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Summary

At +6.5%, real GDP growth in July–September was down on the previous quarter (+6.7%). At +6.7%, growth in the cumulative figure for January–September remained above the government's target for 2018 of 'around +6.5%.' September saw some economic indicators rising slightly and some falling compared to August. The authorities have moved to alleviate deteriorating sentiments by tweaking monetary policy and indicating their support for the RMB and stock markets.

1. September saw some economic indicators rising slightly and some falling compared to August

- **Growth slowed slightly to hit +6.5% over July–September, mainly due to sluggish consumption**
- **Production and consumption slowed, but investment accelerated slightly**
- **The sales prices of residential buildings rose at a faster pace in all of first-tier, second-tier and third-tier cities**
- **Exports and imports moved firmly**
- **CPI growth accelerated while the PPI slowed**
- **New bank loans increased, while total social financing also grew**

2. The policy response: The authorities are tweaking policy to tackle uncertainty

- **The PBOC lowered the required reserve ratio, following on from similar moves in April and July**
- **Comments by high-ranking figures point to the marketization of the RMB's exchange rate**
- **The heads of one bank and two commissions made comments aimed at bolstering stock markets**
- **Liu He, Vice-Premier of the State Council, spoke about the economic situation**

1. September saw some economic indicators rising slightly and some falling compared to August

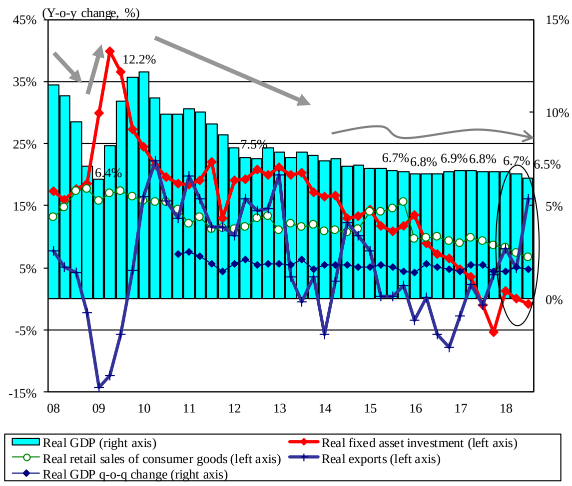
・Growth slowed slightly to hit +6.5% over July–September, mainly due to sluggish consumption

On October 19, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate in January–September was up +6.7% on the same period last year[1] (from here on, all figures refer to 'same-period previous-year' growth unless otherwise specified). At +6.5%, growth in July–September dipped on the previous quarter (+6.7%) to hit its lowest level since the +6.4% result recorded in January–March 2009. Growth in January–September remained above the government's target for 2018 of 'around +6.5%.' Growth was up +1.8% on the previous quarter (see Fig.1).

A glance at contribution levels by demand item over July–September (+6.5%) compared to April–June (+6.7%) shows the contribution of final consumption expenditure sliding by 0.31%Pt q-o-q (from 5.31% in April–June to 5.00% in July–September), though the contribution of gross capital formation rose slightly by 0.02%Pt (from 2.11% to 2.13%). The negative contribution of net exports also improved by 0.09%Pt (from -0.72% to -0.63%). All this suggests slower growth in July–September was mainly due to sluggish consumption (Fig. 2).

The cumulative data for January–September shows the contribution of gross capital formation dipping slightly to +2.13%Pt (January–June: +2.14%Pt), with the contribution of final consumption expenditure also sliding to +5.23%Pt (January–June: +5.34%Pt). The contribution of net exports improved slightly to hit -0.66%Pt (January–June: +0.67%Pt) (Fig. 3).

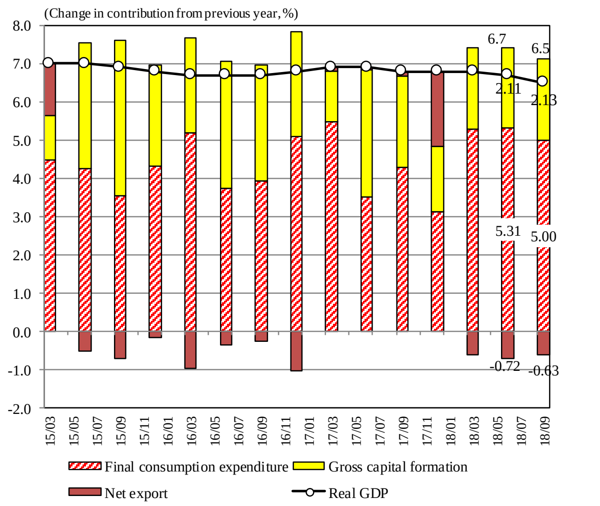
Fig. 1: GDP and major economic indicators (quarterly)



Note: The real RMB value of exports is indexed using the producer 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

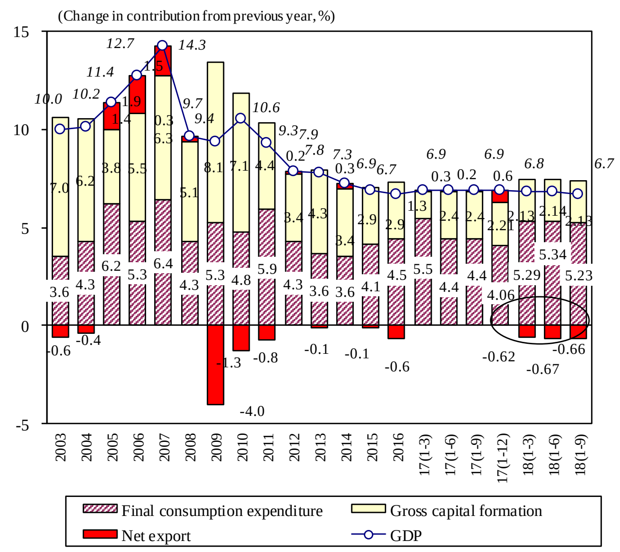
Fig. 2: Breakdown of GDP by demand item (quarterly)



Source: National Bureau of Statistics of China, CEIC

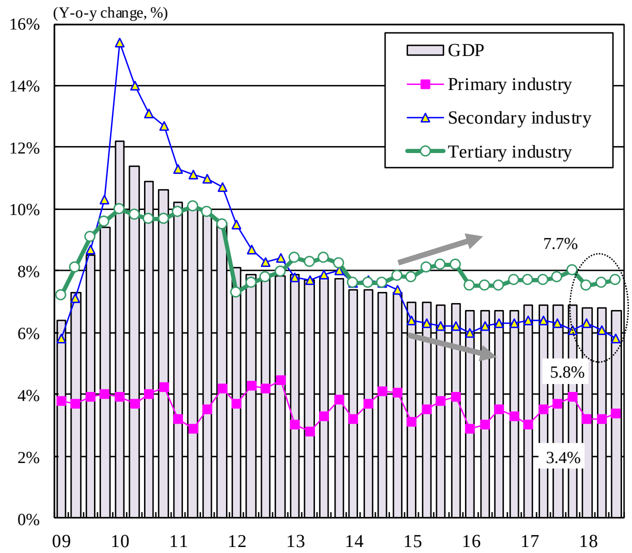
[1] National Bureau of Statistics of China, October 19, 2018 "前三季度经济运行总体平稳 转型升级深化发展 (*National Economy Stayed Generally Stable with Further Economic Restructuring and Upgrade in January–September 2018*)" http://www.stats.gov.cn/tjsj/zxfb/201810/t20181019_1628614.html

Fig. 3: Breakdown of GDP by demand item (annual total)



Source: National Bureau of Statistics of China, CEIC

Fig. 4: GDP by sector



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

A breakdown by sector shows the tertiary industry growing by +7.7% over July–September, unchanged on 2016's figure of +7.7% and down on 2017's figure of +8.0%. At +5.8%, growth in the secondary industry was down on 2017's figure of +6.1% (Fig. 4). This marked the first time growth had hit the 5% range since January–March 2009 (+5.8%).

・Production and consumption slowed, but investment accelerated slightly

September saw some economic indicators rising slightly and some falling compared to August. At +5.8%, value-added industrial production in September was down on August's +6.1% (the m-o-m figure was +0.5%) (Fig. 5). When commenting on production trends in January–September, an NBS spokesperson said growth in sectors like hi-tech (+11.8%), equipment manufacturing (+8.6%) and strategic emerging industries (+8.8%) was higher than total value-added industrial production growth (+6.4%)[2].

[2] National Bureau of Statistics of China on October 29, 2018 entitled "国家统计局新闻发言人就 2018 年前三季度国民经济运行情况答记者问 (*An NBS Spokesperson Answers Journalist Questions about Economic Performance from January–September 2018*)" http://www.stats.gov.cn/tjsj/sjjd/201810/t20181019_1628711.html

Fig. 5: Value-added industrial production

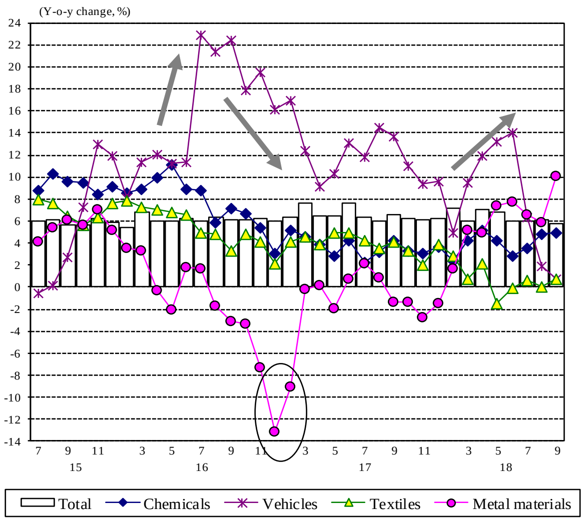
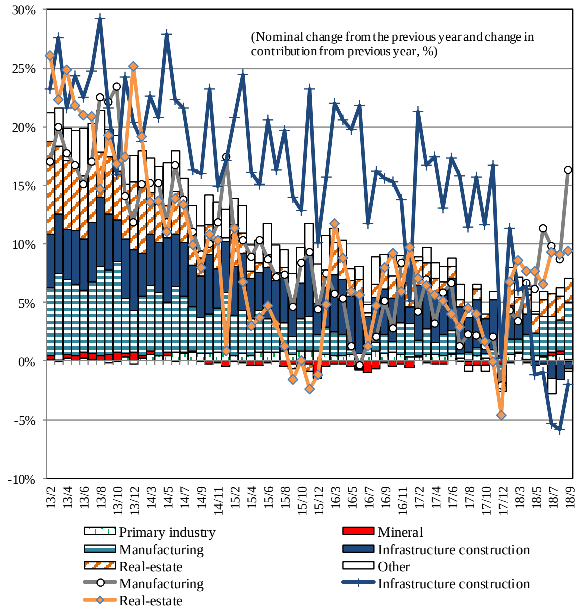


Fig. 6: Fixed asset investment by sector



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

Source: National Bureau of Statistics of China, CEIC

At +6.1%[3], nominal fixed asset investment in September was up on August's +4.6% (the m-o-m figure was +0.4%). At +5.4%, the cumulative figure for January–September was also up on the cumulative figure for January–August (+5.3%) (Fig. 6). At a press briefing on October 19, Mao Shengyong was asked whether low growth was now normal, given that infrastructure investment had grown by just +3.3% over January–September. In response, the NBS spokesperson said the slowdown was gradually easing on the whole. He added that investment in infrastructure investment would probably become more stable going forward as the government continued to implement its 'six stabilities'[4] policies while stepping up its support for large-scale projects.

Nominal retail sales of consumer goods grew by +9.2% in September. This was up on August's figure of +9.0%, but the real figure (discounting inflationary factors) dipped to +6.4%, down on August's +6.6% (the m-o-m figure was +0.8%) (Fig. 7). Internet retail sales of goods and services hit RMB 6,278.5 billion in January–September (goods: RMB 4,793.8 billion; services: RMB 1,484.7 billion), with net shopping growing by +27.0% to account for 22.9% of total retail sales of consumer goods (RMB 27,429.9 billion)[5].

Sales of new vehicles hit 2.3941 million in September (-11.6%), with the figure sliding for the third straight month, following on from July (1.8891 million; -4.2%) and August (2.1034 million; -3.8%) (Fig. 8). At 20.4496 million (+1.1%), cumulative sales over January–September grew at a slower pace compared to both 2016 (27.939 million and +13.7%) and 2017 (28.941 million and +3.6%). The slowdown from 2017 onward was probably because the

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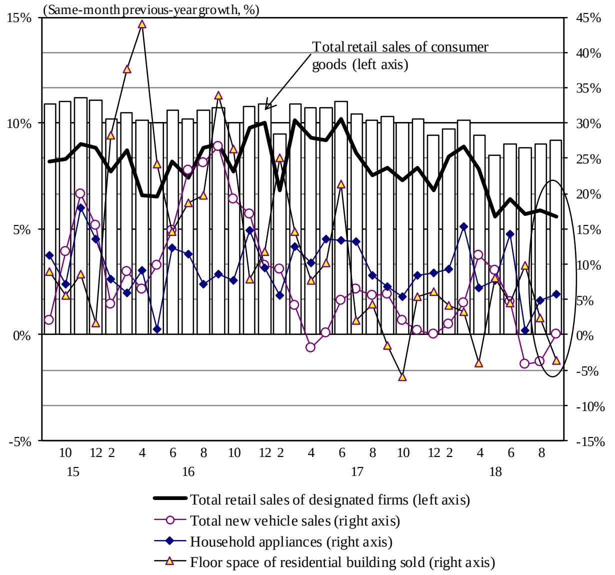
[3] Calculated by the author from the cumulative data.
[4] Same as footnote 2. The 'six stabilities' = stable "(1) employment, (2) finance, (3) foreign trade, (4) capital, (5) investment, and (6) expectations," as determined at a meeting of the Central Politburo of the Communist Party on July 31, 2018.
China Net, July 31, 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(*The Central Politburo of the Communist Party Met to Analyze and Study the Current Economic Situation and Economic Work*)"
http://www.gov.cn/xinwen/2018-07/31/content_5310829.htm
[5] National Bureau of Statistics of China on October 19, 2018 entitled "2018 年 9 月份社会消费品零售总额增长 9.2%"
http://www.stats.gov.cn/tjsj/zxfb/201810/t20181019_1628629.html
Furthermore, 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.

tax break on purchases of small passenger vehicles[6] (instituted in October 2015) was abolished at the end of 2017.

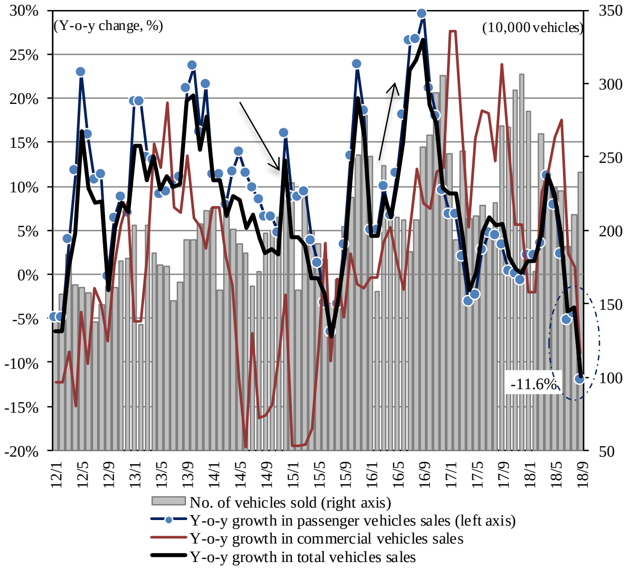
At a press briefing held on October 23, Xin Guobin, Vice-Minister of the Ministry of Industry and Information Technology, was asked about sluggish automobile production and sales. In response, he said that China's automobile industry had grown quite large in terms of production and sales, though he admitted that the age of high growth might be over, with low growth the new normal going forward. However, he also pointed to a number of positive factors for the industry. For example, he noted that the top ten automobile manufacturers accounted for almost 90% of all sales (rising concentration). He also said the sales growth rate was higher than the growth rate for the number of vehicles produced or sold, with the automobile industry in robust health on the whole. He added that the industry still had room to grow on demand for replacement vehicles and ongoing strong demand in China's third- and fourth-tier cities, though he said growth would not be as high as in the past[7].

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 rose at a faster pace in all of first-tier, second-tier and third-tier cities

The floor space of residential buildings sold grew by +2.9% (1193.13 million m^2) in January–September. This

[6] On December 15, 2016, 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: "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] China Net on October 23, 2018 entitled "新闻办就 2018 年前三季度工业通信业发展情况举行新闻发布会 (*Vice-Minister Xin Guobin explains that automobile industry sales grew by +8.8% on the same period last year over January–August, a figure that did not represent low growth*)."
http://www.gov.cn/xinwen/2018-10/23/content_5333795.htm#allContent

was down on 2016's figure of +22.5%, 2017's figure of +7.7%, and January–August's figure of +4.0%. 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 (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 pioneered in Shanghai and Shenzhen in March 2016[8] subsequently spread to other cities with surging house prices[9], with the restrictions being tightened further thereafter[10].

In September, 67 cities saw the price of new homes rising on the previous year, down from 68 cities in August. Prices grew at a faster pace in first-tier cities (from +0.9% in August to +1.1%), second-tier cities (from +9.2% to +10.2%) and third-tier cities (from +8.6% to +9.5%) (Fig. 9)[11].

On a monthly basis, 64 of the 70 major cities surveyed saw the price of new homes rising (down from 67 in August). Three cities saw prices moving flatly on the previous month (up from two in August), while three cities saw prices falling on the previous month (up from one in August) (Fig. 10)[12].

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

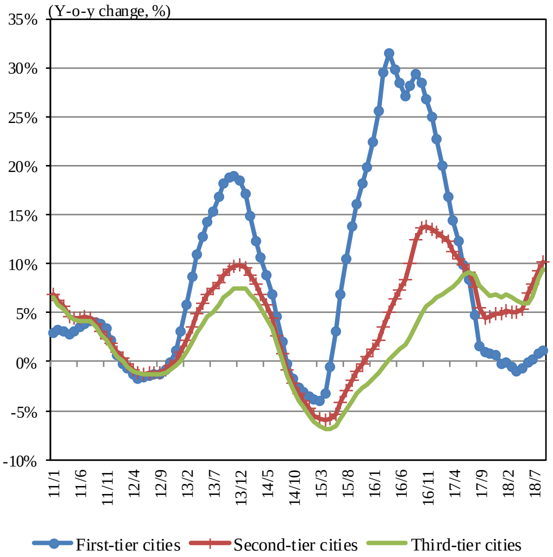
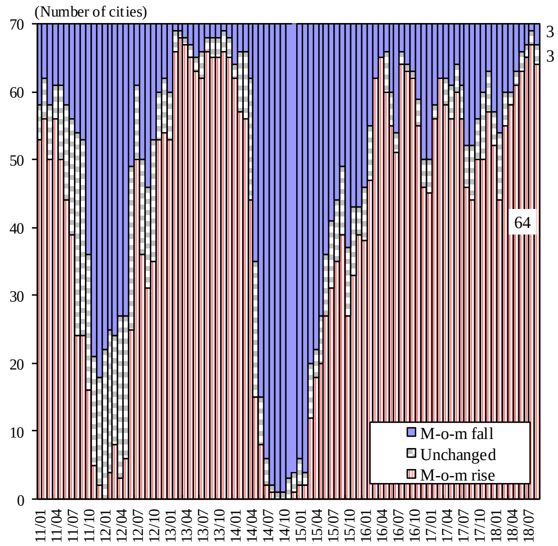


Fig. 10: Number of cities recording m-o-m changes in sales prices of residential buildings



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[8] 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.

[9] 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

[10] 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
The Financial Times on June 13, 2018 entitled "严守"房住不炒"主基调 前 5 个月各地楼市调控达 159 次 (*'Real Estate is for Habitation, not Speculation,' Warn Authorities*)," 159 real estate control policies had been implemented over January–May 2018, up +60% on the same period in 2017.l

[11] Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Sanya +33.6%; Chengdu +26.4%, Haikou +21.7% (as of September 2018).

[12] National Bureau of Statistics of China on October 20, 2018 entitled, "2018 年 9 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 September 2018)*"
http://www.stats.gov.cn/tjsj/zxfb/201810/t20181019_1628849.html From January 2018 the data no longer includes the sales price of affordable housing.

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

Source: National Bureau of Statistics of China, CEIC

・Exports and imports moved firmly

Exports rose by +14.5% in September ($226.69 billion), while imports rose by +14.3% ($195.00 billion), with China posting a trade surplus of +$31.69 billion (Fig. 11). The Ministry of Commerce explained that exports of mechanical and electrical products grew by +7.8% over January–September to account for 58.3% of total exports, with exports of integrated circuits, automobiles & car bodies, and mobile phones & parts growing by +22.1%, +16.2% and +10.7%, respectively. The Ministry also pointed to signs of improved added value when it came to computers & parts, integrated circuits, and electric motors & generators, with the export unit value of these three items rising by +9.6%, +12.2% and +9.5%, respectively. However, it added that exports of the seven biggest labor-intensive items had fallen by -0.8%[13].

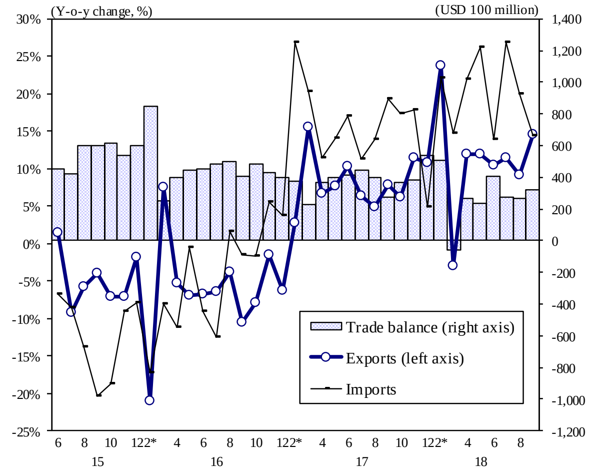
Exports to the US continued to grow at a faster pace following on from August, while imports from the US slowed (Figs. 13 and 14). Exports were probably pushed up by a rush of demand as US firms sought to mitigate the impact of US/China trade frictions[14], with US imports also sliding on rising tariffs. From here on, there will probably be a drop-back from the export surge seen before the US hiked tariffs. It also seems that Chinese firms are delaying imports until after the government lowers tariffs[15] as part of its market liberalization policy. As such, the trade balance is likely to fluctuate in the short term.

[13] The Ministry of Commerce, October 17, 2018 entitled "商务部外贸司负责人谈 2018 年前三季度我国外贸运行情况(*An Official from the Department of Foreign Trade Comments on Foreign Trade in January–September 2018*)." All prices and fluctuation rates are RMB-denominated. The seven biggest labor-intensive items = textile products, clothing, bags, shoes, toys, furniture, and plastic products.
http://www.mofcom.gov.cn/article/ae/ag/201810/20181002796449.shtml

[14] In June, the US decided to impose a new 25% tariff on 1,102 Chinese import products. The target imports are worth around $50 billion annually. The tariffs imposed on July 6 cover import items worth around $34 billion, including telecommunication satellites, industrial robots, automobiles and aircraft. The remaining tariffs (covering 284 items worth $16 billion) were introduced on August 23. On September 17, the US announced it would slap a further 10% tariff on 5,745 Chinese products worth $200 billion (including TVs, furniture, handbags as well as agricultural products like leaf tobacco and eels), effective September 24. On July 6, China hit back by placing a 25% tariff on 818 US goods worth around $34 billion (including soya, beef and automobiles). (Kyodo News, etc.).
According to an article in the People's Daily on August 29, 2018 entitled, "隆国强 人民要论：理性认识当前的中美贸易摩擦 *(People's Daily Discussion: A Rational Understanding of Current US/China Trade Frictions*))," a further 25% tariff worth $50 billion would shave -0.1%Pt off Chinese GDP growth, though the negative impact could be felt in more areas via a shift in sentiments.
http://opinion.people.com.cn/GB/n1/2018/0829/c1003-30257035.html

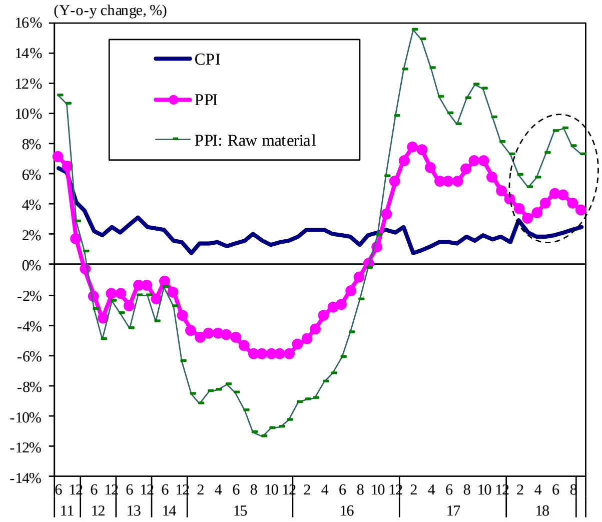
[15] On November 1, China cut average tariffs on 1,585 import items (including pharmaceuticals, automobiles, daily goods and industrial products) by 26%, from 10.5% to 7.8%. People's Daily, October 2, 2018: "国务院关税税则委员会办公室有关负责人就自主降低关税总水平答记者问 增加有效供给 助力产业升级 (*A Spokesperson from the State Council's Customs Tariff Commission Responds to a Journalist Question about the Independent Tariff Reduction by Claiming it will Boost Effective Supply and Support Industrial Sophistication*)"
http://www.gov.cn/xinwen/2018-10/02/content_5327527.htm

Fig. 11: Imports/exports; trade balance



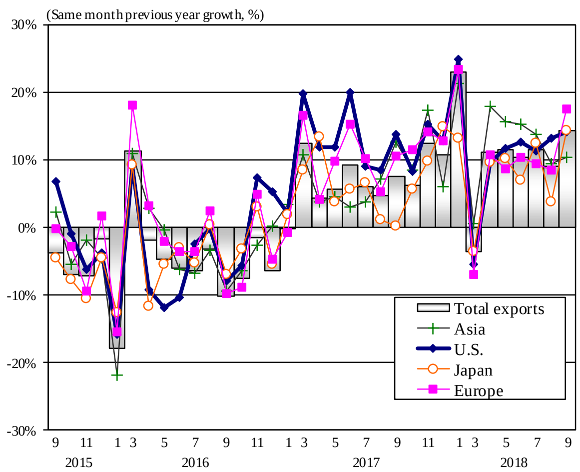
Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

Fig. 12: CPI, PPI



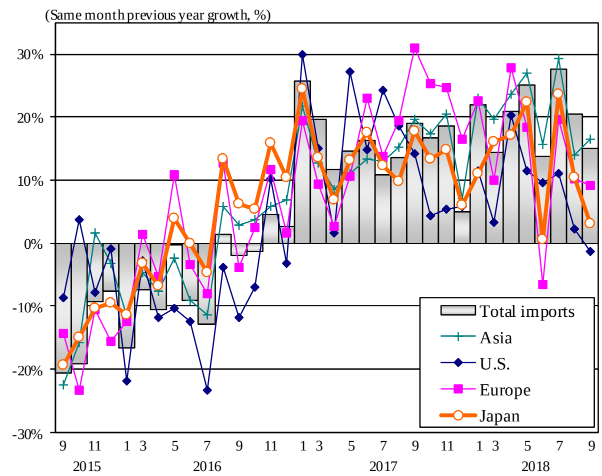
Note: The data from June 2011 to 2014 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

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

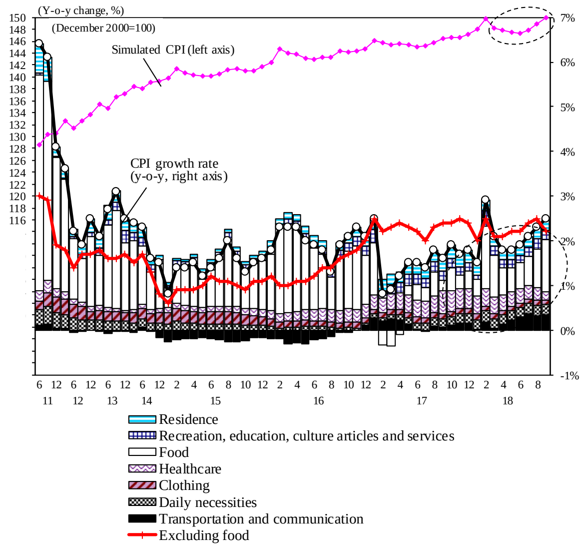


Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

・CPI growth accelerated while the PPI slowed

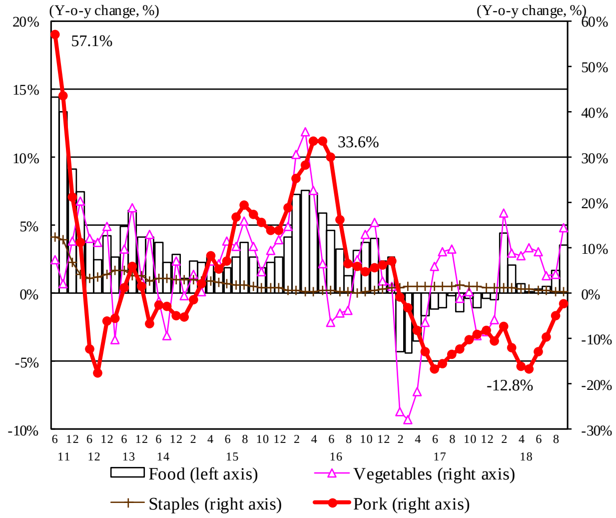
In September, CPI (Consumer Price Index) growth accelerated for the fourth straight month (since +1.9% in June) to hit +2.5%. However, this was below the government's target of +3.0%, as was the average figure for January–September (+2.1%) (Fig. 12). At +0.7% m-o-m, CPI growth moved flatly on a monthly basis (August: +0.7%). A breakdown of the CPI data shows food price inflation accelerating from +1.7% in August to +3.6% in September. The price of vegetables rose at a faster clip (from +4.3% in August to +4.6% in September), with pork price inflation also contracting at a slower pace (from -4.9% in August to -2.4% in September) (Figs. 15 and 16). The impact of the pork cycle[16] waned after a peak in May 2016, though it bounced back after bottoming out in June 2017. Pork output rose by +0.8% y-o-y to hit 53.40 million tons in 2017 and by a further +0.3% to hit 38.43 million tons in January–September 2018, with production growing again after two consecutive years of negative growth in 2015 and 2016. Recent pork prices have continued to slide on a y-o-y basis, though the scale of this contraction has shrunk for four straight months. At +2.2%, non-food prices grew at a slower pace in September (August: +2.5%).

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

In September, PPI (Producer Price Index) growth slowed for the third straight month (since +4.6% in July) to hit +3.6% (Fig. 12). According to the NBS[17], a y-o-y comparison for September showed prices rising at a slower pace when it came to sectors like nonmetallic mineral products (+8.1%), the manufacture and processing of ferrous metals (+7.2), the manufacture of chemical raw materials and chemical products (+7.0%), and the mining and washing of coal (+3.6%), with these four sectors shaving 0.32%Pt off the PPI growth rate. Prices rose at a faster pace when it came to the extraction of petroleum and natural gas (+41.2%), and the processing of petroleum, coking and other fuels (+24.1%), though inflation in the manufacture and processing of non-ferrous metals sector dipped into negative territories (-1.7%).

[16] 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.

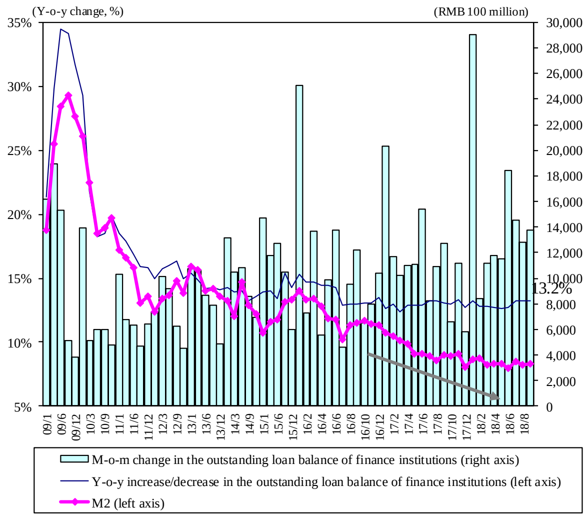
[17] National Bureau of Statistics of China on October 16, 2018 entitled, "国家统计局城市司高级统计师绳国庆解读 2018 年 9 月份 CPI 和 PPI 数据 (*NBS senior statistician Sheng Guoqing Deciphers the CPI and PPI Data for September 2018*)" http://www.stats.gov.cn/tjsj/sjjd/201810/t20181016_1627856.html

・New bank loans increased, while total social financing also grew

According to the PBOC, M2 money supply growth hit +8.3% in September, up slightly on August's figure of +8.2%. New bank loans increased by a net RMB 1,380 billion, up on August's figure of RMB 1,280 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 2,205.4 billion, up on August's figure of RMB 1,928.6 billion. A glance at the details reveals that: RMB loans, non-financial-institution equity issuances, and other items (deposit-taking financial institution ABS and loan repayments) grew at a faster pace; corporate bonds grew at a slower pace; banker's acceptances contracted at a slower pace; and foreign currency loans, entrusted loans, and trust loans contracted at a faster pace (Fig. 18).

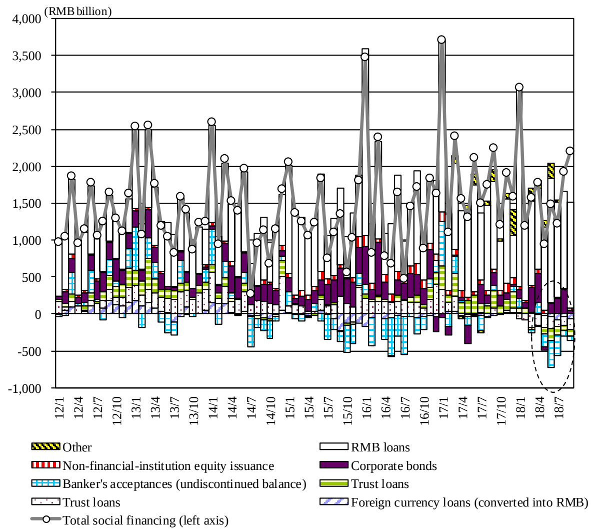
Foreign exchange reserves stood at $3,087.3 billion at the end of September, down $22.69 billion on the end of August (Fig. 19), with the figure shrinking on a monthly basis for the second straight month from August.

Fig. 17: Financial institution lending; the money supply



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: PBOC, CEIC

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



Source: PBOC, CEIC

Fig. 19: Foreign exchange reserves

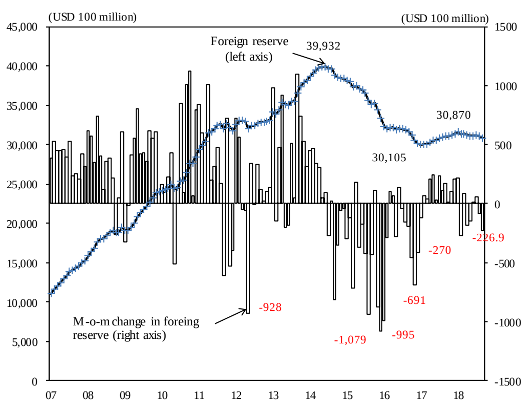
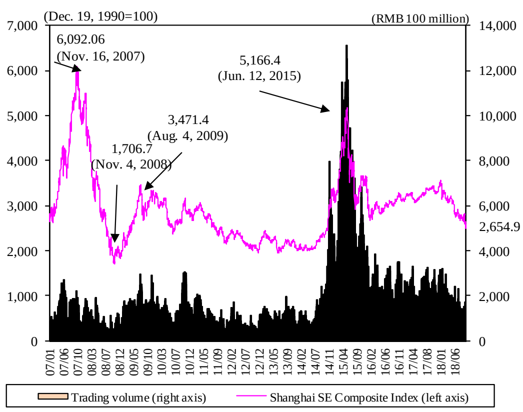


Fig. 20: Shanghai SE Composite Index and its trading volume



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

Source: CEIC

2. The policy response: The authorities are tweaking policy to tackle uncertainty

Though real GDP growth has slowed recently, it remains within the projected target of the authorities. The impact of supply-side structural reform is already starting to be felt, while the true impact of US/China trade frictions will not be felt for a while. The policy response and comments by high-ranking figures point to an awareness of the current situation and concerns about future uncertainty, with the authorities prepared to enact policies aimed at structural reform.

・The PBOC lowered the required reserve ratio, following on from similar moves in April and July

On October 7, the PBOC announced it was lowering the required reserve ratio by 1%Pt, effective from October 15. This followed on from similar moves in April and July. In a response to public questions published on its website[18], the PBOC said this measure would release RMB 750 billion to the markets. It said the move was a targeted response rather than an attempt at large-scale economic stimulus. It also denied that the measure represented a loosening of monetary policy, saying instead that it would improve liquidity and stabilize market interest rates. It added that the RMB would not face more depreciatory pressure as a result of the move.

In comments made at the G30 International Banking Symposium on October 14[19], PBOC Governor Yi Gang said policy remained prudent and neutral, with the PBOC neither loosening nor tightening policy. He acknowledged that the US/China trade frictions presented substantial downside risk to the economy, but he said the PBOC had room to pursue monetary policies (including interest rate and required reserve ratio policies) aimed at tackling the uncertainty caused by intensified trade frictions. He said the PBOC would "accelerate domestic reform and opening up, strengthen intellectual property protection, and consider treating state-owned enterprises (SOEs) in accordance with the principle of competitive neutrality." He added that the PBOC was strongly promoting the opening up of China's service sector, including its financial industry.

・Comments by high-ranking figures point to the marketization of the RMB's exchange rate

The RMB's exchange rate dropped to RMB 6.9 to the dollar entering October. In an article in the Economic Daily on October 8, Lui Shijin, a member of the PBOC's Monetary Policy Committee, acknowledged there were concerns about RMB depreciation and calls for the RMB to be protected at a certain level. In response, he said the important thing was a functional rate formation mechanism rather than the attainment of any specific level. He added that when the rate formation mechanism was working correctly, there would be no need to worry if the RMB did not hit a certain level[20]. In an article written for the China Securities Journal on October 9, Yu Yongding, former president

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[18] People's Bank of China, October 7, 2018: "中国人民银行决定下调部分金融机构存款准备金率置换中期借贷便利 (*The PBOC Decided to Lower the Required Deposit Reserve Ratio for Some Financial Institutions to Offset Maturing MLF Loans*)"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3639441/index.html
"中国人民银行有关负责人表示：再次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 (*PBOC Spokesperson: The PBOC Lowered the Required Deposit Reserve Ratio to Offset Maturing MLF Loans; the PBOC Continues to Pursue a Prudent and Neutral Monetary Policy*)"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3639444/index.html

[19] People's Bank of China, October 14, 2018: "易纲行长在 2018 年 G30 国际银行业研讨会的发言及答问 (*PBOC Governor Yi Gang Responds to Questions at the 2018 G30 International Banking Symposium*)"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3643836/index.html

[20] Economic Daily, October 8, 2018: "坚持人民币汇率市场化改革方向 (*The Authorities Must Steadfastly Pursue the Marketization of the RMB's Exchange Rate*)." Original text: 针对社会上对人民币贬值的担忧和守住某个"关口"的主张，我们认为，重要的不是具体"点位"，关键是汇率机制要正确。只要机制正确，不怕"点位"不回来.
http://finance.ce.cn/fe/gdxw/201810/08/t20181008_30451630.shtml

of the China Society of World Economics, spelled things out in more detail when he said China must be resolute when it comes to non-interference, even if the Chinese unit dropped to RMB 7 to the dollar.

・The heads of one bank and two commissions made comments aimed at bolstering stock markets

On October 18, the Shanghai SE Composite Index (Fig. 20) dropped to 2,486.42 points, its lowest level since November 21, 2014 (2,486.79 points). On the following day, the heads of the China Banking and Insurance Regulatory Commission (CBIRC), the China Securities Regulatory Commission (CSRC) and the PBOC (listed in the order they made announcements; collectively referred to as the 'one bank and two commissions') released comments aimed at bolstering stock markets[21]. To start with, CBIRC Chair Guo Shuqing said that the "relatively large and abnormal fluctuations on the financial markets in recent days…have been seriously out of line with the fundamentals of China's economic development and inconsistent with the overall stability in China's financial system." He added that the CBIRC was seeking opinions on plans to administer the wealth management subsidiaries of banks and he said the CBIRC would announce measures to strengthen investment by insurance funds in listed companies, for example. CSRC Chair Liu Shiyu said the CSRC would encourage various types of funds managed by local governments to help ease the pressure faced by some listed companies as a result of stock collateral problems. Finally, PBOC Governor Yi Gang said the recent abnormal stock fluctuations were due to investor sentiments. He also said the PBOC was examining measures to ease corporate financing difficulties, adding that the PBOC would utilize monetary tools to support an expansion of bank credit.

・Liu He, Vice-Premier of the State Council, spoke about the economic situation

In the afternoon of the same day, Vice-Premier Liu He (the person in charge of economic and monetary policy) spoke about stock markets to the People's Daily, Xinhuanet and CCTV. He commented that China was becoming the most valuable market for investment and that the bubble had already been greatly reduced, with market adjustment leading to investment opportunities. When asked his opinion about the economic and financial situation and changes to China's industrial structure, Mr. Liu said the Chinese economy had "generally maintained stable performance with an improving growth momentum," with major indicators like economic growth, employment, consumer prices, international balance of payments, enterprise profits, fiscal revenue and productivity all moving within a reasonable range. Commenting on the financial sector, he added that monetary policy remained prudent (neutral) and structural deleveraging was being steadily pushed forward, with blind expansion being contained and investment decisions becoming more rational. He also noted that risk has built up to historically high levels and that problems would inevitably come to the surface, though he said this was a necessary process that needed to be assessed rationally.

When it came to the changing economic situation, he said that authorities would meet any demands related to the

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China Securities Journal, October 9, 2018: "人民币何以贬值（*Why Has the RMB Depreciated?*)." Mr. Yu was formerly a member of the PBOC's Monetary Policy Committee
http://www.cs.com.cn/xwzx/jr/201810/t20181010_5879279.html

[21] Xinhuanet, October 19, 2018: "银保监会：推动金融市场回归到正常健康发展轨道 *CBIRC: Promoting Financial Market Normalization and a Return to Sound Development*)"
http://www.xinhuanet.com/fortune/2018-10/19/c_1123581764.htm
"证监会主席刘士余：以改革开放创新为主线来稳定和提振市场信心（*CSRC Chair Liu Shiyu: Stabilizing and Boosting Market Confidence Through Reform, Opening Up and Innovation*)"
http://www.xinhuanet.com/fortune/2018-10/19/c_1123581821.htm
"央行行长易纲：保持流动性合理稳定 促进市场健康平稳发展 *(PBOC Governor Yi Gang: Maintaining Rational and Stable Liquidity and Promoting Sound and Stable Market Development*)"
http://www.xinhuanet.com/fortune/2018-10/19/c_129975244.htm

"six stabilities[22]." He also said that China would strive to maintain steady economic growth while preventing financial risks and keeping the macro leverage ratio relatively stable, with the key to striking the right balance lying in a policy structure centered on supply-side structural reforms. He emphasized the effectiveness and importance of structural reform by insisting, for example, that the "the five priority tasks" policy[23] was finally starting to bear fruit, with price equilibrium returning to sectors with overcapacity issues (steel, coal, etc.). He explained that this would propel economic growth and promote a global economic recovery. He added that the priority for structural reform going forward would be: (1) supporting the development of private companies[24], (2) deepening SOE reform (boosting competitiveness through mixed-ownership structures) and (3) making the financial system more adaptive (building structures to give full play to the role of capital markets).

However, he struck an optimistic chord, predicting that China's healthy economic cycle would lead to: (1) the creation of demand in line with China's growing middle-income group; (2) the formation of demand in relation to China's aging population; (3) the emergence of a new round of sci-tech and industrial revolutions based on a combination of biotechnology and information technology; and (4) the generation of opportunities from green development.

Mihoko Hosokawa, Research Executive; Advisory Division, Mizuho Bank (China), Ltd.

[22] Refer to footnote 4. Stable "(1) employment, (2) finance, (3) foreign trade, (4) capital, (5) investment, and (6) expectations."
[23] The five tasks are: (1) cutting overcapacity, (2) reducing excess inventory, (3) deleveraging, (4) lowering costs, (5) strengthening areas of weakness
[24] Vice-Premier Liu He was also asked about private enterprise and the discussion about *guo jin min tui* ('the state advances, the private sector retreats'). In response, he pointed to data that showed private enterprise accounting for 50% of tax revenues, 60% of GDP, 70% of technological innovation, 80% of urban employment, 90% of new jobs, and 90% of all companies. He stressed the government's support for private enterprise and he said those who did not support private enterprises had problems in their political orientation that need to be corrected.。
China Net, October 19, 2018 *"中共中央政治局委员、国务院副总理刘鹤就当前经济金融热点问题接受采访 (Politburo Member and Vice-Premier of the State Council Liu He Speaks about Current Economic and Financial Problems)"*
http://www.gov.cn/guowuyuan/2018-10/19/content_5332515.htm