

April 29, 2022: Advisory Department, Mizuho Bank (China), Ltd.

—The macroeconomy—

Summary

China's real GDP growth rate for 1Q stood at +4.8% on the same period last year, up on the previous quarter's figure of +4.0%. Domestic demand expanded on a consumption recovery related to the Spring Festival holidays and an acceleration of infrastructure investment. The impact of city lockdowns in Shanghai, etc. will become more apparent from 2Q. The impact will depend on the duration and scale of lockdowns. The government will adjust the strength of its economic stimulus to match the impact of lockdowns as it seeks to achieve its +5.5% growth target.

1. March's indicators slowed on January–February

- The real GDP growth rate accelerated to +4.8% in 1Q on expanded domestic demand
- Production and investment in March slowed compared to January–February, with consumption slipping into negative territories
- Floor space of residential buildings sold contracted at a faster pace; house prices continued to undergo y-o-y falls in third-tier cities
- Imports and exports both slowed
- CPI growth accelerated while PPI growth slowed
- New bank loans increased and total social financing expanded

2. The Policy Response: The impact of lockdowns depends on their duration and scale; the strength of economic stimulus will be adjusted to deal with the impact of lockdowns

- “The absolute number of serious illnesses and deaths might rise if Covid-19 cases increase” (National Health Commission)
- “Frequent domestic outbreaks have had a substantial impact on contact-type consumption and some investment projects” (NDRC)
- “We will provide support to industries severely affected by the Covid-19 and to micro, small and medium-sized enterprises” (PBC)
- “Since March this year, banks in more than 100 cities across the country have lowered their mortgage rates” (PBC)

1. March's indicators slowed on January–February

▪ The real GDP growth rate accelerated to +4.8% in 1Q on expanded domestic demand

On April 18, the National Bureau of Statistics (NBS) announced¹ that China's real GDP growth rate for 1Q stood at +4.8% on the same period last year (from here on, all figures refer to a 'same-period previous-year comparison' unless otherwise specified), with the quarter-on-quarter figure standing at +1.3% (Fig. 1). A glance at contribution levels by demand item over 1Q shows the contribution of final consumption expenditure standing at +3.3 %Pts followed by gross capital formation at +1.3 %Pts and net exports at +0.2 %Pts (Fig. 2). The contribution of domestic demand shrank from +6.4 %Pts to +4.6 %Pts while the contribution of external demand shrank from +1.7 %Pts in 2021 to +0.2 %Pts over 1Q, with the contribution of domestic demand shrinking at a faster pace than that of external demand.

Fig. 1: Breakdown of GDP by demand item

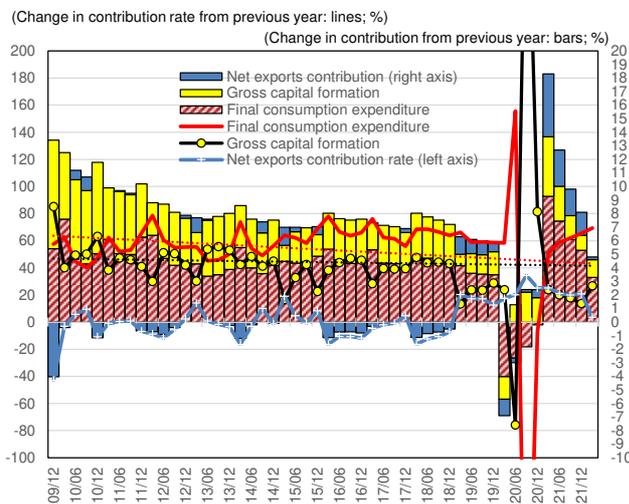
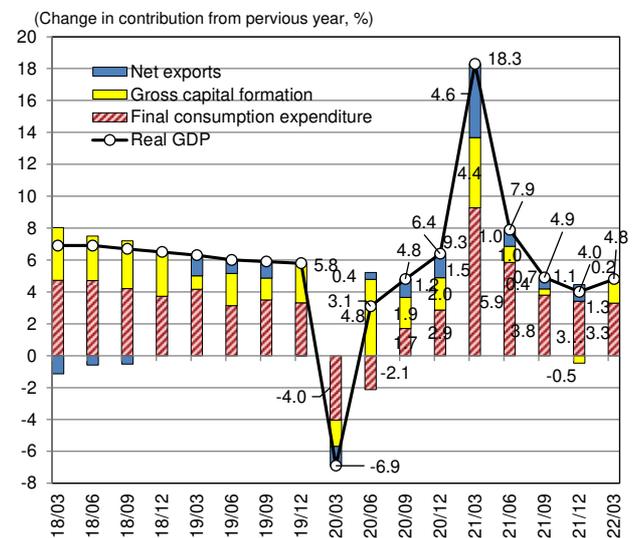


Fig. 2: Breakdown of GDP by demand item (quarterly)



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

Gross capital formation for Jan.–Sep. 2020: +368.0%;

Final consumption expenditure: -302.4%

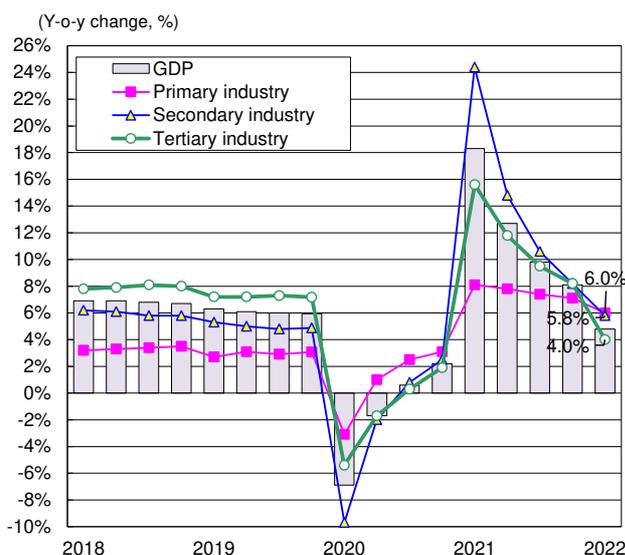
Source: NBS, CEIC

Source: NBS, CEIC

¹ NBS, April 18, 2022, "National Economy Got Off to a Generally Stable Start in the First Quarter"

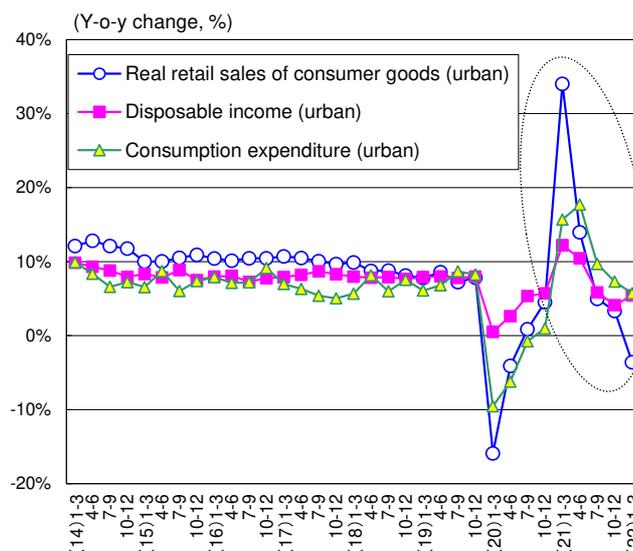
http://www.stats.gov.cn/english/PressRelease/202204/t20220418_1829688.html

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



Source: CEIC

A breakdown by sector shows the primary industry growing by +6.0 %Pts over 1Q, the secondary industry by +5.8 %Pts, and the tertiary industry by +4.0 %Pts, with the tertiary industry noticeably slowing (Fig. 3).

• Production and investment in March slowed compared to January–February, with consumption slipping into negative territories

Value-added industrial production was up +6.5% in 1Q. The figure for March stood at +5.0%, down from +7.5% in January–February² (+0.4% m-o-m) (Fig. 5). When discussing production over 1Q, the NBS said that³: (1) growth continued to be driven by hi-tech manufacturing, with the manufacture of aerospace equipment and facilities growing by +22.4%, electronics and telecommunications equipment by +15.7%, and the manufacture of medicine by +11.8%, while the polycrystal silicon sector grew by +37.6%, the solar cell sector by +24.3%, the single crystal silicon sector by +24.0%, and the industrial robotics sector by +10.2%; (2) export-oriented production had posted double-digit growth, with the chemicals sector up +41.0%, the special-purpose equipment sector by +33.2% and the automobile sector by +29.5%.

At +9.3%, nominal fixed asset investment in 1Q slowed on January–February’s +12.2%. At +6.7%,⁴ the March figure was down on January–February (+0.6% m-o-m). Investment accelerated on January–February when it came to infrastructure construction (from +8.1% to +8.5%), though investment slowed when it came to manufacturing (from +20.9% to +15.6%) and real estate (from +4.7% to +1.8%) (Fig. 6).

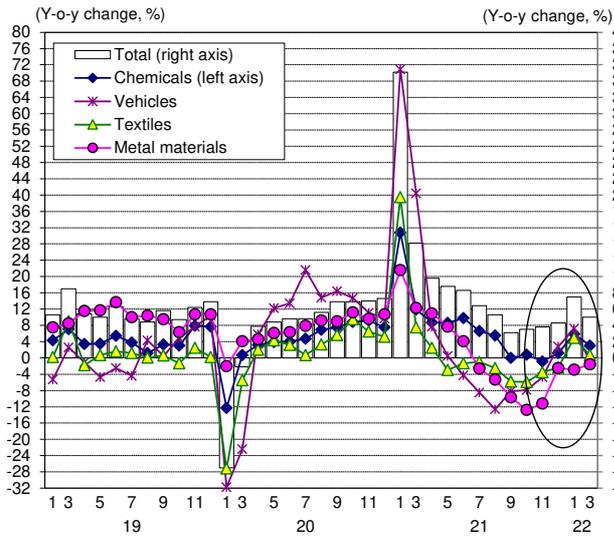
² The comparison is made with the average for January–February to level out the impact of the Chinese New Year holiday.

³ NBS, April 19, 2022, “江源： 助企纾困政策有效发力 工业经济运行总体平稳 (Jiang Yuan: The industrial economy is moving stably overall as policies to support struggling businesses bear fruit). Jiang Yuan is the deputy director of the Department of Industrial Statistics of the NBS.

http://www.stats.gov.cn/tjsj/sjjd/202204/t20220419_1829787.html

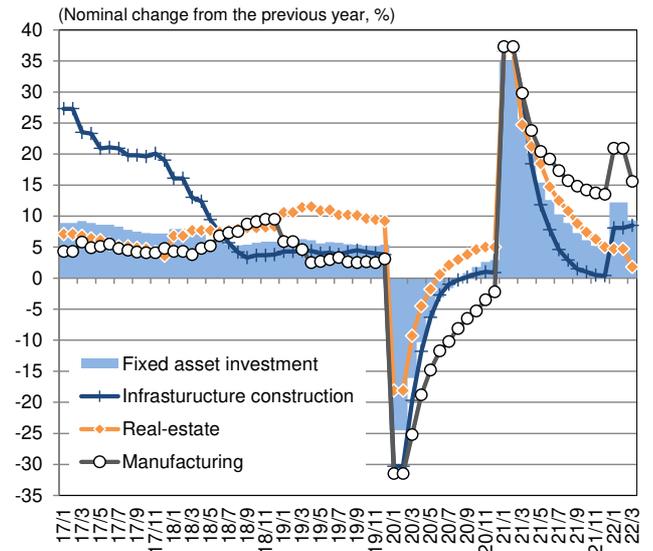
⁴ Calculated by this report’s author based on cumulative figures.

Fig. 5: Value-added industrial production



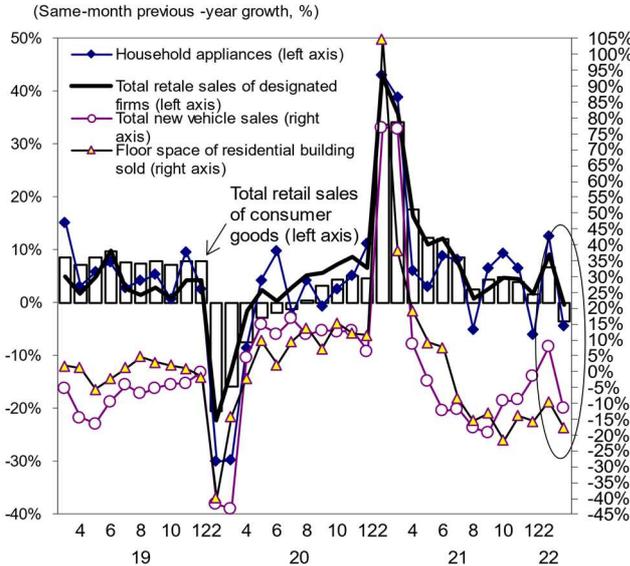
Note: The value-added industrial production amount. The figure for January shows the cumulative y-o-y change for the period January–February.
Source: CEIC

Fig. 6: Fixed asset investment



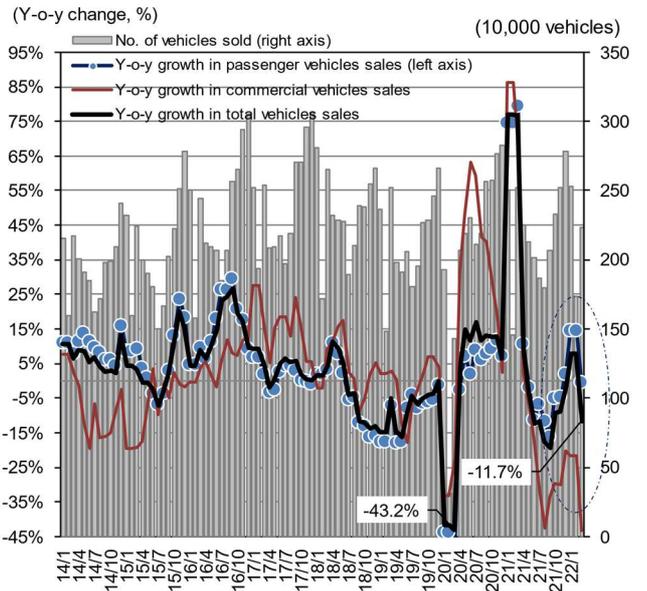
Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question.
Source: NBS, CEIC

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

Nominal retail sales of consumer goods grew by +3.3% in 1Q, down on January–February’s figure of +6.7% (Figs. 4 and 7). At –3.5%, the March figure contracted compared to January–February (–1.9% m-o-m). Goods sales fell by –2.1% in March, with food spending undergoing a double-digit contraction at –16.4%.

Internet retail sales of goods and services grew by +6.6% to hit RMB 3,012.0 billion over 1Q. At RMB 2,525.7 billion, internet retail sales of goods grew by +8.8% (sales of services: RMB 486.3 billion) to account for 23.2% of total retail sales of consumer goods during this period (RMB 10,865.9 billion)⁵.

At 2.234 million, sales of new cars fell by –11.7% in March, with the figure falling further into negative territories after growing for the first time since April 2021 over January–February (–7.8%). At 6.509 million, car sales grew by +0.2% to just about remain in positive territories over 1Q (Fig. 8). According to the China Association of Automobile Manufacturers (CAAM), car sales in 1Q were characterized by: ongoing rapid y-o-y growth when it came to the production and sales of new-energy vehicles (NEV); a sharp rise in the domestic share of Chinese-brand passenger cars; a y-o-y slide in the market concentration of key players (the share of the top 10 carmakers in terms of sales); stronger sales growth of automobile gasoline engines compared to diesel engines; and an ongoing sharp rise in exports.

Speaking about supply conditions in the automobile industry over 1Q, Chen Shihua, deputy secretary general of CAAM, said the problem of semiconductor shortages remained unsolved overall, with corporate product production costs rising further on the surging cost of the raw materials needed to manufacture electric vehicle power batteries. This was having a significant impact on automaker production and management activities, with overall conditions moving below expectations. He added that automobile consumer activity was clearly losing momentum, with the data falling substantially on the same period last year. However, he said that NEV production and sales continued to grow at a fast clip (+1 million vehicles apiece) to claim a market share of 19.3%, with strategic automobile sector moves to drive NEV growth clearly bearing fruit.⁶

▪ Floor space of residential buildings sold contracted at a faster pace; house prices continued to undergo y-o-y falls in third-tier cities

At –13.8% (310.46 million m²), the floor space of residential buildings sold contracted further in March after slipping into negative territories in January–February (–9.6%) for the first time since September 2020. Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People’s Bank of China (PBC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen in March 2016⁷ subsequently spread to other cities with

⁵ NBS, April 18, 2022, “Total Retail Sales of Consumer Goods in the First Quarter of 2022”
http://www.stats.gov.cn/english/PressRelease/202204/t20220419_1829886.html

⁶ China Association of Automobile Manufacturers, April 12, 2022, “中国汽车工业协会 2022 年 4 月信息发布会在京召开 (CAAM Holds a Press Conference in Beijing on April 2022).”
http://www.caam.org.cn/chn/1/cate_3/con_5235651.html

⁷ On March 25, 2016, the down payment rate for second homebuyers was lifted from 40% to 50–70% in Shanghai. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both moves represent a tightening of restrictions on purchases by non-resident buyers.

surging house prices,⁸ with the restrictions being tightened further.⁹

Funds flowed into the housing market on the back of monetary easing introduced 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.¹⁰ Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans banks can extend.¹¹

In March, 40 cities saw the price of new homes rising on the previous year, down six cities on February. Twenty-nine cities saw the price of new homes falling on the previous year, up from 24 in February. Growth slowed in first-tier cities (from +0.5% in February to +0.3%) and second-tier cities (from +2.6% to +2.2%) while contracting at a faster pace in third-tier cities (from -0.1% to -0.6%) (Fig. 9).¹²

On a monthly basis, 29 of the 70 cities surveyed saw the price of new homes rising, up from 27 in February. Three cities saw prices moving flatly on the previous month (unchanged on February), while 38 cities saw prices falling on the previous month (down from 40 in August) (Fig. 10).¹³

⁸ Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. 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>

⁹ 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% 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

¹⁰ 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>

¹¹ 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 %Pts and a four-year grace period if they exceed the caps by more than 2 %Pts.

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

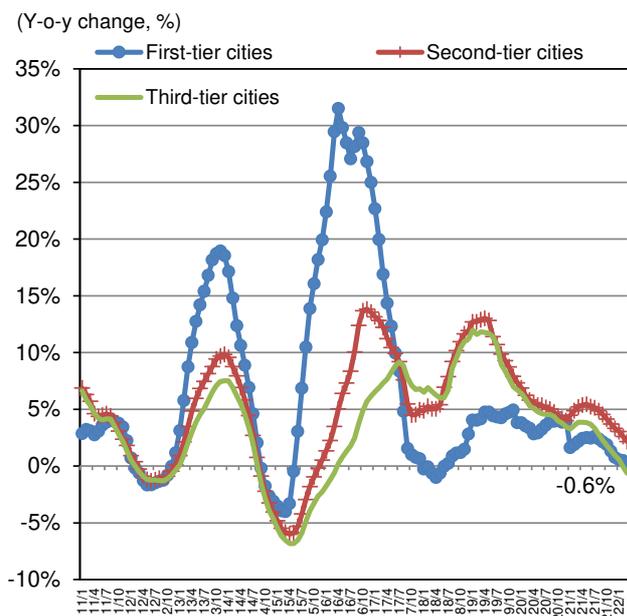
¹² Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Chongqing +8.1%, Yinchuan +6.6%, Hangzhou +6.2% (March).

¹³ NBS, April 15, 2022, “Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in March 2022”

http://www.stats.gov.cn/english/PressRelease/202204/t20220415_1829636.html

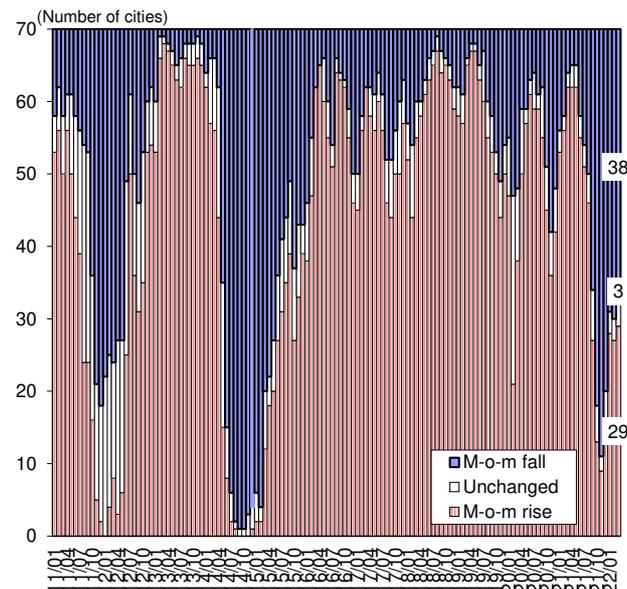
From January 2018, the data no longer includes the sales price of affordable housing.

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



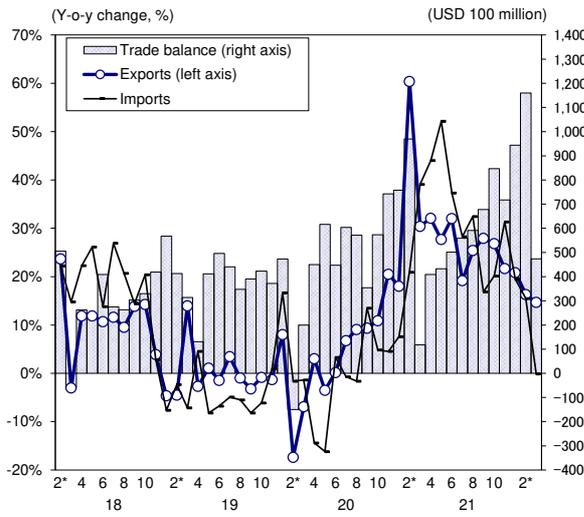
Source: NBS, CEIC

▪ Imports and exports both slowed

Exports grew by +15.8% (\$820.92 billion) and imports by +9.6% (\$657.98 billion) in 1Q, with imports and exports both slowing (Fig. 11). The trade surplus stood at \$162.94 billion, with the total trade amount up +13.0%. Exports rose by +14.7% (\$276.08 billion) in March while imports hit -0.1% (\$228.70 billion) to record negative y-o-y growth for the first time since August 2020, with the surplus standing at \$47.38 billion. A glance at trade trends by item reveals that: exports of machinery and electronic products hit RMB 3,050.0 billion (+9.8%) in 1Q to account for 58.4% of total exports, with solar cells (+100.8%), lithium batteries (+53.7%) and automobiles (+83.4%) all growing at a fast pace; exports of labor-intensive products hit RMB 900.05 billion (+10.9%), with exports of bags, shoes and toys growing by +24%, +20.4% and +16.9% respectively.¹⁴

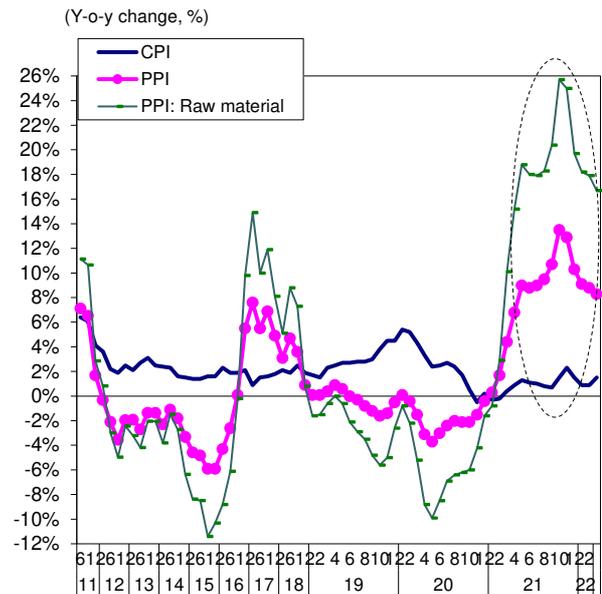
¹⁴ State Council website, April 13, “国务院新闻办就 2022 年一季度进出口情况举行发布会 (State Council Information Office Holds a Press Conference Regarding Trade in January–March 2022)”. The y-o-y data is RMB-denominated.
http://www.gov.cn/xinwen/2022-04/14/content_5685717.htm

Fig. 11: Imports/exports; trade balance



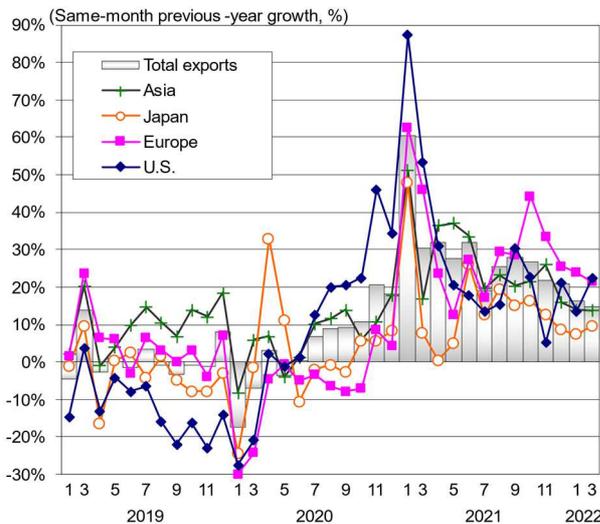
Note: *The figures show a same-period previous-year comparison results of January–February and total.
Source: China Customs Statistics

Fig. 12: CPI, PPI



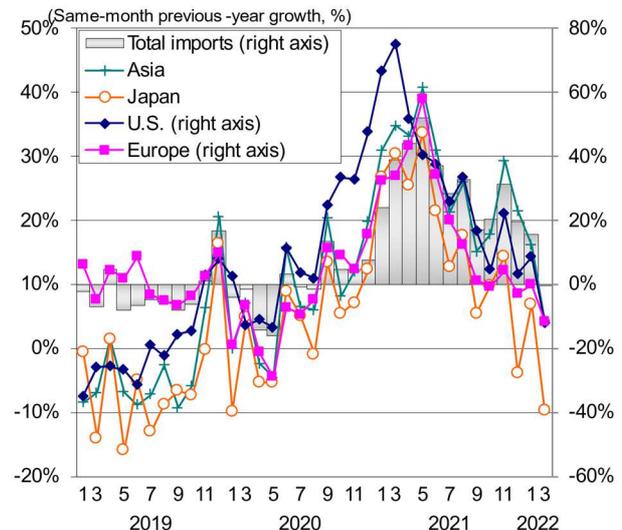
Note: The data from June 2011 to 2017 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

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

Speaking about trade trends at a press conference on April 14, Ministry of Commerce (MOFCOM) spokesperson Shu Jueting said “the environment...is becoming more challenging and complicated and risks and challenges abound. Internationally, bottlenecks in global supply chains are yet to be alleviated. Inflationary pressures are rising, major economies are tightening their monetary policies, and global economic and trade growth have slowed down,” adding that “at home, recently, frequent local Covid-19 outbreaks in many places have undermined the production and

operation of some foreign trade enterprises and hindered logistics and transport, resulting in impediments in supply chains in the Yangtze River Delta, Pearl River Delta and other regions, as well as high overall costs for enterprises.”¹⁵

Exports to the US and Japan accelerated, while imports from all regions slowed. (Figs. 13 and 14).

▪ CPI growth accelerated while PPI growth slowed

At +1.5%, CPI (Consumer Price Index) growth accelerated in March (January–February: +0.9%), though it remained below the +3.0% target for 2022, as outlined at the National People’s Congress. The m-o-m data slowed from +0.6% in February to +0.0% (Fig. 12). A breakdown of the CPI data shows food price inflation remaining in negative territories at –1.5%, though less so than in January–February (–3.9%). At –41.4%, pork prices¹⁶ in March contracted at a slightly slower pace compared to January–February (–42.1%) on “sluggish demand and ample supplies” (NBS), though vegetables prices began rising again at +17.2% (January–February: –2.1%). At +2.2%, non-food prices grew at a slightly faster pace in March (January–February: +2.1%). At +1.1%, though, the core CPI figure (excluding energy and food) slowed slightly (January–February: +1.2%)¹⁷ (Figs. 15 and 16).

At +8.3%, Producer Price Index (PPI) growth slowed in March (January–February: +8.9%) (Fig. 12). A glance at the details for March shows the price of producer goods slowing from +11.6% in January–February to +10.7%. Though prices grew at a faster clip when it came to mining (from +34.0% to +38.0%), they grew at a slower pace when it came to raw materials (from +18.1% to +16.7%) and processing (from +6.8% to +5.7%). At +0.9%, the price of consumer goods grew at the same pace as in January–February.

¹⁵ The Ministry of Commerce, April 14, 2022 “商务部召开例行新闻发布会 (Ministry of Commerce Holds a Regular Press Conference) <http://www.mofcom.gov.cn/xwfbh/20220414.shtml>

¹⁶ 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%) and 52.96 million tons in 2021 (+28.8%).

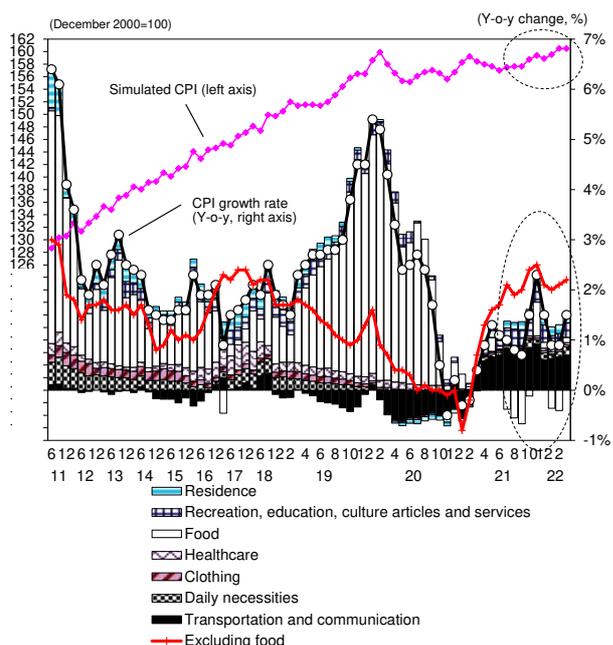
¹⁷ NBS, April 12, 2022, “Consumer Prices for March 2022”

http://www.stats.gov.cn/english/PressRelease/202204/t20220412_1829528.html

“国家统计局城市司高级统计师董莉娟解读 2022 年 3 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the March 2022 CPI and PPI Data) “

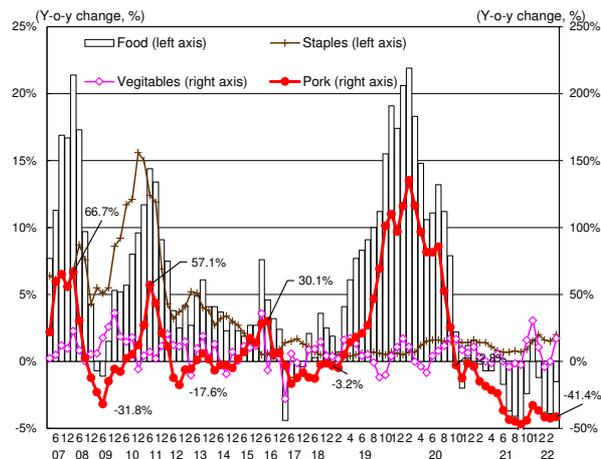
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Fig. 15: CPI; growth contribution by item



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 2018 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Fig. 16: Food prices

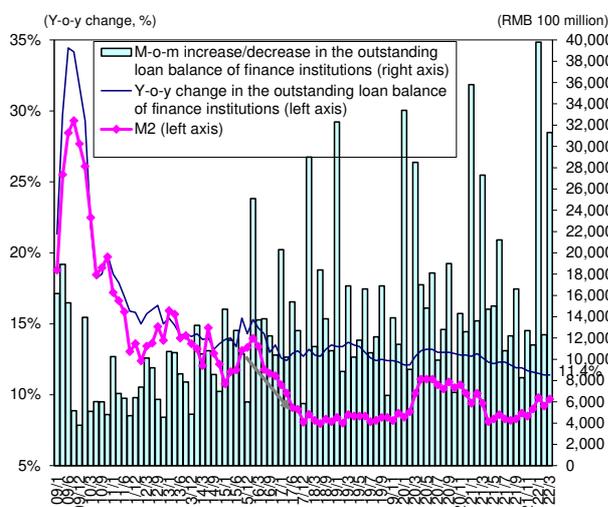


Note: The data until 2018 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

▪ New bank loans increased and total social financing expanded

According to the PBC, M2 money supply growth hit +9.7% in March, up on February's figure of +9.2%. New bank loans increased by a net RMB 3,130.0 billion, up on February's figure of RMB 1,230.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, rose to a net RMB 6,175.0 billion in March, up on February's figure of RMB 1,192.8 billion. A glance at the details reveals that RMB loans, government bonds, non-financial-institution equity issuances and loan repayments grew at a faster pace while foreign currency loans and corporate bonds grew at a slower pace. Entrusted loans and banker's acceptances began growing again. Trust loans contracted at a slightly slower pace, while deposit-taking financial institution ABS slowed at a faster pace (Fig. 18).

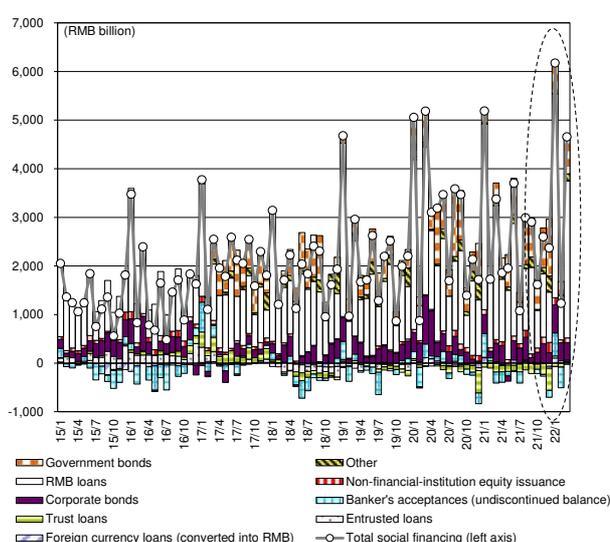
Fig. 17: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2018. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.

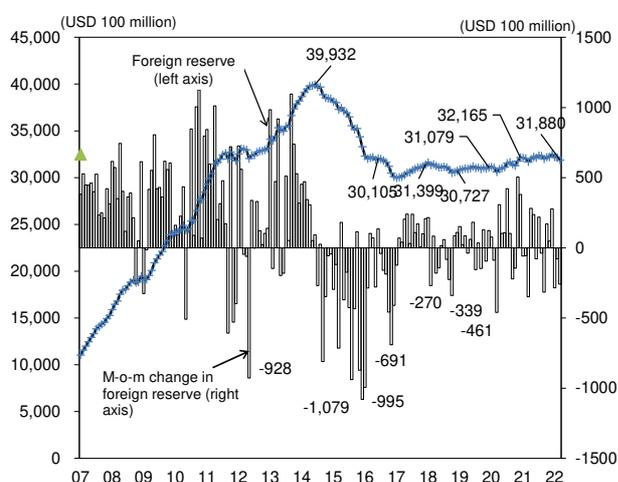
Source: PBC, CEIC

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



Source: PBC, CEIC

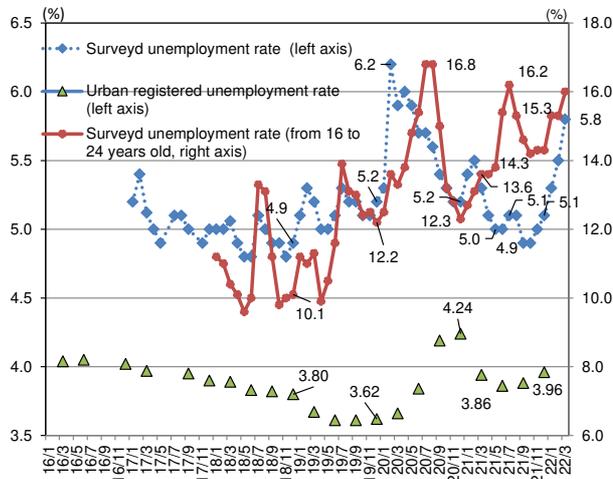
Fig. 19: Foreign exchange reserves



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 end-of-month data for 2018–2020 and the latest month and the highest figure as of the time of publication.

Source: NBS, CEIC

Foreign exchange reserves stood at \$3,187.99 billion at the end of March, down \$25.83 billion from the end of February (\$3,213.83 billion). This was the third straight month reserves had fallen (February: -\$7.8 billion), with the March figure also down \$62.17 billion compared to the end of 2021 (Fig. 19). SAFE Deputy Administrator and Press Spokesperson Wang Chunying explained¹⁸ that “the international financial market witnessed a rise in the US

¹⁸ State Administration of Foreign Exchange, April 7, 2022 “国家外汇管理局副局长、新闻发言人王春英就 2022 年 3 月份外汇储备规模变

dollar index and a fall in bond prices of major countries due to the monetary policies of major countries, the geopolitical situation, and the Covid-19 pandemic. Denominated in the US dollar, China's foreign exchange reserves declined this month due to the combined effects of currency translation and asset price changes.”

The surveyed unemployment rate stood at 5.8% at the end of March, up from 5.5% at the end of February. The NBS said¹⁹ that although people who leave their jobs after the Spring Festival holidays generally find new positions from March onwards, people had found it harder to gain employment from March this year owing to Covid-19 outbreaks, with the situation also impacting applications to job offers (Fig. 20).

2. The Policy Response: The impact of lockdowns depends on their duration and scale; the strength of economic stimulus will be adjusted to deal with the impact of lockdowns

• “The absolute number of serious illnesses and deaths might rise if Covid-19 cases increase” (National Health Commission)

China's “zero-Covid policy”²⁰ has dampened contact-type consumption in sectors such as tourism, business trips and dining out, with related industries also feeling the pinch when it comes to earnings and employment. However, even if lockdowns are implemented in areas with outbreaks, these restrictions will be lifted after two weeks or perhaps up to a month at most, so the impact of curbs on economic and social activities in these areas will not last forever. Under the “four earlies” principle (early detection, early reporting, early isolation, and early treatment), the authorities have used mass PCR testing to detect, isolate and treat (if needed) infected people. In doing so, they have managed to keep a lid on the number of cases, serious cases and deaths.

Why does China continue to pursue a strict zero-Covid policy? On March 22, Liang Wannian, head of the National Health Commission's Covid-19 leading task force, said there were three reasons behind the ongoing policy: (1) China faced an increase in infected people arriving from overseas and frequent outbreaks across a wide-range of regions within China; (2) though the rate of serious illnesses and deaths due to Omicron remained low, the variant was highly transmissible, so the absolute number of serious illnesses and deaths might rise if cases increased;²¹ and (3) China had the infrastructure, conditions and capabilities to carry out a dynamic zero-Covid policy, with the policy well-suited to the domestic situation.²²

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 March 2022)”

<http://www.safe.gov.cn/safe/2022/0407/20822.html>

¹⁹ The State Council Information Office, April 18, 2022, “国新办举行一季度国民经济运行情况新闻发布会 (The State Council Information Office Convenes a Meeting to Discuss National Economic Performance in January-March). Answers to CNBC journalist.

<http://www.scio.gov.cn/xwfbh/xwfbh/wqfbh/47673/48113/wz48115/Document/1722954/1722954.htm>

²⁰ Official name: The Dynamic Zero-Covid Policy. The aim is not to reduce the number of cases to zero but rather to keep the number of ‘social cases’ to zero by isolating infected people and ensuring there are no cases among people who are allowed to move around freely. JETRO Business News: “An Expert explains that ‘Dynamic Zero-Covid’ does not mean ‘zero Covid cases.’”

<https://www.jetro.go.jp/biznews/2022/04/c04b308af91cbaac.html>

²¹ In a meeting with representatives from US, European, Japanese and other chambers of commerce on April 18, Wang Wentao, Minister of the Ministry of Commerce, introduced a Peking University estimate that 2 million people could die within a year in China if the zero-Covid policy was relaxed. Source: April 19, 2022, Kyodo News

²² State Council website, March 22, 2022, “国务院联防联控机制举办的新闻发布会 (The State Council holds a press conference about joint prevention and management mechanisms.)” Liang Wannian outlined the following four targets that would need to be met before the authorities would conclude that Covid-19 outbreaks were subsiding (thus allowing for the zero-Covid policy to be abolished):(1) Falling incidence and transmission rates on the emergence of weaker variants, (2) the development of more effective treatments, particularly specific Covid-19 remedies, (3) the emergence of

With regards to (2), there are strong concerns about the low rate of vaccinations, particularly among elderly people with pre-existing conditions.²³

▪ “Frequent domestic outbreaks have had a substantial impact on contact-type consumption and some investment projects” (NDRC)

From mid-March, Shanghai adopted strict restrictions on travelling outdoors. This began in districts where cases of Covid-19 were detected before developing into a “city-wide lockdown.”²⁴ At one point, the authorities even cracked down on people leaving home to get food or seek medical care. Shanghai port is the global leader when it comes to the number of containers handled, so the lockdown has also impacted supply chains.

When asked at a regular press conference on April 19 about the impact of frequent Covid-19 outbreaks in several regions across China, Meng Wei, spokesperson for the National Development and Reform Commission (NDRC), said contact-type consumption and some investment projects had been hit comparatively hard, though she said the outbreaks had only had a limited impact on domestic demand, with production and daily life returning to normal in Shenzhen, etc. and consumption and investment demand steadily recovering. She also said that companies had adapted very well to the changes while China’s economic development had proved very resilient, with the fundamentals still expected to improve in the long term.

The spokesperson also outlined three policy responses: (1) stimulate consumption²⁵ and investment, (2) further ease burdens on businesses, and (3) secure the bottom line of people’s livelihoods²⁶ (Fig. 22).

vaccines that are more effective in preventing infections, and (4) improved conditions in other countries, with China thus facing less pressure to prevent cases arriving in China from overseas.

<http://www.gov.cn/xinwen/gwylflkjz188/wzsl.htm>

²³ 267 million people aged 60 and over have received two vaccinations, a vaccination rate of 79.4% (the rate for the overall population is 88.0%). Reference: 92.6% of Japanese people aged 65 and over have received two vaccinations (overall population: 80.1%).

Source: People’s Daily, March 31, 2022, p.8 “坚持”动态清零”不放松 (China maintains its dynamic zero-Covid policy, with not relaxation of restrictions).”

Prime Minister of Japan and His Cabinet, “Regarding Covid-19 Vaccines” (As of April 27, 2022)

<https://www.kantei.go.jp/jp/headline/kansensho/vaccine.html>

The percentage of elderly people in Shanghai who have received two vaccinations: “60–69 = 78%; 70–79 = 61%; 80+ = just 15%.” (Xinmin Evening News website, April 13, 2022) Furthermore, while the national life expectancy is 75, Shanghai’s is 84 (as of 2021).

http://paper.people.com.cn/rmrb/html/2022-03/31/nw.D110000renmrb_20220331_1-08.htm

<https://wap.xinmin.cn/content/32146190.html>

People’s daily Japanese edition, February 18, 2022, “Shanghai’s average life expectancy grows to 84.11.”

<http://j.people.com.cn/n3/2022/0218/c94475-9959880.html>

²⁴ Planned from March 28 to April 1 in Pudong district and from April 1 to April 5 in Puxi district, though at the time of writing the lockdowns remain in place, with no end date announced.

²⁵ Details about moves to stimulate consumption were announced in the “国务院办公厅关于进一步释放消费潜力促进消费持续恢复的意 (Opinion of the General Office of the State Council on Further Unleashing Consumption Potential and Promoting the Ongoing Recovery) (Guo Ban Fa [2022] No.9),” released April 25. This was comprised of 20 items covering the following five areas: (1) promoting a consumption recovery through anti-pandemic measures, (2) stabilizing consumption by improving quality and innovation, (3) improving support systems and strengthening overall capacity, (4) building up the consumption environment, and (5) strengthening safeguards. State Council website, April 25, 2022

http://www.gov.cn/zhengce/content/2022-04/25/content_5687079.htm

²⁶ National Development and Reform Commission website, April 19, 2022, “国家发展改革委举行 4 月份新闻发布会 (NDRC Holds a Press Conference in April).”

<https://www.ndrc.gov.cn/xwdt/wszb/20224yue/?code=&state=123>

▪ “We will provide support to industries severely affected by the Covid-19 and to micro, small and medium-sized enterprises” (PBC)

At a regular PBC press conference on April 14, Sun Guofeng, Director-General of the Monetary Policy Department of the PBC, was asked about monetary policy in the wake of a Covid-19 rebound, external geopolitical conflicts and the real estate market downturn, for example. In response, he said the PBC would “employ when appropriate monetary policy tools such as reserve requirement ratio (RRR) cuts, and further strengthen the financial sector’s support for the real economy, especially for industries, micro, small and medium-sized enterprises (MSMEs) and self-employed businesses severely affected by Covid-19. The financial system will reasonably forgo its profits in favor of the real economy and reduce the overall financing costs.” He added that “in terms of aggregates, we will keep liquidity adequate at a reasonable level and maintain a stable growth of credit aggregates. In terms of prices, we will leverage the progress achieved in the LPR (loan prime rate) reform and reduce the overall financing costs for businesses. In terms of structure, we will promptly provide the special central bank lending for sci-tech innovation and inclusive elderly care services, make good use of the support instruments for inclusive micro and small business (MSB) loans,²⁷ increase central bank lending for rural development and MSBs, and effectively implement the Carbon Emission Reduction Facility (CERF) and the special central bank lending for the clean and efficient use of coal.²⁸”

When asked about difficulties MSMEs may face from the extension of Shanghai’s lockdown, Zou Lan, Director-General of the PBC’s Financial Market Department, said “the service industry, among others, and MSBs have been hard hit and are faced with difficulties in their normal business operations.” He noted that in February 2022 the NDRC had released *Several Policies on Promoting the Recovery and Development of Service Industries in Difficulty*, adding that “through inclusive financial support and industry-specific support measures, assistance is weighted more heavily toward industries which have been experiencing particular difficulties, such as catering, retail, tourism, transportation (including highways, waterways, and railways), and civil aviation. At end-March, outstanding inclusive MSB loans recorded RMB 20.8 trillion, increasing 24.6% year-on-year and maintaining a high growth rate.”

He continued: “We will extend all-out support to alleviate industries and MSBs from their difficulties and safeguard the overall stability of the macro economy. First, we will fully implement financial relief policies, and guide financial institutions to increase credit supply to regions and industries hard hit by the Covid-19...Second, we will continue to utilize the instrument supporting inclusive MSB loans, central bank lending and central bank discount to strengthen positive incentives. Financial institutions should raise the proportion of unsecured loans and first-time loans in inclusive MSB loans...Third, we will further enhance our capacity to provide financial services for MSMEs, urge commercial banks to consistently optimize internal resource allocation and policy arrangements, improve performance assessment, due diligence, and liability exemption, [and] intensify fintech empowerment.”

In the wake of these policies, on April 15, the PBC decided to lower the reserve requirement ratio by 0.25 %Pts

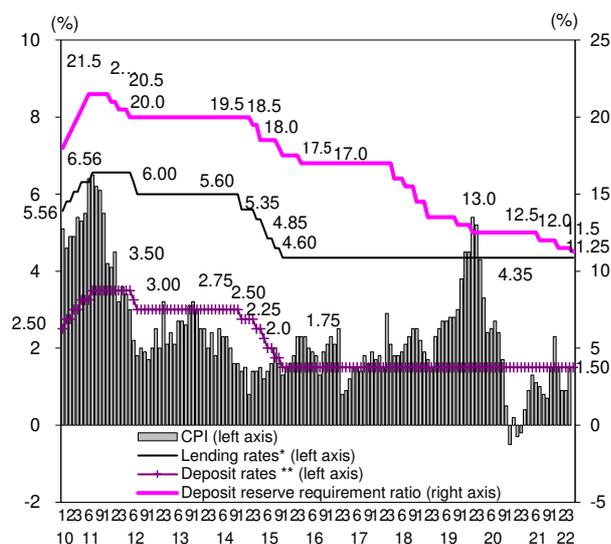
²⁷ Inclusive finance refers to financial structures that provide services to all layers of society in an effective and comprehensive manner.

²⁸ Financial News, April 15, 2022, “2022 年第一季度金融统计数据新闻发布会文字实录”

https://www.financialnews.com.cn/jg/dt/202204/t20220415_244111.html

from April 25. These were the first cuts since December 2021²⁹ (Fig. 21). These moves pumped RMB 530 billion into the markets. In another interview, a PBC spokesperson outlined three policy goals going forward: (1) optimize financial institution financing structures, increase long-term financial institution fund sources, strengthen financial institution fund allocation capacities, and strengthen support for the real economy; (2) guide financial institutions to actively utilize funds released by the lowering of the reserve requirement ratio to provide support to industries severely affected by the Covid-19 and to MSMEs; (3) reduce financial institution funding costs by around RMB 6.5 billion a year by lowering the reserve requirement ratio and promote the reduction of total social financing costs through financial institution transmission.³⁰

Fig. 21: Deposit and lending rates and reserve requirement ratio movements



Note: * One-year floating fund lending rates for businesses; ** One-year fixed term rates
Source: PBC

“Since March this year, banks in more than 100 cities across the country have lowered their mortgage rates” (PBC)

When asked about the growth of property loans at the aforementioned press conference, Director-General Zou Lan said “Recently, as Covid-19 outbreaks have reduced some people’s income and affected property construction and promotion, home sales have declined, with the issuances of personal home loans falling slightly.” He added that “as the outstanding amount of personal home loans has been increasing, monthly repayment figures are also on the rise. At end-March, personal home loans outstanding totaled RMB 38.8 trillion, up +8.9% on the same period last year. According to our observations, although the ratio of home loan issuances to new home sales are at a historically high level, the year-on-year growth rate of the outstanding amount has fallen by 2.3 %Pts from end-2021.”

²⁹ Financial News, April 18, 2022, “人民银行决定 4 月 25 日下调金融机构存款准备金率 0.25 个百分点 (The PBC decided to lower the reserve requirement ratio by 0.25 %Pts on April 25)”

https://www.financialnews.com.cn/jg/dt/202204/t20220418_244255.html

³⁰ Financial News, April 18, 2022, “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 Spokesperson for the PBC answers journalist questions about the reserve requirement ratio reduction)”

https://www.financialnews.com.cn/jg/dt/202204/t20220418_244256.html

The Director-General also spoke about property development loans, saying “as the Evergrande risks unfolded, triggering reaction from financial institutions, the PBC guided commercial banks to focus more on the solvency of the project itself so as to maintain the stable issuance of property development loans and satisfy the reasonable financing needs of property projects. In Q1 2022, the average monthly increase in the national total of property development loans surpassed that in Q4 2021 by approximately RMB 150 billion; and the outstanding amount of property development loans was relatively high in view of the scale of new homes under construction in the same period.” He added that “since March this year, with the weakening of market demand, banks in more than 100 cities across the country have lowered their mortgage rates by 20 to 60 basis points on average.”

Based on the above, it seems the PBC will offer policy support to the real-estate industry, though demand for homes purchases is by no means strong.

Speaking about an expansion of its property tax reform trial, China’s Finance Ministry said³¹ on March 16 that although it had begun preliminary surveys and research in some cities, it adjudged conditions were not yet ripe for such a move based on a comprehensive consideration of various aspects.

The economic impact of lockdowns in Shanghai and elsewhere will start to emerge from 2Q onwards, while other cities besides Shanghai have implemented lockdowns or similar restrictions on mobility. Depending on the time and scale of these lockdowns, the government may move to strengthen its stimulus policies as it seeks to hit its target for +5.5% real GDP growth.³² Attention should be paid to Covid-19 outbreaks and the policy response.

³¹ Financial News, March 16, 2022, “财政部有关负责人就房地产税改革试点问题答记者问 (A Spokesperson for the Ministry of Finance answers journalist questions about the property tax reform trial.”

https://www.financialnews.com.cn/hg/202203/t20220316_241892.html

³² Mizuho Research & Technologies, Ltd., April 26, 2022, “FY2022–FY2023 Economic Outlook: Global economy expected to slow as resource prices soar following the Russian invasion of Ukraine”; China’s real GDP growth is expected to hit +4.7% in 2022 and +5.2% in 2023.

<https://www.mizuho-ir.co.jp/publication/report/research/forecast/2022/outlook220426.html>

Full report: <https://www.mizuho-ir.co.jp/publication/report/2022/pdf/outlook220426.pdf>

Fig. 22: The policy response to Covid-19 (NDRC)

1. Stimulate consumption and investment	
Consumption	<ul style="list-style-type: none"> Extend support to alleviate industries which have been experiencing particular difficulties, such as catering, retail, tourism, civil aviation and transportation (including highways, waterways, and railways); further stabilize consumption service industries by encouraging stronger support for regions. Expand consumption in priority areas; continue to support NEV consumption and provide regional support for the eco/smart home appliance purchases/replacement buys. Promote new consumption patterns, merge online and offline consumption, and nurture new consumption business types. Unleash consumption potential in provinces and townships;* expand logistics enterprises and E-commerce platforms to rural villages. Guide financial institutions to improve consumer financial products.
Effective investment (Priority areas)	<ul style="list-style-type: none"> Accelerate infrastructure investment in a reasonable manner; promote investment in waterways, transport and energy infrastructure, rebuild and remodel urban gas pipe networks, etc., upgrade flood control and drainage facilities, and strengthen new infrastructure. Invest in manufacturing and hi-tech industries; promote moves to strategically dismantle barriers facing core/critical technologies; promote energy saving and low CO2 usage in coal thermal power generation, promote energy saving and low CO2 usage in the fossil fuels and steel sectors, etc., and invest in equipment manufacturing. Reinforce weak areas when it comes to society and people's livelihoods; rebuild old urban housing and strengthen/improve hygiene, education, elderly care and childcare.
(Funding security elements)	<ul style="list-style-type: none"> Build major state strategic/priority projects using investment from the central budget; issue RMB 3.65 trillion worth of special bonds; maintain manufacturing industry mid- to long-term lending growth at high levels. Strengthen security elements involving land and energy use; independently record the energy consumption of large-scale projects that meet certain conditions.
2. Strengthen moves to ease burdens on companies	<ul style="list-style-type: none"> Strengthen support for the real economy and micro, small and medium-sized enterprises; prevent and eliminate funding shortages facing small and medium sized companies. Steadfastly carry out logistics maintenance work while executing anti-pandemic measures.
3. Secure the bottom line of people's livelihoods (employment prioritization strategy)	<ul style="list-style-type: none"> Create jobs for graduates, help migrant rural workers to find work locally or away from home, create jobs for people returning back home, develop large-scale vocational skills training, and improve the quality of job-finding services. Secure the basic lifestyles of the poor by maintaining the supply of livelihood products and stabilizing prices.

Note: * The administrative unit below a municipality

Source: NDRC, April 15, 2022, "国家发展改革委新闻发布会 介绍积极扩大有效投资有关情况"

April 19, 2022, "国家发展改革委举行 4 月份新闻发布会 19 日"

<https://www.ndrc.gov.cn/xwdt/wszb/ldyxtz/wzsl/?code=&state=123>

<https://www.ndrc.gov.cn/xwdt/wszb/20224yue/?code=&state=123>

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