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

**—The macroeconomy—**

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(No. 66)


**Summary**

China's real GDP growth rate in January–March hit +6.9% year-on-year on bullish manufacturing and consumption. This was above than the 2017 government target of 'around +6.5%.' March's economic indicators improved on the whole. Monetary policy is now inclining in a slightly tighter direction. With the employment and earnings environment moving stably, the government will not need to accelerate growth in order to secure employment. As such, so the current economic recovery that began in the latter half of 2016 will probably slow gently toward the latter half of 2017.


**1. Economic indicators improved on the whole in March compared to January–February**

- **Growth accelerated to +6.9% over January–March thanks to buoyant manufacturing and consumption**
- **Production, investment and consumption all improved**
- **Real estate price growth continued to slow in first-tier and second-tier cities**
- **Imports and exports have recovered**
- **CPI growth accelerated slightly; PPI growth slowed**
- **Net new bank loans slowed, but total social financing increased**

**2. Policy response: The government is pursuing a slightly tighter 'prudent, neutral' monetary policy**

- **Moves to prevent financial risk; rising market interest rates**
- **Employment and earnings are moving stably**

## 1. Economic indicators improved on the whole in March compared to January–February

**•Growth accelerated to +6.9% over January–March thanks to buoyant manufacturing and consumption**

On April 17, the National Bureau of Statistics (NBS) announced[1] that China's real GDP growth rate in January–March had hit +6.9% on the same period last year (from here on, all figures refer to 'same-period previous-year' growth unless otherwise specified), up on October–December's figure of +6.8% and higher than the 2017 government target of 'around +6.5%' (Fig. 1). The economy grew by +1.3% on the previous quarter. At a press conference on April 17, Mao Shengyong, Spokesperson of the NBS, said the faster pace of growth was due to (1) the strong performance of secondary industry, particularly manufacturing, and (2) the growing key contribution of consumption. On the second point, he added that: (a) household incomes (the driver behind consumption growth) had grown by +7.0%; (b) the consumption structure had improved, with the consumption rate of services rising; and (c) moves to "encourage people to do business creatively and drive innovation" (大众创业,万众创新) were promoting new consumption models and conditions. He said growth had also been boosted by (3) the contribution of net exports shifting from negative to positive[2].

A glance at contribution levels by demand item over January–March shows the contribution of final consumption expenditure hitting +5.3%, up 1.0%Pt on the figure for 2016 (+4.3%). At +0.3Pt, net exports returned to positive territories after falling by -0.5%Pt in 2016. The contribution of gross capital formation hit +1.3Pt, down on the previous figure of +2.8%Pt (Fig. 2).

A breakdown by sector shows the tertiary industry growing by +7.7% in January–March, down from the 8% range in 2015 and the upper-7% range in 2016. At +6.4%, though, secondary industry was up on 2016's figure of +5.9–6.1% (both cumulative figures from the start of the year) (Fig. 3).

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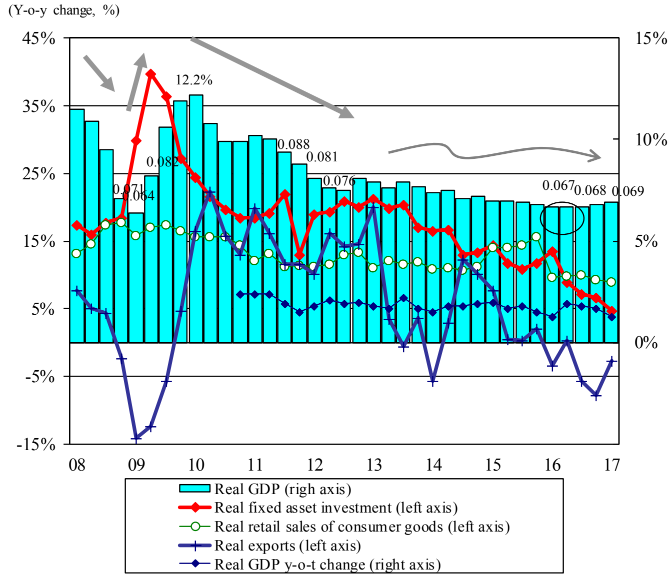
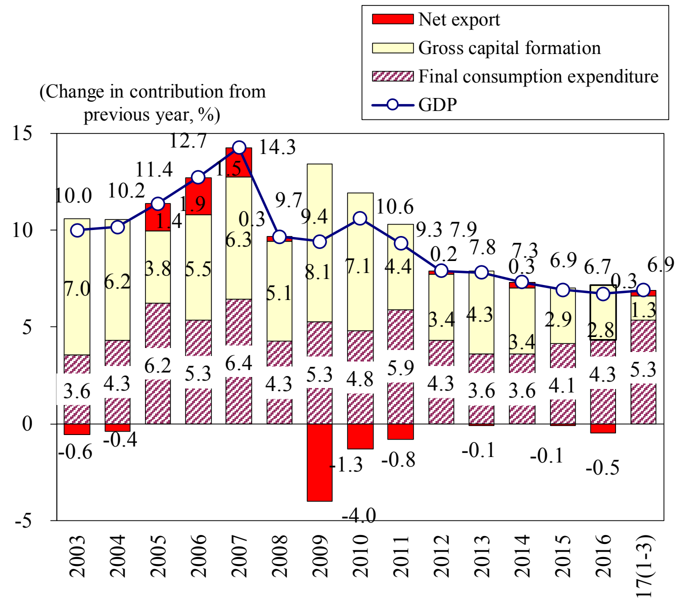
[1] National Bureau of Statistics, April 17, 2017: *一季度国民经济运行开局良好 (A Good Start for China's National Economy in the First Quarter of 2017)*
http://www.stats.gov.cn/tjsj/zxfb/201704/t20170417_1484963.html

[2] National Bureau of Statistics, April 17, 2017: *国家统计局新闻发言人就 2017 年一季度国民经济运行情况答记者问* (*An NBS spokesperson answers journalist questions about economic performance in Q1, 2017*)
http://www.stats.gov.cn/tjsj/sjjd/201704/t20170417_1485191.html
When regards to manufacturing, Spokesperson Mao Shengyong said that with progress in supply-side structural reform since last year, supply and demand in the market have been improved, and the confidence of enterprises also increased with business results subsequently improving and output increasing. As for the contribution of net exports, he explained that the trade surplus had hit RMB 450 billion (-35.5%) on a nominal basis over January–March, but the Export Value Index had hit 5.4% and the Import Value Index 14.4% over that period, so after adjusting for these (real) figures and taking services trade into account, the goods and services trade balance had increased. The RMB fell by 5.2% against the dollar during this time and this was also seemingly a factor behind the fluctuating value of the RMB-denominated trade balance.

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

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



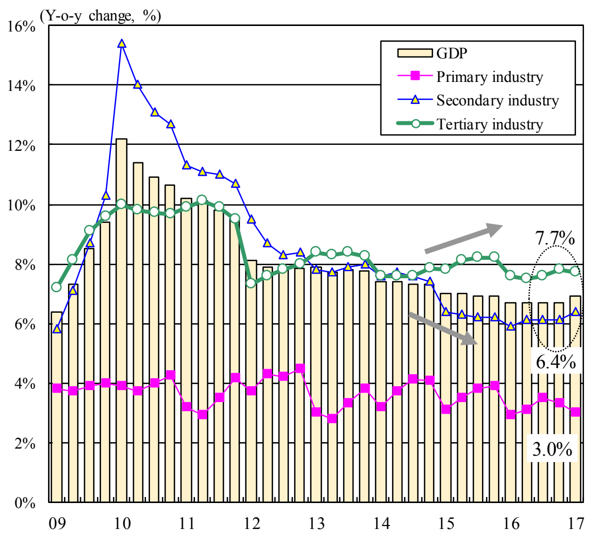




Note: The real RMB value of exports is indexed using the production price index (PPI) ; the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI) .

Source: National Bureau of Statistics of China, CEIC

Source: National Bureau of Statistics of China, CEIC

**Fig. 3: GDP by sector**




Note: The figures denote the most recent period

Source: National Bureau of Statistics of China, CEIC

## ・Production, investment and consumption all improved

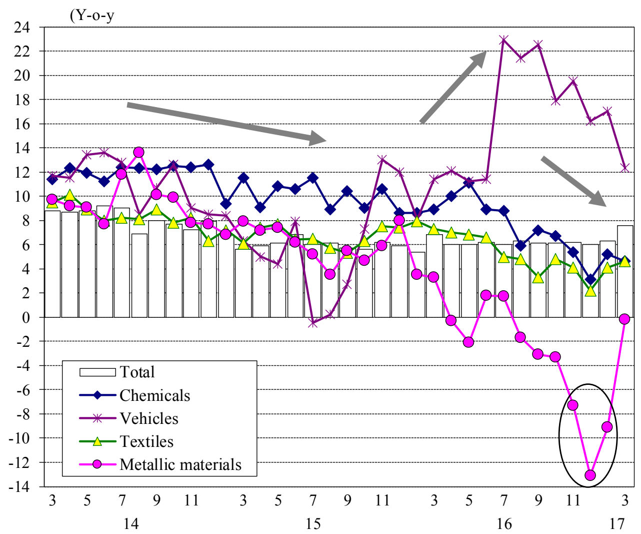
Economic indicators improved on the whole in March compared to January–February[3]. At +7.6%, March's value-added industrial production figure was up on January–February's +6.3% (the m-o-m figure was +0.8%). Metallic materials (ferrous metal refining and strip processing) output has contracted since August 2016, but the pace of this

[3] The data is compared to the average for January–February rather than February alone owing to the impact of the Chinese New Year.

contraction has slowed. This trend is linked to rising prices following moves to eliminate overcapacity. However, vehicles output growth has slowed on declining sales following the removal of some tax breaks (Fig. 4).

Nominal fixed asset investment grew by +9.5% in March (January–March: +9.2%), up on January–February's figure of +8.9% (the m-o-m figure was +0.9%). Investment in real-estate development grew by a cumulative +9.1% up until March, an improvement on January–February's figure of +8.9% (Fig. 5). Investment in infrastructure construction saw spending on projects related to water conservation hitting +18.3% over January–March, down on 2016's figure of +20.4%. At +5.8%, though, manufacturing investment in January–March was up on 2016's figure of +4.2% (Fig. 6).

**Fig. 4: 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

**Fig. 5: Fixed asset investment**

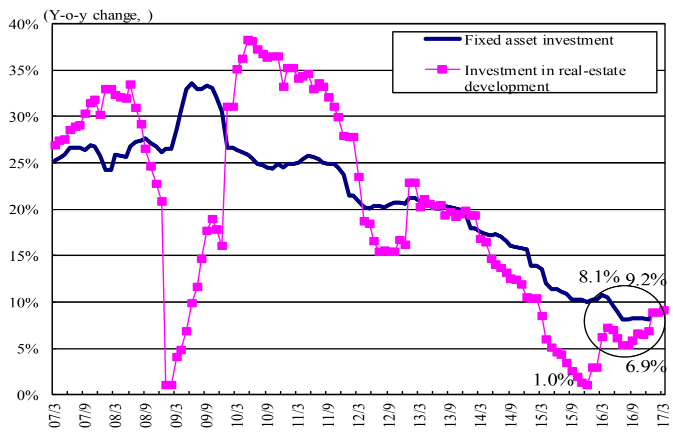
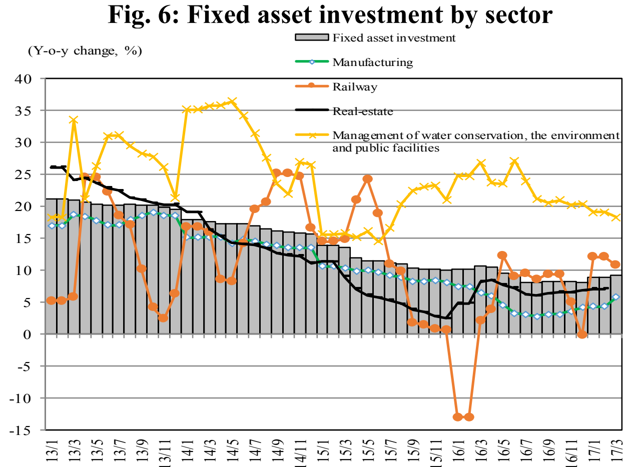



**Fig. 6: Fixed asset investment by sector**




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 were calculated at the end of March, June, September and December up until the end of 2012 and then on a montly basis from 2013.
Source: National Bureau of Statistics of China, CEIC

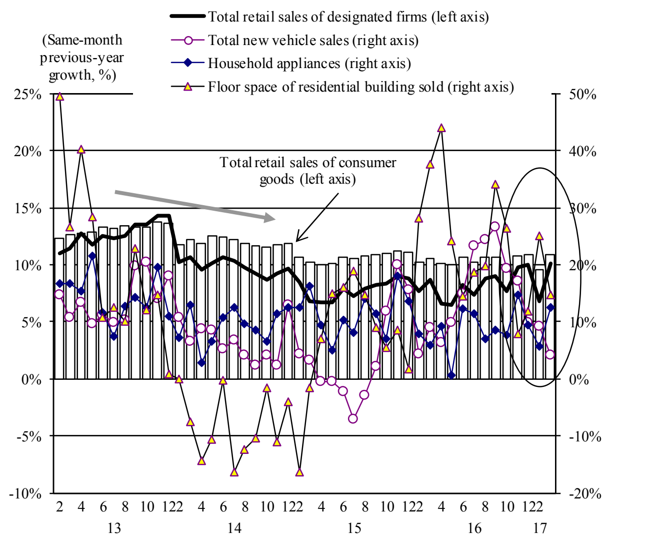
Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question.
Source: National Bureau of Statistics of China, CEIC

Nominal retail sales of consumer goods grew by +10.9% in March, up on the +9.5% figure recorded in January–February (+0.8% m-o-m) (Fig 7). The NBS did not publish the real (discounting inflationary factors) rate of change for March, but the retail price index (RPI) hit +0.7% in March, down on January–February's figure of +1.3%, so it seems consumer spending growth is picking up on a real basis too.

At 10.0%, the figure for January–March was down on 2016's +10.4%. In January–March, internet retail sales grew by 32.1% to hit RMB 1,404.5 billion (goods: RMB 1,067.4 billion; service: RMB 337.1 billion), with net shopping accounting for 16.4% of total retail sales of consumer goods (RMB 8,582.3 billion).

2.543 million new vehicles were sold in March (+4.2%). Growth was down on January–February's figure of +9.2%, with 4.4591 million vehicles sold during this period (an average of 2.229 million a month) (Fig.8). The cumulative figure for January–March was 7.002 million (+7.4%), with growth down on 2016's figure of 27.939 million (+13.7%). Sales had been boosted by a tax break on purchases of small vehicles, instituted in October 2015. This slowdown seems to be a reaction to the flurry of buying that occurred before the government announced it would be extending the program[4] on December 15, 2016.

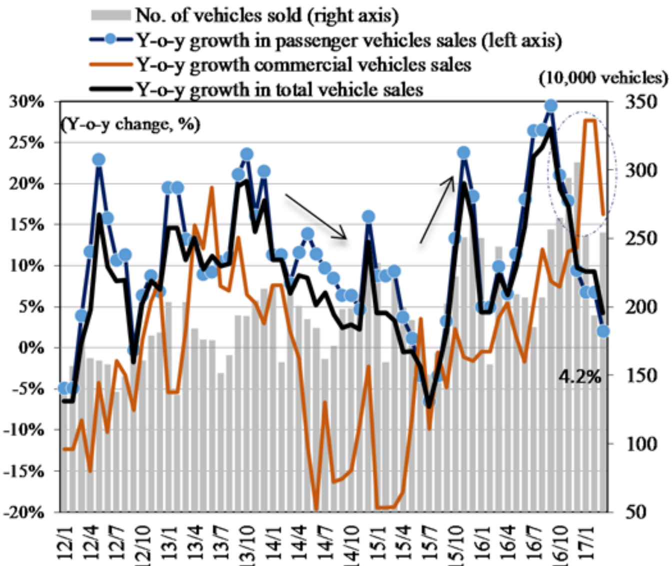
**Fig .7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold**




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

**·Real estate price growth continued to slow in first-tier and second-tier cities**

The floor space of residential buildings sold grew by 14.7% (149.81 million $m^2$) in January–March, down on 2016's figure of +22.5% and January–February's figure of +25.1%. Sales bottomed out and began to recover in

[4] 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

April 2015 thanks to several measures by the authorities to prop up the real-estate market. The People's Bank of China (PBOC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen[5] subsequently spread to other cities with surging house prices[6]. These restrictions are now being tightened further[7].

In March, 68 cities saw the price of new homes rising on the previous year, up from 67 cities in February. Prices in Shanghai and Shenzhen grew by +16.8% and +9.1% respectively in March. This was down on April's peak (of +28.0% and +62.4%) in 2016. This reflected a policy shift in these cities away from stimulus measures to tightening measures. At +16.2%, the growth rate in second-tier cities continued to dip from the +18.0% peak recorded in November 2016, but the figure for third-tier cities was up from +6.7% in February to +7.1% in March[8]. Price growth has peaked out in the first-tier and second-tier cities following the introduction of tighter purchasing rules, but growth remains buoyant in the third-tier cities (Fig. 9). On a monthly basis, 62 of the 70 cities surveyed saw the price of new homes rising, up six cities on February. Eight cities saw prices falling on the previous month, down from 12 cities in February, with zero cities seeing prices moving flatly on the previous month, down from two cities in February (Fig 10)[9].

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5 On March 25, 2016, the down payment rate for second homebuyers was lifted from 40% to 50–70% in Shanghai. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both moves represent a tightening of restrictions on purchases by non-resident buyers.

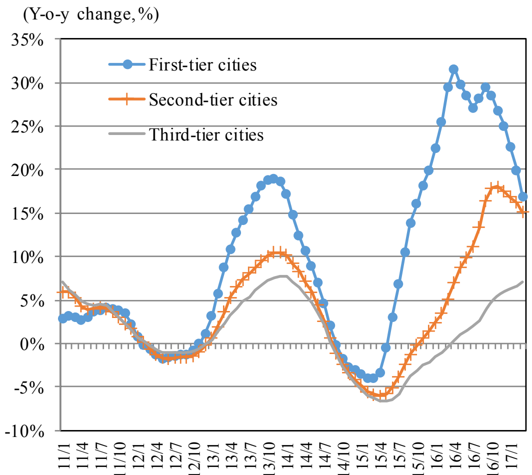
6 Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. Source: Economic Information Daily, July 14, 2016 -房地产现严重分化因城施策将是下半年楼市政策主线 (China's acute 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

7 According to an article in the 21st Century Business Herald on March 20, 2017, entitled 北京最严楼市调控"认房又认贷" 下半年全国楼市降温可期 ('Checks on housing and loan records': Beijing's strictest real estate controls set to chill housing markets nationwide in 2H), Beijing has introduced 'the toughest controls in history'. It lifted the down payment rate for second home purchases to at least 60 percent on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property. Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.
http://epaper.21jingji.com/html/2017-03/20/content_58356.htm

8 Examples of home prices rising in second-tier cities: Hefei+34.5%, Xiamen+32.0%, Nanjing+27.4%, Zhengzhou+25.0% (March). However, since October prices have also risen by over 30% in Wuxi, a third-tier city, with the figure hitting +31.6% in March.

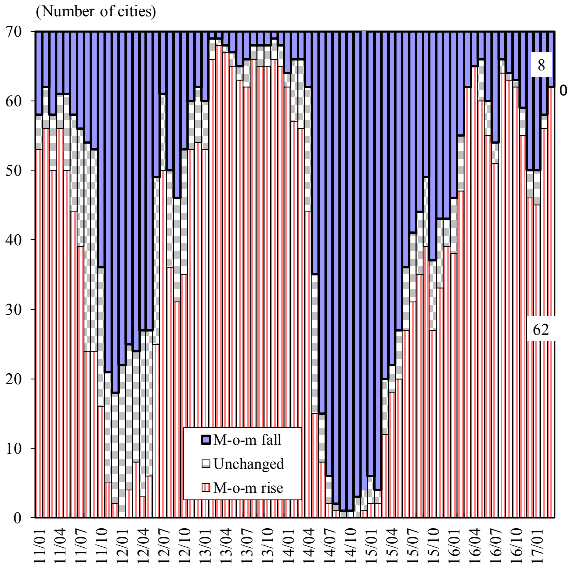
9 National Bureau of Statistics, April 18, 2017: 2017 年 3 月份 70 个大中城市住宅销售价格变动情况 (Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in March 2017)
http://www.stats.gov.cn/tjsj/zxfb/201704/t20170418_1485514.html

**Fig. 9: 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

**Fig. 10: Number of cities recording m-o-m changes in sales prices of residential buildings**




Source: National Bureau of Statistics of China, CEIC

### ・Imports and exports have recovered

Exports were up +16.4% in March ($180.61 billion), while imports rose by +20.3% ($156.68 billion), with the trade surplus hitting $23.92 billion (Figs. 11, 13 and 14). In January–March, exports increased by +8.2% and imports by +24.0% (trade surplus: $65.61 billion). The total amount of trade hit $899.97 billion, up +15.0%. This was higher than the figure of +13.1% recorded in January–February, when the data had returned to y-o-y positive growth for the first time since January–December 2014 (+3.4%).

GAC spokesman Huang Songpin said trade had moved briskly in January–March thanks to (1) a recovery in external demand, (2) an increase in imports thanks to a buoyant domestic economy, and (3) a large rise in import prices. Going forward, Huang said the impact of the weak figures from the same period last year would start to wane, with experts also expecting import and export growth to slow over April–June based on RMB movements[10].

### ・CPI growth accelerated slightly; PPI growth slowed

In March, CPI (Consumer Price Index) growth stood at +0.9%. This was up slightly on February's figure of +0.8%, but it was down on January–February's average of +1.7%. At -0.3%, CPI growth remained in negative territories on a monthly basis (February: -0.2%) (Fig. 12). At +1.4%, the average figure for January–March was significantly down on the government's target of +3.0%.

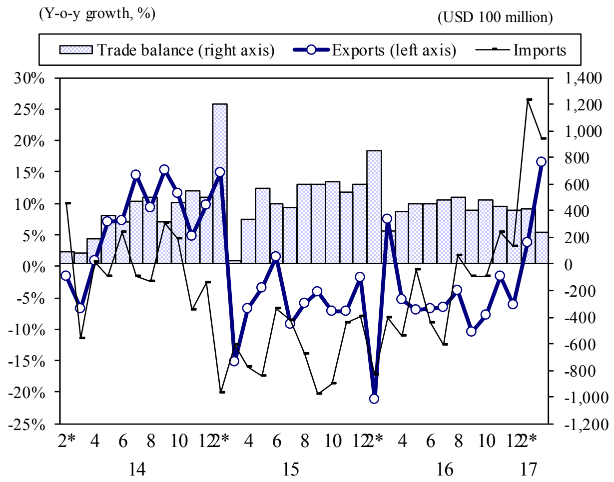
A breakdown of the CPI data shows food price inflation remaining in negative territories in March at -4.4% (February: -4.3%) (Fig. 15). This dip was particularly pronounced when it came to pork prices, which slid from -

[10] International Business Daily, April 17, 2017: 外贸稳中向好基础还需巩固 (External trade bouncing back amid stable conditions, but the foundations remain shaky)
http://www.comnews.cn/focus/58ef7abbcd91895d88950923

0.9% in February to -3.2% in March (Fig. 16). At 52.99 million tons, pork output dipped by -3.4% in 2016. This followed on from similar dips in 2007, 2011 and 2015, though the impact of the pork cycle[11] has continued to wane since a peak in May 2016. Vegetable prices had soared in February and March, 2016 due to the cold weather, so they dropped back sharply in comparison this March, as they had done the previous month. Non-food prices grew by +2.3% in March, up on February's figure of +2.2%.

At +7.6%, the PPI (Producer Price Index) fell slightly after growing at a faster clip for five successive months from October last year (February: +7.8%) (Fig. 12). On a year-on-year basis, in March prices rose by 39.6% in the Mining and Washing of Coal sector, by 68.5% in the Extraction of Petroleum and Natural Gas sector, by 36.8% in the Manufacture and Processing of Ferrous Metals sector, by 29.9% in the Processing of Petroleum sector, by 17.3% in the Manufacture and Processing of Non-Ferrous Metals sector, and by 11.5% in the Manufacture of Chemical Raw Material and Chemical Products sector. The contribution of these six sectors to PPI growth grew by +6.1%Pt (NBS)[12], but the growth rate in each of these sectors was down on the previous month.

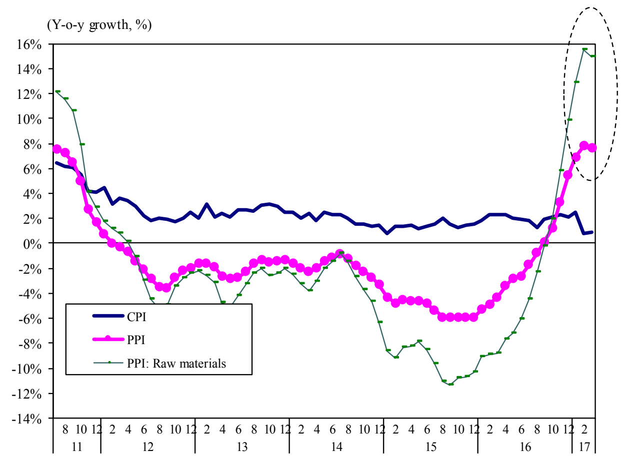
**Fig. 11: Imports/exports; trade balance**




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

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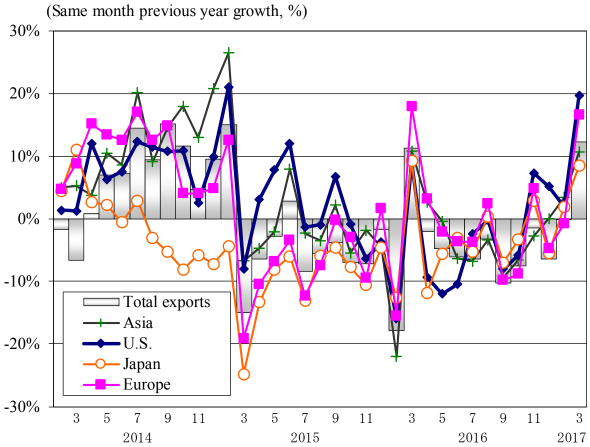
[11] This is a cycle whereby: farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs.

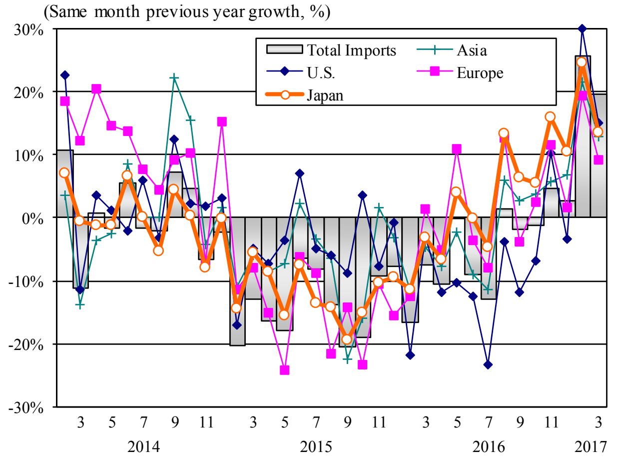
[12] National Bureau of Statistics, April 12, 2017: 国家统计局城市司高级统计师绳国庆解读 2017 年 3 月份 CPI、PPI 数据 (NBS statistician Sheng Guoqing deciphers the March 2017 CPI and PPI data)
http://www.stats.gov.cn/tjsj/sjjd/201704/t20170412_1483420.html

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



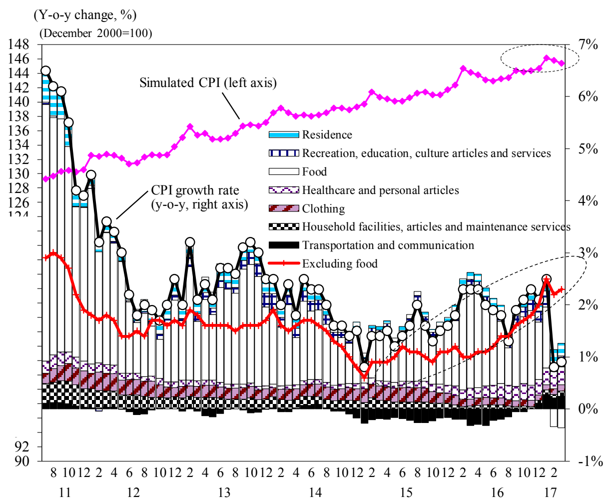

Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

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



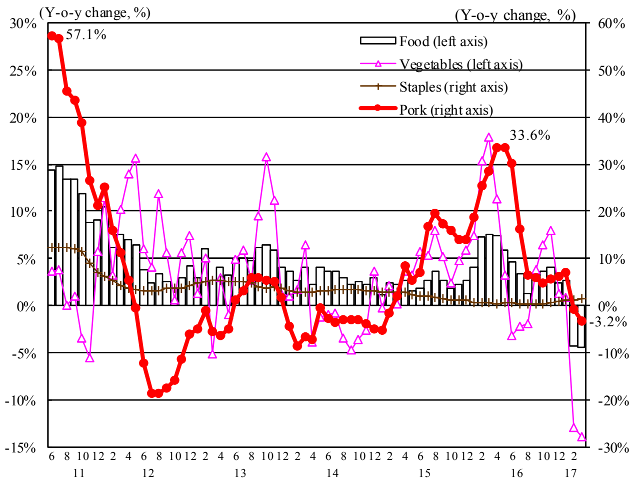

Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

**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**




Source: National Bureau of Statistics of China, CEIC

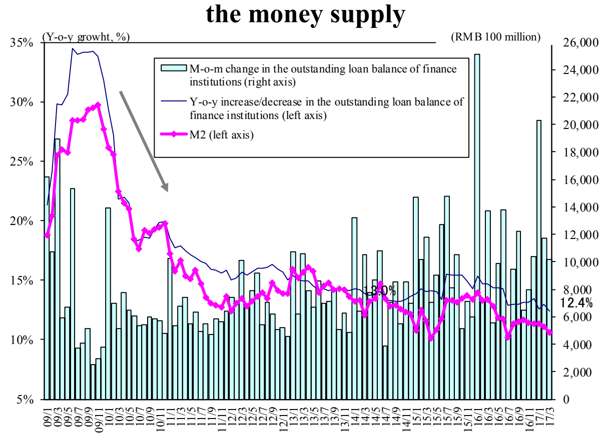
## ・Net new bank loans slowed, but total social financing increased

According to the PBOC, new bank loans increased by a net RMB 1,020.0 billion in March, down on February's figure of RMB 1.170.0 billion. M2 money supply growth continued to slide in March to hit +10.6% (February: +11.1%), down on the government's target for 2017 of +12.0% (Fig. 17).

Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 2,118.9 billion in March, up on February's figure of RMB 1,087.6 billion. A glance at the details reveals that: foreign currency loans fell; bankers' acceptances and corporate bonds shifted from contraction to expansion; and RMB loans, entrusted loans, trust loans and non-financial-institution equity all grew at a faster pace (Fig. 18).

Ruan Jianhong, head of the Survey and Statistics Department of PBOC, said the slowdown in money supply growth was down to: (1) a reaction to strong figure of +13.4% recorded in the same period last year; (2) shrinking investment when it came to wealth management products on commercial bank balance sheets; (3) a decrease in commercial bank bond investments (new issuances of local government and non-financial enterprise bonds slowed); and (4) slower growth in housing loans to individuals and developers. He said this reflected moves to implement a prudent, neutral (slightly tighter) currency policy and strengthen the supervision/management of leveraging by financial institutions, adding that all this had a positive impact on reducing financial system transmission chains(傳遞鏈条) and retention times[13].

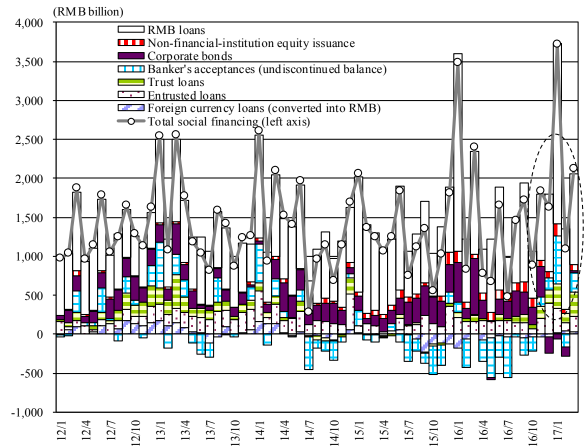
**Fig. 17: Financial institution lending; the money supply**




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. 18: Total social financing**
(net increase and decrease)

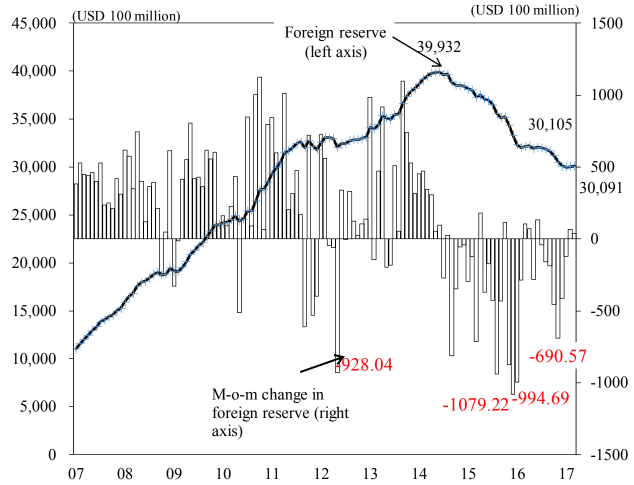



Source: PBOC, CEIC

Foreign exchange reserves stood at $3,009.1 billion at the end of March, up $4 billion on February, which was also up on the previous month (+$6.9 billion) (Fig. 19).

[13] China Securities Journal, April 15, 2017: M2 增速回落 新增房贷占比下降 货币政策料保持中性偏紧 (M2 growth slowed, the rate of new real estate loans fell and currency policy was kept in a prudent, neutral direction) http://news.xinhuanet.com/finance/2017-04/15/c_129538282.htm

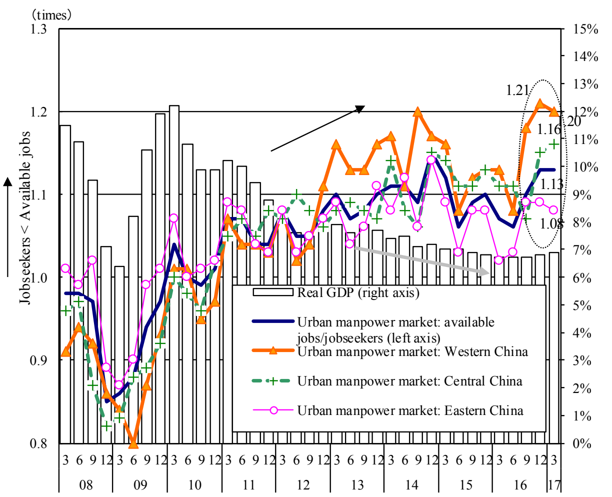
**Fig. 19: Foreign exchange reserves**




Note: The foreign reserve data shows the June 2014 peak and the latest monthly figure.

Source: People's Bank of China, CEIC

**Fig. 20: 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

## 2. Policy response: The government is pursuing a slightly tighter 'prudent, neutral' monetary policy

The Chinese economy accelerated for two successive quarters, but financial policy seems to be inclined in a slightly tighter direction at present, so it is hard to imagine growth being supported by financial policy going forward. Furthermore, with the employment and earnings environment moving stably, the government will not be pushed into accelerating growth in order to secure employment. The current economic recovery began in the latter half of 2016, so it will probably slow gently toward the latter half of 2017.

### ・Moves to prevent financial risk; rising market interest rates

A glance at the current economic and financial situation in China reveals that although some small- to medium-sized banks are reducing their loan assets, they are raising their investments in assets like wealth management products (WMPs). This, together with rising concerns about a real estate bubble, points to a trend of "moving from the real economy to the fictitious economy" (脱实向虚[14]). If this situation leads to a shift in market conditions, it could bring about financial risk[15]. The Central Economic Working Conference outlined some "deleveraging" (去杠杆[16]) measures in December 2015 and it announced a deepening of these measures in 2017 when it met in December

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[14] The 'shift from the real economy to the fictitious economy'「脱实向虚」 was mentioned in the 2016 年第四季度中国货币政策执行报告(China Monetary Policy Report, Quarter Four, 2016), released by the PBOC on February 17, 2017
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3254786/2017021719463365852.pdf

[15] At the China Banking Regulatory Work Conference on January 10, the China Banking Regulatory Commission outlined six risks to prevent: (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. 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
Regarding the conference, please refer to the Mizuho China Business Express Economic Journal No.64, p.12-13 (Fig. 24).
https://www.mizuhobank.com/service/global/cndb/economics/express_economy/pdf/R422-0064-XF-0105.pdf

[16] In December 2015, Central Economic Working Conference presented five tasks ("three cancellations, one reduction, and one reinforcement" (三去一降一补)) as part of 'supply-side structural reform,' one of its priority areas. The five tasks are: (1) the

last year, with the authorities shifting monetary policy management in a slightly tighter direction – from 'prudent' in 2016 to 'prudent and neutral' in 2017 – as they seek to prevent risk.

From late January to early February, the PBOC announced it would be charging commercial banks more to lend money, with rates on the Medium-term Lending Facility (MLF) and the Standing Lending Facility (SLF) lifted by 0.1%Pt each. The PBOC is also moving to taper its quantitative easing program in the face of high levels of liquidity. It refrained from intervening in the open markets to provide liquidity for six successive business days from February 4 after having previously conducting such operations on a daily basis from January 2016, for example.

During this time, the PBOC also revised its monetary policy framework. In 2016 it upgraded its Macro Prudential Assessment (MPA) system (first introduced in 2011), for instance, and it has included off-balance-sheet wealth management operations in the MPA's broad lending indicators from July–September 2016. Some financial institutions are struggling to maintain liquidity in the wake of moves to tighten controls on off-balance-sheet risk[17]. There are now concerns these institutions could face cash flow difficulties at the end of each quarter, the base date for the MPA appraisal.

In the week beginning March 20, some small- to medium financial institutions announced they would be unable to make loan repayments in the interbank market, with the PBOC subsequently pumping emergency funds to the tune of several hundred billion yuan into the financial system[18]. Market interest rates have trended upwards from November 2016 to draw closer to policy rates (Figs. 21, 22). The backdrop to this trend is the cycle of rising U.S. interest rates, which began in December 2015. It seems market rates are being guided higher to stop rising U.S. rates from leading to fund outflows, a weaker RMB and downward pressure on foreign reserves.

Structural reforms (elimination of excess capacity and the disposal of zombie firms, etc.) are expected go forward as monetary policy shifts in a slightly tighter direction and the authorities strengthen their risk control of financial institutions through changes in the way the MPA is run. However, these tightening moves could also lead to more defaults, bad loans and debt risk among some small- to medium-sized companies and financial institutions, local governments, for instance, and they might also impact investment in infrastructure construction, etc., so caution will be needed.

However, with China announcing the Plan for the Xiongan New Area in Hebei Province[19] (April 1) and plans for

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cancellation of excess capacity (去产能), (2) the reduction of business costs (降成本), (3) the cancellation of real estate stocks (去库存), (4) the reinforcement of the fragile areas of the economy and of society (补短板), (5) the cancellation of excess debt ("deleveraging"). China Net, December 21, 2015: 中央经济工作会议在北京举行 习近平李克强作重要讲话 http://www.gov.cn/xinwen/2015-12/21/content_5026332.htm

17 Guidelines for financial institutions with regards to (1) capital and leveraging, (2) assets and liabilities, (3) liquidity, (4) setting interest rate levels, (5) asset quality, (6) cross-border operational risk, and (7) the implementation of lending policy. The PBOC's China Monetary Policy Report, Quarter Four, 2016) (see footnote No.14 on page 11)

18 China Securities Journal, March 29, 2017: 资金紧张提前来临 中小银行首当其冲 (Small and medium-sized banks hit first by the accelerated arrival of a cash squeeze)
http://www.cs.com.cn/tzjj/201703/t20170329_5223996.html

19 Xinhua, April 1, 2017: 河北雄安新区来了!你想知道的都在这里 (The Xiongan *New Area in Hebei Province has arrived!*

seven new pilot free trade areas in Liaoning, Zhejiang, Henan, Hubei, Sichuan, Shaanxi and Chongqing (March 31)[20], there is likely to be sustained spending on infrastructure building and demand for funds, particularly in those areas earmarked for development.

In the run up to this autumn's National Congress of the Communist Party of China, the Chinese authorities will continue to steer economic and monetary policy along a delicate course between the goals of preventing financial risk and pursuing structural reform, between maintaining economic growth and ensuring social stability.

**・Employment and earnings are moving stably**

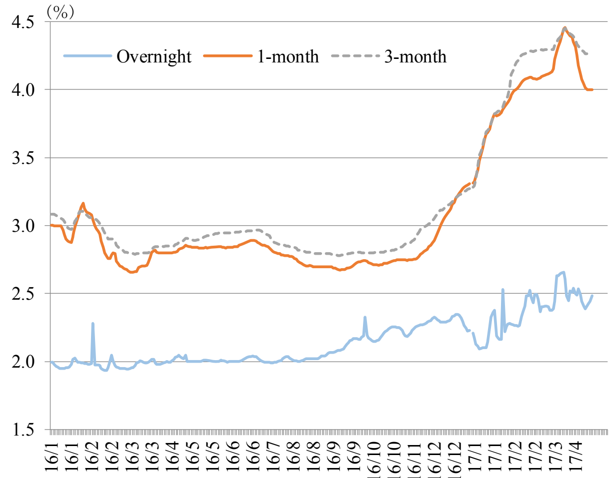
The jobs-to-applicants ratio released by the Ministry of Human Resources and Social Security shows the ratio hitting a record high of 1.15 at the end of 2014. It then dipped to 1.10 at the end of 2015 and 1.06 at the end of June 2016 before recovering to 1.13 by the end of 2016 and the end of March 2017. The number of urban jobs has exceeded the number of applicants consistently since 2011, with the employment situation shifting drastically since the ratio dropped to 0.85 at the end of 2008, after the financial crisis (Fig. 20). The demographic structure is also changing, with the working age population falling in 2015 (by 3.99 million) for the fourth consecutive year (an average of 3.68 million a year), for instance, with macro-economic supply and demand conditions suggesting workers will find it even easier to find jobs. The registered urban unemployment rate also hit 4.02% at the end of 2016, an improvement on 4.05% at the end of 2013, 4.09% at the end of 2014 and 4.05% at the end of 2015, with the employment situation moving stably on the whole. The stability of employment and earnings has probably been supported by the bullishness of the service sector on the rise of the sharing economy[21] together with the growth of new business types due to a streamlining and liberalization of government regulations (Fig. 23).

Everything you need to know))
http://news.xinhuanet.com/video/sjxw/2017-04/01/c_129523547.htm

[20] China Net, March 31, 2017: 新闻办就自由贸易试验区建设有关情况举行新闻发布会 (The State Council Information Office holds a briefing on the establishment of several pilot FTAs)
http://www.gov.cn/xinwen/2017-03/31/content_5182484.htm#allContent

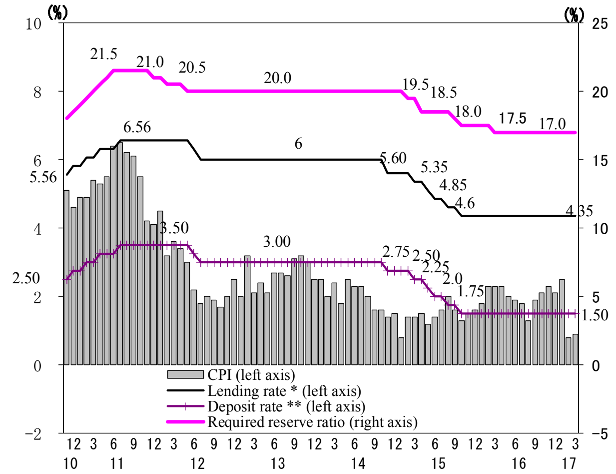
[21] According to「分享经济,热闹背后冷思考」(The cool-headed thinking behind the bustling sharing economy), an article published in the People's Daily on April 17, 2017, the sharing economy has created 20.76 million job opportunities, including: 17.50 million jobs through Didi Chuxing, a ride-sharing application; 2 million jobs at Xiaozhu, Tujia and other home-sharing services; 1 million jobs at Ele.me, a home delivery service; 160,000 jobs through Home-Cook, a service connecting customers with cooks; and 100,000 jobs through Zhu Bajie, a website and interior design service.
http://www.gov.cn/xinwen/2017-04/17/content_5186249.htm

**Fig. 21: Shanghai interbank interest rates**



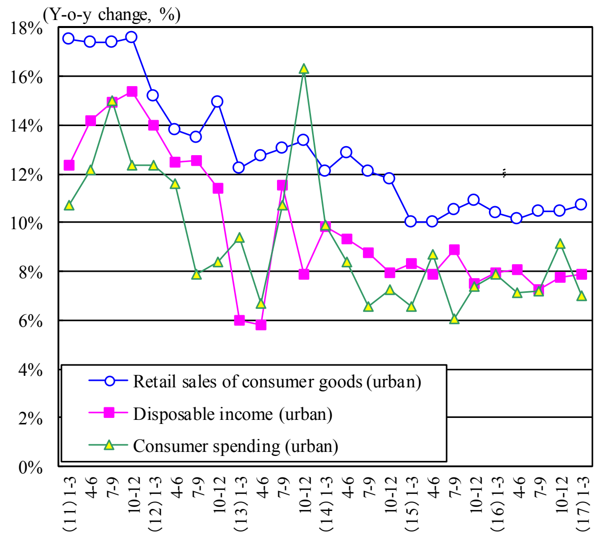

Source: China Foreign Exchange Trading System & National Interbank Funding Center, CEIC

**Fig. 22: Policy rates**




Note: *One-year working capital loan rate for corporates
**One-year fixed-term rate
Source: PBOC

**Fig. 23: A comparison of (urban) retail and wage statistics**




Source: CEIC

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