

—The macroeconomy—

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Summary

Real GDP began growing again in April–June at +3.2% (January–June: -1.6%). June’s economic indicators improved on the previous month. Though the economy is improving overall, the impact of Covid-19 has not been completely wiped away. Consumption sectors have been hit by restrictions on mobility and going outdoors, for example, with the hotels and catering sectors, micro businesses and individual commercial and industrial proprietors continuing to struggle. The PBC is tweaking its monetary policy stance, while the CBIRC has warned about the risk of non-performing loans, etc.

1. June’s economic indicators improved on the previous month

- **The economy returned to growth at +3.2% in April–June**
- **Production and investment accelerated, while consumption also contracted at a slower pace**
- **The price of new homes grew at a fast clip in first-tier cities**
- **Exports and imports both returned to positive growth**
- **CPI growth accelerated slightly; PPI growth contracted at a slower pace**
- **Net new bank loans grew and total social financing expanded**

2. The policy response: Tweaks to the monetary easing stance and risk warnings

- **There are hints the PBC will slow the pace of financial easing**
- **The CBIRC warns of financial risks, including a sharp rise in NPLs**

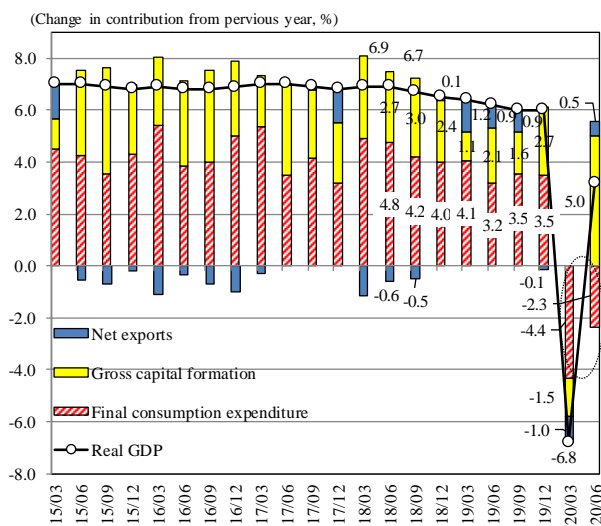
1. June's economic indicators improved on the previous month

▪ The economy returned to growth at +3.2% in April–June

On July 16, the National Bureau of Statistics (NBS) announced¹ that China's real GDP growth rate for April–June stood at +3.2% on the same period last year (from here on, all figures refer to a 'same-period previous-year comparison' unless otherwise specified), with the figure for January–June coming in at -1.6%. Growth was up +11.5 on the previous quarter (Fig.1). A glance at contribution levels by demand item over April–June shows the contribution of gross capital formation (+5.0Pt) and net exports (+0.5Pt) both returning to positive territories, though the contribution of final consumption expenditure remained negative at -2.3Pt. The contribution of gross capital formation grew markedly.

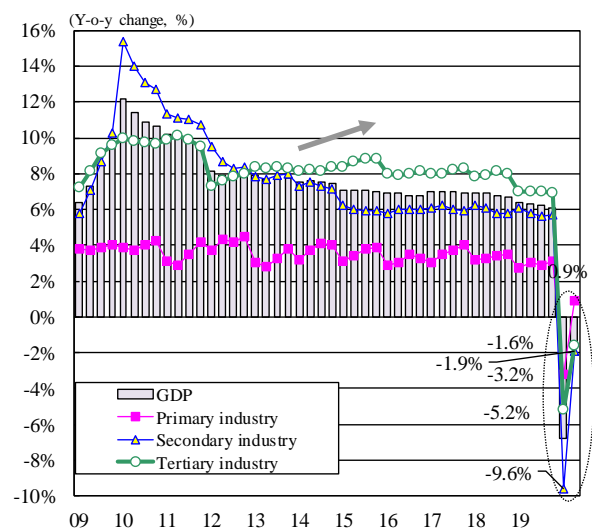
A breakdown by sector shows primary industry growing again by +0.9% over January–June. Secondary industry contracted by -1.9% and the tertiary industry by -1.6%, though this marked an improvement on January–March (-9.6% and -5.2% respectively) (Fig. 2).

Fig. 1: Breakdown of GDP by demand item



Source: National Bureau of Statistics of China, CEIC

Fig. 2: GDP by sector



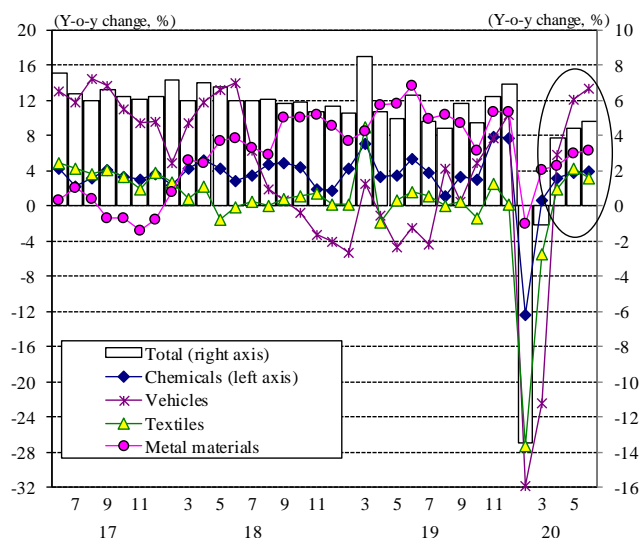
Note: The figures denote the most recent period.

Source: National Bureau of Statistics of China, CEIC

¹ NBS, July 16, 2020, 'Coordinative Efforts for Epidemic Control and Economic Development Delivered Notable Results with National Economy Recovered Gradually in the First Half of 2020'

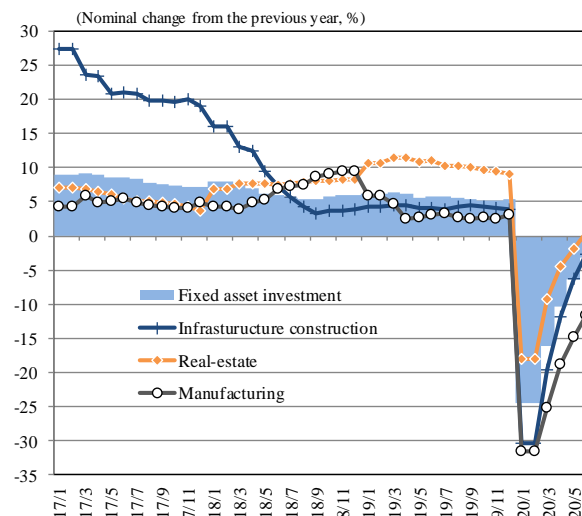
http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776211.html

Fig. 3: 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. 4: 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

▪ Production and investment accelerated, while consumption also contracted at a slower pace

June’s economic indicators improved on the previous month. At +4.8%, value-added industrial production in June improved on May’s +4.4% (January–June = -1.3%; +1.3% m-o-m) (Fig. 3). Noteworthy industrial trends over the first half of the year included: (1) a recovery in the equipment manufacturing sector (this was mainly due to governmental factors, such as a switchover of environmental standards and purchase subsidies in the automobile sector, for instance, and accelerated infrastructure construction); (2) strong growth in the hi-tech manufacturing sector (+100–500% growth when it came to 3D printers, IC, smartwatches, etc.); (3) a recovery in the raw materials sector (ferrous, non-ferrous metals and chemicals saw faster growth, while cement, steel and plastics began growing again after contracting in January–March); (4) the manufacture of consumer goods contracting at a slower pace (with the food, paper and man-made fiber sectors returning to positive growth).²

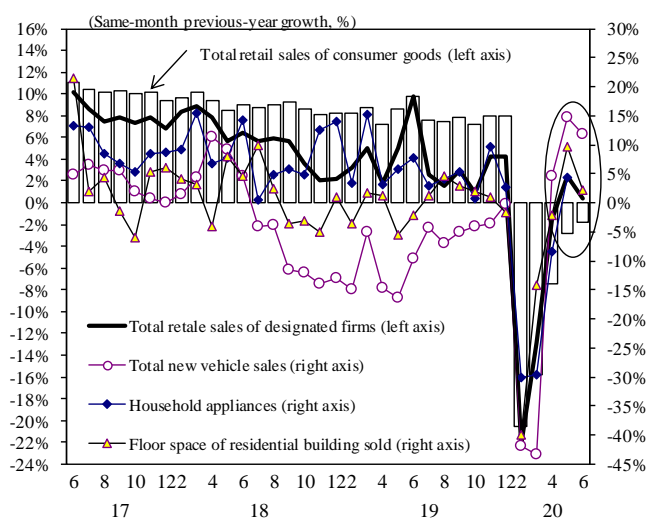
At -3.1%, nominal fixed asset investment in January–June improved on January–May’s figure of -6.3%. The standalone monthly figure for June also improved to +5.4% (+5.9% m-o-m). At -2.7%, investment in infrastructure construction in January–June improved on January–May’s -6.3% figure, with manufacturing investment also improving (from -14.8% to -11.7%) and real estate investment returning to positive growth (from -1.8% to +0.6%) (Fig.4).

Nominal retail sales of consumer goods shrank by -1.8% in June, an improvement on May’s figure of -2.8%, though sales continued to move in negative territories (+1.3% m-o-m) (Fig.5). Internet retail sales of goods and services hit RMB 5,150.1 billion over January–June (goods: RMB 4,348.1 billion; services: RMB 802.0 billion), with net shopping growing by +14.3% to account for 25.2% of total retail sales of consumer goods during this period

² NBS, July 17, 2020, ‘张卫华：工业生产明显回升 重点行业持续发力 (Zhang Weihua: Industrial Production is Clearly Recovering; Major Sectors Continue to Show Strength)’ Zhang Weihua is the deputy head of the NBS Department of Industrial Statistics. http://www.stats.gov.cn/tjsj/zxfb/202007/t20200717_1776675.html

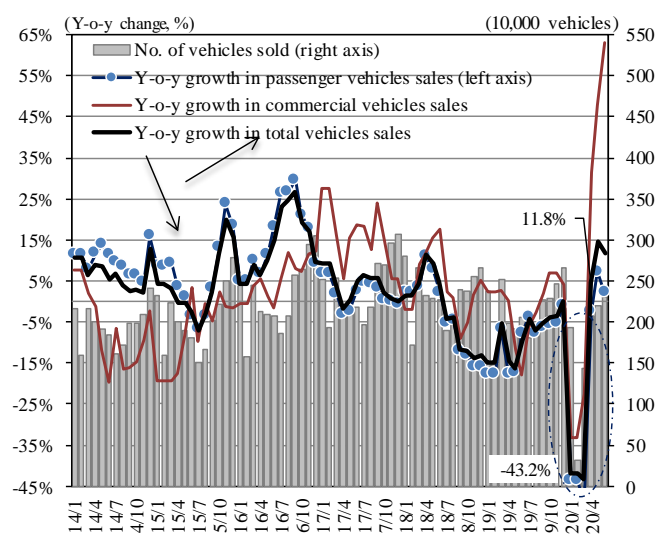
(RMB 17,225.6 billion, -11.4%).³

Fig. 5: 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. 6: 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

At +11.8% (2.300 million), sales of new vehicles in June grew at a slower pace compared to May's figure of +14.7% (2.194 million), though this marked the third straight month of growth since April (+4.5% and 2.070 million), when sales had recorded m-o-m growth for the first time since June 2018 (+4.7%). The cumulative figure for January–June was -16.9% (10.231 million) (Fig. 6). The recent recovery was due to the various measures introduced by the central and local governments to stimulate consumption.⁴ Sales had trended upward until 2017 (28.941 million and +3.6%), but they subsequently dipped when a tax break on purchases of small passenger vehicles⁵ finished at the end of 2017, with the sector seeing policy-led increases in sales followed by subsequent slowdowns.

³ NBS, July 16, 2020, 'Total Retail Sales of Consumer Goods Went down by 1.8 percent in June 2020'
http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776339.html

⁴ Regarding the policies to stimulate automobile consumption, refer to the figure 4 on the 'Mizuho China Business Express Economic Journal (No. 99)' by this author.

https://www.mizuhobank.com/fin_info/cndb/economics/express_economy/pdf/R422-0099-XF-0105.pdf

⁵ Ministry of Finance: '关于减征 1.6 升及以下排量乘用车车辆购置税的通知 (Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)'

http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html

On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016.
<http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html>

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%. Sales had trended upward until 2017 (28.941 million and +3.6%). A tax break was withdrawn at the end of 2017, though, with sales then hitting 28.0398 million (-3.1%) in 2018 to record the first y-o-y decline since 1990, with the pace of contraction then reaching -8.2% (25.7545 million) over 2019.

▪ **The price of new homes grew at a fast clip in first-tier cities**

At -8.4% (694.04 million m²), the floor space of residential buildings sold in January–June remained down on 2017 (+7.7%), 2018 (+1.3%) and 2019 (-0.1%; 1,715.58 million m²), though the figure contracted at a slower pace compared to January–May (-12.3%). Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People’s Bank of China (PBC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen in March 2016⁶ subsequently spread to other cities with surging house prices,⁷ with the restrictions being tightened further.⁸

In June, 60 cities saw the price of new homes rising on the previous year, down two cities on May. Growth remained strong when it came to first-tier cities (from +2.9% in May to +3.3%), though it slowed on the previous month in second-tier cities (from +5.4% to +5.3%) and third-tier cities (from +4.8% to +4.6%) (Fig. 7).⁹

⁶ 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.

⁷ 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>

⁸ 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

⁹ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Yinchuan +15.8%, Tangshan +15.3%, Xining +14.4% (June).

Fig. 7: New-homes prices (Y-o-y)

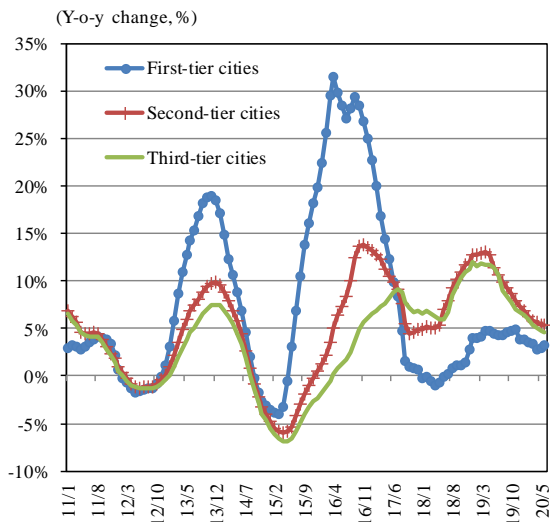
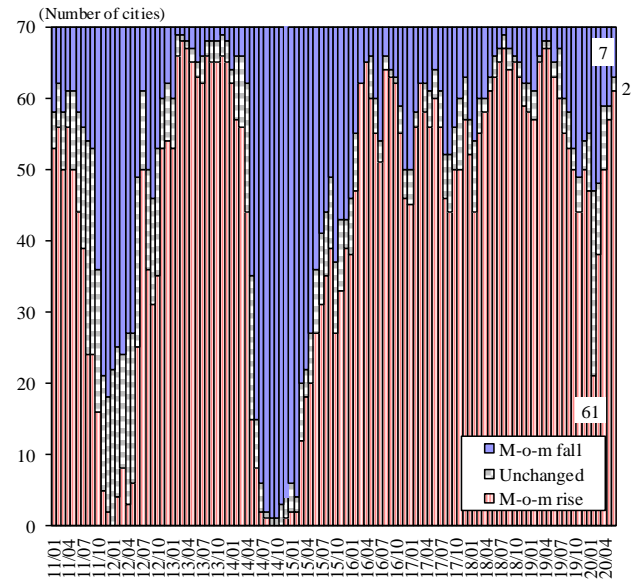


Fig. 8: Number of cities recording m-o-m changes in sales prices of residential buildings



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

Source: National Bureau of Statistics of China, CEIC

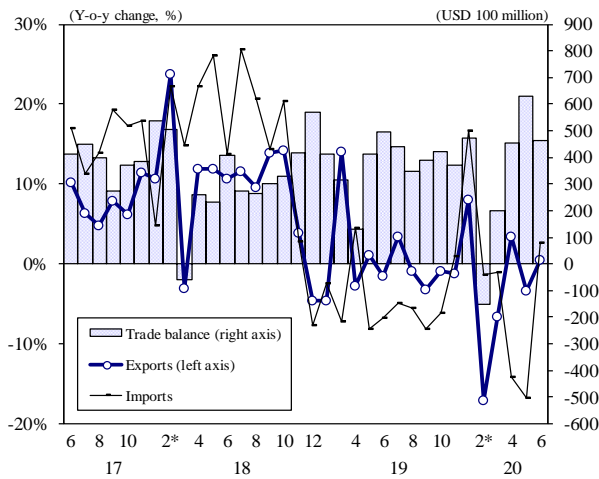
On a monthly basis, 61 of the 70 cities surveyed saw the price of new homes rising, up from 57 in May. Two cities saw prices moving flatly on the previous month (unchanged on May), while seven cities saw prices falling on the previous month (down from 11 in May) (Fig. 8).¹⁰

▪ Exports and imports both returned to positive growth

Exports grew by +0.5% (\$213.57 billion) and imports by +2.7% (\$167.15 billion) in June, with exports and imports both returning to positive territories. The trade surplus stood at \$46.42 billion (Fig. 9).

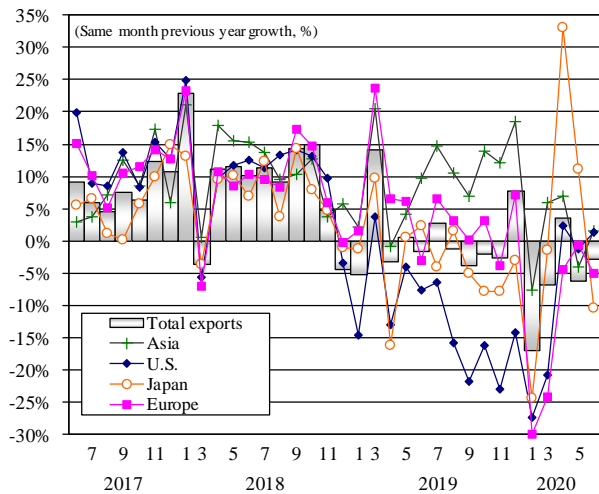
¹⁰ NBS, July 16, 2020, ‘Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in June 2020’
http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776239.html
 From January 2018, the data no longer includes the sales price of affordable housing.

Fig. 9: Imports/exports; trade balance



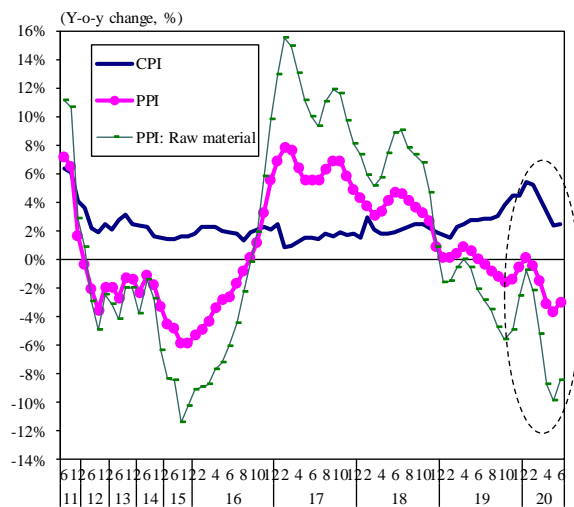
Note: *The figures show a same-period previous year comparison results of January-February and total.
Source: China Customs Statistics

Fig. 11: Exports by major region



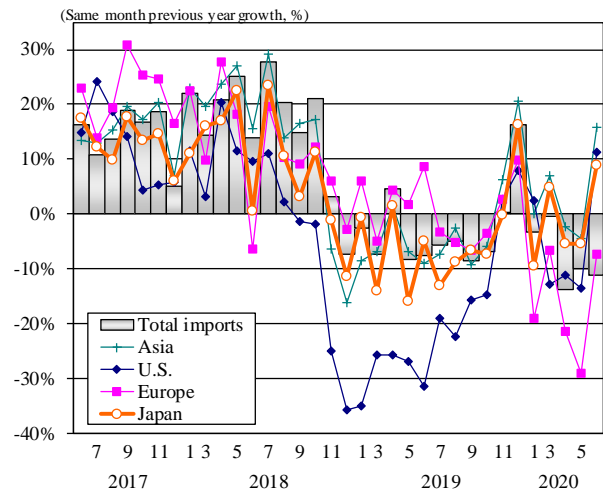
Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January-February.
Source: China Customs Statistics, CEIC

Fig. 10: 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. 12: 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

When it came to the export commodity structure, the Ministry of Commerce (MOFCOM) explained that exports of mechanical and electrical products had shrunk by -2.3%, less than the contraction for exports as a whole. Exports of high-tech, high-quality, high-value-added products such as integrated circuits, medical devices, laptops, meters and gauges grew at a fast clip, with exports of new energy vehicles also growing by over 100%. As for imports, MOFCOM reported growth when it came to the import volume of coal (+12.7%), crude oil (+9.9%), natural gas (+3.3%) and copper (+3.0%) as production recovered on the improved Covid-19 situation, though it also reported falls in the value of these imports (-6.3%, -27.8%, -15.6% and -3.5% respectively) as a result of bearish international commodity markets. MOFCOM also pointed to tough conditions. As Covid-19 still sweeping the globe, with some countries and regions experiencing a second wave and the number of cases continuing to hit record highs, for

example, the global economy was undergoing a pronounced slowdown, with international demand shrinking sharply. MOFCOM added that trade frictions were increasing, with China continuing to face a critical, complex trade situation. The ministry also pointed to the ongoing grave situation as revealed by surveys and research, including a shortage of trading company orders, logjammed logistics, and unstable industry chains and supply chains.¹¹ Exports to the US and Asia returned to positive territories, though exports to Europe contracted at a faster pace and exports to Japan dipped into negative territories. Imports from major countries and regions either expanded or otherwise contracted at a slower pace (Figs. 11 and 12).

▪ CPI growth accelerated slightly; PPI growth contracted at a slower pace

In June, Consumer Price Index (CPI) growth hit +2.5%, up on May's figure of +2.4%. On a monthly basis, CPI growth stood at -0.1%. Average growth for January–June stood at +3.8% (Fig. 10). A breakdown of the CPI data shows food price inflation rising to +11.1% in June (May: +10.6%). At +4.2%, the price of vegetables began rising again (May: -8.5%) as a result of flooding in many regions and a new cluster of Covid-19 infections in Beijing's Xinfadi market (the NBS¹²). However, pork prices¹³ (a key factor behind fluctuating food prices) rose by +81.6%, down slightly on May's figure of +81.7%. Non-food prices grew by +0.3% in June, down slightly on May's figure of +0.4% (Figs. 13 and 14).

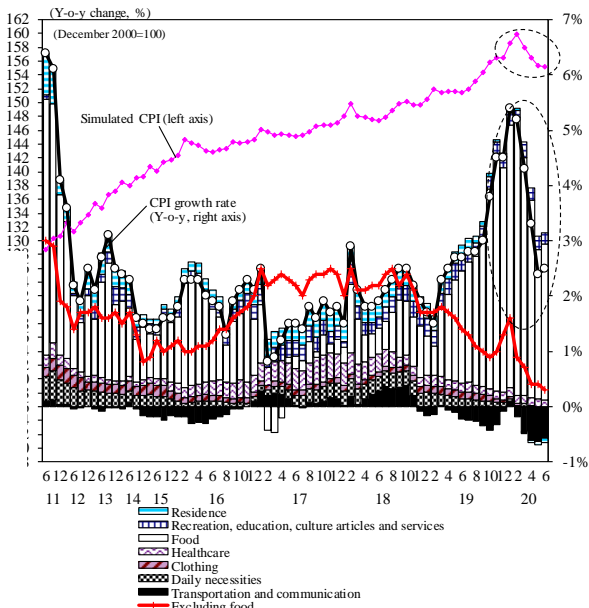
At -3.0%, Producer Price Index (PPI) growth contracted at a slower pace in June (May: -3.7%), with the average for January–June standing at -1.9%. According to the NBS, a glance at y-o-y PPI price changes in June compared to May shows prices contracting at a slower pace when it came to the extraction of petroleum and natural gas (-39.1%), the processing of petroleum, coking and other fuels (-21.6%), the manufacture of chemical raw materials and chemical products (-7.9%), the manufacture and processing of ferrous metals (-5.1%), and the manufacture and processing of non-ferrous metals (-2.2%), but prices contracted at a faster pace when it came to the mining and washing of coal (-9.3%).

¹¹ The Ministry of Commerce, July 17, 2020, '商务部外贸司负责人谈 2020 年上半年我国外贸运行情况 (MOFCOM Department of Foreign Trade Comments on the Foreign Trade Situation of China in the First Half of 2020)' Comments about trade movements by item are RMB denominated. <http://www.mofcom.gov.cn/article/ae/sjjd/202007/20200702983947.shtml>

¹² NBS, July 9, 2020, '国家统计局城市司高级统计师董莉娟解读 2020 年 6 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the June 2020 CPI and PPI Data)' http://www.stats.gov.cn/tjsj/sjjd/202007/t20200709_1774596.html

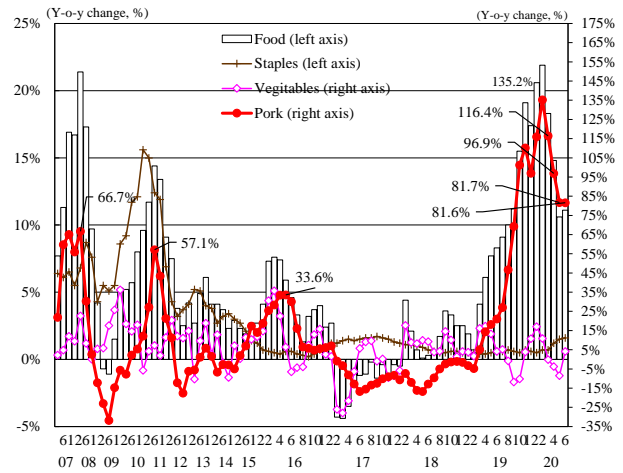
¹³ In terms of the pork cycle (a cycle whereby farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs), pork prices declined after a peak in May 2016, though it bounced back after bottoming 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%).

Fig. 13: 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 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 2015 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

Fig. 14: Food prices



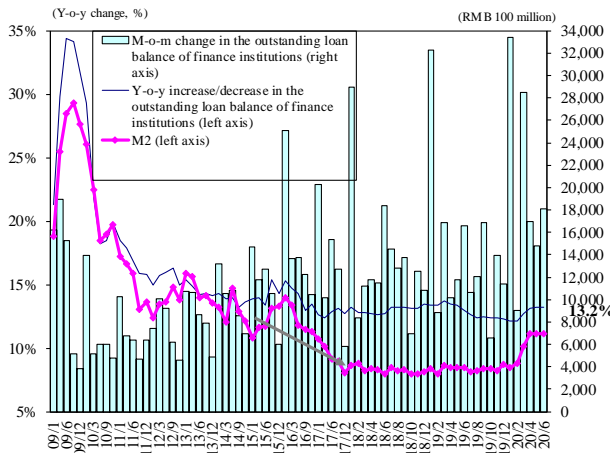
Note: The data until 2015 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

▪ Net new bank loans grew and total social financing expanded

According to the PBC, M2 money supply growth hit +11.1% in June, unchanged on May’s figure of +11.1%. New bank loans increased by a net RMB 1,810.0 billion, up on May’s figure of RMB 1,480.0 billion (Fig. 15). Total social financing, which includes funds procured from non-bank sources, rose to a net RMB 3,190.7 billion in June, up on May’s figure of RMB 3,104.2 billion. A glance at the details reveals that: RMB loans, banker’s acceptances, corporate bonds, non-financial-institution equity issuances, and loan repayments grew at a faster pace; foreign currency loans and government bonds¹⁴ grew at a slower pace; entrusted loans and trust loans fell at a faster pace; and deposit-taking financial institution ABS fell at a slower pace (Fig.16).

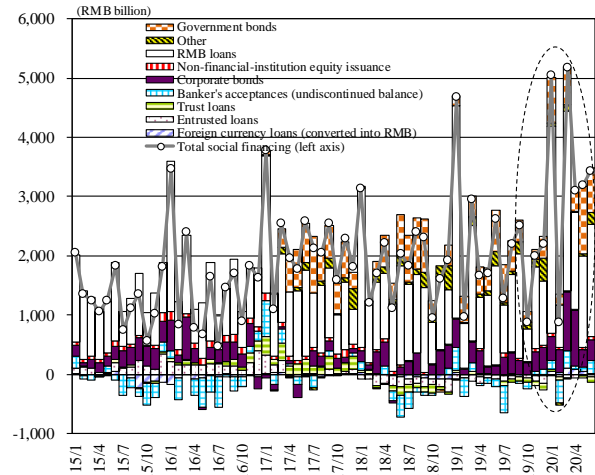
¹⁴ Since December 2019, sovereign bonds and ordinary bonds by local governments have been bundled together as ‘government bonds’ under the ‘local government revenue bonds’ heading. PBC, January 17, 2020, ‘2019 年金融统计数据新闻发布会文字实录’ <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3961307/index.html>

Fig. 15: 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

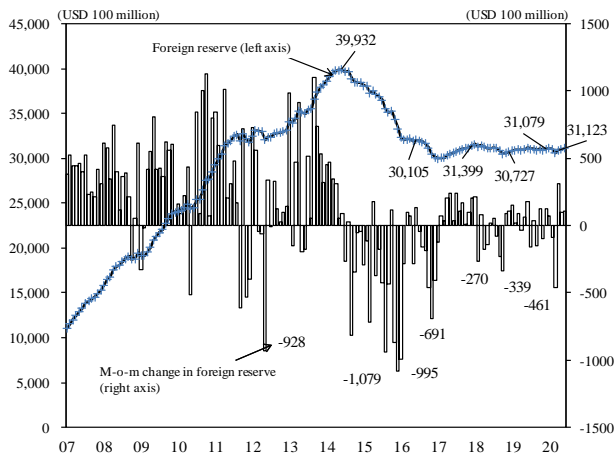
Fig. 16: Total social financing (net increase and decrease)



Source: PBC, CEIC

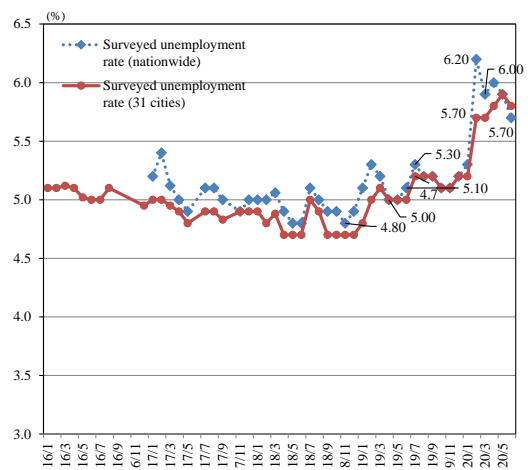
Foreign exchange reserves stood at \$3,112.3 billion at the end of June, up \$10.64 billion on the end of May and \$4.40 billion (+0.1%) on the end of 2019. SAFE Deputy Administrator and Press Spokesperson Wang Chunying explained that ‘the US Dollar Index dropped slightly on the international financial market and asset prices in major countries rose. Under the combined impact of exchange rate conversion and asset price changes, China's foreign exchange reserves increased in the month’ (Fig. 17).¹⁵

Fig. 17: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 to 2019, and the latest monthly figure.
Source: PBC, CEIC

Fig. 1: The surveyed unemployment rate



Source: National Bureau of Statistics of China, CEIC

¹⁵ The State Administration of Foreign Exchange, July 7, 2020, ‘SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for June 2020’ <http://www.safe.gov.cn/en/2020/0707/1726.html>

2. The policy response: Tweaks to the monetary easing stance and risk warnings

Though the economy saw improvements in January–June on the back of production and investment, the National Development and Reform Commission pointed out that some sectors had yet to return to normal, with many companies facing major problems. The Commission added that micro businesses and individual commercial and industrial proprietors in particular were facing a tough struggle for survival, with differences emerging on a micro-economic level with regards to the actual production operations of firms, with clear differences also emerging when it came to the economic situation in different sectors and regions.¹⁶ Employment conditions are continuing to worsen relatively in the aforementioned sectors in particular (Fig. 18) and this is acting to push down consumption (which is already moving in negative territories). The NBS also discussed the unprecedented impact of Covid-19 on the economy, production and people’s lives, adding that ‘manufacturing has recovered at a fast clip with three consecutive months of growth, while the service sector is also staging a fast recovery, but sectors like hotels and catering continue to suffer sharp falls.’¹⁷

▪ **There are hints the PBC will slow the pace of financial easing**

The PBC released a statement after its 2Q monetary policy committee meeting on June 28.¹⁸ A comparison with the statement released after the 1Q meeting on March 27 reveals how the wording changed from talk of ‘focusing on making the sound monetary policy more flexible and appropriate (稳健的货币政策要更加注重灵活适度)’ to ‘making monetary policy more flexible and appropriate,’ with the word ‘focus on’ removed and the attention instead shifting to the word ‘appropriate,’ for example. Other changes include the removal of the word ‘countercyclical’ from the June statement. All this reveals how the PBC is tweaking its monetary easing stance (Fig. 19).

Fig. 2: A comparison of the PBC monetary policy committee statements (March and June 2020)

<p>March 2020 创新和完善宏观调控，稳健的货币政策要更加注重灵活适度，把支持实体经济恢复发展放到更加突出的位置。运用多种货币政策工具，保持流动性合理充裕，保持物价水平总体稳定。有效发挥结构性货币政策工具的精准滴灌作用，<u>用好3000亿元专项再贷款、5000亿元再贷款再贴现专用额度和3500亿元政策性银行专项信贷额度</u>，引导金融机构加大对抗疫保供、复工复产、脱贫攻坚、春耕备耕、畜禽养殖、外贸行业等的信贷支持。 ...加大宏观政策逆周期调节力度，着力激发微观主体活力，全面做好“六稳”工作。健全财政、货币、就业等政策协同和传导落实机制，对冲疫情对经济增长的影响。</p>	<p>The PBC will innovate and improve macro regulation, focus on making the sound monetary policy more flexible and appropriate, and attach more emphasis on supporting the recovery of the real economy. A mix of policy tools will be used to keep liquidity reasonable and adequate and maintain the overall stability of prices. The PBC will also give effective play to the role of structural monetary policy tools in accurate liquidity provision, make good use of the RMB 300 billion special central bank lending, the RMB 500 billion quotas of central bank lending and central bank discount and the RMB 350 billion special credit quotas of policy banks. Financial institutions will be encouraged to increase credit support</p>
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¹⁶ State Council website, July 17, 2020, ‘国家发展改革委举行7月份新闻发布会 介绍宏观经济运行情况并回应热点问题 (The NDRC Discusses Macroeconomic Performance and Answers Questions about Key Problems at Its July Press Conference)’
http://www.gov.cn/xinwen/2020-07/17/content_5527756.htm

¹⁷ NBS, July 16, 2020, ‘国家统计局新闻发言人就2020年上半年国民经济运行情况答记者问 (An NBS Spokesperson Answers Journalist Questions about Economic Performance in first half of 2020)’
http://www.stats.gov.cn/tjsj/sjjd/202007/t20200716_1776345.html

¹⁸ PBC, June 24, 2020, ‘中国人民银行货币政策委员会召开2020年第二季度例会’
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4046186/index.html>
 PBC, March 27, 2020, ‘中国人民银行货币政策委员会召开2020年第一季度例会’
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3997340/index.html>

for enterprises providing supplies for epidemic containment, resumption of work and production, poverty alleviation, spring farming and tillage preparation, poultry and livestock breeding and foreign trade.

...The **countercyclical** adjustments of macro policies should be intensified so as to invigorate micro entities and make all-round progress in ensuring stability on the six fronts.* Efforts will be made to improve the coordination, transmission and implementation mechanisms for fiscal, monetary and employment policies, so as to offset the impact of the pandemic on economic growth.

June 2020

创新和完善宏观调控，稳健的货币政策要更加灵活**适度**，把支持实体经济恢复与**可持续发展**放到更加突出的位置。**坚持总量政策适度**，**促进金融与实体经济良性循环**，全力支持做好“六稳”“六保”工作。**综合运用并创新**多种货币政策工具，保持流动性合理充裕。有效发挥结构性货币政策工具的精准滴灌作用，提高政策的“直达性”，继续用好1万亿元普惠性再贷款再贴现额度，**落实好新创设的直达实体工具**，支持符合条件的地方法人银行对普惠小微企业贷款实施延期还本付息和**发放信用贷款**。

...加大宏观政策调节力度，着力**稳企业保就业**，扎实做好“六稳”工作，全面落实“六保”任务。健全财政、货币、就业等政策协同和传导落实机制，**有效对冲疫情对经济增长的影响**。

The PBC will innovate and improve macro regulation, make the sound monetary policy **more flexible and appropriate**, and put more emphasis on supporting the recovery and sustainable development of the real economy.

The PBC will keep the aggregate at an appropriate level to drive a virtuous cycle between finance and the real economy and provide full support for ‘ensuring stability on the six fronts’ and ‘maintaining security in the six areas.’**

A mix of new monetary policy tools will be used to keep liquidity adequate at a reasonable level. The structural monetary policy tools will be fully leveraged for accurate liquidity provision to strengthen ‘direct accessibility’ of policies. The PBC will continue to properly use the RMB1 trillion quota of central bank lending and central bank discounts for inclusive finance, well implement new instruments to enable direct support for the real economy, and support eligible locally incorporated banks to defer repayment of loan principal and interest for inclusive MSB loans and to issue MSB credit loans.

...The PBC will strengthen the adjustments of macro policies, ensure the stability of enterprises and the security of employment, take solid steps to ensure stability on the six fronts and fully implement the task of maintaining security in the six areas. Efforts will be made to improve the coordination, transmission and implementation mechanisms for fiscal, monetary and employment policies, so as to **effectively** offset the impact of the pandemic on economic growth.

Note: * Stabilizing employment, the financial sector, foreign trade, foreign investment, domestic investment, and expectations).

** Maintaining employment, people’s basic livelihood, market entities, food and energy, stability of industrial and supply chains, and smooth functioning of grassroots administration.

Source: Extracted from ‘中国人民银行货币政策委员会召开 2020 年第一季度例会’ (PBC Monetary Policy Committee Holds Q1 2020 Meeting) (March 27, 2020) and ‘中国人民银行货币政策委员会召开 2020 年第二季度例会 (PBC Monetary Policy Committee Holds Q2 2020 Meeting)’ (June 28, 2020).

At a speech at the 12th Lujiazui Forum on June 18, Yi Gang, Governor of the PBC, expressed the opinion that financial support policies introduced in response to the Covid-19 were phased policies, so the authorities should prevent moral hazards, pay attention to aftereffects, keep the aggregate at an appropriate level, and consider in advance the appropriate timing to withdraw policy tools.¹⁹ It seems the authorities have already entered this stage. This is probably because the economy is now emerging from the worst of the Covid-19 slump, with the authorities also mindful of avoiding the damage (moral hazards, aftereffects, etc.) that could accompany large-scale easing policies.

▪ **The CBIRC warns of financials risks, including a sharp rise in NPLs**

In response to a journalist question about the risks facing the banking and insurance sectors on July 11, the China Banking and Insurance Regulatory Commission (CBIRC) outlined four risks: (1) pressures leading to an increase in non-performing loans (as the delayed financial ripple effects of the economic slowdown finally rise to the surface),

¹⁹ PBC, June 18, 2020 ‘人民银行行长易纲在第十二届陆家嘴论坛上的发言 (Yi Gang, Governor of the PBC’s speech at the 12th Lujiazui Forum)’

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4041941/index.html>

(2) the deepening problems facing small and medium-sized financial institutions,²⁰ (3) growing market turmoil related to the revival of high-risk shadow-banking activity in certain areas, and (4) the emergence of illegal or non-compliant activities. With regards to (1) non-performing loans, the CBIRC said that sectors and companies impacted by Covid-19 were facing substantial operating pressures, with repayment capabilities declining, for example, with the CBIRC also warning about banks, firms and local governments cooking the books to deliberately conceal the existence of NPLs.²¹

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²⁰ With regards to the problems facing small- and medium-sized financial institutions, the CBIRC and the China Securities Regulatory Commission (CSRC) announced on July 17 that nine insurance, trust and securities companies forming the core assets of Xiao Jianhua's public/private Tomorrow Group would be placed under public administration for one year.

CBIRC, July 17, 2020, 'CBIRC Announces Takeover of Tianan Property Insurance and 5 other Financial Institutions' <http://www.cbirc.gov.cn/en/view/pages/ItemDetail.html?docId=917374&itemId=980>

CSRC, July 17, 2020 '证监会依法对新时代证券股份有限公司、国盛证券有限责任公司、国盛期货有限责任公司实行接管 (CSRC announced the takeover of New Times Securities Co.Ltd, Guosheng Securities Co., Ltd. and Guosheng Futures Co., Ltd under the law)' http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/202007/t20200717_380266.html

²¹ CBIRC, July 11, 2020, '中国银保监会新闻发言人答记者问 (A CBIRC Spokesperson Answers Journalist Questions)' <http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=915531&itemId=915>