

—The macroeconomy—

## **Mizuho China Business Express Economic Journal**

(No. 88)

### **Summary**

China's real GDP growth rate in Q1 2019 was pushed up to +6.4% y-o-y thanks to bullish external demand. This was unchanged on the figure recorded in Q4 2018 and also within the government's target for 2019 of +6.0–6.5%, though domestic demand was down on the previous period. Economic indicators improved in March. The policy focus has shifted from ensuring growth to reform, opening up, and structural adjustment (the Central Politburo meeting).

#### **1. Economic indicators improved in March compared to January–February**

- **The GDP growth rate stood at +6.4% in Q1 2019; the contribution of net exports soared**
- **Production, investment and consumption all grew at a faster pace**
- **Homes prices rose slightly in all tiers of city**
- **Imports and exports both improved on quarterly basis**
- **'Pork prices are expected to rise by over 70% over July–December' (Ministry of Agriculture and Rural Affairs)**
- **New bank loans saw a net increase, with total social financing also expanding**

#### **2. The policy response: The focus has shifted from ensuring growth to reform, opening up and structural adjustment**

- **'Headwinds are partly due to cyclical factors but there are also structural and systemic factors' (the Central Politburo meeting)**
- **'A neutral monetary policy will be pursued in a manner that is neither too tight nor too loose' (the Central Politburo meeting)**

## 1. Economic indicators improved in March compared to January–February

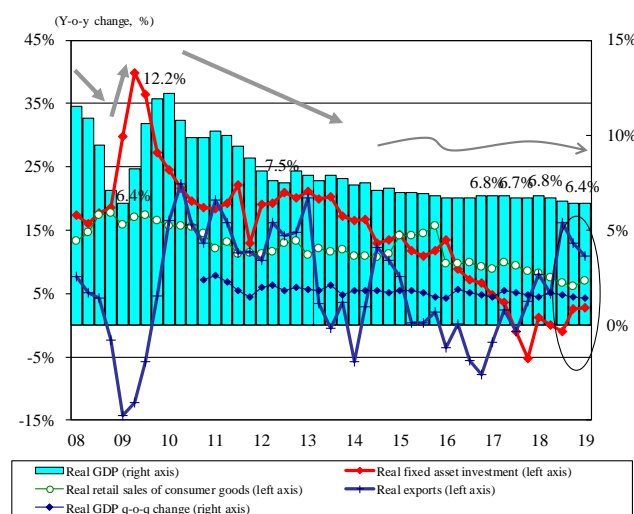
### • The GDP growth rate stood at +6.4% in Q1 2019; the contribution of net exports soared

On April 17, the National Bureau of Statistics (NBS) announced<sup>1</sup> that China’s real GDP growth rate in Q1 2019 stood at +6.4% on the same period last year (from here on, the figures refer to a ‘same-period previous-year comparison’ unless otherwise specified), unchanged on the +6.4% figure recorded in Q4 2018 and within the government’s target for 2019 of +6.0–6.5% (Fig. 1). Growth was up +1.4% on the previous quarter.

A glance at contribution levels by demand item for Q1 shows the contribution of final consumption expenditure hitting +4.2%, down 0.4%Pt on the previous quarter’s figure of +4.6%, with the contribution of gross capital formation also shrinking by 0.5%Pt, from +1.3%Pt to +0.8%Pt. However, the contribution of net exports soared by 1.0%Pt, from +0.5%Pt to 1.5%Pt (Figs. 2 and 3), with bullish external demand compensating for the slide in domestic demand. During this time, the value of RMB-denominated exports rose as the RMB moved bearishly (its value against the dollar fell by 5.7% on the same period last year in Q1) and PPI prices, etc. increased at a slower rate ( $\approx$  deflator shrinkage). However, imports moved weakly, particularly when it came to parts and raw materials for the processing trade, with the trade surplus subsequently widening<sup>2</sup> and external demand making a greater contribution.

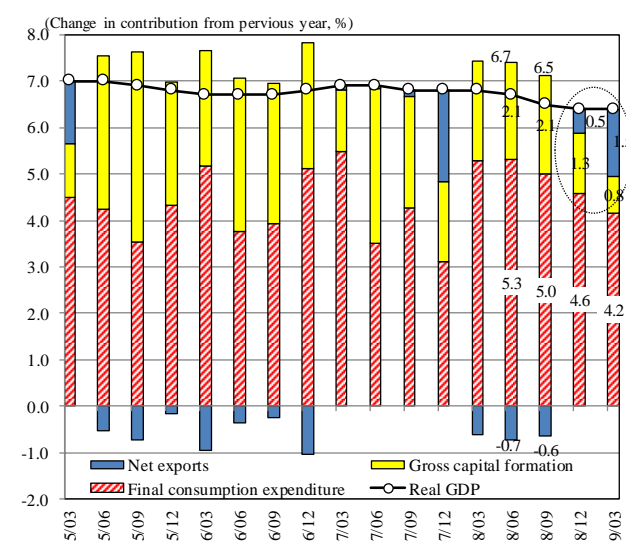
A breakdown by sector shows the tertiary industry growing by +7.0% over Q1, down on 2018’s figure of +7.6%. At +6.1%, though, growth in the secondary industry was up on 2018’s figure of +5.8% (Fig. 4).

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



Note: The real RMB value of exports is indexed using the producer price index (PPI); the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI).

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



Source: National Bureau of Statistics of China, CEIC

<sup>1</sup> NBS, April 17, 2019, “一季度国民经济开局平稳 积极因素逐渐增多 (The National Economy Enjoyed Stable Performance with Growing Positive Factors in the First Quarter of 2019)”

[http://www.stats.gov.cn/tjsj/zxfb/201904/t20190417\\_1659936.html](http://www.stats.gov.cn/tjsj/zxfb/201904/t20190417_1659936.html)

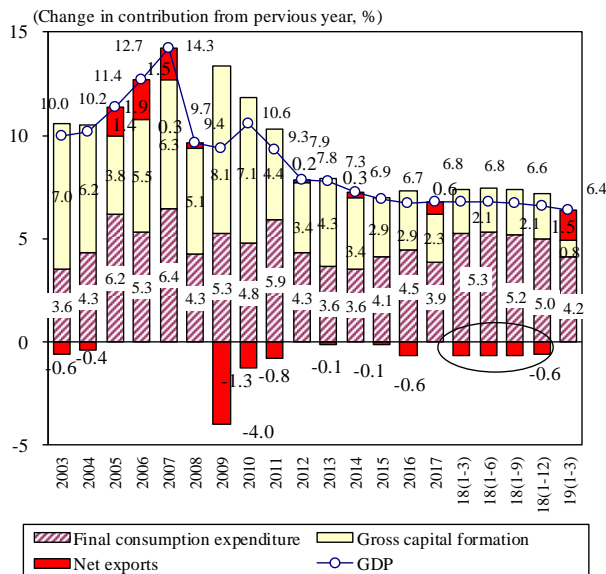
“国家统计局新闻发言人就 2019 年一季度国民经济运行情况答记者问 (An NBS Spokesperson Answers Journalist Questions about Economic Performance in Q1, 2019)”

[http://www.stats.gov.cn/tjsj/sjjd/201904/t20190417\\_1660054.html](http://www.stats.gov.cn/tjsj/sjjd/201904/t20190417_1660054.html)

<sup>2</sup> The dollar-denominated customs clearance trade balance stood at \$76.31 billion, up +70.1% on the same period last year (\$44.85 billion).

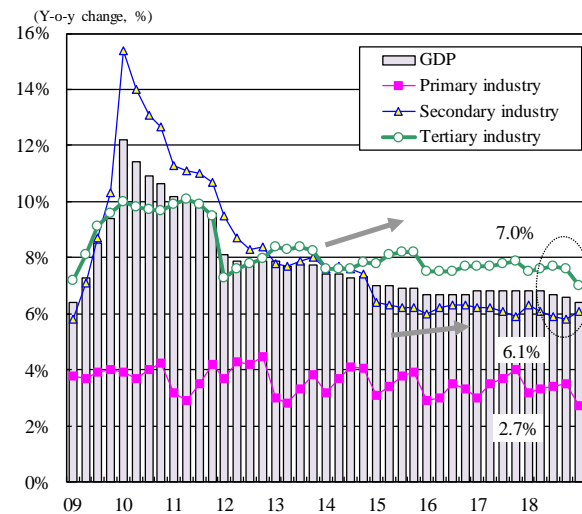
Source: National Bureau of Statistics of China, CEIC

**Fig. 3: Breakdown of GDP by demand item**



Source: National Bureau of Statistics of China, CEIC

**Fig. 4: GDP by sector**



Note: The figures denote the most recent period.

Source: National Bureau of Statistics of China, CEIC

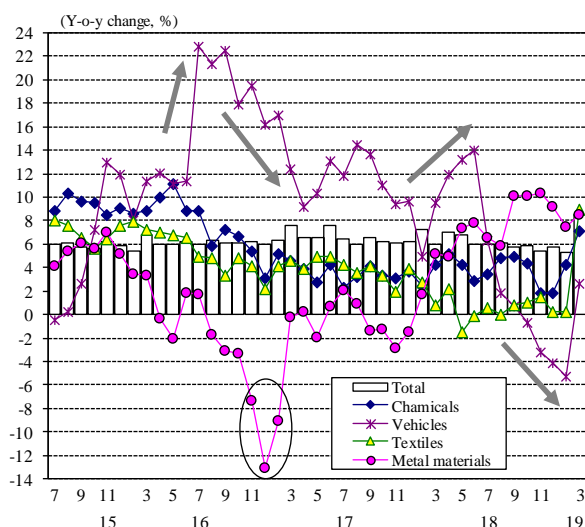
**• Production, investment and consumption all grew at a faster pace**

March’s economic indicators were up on January–February (the comparison is made with January–February to level out the impact of the Chinese New Year holiday). At +8.5% on the same month last year, value-added industrial production in March was up on January–February’s figure of +5.3% (the m-o-m figure was +1.0%) (Fig. 5). The NBS said this uptick was due to: (1) a decrease in the value added tax rate; (2) production shifting into gear after the Chinese New Year holiday came to an end; and (3) the low base figure from the same month last year<sup>3</sup>.

At +6.3% (March: +6.5%), nominal fixed asset investment in Q1 was up on January–February’s +6.1% (the m-o-m figure was +0.5%). Investment in real estate development grew by +11.4 in Q1, up on January–February’s figure of +10.6% (Fig. 6). At +4.4%, investment in infrastructure construction was up slightly on the 4.3% figure recorded in January–February, though manufacturing investment slowed from +5.9% to +4.6%.

<sup>3</sup> NBS, April 18, 2019, “张卫华：工业生产运行稳中有升 (Zhang Weihua: Industrial Production Expanded Stably).” Zhang Weihua is a Deputy-Director, Department of Industrial Statistics of NBS. [http://www.stats.gov.cn/tjsj/sjjd/201904/t20190418\\_1660371.html](http://www.stats.gov.cn/tjsj/sjjd/201904/t20190418_1660371.html)

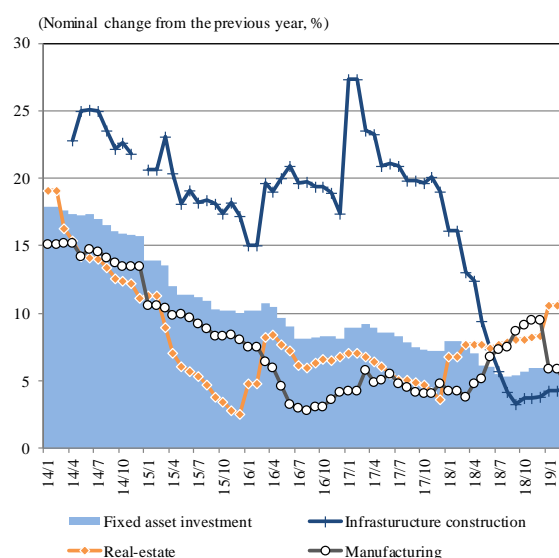
**Fig. 5: Value-added industrial production**



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

Source: CEIC

**Fig. 6: Fixed asset investment**



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

Source: National Bureau of Statistics of China, CEIC

Nominal retail sales of consumer goods grew by +8.7% in March, up on January–February’s +8.2 (the m-o-m figure was +0.9%) (Fig. 7). Internet retail sales of goods and services hit RMB 2,237.9 billion (goods: RMB 1,777.2 billion; services: RMB 460.7 billion), with net shopping growing by +21.0% to account for 18.2% of total retail sales of consumer goods (RMB 9,779.0 billion)<sup>4</sup>. Goods related to ‘consumption upgrading’ continued to grow at a fast clip, with sales of telecommunications equipment and cosmetics growing by +10.0% and +10.9% respectively over Q1<sup>5</sup>.

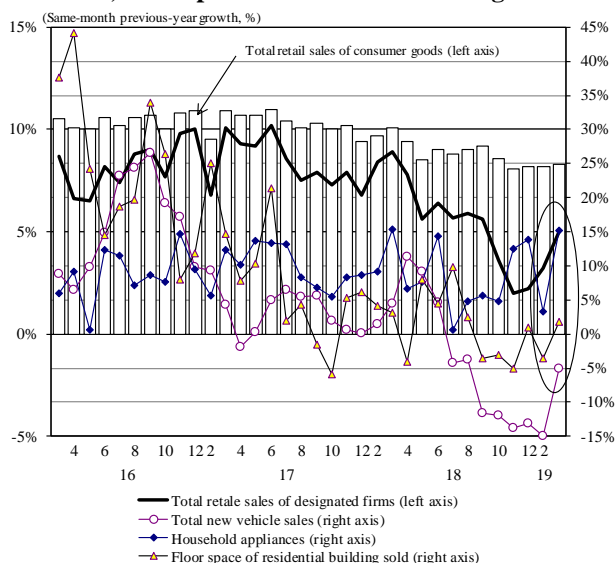
Sales of new vehicles hit 2.5200 million in March (-5.1%). The figure was up (on a monthly average basis) on January–February’s 3.8489 million (-15.0%), with the scale of the y-o-y slide also shrinking (Fig. 8). Sales had trended upward until 2017 (28.941 million and +3.6%), but in 2018 they hit 28.0398 million (-3.1%) to record the first y-o-y decline since 1990. The slowdown was probably because the tax break on purchases of small passenger vehicles (instituted in October 2015) was abolished at the end of 2017<sup>6</sup>, with consumer sentiments also hit uncertainty on US/China trade frictions.

<sup>4</sup> NBS, April 17, 2019 “2019 年一季度社会消费品零售总额增长 8.3% (Total Retail Sales of Consumer Goods Up by 8.3 Percent in the First Quarter 2019)” [http://www.stats.gov.cn/tjsj/zxfb/201904/t20190417\\_1659960.html](http://www.stats.gov.cn/tjsj/zxfb/201904/t20190417_1659960.html)

<sup>5</sup> NBS, April 18, 2019, “*简涛：消费市场总体平稳 消费方式创新发展 (Lin Tao: Consumer Markets are Moving Calmly Overall, with Consumption Patterns Reforming and Developing)*.” Lin Tao is Acting Director-General, Census Center, NBS [http://www.stats.gov.cn/tjsj/sjjd/201904/t20190418\\_1660386.html](http://www.stats.gov.cn/tjsj/sjjd/201904/t20190418_1660386.html)

<sup>6</sup> On December 15, 2016, the Ministry of Finance and the State Administration of Taxation announced that the tax cut on purchases of new vehicles with low emissions would be extended one year to the end of 2017. However, the tax rate will rise from 5% to 7.5%, so the size of the cut (compared to the normal tax rate of 10%) will be halved in 2017 (2.5%). Ministry of Finance: “*关于减征 1.6 升及以下排量乘用车车辆购置税的通知 (Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)*” [http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215\\_2483048.html](http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html)  
On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016. <http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html>

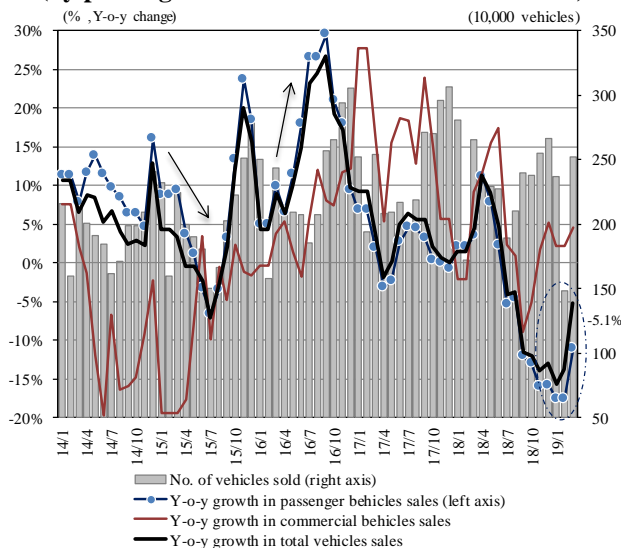
**Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold**



Note: Designated firms: firms with an annual turnover of RMB 5 million or over; the household appliance data also refers to sales by these designated firms; February = the cumulative results for January–February.

Source: CEIC

**Fig. 8: Number of vehicles sold (by passenger vehicles and commercial vehicles)**



Note: The figure for January and February shows cumulative y-o-y growth for the period January–February.

Source: China Association of Automobile Manufacturers, CEIC

**• Homes prices rose slightly in all tiers of city**

The floor space of residential buildings sold fell by -0.9% (298.29 million m<sup>2</sup>) in Q1. This was down on 2017’s figure of +7.7% and 2018’s figure of +1.3%. Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People’s Bank of China (PBOC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen<sup>7</sup> in March 2016 subsequently spread to other cities with surging house prices<sup>8</sup>, with the restrictions being tightened further<sup>9</sup>.

In March, 70 cities saw the price of new homes rising on the previous year, up from 69 cities in February. Prices grew by 4.2% in first-tier cities. This represented a further acceleration after growth in February had hit +4.0%

<sup>7</sup> 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.

<sup>8</sup> 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](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>

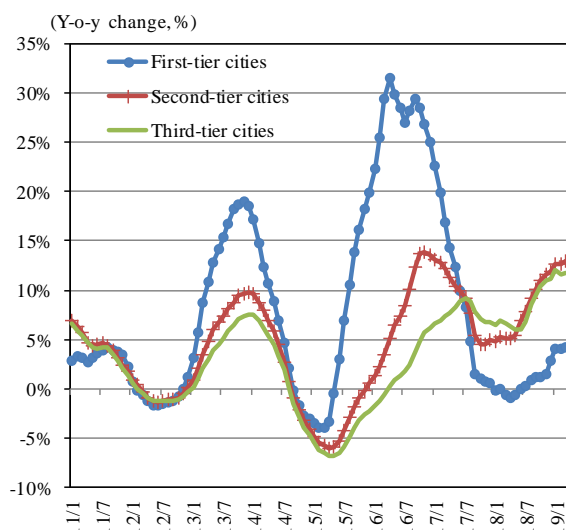
<sup>9</sup> The 21st Century Business Herald, March 20, 2017, “北京最严楼市调控“认房又认贷” 下半年全国楼市降温可期 (Checks on housing and loan records: Beijing’s strictest real estate controls set to chill housing markets nationwide in 2H).” Beijing has introduced ‘the toughest controls in history.’ It lifted the down payment 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](http://epaper.21jingji.com/html/2017-03/20/content_58356.htm)

(January +4.1%) to record the first reversal (whereby the pace of negative growth contracts or the growth rate slows) since April 2018 (when the figure improved from -0.6% the previous month to hit -0.1%). Growth picked up slightly in second-tier cities (from +12.7% to +12.9%) and third-tier cities (from +11.6% to +11.8%) (Fig. 9)<sup>10</sup>.

On a monthly basis, 65 of the 70 cities surveyed saw the price of new homes rising, up from 57 in February. One city saw prices moving flatly on the previous month (down from four in February), while four cities saw prices falling on the previous month (down from nine in February) (Fig. 10)<sup>11</sup>.

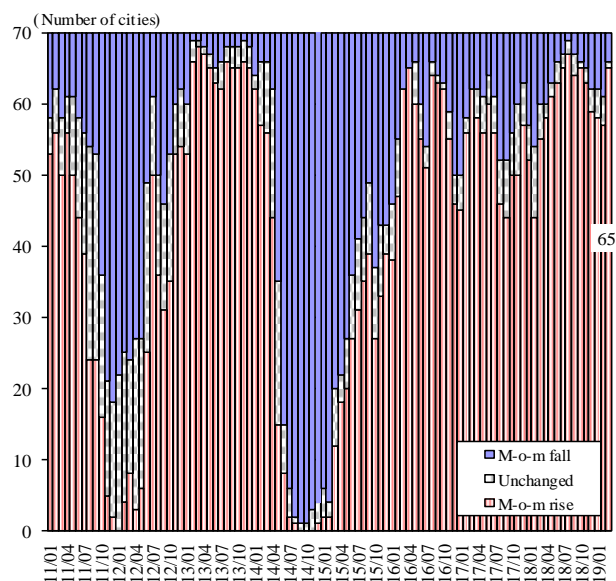
**Fig. 9: New-homes prices (Y-o-y)**



Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen  
 Second-tier cities: Capitals other than first-tier cities (municipality), capitals of autonomous regions, Dalian, Qingdao, Ningbo, and Xiamen.  
 Third-tier cities: Cities other than first-tier and second-tier cities (35 of the 70 cities surveyed)

Source: CEIC

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



Source: National Bureau of Statistics of China, CEIC

**• Imports and exports both improved on quarterly basis**

Exports rose by +14.2% in March. This was read by some as a sign that exports were bouncing back, but the Chinese New Year holiday started comparatively late this year (February 5), with the buoyant result due in part to the end of the holiday. The figures for Q1 show exports up +1.4% (\$551.76 billion) and imports down -4.8% (\$475.45 billion), with China posting a trade surplus of +\$76.31 billion. Though exports returned to positive territories after contracting in Q4 2018, the pace of growth remained subdued (Fig. 11).

Imports continued to slide on a y-o-y basis, though the pace of this contraction slowed. The Ministry of Commerce stated<sup>12</sup> that “the commodity structure was constantly upgraded. The export of mechanical and

<sup>10</sup> Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Chengdu +33.2%, Sanya + 29.3%, Xian + 24.4 % (March).

<sup>11</sup> NBS, April 19, 2019, “2019年3月份70个大中城市商品住宅销售价格变动情况 (Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in March 2019).”

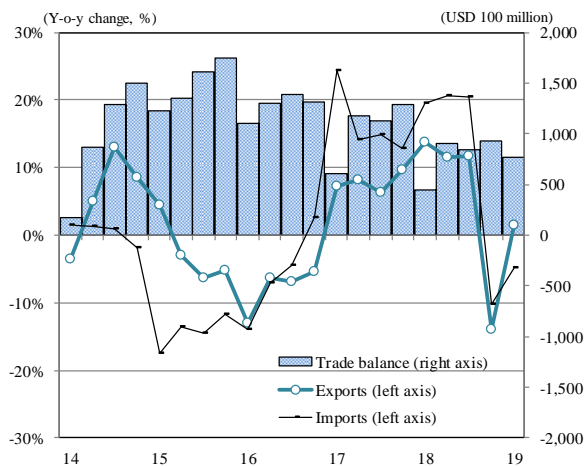
[http://www.stats.gov.cn/tjsj/zxfb/201904/t20190416\\_1659682.html](http://www.stats.gov.cn/tjsj/zxfb/201904/t20190416_1659682.html)

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

<sup>12</sup> The website of the Ministry of Commerce, April 12, 2019, “商务部外贸司负责人谈 2019年一季度我国对外贸易情况 (MOFCOM Department of Foreign Trade Comments on the Foreign Trade Situation of China in the First Quarter of 2019).” Monetary amounts and rates of change are RMB

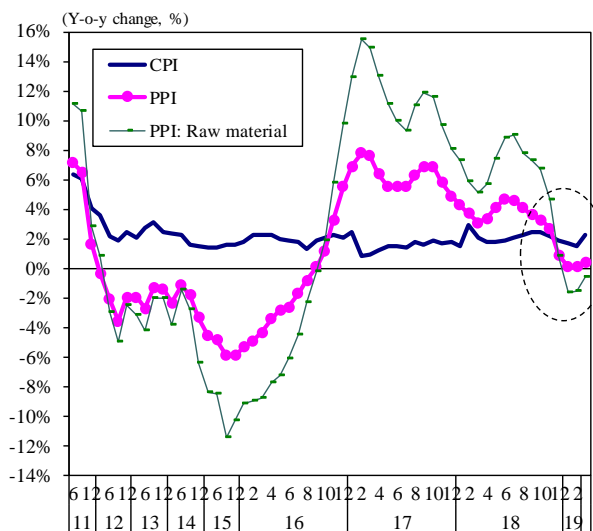
electronic products [increased] slightly by 5.4%, with its proportion reaching 58.8%. Among these, the export of computers and components, integrated circuits, automobiles and chassis and electric motors and generators grew by 7.3%, 25.2%, 15.2% and 12.5% respectively. The export of seven kinds of labor intensive products such as toys, plastics and textiles [grew by] 6.5%.” After previously falling sharply, exports to and imports from the US showed signs of recovery (Figs. 13 and 14).

**Fig. 11: Imports/exports; trade balance**



Source: China Customs Statistics

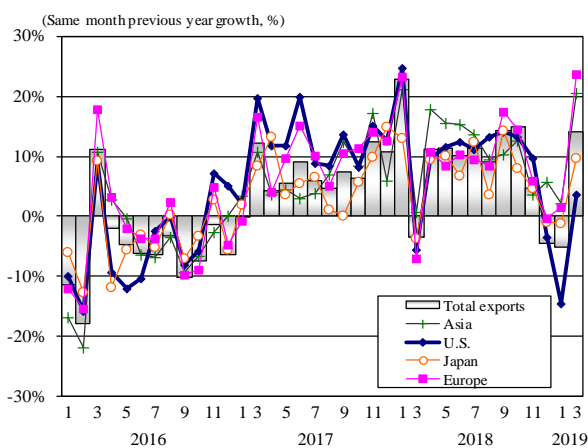
**Fig. 12: CPI, PPI**



Note: The data from June 2011 to 2015 only shows the quarterly (March, June, September and December) figures.

Source: National Bureau of Statistics of China, CEIC

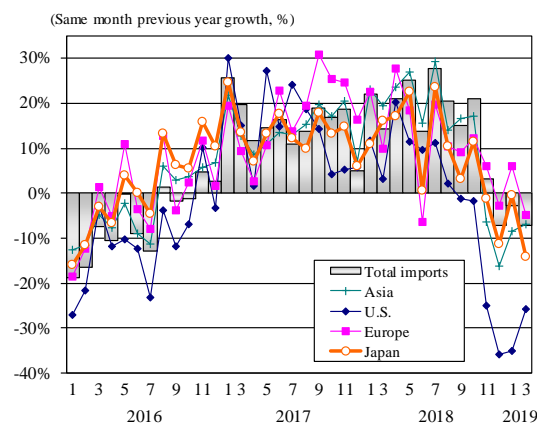
**Fig. 13: Exports by major region**



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**



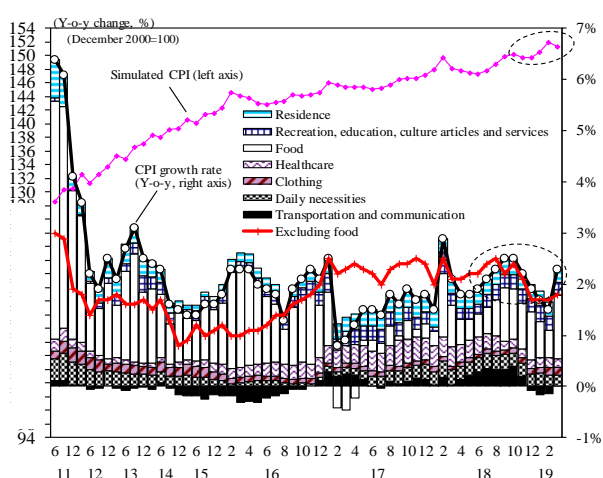
Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January–February.

Source: China Customs Statistics, CEIC

• **‘Pork prices are expected to rise by over 70% over July–December’ (Ministry of Agriculture and Rural Affairs)**

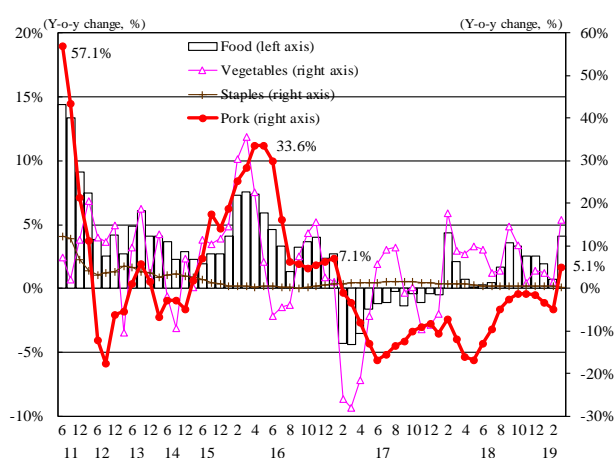
In March, CPI (Consumer Price Index) growth hit +2.3%. This was up on January–February’s figure of +1.6% but below the government’s target of +3.0% (Fig. 8). At -0.4% m-o-m, CPI growth was down on a monthly basis (February: +1.0%). A breakdown of the CPI data shows food price inflation accelerating to +4.1% (January–February: +1.3%), with the price of vegetables rising sharply from +1.7% in January–February to +16.2% in March. At +5.1%, pork price inflation returned to positive territories after the -1.5% figure recorded in January–February. This also marked the first y-o-y growth since January 2017 (Figs. 15 and 16). At +1.8%, non-food prices grew at a slightly faster pace in March (January–February: +1.7%).

**Fig. 15: CPI; Growth contribution by item**



Note: The contribution rate by item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by Mizuho Bank (China) based on the m-o-m growth rate for each month, with December 2000 as the base month. The data from June 2011 to 2015 only shows the quarterly (March, June, September and December) figures.  
Source: National Bureau of Statistics of China, CEIC

**Fig. 16: Food prices**



Note: The data from June 2011 to 2015 only shows the quarterly (March, June, September and December) figures.  
Source: National Bureau of Statistics of China, CEIC

The impact of the pork cycle<sup>13</sup> waned after a peak in May 2016, though it bounced back after bottoming out in June 2017. Pork prices fell further into negative territories 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, though it dropped back by -0.9% in 2018 to hit 54.04 million tons. In a press conference on April 17, Tang Ke, head of the Department of Market and Economic Information at the Ministry of Agriculture and Rural Affairs, said the pork market had undergone a sustained slide from summer 2018 on the impact of African swine fever, with production also sliding. However, he also said prices were expected to rise by over 70% to hit record highs over the second

<sup>13</sup> This is a cycle whereby: farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs.



half of 2019 (July–December), and he called on farmers to breed more pigs<sup>14</sup>.

In March, PPI (Producer Price Index) growth hit +0.4%, up slightly on January–February’s figure of +0.1% (Fig. 12). According to the NBS<sup>15</sup>, a y-o-y comparison for March shows: prices shifting from negative to positive growth when it came to sectors like the extraction of petroleum and natural gas (+9.7%), and the processing of petroleum, coking and other fuels (+3.5%); prices contracting at a slower pace when it came to the manufacture of electrical machinery, equipment and supplies (-1.8%, a slide of 1.8%Pt), the manufacture and processing of ferrous metals (-1.5%, a slide of 0.5%Pt), and the manufacture of motor vehicles (-0.6%, a slide of 0.1%Pt); prices rising at a faster pace when it came to the manufacture of computers, communication equipment and other electronic equipment (+0.2%, a rise of 0.1%Pt). The NBS also explained that the +0.4% PPI growth in March was the combined result of price changes on the previous year (+0.9%Pt) and new price rises (-0.5%Pt).

#### **• New bank loans saw a net increase, with total social financing also expanding**

According to the PBOC, M2 money supply growth hit +8.6% in March, up slightly on February’s figure of +8.0%.

New bank loans increased by a net RMB 1,690.0 billion in March, up from RMB 885.8 billion in February (Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 2,859.3 billion in March, up on February’s figure of RMB 703.0 billion. A glance at the details reveals that: entrusted loans fell for the 15th straight month; foreign currency loans, trust loans and banker’s acceptances increased in March after falling on a m-o-m basis in February; and RMB loans, corporate bonds, local government revenue bonds, and non-financial-institution equity issuances continued to grow, as they had in February (Fig. 18).

Foreign exchange reserves stood at \$3,098.76 billion at the end of March, up on the +\$8.58 billion recorded at the end of February, with the figure increasing on a m-o-m basis for the fifth straight month, dating back to November 2018 (Fig. 19).

---

<sup>14</sup> China Net, April 17, 2019, “农业农村部就一季度主要农产品市场运行形势和当前农产品市场等情况举行发布会 (*The Ministry of Agriculture and Rural Affairs Holds a Press Conference about the Movement of Major Agricultural Product Markets in January–March and Current Agricultural Product Markets*).”

[http://www.china.com.cn/zhibo/content\\_74683355.htm#fullText](http://www.china.com.cn/zhibo/content_74683355.htm#fullText)

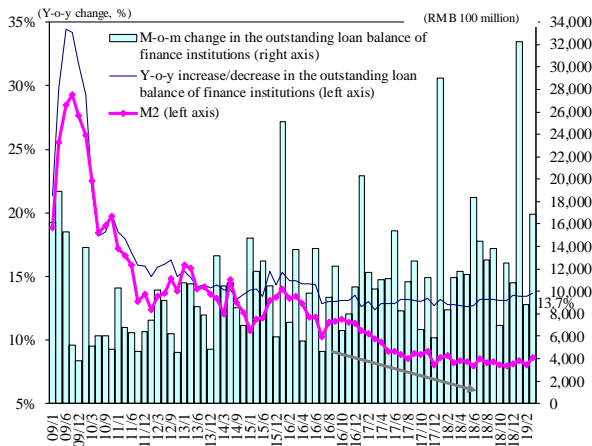
However, some observers believe pork demand will fall. This prognosis comes as: (1) pork intake falls sharply (beef, mutton and poultry intake increases) as diets become more diversified as a result of urbanization and a growing focus on healthy eating; (2) the amount of meat consumed by each household declines on the ageing population; and (3) rural migrant workers (who are often involved in manual labor) are the variables of pork consumption, while investment in fixed assets (including construction labor) drops from double-digit growth to single-digit growth and the labor population continues to fall.

21st Century Business Herald, April 19, 2019, “多方协调以促平稳度过“猪周期” (*Surmounting the Pork Cycle Through a Many-Sided Alliance*).”

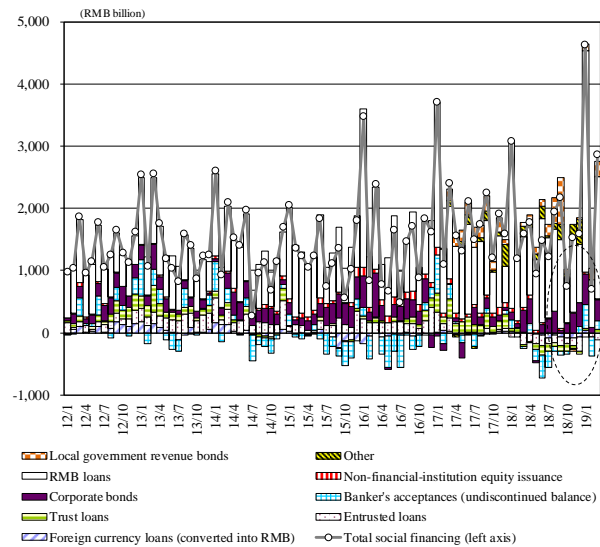
<sup>15</sup> NBS, April 11, 2019, “国家统计局城市司处长董雅秀解读 2019 年 3 月份 CPI、PPI 数据 (*Dong Yaxiu, Head of the Urban Division of the NBS, Deciphers the March 2019 CPI and PPI Data*).”

[http://www.stats.gov.cn/tjsj/sjjd/201904/t20190411\\_1658927.html](http://www.stats.gov.cn/tjsj/sjjd/201904/t20190411_1658927.html)

**Fig. 17: Financial institution lending; the money supply**



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

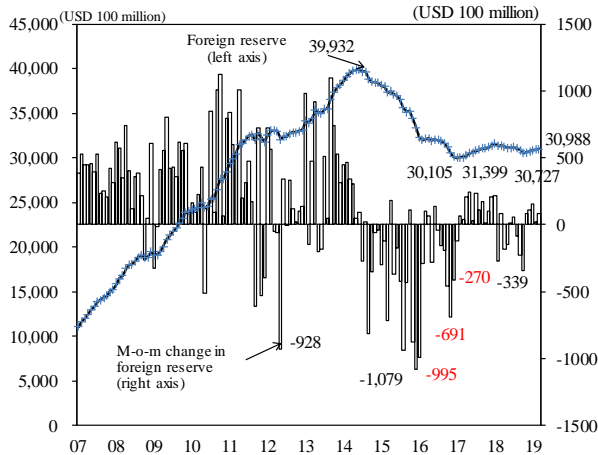


Note: The graph shows January and end-of-quarter figures up until 2015. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.

Source: PBOC, CEIC

Source: PBOC, CEIC

**Fig. 19: Foreign exchange reserves**



Note: The foreign reserve data shows the June 2014 at peak, end of 2016, 2017 and 2018, and the latest monthly figure.

Source: People's Bank of China, CEIC

**2. The policy response: The focus has shifted from ensuring growth to reform, opening up and structural adjustment**

**• ‘Headwinds are partly due to cyclical factors but there are also structural and systemic factors’ (the Central Politburo meeting)**

At a meeting presided over by general secretary Xi Jinping on April 19, the Central Politburo of the Communist Party of China analyzed and studied the economic situation in China<sup>16</sup>. The meeting indicated that “major

<sup>16</sup> China Net, April 19, 2019, “中共中央政治局召开会议 分析研究当前经济形势和经济工作 听取2018年脱贫攻坚成效考核等情况汇报 审议《中国共产党宣传工作条例》 中共中央总书记习近平主持会议 (General Secretary Xi Jinping Presides over a Meeting of the Central Politburo of the Communist Party of China to Analyze and Study the Economic Situation and Economic Work; The Politburo Deliberates the ‘Regulation on CPC Publicity Work’ While Hearing Reports on the Situation Regarding the Results of Efforts to Alleviate Poverty in 2018).” [http://www.gov.cn/xinwen/2019-04/19/content\\_5384541.htm](http://www.gov.cn/xinwen/2019-04/19/content_5384541.htm)

macroeconomic indicators continue to move in a rational range...market confidence is clearly rising...the transformation from old to new kinetic energy has been accelerated...reform and opening up continue to be vigorously promoted...economic operations moved stably on the whole in Q1, with the year getting off to a better-than-expected good start,” though it also indicated that “ there are still many difficulties and problems in economic operations...the external economic environment is generally tightening and the domestic economy is under downward pressure...this is partly due to cyclical factors but there are also structural and systemic factors.”

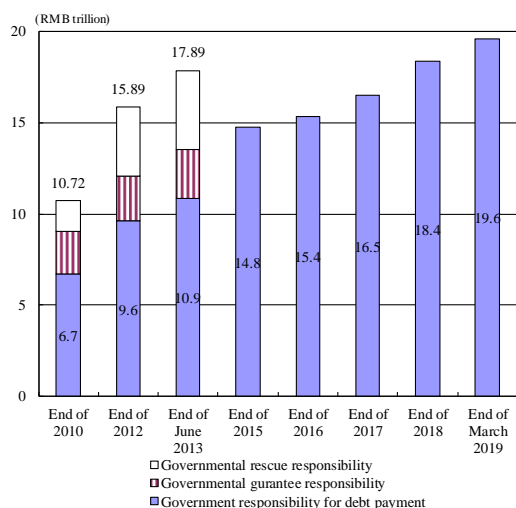
Fig. 21 compares this statement with the statement released after the Central Politburo meeting of December 2018. A phrase emphasized at meetings from July to December 2018 about ‘the stabilization of employment, finance, foreign trade, foreign investment, investment, and expectations (the ‘six stabilities’)

was removed from the recent statement (April 2019). Instead, it talks about strengthening reform and structural adjustment by “[consolidating] economic and social stability through new progress regarding reform, opening up and structural adjustment.” Deleveraging (asset sales and debt shrinkage) was not mentioned at the July and December 2018 meetings, but the recent statement discussed “pushing forward with structural deleveraging.”

**• ‘A neutral monetary policy will be pursued in a manner that is neither too tight nor too loose’ (the Central Politburo meeting)**

When it comes to fiscal and monetary policy, the recent statement mentions how “pro-active fiscal policy will become more forceful and effective, and a neutral monetary policy will be pursued in a manner that is neither too tight nor too loose.” China had adopted accommodative monetary policies from the end of July 2018, but the current economic situation and local debt situation (Fig. 20) suggests the necessity for further policy responses is waning.

**Fig. 20: Local government outstanding obligations**



Note: The coverage of the audit differs in 2010 and from 2012 onwards.

The audit has only covered ‘government responsibility for debt payment’ since 2015.

Government responsibility for debt payment: Debt that the government is responsible for paying back

Governmental guarantee responsibility: Debt that requires a governmental guarantee

Governmental rescue responsibility: Debt that may require partial repayment by the government if the debtor has trouble making repayments

Source: National Audit Office: *Audit Results of Nationwide Governmental Debts* (December 30, 2013); CEIC

As for real estate, the politburo said it adhered “to the orientation that houses are used for living, not for speculation.” This seems to rule out speculation that the authorities will ease buying restrictions in order to underpin the economy.

**Fig 21: Comparison of the statements released after the Central Politburo meetings of December 2018 and April 2019**

	December 13, 2018	April 19, 2019
Current situation	<ul style="list-style-type: none"> <li>Various macro-control targets were achieved comparatively well, with the three tough battles* getting off to a good start; supply-side reforms were further promoted, with more people benefitting from policy</li> <li>We have maintained sustained, healthy economic development and overall social stability; we have made new steps toward achieving the target of the first century of struggle**</li> </ul>	<ul style="list-style-type: none"> <li>Economic operations moved stably on the whole in Q1, with the year getting off to a better-than-expected good start</li> <li>Major macroeconomic indicators continue to move in a rational range; market confidence is clearly rising; the transformation from old to new kinetic energy has been accelerated; reform and opening up continue to be vigorously promoted</li> <li>There are still many difficulties and problems in economic operations. The external economic environment is generally tightening and the domestic economy is <u>under downward pressure... this is partly due to cyclical factors but there are also structural and systemic factors</u></li> <li>We must make efforts, strengthen our endurance, and overcome difficulties bravely.</li> </ul>
Policy directions	<ul style="list-style-type: none"> <li>Uphold the underlying principle of pursuing progress while ensuring stability; adhere to the new development philosophy and push forward with high-quality development; continue to take pursuing supply-side structural reform as the main task, deepen market-oriented reform, and expand opening up at a high level</li> <li>Speed up the building of a modernized economy; vigorously fight the three tough battles*; stimulate the vitality of micro entities; innovate and improve macroeconomic regulation</li> <li>Pursue stable growth, promotion reforms, secure people’s welfare and prevent risk in a coordinated manner; maintain the economy (growth) in a reasonable range</li> <li>Further promote the stabilization of <u>employment, finance, foreign trade, foreign investment, investment, and expectations</u>; boost market confidence; boost the public’s sense of acquisition, happiness, and security; maintain continuous and healthy economic growth and overall social stability</li> <li>Lay the decisive foundation for finishing the building of a moderately prosperous society in all respects, and celebrate the 70th anniversary of the founding of the PRC with excellent results</li> <li>Changes in the international environment and domestic conditions should be looked at dialectically; the sense of potential problems should be enhanced; the country should continue to seize the important period of strategic opportunity for development and manage its own affairs with firm confidence and initiative</li> <li>Strengthen coordination, focus on major contradictions, and vigorously manage rhythm and intensity; seek an optimal policy mix and strive to achieve maximum, comprehensive effects</li> <li><u>Advance high-quality development of the manufacturing sector</u>; deepen the integration of</li> </ul>	<ul style="list-style-type: none"> <li>Coordinate the two major domestic and external situations; promote stable growth and reform; pursue structural adjustment; prioritize public welfare; prevent risk; maintain stability</li> <li>Consolidate economic and social stability through new progress regarding reform, opening up and structural adjustment</li> <li>Resolutely tackle the three tough battles* by: meticulously implementing the eight-character policy in a consolidated, enhanced, improved and smooth manner (鞏固、增強、提昇、暢通); stabilizing demand through <u>supply-side structural reform; firmly pushing forward with structural deleveraging</u>; and preventing and eliminating risk while promoting high-quality development</li> <li>Macroeconomic policies will devote more energy to <u>improving quality and vitalizing markets through the promotion of high-quality development</u></li> <li><u>A pro-active fiscal policy will be pursued in a more effective manner and a neutral monetary policy will be pursued in a manner that is neither too tight nor too loose</u></li> <li>Traditional industries will be guided toward enhanced transformation and emerging industries will be expanded in the name of promoting <u>the high-quality development of the manufacturing sector</u></li> <li>Effectively support the private economy and small- and medium-sized enterprises; accelerate financial supply side reforms; resolve the problems of financing difficulties and high financing costs; guide the transformation and upgrading of dominant private enterprises</li> <li>Adhere to the orientation that <u>houses are used for living, not for speculation</u>; implement policies for each urban area; enforce long-term, effective control mechanisms where responsibility lies primarily with municipal governments</li> </ul>

	<p>advanced manufacturing and modern service industries</p> <ul style="list-style-type: none"> <li>▪ Promote the formation of a strong domestic market; improve the overall economic level; pursue a rural vitalization strategy; consolidate the healthy development of the agriculture sector, rural areas and farmers</li> <li>▪ Advance regional coordinated development; speed up economic reforms and all-around opening up; improve people's wellbeing; pour energy into solving outstanding problems that the people have strongly spoken up against</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promote institutional innovation based on the <u>sound development of capital markets</u>; implement a securities issuance registration system based on technology innovation board information disclosure</li> <li>▪ Promote deep reforms through <u>high-level opening up to the outside world</u>; expand foreign-capital market participation; apply the national treatment principle</li> <li>▪ Vigorously promote employment opportunities for target groups; strengthen vocational skills training</li> <li>▪ The problem of safe production is becoming more apparent; this problem will be prevented and controlled in a targeted manner</li> </ul>
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Notes: \* three tough battles = Preventing major risks, targeted poverty alleviation and pollution control.

\*\*Doubling GDP in 2020 compared to 2010

Sources: China Net, December 13, 2018, “央政治局召开会议 分析研究 2019 年经济工作 研究部署党风廉政建设和反腐败工作 中共中央总书记习近平主持会议” [http://www.gov.cn/xinwen/2018-12/13/content\\_5348502.htm](http://www.gov.cn/xinwen/2018-12/13/content_5348502.htm),

April 23, 2018, “中共中央政治局召开会议分析研究当前经济形势和经济工作 审议《关于新时代加强党政军警民合力强边固防的意见》 中共中央总书记习近平主持会议” [http://www.gov.cn/xinwen/2018-04/23/content\\_5285191.htm](http://www.gov.cn/xinwen/2018-04/23/content_5285191.htm)

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

#### Disclaimer & Confidentiality

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