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—The macroeconomy—

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Summary

December's economic indicators generally slowed on the previous month. 2018's GDP data shows the contribution of consumption expanding markedly. Attention is focused on whether moves to expand domestic demand can boost "the most promising consumer market in the world" (the director of the NBS). The 2019 PBOC and China Banking and Insurance Regulatory Commission working conferences also focused on 'supporting the real economy' as well as 'preventing/eliminating financial risk.'

1. Economic indicators generally slowed on the previous month in December

- **The government hit its GDP target for 2018, though on a quarterly basis growth slipped to its lowest level since January–March 2009**
- **Production, investment and consumption all moved weakly**
- **The sales prices of residential buildings rose at a faster pace in first-tier, second-tier and third-tier cities**
- **Exports and imports continued to slow**
- **CPI and PPI growth slowed**
- **New bank loans grew at a slower pace, though total social financing also grew at a faster clip**

2. The policy response: The financial authorities are focusing on 'helping the real economy' as well as 'preventing risk'

- **Maintaining growth by boosting domestic demand while pursuing supply-side structural reform**
- **The employment situation is stable, but middle-earner consumer sentiments made need a boost**
- **The financial authorities focused on 'the prevention/elimination of financial risk' up until 2018; from here on they will also focus on 'supporting the real economy'**

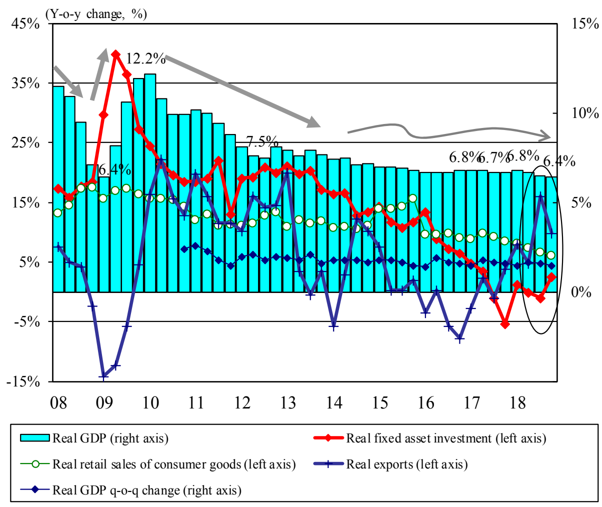
1. Economic indicators generally slowed on the previous month in December

・The government hit its GDP target for 2018, though on a quarterly basis growth slipped to its lowest level since January–March 2009

On January 21, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate in 2018 was up +6.6% y-o-y, down on 2017's result of +6.8% y-o-y[1]. In October–December, real GDP growth stood at +6.4% on the same period last year (from here on, the figures refer to 'same-period previous-year comparison' unless otherwise specified)[2] and +1.5% on the previous quarter (Fig. 1). The 6.6% figure for 2018 marked the lowest annual growth in 28 years (since the +3.9% recorded in 1990), while the October-December figure also marked the lowest quarterly growth since January–March 2009 (+6.4%).

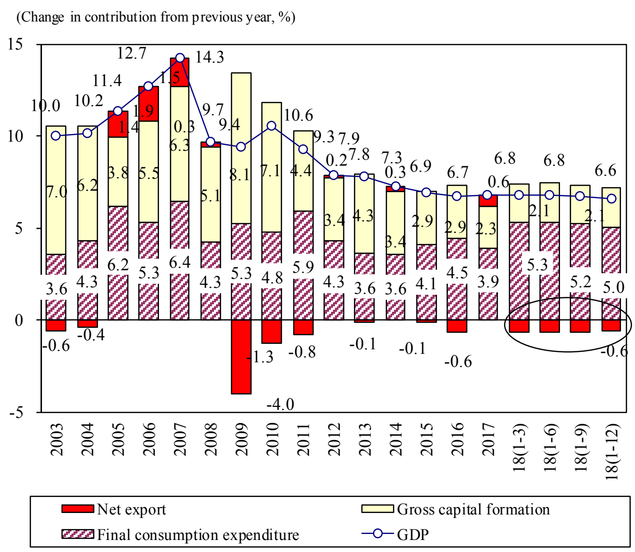
A glance at contribution levels by demand item over 2018 shows the contribution of gross capital formation hitting +2.1%Pt, down on 2017's figure of +2.3%Pt, though the contribution of final consumption expenditure grew from +3.9% in 2017 to 5.0%. The contribution of net exports slipped into negative territories at -0.6%Pt, down from 2017's figure of +0.3%Pt (Fig. 2).

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

A breakdown by sector shows the tertiary industry growing by +7.6% over 2018. This remained above the figure for the secondary industry, though it was down on 2017's +7.9%. At +5.8%, growth in the secondary industry was down slightly on 2017's figure of +5.9% (Fig. 3).

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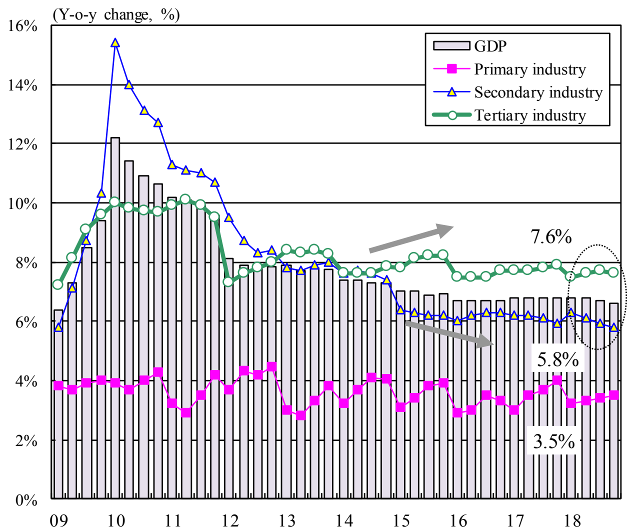
[1] National Bureau of Statistics of China, January 19, 2019, "国家统计局关于 2017 年国内生产总值（GDP）最终核实的公告" The figure was downgraded by 0.1%Pt from the preliminary figure of +6.9%.
http://www.stats.gov.cn/tjsj/zxfb/201901/t20190118_1645555.html

[2] National Bureau of Statistics of China, January 21, 2019, "2018 年经济运行保持在合理区间 发展的主要预期目标较好完成（*Growth Remained at a Rational Level in 2018, With Key Projected Targets Moving Comparatively Well*)"
http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574917.html

A glance at the composition of nominal GDP shows the tertiary industry's share rising slightly from 51.9% in 2017 to 52.2% in 2018, with the secondary industry's share also rising slightly from 40.5% in 2017 to 40.7% (Fig. 4).

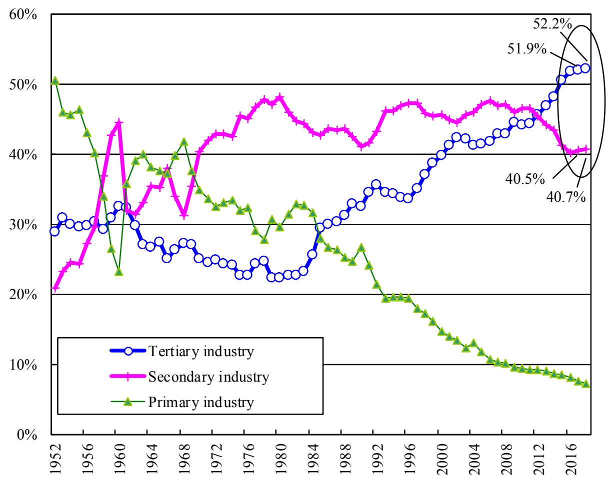
Fig. 3: GDP by sector



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 2018.

Source: National Bureau of Statistics of China, CEIC

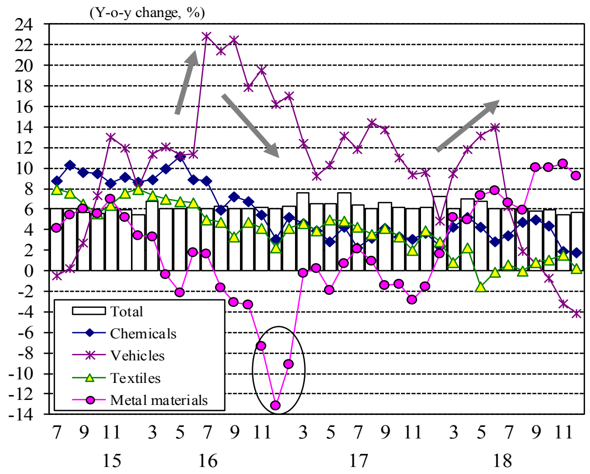
・Production, investment and consumption all moved weakly

December's economic indicators generally slowed on the previous month. At +5.7% on the same month last year (from here on, the figures refer to 'same-month previous-year comparison' unless otherwise specified), value-added industrial production in December was up on November's +5.4% (the m-o-m figure was +0.5%) (Fig. 5). Automobile production dipped by -4.1% in December, with growth for 2018 standing at just +4.9%.

At +5.9%[3], nominal fixed asset investment in December was down on November's +7.7%, with the cumulative figure for January–December unchanged on the cumulative figure for January–November at +5.9% (the m-o-m figure was +0.4%) (Fig. 6).

[3] Calculated by the author from the cumulative data.

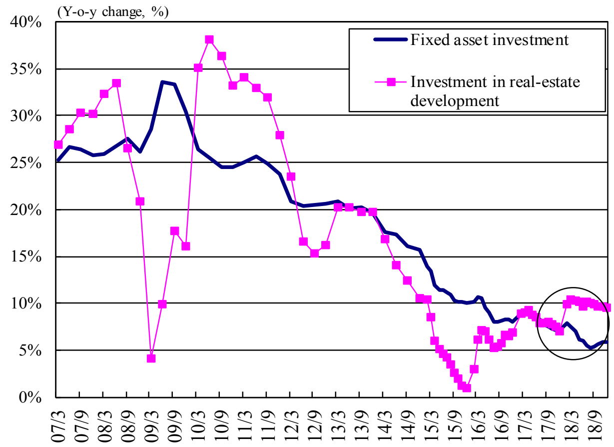
Fig. 5: Value-added industrial production



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. 6: Fixed asset investment



Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question. The figures were calculated at the end of March, June, September and December up until the end of 2014 and then on a montly basis from 2015.

Source: National Bureau of Statistics of China, CEIC

Nominal retail sales of consumer goods grew by +8.2% in December, slightly up on November's +8.1 (the m-o-m figure was +0.6%). The cumulative figure for January–December stood at 9.0%, with the real figure (discounting inflationary factors) hitting +6.9% (Fig. 7). Internet retail sales of goods and services hit RMB 9,006.5 billion in January–December (goods: RMB 7,019.8 billion; services: RMB 1,986.7 billion), with net shopping growing by +23.9% to account for 23.6% of total retail sales of consumer goods (RMB 38,098.7 billion)[4].

Sales of new vehicles hit 2.6615 million in December (-13.0%), with the figure sliding for the sixth straight month, dating back to July (Fig. 8). Sales had trended upward until 2017 (28.941 million and +3.6%), but in 2018 they hit 28.0398 million (-3.1%) to record the first y-o-y decline since 1990[5]. The slowdown was probably because the tax break on purchases of small passenger vehicles (instituted in October 2015)[6] was abolished at the end of 2017, with consumer sentiments also hit by US/China trade frictions. The China Association of Automobile Manufacturers (an industry body) expects sales in 2019 to hit 28.10 million, roughly the same as in 2018 (23.70 million passenger vehicles and 4.40 million commercial vehicles).

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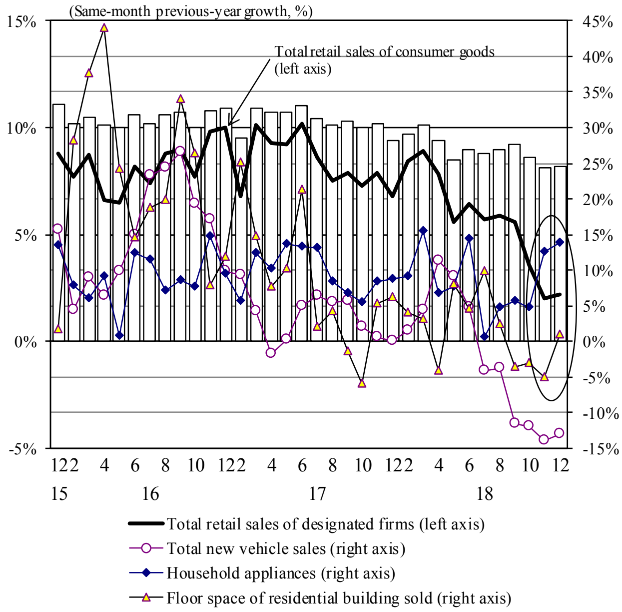
[4] National Bureau of Statistics of China, January 21, 2019, "2018 年 1-12 月份社会消费品零售总额增长 9.0%" Net shopping's share of total retail sales of consumer goods rose from 12.9% in 2015 to 15.5% in 2016 and 19.6% in 2017.
http://www.stats.gov.cn/tjsj/zxfb/201901/t20190121_1645784.html

[5] Economic Daily, January 15, 2019, "连续 10 年产销量世界第一，2018 年增速低于预期—— 如何看待汽车销量首现负增长 (*China Remained World Number One for Automobile Production and Sales for the 10th Straight Year; Growth Dipped Below Forecasts in 2018, With Sales Recording Negative Growth for the First Time.*)"
http://paper.ce.cn/jjrb/html/2019-01/15/content_381750.htm

[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

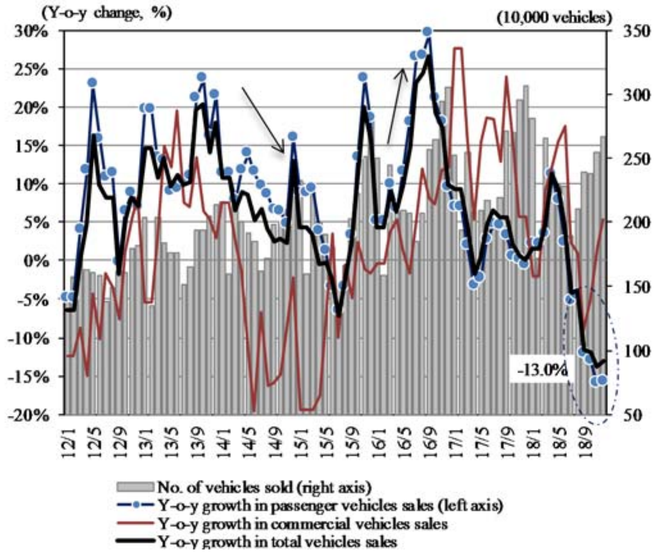
Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold



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 firms; 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 first-tier, second-tier and third-tier cities

The floor space of residential buildings sold grew by +1.3% (1716.54 million m^2) in 2018. This was down on 2016's figure of +22.5%, 2017's figure of +7.7%, and January–November's figure of +1.4%.

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[7] in March 2016 subsequently spread to other cities with surging house prices[8], with the restrictions being tightened further thereafter[9].

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[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.

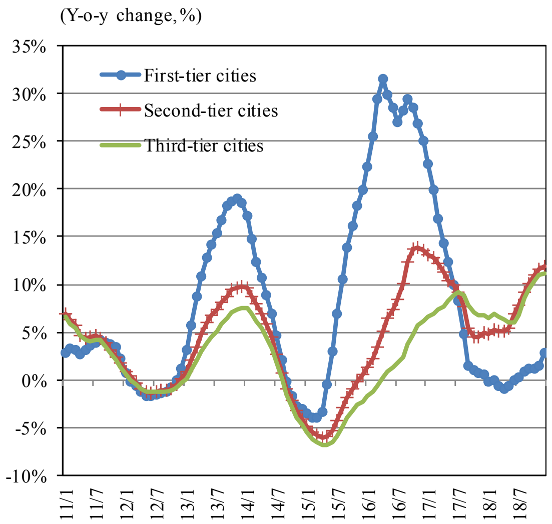
[8] People's Daily on October 11, 2016 entitled "限购、限贷，近期已有 20 城市推出新举措 楼市调控 因城施策 (*Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city*)", restrictions on housing purchases were introduced in 20 cities at the time the 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 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
According to an article in 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.
http://www.financialnews.com.cn/cj/fdc/201806/t20180613_140111.html
An article in the Economic Daily on December 25, 2018 entitled "因城施策也要坚持 [房住不炒] (*Regional Policies Also Emphasize that 'Real Estate is for Habitation, not Speculation'*)" insisted that the 'Real Estate is for Habitation, not Speculation' policy would be maintained for a prolonged period.

In December, 69 cities saw the price of new homes rising on the previous year, up from 68 cities in November. Prices grew at a faster pace in first-tier cities (from +1.5% in November to +2.8%), second-tier cities (from +11.6% to +11.9%) and third-tier cities (from +11.0% to +11.2%) , with all three tiers seeing faster growth for the sixth straight month(Fig. 9)[10].

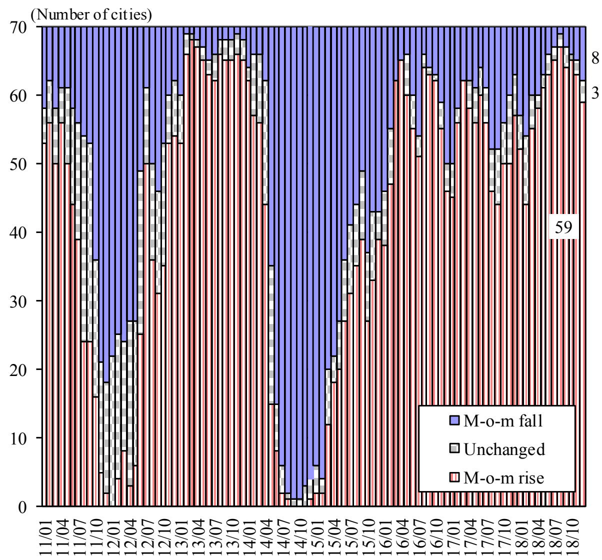
On a monthly basis, 59 of the 70 main cities surveyed saw the price of new homes rising, down from 63 in November. Three cities saw prices moving flatly on the previous month (up from two in November), while eight cities saw prices falling on the previous month (up from five in November) (Fig. 10)[11].

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

・Exports and imports continued to slow

Exports fell by -4.4% in December ($221.25 billion), while imports also contracted by -7.6% ($164.19 billion), with China posting a trade surplus of +$57.06 billion (Fig. 11). In 2018, exports and imports hit $2,487.40 billion and $2,135.64 billion respectively, with the trade surplus standing at $351.76 billion. The total trade amount hit $4,623.04 billion, or RMB 30.5 trillion. This marked the first time the amount had topped RMB 30 trillion. Gao Feng, a spokesman for China's Ministry of Commerce, explained that the December slump was due to (1) falling

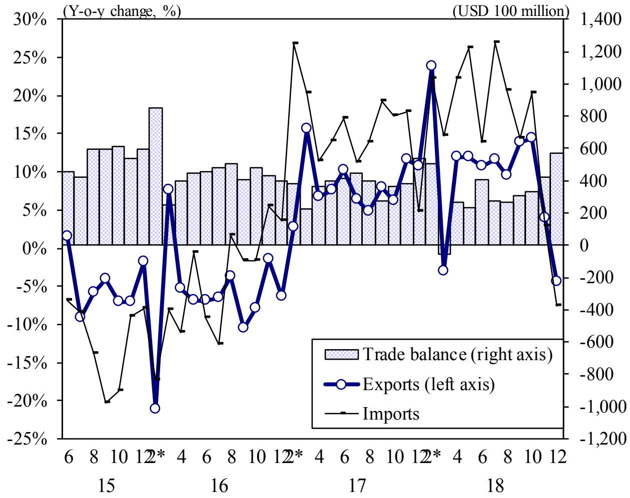
http://finance.people.com.cn/n1/2018/1225/c1004-30485534.html

[10] Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Sanya +32.2%; Chengdu +30.9%, Xian +22.4% (as of December 2018).

[11] National Bureau of Statistics of China, January 16, 2019, "2018 年 12 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 December 2018*)"
http://www.stats.gov.cn/tjsj/zxfb/201901/t20190116_1645126.html
From January 2018, the data no longer includes the sales price of affordable housing.

international commodity prices, (2) the high base number in the same month last year, and (3) the waning impact of the surge in demand for exports[12].

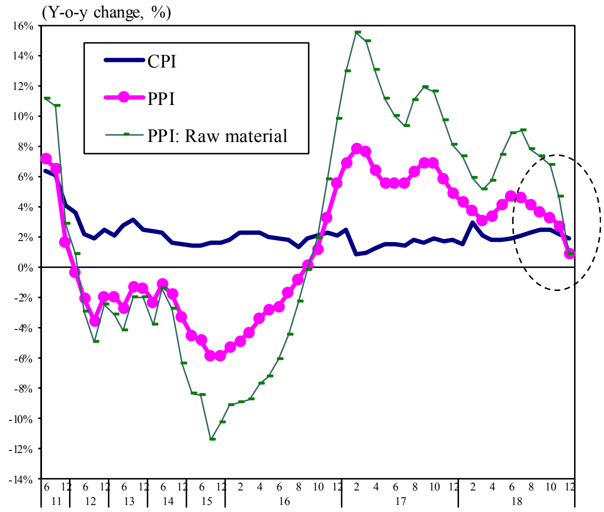
Fig. 11: Imports/exports; trade balance



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

Source: China Customs Statistics

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

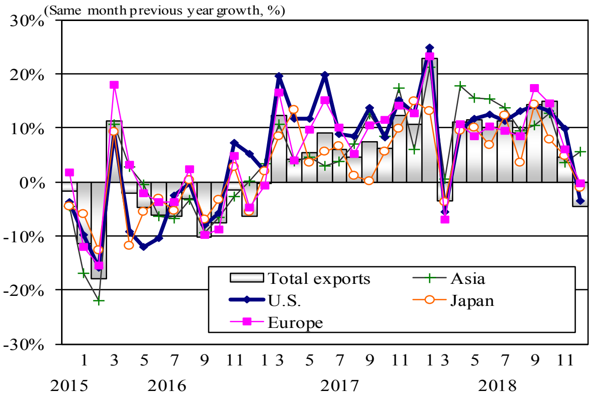
Exports to the US began to slow, while imports from the US also slowed sharply (Figs. 13 and 14). This was probably due to: a drop-back from a surge in exports to the US as people sought to evade the impact of US/China trade frictions[13]; and moves by Chinese firms to delaying imports until after the government lowers tariffs as part of its market liberalization policy[14].

[12] The Ministry of Commerce, January 17, 2019 "商务部召开例行新闻发布会 (*The Ministry of Commerce Holds its Regular Press Conference*)" http://www.mofcom.gov.cn/xwfbh//20190117.shtml

[13] 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

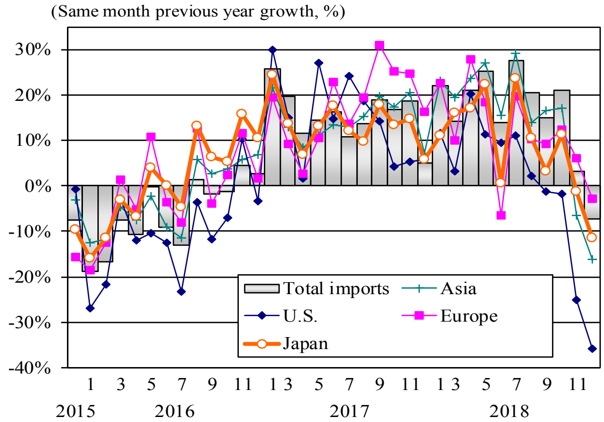
[14] On November 1, China cut average tariffs on 1,585 import items (including pharmaceuticals, automobiles, daily goods and industrial products) by 26%, from 10.5% to 7.8%. People's Daily, October 2, 2018: "国务院关税税则委员会办公室有关负责人就自主降低关税总水平答记者问 增加有效供给 助力产业升级 (*A Spokesperson from the State Council's Customs Tariff Commission Responds to a Journalist Question about the Independent Tariff Reduction by Claiming it will Boost Effective Supply and Support Industrial Sophistication*)"
China Net, December 24, 2018, "2019 年 1 月 1 日起我国调整部分进出口关税 *(Some Import and Export Tariffs Are Adjusted from January 1, 2019)*" The Ministry of Finance announced it would be lowering import tariffs on over 700 items from January 1, 2019. These include meal (including sunflowers and rapeseed), some pharmaceutical raw materials, aircraft generators, and welding robots. This was the third such announcement in 2018.
http://www.gov.cn/xinwen/2018-10/02/content_5327527.htm
http://www.gov.cn/xinwen/2018-12/24/content_5351531.htm

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

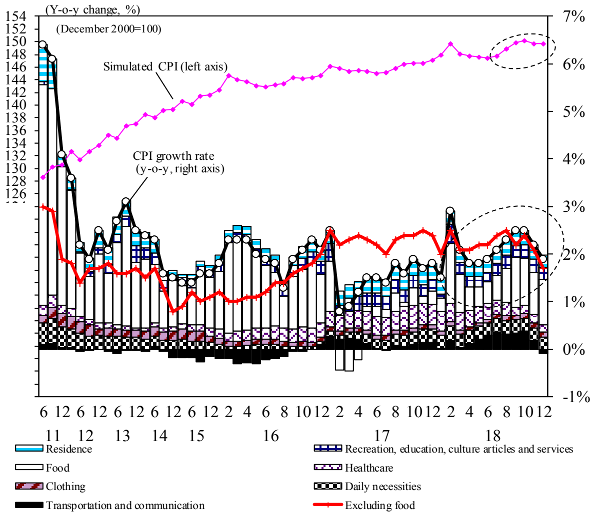
・CPI and PPI growth slowed

In December, CPI (Consumer Price Index) growth slowed to +1.9% (November: +2.2%). This was below the government's target of +3.0%, as was the average figure for January– December (+2.1%) (Fig. 12). At +0.0% m-o-m, CPI growth recovered on a monthly basis (November: -0.3%). A breakdown of the CPI data shows food price inflation unchanged on November at +2.5%. The price of vegetables rose at a faster clip (from +1.5% in November to +4.2% in December), but pork price inflation contracted at a faster pace (from -1.1% in November to -1.5% in December) (Figs. 15 and 16). The impact of the pork cycle[15] waned after a peak in May 2016, though it bounced back after bottoming out in June 2017. Pork output rose by +0.5% to hit 54.52 million tons in 2017, with production growing again after two consecutive years of negative growth in 2015 and 2016. Pork prices then fell by -0.9% to hit 54.04 million tons in 2018, with recent prices continuing to slide on a y-o-y basis. At +1.7%, non-food prices grew at a slower pace in December (November: +2.1%).

In December, PPI (Producer Price Index) growth slowed for the sixth straight month (since +4.6% in July) to hit +0.9%. This marked the slowest pace of growth since October 2016 (Fig. 12). According to the NBS[16], a y-o-y comparison for December showed prices rising at a slower pace when it came to sectors like extraction of petroleum and natural gas (+4.5%), the processing of petroleum, coking and other fuels (+5.7%), the manufacture of chemical raw materials and chemical products (+0.5%), and non-metallic mineral products (+5.3%), while the manufacture and processing of ferrous metals sector slipped into negative growth (-2.7%), with these five sectors shaving around 1.71%Pt off the PPI growth rate.

[15] 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.
[16] National Bureau of Statistics of China, January 10, 2019, "国家统计局城市司高级统计师绳国庆解读 2018 年 12 月份 CPI 和 PPI 数据 (*NBS Senior Statistician Sheng Guoqing Deciphers the CPI and PPI Data for December 2018*)" http://www.stats.gov.cn/tjsj/sjjd/201901/t20190110_1644227.html

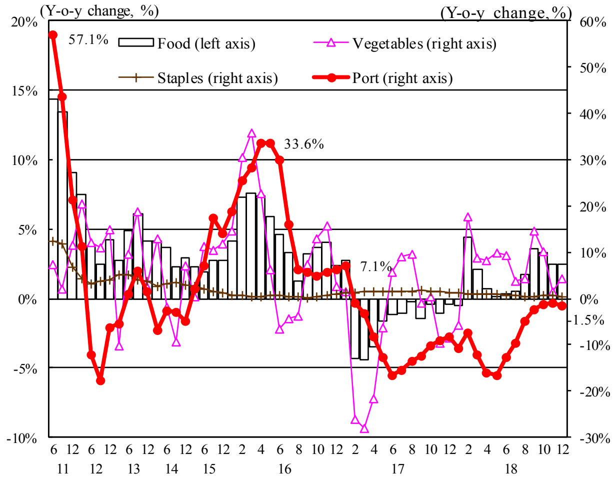
Fig. 15: CPI; Growth contribution by item



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 2015 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 June 2011 to 2015 only shows the quarterly (March, June, September and December) figures.

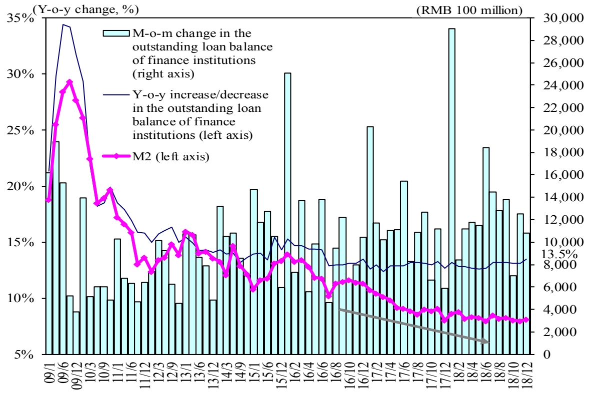
Source: National Bureau of Statistics of China, CEIC

・New bank loans grew at a slower pace, though total social financing also grew at a faster clip

According to the PBOC, M2 money supply growth hit +8.1% in December, up slightly on November's figure of +8.0%. New bank loans increased by a net RMB 1,080 billion in December, down on November's figure of RMB 1,250 billion (Fig. 17). However, total social financing, which includes funds procured from non-bank sources, increased by a net RMB 1,589.8 billion, up on November's figure of RMB 1,523.9 billion.

A glance at the details reveals that: corporate bonds and other items (deposit-taking financial institution ABS and loan repayments) grew at a faster pace; banker's acceptances and local government revenue bonds began growing again; RMB loans and non-financial-institution equity issuances grew at a slower pace; foreign currency loans contracted at a slower pace; and entrusted loans, and trust loans contracted at a faster pace (Fig. 18).

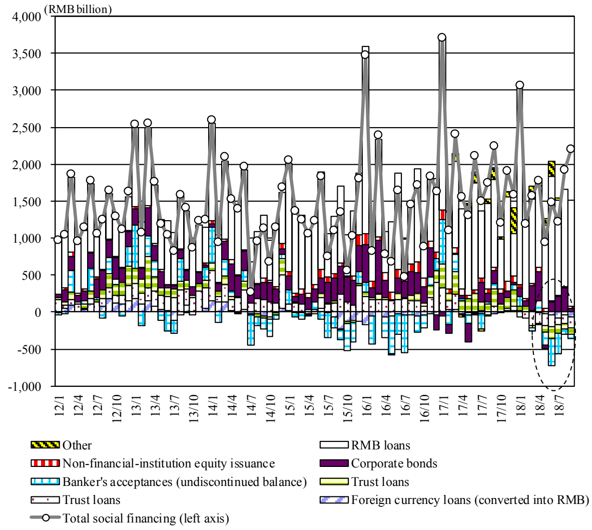
Fig. 17: Financial institution lending; the money supply



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

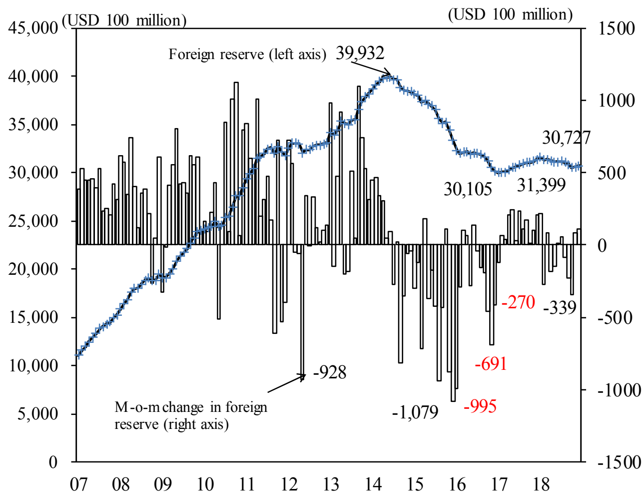
Fig. 18: Total social financing (net increase and decrease)



Source: PBOC, CEIC

Foreign exchange reserves stood at $3,072.71 billion at the end of December. This was down $67.24 billion on the end of 2017, though it was up $11.01 billion on the previous month (Fig. 19). The State Administration for Foreign Exchange (SAFE) said this rise was primarily due to the strength of other currencies against the dollar at the end of 2018, for example, and the rising price of major-country bonds (that China's foreign exchange reserves are invested in)[17].

Fig. 19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 and 2017, and the latest monthly figure.

Source: People's Bank of China, CEIC

[17] The State Administration of Foreign Exchange, January 7, 2019, "国家外汇管理局新闻发言人、总经济师王春英就 2018 年 12 月份外汇储备规模变动情况答记者问 *(SAFE Spokesperson and Chief Economist Wang Chunying Answers Media Questions on Foreign Exchange Reserves for December 2018)*"
http://www.safe.gov.cn/safe/2019/0107/11135.html

2. The policy response: The financial authorities are focusing on 'helping the real economy' as well as 'preventing risk'

・Maintaining growth by boosting domestic demand while pursuing supply-side structural reform

It is easy to blame the recent economic slump on US/China trade frictions. However, it is also due to supply-side structural reforms implemented since 2016 (moves to eliminate overcapacity and prevent/eliminate financial risk) and measures aimed at hitting 2020 targets[18] (productions curbs and the closing of factories as a result of anti-pollution measures). As such, the authorities have already factored in an economic slowdown. Of course, US/China trade frictions have pushed growth down to a certain extent. In particular, the +6.4% growth figure recorded in October–December 2018 seems to be a backlash to the pre-emptive rush of exports to the US over July–September.

The authorities have indicated that 'supply-side structural reform will be the main task' for 2019 (the Central Economic Work Conference of December 2018[19]), so it seems likely growth will remain subdued or continue to slow. However, with external demand also facing more downward pressure, the authorities are doubling down on the idea of bolstering growth through an expansion of domestic demand. The government has revised the Individual Income Tax Law and it is planning to introduce measures to encourage more purchases of household appliances and automobiles[20]. It remains to be seen whether these and other policies can succeed in boosting "the most promising consumer market in the world" (Ning Jizhe, the director of the National Bureau of Statistics[21]). The December Central Economic Work Conference also voiced strong concerns about a bubble, insisting, for example, that "homes are for habitation, not investment.[22]" As such, it seems unlikely that the central government will relax restrictions on housing purchases.

If moves to boost consumer spending prove inadequate, the government could try to boost growth through increased infrastructure investment in order to "approach the 70th anniversary of the founding of the new China by achieving excellent results in the area of economic and social development (the Central Economic Work Conference[23])". Given the regional debt problem, though, any measures are likely to be restrained in size.

・The employment situation is stable, but middle-earner consumer sentiments made need a boost

The employment situation will be vital when it comes to expanding domestic demand through consumer spending and so on. The registered urban unemployment rate improved from 4.02% in 2016 to 3.90% in 2017 and 3.80% in

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[18] The 13th Five Year Plan (2016–2020) set down numerous targets for reducing air and water pollution.

[19] China Net, December 21, 2018, "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/2018-12/21/content_5350934.htm

[20] People's Daily and Economic Daily, January 9, 2019 "发挥好宏观政策逆周期调节作用 确保经济运行在合理区间——专访国家发改委副主任宁吉喆 (*An Interview with Ning Jizhe, Vice-chairman of the NDRC: Utilizing Macroeconomic Counter-cyclical Adjustments to Ensure Economic Performance Moves at a Rational Level*)"
http://finance.people.com.cn/n1/2019/0109/c1004-30511436.html
Ning Jizhe said the government would implement policies aimed at stabilizing the consumption of products with a significant economic impact, such as automobiles and household appliances. The government is also planning to invest in areas such as rental housing, housekeeping services, nursing and childcare, for example, while also investing in the creation of markets for rural areas (internet sales and tourism). He also said moves were underway to ease regulations related to culture and sport. Ning Jizhe also serves as director of the NBS.

[21] At a press conference on January 21, the director of the NBS stated that in 2017 China had a middle-income group of around 140 million households (equating to around 400 million people) with an annual income of RMB 100,000 to 500,000 yuan who could afford cars, housing, tourism and entertainment. National Bureau of Statistics of China, January 21, 2019, "国家统计局局长就 2018 年国民经济运行情况答记者问 (*The Director of the NBS Answers Media Questions on China's Economic Performance in 2018)*"
http://www.stats.gov.cn/tjsj/sjjd/201901/t20190121_1645944.html

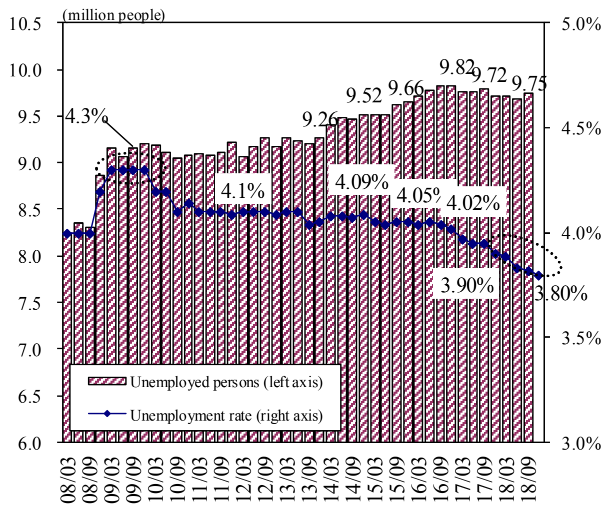
[22] This was the first time this phrase had been mentioned at the Central Economic Work Conference since the meeting in 2016.

[23] Same as footnote 19

2018, with the jobs-to-applicants ratio also hitting 1.27 at the end of 2018, the strongest result since records began (Figs. 20, 21). The reason the employment situation remains tight amid slowing GDP is because of the shrinking working-age population[24]. Of course, the recent slowdown is expected to lead to a deteriorating employment environment[25]. Given China's demographic situation, though, if anyone does lose their job, they will probably be able to find a new one, so things seem different now compared at the time of the 2008 financial crisis.

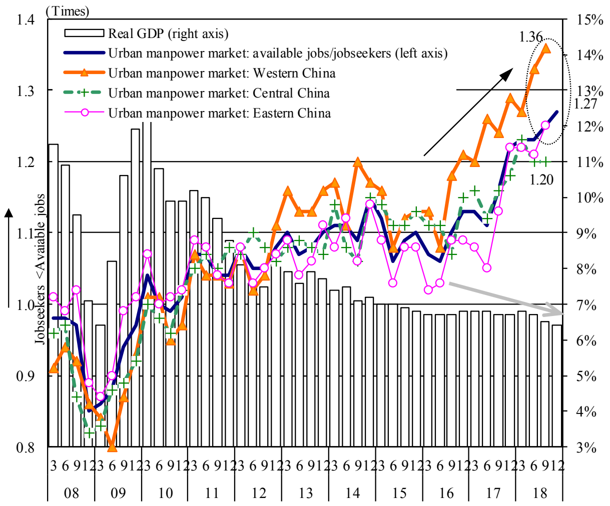
However, the disposable income of China's middle-income group has noticeably grown at a slower pace in recent years. China has five income groupings. Compared to high-earners (a group impacted strongly by the wealth effect) and low-earners (a group benefitting from anti-poverty measures), the three middle groupings (lower-middle, middle, and upper-middle) have seen low income growth, with growth down on the previous year for four years in a row (Fig. 22). The government has already announced reforms to individual income tax from 2018, but it probably need to implement other measures to boost the consumer sentiments of middle earners (such as improving the social safety net).

Fig.20: Registered urban unemployment rate



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

Fig. 21: The jobs-to-applicants ratio and real GDP growth rate

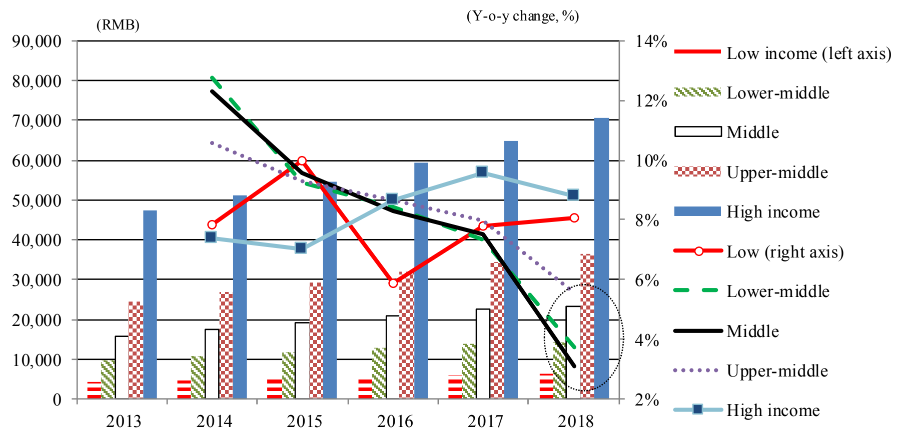


Source: Ministry of Human Resources and Social Security, National Bureau of Statistics of China, CEIC

24 According to the NBS (same as footnote 2), the working-age population stood at 897.29 million at the end of 2018 to slide for the 7th straight year (a total decrease of 43.15 million dating back to 2012).

25 The surveyed unemployment rate (an indicator that more-closely reflects the real situation) hit 4.9% in December, up slightly on November's 4.8%. This marks a slide on the 5.0% figure recorded at the end of 2017.

Fig. 22: Disposable income by income group



Source: National Bureau of Statistics of China, CEIC

・The financial authorities focused on 'the prevention/elimination of financial risk' up until 2018; from here on they will also focus on 'supporting the real economy'

The meetings of the PBOC and the China Banking and Insurance Regulatory Commission provided a glimpse of policy measures in 2019. Based on policies set down by the December Central Economic Work Conference[26], it seems the authorities will focus on 'supporting the real economy' while still prioritizing supply-side structural reforms and the prevention/elimination of financial risk.

The PBOC work conference (held over January 3–4) adopted nine items as major tasks for 2019 (see Fig. 23)[27]. The PBOC will move to prevent/eliminate financial risk by: keeping the macro leverage rate stable; working on the roll-out of regulations on financial holding firms; addressing shadow banking risks; and regulating the internet finance sector. It will also: play a role in deposit insurance; establish mechanisms for monitoring, assessing and dealing with financial risk; and offer more support to private enterprises and micro enterprises. When it came to the reform of financial markets and financial institutions, the meeting also mentioned upgrading bond markets.

Fig 23: The PBOC's major tasks for 2019 (the 2019 PBOC work conference)

(1) Pursue a prudent (neutral) monetary policy that adjusts easing and tightening in an appropriate manner; strengthen counter-cyclical adjustments; maintain a rational surplus of liquidity; and maintain market interest rates at a rational level
(2) Implement various financial policy measures to support the real economy ・Offer more support to private enterprises and micro enterprises; promote marketization and rule-of-law principles when it comes to bonds, equities and lending. ✓ Encourage regional governments to establish finance funds for private enterprises ・ Strengthen support for hi-tech/newly-emerging industries and areas of abject poverty ・ Promote financial services to deepen the reform and opening-up of Xiongan New Area
(3) Prevent/eliminate financial risk in priority areas ・ Continue to pursue major risk prevention/elimination plans ・ Stabilize the macro leverage rate

[26] See *Mizuho China Business Express Economic Journal, No.85*.
https://www.mizuhobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0085-XF-0105.pdf
[27] People's Bank of China, January 6, 2019, "2019 年中国人民银行工作会议在京召开 (The 2019 People's Bank of China Work Conference Meets in Beijing)"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3738117/index.html

・	Work on the roll-out of regulations on financial holding firms
・	Swiftly tackle inadequacies in financial supervision and regulation; eliminate shadow banking risk in an orderly manner
・	Continue to eliminate internet finance risk
・	Play a full role in deposit insurance; establish mechanisms for monitoring, assessing and dealing with financial risk
(4) Steadily promote the internationalization of the RMB	
(5) Comprehensively promote foreign currency management/services	
・	Support leading trials of free-trade zones/ports; promote trials to make capital account payments more convenient
(6) Participate in the strengthening of international financial and economic governance	
(7) Accelerate the reform of financial markets and institutions	
・	Strengthen the unified supervision and control or financial infrastructure; enforce laws in a unified manner in bond markets
・	Update the credit-rating system for bond markets.
・	Upgrade the mechanisms for dealing with breaches of contract in bond markets; handle defaults in a law-based manner
・	Promote the issuance of bonds in China by foreign entities; encourage foreign investment in China's bond markets
・	Continue to implement reform plans for development financial institutions and policy banks; further support state strategy
・	Deepen rural financial institution reform and provide ongoing, detailed support to the regions; improve support to micro enterprises and private companies and three agriculture *
(8) Comprehensively raise the level of financial services control	
(9) Continue to strengthen internal controls	

Note: * Agriculture sector, rural areas and farmers
Source: People's Bank of China, January 4, 2019: "2019 年中国人民银行工作会议在京召开" http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3738117/index.html

Documents released after the China Banking and Insurance Regulatory Commission work conference[28] also touch on preventing or eliminating risks (eradicating shadow banking risk, handling high-risk financial institutions, cracking down on illegal financial activities, and eliminating risk related to the internet finance sector and internet lending, for example).

However, the documents also talk about actively supporting China's major strategies by effectively boosting funding and financing, for instance. They also discuss: ongoing measures to support inclusive financing, anti-poverty programs and anti-pollution measures; substantial support for private companies and micro enterprises; and the maintenance of fundraising costs at a rational level based on an increase in funding (Fig. 24).

Fig 24: China Banking and Insurance Regulatory Commission work focuses for 2019

(China Banking and Insurance Regulatory Commission work conference)

○ Control financial market instability	
・	Clamp down further on illegal or irregular management practices; eliminate shadow banking risk in an orderly manner; deal with high-risk financial institutions in a legal manner; crack down harshly on illegal financial activity; eliminate risk related to the internet finance sector and internet lending
○ Remedy short-term and long-term deficiencies in supervision and control in a superficial and in-depth manner	
○ Expand financial reforms	
・	Improve corporate governance; develop direct finance; promote market-based mergers and restructuring; further open up the banking insurance business
○ Reform and improve ordnance related to supervision and control	
・	Raise supervision and control capabilities and efficiency
○ Prevent systemic risk and support the real economy in a closely integrated manner	
・	Make preventing systemic risk an important component when ensuring the ongoing healthy development of the real economy

[28] China Banking Regulatory Commission, January 16, 2019: "中国银保监会召开 2019 年银行业和保险业监督管理工作会议（*The China Banking and Insurance Regulatory Commission Convenes the China Banking and Insurance Regulatory Commission Work Conference*)" http://www.cbrc.gov.cn/chinese/newShouDoc/3BC40C38655B4C0297EC589AE4C1CBF1.html

- Prevent/eliminate various management risks; maintain stable financial markets by preventing localized risks from spreading wider; promote the construction of long-term, effective real-estate mechanisms; promote international balance of payment equilibrium
- Support supply-side structural reform; steadily pursue structural deleveraging; balance risk prevention, stable growth and structural adjustment in an appropriate manner
- Actively support China's major strategies by effectively boosting funding and financing in an effective manner; support measures to steadily promote inclusive finance *, anti-poverty programs and anti-pollution measures.
- Provide substantial support for private companies and micro enterprises; maintain fundraising costs at a rational level based on an increase in funding
- Improve the efficiency of finance services through a variety of means (delving into the internal structure of various institutions and promoting the adoption of new technologies, for example)

Note: Inclusive finance refers to financial structures that provide services to all layers of society in an effective and comprehensive manner.
Source: China Banking and Insurance Regulatory Commission, January 16, 2019, "中国银保监会召开 2019 年银行业和保险业监督管理工作会议"
http://www.cbrc.gov.cn/chinese/newShouDoc/3BC40C38655B4C0297EC589AE4C1CBF1.html

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