

—The macroeconomy—

Summary

Real GDP growth hit +9.8% over January–September, with average two-year growth of +5.2%. The figure for July–September was +4.9%, with the two-year average also standing at 4.9%. Economic indicators generally slowed in September compared to August. General Secretary Xi Jinping said the authorities would raise electricity prices and control coal prices while striving to ensure the stability of coal and power supplies and secure economic and social operations. Vice-premier Liu He said that although there were individual problems in the real-estate market, the risks were generally controllable, with reasonable capital demand being met and the overall trend of the healthy development of the real estate market unchanged. The Qiushi journal announced a long-term goal of achieving common prosperity by 2050.

1. Some of September’s economic indicators were up and some were down on August

- Q3 real GDP growth hit +4.9%; consumption was a driver, though it also recorded the largest q-o-q decline in contribution levels; the economy was supported by net exports
- Production and investment slowed; consumption accelerated on seasonal factors
- Sales prices of residential buildings grew at a slower pace compared to the previous month in 36 of the 70 cities surveyed
- Exports accelerated but imports slowed
- The CPI data slowed and the PPI data accelerated
- New bank loans increased, but the total social financing amount fell slightly

2. The policy response: Moves to guarantee electricity supplies; the announcement of an action plan for cutting CO2 emissions; and revisions to excessive controls on real-estate lending

- “The government will strive to ensure a stable supply of coal and electricity” (Xi Jinping)
- Revisions to excessive controls on real-estate lending; support for the resumption of projects; implementation of a 5-year real-estate tax trial
- Common prosperity by 2050 is a long-term goal

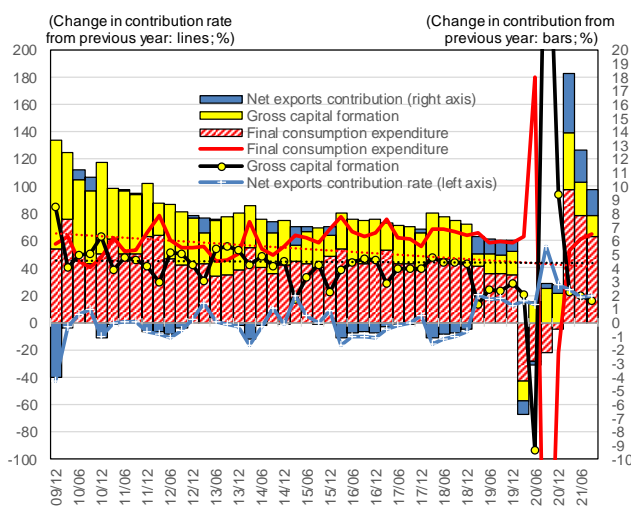
1. Some of September’s economic indicators were up and some were down on August

• Q3 real GDP growth hit +4.9%; consumption was a driver, though it also recorded the largest q-o-q decline in contribution levels; the economy was supported by net exports

On October 18, the National Bureau of Statistics (NBS) announced that China’s real GDP growth rate for January–September was up +9.8% 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 at +5.2%.¹ The growth figure for July–September (3Q) was +4.9%, with average two-year growth at +4.9%. Growth was up +0.2% on the previous quarter.²

A glance at contribution levels by demand item over January–September shows the contribution of final consumption expenditure standing at +6.3% percentage points followed by gross capital formation at +1.5 percentage points and net exports at +1.9 percentage points (Fig. 1). The data for 3Q shows the contribution of final consumption expenditure standing at +3.8% percentage points, with gross capital formation at +0.0 percentage points and net exports at +1.1 percentage points. When we examine changes in contribution levels by demand item over this period, we can see that the contribution of consumption decreased (from 6.1% in 2Q to 3.9%) faster than the contribution of investment (1.0% to 0.0%), with the economy supported instead by an increase in the contribution of net exports (0.8% to 1.1%) (Figs. 1 and 2).

Fig. 1: Breakdown of GDP by demand item



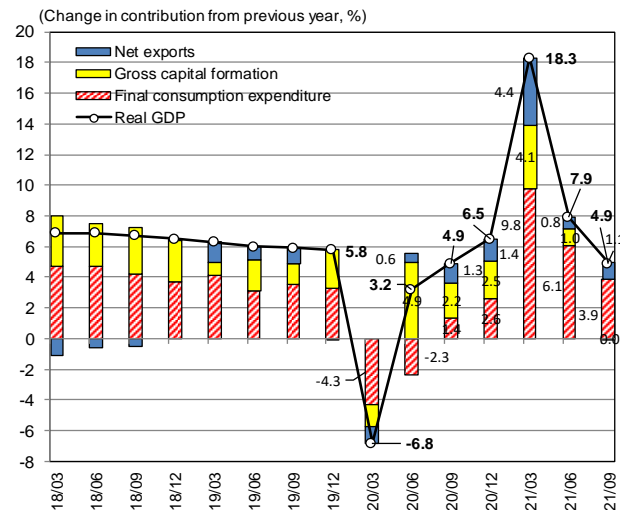
Note: The figures show the cumulative results from the beginning of the year.

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

Final consumption expenditure: -313.8%

Source: NBS, CEIC

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



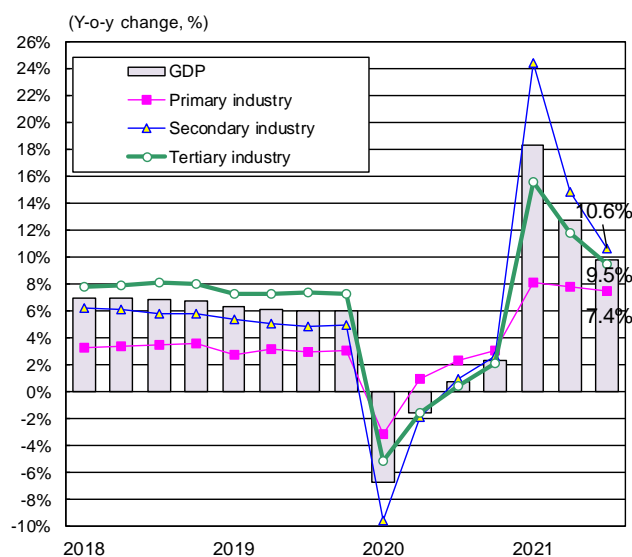
Source: NBS, CEIC

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

² NBS, October 18, 2021, “The Overall National Economy Maintained the Recovery Momentum in the First Three Quarters”

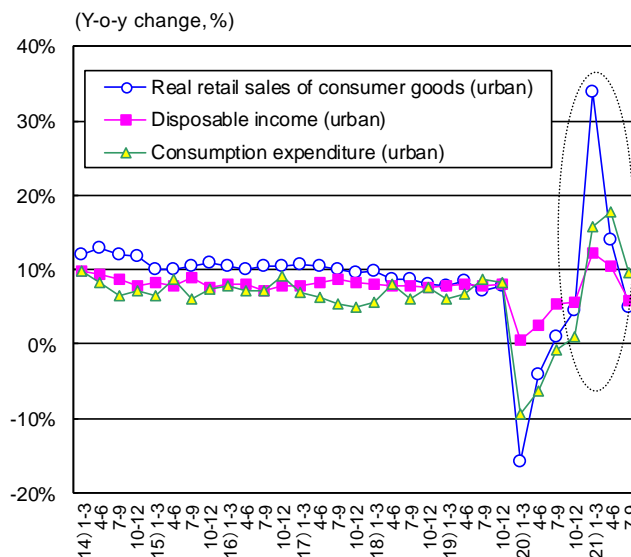
http://www.stats.gov.cn/english/PressRelease/202110/t20211018_1822968.html

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 +7.4 percentage points over January–September, the secondary industry by +10.6 percentage points, and the tertiary industry by +9.5 percentage points. At –4.2 percentage points, the secondary sector recorded the largest fall on January–June (Fig. 3).

• Production and investment slowed; consumption accelerated on seasonal factors

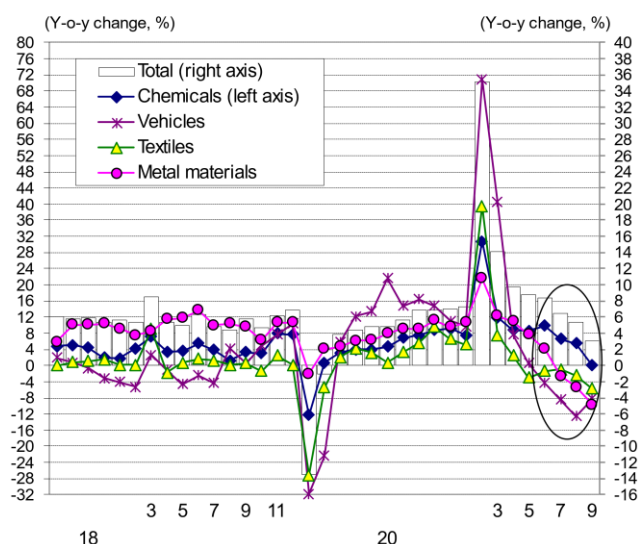
Value-added industrial production was up +3.1% in September, with average two-year growth hitting +5.0% (+0.1% m-o-m). The cumulative figure for January–September was +11.8%, down on January–August’s figure of +13.1% (Fig. 5). When discussing production over January–September, the NBS said that: (1) growth had been driven in large part by equipment manufacturing (+16.2% and average two-year growth of +10.3%) and hi-tech manufacturing (+20.1% and average two-year growth of +12.8%), with strong growth seen when it came to electric machinery (+21.4%), metal products (+21.2%), general-purpose equipment (+17.1%), electronics (+16.8%) and special-purpose equipment (+15.5%), with average two-year growth standing around +10% for all these sectors, while products such as new energy vehicles (+172.5%), industrial robots, solar cells and smart watches (all over 50%) had also grown at a fast clip; (2) consumer products production continued to enjoy a sustained recovery (+11.4% and average two-year growth of +4.5%), with stationery and sporting goods (+18.3%) and furniture (+16.8%) bouncing back strongly and the printing, man-made fiber, and wines, beverage and refined tea sectors also growing by over 10%, while pharmaceuticals continued to grow firmly at +29.2% (average two-year growth = +15.4%).³

At +7.3%, nominal fixed asset investment in January–September slowed on January–August’s +8.9%. The figure

³ NBS, October 19, 2021, “卢山：工业生产持续恢复 企业利润较快增长 (Lu Shan: Industrial production continues to recover and enterprise profits are growing strongly).” Lu Shan is a senior statistician of the NBS.
http://www.stats.gov.cn/tjsj/sjjd/202110/t20211019_1823059.html

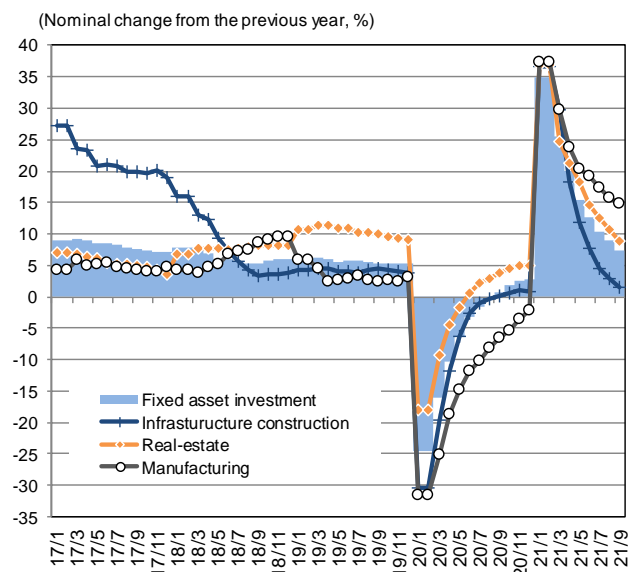
was up +7.7% on January–September 2019, with average two-year growth hitting +3.8%. Investment continued to contract in September at –3.2%⁴ compared to the –0.4% figure recorded in August (+0.2% m-o-m). Investment slowed on January–August when it came to infrastructure construction (from +2.9% to +1.5%), manufacturing (from +15.7% to +14.8%) and real estate (from +10.8% to +8.8%) (Fig. 6). At +18.7% and average two-year growth of +13.8%, hi-tech investment in January–September was up +0.4 percentage points compared to January–August.⁵

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 +4.4% in September, up on August’s figure of +2.5% and up +7.8% compared to July 2019, with average two-year growth hitting +3.8% (+0.3% m-o-m) (Figs. 4 and 7). At +16.4%, the cumulative figure for January–September was down on January–August’s +18.1% and up +8.0% on January–September 2019, with average two-year growth standing at +3.9%. Internet retail sales of goods and services grew by +18.5% to hit RMB 9,187.1 billion over January–September. At RMB 7,504.2 billion, internet retail sales of goods grew by +18.5% (sales of services: RMB 1,682.9 billion) to account for 23.6% of total retail sales of consumer goods during this period (RMB 31,805.7 billion).⁶

The NBS said accelerated consumption in September was due to ongoing improvements in the area of pandemic control, with the data also boosted by measures to stimulate consumption and consumption related to the Mid-

⁴ Calculated by this report’s author based on cumulative figures. NBS, October 18, 2021, “Investment in Fixed Assets from January to September 2021” http://www.stats.gov.cn/english/PressRelease/202110/t20211019_1823031.html

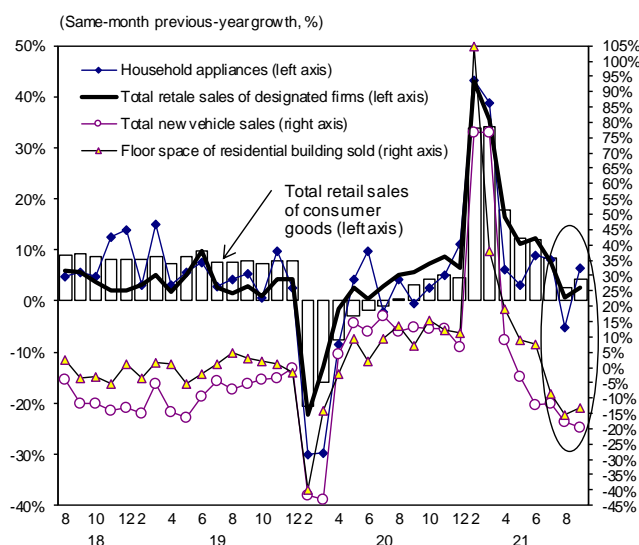
⁵ NBS, October 19, 2021 “翟善清：投资稳增长 结构持续优化 (Zhai Shanqing: Investment is growing stably and the investment structure continues to improve).” Zhai Shanqing is a director of the Investment Department of NBS. http://www.stats.gov.cn/tjsj/sjjd/202110/t20211019_1823062.html

⁶ NBS, October 19, 2021, “Total Retail Sales of Consumer Goods in September 2021.” http://www.stats.gov.cn/english/PressRelease/202110/t20211019_1823034.html

Autumn Festival.⁷

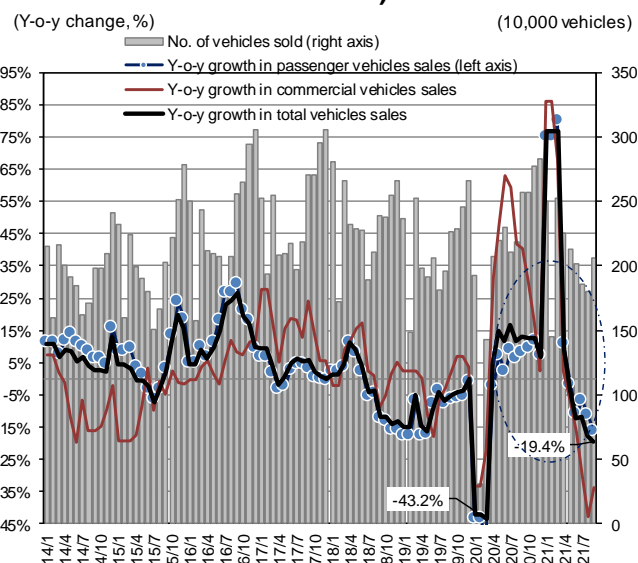
At 2.067 million, sales of new cars fell by -19.4% in September. This was the fifth straight month when sales had contracted (Fig. 8). At 18.608 million, car sales grew by +8.9% over January–September. Though growth was down on January–August’s figure of +13.9% (16.541 million sales), it was up +1.4% compared to January–September 2019 (18.355 million sales).

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 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 September were characterized by ongoing record sales of new-energy vehicles (NEV), the ongoing rise in the share of Chinese-brand passenger cars, a y-o-y slide in the market share of major corporate groups, and a sharp y-o-y increase in automobile exports. The CAAM also said the semiconductor supply problem would improve in October–December compared to July–September, though there would still be a shortage of semiconductors, with cost pressures also expected to grow stronger on rising electricity costs and the soaring price of raw materials. As such, the CAAM predicted that the figures for new vehicle sales in 2021 would be weaker than originally forecast.⁸

⁷ NBS, October 19, 2021, “董礼华: 前三季度消费市场韧性显现 消费结构优化升级态势持续 (Dong Lihua: The consumer market proved remarkably resilient over January–September, with the consumption structure continuing to optimize and upgrade).” Dong Lihua is the director-general of the trade and external economic relations department of the NBS. Though the Mid-Autumn Festival took place in October in 2020, it fell in September in 2021. As such, related consumption may have increased in September and the data might drop back again in October.

http://www.stats.gov.cn/tjsj/sjjd/202110/t20211019_1823056.html

⁸ China Association of Automobile Manufacturers, October 12, 2021, “中国汽车工业协会 2021 年 10 月信息发布会在京召开 (China Association of Automobile Manufacturers Holds a Press Conference in Beijing on October 2021).” In July the CAAM forecast that car sales would grow by +6.7% y-o-y in 2021 to hit 27 million.

http://www.caam.org.cn/chn/1/cate_3/con_5234760.html

▪ Sales prices of residential buildings grew at a slower pace compared to the previous month in 36 of the 70 cities surveyed

At +11.3% (1,303.32 million m²), the floor space of residential buildings sold in January–September 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–August (+15.9%). 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 2016⁹ subsequently spread to other cities with surging house prices,¹⁰ with the restrictions being tightened further.¹¹

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 regulations.¹² Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans banks can extend.¹³

⁹ 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.

¹⁰ 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>

¹¹ 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

¹² Ministry of Housing and Urban-Rural Development, August 23, 2020, “住房城乡建设部、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.

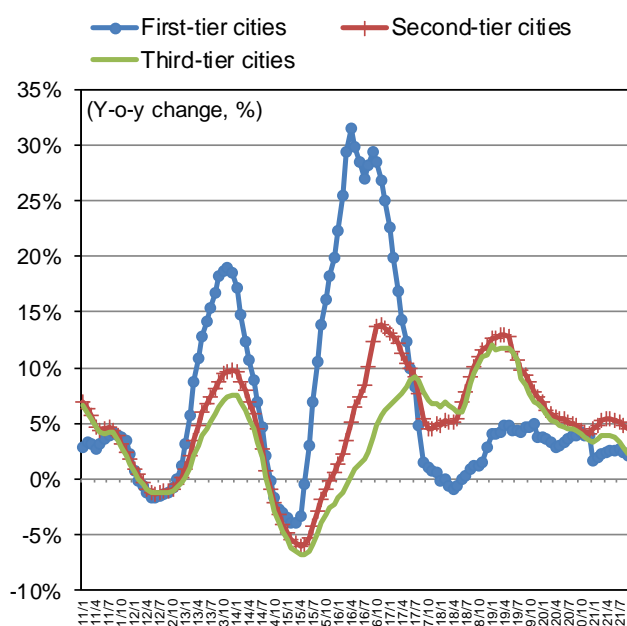
<https://m.21jingji.com/article/20200916/f48a298d32f729636b8ae51767ebf5a1.html>

¹³ 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.

In September, 59 cities saw the price of new homes rising on the previous year, unchanged on August. Growth slowed slightly when it came to first-tier cities (from +2.4% in August to +2.1%), second-tier cities (from +4.9% to +4.6%) and third-tier cities (from +2.8% to +2.3%) (Fig. 9).¹⁴ Eleven cities saw the price of new homes falling on the previous year, up from ten in August.

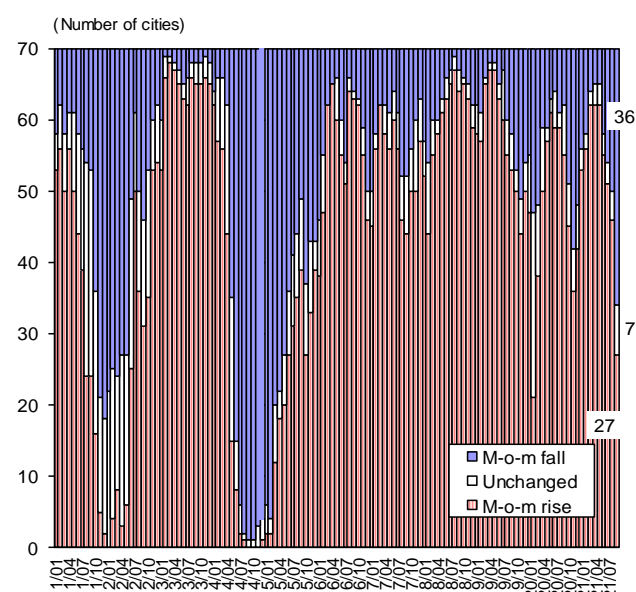
On a monthly basis, 27 of the 70 cities surveyed saw the price of new homes rising, down from 46 in August. Seven cities saw prices moving flatly on the previous month (up from four in August), while 36 cities saw prices falling on the previous month (up from 20 in August) (Fig. 10).¹⁵

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

▪ Exports accelerated but imports slowed

Exports grew by +28.1% (\$305.74 billion) and imports by +17.6% (\$238.98 billion) in September, with exports growing at a faster pace and imports slowing (Fig. 11). The trade surplus stood at \$66.76 billion, with the total trade amount up +23.3%. Exports were up by +33.0% (\$2,400.82 billion) and imports by +32.6% (\$1,973.29 billion) over January–September, with the surplus standing at \$427.54 billion and total trade growing by +32.8%. Exports were

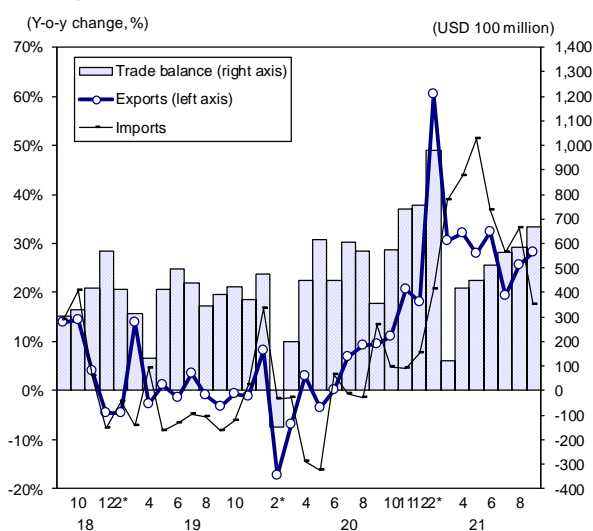
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=955098&itemId=928&generaltype=0>

¹⁴ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Guangzhou +9.0% Jining+8.4%, Chongqing +8.3% (September).

¹⁵ NBS, October 20, 2021, “Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in September 2021” http://www.stats.gov.cn/english/PressRelease/202110/t20211020_1823639.html
 From January 2018, the data no longer includes the sales price of affordable housing.

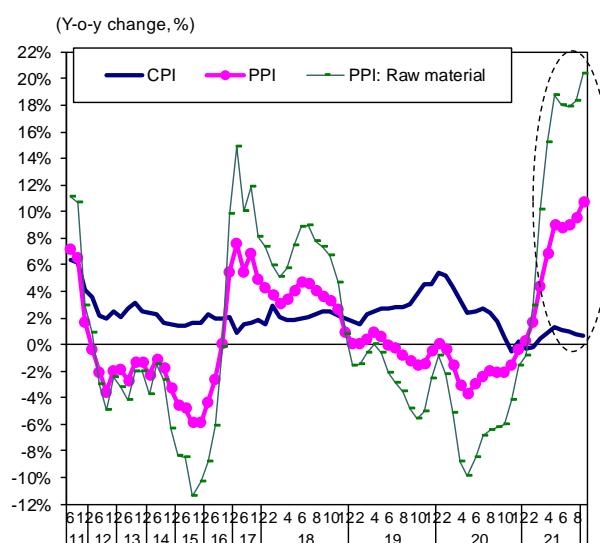
also up by +31.4%, imports by +28.8% and total trade by +30.2% compared to January–September 2019.

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

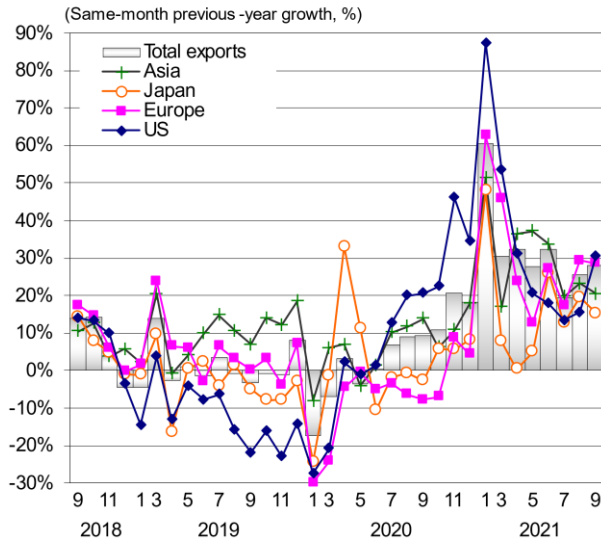
Speaking about trade trends over January–September, the Ministry of Commerce (MOFCOM) noted that: (1) total trade, exports and imports had all posted record growth over the past ten years, with World Trade Organization (WTO) data stating that China’s share of the total global export amount had risen by 0.9 percentage points over January–June to hit 14.6%; (2) the trade structure had improved, with exports of mechanical and electronic products rising by +23.0% to account for 58.8% of the total export amount (mobile phone exports grew by +14.4%, home appliance exports by +20.2%, automobile exports by 107.0% and ship exports by 37.6%); (3) trade supported the domestic and global economic recovery as it boosted production in upstream and downstream industries and investment in manufacturing, with employment moving stably, incomes rising and consumption also recovering as a result. MOFCOM added that China’s share of the total global import amount had risen by 0.7 percentage points over January–June to hit 12%, with China contributing 15% to the total increase in global import.

As for current challenges, MOFCOM said there remained a number of unstable and uncertain factors, including a resurgence of Covid-19, logjammed maritime transportation, rising commodity prices, shortages of some intermediate products, and the strong operational headwinds facing trading companies.¹⁶

All exports slowed apart from those to the US, while imports grew at a slower pace from all countries and regions (Figs. 13 and 14).

¹⁶ State Council website, October 19, 2021, “商务部外贸司负责人谈 2021 年 1-9 月我国外贸运行情况 (FCOM Department of Foreign Trade Comments on the Foreign Trade Situation of China from January to September 2021).” Monetary amounts in the article are RMB denominated. http://www.gov.cn/xinwen/2021-10/19/content_5643530.htm

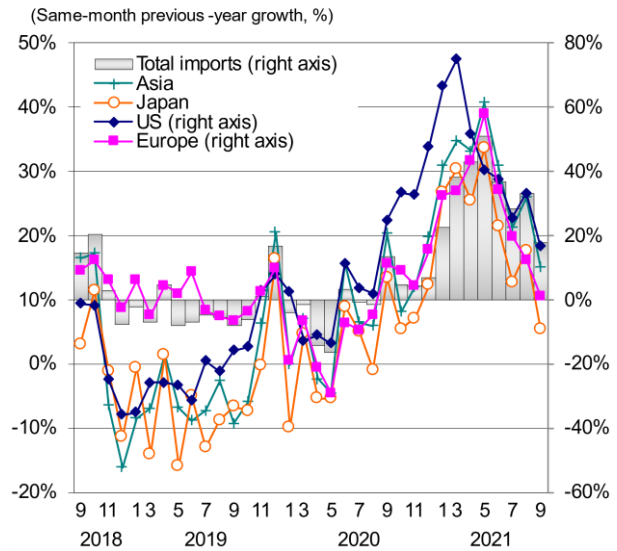
Fig. 13: Exports by major region



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

▪ The CPI data slowed and the PPI data accelerated

At +0.7%, CPI (Consumer Price Index) growth slowed in September (August: +0.8%), with the month-on-month data also slowing (+0.0% m-o-m against +0.1% m-o-m in August) (Fig. 12). Average growth for January–September stood at +0.6%. A breakdown of the CPI data shows food price inflation falling further into negative territories at –5.2% in September (August: –4.1%). Pork prices¹⁷ contracted at a sharper pace (–46.9% against August’s figure of –44.9%) for the ninth straight month. At +2.0%, non-food prices grew at a slightly faster pace in September (August: +1.9%). At +1.2%, meanwhile, the core CPI figure (excluding energy and food) was unchanged on the previous month (August: +1.2%)¹⁸ (Figs. 15 and 16).

At +10.5%, Producer Price Index (PPI) growth accelerated in September (August: +9.5%), with the average for January–September standing at +6.7%. A glance at the details for September shows the price of producer goods accelerating from +12.7% in August to hit +14.2%, with prices growing at a faster clip when it came to mining (from +41.8% to +49.4%), raw materials (from +18.3% to +20.4%) and processing (from +8.0% to +8.9%). At +0.4%, the price of consumer goods rose at a slightly faster pace compared to August’s +0.3%.

When asked about PPI trends at a regular press conference on October 18,¹⁹ NBS spokesperson Fu Linghui spoke

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 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%)

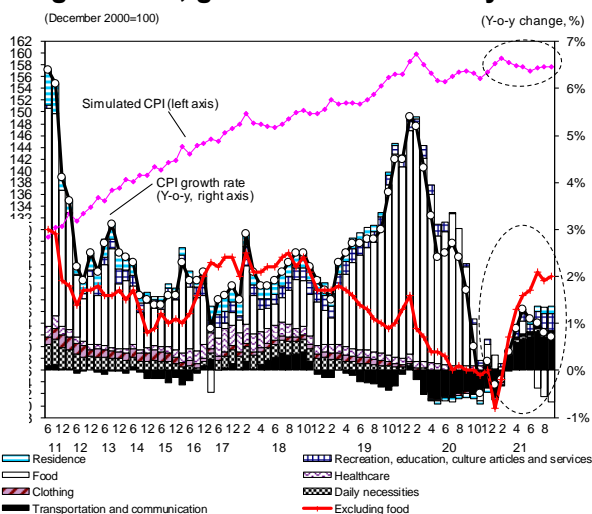
¹⁸ NBS, October 14, 2021, “国家统计局城市司高级统计师董莉娟解读 2021 年 9 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the September 2021 CPI and PPI Data)”

http://www.stats.gov.cn/tjsj/sjjd/202110/t20211014_1822872.html

¹⁹ NBS, October 14, 2021, “国家统计局新闻发言人就 2021 年前三季度国民经济运行情况答记者问 (NBS Spokesperson Answers Journalist

about the growing impact of rising petroleum, coal and metal prices, adding that domestic petroleum-related industries had seen prices growing by +10–30% on rising international crude oil prices, with tight supplies also pushing coal-related prices up by over +30% and steel and non-ferrous metal prices by over +20%. He also said PPI prices could rise further in the short-term as the domestic supply of some raw materials grew tighter as energy prices continued to rise. However, he added that if global energy supplies and the maritime transportation situation improved and the supply of domestic products increased, PPI prices would gradually cool off in the medium- to long-term. He also said the related authorities were working to tackle rising PPI costs and ease corporate production difficulties by examining measures to stabilize supply and prices, with the impact of these measures set to steadily emerge going forward. He also pointed out that the growth of steel and non-ferrous metal prices had slowed by 3.3 percentage points and 3.8 percentage points respectively over 3Q compared to 2Q.

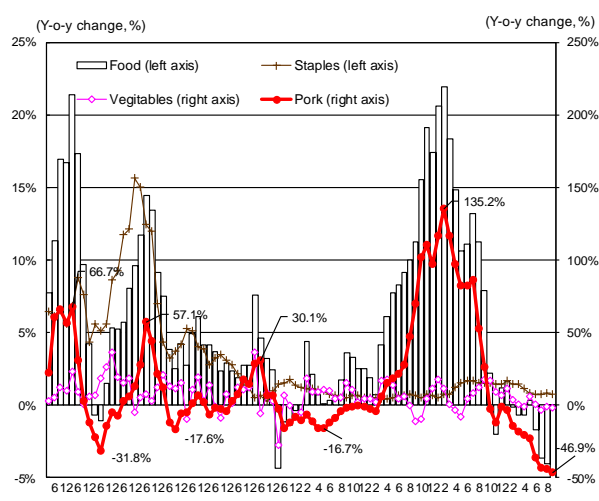
Fig. 15: CPI; growth contribution by item



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

▪ New bank loans increased, but the total social financing amount fell slightly

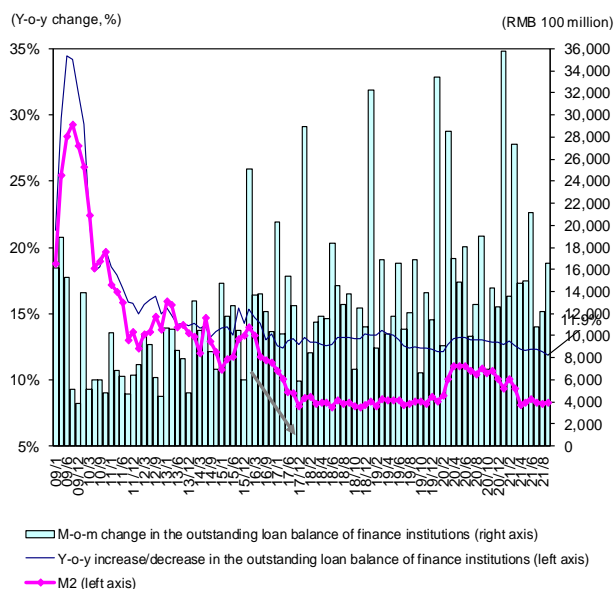
According to the PBC, M2 money supply growth hit +8.3% in September, up slightly on August’s figure of +8.2%. New bank loans increased by a net RMB 1,660.0 billion in September, up on August’s figure of RMB 1,220.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, hit a net RMB 1,566.0 billion in September, down slightly on August’s figure of RMB 2,960.0 billion. A glance at the details reveals that: RMB loans, deposit-taking financial institution ABS and loan repayments grew at a faster pace; banker’s acceptances, corporate bonds, government bonds and non-financial-institution equity issuances grew at a slower

Questions about Economic Performance in January to September 2021”

http://www.stats.gov.cn/tjsj/sjjd/202110/t20211018_1823003.html

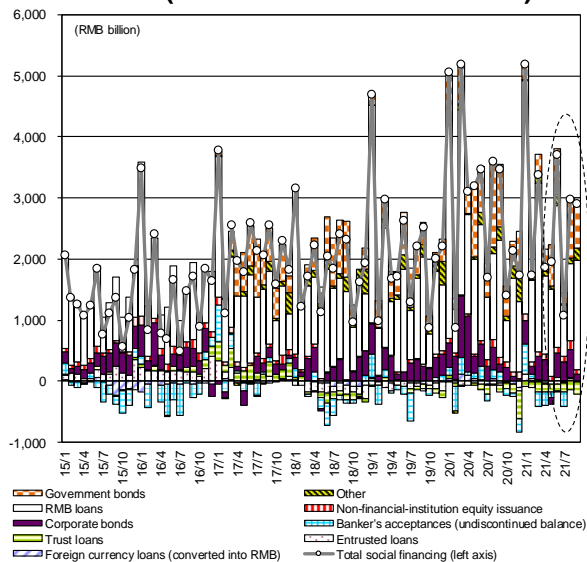
pace; foreign currency loans and entrusted loans moved from expansion to contraction; and trust loans contracted at a faster pace (Fig. 18).

Fig. 17: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 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)



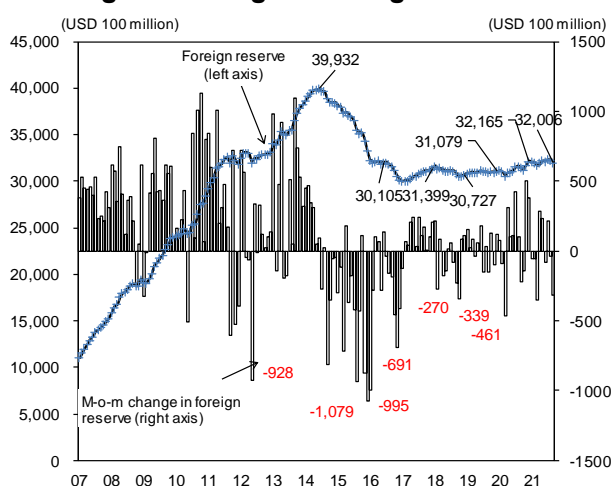
Source: PBC, CEIC

Foreign exchange reserves stood at \$3,200.63 billion at the end of September, down \$31.49 billion on the end of August (\$3,232.12 billion) and down \$15.90 billion on the end of 2020 (Fig. 19). SAFE Deputy Administrator and Press Spokesperson Wang Chunying explained that “influenced by factors like the progress of Covid-19 and the monetary policy expectations of major countries, the US dollar rose in international financial markets, whereas the financial asset prices of major countries broadly declined. China’s foreign exchange reserves, priced by the US dollar, fell this month due to the combined impacts of currency conversion and changes in asset prices.”²⁰

The surveyed unemployment rate stood at 4.9% at the end of September, down from 5.1% at the end of August (Fig. 20).

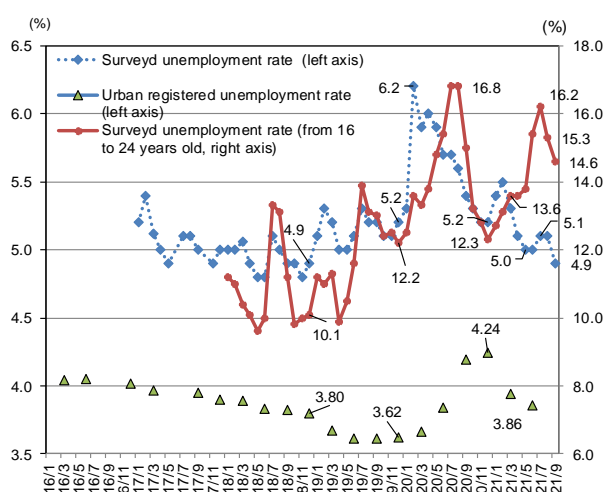
²⁰ State Administration of Foreign Exchange, October 7, 2021 “国家外汇管理局副局长、新闻发言人王春英就 2021 年 9 月份外汇储备规模变动情况答记者问 (SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for September 2021)”
<http://www.safe.gov.cn/safe/2021/1007/20043.html>

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: Moves to guarantee electricity supplies; the announcement of an action plan for cutting CO2 emissions; and revisions to excessive controls on real-estate lending

▪ “The government will strive to ensure a stable supply of coal and electricity” (Xi Jinping)

Since mid-September there have been more reports about energy supply constraints. From October, the authorities tried to guarantee a supply of energy by tweaking policy (by liberalizing electricity prices or capping coal prices for example).²¹ Furthermore, during a symposium held in Shandong on October 22 General Secretary Xi Jinping said the government would strive to ensure the stability of coal and power supplies and secure economic and social operations.²²

With regards to China’s energy control targets (the background to the electricity supply constraints), the authorities released the *Opinions of the CCCPC and the State Council on Achieving Peak Carbon Dioxide and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy*²³ on October 24 and

²¹ See Mizuho China Business Express No.573 and No. 576 for more details about China’s energy control targets (the background to the electricity supply constraints) and the countervailing moves to liberalize electricity prices and cap coal prices, respectively.

<https://www.mizuhobank.co.jp/corporate/world/info/cndb/express/index.html>

²² People’s Daily, October 23, 2021, “习近平在深入推动黄河流域生态保护和高质量发展座谈会上强调 咬定目标脚踏实地埋头苦干久久为功 为黄河永远造福中华民族而不懈奋斗 韩正出席并讲话 (At a symposium held to promote the ecological conservation and high-quality development of the Yellow River Basin, Xi Jinping says China’s resolute efforts to achieve targets will bear fruit in the long term.)” 发言原文: “从供需两端入手, 落实好能耗双控措施, 严格控制‘两高’项目盲目上马, 抓紧有序调整能源生产结构, 淘汰碳排放量大的落后产能和生产工艺。要着力确保煤炭和电力供应稳定, 保障好经济社会运行 “Starting from both ends of supply and demand, the authorities will pursue a ‘dual-control’ policy of limiting total energy consumption and reducing energy intensity. They will also strictly control the blind development of ‘two highs’ (high energy consumption and high emissions) projects while steadily adjusting the energy production structure in an orderly manner and weeding out outdated production capacity with large carbon emissions. The authorities will also make efforts to ensure the stability of coal and power supplies and secure economic and social operations.”

http://paper.people.com.cn/rmrb/html/2021-10/23/nw.D110000renmrb_20211023_1-01.htm

²³ People’s Daily, October 25, 2021, 中共中央 国务院关于完整准确全面贯彻新发展理念做好碳达峰碳中和工作的意见 (September 22, 2021) (Opinions of the CCCPC and the State Council on Achieving Peak Carbon Dioxide and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy)”

http://paper.people.com.cn/rmrb/html/2021-10/25/nw.D110000renmrb_20211025_3-01.htm

the *Action Plan for Achieving Peak Carbon Emissions by 2030*²⁴ on October 26 (Fig. 21). The former sets goals for 2025, 2030 and 2060 while the latter outlines an action plan for reducing emissions up until 2030. The main goals of the Action Plan are to increase energy efficiency and the consumption ratio of non-fossil energy while cutting carbon dioxide (CO₂) emissions. In order to ensure peak carbon is achieved in 2030 as planned, the Action Plan also states that: endeavors to achieve peak CO₂ emissions will be incorporated into all aspects and processes of the economic and social development framework; China will shift to more environmentally-friendly industry patterns; particular focus will be placed on implementation of ten major actions to achieve peak CO₂ emissions (action to improve energy efficiency, etc.); China will step up international cooperation and ensure policy support.

Fig. 1: Targets for cutting CO₂ emissions, etc.

Timeframe	Target
2025	By 2025, the share of non-fossil energy consumption will have reached around 20%; energy consumption per unit of GDP will be lowered by 13.5% from the 2020 level; CO ₂ emissions per unit of GDP will be lowered by 18% from the 2020 level; a solid foundation will be laid for achieving peak carbon
2030	By 2030, the share of non-fossil energy consumption will have reached around 25%; CO ₂ emissions per unit of GDP will have dropped by more than 65% compared with the 2005 level; China will have achieved peak carbon
2060	The share of non-fossil energy consumption will be over 80%

Source: People's Daily, October 25, 2021 “中共中央 国务院关于完整准确全面贯彻新发展理念做好碳达峰碳中和工作的意见” and People's Daily, October 27, 2021 “国务院关于印发 2030 年前碳达峰行动方案的通知”

▪ Revisions to excessive controls on real-estate lending; support for the resumption of projects; implementation of a 5-year real-estate tax trial

Several companies have faced financing problems after the government tightened real-estate regulations from August 2020,²⁵ with concerns growing about suspended projects, delayed property handovers, and employment problems in the construction and construction materials sectors, for example. Under these circumstances, the PBC spoke about the problems facing the property sector at a press conference on October 15.²⁶

When asked whether the PBC might temporarily loosen controls over real estate credit if economic growth decelerated further in the future, Zou Lan, Director-General of the PBC's Financial Market Department said the following: “Recently, as a few large-scale real estate enterprises exposed their risks, financial institutions have significantly decreased their risk appetites for the real estate sector, resulting in widespread credit contractions and a substantial decline in the growth of real estate development loans. Such short-term overreactions are normal market fluctuations...in addition, some financial institutions misinterpreted the administrative rules...the rules require “red-tier” enterprises not to further increase their outstanding interest-bearing debts, which was misunderstood for not being allowed to grant new loans for real estate development. As a result, after enterprises repaid their loans with

²⁴ People's Daily, October 27, 2021, “国务院关于印发 2030 年前碳达峰行动方案的通知 (State Council Circular on the Action Plan For Achieving Peak Carbon Emissions by 2030)”

http://paper.people.com.cn/rmrb/html/2021-10/27/nw.D110000renmrb_20211027_1-07.htm

²⁵ Refer to the footnote 12.

²⁶ China Financial News, October 15, 2021, “2021 年第三季度金融统计数据新闻发布会文字实录 (Transcript of July to September 2021 Financial Statistics Press Conference)”

https://www.financialnews.com.cn/jg/dt/202110/t20211015_230641.html

sales proceeds, they were unable to get loans for their new projects...this caused capital strains for some developers...to address these problems, the PBC and the China Banking and Insurance Regulatory Commission (CBIRC) convened a meeting on real estate finance at end-September, guiding major banks to accurately understand and implement the prudential management practices of real estate finance, and to keep steady and orderly credit supply for the real estate sector.”

An attendee then asked the following question: “The debt crisis of Evergrande Group has attracted extensive concerns of domestic and foreign investors. We want to know what the PBC thinks of the credit risks confronting property developers. Is it a concern for you that the crisis may trigger a systemic risk?” In response, the Director-General said “the total assets of Evergrande Group exceed RMB 2 trillion, of which real estate development projects account for 60%, involving more than 1,000 subsidiaries, which are independent legal entities. In recent years, the company has been poorly managed and failed to operate prudently according to changes in market conditions. Instead, it has blindly diversified and expanded its businesses, causing serious deterioration in its operating and financial indicators, and ultimately leading to risk outbreaks. Of the total liabilities of the Evergrande Group, financial liabilities account for less than one third. Creditors are also dispersed, with small risk exposure to each single financial institution. So on the whole, the risk spillover to the financial sector is controllable.”

He then explained how the government was offering support to real-estate projects and homebuyers involved with Evergrande, saying “currently, relevant authorities and local governments are resolving risks based on market-oriented and law-based principles, urging Evergrande Group to enhance asset resolution and speed up the restoration of project development to safeguard the legitimate rights of housing consumers. In this process, financial authorities will cooperate with housing and urban development authorities and local governments to ensure financial support for the resumption of projects.” He added that “Evergrande Group is an isolated case in the real estate sector. Most real estate enterprises are sound with good financial indicators. The real estate sector is sound on the whole.”

Several other financial authority figures have also made comments about Evergrande and the real-estate sector. On October 20, for example, Vice-premier Liu He said that although there were individual problems in the real-estate market, the risks were generally controllable, with the reasonable capital demand being met and overall trend of the healthy development of the real estate market unchanged,²⁷ while PBC Governor Yi Gang also stated on October 20 that the Evergrande risk was an isolated case, adding that “we are confident that we can prevent the risk from spreading and avoid systemic risk.”²⁸

When the standing committee of the National People’s Congress (NPC; a body equivalent to China’s parliament) met on October 23, meanwhile, it decided to introduce a trial real-estate tax (fixed asset tax) in some regions.²⁹

²⁷ China Financial News, October 21, 2021, “刘鹤在 2021 金融街论坛年会开幕式致辞中强调金融系统要进一步主动担当作为 (Vice-premier Liu He stresses that the financial system needs to be more proactive during introductory remarks at the 2021 Annual Conference of the Financial Street Forum)”

https://www.financialnews.com.cn/jg/ld/202110/t20211021_231002.html

²⁸ China Securities Journal, October 20, 2021, “易纲：恒大风险是个案风险 有信心把风险控制一定范围 (Yi Gang: “The Evergrande risk was an isolated case. We are confident that we can prevent the risk from spreading and avoid systemic risk.”) Speaking about Evergrande, Yi Gang said the biggest risks involved the company not being able to pay its debt, construction projects being suspended, and uncertainties about whether the company could deliver pre-sold housing on time. In response, he said the authorities would (1) try to prevent contagion to other real estate companies and (2) try to prevent contagion to other parts of the financial sector.

http://www.cs.com.cn/sylm/jsbd/202110/t20211020_6211990.html

²⁹ China Securities Journal, October 23, 2021, “房地产税重磅！全国人大常委会授权国务院在部分地区开展改革试点 (Important news about a

▪ **Common prosperity by 2050 is a long-term goal**

The October 15, 2021 edition of Qiushi featured excerpts from a lecture about common prosperity given by Xi Jinping at the August 17 meeting of the Central Committee for Financial and Economic Affairs³⁰ (Fig. 22).³¹ This reaffirmed that the government would strive to achieve common prosperity in stages towards 2050 with an emphasis on ensuring basic public services are more equally accessible and adjusting/strengthening regulations aimed at high earners.

Fig. 2: The path to common prosperity

Timeframe	Goal
2025	Substantial progress toward the common prosperity of all citizens will have been made and income/consumption inequalities will have been gradually reduced by the end of 14th five-year plan
2035	Tangible progress toward the common prosperity of all citizens will have been made and basic public services will have become more equally accessible by 2035
2050	The common prosperity of all citizens will have been achieved and the income/consumption gap will have been reduced to reasonable bounds by the middle of the century

- 1 Balanced, coordinated and inclusive development
 - Reduce regional differences in per-capita government spending and increase support for low-development regions
 - Enhance coordinated industrial development, speed up the reform of monopolistic industries, and promote the coordinated development of finance, real-estate and the real economy
 - Support the development of small and medium-sized enterprises; create an environment that facilitates business growth through mutual dependence and reinforcement between large enterprises and small and medium-sized enterprises
- 2 Expand the size of the middle-income group
 - University graduates occupy an important position among those people entering the middle-income group; respond swiftly to social development needs by improving the quality of higher education and facilitating technical studies
 - Pour energy into developing skilled workers, boost wages, and absorb more high-quality personnel into the ranks of skilled laborers
 - Managers of small and medium-sized firms and sole proprietors are an important group when it comes to innovation; improve the business environment, cut taxes and fees, and improve financial services to enhance this group's stability and increase its income in a sustainable manner
 - Rural workers migrating into cities are an important potential middle-income group; deepen reform of the *hukou* registration system and solve problems regarding the education of children, etc. to enable more rural workers to enter cities comfortably and obtain a stable income
 - Appropriately raise the wages of public workers (especially frontline public workers) and general workers at state-owned enterprises and institutions
- 3 Ensure basic public services are more equally accessible
 - In the promotion of common prosperity, the low-income group is a group that should be protected and helped in a selective manner; increase inputs of inclusive human capital, lower educational costs for poor households in an effective manner, and raise the educational level of children from low-income households
 - Improve the pension and health insurance system, steadily reduce the gap between urban and rural areas, and steadily raise the basic pension
 - Swiftly reduce differences in levels of social assistance provided in urban and rural areas, steadily raise minimum standards of living in urban and rural areas, and cover minimum living standard lines
 - Improve policies governing long-term rental housing, expand the provision of rental housing, and pour energy into

real estate tax! The NPC's standing committee authorizes the State Council to implement a trial reform in some regions.)" The trial period will last five years. Based on the results, a decision will be made about a real-estate tax within six months of the trial period ending. The tax will not apply to housing and residential areas in the rural sector. The specific formulation of taxation measures is entrusted to the State Council and local governments. According to foreign media, the system will probably be trialed in ten or so of China's relatively prosperous cities.

https://mp.weixin.qq.com/s/D5I0mPQpO6zTU08bagh_Gg

³⁰ Mizuho China Business Express Economic Journal (No. 114), pages 9 and 10

https://www.mizuhobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0114-XF-0105.pdf

³¹ Qiushi, October 15, 2021, Xi Jinping, "扎实推动共同富裕 (Steadily Promoting Common Prosperity)"

http://www.qstheory.cn/dukan/qs/2021-10/15/c_1127959365.htm

- solving housing problems facing new urban dwellers
- 4 Adjust/strengthen regulations aimed at high earners
- Regulate excessively high incomes in a rational manner, improve the personal income tax system, and strengthen the control of capital income
 - Actively and steadily pursue legislation and reform regarding property taxes, and steadfastly pursue property tax trials
 - Look into expanding the bounds of consumption tax collection
 - Encourage high earners and companies to give more back to society by strengthening regulations and controls governing charitable or public-benefit contributions and improving preferential tax measures
 - Regulate and stamp out unreasonable incomes, strengthen controls of monopolistic industries and state-owned enterprises, and stamp out disorderly income distribution (such as boosting executive incomes under the guise of reform)
 - Crack down on illegal incomes, regulate money transactions involving the authorities, and crack down on actions to obtain illegal income (insider trading, financial camouflage or tax evasion, etc.)
 - Oppose disorderly capital expansions, prepare a negative list governing participation in sensitive sectors, and strengthen rules banning monopolistic practices
- 5 Promote common prosperity when it comes the inner lives of citizens
- Strengthen patriotic, collectivist and socialist education, promote public cultural projects, and improve public/cultural service systems
- 6 Promote the common prosperity of farmers and rural communities
- Speed up the industrialization of agriculture, renovate rural community assets, boost farmer property revenues, build up rural infrastructure and strengthen rural public service structures to enable more rural citizens to work hard and become prosperous

Source: Qiushi, October 15, 2021, Xi Jinping, “扎实推动共同富裕 (Steadily Promoting Common Prosperity)”

http://www.qstheory.cn/dukan/qs/2021-10/15/c_1127959365.htm

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