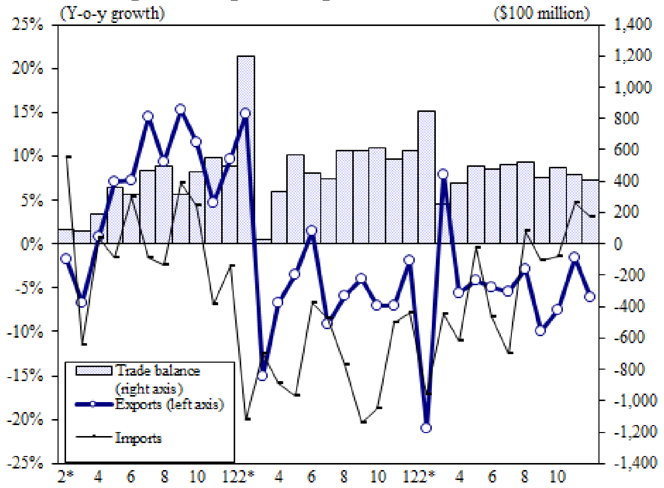
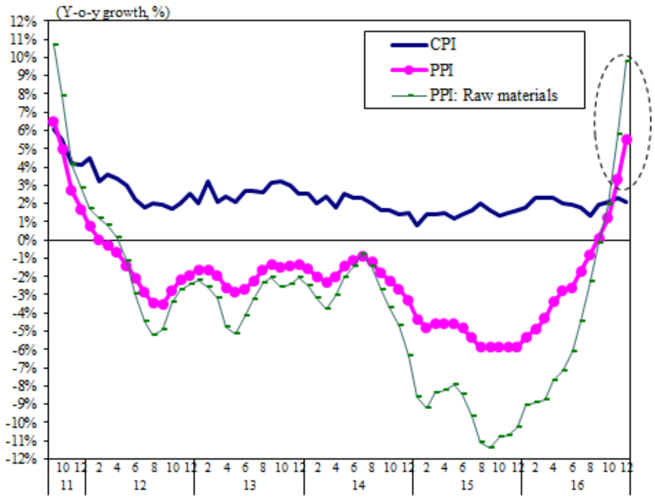


Fig. 14: CPI, PPI



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

Source: National Bureau of Statistics of China, CEIC

• Exports and imports both deteriorated slightly; total trade fell again in 2016, though less so than in 2015

Exports were down 6.1% in December ($209.42 billion), while imports rose by 3.1% ($168.60 billion). This represented a slide on November's figures (-1.5% and +4.7%, respectively) with the monthly trade surplus hitting $40.82 billion. In 2016, exports fell by 7.5% ($2,097.44 billion) while imports fell by 6.2% ($1,587.48 billion). At $509.96 billion, the trade surplus remained above the $500 billion mark (2015: $594.50 billion). Total trade fell by 6.8%, a slight improvement on January–November's figure of -7.3% (see Figs. 13, 15, 16). With total trade having fallen by 8.1% in 2015, the Chinese government achieved its 2016 goal of 'a steady rise in import and export volumes' (= total trade shrinking at a slower pace).

Fig. 15: Exports by major region

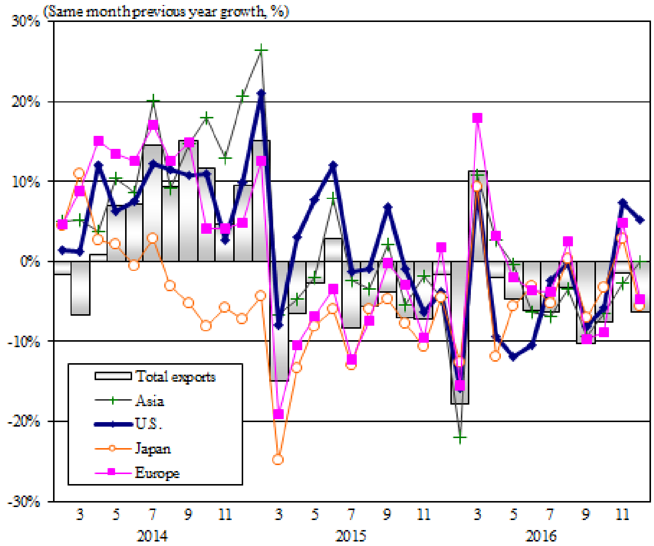
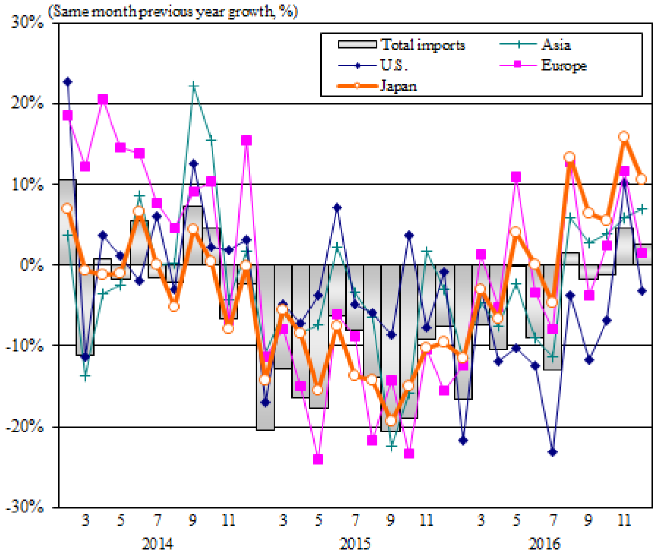


Fig. 16: Imports by major region



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

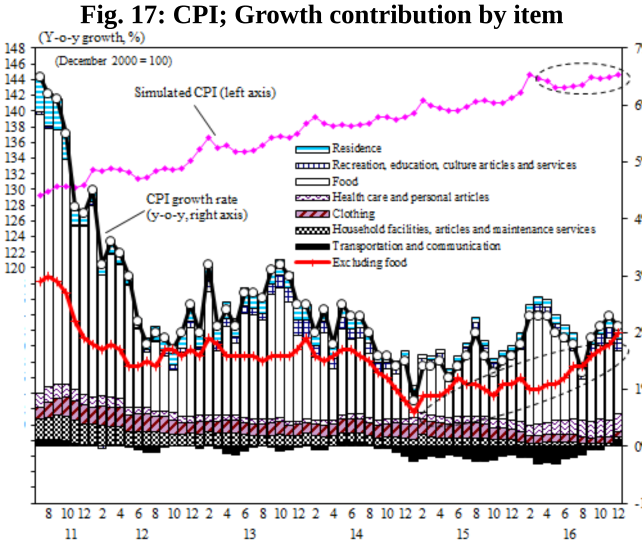
Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

• CPI growth slowed slightly while PPI growth moved at the +5% mark

In December, CPI (Consumer Price Index) growth stood at +2.1%, down on November's figure of +2.3%. CPI growth hit +0.2% on a monthly basis, up on November's figure of +0.1% (see Fig. 14). At +2.0%, the average figure for 2016 was below the government's target of +3.0%. A breakdown of the CPI data shows food prices rising 2.4% in December, down on November's figure of +4.0% (see Fig.17). At 54.87 million tons, pork output dipped by 3.3% y-o-y in 2015. As with 2007 and 2011, this pointed to the impact of the pork cycle[11]. However, with prices trending downwards after peaking in May (+33.6%), December's figure of +6.2% was up on November's +5.6% (see Fig.18). At +2.0%, non-food prices also rose at a faster pace than November (+1.8%).

At +5.5%, the PPI (Producer Price Index) grew at an even faster pace than September (+0.1%; the first positive growth since the +0.03% figure recorded in February 2012), October (+1.2%) and November (+3.3%) (see Fig.14). PPI growth stood at +1.6% on a monthly basis, up on November's figure of +1.5%. Prices rose by 35.0% in the Manufacture and Processing of Ferrous Metals sector, by 34.0% in the Mining and Washing of Coal sector, by 19.7% in the Extraction of Petroleum and Natural Gas sector, by 17.1% in the Manufacture and Processing of Non-Ferrous Metals sector, and by 16.6% in the Processing of Petroleum sector. The NBS said the contribution of these five sectors to the PPI growth rate had risen by 4.2%Pt to around 76%, with PPI growth still driven by iron, steel and coal prices, etc.[12].

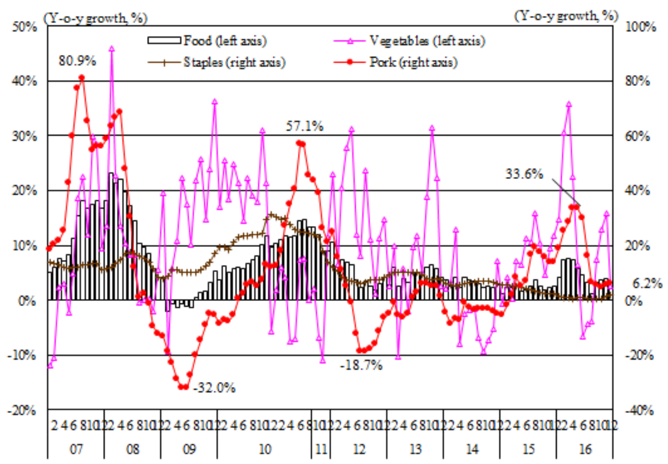
Fig. 17: CPI; Growth contribution by item



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. 18: 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

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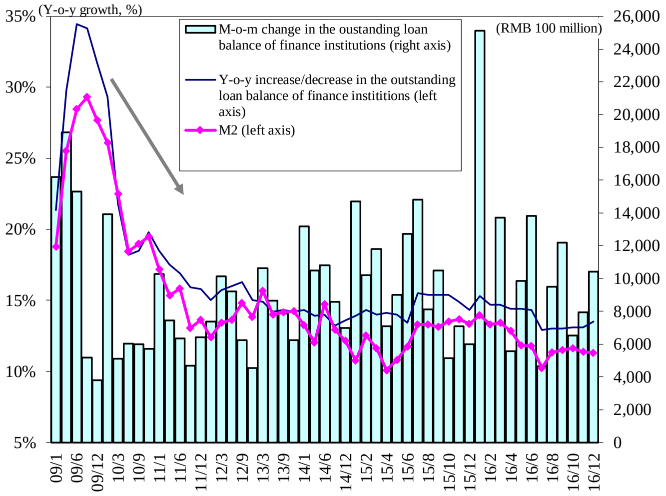
[11] This is a cycle whereby: farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs.

[12] National Bureau of Statistics, January 10, 2017: 国家统计局城市司高级统计师绳国庆解读 2016 年 12 月份 CPI、PPI 数据 (NBS statistician Sheng Guoqing deciphers the December 2016 CPI and PPI data) http://www.stats.gov.cn/tjsj/sjjd/201701/t20170110_1451697.html

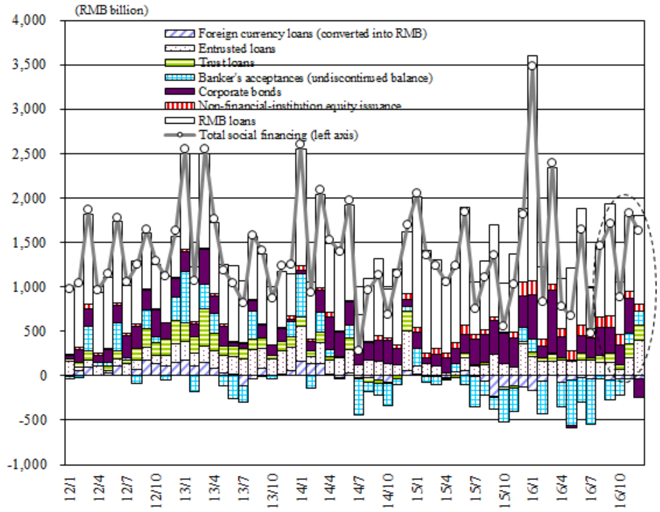
Fig. 19: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2014. 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. 20: Total social financing



Source: PBOC, CEIC

• New bank loans increased; total social financing fell slightly

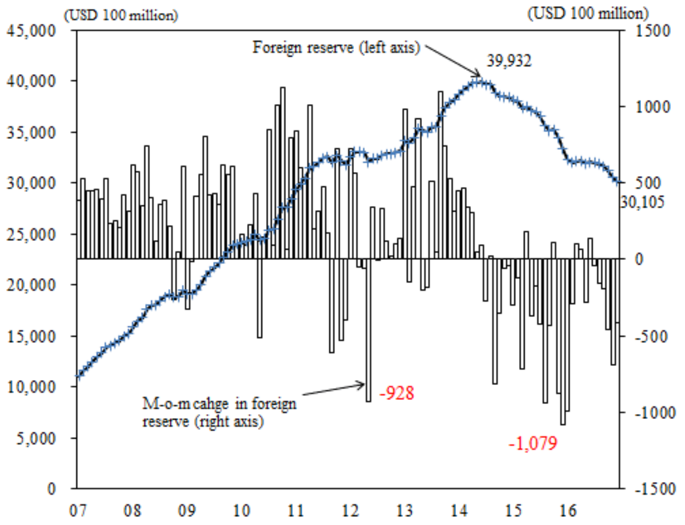
According to the PBOC, the M2 money supply grew by 11.3% in December. This was down on November's figure of +11.4%, with the data moving below the government's target of +13% for the ninth month in a row (see Fig.19). New bank loans increased by a net RMB 1,040 billion in December, up from RMB 794.6 billion in November. Mid- to long-term housing loans (which mainly consist of loans to individuals) accounted for 40.5% of new loans at RMB 421.7 billion. This was down on the record high RMB 574.1 billion figure recorded in September 2016.

Total social financing hit a net RMB 1,630 billion, down slightly from RMB 1,736.6 billion in November. A glance at the details reveals that: RMB loans, entrusted loans, trust loans and bankers' acceptances increased; non-financial-institution equity grew at a slower pace; foreign currency loans increased slightly; and corporate bonds stopped rising and began falling (see Fig.20).

Foreign exchange reserves stood at $3,010.5 billion at the end of December, down $41.08 billion in November. Foreign exchange reserves fell by $319.8 billion over 2016 as a whole, a smaller slide than that recorded in 2015 (-$512.7 billion) (see Fig. 21). In 2016 outward foreign direct investment (excluding financing) soared to $170.11 billion, up 40.1%, on the same period last year[13]. This was a factor behind fund outflows and the decline in foreign exchange reserves (see Fig.22).

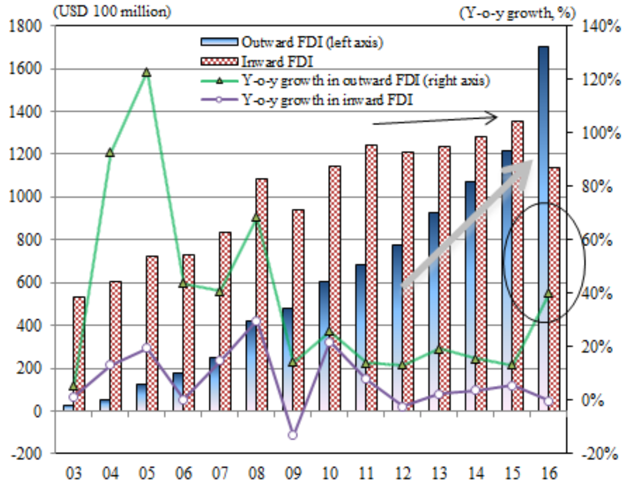
[13] Direct investment into China stood at $113.79 billion over January–November (the 2016 figure has not been released yet), down by 0.2%.

Fig. 21: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 peak and the latest monthly figure.
Source: People's Bank of China, CEIC

Fig. 22: Inward and outward foreign direct investment



Note: For 2016, January-November
Source: Ministry of Commerce, CEIC

2. Policy response: The work conferences of the PBOC and CBRC both focused on supply-side structural reform and risk prevention

Following on from measures set down at the Central Economic Working Conference in December 2016[14], the PBOC and China Banking Regulatory Commission have also prioritized supply-side reform and the prevention of financial risk in their policy positions for 2017.

• ‘Actively guiding and stabilizing market expectations’: (PBOC work conference)

At a work conference held over January 5–6, the PBOC adopted 10 items as main tasks for 2017 (see Fig. 23)[15]. These included: further improving the market formation mechanism of the RMB exchange rate; maintaining the central stability of the RMB’s rate at a rational equilibrium; and actively guiding and stabilizing market expectations. The first two items had also been adopted at the 2016 meeting, with the latter goal of ‘actively guiding and stabilizing market expectations’ newly added this time.

• ‘Enhance the impact of service improvements on the real economy from the central perspective of promoting supply-side structural reforms’ (CBRC work conference)

At a work conference on January 10[16], the China Banking Regulatory Committee spelled out measures to promote ‘cutting overcapacity, destocking and deleveraging’ as part of moves to ‘enhance the impact of service improvements on the real economy from the central perspective of promoting supply-side structural reforms,’ the first focus for 2017. The measures are now more fleshed out and detailed compared to 2016 (see Fig.24). The

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[14] See Mizuho China Business Express Economic Journal No.63
https://www.mizuhobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0063-XF-0105.pdf
[15] People’s Bank of China, January 6, 2017: 2017 年中国人民银行工作会议在京召开 (The 2017 PBOC work conference convenes in Beijing)
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3229908/index.html
[16] China Banking Regulatory Commission, January 10, 2017: 中国银监会召开 2017 年全国银行业监督管理工作会议 (The CBRC convenes the 2017 China Banking Regulatory Work Conference)
http://www.cbrc.gov.cn/chinese/home/docView/51CFA8D1246C491EB8E9EEA1275E1AD4.html

measures promote the role of credit committees when it comes to 'cutting overcapacity.' They also promote 'destocking' through differentiated lending policies as well as 'deleveraging' through market-based debt/equity swaps (DES).

Fig. 23: The PBOC's main tasks for 2017 (2017 PBOC Work Conference)

(1)	Keep monetary policy neutral. Comprehensively utilize various currency policy tools, skillfully regulate liquidity valves, and maintain stable liquidity.
(2)	Continue to skillfully execute financial services when it comes to supply-side structural reforms ・Cut overcapacity in the iron, steel and coal sectors. Switch priority industries/promote structural adjustment. Enhance financial support for major national strategies (coordinated development for the Beijing-Tianjin-Hebei region, etc.) ・Implement policies for each city; continue to execute a differentiated housing loan policy
(3)	Firmly protect the bottom line by preventing financial risk and ensuring systemic risk does not occur
(4)	Steadily promote financial reform in priority areas and key segments
(5)	Continue to promote the stable and healthy development of financial markets ・Promote deep interest-rate marketization reform ・Further improve the market formation mechanism of the RMB exchange rate ・Actively guide and stabilize market expectations; maintain the central stability of the RMB's rate at a rational equilibrium ・Carry out new trials of financial liberalization reforms in pilot free trade zones; construct a green finance system
(6)	Improve the policy framework and infrastructure for RMB internationalization
(7)	Participate deeply in international economic and financial governance
(8)	Further promote the reform of the foreign currency control system
(9)	Keep strengthening the construction and control of financial infrastructure
(10)	Comprehensively raise the level of financial services and management

Source: People's Bank of China, January 6, 2017: The 2017 PBOC work conference convenes in Beijing http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3229908/index.html

Fig. 24: China Banking Regulatory Commission work focuses for 2017 (China Banking Regulatory Work Conference)

	Item	Remarks
1	Enhance the impact of service improvements on the real economy from the central perspective of promoting supply-side structural reforms	
	■ Keep improving the level of financial services in weak areas ■ Support moves to cut overcapacity by promoting the role of credit committees – Keep providing lending support through credit committees to key industries/areas or firms with good prospects and technology – Asset preservation plans should be drawn up for uncompetitive enterprises with long-term obligations that cannot be met; these enterprises should be restructured or withdrawn from the market in an orderly manner – Credit will not be uniformly granted to any projects to raise productive capacity that have not carried out legal proceedings ■ Support destocking by improving differentiated lending policies	

	Item	Remarks
		– The three major strategies: Constructing the Beijing-Tianjin-Hebei region, the Yangtze River Economic Belt, and ‘One Belt One Road’ (Note 1) – Low quality ‘zombie enterprises’ with no markets and no possibility of switching types will be liquidated. Support will continue to be offered on a case-by-case basis to firms in sectors with overcapacity that are facing temporary difficulties but are profitable, competitive and have markets – Increase environmentally-friendly financial services; withdraw services from enterprises that do not meet environmental standards and are polluters, with no potential for improvement. – Classify and implement real-estate finance controls ■ Support deleveraging through market-based debt/equity swaps (DES) – Prohibit DES for ‘zombie enterprises’ and firms that do not comply with national industrial strategy ■ Continue to enhance service price control; support cost cutting
2	With preventing systemic risk as the bottom line, prevent and control risk in priority areas	(1) Strictly control NPL risk (2) Focus on liquidity risk (3) Control interlaced financial risk (4) Prevent lending risk associated with local government finance platforms; cooperate in switching local Local Government Financing Vehicles types in related sectors (5) Eliminate net financial risk (6) Strongly deal with risks associated with illegal fund-raising
3	Promote the thoroughgoing liberalization of the banking sector in a back-to-basics direction	Deepen structural reforms related to the ‘four directions’ (Note 2); reform corporate governance; reform results appraisal mechanisms; keep deepening reforms of inclusive finance mechanisms (Note 3); expand the internal and external liberalization of the banking sector
4	Take responsibility and comprehensively improve supervision and control capabilities	Strengthen regulations, supervision and control; strengthen the supervision and control of corporations; strengthen supervision and control linked to sectors and regions; strengthen supervision and control penalties
5	Strictly govern the party; strengthen and improve the party’s guidance of the banking sector	Toughen supervision and control styles; take responsibility; don’t take the long road to solving problems; don’t brush inconvenient problems under the rug; don’t shirk responsibilities

Note 1: The Silk Road Economic Belt and the 21st-Century Maritime Silk Road
Note 2: (1) Causes, (2) problems, (3) risks and (4) effects
Note 3: Inclusive financing: Financial structures that provide effective and comprehensive services to all groups and layers in society.
Source: China Banking Regulatory Commission, January 11, 2017: 中国银监会召开 2017 年全国银行业监督管理工作会议 (The CBRC convenes the 2017 China Banking Regulatory Work Conference)
http://www.cbrc.gov.cn/chinese/home/docView/51CFA8D1246C491EB8E9EEA1275E1AD4.html

The commission identified six financial risks that should be prevented: (1) NPL risk, (2) liquidity risk, (3) interlaced financial risk, (4) lending risk associated with Local Government Financing Vehicles, (5) net financial risk. (6) illegal fund-raising risk.

Mihoko Hosokawa, Research Executive; Corporate Banking Coordination Division, Mizuho Bank (China), Ltd.