

—The macroeconomy—**Summary**

Real GDP growth hit +12.7% over January–June, with average two-year growth of +5.3%. The figure for April–June was +7.9%, with the two-year average standing at 5.5%. June saw some economic indicators rising and some falling compared to May. “The recovery remained uncertain, unstable and unbalanced. There are still problems regarding the production management in some industries and medium-sized, small and micro enterprises, with the recovery relatively slow when it comes to the consumption of lifestyle services including tourism and lodging” (NDRC).

1. Some of June’s economic indicators were up and some were down on May

- Q2 real GDP growth hit +7.9%, with average two-year growth standing at +5.5%; consumption was a driver, though it also recorded the largest q-o-q decline in contribution levels
- Production, investment and consumption all slowed
- Sales prices of residential buildings grew at a slightly slower pace in first, second and third-tier cities
- Exports accelerated but imports slowed
- The CPI and PPI data slowed
- New bank loans increases and the total social financing amount also grew

2. The policy response: The lowering of the reserve requirement ratio and the direction of the 14th Five-Year Plan for Commerce Development

- The PBC lowered the reserve requirement ratio for the first time since April 2020
- The 14th Five-Year Plan for Commerce Development sets a target for average consumption growth of +5.0%

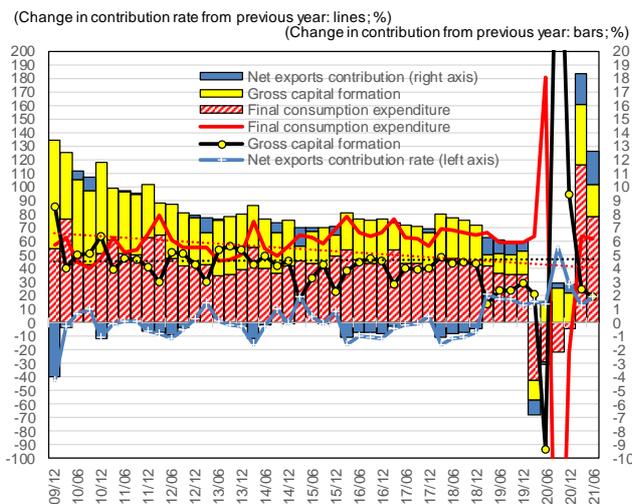
1. Some of June's economic indicators were up and some were down on May

Q2 real GDP growth hit +7.9%, with average two-year growth standing at +5.5%; consumption was a driver, though it also recorded the largest q-o-q decline in contribution levels.

On July 15, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate for the January–June (H1) was up +12.7% on the same period last year (from here on, all figures refer to a “same-period previous-year comparison” unless otherwise specified), with average two-year growth of +5.3%.¹ The figure for April–June was +7.9%, with the two-year average standing at 5.5%.² Growth was up +1.3% on the previous quarter.

A glance at contribution levels by demand item over H1 shows the contribution of final consumption expenditure standing at +7.8 percentage points followed by gross capital formation at +2.4 percentage points and net exports at +2.4 percentage points (Fig. 1). The figures for April–June stood at +6.1 percentage points for consumption, +1.0 percentage points for gross capital formation, and +0.8 percentage points for net exports. When we look at the changes in contribution levels by demand item over this period, we can see that the contribution of consumption decreased (11.6% to 6.1%) after previously recovering sharply in the first quarter. This decrease was substantially larger than the decrease recorded by investment (4.5% to 1.0%), while the figure for net exports only fell slightly (2.2% to 0.8%) (Figs. 1 and 2).

Fig.1: Breakdown of GDP by demand item



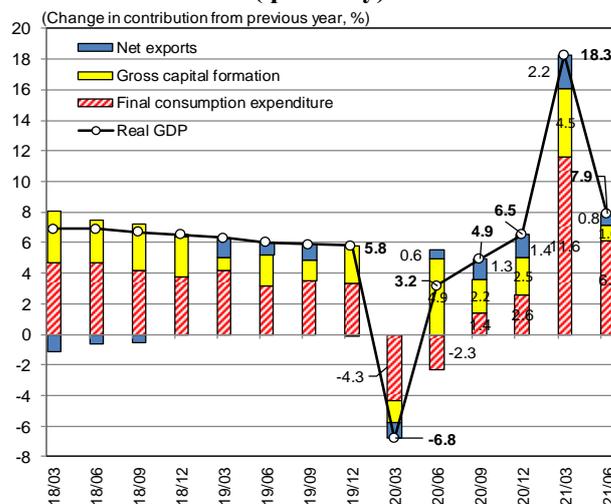
Note: The figures show the cumulative results from the beginning of the year.

Gross capital formation: Jan.–Sep. 2020 +358.3%;

Final consumption expenditure: -313.8%

Source: NBS, CEIC

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



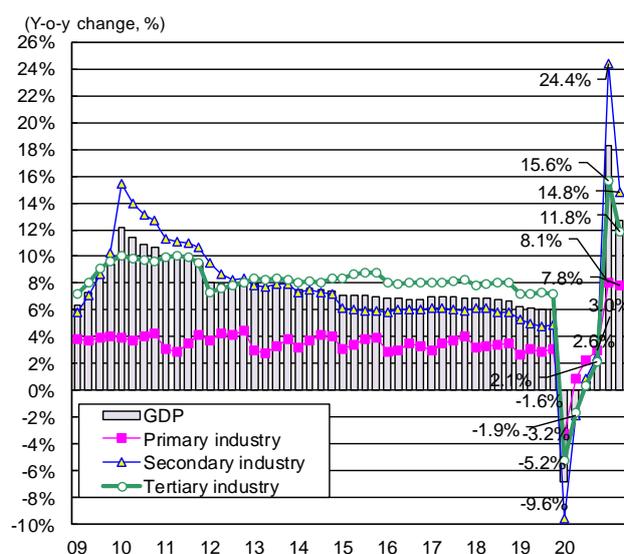
Source: NBS, CEIC

¹ The geometric mean of the growth as calculated and released by the NBS. Hereinafter the same.

² NBS, July 15, 2021, “National Economy in the First Half Year Witnessed the Steady and Sound Growth Momentum Consolidated”

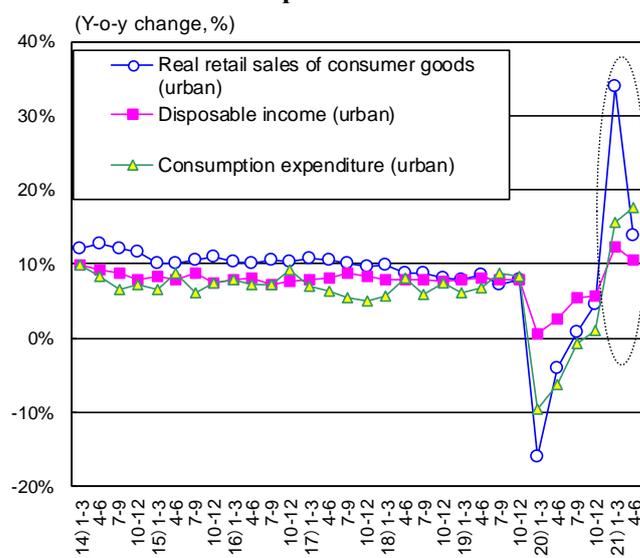
http://www.stats.gov.cn/english/PressRelease/202107/t20210715_1819447.html

Fig.3: GDP by sector



Note: The figures show the cumulative results until the most recent period.
Source: NBS, CEIC

Fig.4: Urban disposable income; consumption expenditure



Source: CEIC

A breakdown by sector shows the primary industry growing by +7.8 percentage points over H1, the secondary industry by +14.8 percentage points, and the tertiary industry by +11.8 percentage points. At -9.6 percentage points, the secondary sector recorded the largest quarterly fall (Fig. 3).

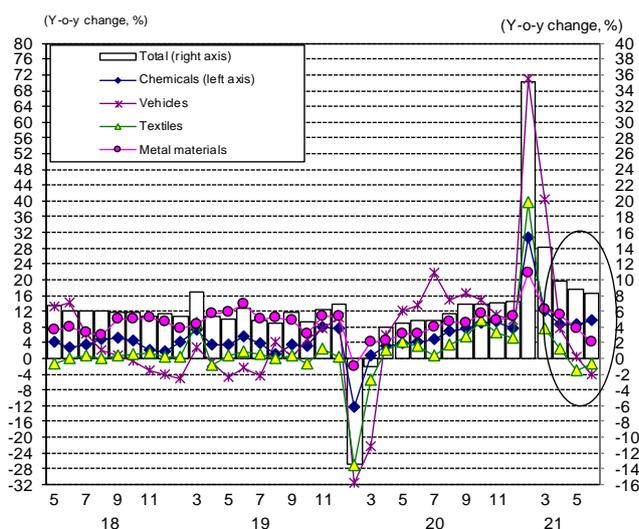
- Production, investment and consumption all slowed

Value-added industrial production was up +8.3% in June, with average two-year growth hitting +6.5% (+0.6% m-o-m). The cumulative figure for January–June was +15.9%, down on January–May’s figure of +17.8% (Fig. 5). When discussing production over January–June, the NBS said that: (1) growth was driven in large part by equipment manufacturing (+22.8% and average two-year growth of +11.0%) and high-tech manufacturing (+22.6% and average two-year growth of +13.2%), with strong growth seen when it came to electric machinery (+29.4%), metal products (+28.2%), general-purpose equipment (+24.3%), special-purpose equipment (+20.1%) and electronics (+19.8%); (2) electronics and cutting-edge products had grown strongly, with IC up by +48.1%, photoelectron equipment by +41.7% and electronic parts by +39.9% on the start of new construction operations, rising prices and the switch to domestic production. The electronic parts sector also saw record growth in the past five years, with industrial robots up by +69.8%, photovoltaic cells by +52.6% and electronic computers by +40.6% (with all three sectors recording average two-year growth of over 20%); (3) raw materials production continued to recover on the whole, with non-metallic mineral products up by +18.8%, chemical raw materials by +14.5% and steel materials by +11.5% (with all three sectors recording average two-year growth of over 6%); (4) consumer products production continued improving to record growth of +13.5% and average two-year growth of +4.8%, with the recovery particularly prominent when it came to medicine (+29.6%), education, arts and crafts (+25.6%) and furniture (+25.1%); (5) industrial product exports grew at a faster clip, with automobiles up by +46.4%, special-purpose equipment by +33.7%, electric machinery by +29.9% and electronics by +17.6% (with exports of all these products

recording average two-year growth of over 10%).³

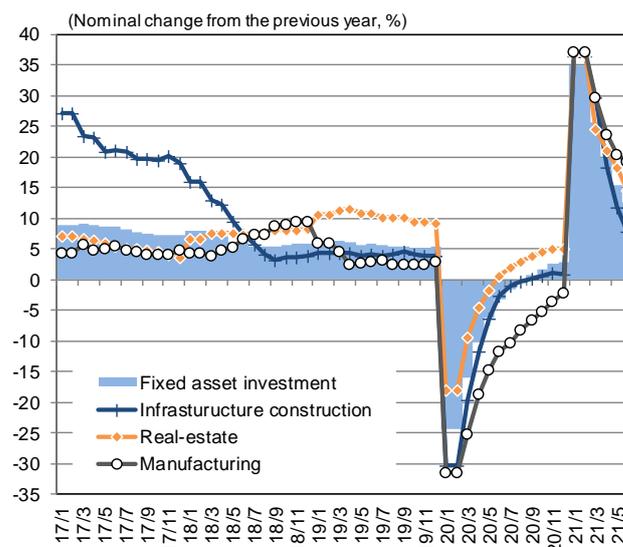
At +12.6%, nominal fixed asset investment in January–June slowed on January–May’s +15.4%. The figure was up +9.1% on H1 2019, with average two-year growth hitting +4.4%. At +5.8%,⁴ the June figure was up slightly on May’s +5.5% (+0.4% m-o-m). At +7.8%, investment in infrastructure construction slowed over January–June (January–May: +11.8%), as did manufacturing investment (from +20.4% to +19.2%) and real estate investment (from +18.4% to +14.7%) (Fig. 6).

Fig.5: Value-added industrial production



Note: The value-added industrial production amount. The figure for January shows the cumulative 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.
Source: NBS, CEIC

Nominal retail sales of consumer goods grew by +12.1% in June, down on May’s figure of +12.4% but up +9.3% compared to May 2019, with average two-year growth hitting +4.9% (+0.7% m-o-m) (Fig. 7). At +23.0%, the cumulative figure for January–June was down on January–May’s +25.7%, with average two-year growth standing at +4.4%. Internet retail sales of goods and services grew by +23.2% to hit RMB 6,113.3 billion over January–June, with average two-year growth hitting +15.0%. At RMB 5,026.3 billion, internet retail sales of goods grew by +18.7% (sales of services: RMB 1,087.0 billion) to account for 23.7% of total retail sales of consumer goods during this period (RMB 21,190.4 billion), with average two-year growth standing at +16.5%.⁵

The NBS highlighted the following noteworthy consumption trends over January–June: (1) products related to

³ NBS, July 16, 2021, “江源：工业生产稳中加固 企业效益持续改善 (Jiang Yuan: Industrial production remains stable and firm, with corporate efficiency continuing to improve)”

http://www.stats.gov.cn/tjsj/sjjd/202107/t20210716_1819545.html

⁴ Calculated by this report’s author based on cumulative figures. NBS, July 15, 2021, “2021年1—6月份全国固定资产投资(不含农户)增长12.6% 比2019年1—6月份增长9.1% (At +12.6% y-o-y, nationwide fixed asset investment [excluding rural households] in January–June 2021 was up +9.1% on the figure from January–June 2020)”

http://www.stats.gov.cn/tjsj/zxfb/202107/t20210715_1819443.html

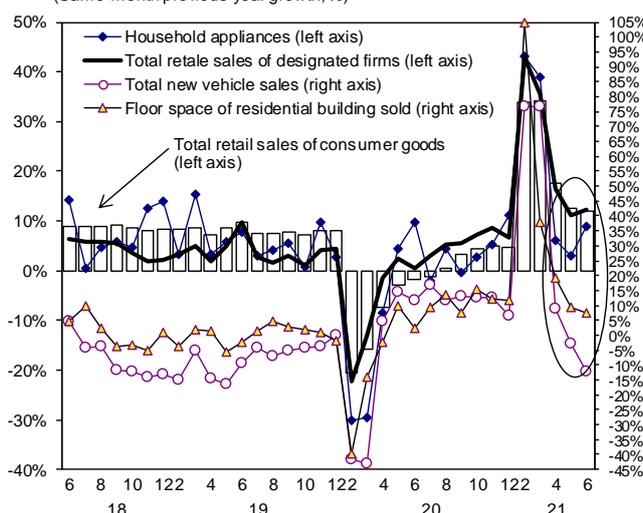
⁵ NBS, July 15, 2021, “Total Retail Sales of Consumer Goods Went Up by 12.1 percent from January to June 2021”

http://www.stats.gov.cn/english/PressRelease/202107/t20210716_1819547.html

consumption upgrading moved firmly, with the cosmetics, jewelry, and sports and recreation articles sectors seeing average two-year growth rising by +3.2, +1.7 and +2.9 percentage points respectively in April–June compared to January–March; (2) dining out revenue bounced back by +48.6% over January–June (RMB 2,171.2 billion) to essentially return to levels seen in the same period in 2019, and although growth slowed to +29.5% over April–June, average two-year growth returned to positive territories at +0.9% (January–March: –1.0%).⁶ However, the NBS added that dining out and other forms of contact-type consumption were still being impacted by Covid-19 outbreaks, while automobile sales were also down sharply, with the foundations of the consumer market recovery still weak.

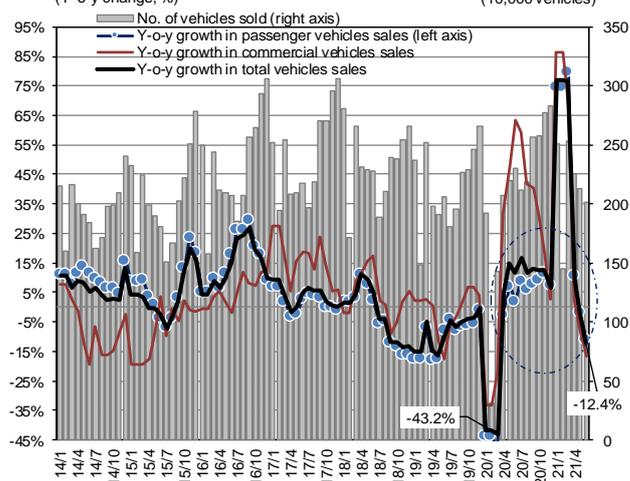
At 2.015 million, sales of new cars fell by –12.4% in June. This was the second month when sales had contracted (and at a double-digit pace too), with May having seen the first y-o-y slide since March 2020, some 14 months earlier (Fig. 8). At 12.878 million, car sales grew by +25.9% over January–June. Though growth was down on January–May’s figure of +37.0% (10.863 million sales), it was up +4.5% compared to January–June 2019 (12.318 million sales).

Fig.7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold
(Same-month previous-year growth, %)



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)
(Y-o-y change, %) (10,000 vehicles)



Note: The figure for January and February shows cumulative y-o-y change for the period January–February.
Source: China Association of Automobile Manufacturers, CEIC

According to the China Association of Automobile Manufacturers (CAAM), car sales in June were characterized by record sales of new-energy vehicles (NEV), a rising share of Chinese-brand passenger cars, a y-o-y slide in the market share of major corporate groups, and record-high automobile exports.⁷ The CAAM also said that the

⁶ NBS, July 16, 2021, “董礼华：上半年消费市场复苏势头进一步巩固 (Dong Lihua: The consumer market recover moved even more firmly in the first half)”

http://www.stats.gov.cn/tjsj/sjjd/202107/t20210716_1819558.html

Restrictions on dining out and mobility were introduced in regions centered around Guangzhou and Shenzhen (Guangdong province) late May on sporadic Covid-19 outbreaks.

⁷ China Association of Automobile Manufacturers, July 9, 2021, “中国汽车工业协会 2021 年 7 月信息发布会在京召开 (China Association of Automobile Manufacturers Holds a Press Conference in Beijing on July 2021)”

http://www.caam.org.cn/chn/1/cate_3/con_5234190.html

semiconductor supply problem would continue to impact automobile production going forward, with companies also facing more cost pressures on the soaring price of raw materials, with the body also revising its forecast for 2021 to 27 million sales and +6.7% y-o-y growth, with NEVs expected to see 2.4 million sales and +76% growth.

▪ Sales prices of residential buildings grew at a slightly slower pace in first, second and third-tier cities

At +27.7% (886.35 million m²), the floor space of residential buildings sold in January–June was up on 2019’s figure of –0.1% and 2020’s +2.6% (1,760.86 million m²), though it was down on the figure for January–May (+36.3%). 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 2016⁸ subsequently spread to other cities with surging house prices⁹, with the restrictions being tightened further.¹⁰

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 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. Reference: Economic Information Daily, July 14, 2016, “房地产现严重分化 因城施策将是下半年楼市政策主线 (China’s acute property price bifurcation problem: Main real-estate measures in 2H influenced by the regional policies)”, etc.

http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm

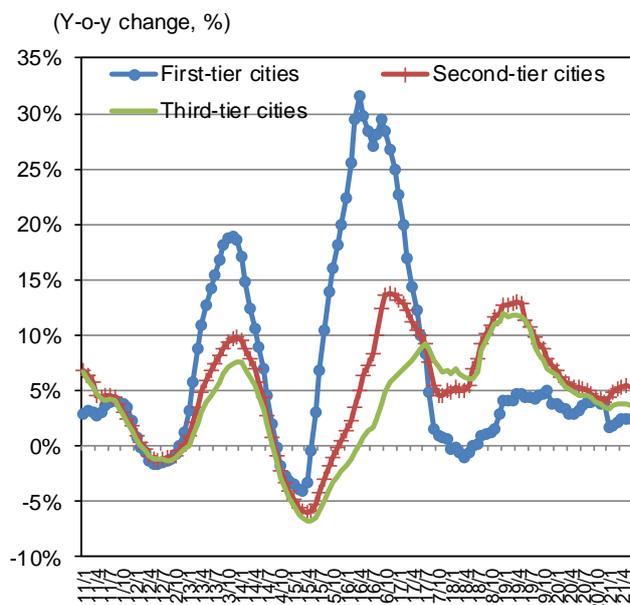
People’s Daily on October 11, 2016 entitled “限购、限贷，近期已有 20 城市推出新举措 楼市调控 因城施策 (Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city).” Restrictions on housing purchases were introduced in 20 cities at the time the article was written.

<http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html>

¹⁰ The 21st Century Business Herald, March 20, 2017, “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.

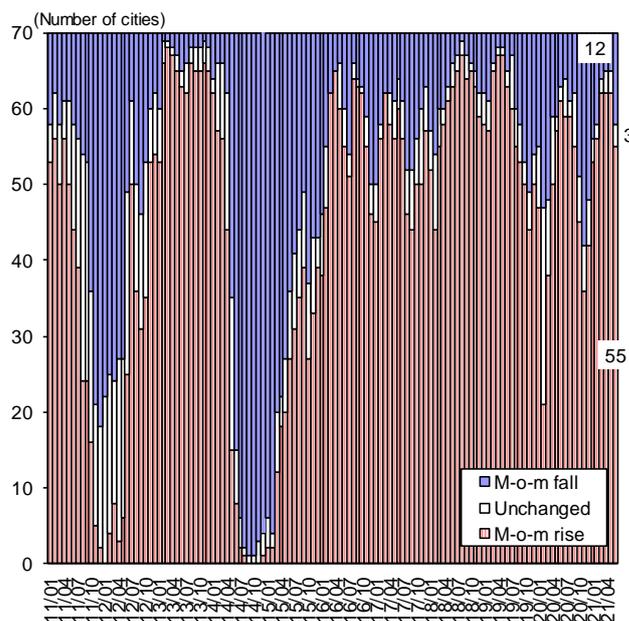
http://epaper.21jingji.com/html/2017-03/20/content_58356.htm

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: NBS, CEIC

Funds flowed into the housing market on the back of monetary easing to tackle the impact of Covid-19. The authorities subsequently held a seminar with some major real-estate companies in August 2020 to discuss fundraising controls and financial management regulations¹¹. Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans that banks can extend.¹²

¹¹ Ministry of Housing and Urban-Rural Development, August 23, 2020, “住房和城乡建设部、人民银行联合召开房地产企业座谈会 (The Ministry of Housing and Urban-Rural Development and the PBC Hold a Seminar with Real-estate Companies)”

http://www.mohurd.gov.cn/xwfb/202008/t20200823_246876.html

The 21st Century Business Herald, September 16, 2020, “1-8月商品房销售额增速转正 “三条红线”影响隐现 (The Impact of the ‘Three Red Lines’ Emerges as Commercial Home Prices Return to Positive Growth over January-August).” According to this and other reports, (1) the authorities have introduced three quantitative ‘red lines’ in order to control lending, namely: a 70% ceiling on debt-to-asset ratios, after excluding funds from advanced sales; a 100% cap on debt-to-capital ratios; and a requirement that short-term debt does not exceed cash reserves. (2) Real-estate firms will be divided into four tiers: Red (firms that fail to clear all the red lines), Orange (firms that fail to clear two red lines), Yellow (firms that fail to clear one red line) and Green (firms that clear all the red lines). (3) Firms adjudged to fall into the Red tier will not be able to increase their interest-bearing debt for one year, while firms in the other tiers will be allowed to increase interest-bearing debt by up to 5%, 10% and 15%, respectively.

<https://m.21jingji.com/article/20200916/f48a298d32f729636b8ae51767ebf5a1.html>

¹² Released on December 31, 2020, “中国人民银行 中国银行保险监督管理委员会关于建立银行业金融机构房地产贷款集中度管理制度的通知 (Yin Fa [2020] No.332) (Circular on the Establishment of a Real Estate Loan Concentration Management System for Banking Institutions)” announced the establishment from January 2021 of a management system for bank real-estate loans and housing loans. This caps the amount of property loans as a proportion of total loans in accordance with the size of bank assets. This cap of outstanding real-estate loans and housing loans to total loans will be 40% and 32.5% respectively for China’s largest banks and 12.5% and 7.5% for the lowest-tier village banks. Banks whose ratios exceed these new caps as of the end of 2020 will be required to lower these ratios on a planned manner. Banks will be granted a two-year grace period if they exceed the caps by less than 2 percentage points and a four-year grace period if they exceed the caps by more than 2 percentage points.

<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=955098&itemId=928&generalType=0>

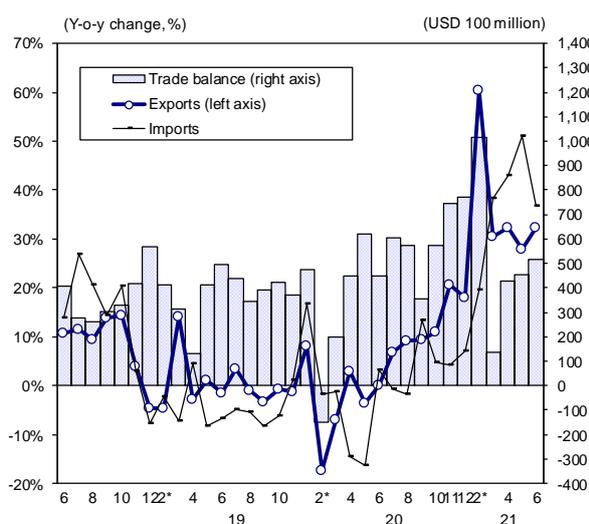
In June, 60 cities saw the price of new homes rising on the previous year, down two cities on May. Growth slowed slightly when it came to first-tier cities (from +2.50% in May to +2.47%), second-tier cities (from +5.45% to +5.23%) and third-tier cities (from +3.83% to +3.68%) (Fig. 9).¹³ Ten cities saw the price of new homes falling on the previous year, up from eight in May.

On a monthly basis, 55 of the 70 cities surveyed saw the price of new homes rising, down from 62 in May. Three cities saw prices moving flatly on the previous month (unchanged on May), while 12 cities saw prices falling on the previous month (up from five in May) (Fig. 10).¹⁴

▪ **Exports accelerated but imports slowed**

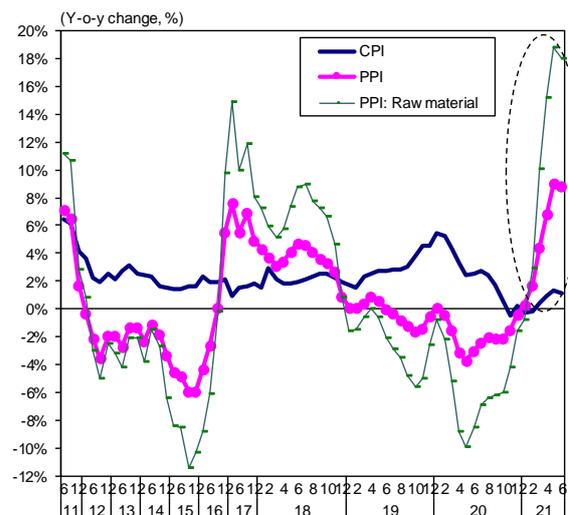
Exports grew by +32.2% (\$281.42 billion) and imports by +36.8% (\$229.89 billion) in June, with exports growing at a faster pace and imports slowing (Fig. 11). The trade surplus stood at \$51.53 billion, with the total trade amount up +34.2%. Exports were up by +38.6% (\$1,518.4 billion) and imports by +36.1% (\$1,266.8 billion) over January–June, with the surplus standing at \$251.52 billion and total trade growing by +37.5%. Exports were also up by +29.6%, imports by +27.3% and total trade by +28.6% compared to January–June 2019.

Fig.11: Imports/exports; trade balance



Note: *The figures show a same-period previous-year comparison results of January–February and total.
Source: China Customs Statistics

Fig.12: CPI, PPI



Note: The data from June 2011 to 2017 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Assistant Minister of Commerce Ren Hongbin gave the following reasons for why trade had expanded in January–June: (1) export growth was pushed up +18 percentage points by stay-home products and the transfer of orders (from countries under lockdown due to Covid-19); (2) imports were pushed up +6 percentage points by rising commodity prices, with the soaring prices of six major commodities (including iron ore, copper, steel materials and crude oil) boosting imports by +5.7 percentage points; (3) exports and imports were both boosted by around +4 percentage

¹³ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Guangzhou+11.6%, Yinchuan+11.2%, Jining+10.6% (June).

¹⁴ NBS, July 15, 2021, “Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in June 2021”

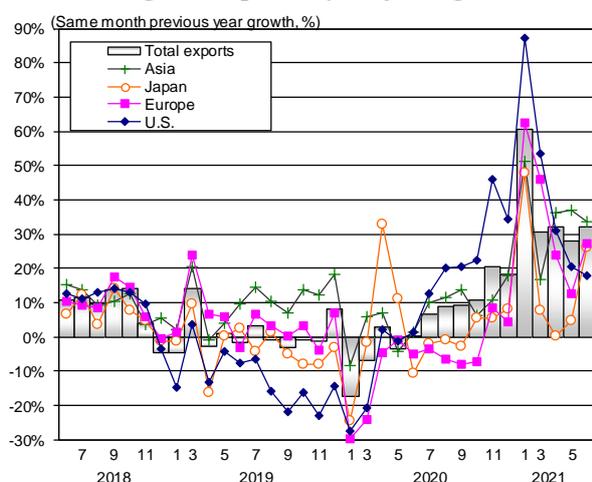
http://www.stats.gov.cn/english/PressRelease/202107/t20210715_1819485.html

points by the fact that workers did not return to their hometowns and instead continued working over the Chinese New Year holidays; (4) exports and imports were also pushed up +6.6 percentage points owing to low base figures from the previous year.

Ren Hongbin also said Chinese traders were facing four challenges: (1) low overseas transport efficiency and high costs, (2) RMB exchange rate volatility, (3) the rising cost of raw materials pushing up business costs, and (4) hiring difficulties and high labor costs in some regions.¹⁵

Exports to Europe and Japan grew at a faster pace, though exports to Asia and the US slowed, while imports grew at a slower pace from all countries and regions (Figs. 13 and 14).

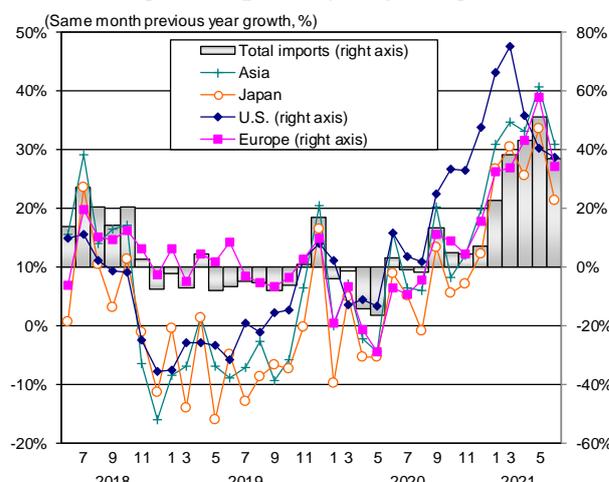
Fig.13: Exports by major region



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 data slowed

At +1.1%, CPI (Consumer Price Index) growth slowed in June (May: +1.3%), with the month-on-month figure falling deeper into negative territories (−0.4% m-o-m against −0.2% m-o-m in May) (Fig. 12). Average growth for January–June stood at +0.5%. A breakdown of the CPI data shows food price inflation slipping into negative territories at −1.7% in June (May: +0.3%). The NBS¹⁶ said the price of freshwater fish rose by +33.5% as supplies remained tight, but vegetable prices only grew by +0.1% in June (May: +5.4%) on large-scale shipments, with food prices also pulled lower when pork prices¹⁷ contracted at faster pace (−36.5% against May’s figure of −23.8%). At

¹⁵ State Council website, July 12, 2021, “《国务院办公厅关于加快发展外贸新业态新模式的意见》国务院政策例行吹风会 (Opinion of the State Council on the Accelerated Development of New Business Operations and Models for Overseas Trade, Regular Briefing of the State Council)” <http://www.gov.cn/xinwen/2021zccfh/29/wzsl.htm>

¹⁶ NBS, July 9, 2021, “国家统计局城市司高级统计师董莉娟解读 2021 年 6 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the June 2021 CPI and PPI Data)”

http://www.stats.gov.cn/tjsj/sjjd/202107/t20210709_1819219.html

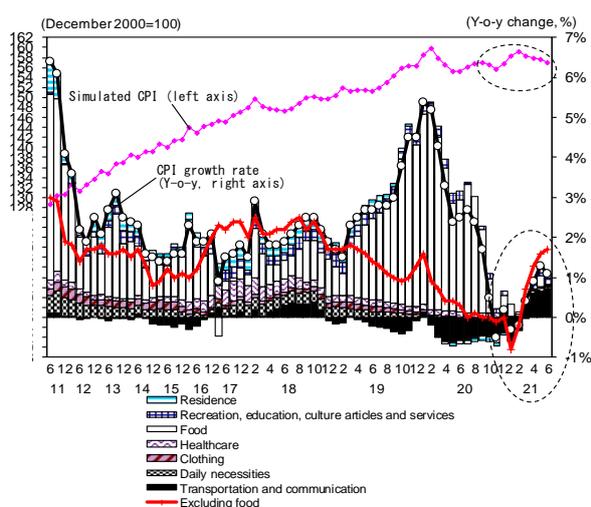
¹⁷ In terms of the pork cycle (a cycle whereby farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs), pork prices declined after a peak in May 2016, though it bounced back after bottoming out in June 2017. The prices fell further again from March 2018, though the pace of this contraction slowed from May 2018 and prices grew

+1.7%, non-food prices grew at a slightly faster pace in June (May: +1.6%). At +0.9%, meanwhile, the core CPI figure (excluding energy and food) was unchanged on the previous month (May: +0.9%) (Figs. 15 and 16).

At +8.8%, Producer Price Index (PPI) growth slowed in June (May: +9.0%), with the average for January–June standing at +5.1%. A glance at the details for June shows the price of producer goods slowing from +12.0% in May to hit +11.8%. Price growth slowed when it came to mining (from +36.4% to +35.1%) and raw materials (from +18.8% to +18.0%), while the figure for processing was unchanged at +7.4%. At +0.3%, the price of consumer goods rose at a slightly slower pace compared to May’s +0.5%.

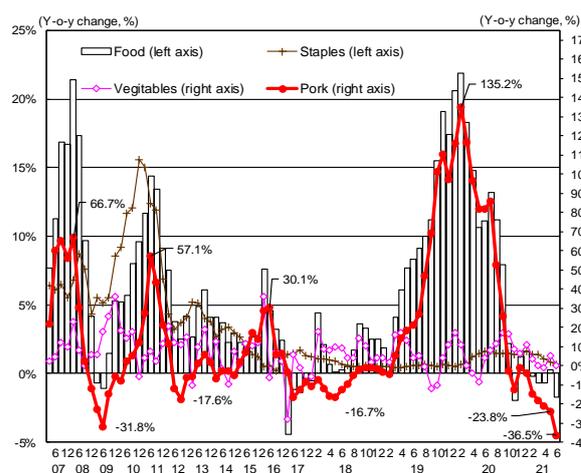
When asked about commodity prices at a regular press conference on July 19,¹⁸ Wan Jinsong, Director of the NDRC Price Department, said the relevant government departments had been closely monitoring prices since mid-May and they had introduced many effective policies, including: holding interviews with important firms and industry bodies in sectors such as iron ore, steel materials, copper and aluminum; visiting related trading centers; surveying regions and important firms; encouraging firms to act in accordance with the law; strengthening the supervision and control of futures markets; and releasing state stockpiles of copper, aluminum and zinc, for example. As a result, Wan explained that steel, copper and aluminum prices were down by 3–14% from their 2021 peaks, with PPI growth in June standing at +0.3%, down 1.3 percentage points on May’s 2021 peak of +1.6%.

Fig.15: CPI; Growth contribution by item



Note: The contribution 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 the author based on the m-o-m growth rate for each month, with December 2000 as the base month. The data from June 2011 to 2017 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Fig.16: Food prices



Note: The data until 2017 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

again from December 2018, with the trend shifting slightly during the ongoing phase of price declines. During this time, pork production recorded two consecutive years of negative growth in 2015 and 2016. It then picked up by +0.5% in 2017 to hit 54.52 million tons. It dropped back by -0.9% in 2018 to hit 54.04 million tons before falling sharply by -21.3% in 2019 to hit 42.55 million tons. This represented the first double-digit decline since 1996 (-13.4%). 41.13 million tons in 2020 (-3.3%)

¹⁸ NDRC, July 19, 2021, “国家发展改革委举行 7 月份新闻发布会 介绍宏观经济运行情况并回应热点问题 (The NDRC discusses macroeconomic performance and answers questions about focal problems at its July press conference)” Released state stockpiles stand at 20,000 tons for copper, 50,000 tons for aluminum and 30,000 tons for zinc.

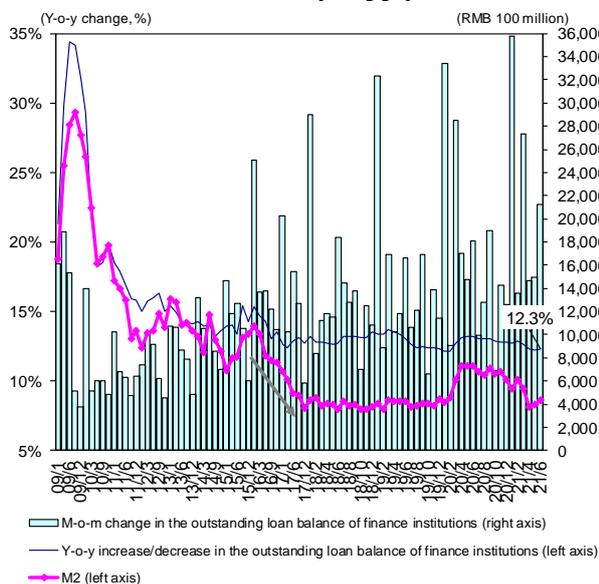
https://www.ndrc.gov.cn/xwtd/xwfb/202107/t20210719_1290743.html

▪ **New bank loans increases and the total social financing amount also grew**

According to the PBC, M2 money supply growth hit +8.6% in June, up on May’s figure of +8.3%. New bank loans increased by a net RMB 2,120.0 billion in June, up on May’s figure of RMB 1,500.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, also rose by a net RMB 3,670.0 billion in June, up on May’s figure of RMB 1,920.5 billion. A glance at the details reveals that: RMB loans, foreign currency loans, government bonds, non-financial-institution equity issuances, and loan repayments all grew at a faster pace, while corporate bonds began growing again; trust loans and banker’s acceptances contracted at a slower pace, while deposit-taking financial institution ABS moved from expansion to contraction and entrusted loans contracted at a faster pace (Fig. 18).

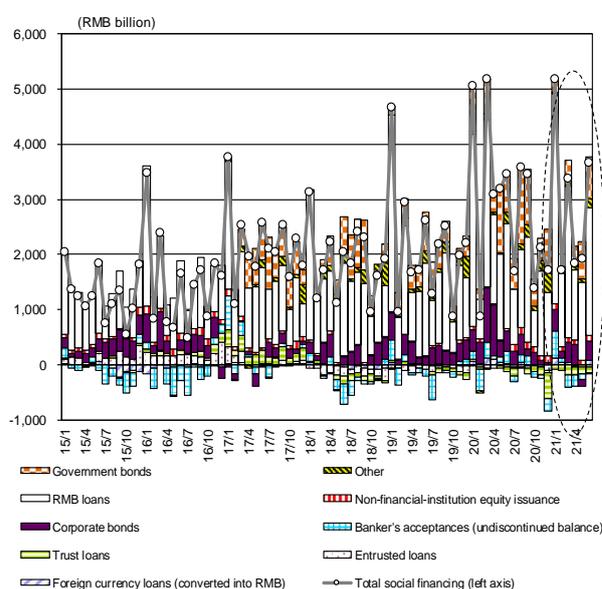
Foreign exchange reserves stood at \$3,214.01 billion at the end of June, down \$7.79 billion compared to May (\$3,221.80 billion). This was the first m-o-m fall since March, with the figure also down \$2.51 billion on the end of 2020 (Fig. 19). Speaking about the decline in foreign currency reserves in June, Wang Chunying, Deputy Administrator and Press Spokesperson for the State Administration of Foreign Exchange (SAFE) explained that “the dollar strengthened and major-country financial asset prices rose on the whole in international financial markets on the spread of Covid-19, the progress of vaccinations, and anticipation regarding major-country financial and fiscal policies. Foreign currency reserves are estimated on a dollar basis, with non-dollar currencies declining in value after being converted into dollars and asset prices also fluctuating.”¹⁹

Fig.17: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2017. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBC, CEIC

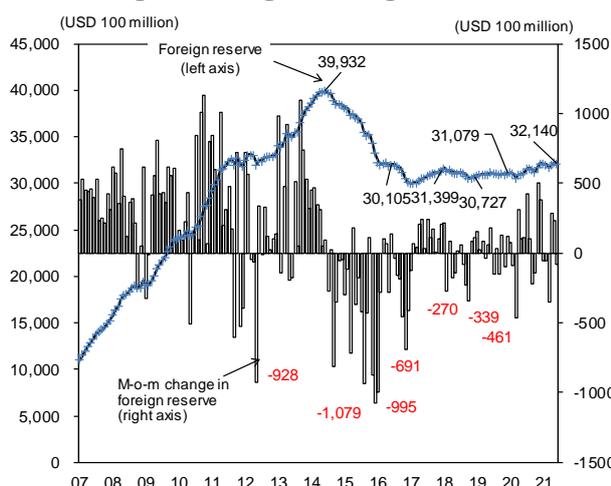
Fig.18: Total social financing (net increase and decrease)



Source: PBC, CEIC

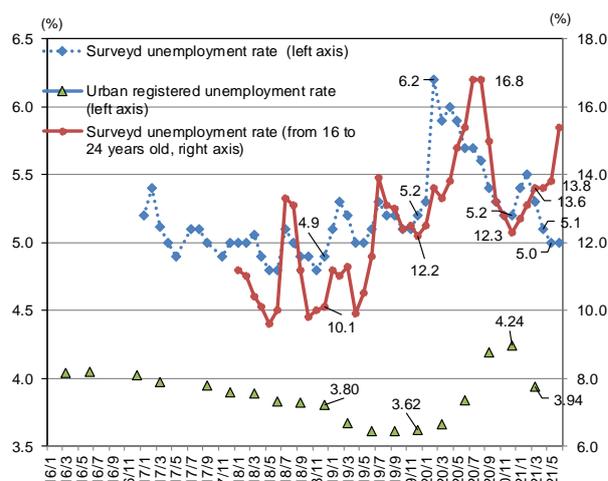
¹⁹ SAFE, July 7, 2021, “国家外汇管理局副局长、新闻发言人王春英就 2021 年 6 月份外汇储备规模变动情况答记者问 (SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for June 2021)” <http://www.safe.gov.cn/safe/2021/0707/19342.html>

Fig.19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 to 2020, and the latest monthly figure.
Source: PBC, CEIC

Fig.20: The surveyed unemployment rate



Note: The figures within the graph denote the highest figures for 2018–2020 and the latest end-of-month data, as of the time of publication.
Source: NBS, CEIC

2. The policy response: The lowering of the reserve requirement ratio and the direction of the 14th Five-Year Plan for Commerce Development

When it comes to economic trends over January–June, it is clear that the economy remains on the path to recovery, but the National Development and Reform Commission (NDRC) said the recovery remained uncertain, unstable and unbalanced, adding that “the global pandemic remains in place and the global economic recovery process faces an accumulation of risk, while there is a growing divergence when it comes to the conditions and macro policies of each economic body, with inflation also rising.” Turning to the domestic situation, the NDRC said “there are still problems regarding the production management of some mid- to downstream industries and medium-sized, small and micro enterprises, with the recovery relatively slow when it comes to the consumption of lifestyle services including tourism and lodging, while hidden risk also exists in some sectors.²⁰ The employment situation remains relatively tough, particularly in these sectors (Fig. 20), with this also leading to income stagnation (Fig. 4).” The NBS has also indicated that “more energy will be needed to shore up the foundations of a stable recovery.”²¹

▪ The PBC lowered the reserve requirement ratio for the first time since April 2020

Under these circumstances, the PBC decided on July 9 to cut the reserve requirement ratio by 0.5 percentage points on July 15²² (Fig. 21). This released RMB 1 trillion into the markets. When explaining the decision, the PBC said “in light of rising costs for micro and small businesses (MSBs) caused by increasingly higher commodity prices this year, the monetary policy in China maintains its stability and continues to pursue effectiveness. Instead of

²⁰ Same as footnote 18

²¹ NBS, July 15, 2021, “国家统计局新闻发言人就 2021 年上半年国民经济运行情况答记者问 (NBS Spokesperson Answers Journalist Questions about Economic Performance in the 1H 2021)”

http://www.stats.gov.cn/tjsj/sjjd/202107/t20210715_1819497.html

²² PBC July 9, 2021, “The PBC is scheduled to lower required reserve ratio on July 15”

<http://www.pbc.gov.cn/en/3688110/3688172/4157443/4287871/index.html>

“中国人民银行有关负责人就下调金融机构存款准备金率答记者问 (A PBC spokesperson answers press questions about the lowering of the reserve requirement ratio)”

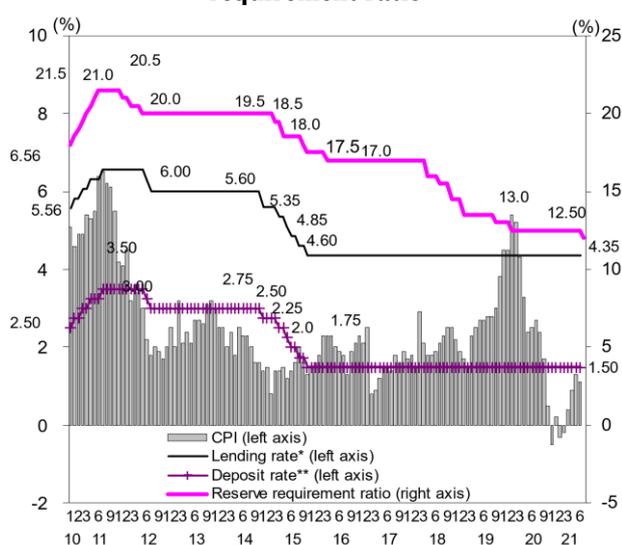
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4287604/index.html>

indiscriminate stimulus, the PBC adopts targeted measures such as increasing the support for MSBs.”

During an interview, a PBC spokesperson outlined three targets for policy decisions going forward: (1) maintain a rational and sufficient supply of liquidity, strengthen the fund allocation capacities of financial institutions, and create an appropriate money/financial environment in order to promote high-quality development and supply-side structural reform; (2) adjust the central bank financing structure, effectively increase long-term, stable financing sources to enable financial institutions to support the real economy, and guide financial institutions to use the funds released by the reserve requirement ratio cut to strengthen support to MSBs, (3) lower financial institution funding costs by around RMB 13 billion/year and lower total social financing costs through financial institution communications.

As for lending rates, though, the PBC kept the Loan Prime Rate (LPR) fixed for the 15th straight month.²³

Fig.21: Deposit/lending rates; the reserve requirement ratio



Note: *The one-year floating fund lending rate for businesses.
**The one-year fixed rate.
Source: PBC

Fig.22: Targets of the 14th Five-Year Plan for Commerce Development

		2020	2025	Annual average/total
Domestic market	1 Total retail sales of consumer goods	RMB trillion	39.2	50 5.0%
	2 Nationwide net retail amount	RMB trillion	11.8	17 7.6%
External trade	3 Total exports and imports	\$trillion	4.65	5.1 2.0%
	4 The proportion of total exports and imports accounted for by new business types	%	7.0	10.0 -
	5 Total imports and exports of knowledge-intensive services	\$100 million	2,918	4,330 8.0%
	6 International services outsourcing amount	\$100 million	1,058	Higher than the service exports growth rate
Introduction of foreign capital	7 Foreign capital direct investment amount (excluding the finance industry; real)	\$100 million	1,444	- 5-year total 7,000
	8 Proportion of foreign investment accounted for by the hi-tech sector	%	29.6	30.0 -
	9 Proportion of foreign investment accounted for by free trade zones and ports	%	17.9	Around 19 -
Overseas investment	10 Direct overseas investment (excluding the finance industry)	\$100 million	1,102	- 5-year total 5,500
	11 Sales from projects contracted overseas (real)	\$100 million	1,559	- 5-year total 7,000
Global economic governance	12 Proportion of firms operating overseas that remain in the black	%	70*	Around 70 -
	13 Proportion of import and export amount accounted for by trade with FTA partner countries	%	27.3	Around 36 -

Note: *2019 figure.

Source: The Ministry of Commerce’s “14th Five-Year Plan for Commerce Development”
<http://images.mofcom.gov.cn/zhs/202107/20210708110842898.pdf>

▪ The 14th Five-Year Plan for Commerce Development sets a target for average consumption growth of +5.0%

On July 8, China’s Ministry of Commerce released the 14th Five-Year Plan for Commerce Development,²⁴ which contains targets for domestic consumption, external trade, and the introduction of foreign capital for example (Fig. 22). The plan also sets a target for average annual growth of +5.0% when it comes to total retail sales of consumer goods. This comes after the result for the 12th Plan (2011–2015) dropped below the target for that period (+13.8% against a target of +15.0%), with the Ministry of Commerce also expecting growth to be down compared the result

²³ Chinamoney.com.cn, July 20, 2021, “2021年7月20日全国银行间同业拆借中心授权公布贷款市场报价利率（LPR）公告”
<http://www.chinamoney.com.cn/chinese/rdgz/20210720/2014740.html#cp=rdgz>

²⁴ Ministry of Commerce, July 8, 2021, “商务部关于印发《“十四五”商务发展规划》的通知 (Ministry of Commerce Circular on the Announcement of the 14th Five-Year Plan for Commerce Development)”
<http://www.mofcom.gov.cn/article/guihua/202107/20210703174101.shtml>
Text of the plan
<http://images.mofcom.gov.cn/zhs/202107/20210708110842898.pdf>

of +6.4% for the period of the 13th Plan (2016–2020; no target set).

With the total export and import amount rising by close to +30% over January–June 2021, the plan expects external trade to grow by an average of +2.0%²⁵ over the five-year period. It also targets total inbound direct investment of \$700 billion over the five-year period, a target that chimes with recent results of around \$140 billion a year.

These targets could be read as leaning on the conservative side in light of the uncertain Covid-19 situation and so on, but the 14th Five-Year Plan for Commerce Development and the separately-announced 14th Five-Year Plan for Circular Economy Development²⁶ seem to reconfirm that the authorities have shifted tack when it comes to economic development and will be toning down the pace of quantitative expansion over 2021–2025 while focusing more on enhancing quality.

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

Disclaimer & Confidentiality

1. Legal and accounting advice: The information contained herein does not incorporate advice on legal, accounting or tax issues. You should obtain your own independent professional advice on the legal, accounting and tax aspects of this information.
2. Confidentiality: The information contained herein is given for general informational purposes only and shall be kept strictly confidential. This information is intended for your company's internal use only, and the disclosure to any third party is strictly prohibited.
3. Copyright: The information contained herein is, as a general rule, the intellectual property of MHBK (China), and may not be copied, duplicated, quoted, reproduced, translated, or lent, in whole or in part, in any form or by any means for any purpose whatsoever without prior consent.
4. Limitation of liability:
 - (a) The information contained herein was obtained from information sources deemed reliable by MHBK (China) but in no way is the accuracy, reliability or integrity of such information guaranteed. MHBK (China) disclaims any liability whatsoever for any damage arising out of or relating to this information. Moreover, the analysis herein is hypothetical and is not intended as an indication of the certainty or completeness of the results thereof.
 - (b) Please note that information to be disclosed hereafter, appraisals, the opinions of credit rating agencies, and/or changes in the system and/or financial environment may necessitate substantial modification to the relevant processes and/or schemes, which may have the effect of rendering the analysis herein ineffectual. Further, this information is not intended to be an exhaustive statement of the risks to which your company is exposed.
5. The information contained herein does not constitute a solicitation or offer by MHBK (China) to buy or sell any financial instruments or to provide investment advice or service.

²⁵ The period of the 13th Five-year Plan (2016–2020) saw total trade growing by an average of +3.3%.

²⁶ NDRC, July 7, 2021 “国家发展改革委关于印发“十四五”循环经济发展规划的通知 (Circular on the Announcement of the 14th Five-Year Plan for Circular Economy Development)”

https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202107/t20210707_1285527.html

Text of the plan

<https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202107/P020210707324072693362.pdf>

For details of the plan, click on the link below. "Mizuho China Business Express No.560"

<https://www.mizuhobank.co.jp/corporate/world/info/cndb/express/pdf/R419-0612-XF-0105.pdf>