

—The macroeconomy—

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Summary

Buoyed by consumption and manufacturing, China's real GDP growth rate rose by +6.8% y-o-y in January–March. This was the same level as October–December 2017 and it was above the government's target for 2018 of 'around +6.5%'. Economic indicators slowed on the whole in March. With the PPI moving bullishly from later 2016 onwards, profits have improved on rising prices. However, this trend is now easing off. China is also pursuing structural reform, with moves underfoot to crack down on local government debt, for instance. As such, the Chinese economy looks set to slow going forward. However, the authorities have emphasized the need for 'high-quality development,' so it will be interesting to see what kind of policy management they pursue while trying to hit the projected targets for real GDP growth.

1. March's economic indicators generally slowed on January–February

- **GDP grew by +6.8% over January–March; net exports slipped into negative territories**
- **Production and investment slowed, while consumption accelerated slightly**
- **The sales prices of residential buildings fell at a faster pace in first-tier cities, with growth also slowing in second-tier and third-tier cities**
- **Imports and exports both slowed, with China posting a trade deficit**
- **The CPI and PPI both moved sluggishly**
- **New bank loans saw a net increase, with total social financing also increasing**

2. While stepping up policy responses and structural adjustment, the authorities are focusing on how to respond to an economic slowdown

- **Improving liquidity structure by lowering required reserve ratios**
- **“It will be difficult to achieve 2018 targets and more effort will be needed” (Meeting of the Central Politburo of the Communist Party)**

1. March’s economic indicators generally slowed on January–February

• GDP grew by +6.8% over January–March; net exports slipped into negative territories

On April 17, the National Bureau of Statistics (NBS) announced that China’s real GDP growth rate in January–March was up +6.8% on the same period last year (from here on, all figures refer to ‘same-period previous-year’ growth unless otherwise specified)¹. This was the same level as October–December 2017 (+6.8%) and it was above the government’s target for 2018 of ‘around +6.5%’ (Fig. 1). Growth was up +1.4% on the previous quarter.

A glance at contribution levels by demand item over January–March shows the contribution of final consumption expenditure up +5.3%, +1.2%Pt above 2017’s figure of +4.1%. At -0.6%Pt, the net export figure was down on 2017’s +0.6%Pt. The contribution of gross capital formation also declined from +2.2%Pt in 2017 to +2.1%Pt (Fig. 2).

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

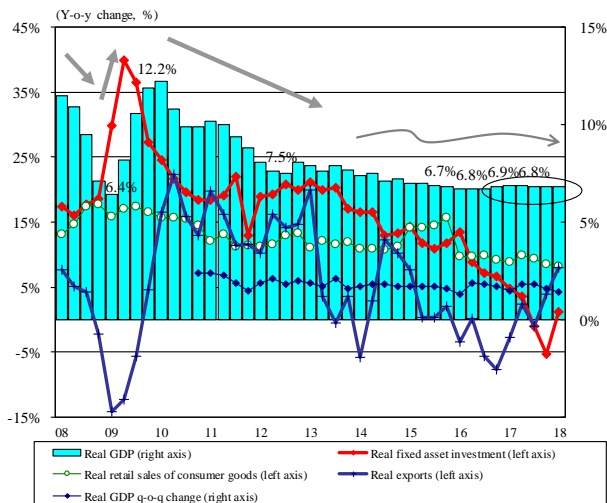
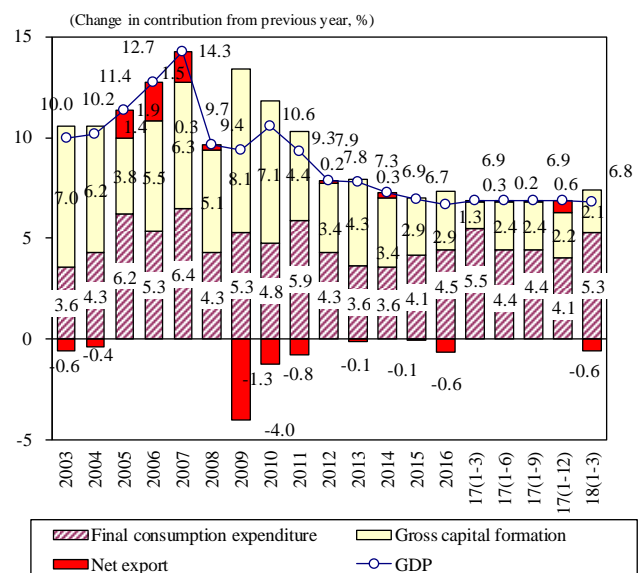


Fig. 2: Breakdown of GDP by demand item



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).

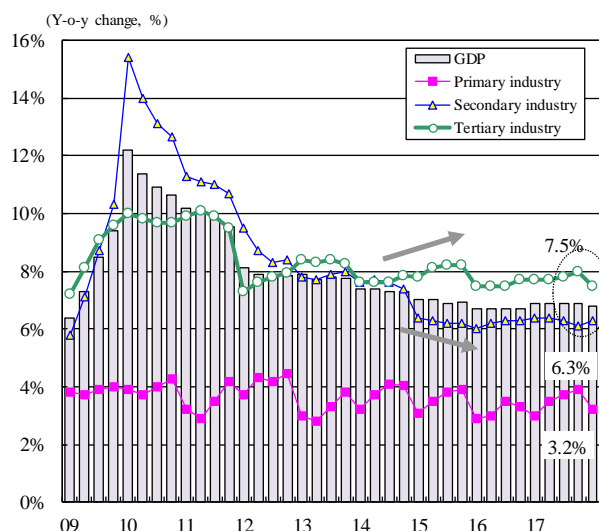
Source: National Bureau of Statistics of China, CEIC

Source: National Bureau of Statistics of China, CEIC

A breakdown by sector shows the tertiary industry growing by +7.5% over January–March, down on 2016’s figure of +7.7% and 2017’s figure of +8.0%. However, the secondary industry grew by +6.3%, up on 2017’s +6.1% (Fig. 3 and 4).

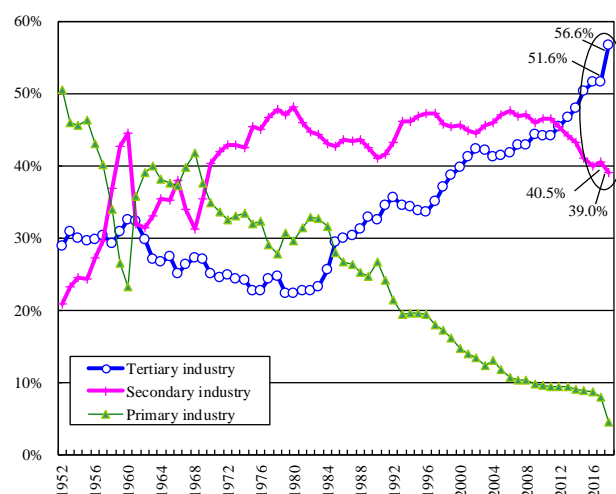
¹ National Bureau of Statistics of China, April 17, 2018 “一季度国民经济实现良好开局 (*The Chinese Economy Made a Good Start in January–March*)” http://www.stats.gov.cn/tjsj/zxfb/201804/t20180417_1594310.html

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 ratio by sector



Note: The figures within the graph show the composition ratio of the secondary industry and the tertiary industry in 2017 and January-March 2018.
Source: National Bureau of Statistics of China, CEIC

• Production and investment slowed, while consumption accelerated slightly

March’s economic indicators generally slowed on January–February (the comparison is made with January–February to level out the impact of the Spring Festival holiday). At +6.0%, March’s value-added industrial production figure was down on January–February’s +7.2% (the m-o-m figure was +0.3%) (Fig. 5). NBS pointed to two particular production trends in January–March: (1) double-digit growth when it came to the production/supply of electronics, pharmaceuticals, special-purpose equipment, tobacco and gas, for example; (2) the accelerated production of hi-tech products and consumer goods (up +11.9% and +7.7% respectively)².

At 7.1%³, nominal fixed asset investment was down on January–February’s +7.9% (the m-o-m figure was +0.6%). Investment in real-estate development accelerated by from +9.9% in January–February to +10.4% in March (Fig. 6). When it came to fixed asset investment, the NBS explained that: (1) sectors with shortages had seen stable investment growth related to consumption upgrading; (2) investment in the primary industry had grown at a fast clip; (3) investment in the hi-tech sector was moving strongly⁴.

² National Bureau of Statistics of China, April 20, “文兼武：一季度工业经济运行稳中向好 (Wen Jianwu: The Industrial Economy Moved Stably in the First Quarter as it Moves Toward Recovery).” As specific examples of (2), Mr. Wen said cutting-edge products like industrial robots, new-energy vehicles and IC had seen faster growth. Wen Jianwu is the Director-General of the NBS’s Department of Industrial Statistics.

http://www.stats.gov.cn/tjsj/sjjd/201804/t20180420_1595136.html

³ Calculated by the author from the cumulative data. The cumulative figure for January–March was +7.5%.

⁴ National Bureau of Statistics of China, April 23, “赵培亚：一季度投资稳步增长 持续发挥优化供给结构的关键作用 (Zhao Peiya: Investment in the First Quarter Continued to Hold the Key to Stable Growth and an Improved Supply Structure).” Specific examples of (1) include sectors with shortages such as: the environment (+34.2%), road transportation (+18.9%), public facility administration (+13.4%), infrastructure construction (+13.0%). Examples related to consumption upgrading include sanitation (+22.8%), education (+26.9%), vacations (+16.4%), art and culture (+17.0%), and physical training (+37.3%). Specific examples of (2) include: agriculture (+25.4%), forestries (+18.2%) and cattle breeding (+28.8%). Specific examples of (3) include: medical devices/equipment (+39.7%), telecommunications equipment manufacturing (+38.2%) and aircraft manufacturing (+33.0%). Zhao Peiya is an inspector with Department of Investment of the NBS.

http://www.stats.gov.cn/tjsj/sjjd/201804/t20180423_1595379.html

Fig. 5: Value-added industrial production

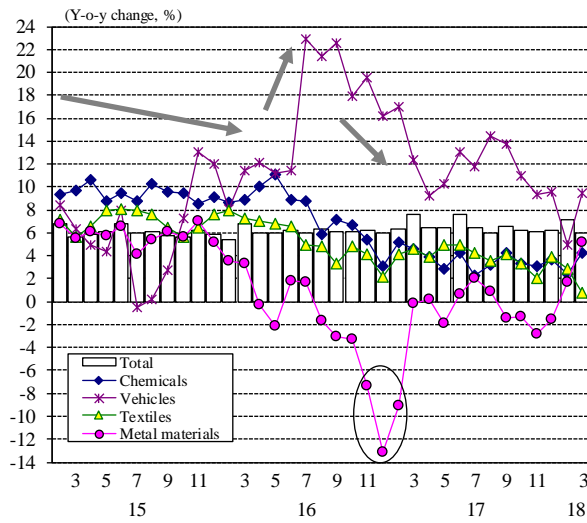
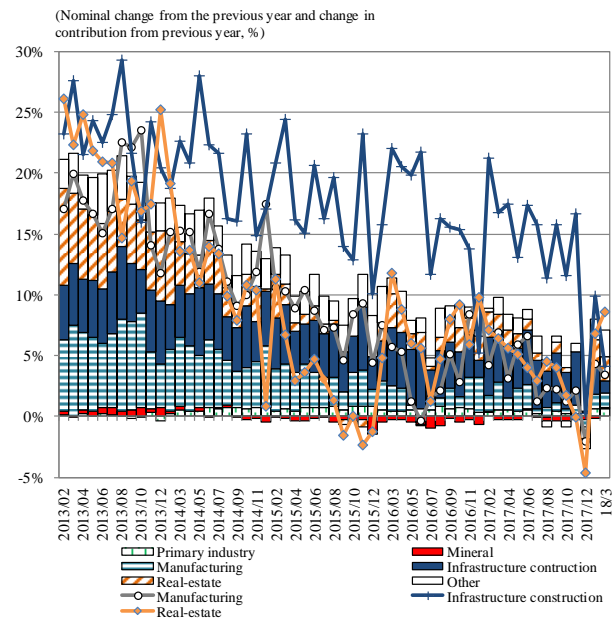


Fig. 6: Fixed asset investment by sector



Note: The value-added industrial production amount. The figure for January shows the aggregate year-on-year change for the period January–February.

Source: National Bureau of Statistics of China, CEIC

Source: CEIC

Nominal retail sales of consumer goods grew by +10.1% in March. This was up on the +9.7% recorded in January–February (the m-o-m figure was +0.7%) (Fig. 7). Internet retail sales of goods and services grew by +35.4% to hit RMB 1,931.8 billion in January–March (goods: RMB 1,456.7 billion; services: RMB 475.1 billion), with net shopping accounting for 21.4% of total retail sales of consumer goods (RMB 9,027.5 billion)⁵.

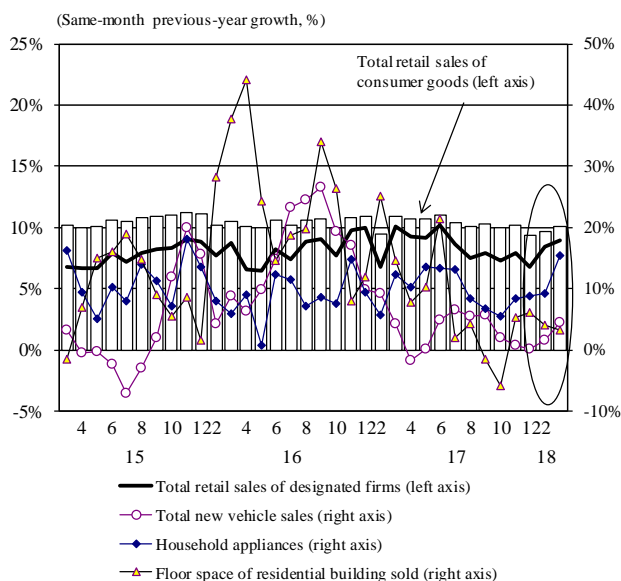
Sales of new vehicles hit 2.656 million in March (+4.5%), up on January–February (4.5268 million and +1.5%) in terms of numbers sold (monthly average) and y-o-y growth (Fig. 8). This was down on the pace of growth in both 2016 (27.939 million and +13.7%) and 2017 (28.941 million and +3.6%). This slowdown occurred because the tax break on purchases of small vehicles (instituted in October 2015) terminated at the end of 2017⁶.

⁵ Net shopping’s share of total retail sales of consumer goods and services rose from 12.9% in 2015 to 15.5% in 2016 and 19.6% in 2017.

⁶ On December 15, the Ministry of Finance 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 of 10%) will be halved in 2017 (2.5%). Ministry of Finance: (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>

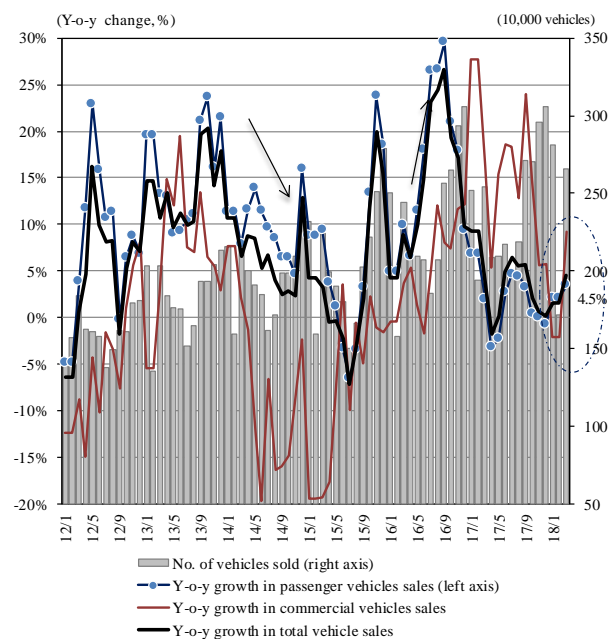
Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold



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 sales prices of residential buildings fell at a faster pace in first-tier cities, with growth also slowing in second-tier and third-tier cities

The floor space of residential buildings sold grew by +3.6% (300.88 million m²) in January–March, down from +22.5% in 2016 and +7.7% in 2017. Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People’s Bank of China (PBC) 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 in March 2016⁷ subsequently spread to other cities with surging house prices⁸, with the restrictions being tightened further thereafter⁹.

⁷ 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.

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 2016, for example. Source: Economic Information Daily, July 14, 2016 “房地产生严重分化 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

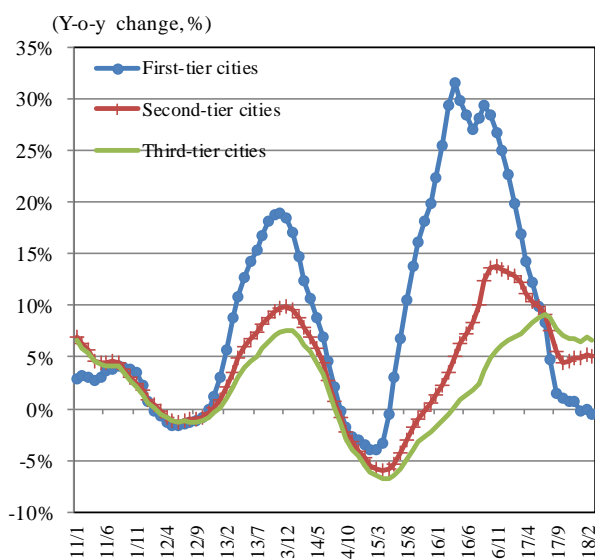
According to an article in the People’s Daily on October 11, 2016 entitled “限购、限贷，近期已有 20 城市推出新举措 楼市调控 因城施策 (‘Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city’)”, restrictions on housing purchases were introduced in 20 cities at the time the article was written. <http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html>

⁹ 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

In March, 60 cities saw the price of new homes rising on the previous year, up from 59 cities in February. At -0.6%, prices in first-tier cities suffered y-o-y falls for the third month in a row. Prices grew by +5.1% in second-tier cities and by +6.6% in third-tier cities, but this was still down on the data for February (+5.3% and +6.9% respectively) (Fig. 9)¹⁰.

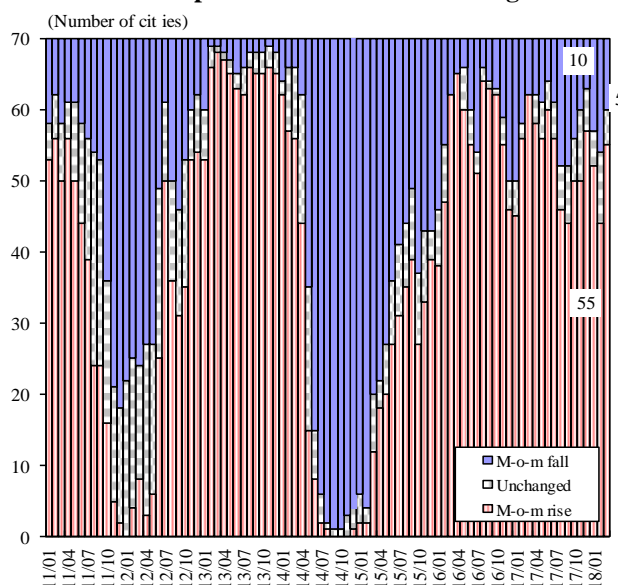
On a monthly basis, 55 of the 70 cities surveyed saw the price of new homes rising, up from 44 cities in February. In March, five cities saw prices moving flatly on the previous month, down from ten cities in February, while ten cities saw prices falling on the previous month, down from 16 cities in February (Fig 10)¹¹.

Fig. 9: New-homes prices (Y-o-y)



Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen
 Second-tier cities: Capitals other than first-tier cities (municipality), capitals of autonomous regions, Dalian, Qingdao, Ningbo, and Xiamen.
 Third-tier cities: Cities other than first-tier and second-tier cities (35 of the 70 cities surveyed)
 Source: 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 both slowed, with China posting a trade deficit

Exports fell by -2.7% in March (\$174.12 billion), while imports rose by +14.4% (\$179.10 billion), with China posting a trade deficit to the tune of -\$4.98 billion (Figs. 11, 13 and 14). This was the first deficit since March 2013

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

¹⁰Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Beihai +12.3%, Kunming +11.5% and Shenyang +11.3% (March)

¹¹ National Bureau of Statistics of China, April 18, “2018 年 3 月份 70 个大中城市商品住宅销售价格变动情况 (Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in March 2018)”

http://www.stats.gov.cn/tjsj/zxfb/201804/t20180418_1594610.html

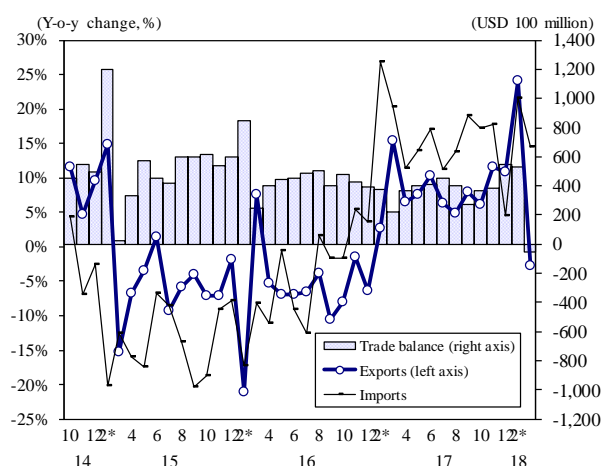
From January 2018 the data no longer includes the sales price of affordable housing.

(discounting the data for February, which was impacted by the Spring Festival holidays).

In a press briefing on April 17, NBS spokesperson Xing Zhihong said the deficit occurred because the holidays fell later than usual this year, with some enterprises speeding up exports before the festival (February 16) and increasing imports after the festival, while the number of working days in March was also one fewer than last year¹².

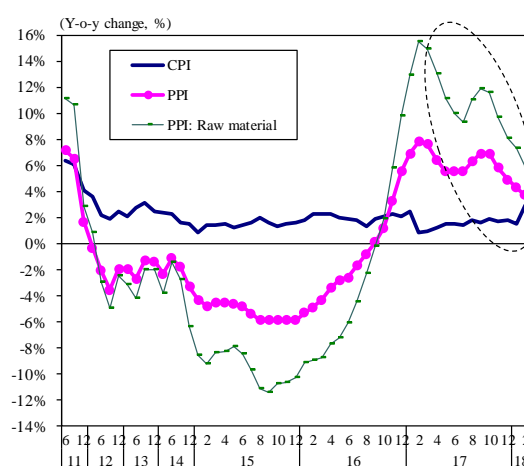
The Ministry of Commerce stated¹³ that “In terms of the commodity structure, the export of mechanical and electrical products was up +9.5% to account for 59.4% [of total exports]. Among these, integrated circuits, cell phones and mobile cars increased by +25.4%, +13.5% and +10.3% respectively. The import amount of 10 kinds of bulk commodities like natural gas, crude oil and soybeans increased by +9.1%, among which the import of natural gas, crude oil, coal and copper concentrate increased by +37.3%, +7.0%, +16.6% and +7.4% respectively. The import of mechanical and electrical products was up +14.9%; among these, the import of metal-working machines, integrated circuits and computers increased by +51.3%, +28.7% and +17.3% respectively. The number of imported cars was 280 thousand, up +5.7%.”

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

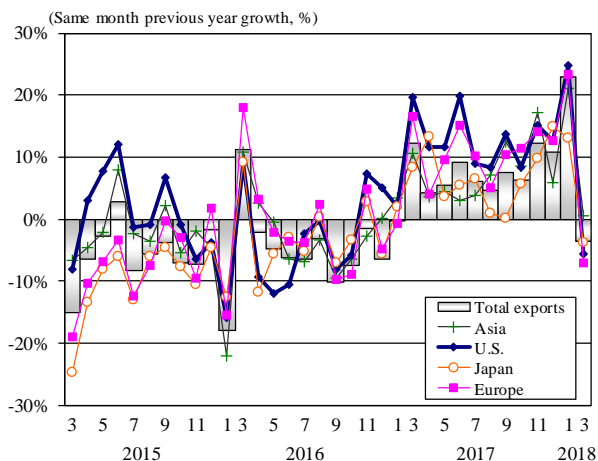


Note: The data from June 2011 to 2014 only shows the quarterly (March, June, September and December) figures. The data from 2015 onwards shows the monthly figures.
Source: National Bureau of Statistics of China, CEIC

¹² National Bureau of Statistics of China, April 17, “国家统计局新闻发言人就 2018 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, 2018)” http://www.stats.gov.cn/tjsj/sjjd/201804/t20180417_1594433.html

¹³ Website of the Ministry of Commerce, April 16 “商务部外贸司负责人谈2018年1-3月我国对外贸易情况 (Official from the Department of Foreign Trade Comments on China’s Foreign Trade in January-March 2018). Monetary amounts and rates of change are RMB denominated. <http://www.mofcom.gov.cn/article/ae/ag/201804/20180402732830.shtml>

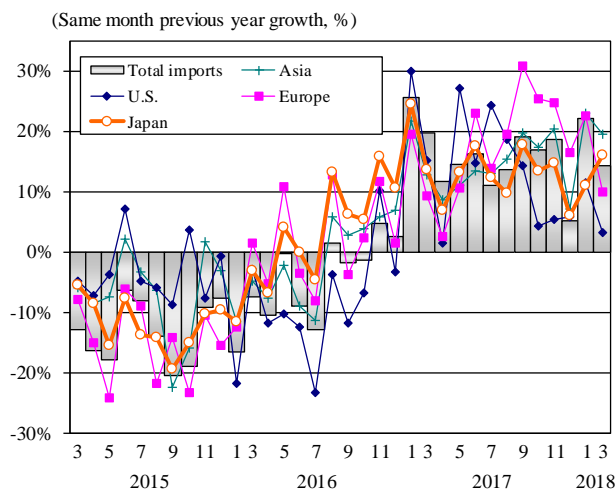
Fig. 13: Exports by major region



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

Source: China Customs Statistics, CEIC

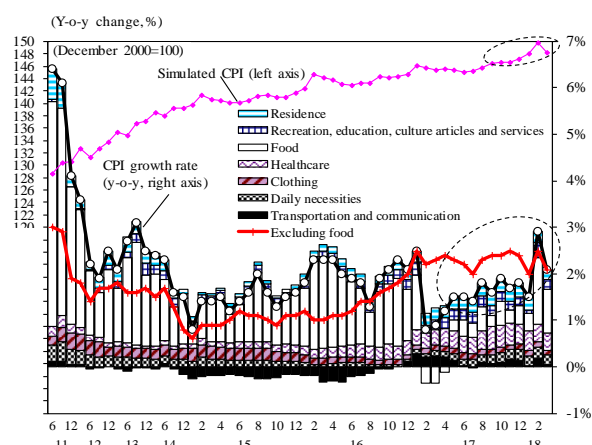
• The CPI and PPI both moved sluggishly

In March, CPI (Consumer Price Index) growth stood at +2.1%, down slightly on January–February’s figure of +2.2% and below the government’s target of +3.0% (Fig. 12). At -1.1% m-o-m, CPI growth dipped into negative territories on a monthly basis (February: +1.2%). A breakdown of the CPI data for March shows food price inflation accelerating slightly, from +2.0% in January–February to +2.1%, with vegetable prices rising by +8.8% (January–February: +6.0%). Pork price inflation fell further into negative territories at -12.0% in March (January–February: -9.0%) (Figs.15 and 16). The impact of the pork cycle¹⁴ waned since a peak in May 2016, though it bounced back after bottoming out in June 2017. At 53.40 million tons, pork output rose by +0.8% in 2017, with production growing after two consecutive years of negative growth in 2015 and 2016. At +2.1%, non-food price rises slowed slightly on January–February (+2.3%), though the NBS¹⁵ noted that the figure for January–March was +2.2%, with inflation remaining within +2.2–2.4% for five straight quarters.

¹⁴ 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.

¹⁵ National Bureau of Statistics of China, April 11 “一季度我国物价形势总体稳定 (Inflation Moved Stably on the Whole over the First Quarter)” http://www.stats.gov.cn/tjsj/sjjd/201804/t20180411_1593231.html

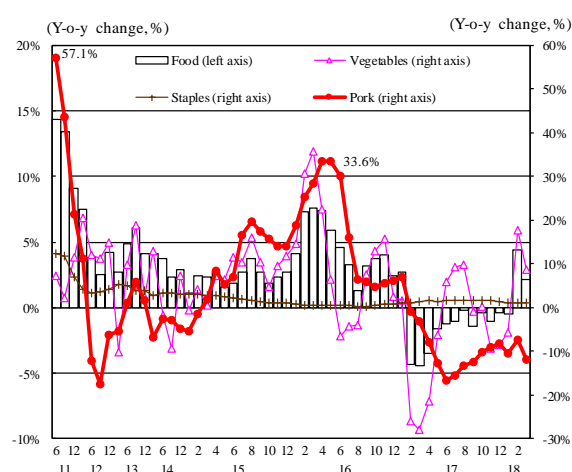
Fig. 15: CPI; Growth contribution by item



Note: The contribution rate by 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. The data from June 2011 to 2014 only shows the quarterly (March, June, September and December) figures. The data from 2014 onwards shows the monthly figures.

Source: National Bureau of Statistics of China, CEIC

Fig. 16: Food prices



Note: The data from July 2011 to 2014 only shows the quarterly (March, June, September and December) figures. The data from 2014 onwards shows the monthly figures.

Source: National Bureau of Statistics of China, CEIC

In March, PPI (Producer Price Index) growth slowed to +3.1% (January–February: +4.0%) (Fig. 12). According to the NBS, a y-o-y comparison for January–March showed prices rising when it came to the manufacture and processing of ferrous metals, the extraction of petroleum and natural gas, the processing of petroleum, coking and other fuels, the manufacture and processing of non-ferrous metals, and the mining and washing of coal, for instance, though this growth was down compared to October–December 2017. At the same time, price inflation in the manufacture of paper and paper products sector dipped from +16.6% in October 2017 to +9.2% in March, while inflation in the production and distribution of fuel sector fell from +6.4% in December 2017 to +2.2% (NBS)¹⁶.

• New bank loans saw a net increase, with total social financing also increasing

According to the PBC, M2 money supply growth hit +8.2% in March, down on February’s figure of +8.8%. Ruan Jianhong, head of the Survey and Statistics Department at the People’s Bank of China, said seasonal factors and other transitory factors had played a major role and it was important not to focus too much on short-term shifts in the M2 data. On a quarterly basis, she added, M2 growth stood at +8.2% at the end of March, up 0.1%Pt on the end of 2017 figure, with M2 growth not declining each quarter. She also said that slower M2 growth pointed to the success of the government’s efforts to harmoniously pursue a prudent and neutral monetary policy alongside financial supervision and regulation policies¹⁷.

New bank loans increased by a net RMB 1,120 billion in March, up on February’s figure of RMB 838.3 billion

¹⁶ Same as No.15

¹⁷ 21st Century Business Herald, April 16 “3 月表外融资全线收缩 居民加杠杆速度放缓 (Off-balance-sheet Financing Decreased Across the Board and Household Leveraging Grew at a Slower Pace)”

http://epaper.21jingji.com/html/2018-04/16/content_84390.htm

(Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 1,332.3 billion, up on February’s figure of RMB 1,174.1 billion. A glance at the details reveals that: entrusted loans fell for the third straight month; trust loans and banker’s acceptances switched from expansion to contraction; and the amount of RMB loans, foreign currency loans, corporate bonds and non-financial-institution equity issuances increased (Fig. 18).

Foreign exchange reserves stood at \$3,142.8 billion at the end of March, up \$8.3 billion on February (Fig. 19).

Fig. 17: Financial institution lending; the money supply

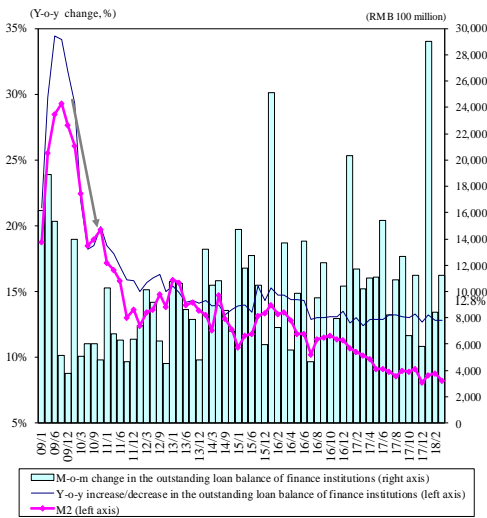
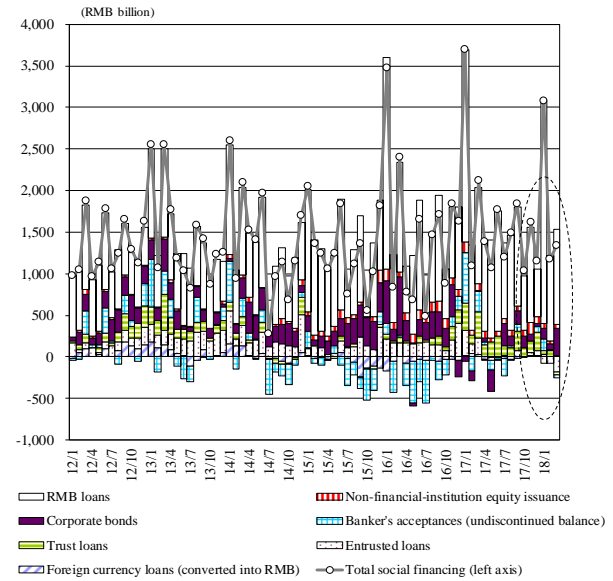


Fig. 18: Total social financing (net increase and decrease)

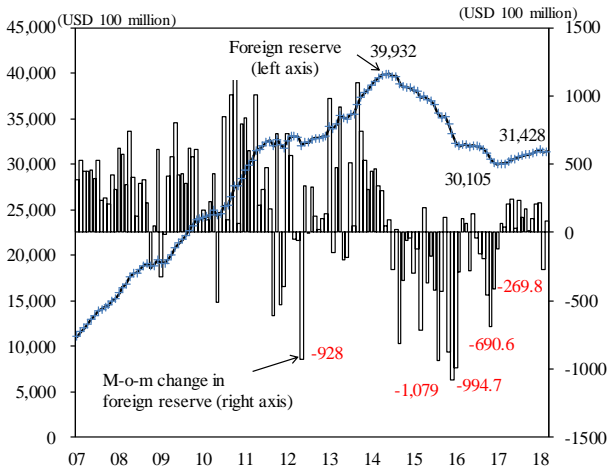


Note: The graph shows January and end-of-quarter figures up until 2015. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.

Source: PBC, CEIC

Source: PBC, CEIC

Fig. 19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016, and the latest monthly figure.

Source: People's Bank of China, CEIC

2. While stepping up policy responses and structural adjustment, the authorities are focusing on how to respond to an economic slowdown

With the PPI moving bullishly from later 2016 onwards, profits have improved on rising prices. However, this trend is now easing off. China is also pursuing structural reform, with moves underfoot to crack down on local government debt, for instance (Fig. 20)¹⁸. As such, the Chinese economy looks set to slow going forward. With the government focusing on ‘high-quality development,’ though, the authorities may adopt some policies aimed at hitting the targets for real GDP growth.

• Improving liquidity structure by lowering required reserve ratios

On April 17, the PBC decided to lower the required deposit reserve ratio for some financial institutions by 1%Pt to replace the Medium-term Lending Facility (MLF), effective from April 25¹⁹. A PBC official explained that “the stance of prudent and neutral monetary policy has remained unchanged,” but one Chinese newspaper also said the PBC’s next policy goals would be: (1) improving liquidity, (2) alleviating bank debt pressures, (3) lowering funding costs, and (4) offsetting the risk of an economic slowdown by balancing out the impact of structural deleveraging and trade frictions²⁰. With the authorities also announcing policy shifts on the same day as the release of the GDP statistics, it seems they are starting to grow concerned about an economic downshift.

¹⁸ Ministry of Finance, March 26, “财政部关于做好 2018 年地方政府债务管理工作的通知 (*Notice Concerning Properly Performing 2018 Local Government Debt Administration Work* (No. 34)); and Ministry of Finance, March 30, “关于规范金融企业对地方政府和国有企业投融资行为有关问题的通知 (*Notice Concerning the Standardization of Investment and Financing in Local Government and State-owned Enterprises by Financial Enterprises*)” (No. 23). The former notice orders local governments to finish converting their borrowings into bonds while stepping up the system of checks and censures related to the effectiveness of bond issuances. The latter notice orders state-owned banks to strictly check the financial conditions and repayment abilities of local government finance platforms (local government bodies that shoulder the burden of infrastructure investment or real-estate loans) and so on.

Notice No. 34: http://www.gov.cn/xinwen/2018-03/27/content_5277661.htm

Notice No. 23: http://jrs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201803/t20180330_2857297.html

According to an article in the 21st Century Business Herald on April 11 entitled “地方债防风险进入“深水区”：部分省份强化政府投资项目管理 (*Several Provinces Strengthen Controls on Government Investment Projects as Preventing Regional Debt Risk Becomes a Pressing Issue*),” the aforementioned measures have led to the classification and administration of local government debt and the suspension of several construction projects. http://epaper.21jingji.com/html/2018-04/11/content_83526.htm

According to a release by the National Audit Office on April 18 entitled “2017 年第四季度国家重大政策措施落实情况跟踪审计结果 (*Results of an Investigation into the Status of the Implementation of Major Government Policy Measures over October–December 2017*),” contingent liabilities to the tune of RMB15.422 billion were uncovered in six municipalities and counties in the five provinces of Inner Mongolia, Hunan, Sichuan, Gansu and Ningxia.

<http://www.audit.gov.cn/n5/n25/c121703/content.html>

¹⁹ People’s Bank of China, April 17, “中国人民银行决定下调部分金融机构存款准备金率以置换中期借贷便利 (*PBC Decides to Lower Required Deposit Reserve Ratio for Some Financial Institutions to Replace Outstanding Medium-term Lending Facility*).”

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3522107/index.html>

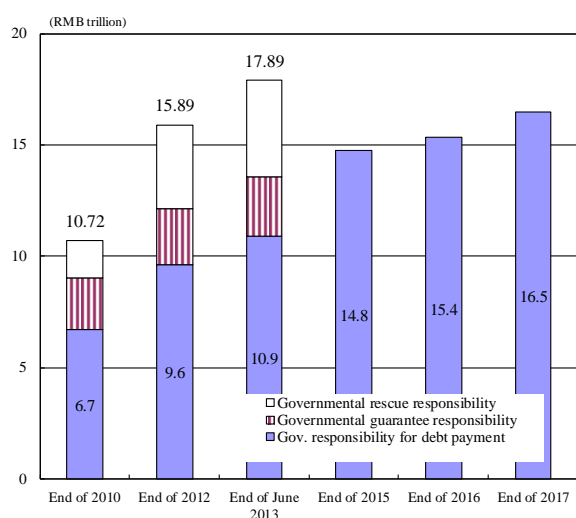
“中国人民银行有关负责人表示：降准置换中期借贷便利，稳健中性的货币政策取向保持不变 (*PBC Official: PBC Decides to Lower Required Deposit Reserve Ratio to Replace Outstanding Medium-term Lending Facility, and Continue the Sound and Neutral Monetary Policy*).”

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3522117/index.html>

²⁰ China Securities Journal, April 19, “别样降准：政策回归实质中性 (*Another Way of Lowering Required Deposit Reserve Ratios: Toward a Realistic and Neutral Policy*).”

http://www.cs.com.cn/zqxw/201804/t20180419_5779302.html

Fig. 20: Local government outstanding obligations



Note: The coverage of the audit differs in 2010 and from 2012 onwards. The audit has only covered 'government responsibility for debt payment' since 2015.

Government responsibility for debt payment: Debt that the government is responsible for paying back

Governmental guarantee responsibility: Debt that requires a governmental guarantee

Governmental rescue responsibility: Debt that may require partial repayment by the government if the debtor has trouble making repayments

Source: National Audit Office: *Audit Results of Nationwide Governmental Debts* (December 30, 2013); CEIC

• **“It will be difficult to achieve 2018 targets and more effort will be needed” (Meeting of the Central Politburo of the Communist Party)**

At a meeting presided over by general secretary Xi Jinping on April 23, the Central Politburo of the Communist Party of China analyzed and studied the economic situation in China²¹. With regards to the current state of the Chinese economy, the Politburo said structural reform was clearly supporting economic development. It also pointed to the ongoing deepening of supply-side structural reform and it said good progress had been made in developing new industries and upgrading traditional sectors. With domestic economic performance growing more stable, it added, China had seen a good start to its high-quality development. However, the Politburo also said there were still pronounced underlying structural challenges blocking sustainable, high-quality development, with many problems still to be tackled in order to win the ‘three tough battles²².’ It also noted that the global economic and political situation was growing more complex and complicated. It also talked about the difficult in achieving the government’s target tasks and it said more effort was needed.

²¹ China Net, April 23, “中共中央政治局召开会议分析研究当前经济形势和经济工作 审议《关于新时代加强党政军警民合力强边固防的意见》 中共中央总书记习近平主持会议 (General Secretary Xi Jinping Presides over a Meeting of the Central Politburo of the Communist Party of China to Analyze and Study the Economic Situation and Economic Work; The Politburo Deliberates the ‘Opinions on Strengthening Robust Border Security Through a New Era of Cooperation between Party, Government, Army, Policy and the People’).”

http://www.gov.cn/xinwen/2018-04/23/content_5285191.htm 2018-04-23

²² (1) Preventing and eliminating major risks, (2) completely eradicating poverty, and (3) tackling pollution. These were adopted at the 19th National Congress in October 2017 as major challenges to be faced up until 2020.

Fig. 21: Comparison of the statements released after the Central Politburo meetings of April 2017 and April 2018

	April 25, 2017	April 23, 2018
Current situation	<ul style="list-style-type: none"> With the economy moving stably over January–March, China has seen a good start. Growth and efficiency are both recovering (in terms of quality and quantity); market sentiments are improving; the contribution of domestic demand is increasing; new technologies, products and services are continuously emerging and developing at a fast clip; industrial upgrading continues to make progress; employment continues to increase; urban and rural incomes are growing at a faster pace. There is a growing awareness when it comes to the new development philosophy and supply-side structural reform, with actions being taken with more self-awareness. This is crucial for the transformation of economic development patterns and the promotion of stable, sound development. <u>The current buoyancy of the economy is due to cyclical factors; economic and structural adjustment is a major task and an urgent challenge;</u> the economic situation needs to be assessed firmly from the perspective of the new normal; China needs to push resolutely forward with <u>strategic economic and structural adjustment.</u> 	<ul style="list-style-type: none"> Major economic indicators generally moved in a stable, balanced manner over January–March; domestic demand is playing a more pivotal role; with the economy moving stably, the situation remains healthy. Economic restructuring has played a bigger role in supporting growth; supply-side structural reform is constantly deepening; good progress has been made in developing new industries and upgrading traditional sectors; domestic economic performance is growing more stable; China had seen a good start to its <u>high-quality development</u>, with quality and efficiency remaining at comparatively high levels. The Chinese economy is going through an upside cyclical turn for growth, <u>but there are still pronounced underlying structural challenges blocking sustainable, high-quality development</u>, with many problems still to be tackled in order to win the ‘three tough battles**’; the <u>global economic and political situation is growing more complex and complicated.</u> There needs to be a deeper understanding of difficulties and a firm grasp of problems; we need to work hard to tackle emergent contradictions and challenges.
Policy directions	<ul style="list-style-type: none"> Actively promote supply-side structural reform; strive toward stable growth, reforms, structural adjustment, better livelihoods, and the prevention of risk. Promote stable, sound economic development; deepen supply-side structural reform; <u>prevent systemic financial risk from occurring.</u> 	<ul style="list-style-type: none"> <u>It will be difficult to achieve 2018’s target tasks and more effort will be needed;</u> steadily move to meet and satisfy the demand for <u>high-quality development</u>; swiftly move to rectify things that do not accord with this demand. Strengthen top-level planning; steadily establish <u>indicators, policies, standards, statistical and performance assessment systems for pushing forward high-quality development</u>; support regions and sectors in the promotion of <u>high-quality development</u>
	<ul style="list-style-type: none"> ➤ Maintain the consistency and stability of macroeconomic policy; continue to pursue an active fiscal policy and a prudent (neutral) monetary policy; deepen supply-side structural reform; resolutely pursue the five major tasks*; reorganize and improve traditional drivers; substantially nurture new drivers. ➤ Develop creative work; strengthen R&D; promote the activity, autonomy and creativity of grassroots cadres and the masses; increase the benefits of reform; focus on steadily improving people’s livelihoods; give people a greater sense of attainment. ➤ Create a healthy market environment; strengthen system building; open up more areas; improve investor sentiments. ➤ Swiftly develop effective long-term mechanisms for promoting <u>the stable development of real-estate markets</u> ➤ <u>Focus to a high degree on preventing financial risk; coordinate oversight and control; make finance serve the real economy; strengthen punishments for acts that infringe regulations.</u> 	<ul style="list-style-type: none"> ➤ Pour energy into winning the ‘three tough battles’; continue to pursue an active fiscal policy; maintain a prudent and neutral monetary policy; strive to guide expectations; combine accelerated structural adjustment with an ongoing expansion of domestic demand; continue to manage the macroeconomy in a stable manner. ➤ Deepen supply-side structural reform; <u>eliminate overcapacity through more market-driven, rule-based means</u>; attack the barriers facing core technologies; actively support the development of new industries, models and businesses; cut red tape; transfer authority; cut taxes and lower fees; lower corporate fundraising, energy and logistics costs; skillfully implement a strategy for village revitalization; further promote active reform and opening up; deepen reforms regarding <u>state-owned enterprises, assets, and tax revenues, etc.</u> ➤ <u>Promote the sound development of each market (lending, equity, debt, foreign exchange and real estate)</u>; promote timely tracking and supervision; prevent disasters from surfacing. ➤ Strengthen efforts to improve people’s livelihoods; enhance core public services; solve minor problems that attract public notice.

Note: *The five major tasks (五大任务 in Chinese) = cutting overcapacity, destocking, deleveraging, lowering corporate costs, and expanding effective supply. This is an abbreviated version of ‘three cancellations, one reduction, and one reinforcement’ (三去一降一补 in Chinese).** three tough battles = Preventing major risks, targeted poverty alleviation and pollution control.

Source: People’s Daily, April 25, 2017, “中共中央政治局召开会议 分析研究当前经济形势和经济工作 审议《关于巡视中央政法单位情况的专题报告》 中共中央总书记习近平主持会议”

http://www.gov.cn/xinwen/2017-04/25/content_5188823.htm

China Net, April 23, 2018, “中共中央政治局召开会议分析研究当前经济形势和经济工作 审议《关于新时代加强党政军警民合力强边固防的意见》 中共中央总书记习近平主持会议”

http://www.gov.cn/xinwen/2018-04/23/content_5285191.htm 2018-04-23

The policy directions section mentions the steady establishment of “indicators, policies, standards, statistical and performance assessment systems for pushing forward high-quality development.” This was also previously mentioned at the Central Economic Work Conference of December 2017²³.

Fig. 21 compares the statements released after the Central Politburo meetings of April 2017 and April 2018. The 2018 statement contains more concrete policy directions compared to the statement released after the 2017 meeting, which took place before the National Congress. For example, it mentions: (1) combining accelerated structural adjustment with an ongoing expansion of domestic demand, (2) eliminating overcapacity through more market-driven, rule-based means, while attacking the barriers facing core technologies, and (3) promoting the sound development of each market (lending, equity, debt, foreign exchange and real estate).

On the other hand, ‘financial risk’ has been a major theme since April 2017, but the 2018 statement contains no concrete mention of financial risk, apart from including it in the ‘three tough battles.’ The authorities have emphasized the need for ‘high-quality development,’ so it will be interesting to see what kind of policy management they pursue while trying to hit the projected targets for real GDP growth.

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²³ China Net, December 20, 2017 “中央经济工作会议在北京举行 (The Central Economic Work Conference is held in Beijing)”

http://www.gov.cn/xinwen/2017-12/20/content_5248899.htm