

—The macroeconomy—

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

(No. 108)

### **Summary**

Some of December's economic indicators accelerated and some slowed on the previous month. With real GDP growing by +2.3% in 2020, China was "the only major economy to grow in 2020" (National Bureau of Statistics). While normalizing policy after the response to the COVID-19 crisis, the authorities will respond as appropriate to sporadic outbreaks of COVID-19 and the changing circumstances.

#### **1. Some of December's economic indicators accelerated and some slowed on the previous month**

- **"China was the only major economy to grow in 2020" (NBS)**
- **Production accelerated, though investment and consumption slowed**
- **New-homes prices grew at a slightly slower pace; there was an ongoing increase in the number of cities with prices falling on the previous month**
- **Exports slowed and imports accelerated; the export amount and the trade surplus both recorded record highs in 2020**
- **The CPI data returned to positive territories and the PPI data contracted at a slower pace**
- **Net new bank loans increased, though total social financing grew at a slower pace**

#### **2. The policy response: The authorities will respond to the changing circumstances as appropriate while normalizing policy after the response to the COVID-19 crisis**

- **"Interest rate levels are appropriate; deposit reserve ratios are not that high" (PBC)**
- **"We have steadily implemented prudential management for real estate finance" (PBC)**
- **"Cuts to taxes and fees will be systemic and ongoing" (Minister of Finance Liu Kun)**

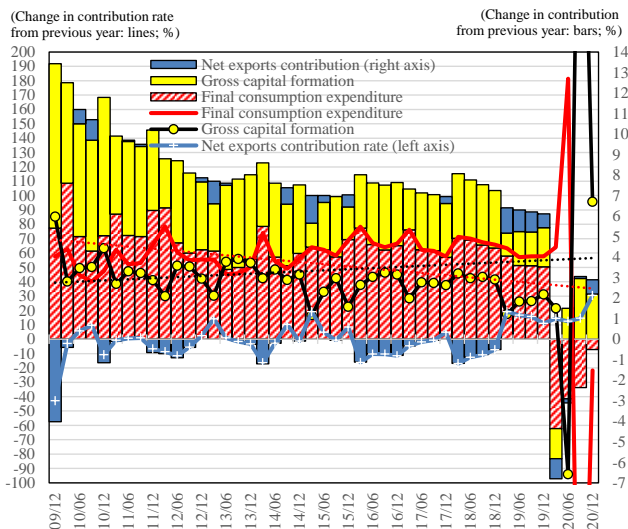
**1. Some of December’s economic indicators accelerated and some slowed on the previous month**

**▪ “China was the only major economy to grow in 2020” (NBS)**

On January 18, the National Bureau of Statistics (NBS) announced that China’s real GDP growth rate for 2020 stood at +2.3% on the previous year, down on 2019’s figure of +6.0%,<sup>1</sup> with the figure for October–December figure coming in at +6.5% on the same period last year (from here on, all figures refer to a “same-period previous-year comparison” unless otherwise specified). Growth was up +2.6% on the previous quarter (Fig.1).<sup>2</sup>

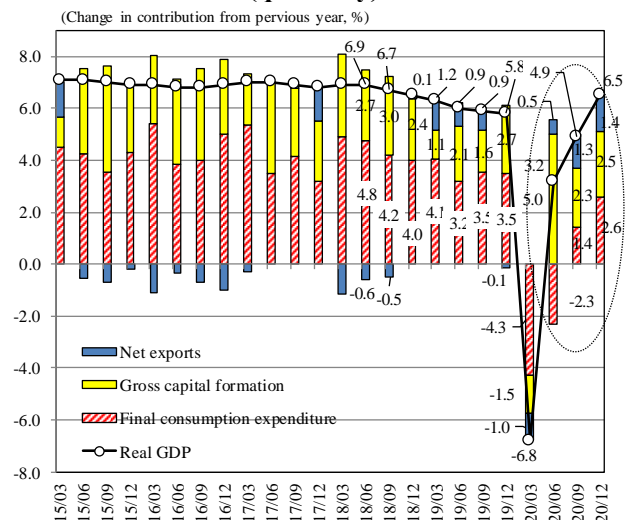
In a press conference, NBS commissioner Ning Jizhe said China had been the only major economy to grow in 2020, with total GDP topping RMB 100 trillion for the first time to hit RMB 101.6 trillion. In dollar terms, this stood at \$14.7 trillion, with China now accounting for around 17% of total global GDP. The commissioner added that per-capita GDP had topped \$10,000 for the second straight year, with China topping the rankings of middle-income countries as it continued to narrow the gap between itself and high-income countries.

**Fig. 1: Breakdown of GDP by demand item**



Note: The cumulative result since the start of the year. Gross capital formation increased by 422.5% and final consumption expenditure decreased by 337.1% over January–September 2020. Source: NBS, CEIC

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



Source: NBS, CEIC

<sup>1</sup> NBS, December 31, 2020, “Announcement of the National Bureau of Statistics on the Final Verification of GDP in 2019.” The real GDP growth rate for 2019 was downgraded 0.1 percentage point from the preliminary figure of +6.1%.

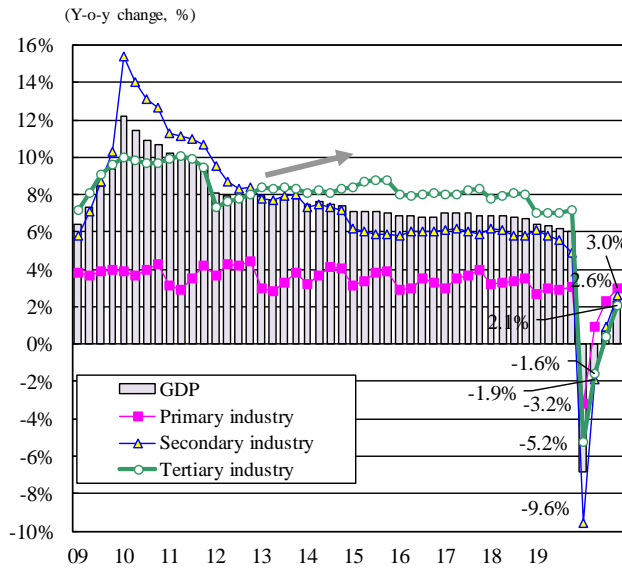
[http://www.stats.gov.cn/english/PressRelease/202012/t20201231\\_1811928.html](http://www.stats.gov.cn/english/PressRelease/202012/t20201231_1811928.html)

The revised figures for each quarter in 2019 were published in the NBS’s “Preliminary Accounting Results of GDP for the Fourth Quarter and the Whole Year of 2020,” released on January 19, 2021.

[http://www.stats.gov.cn/english/PressRelease/202101/t20210120\\_1812680.html](http://www.stats.gov.cn/english/PressRelease/202101/t20210120_1812680.html)

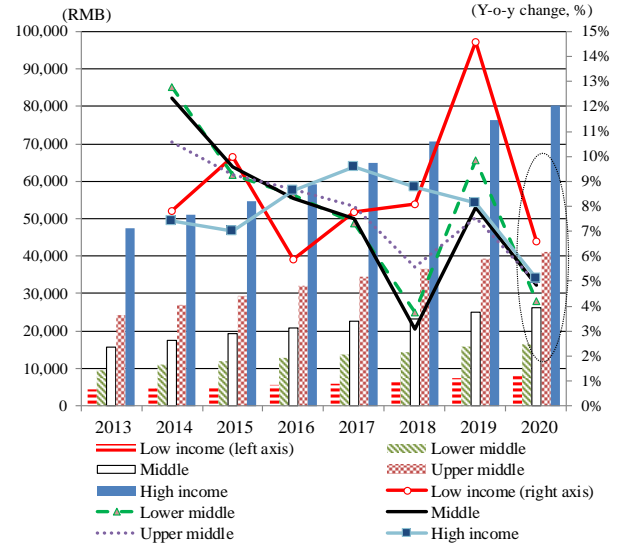
<sup>2</sup> The State Council Information Office, January 18, 2021, “SCIO holds press conference on China’s economic performance in 2020” [http://english.scio.gov.cn/pressroom/2021-01/18/content\\_77127070.htm](http://english.scio.gov.cn/pressroom/2021-01/18/content_77127070.htm)

**Fig. 3: GDP by sector**



Note: The figures denote the most recent period.  
Source: NBS, CEIC

**Fig. 4: Urban disposable income**



Source: NBS, CEIC

A glance at contribution levels by demand item over 2020 shows the contribution of final consumption expenditure dipping into negative territories at -0.5%, down from +3.5% in 2019. However, the figure for gross capital formation increased from +1.9% to +2.2%, while the contribution of net exports also grew from +0.67% to +0.70%. The breakdown shows the contribution of domestic demand shrinking from +5.4 percentage points in 2019 to +1.7 percentage points in 2020, though growth was bolstered by a slight y-o-y increase in the contribution of external demand.

Growth was propelled by a healthy balance of investment, consumption and net exports in the third and fourth quarters (Fig. 2). A breakdown by sector shows primary industry growing by +3.0% over 2020, down on the +3.1% figure recorded in 2019, with growth in the secondary sector also slowing from +4.9% to +2.6%. Growth in the tertiary industry also slowed sharply from +7.2% to +2.1% (Fig. 3).

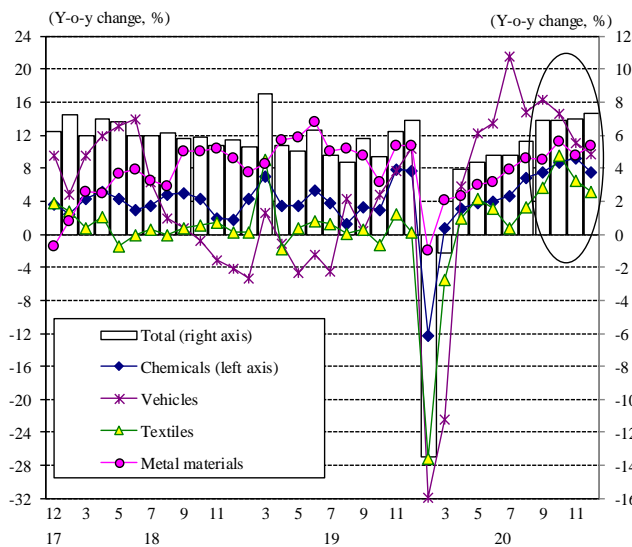
**Production accelerated, though investment and consumption slowed**

Some of December’s economic indicators accelerated and some slowed on the previous month. At +7.3%, value-added industrial production in December was up slightly on November’s +7.0%. At +2.8%, the cumulative figure for January–December was also up on the +2.3% figure recorded over January–November (December: +1.1% m-o-m) (Fig. 5). According to the NBS, noteworthy industrial trends in 2020 included: (1) strong growth when it came to electronics (+7.7%), electric machinery (+8.9%), and automobiles (+6.6%), with excavating equipment (+36.7%), solar cells (+30.3%), laptop computers (+26.3%), industrial robots (+19.1%), new-energy vehicles (+17.3%) and integrated circuits (+16.2%) all growing at a fast clip; (2) strong growth when it came to hi-tech manufacturing such as medical instruments (+12.1%), electronics and telecommunications equipment (+8.8%) and computers and office equipment (+6.5%), with new products like 3D printers, smart watches, private drones and IC wafers all growing by 100% or more; (3) a modest recovery when it came to the manufacture of raw materials, with chemicals, construction materials and non-ferrous metals growing by around +2.5%–3.4%, for example; (4) a sharp contraction

in two consumer products: leather and fur shoes (-11.7%) and textile garments (-9.0%).<sup>3</sup>

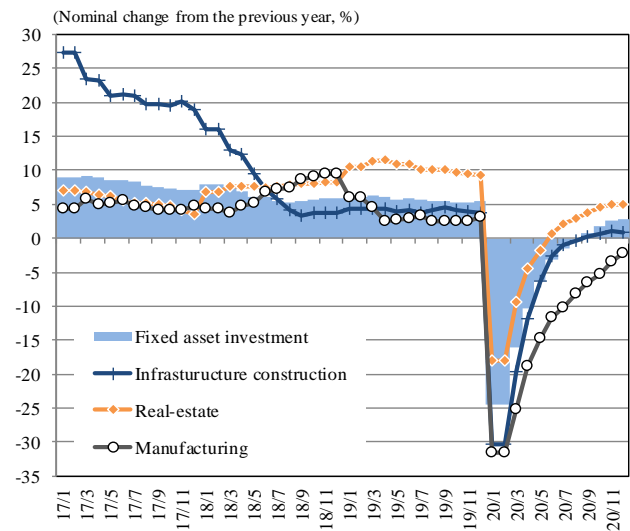
At +2.9%, nominal fixed asset investment in January–December improved on January–November’s +2.6%, though the standalone monthly figure slowed from +20.5% in November to +11.9% in December (+2.3% m-o-m). At +0.9%, investment in infrastructure construction slowed slightly over January–December (January–November: +1.0%), while manufacturing investment improved (from -3.5% to -2.2%) and real-estate investment moved flatly (at +5.0%) (Fig.6).

**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: NBS, CEIC

Nominal retail sales of consumer goods grew by +4.6% in December, down on November’s figure of +5.0% (+1.2% m-o-m) (Fig.7). Internet retail sales of goods and services grew by +10.9% to hit RMB 11,760.1 billion over January–December (goods: RMB 9,759.0 billion; services: RMB 2,001.1 billion), with net shopping growing by +14.8% to account for 24.9% of total retail sales of consumer goods during this period (RMB 40,056.6 billion, -3.9%).<sup>4</sup> NBS commissioner Ning Jizhe said consumption had slowed in December on sporadic regional COVID-19 outbreaks and the emergence of several clusters.<sup>5</sup>

The breakdown shows brisk sales when it comes to upgraded consumption such as cultural and office appliances (+5.8%), sports and entertainment goods (+8.4%), cosmetics (+9.5%) and telecommunication equipment (+12.9%)

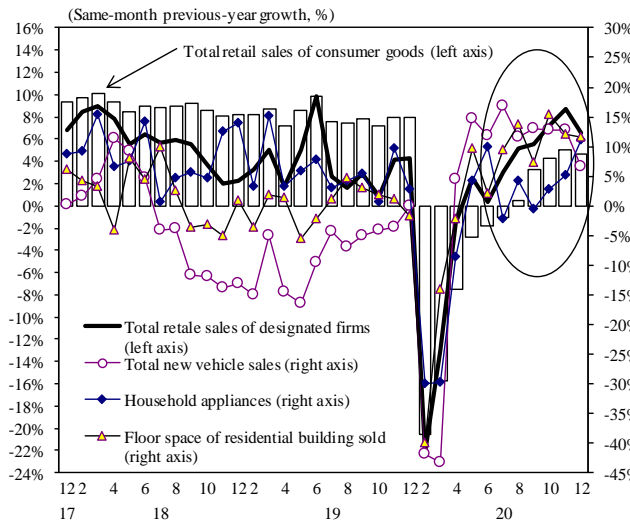
<sup>3</sup> NBS, January 19, 2021, “卢山：工业生产稳定恢复 企业效益持续改善 (Lu Shan: Industrial Production is Undergoing a Stable Recovery and Corporate Profits Continue to Improve).” Lu Shan is director-general of the NBS’s industrial statistics department.  
[http://www.stats.gov.cn/tjsj/zxfb/202101/t20210119\\_1812580.html](http://www.stats.gov.cn/tjsj/zxfb/202101/t20210119_1812580.html)

<sup>4</sup> NBS, January 19, 2021, “Total Retail Sales of Consumer Goods Went Up by 4.6 percent in December 2020.”  
[http://www.stats.gov.cn/english/PressRelease/202101/t20210119\\_1812515.html](http://www.stats.gov.cn/english/PressRelease/202101/t20210119_1812515.html)

<sup>5</sup> See footnote 2. The government has moved to restrict mobility even in regions with no COVID-19 cases, with migrant workers required to take PCR tests before returning home for the Spring Festival holidays or receiving cash payments if they elect not to go home for the holidays, for example. These moves have dampened consumption.

(NBS).<sup>6</sup> At -16.6% (RMB 3,952.7 billion), though, the food and drink industry slipped into negative territories (2019: +9.4% and RMB 4,672.1 billion) as the lodging and dining out sectors were hit by COVID-19.

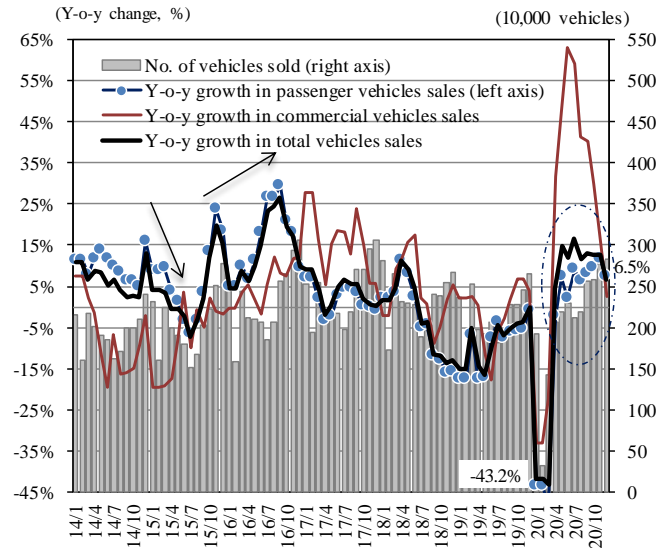
**Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold**



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

At +6.5% (2.831 million), sales of new vehicles in December grew at a slower pace compared to the previous month's +12.7%, though the number of vehicles sold was up on November's 2.7697 million. This marked the ninth straight month of growth since April (+4.5% and 2.07 million), when sales had recorded y-o-y growth for the first time since June 2018 (+4.7%). The figure for 2020 was -1.9% (25.311 million), with sales sliding for the third year in a row, though the scale of the contraction had improved on 2019's figure of -8.1% (Fig. 8).<sup>7</sup> The recent recovery was due to various measures introduced by the central and local governments to stimulate consumption.<sup>8</sup> 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 vehicles<sup>9</sup> finished at the end of 2017, with the sector seeing policy-led increases in sales followed

<sup>6</sup> NBS, January 19, 2021, “董礼华：消费市场经受住疫情冲击 消费结构持续升级 (Dong Lihua: Consumer Markets Hit by COVID-19; the Consumption Structure Continues to Upgrade).” Dong Lihua is director-general of the NBS's trade and external economic relations department.

[http://www.stats.gov.cn/tjsj/zxfb/202101/t20210119\\_1812588.html](http://www.stats.gov.cn/tjsj/zxfb/202101/t20210119_1812588.html)

<sup>7</sup> China Association of Automobile Manufacturers, January 13, 2021, “中国汽车工业协会 2021 年 1 月信息发布会在京召开 (China Association of Automobile Manufacturers Holds a Press Conference in Beijing on January 2021).”

[http://www.caam.org.cn/chn/1/cate\\_3/con\\_5232917.html](http://www.caam.org.cn/chn/1/cate_3/con_5232917.html)

<sup>8</sup> 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.mizuhogroup.com/binaries/content/assets/pdf/mizuho-bank/insights/cndb/economics/express\\_economy/r422-0099-xf-0105.pdf](https://www.mizuhogroup.com/binaries/content/assets/pdf/mizuho-bank/insights/cndb/economics/express_economy/r422-0099-xf-0105.pdf)

<sup>9</sup> 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)”

by subsequent slowdowns.

**▪ New-homes prices grew at a slightly slower pace; there was an ongoing increase in the number of cities with prices falling on the previous month**

At +2.6% (1,760.86 million m<sup>2</sup>), the floor space of residential buildings sold in January–December was up on January–November’s figure of +1.3%. Buying restrictions pioneering in Shanghai and Shenzhen in March 2016<sup>10</sup> were subsequently rolled out to other cities with surging house prices,<sup>11</sup> with the restrictions being tightened further thereafter.<sup>12</sup>

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[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>

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.

<sup>10</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>11</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](http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm) (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](http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html) (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.

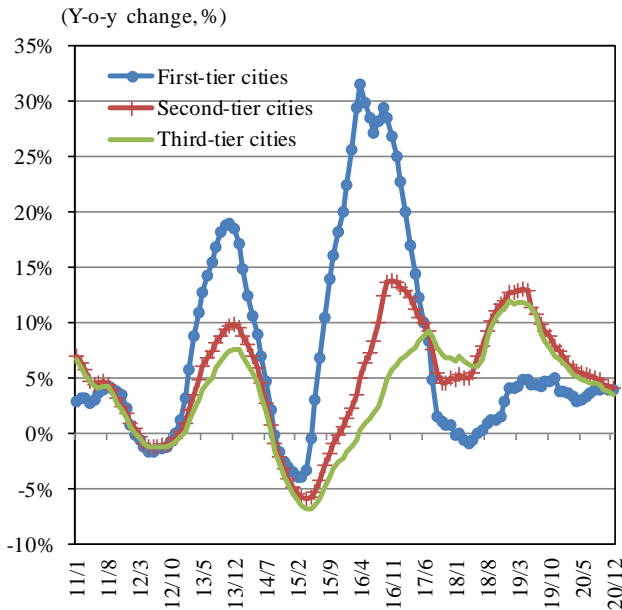
<http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html>

<sup>12</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](http://epaper.21jingji.com/html/2017-03/20/content_58356.htm) (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)

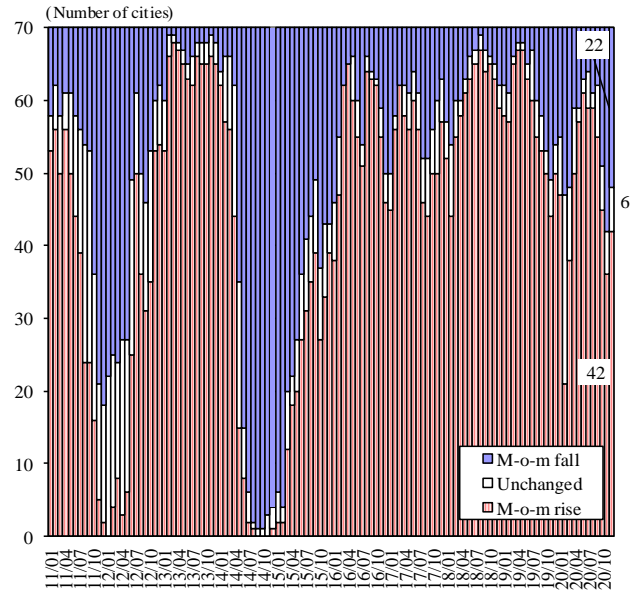


**Fig. 9: New-homes prices (Y-o-y)**



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

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



Source: NBS, CEIC

Funds flowed into China’s real-estate markets on easing measures introduced to tackle 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.<sup>13</sup> Since then, it seems real-estate firms have moved to lower the price of their inventory as part of efforts to maintain and boost results.<sup>14</sup> In December, 60 cities saw the price of new homes rising on the previous year, unchanged on November. At +3.94%, prices in first-tier cities rose slightly (November: +3.86%), though growth slowed slightly in second-tier cities (from +4.2% to +4.0%) and third-tier cities (from

<sup>13</sup> 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](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>

<sup>14</sup> The 21st Century Business Herald, November 6, 2020, “房企三季度如何降杠杆: 增回款、少拿地、卖股权 (How can Real-estate Enterprises Deleverage? By Boosting the Recovery of Outstanding Sales, Limiting Land Acquisitions, and Selling Assets)”

<https://m.21jingji.com/article/20201106/ffd0b3af51e3adcc0c032e75dd987998.html>

+3.8% to +3.4%) (Fig. 9).<sup>15</sup>

On a monthly basis, 42 of the 70 cities surveyed saw the price of new homes rising, up from 48 in November. Six cities saw prices moving flatly on the previous month, unchanged from November, while 22 cities saw prices falling on the previous month, down from 28 in November (which saw a sharp increase from 19 cities in October) (Fig. 10).<sup>16</sup>

**▪ Exports slowed and imports accelerated; the export amount and the trade surplus both recorded record highs in 2020**

Exports grew by +18.1% (\$281.93 billion) and imports by +6.5% (\$203.75 billion) in December, with exports slowing and imports growing at a faster pace. The trade surplus stood at \$78.17 billion, a new high for monthly surplus since the \$75.43 billion recorded in November (Fig.11). The data for 2020 as a whole stood at +3.6%/ \$2,590.65 billion for exports and -1.1%/ \$20,55.61 billion for imports, so the overall figure hit +1.5% and the surplus reached \$535.03 billion, with “the export amount and the trade surplus both recording record highs.”<sup>17</sup>

In a press conference on January 14, Li Kuiwen, spokesperson of the General Administration of Customs (GAC), explained that (1) exports of commodities related to COVID-19 prevention (masks and other textiles, medical devices and medicines) had grown by +31% to contribute 1.9 percentage points to the +3.6% export growth rate and (2) exports related to the stay-at-home trend (laptops, tablets and household appliances) grew by +22.1% (contribution = 1.3 percentage points), with these items pushing up the overall export figure. The spokesperson also revealed that crude oil imports had increased by +7.3%, iron ore imports by +7.0%, grain imports by +28.0%, and meat imports by +60.4%.<sup>18</sup>

<sup>15</sup> Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Yinchuan +14.2%, Tangshan +11.2%, Xuzhou +10.0% (December).

<sup>16</sup> NBS, December 14, 2020, “Sales Price of Residential Buildings in 70 Large and Medium-Sized Cities in November 2020” [http://www.stats.gov.cn/english/PressRelease/202012/t20201214\\_1808993.html](http://www.stats.gov.cn/english/PressRelease/202012/t20201214_1808993.html)

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

<sup>17</sup> Ministry of Commerce, January 16, 2021, “Officials from the department of foreign trade gives an overview of China’s foreign trade in 2020.”

<http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/202101/20210103032259.shtml>

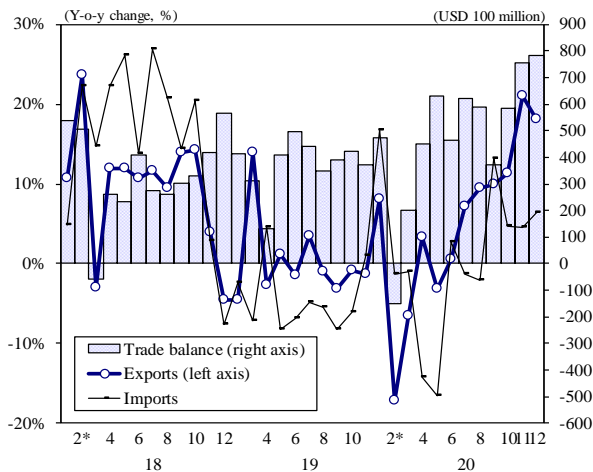
“December witnessed the highest level of monthly exports and imports with a value of 3.2 trillion yuan”.

<sup>18</sup> State Council website, January 14, 2021, “国务院新闻办就 2020 年全年进出口情况举行发布会 (December 3, 2020) (The State Council Information Office Holds a Press Conference on the Import and Export Data for 2020)”

[http://www.gov.cn/xinwen/2021-01/14/content\\_5579875.htm](http://www.gov.cn/xinwen/2021-01/14/content_5579875.htm)

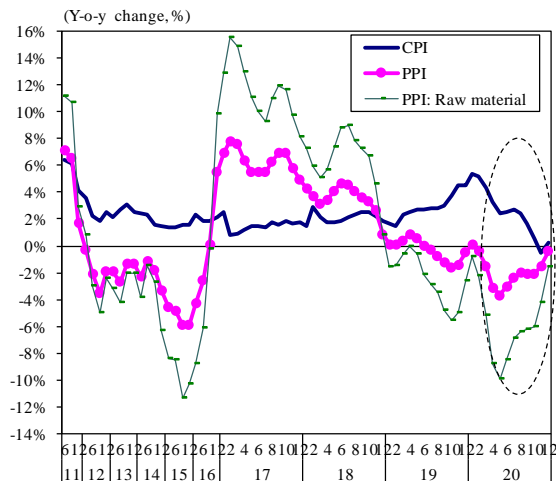


**Fig. 11: Imports/exports; trade balance**



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

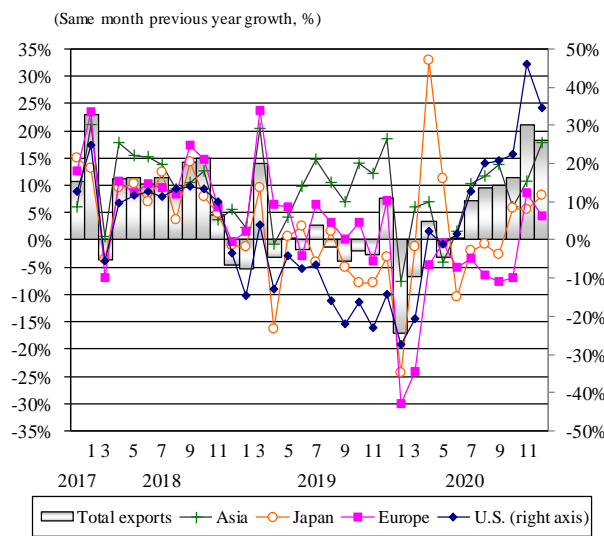
**Fig. 12: CPI, PPI**



Note: The data from June 2011 to 2016 only shows the quarterly (March, June, September and December) figures.  
Source: NBS, CEIC

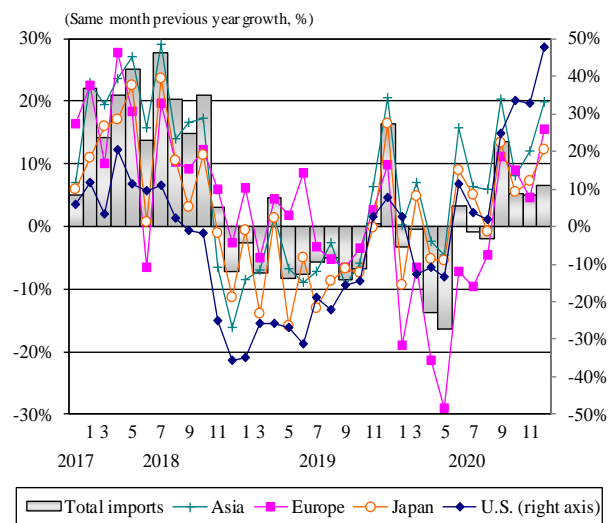
Exports and imports grew at a faster pace when it came to almost all countries and regions (Figs. 13 and 14).

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



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

**Fig. 14: Imports by major region**



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

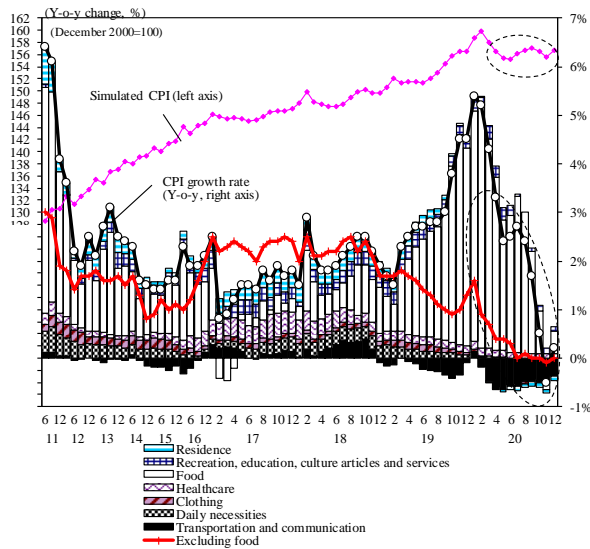
**▪ The CPI data returned to positive territories and the PPI data contracted at a slower pace**

At +0.2%, CPI (Consumer Price Index) growth returned to positive territories in December (November: -0.5%). At +0.7% m-o-m, CPI growth also returned to positive territories on a monthly basis (November: -0.6%). Average growth for January–December stood at +2.5%, below the +3.5% target<sup>19</sup> set by the National People’s Congress for

<sup>19</sup> Regarding the government’s CPI targets for 2020, refer to the figure 18 on the “Mizuho China Business Express Economic Journal (No. 100)” by this author.

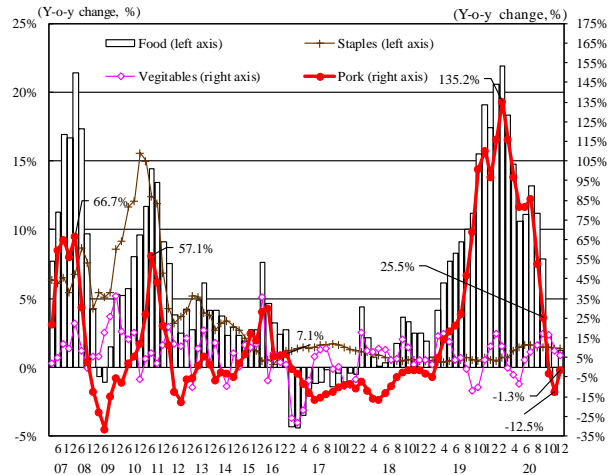
2020 (Fig. 12).

**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 2016 only shows the quarterly (March, June, September and December) figures. Source: NBS, CEIC

**Fig. 16: Food prices**



Note: The data until 2016 only shows the quarterly (March, June, September and December) figures. Source: NBS, CEIC

A breakdown of the CPI data shows food prices growing again by +1.2% in December (November: -2.0%). “The cost of producing, storing and transporting vegetables and fruit had increased on low temperatures” (NBS<sup>20</sup>), with fruit prices rising by +6.5% (November: +3.6%). Though pork prices<sup>21</sup> remained in negative territories at -1.3%, the scale of the contraction was down on November’s figure of -12.5% owing to “rising feed costs and increased seasonal demand related to New Year’s Day and the impending Spring Festival holidays” (NBS). Non-food prices moved flatly at +0.0% (November: -0.1%) (Figs. 15 and 16).

At -0.4%, Producer Price Index (PPI) growth contracted at a slower pace in December (November: -1.5%), with the average for January–December standing at -1.8%. According to the NBS, a glance at y-o-y PPI price changes in December compared to November shows prices rising at a faster pace when it came to the manufacture and processing of non-ferrous metals (+8.3%) and the manufacture and processing of ferrous metals (+5.0%); prices

<sup>20</sup> NBS, January 11, 2021, “国家统计局城市司高级统计师董莉娟解读 2020 年 12 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the December 2020 CPI and PPI Data) [http://www.stats.gov.cn/tjsj/sjjd/202101/t20210111\\_1812248.html](http://www.stats.gov.cn/tjsj/sjjd/202101/t20210111_1812248.html)

<sup>21</sup> 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%)

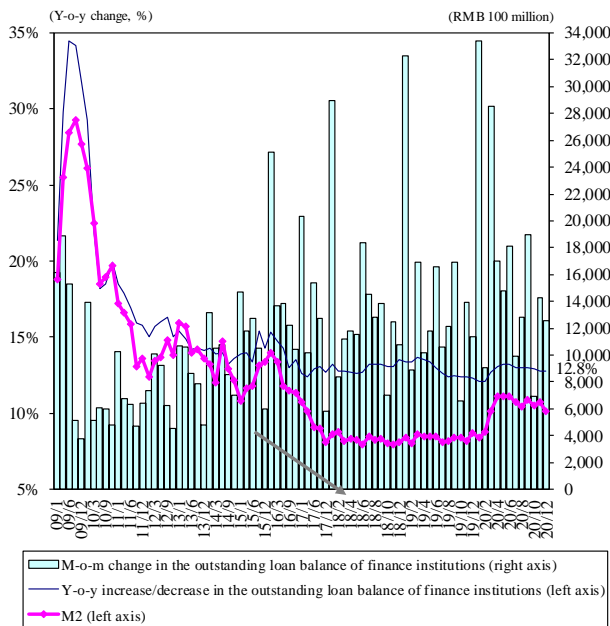
contracting at a slower pace when it came to the extraction of petroleum and natural gas (-12.5%); prices shifting from negative to positive or zero growth when it came to the manufacture of chemical raw materials and chemical products (from -3.0% in November to 0%) and the mining and washing of coal (from -2.9% to +1.3%).

When it comes to inflationary trends in 2021, many observers think the CPI data will remain at lows in the first half of the year before rising thereafter to remain in reasonable bounds throughout the year, with the PPI data expected to return to positive territories before rising slightly thereafter.<sup>22</sup>

**▪ Net new bank loans increased, though total social financing grew at a slower pace**

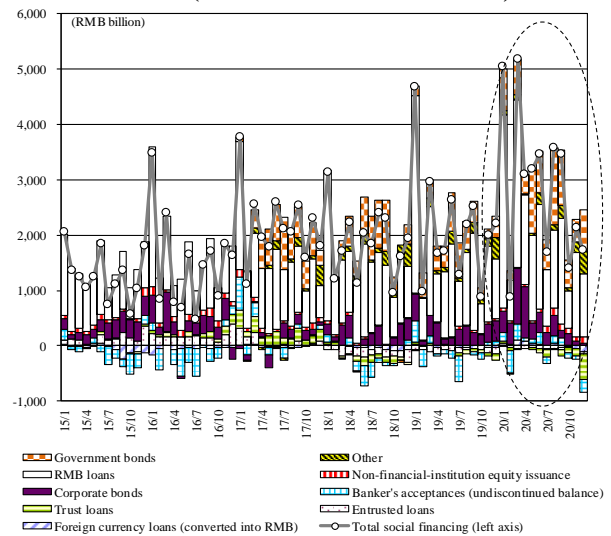
According to the PBC, M2 money supply growth hit +10.1% in December, down on November’s figure of +10.7%. New bank loans increased by a net RMB 1,260.0 billion, down on November’s figure of RMB 1,430.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 1,719.2 billion, down on November’s figure of RMB 2,135.5 billion. A glance at the details reveals that: government bonds, non-financial-institution equity issuances and loan repayments increased; RMB loans, corporate bonds and deposit-taking financial institution ABS grew at a slower pace; foreign currency loans, entrusted loans, trust loans and banker’s acceptances fell at a faster pace (Fig.18).

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



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

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



Source: PBC, CEIC

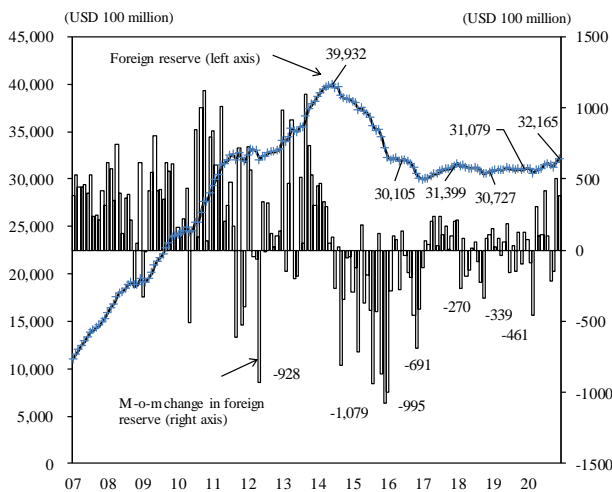
Foreign exchange reserves stood at \$3,216.52 billion at the end of December, up \$38.03 billion on the end of November and by \$108.60 billion (+3.5%) on the end of 2019 (Fig. 19). This marked the first time the figure had

<sup>22</sup> Economic Daily, January 12, 2021, “去年物价调控目标实现 (Hitting Last Year’s Inflation Target)” [http://paper.ce.cn/jjrb/html/2021-01/12/content\\_435999.htm](http://paper.ce.cn/jjrb/html/2021-01/12/content_435999.htm)

topped \$3,200 billion since July 2016 (\$3,201.057 billion). Discussing the foreign exchange reserves data, State Administration of Foreign Exchange (SAFE) spokesperson Wang Chunying said the Dollar Index had fallen in international financial markets on the development of COVID-19 vaccines and major-nation fiscal and financial policies, with other currencies and assets like major-nation stocks and bonds all rising. She added that the dollar value of other currencies had risen and asset prices had climbed, with these factors working in tandem to boost China’s foreign currency reserves in December.<sup>23</sup>

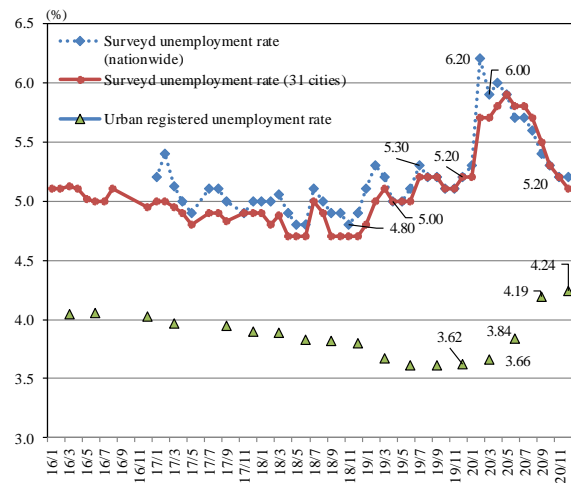
The surveyed unemployment rate at the end of December was unchanged on the end of November at 5.2%, the same level as the end of 2019 (Fig. 20). The registered urban unemployment rate rose toward the year’s end. Though disposable income recorded positive growth, particularly when it came to medium and low earners, the data slowed on the end of 2019 owing to the COVID-19 crisis (Fig. 4), with a gap emerging when it comes to the economic sentiments of each income layer.

**Fig. 19: 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.20: The surveyed unemployment rate**



Source: NBS, CEIC

**2. The policy response: The authorities will respond to the changing circumstances as appropriate while normalizing policy after the response to the COVID-19 crisis**

When conducting fiscal and financial policy in 2021, the authorities will probably focus on risk avoidance and normalization after the crisis measures introduced to tackle COVID-19 in 2020. They will probably act as needed while monitoring the extent and impact of sporadic COVID-19 outbreaks within China from the turn of the year.

When the work conference of the PBC met on January 4, it outlined ten major tasks for 2021 (Fig. 21).<sup>24</sup> These suggest the authorities will take concrete steps to (7) promote the internationalization of the RMB, (8) promote

<sup>23</sup> SAFE, January 7, 2021, “SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for December 2020”  
<http://www.safe.gov.cn/en/2021/0107/1790.html>

<sup>24</sup> China Financial News, January 6, 2021, “2021 年中国人民银行工作会议在京召开 (PBC Holds 2021 Work Conference in Beijing)”  
[https://www.financialnews.com.cn/jg/dt/202101/t20210106\\_209191.html](https://www.financialnews.com.cn/jg/dt/202101/t20210106_209191.html)

reform and opening-up (including the development of bond markets), and (9) continually improve foreign currency regulation and services, for example.

▪ **“Interest rate levels are appropriate; deposit reserve ratios are not that high” (PBC)**

On January 15, the State Council Information Office (SCIO) held a press conference to brief the media about data on China’s financial statistics in 2020.<sup>25</sup> During a question and answer session with PBC vice governor Chen Yulu and others, Sun Guofeng, head of the PBC’s monetary policy department, commented the RMB’s exchange rate against the dollar had appreciated by +6.9% at the end of 2020, but he said “the average exchange rate against the dollar for the whole year was RMB 6.90, the same level as 2019. On the whole, the RMB exchange rate remains...in line with China’s foreign trade and the fundamentals of its economy,” adding that “the RMB’s appreciation against the dollar has also been moderate.” As for the future, he commented that “in general, the RMB exchange rate will both rise and fall and the two-way floating of the RMB will become normal. It will neither keep appreciating nor depreciating but will remain basically stable at a reasonable and equilibrium level.”<sup>26</sup>

When asked whether there was room to lower interest rates or deposit reserve ratios, Sun Guofeng expressed the opinion that interest rates were currently at an appropriate level. He also added that China’s deposit reserve ratio was not that high when compared with other developing countries or with China’s reserve ratios in the past, thus suggesting interest rates and reserve ratios would be kept unchanged for now.

▪ **“We have steadily implemented prudential management for real estate finance” (PBC)**

Speaking about the PBC’s recent real-estate financial policies in a press conference on January 15, Zou Lan, director-general of the Financial Market Department of the PBC,<sup>27</sup> said “first, we have enhanced financial regulation in the real estate sector. We have guided financial administration to strengthen the monitoring and calculating of all funds flowing into real estate, allowed commercial banks to increase real estate loans at a reasonable speed, and promoted the flow of financial resources into major sectors and weak links such as manufacturing and small and micro enterprises<sup>28</sup>...Second, we have steadily implemented prudential management for real estate finance...we

<sup>25</sup> The State Council Information Office, January 15, 2021, “SCIO briefing on China’s financial statistics in 2020” [http://english.scio.gov.cn/pressroom/node\\_8021596.htm](http://english.scio.gov.cn/pressroom/node_8021596.htm)

<sup>26</sup> Since the turn of the year, the authorities have introduced several measures aimed at relieving appreciatory pressure on the RMB and promoting the internationalization of the currency. In January 2021, the PBC and five other central government bodies released the “Circular on the Further Optimization of Cross-border RMB Policies to Support the Stabilization of Foreign Trade and Investment.” (Yin Fa [2020] No.330), etc. Also refer to Mizuho China Business Express No.534.

<https://www.mizuhobank.co.jp/corporate/world/info/cndb/express/pdf/R419-0586-XF-0105.pdf>

<sup>27</sup> Released on December 31, 2020, “中国人民银行 中国银行保险监督管理委员会关于建立银行业金融机构房地产贷款集中度管理制度的通知 (Yin Fa [2020] No.332) (Circular on the Establishment of a Real Estate Loan Concentration Management System for Banking Institutions)” announced the establishment from January 2021 of a management system for bank real-estate loans and housing loans. This caps the amount of property loans as a proportion of total loans in accordance with the size of bank assets. This cap of outstanding real-estate loans and housing loans to total loans will be 40% and 32.5% respectively for China’s largest banks and 12.5% and 7.5% for the lowest-tier village banks. Banks whose ratios exceed these new caps as of the end of 2020 will be required to lower these ratios on a planned manner. Banks will be granted a two-year grace period if they exceed the caps by less than 2 percentage points and a four-year grace period if they exceed the caps by more than 2 percentage points.

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

<sup>28</sup> As a result of these measures, Zou Lan said the growth rate of real estate loans was lower than that of other loans for the first time in eight years, while the proportion of newly-added real estate loans in all loans fell from 44.8% in 2016 to 28% in 2020.

have implemented tailored housing regulations for different cities and adopted differentiated housing credit policies...we have established fund monitoring and financing management rules for major real estate enterprises. Moreover, we have set up and improved a macro prudent management system for sound real estate finance. Third, we have improved financial policies for housing rentals. Focusing on both housing purchases and renting, we have accelerated the study of financial policies to support the housing rental market.” Going forward, he added that the authorities would “steadily implement the prudential management of real estate finance...increase financial support for the development of the housing rental market and promote the steady and healthy development of the real estate market.”

▪ **“Cuts to taxes and fees will be systemic and ongoing” (Minister of Finance Liu Kun)**

Minister of Finance Liu Kun has spoken about the direction of fiscal policy in interviews with the People’s Daily and an interview at the National Financial Work Conference,<sup>29</sup> which convened at the end of 2020. Speaking about policies to cut taxes and fees that were rolled out from 2018 and strengthened during the COVID-19 crisis, Mr. Kun said these cuts would be systemic and ongoing rather than temporary one-offs. He added that the authorities would maintain the level and continuity of the policy of reducing taxes and fees to a “certain level.” The phrase “certain level” suggests the policies might also be pared back from here on.

In a regular press conference on January 19,<sup>30</sup> National Development and Reform Commission (NDRC) official Yan Pengcheng said there would be no sharp policy shifts in 2021, with China’s macro policies moving in line with the demand for stable economic development. However, he said that although special emergency measures had played a key role in stable economic management, these were only temporary and would not be continued indefinitely.

At the plenary meeting of the State Council on January 20,<sup>31</sup> Premier Li Keqiang said the authorities would maintain the strength of support needed for an economic recovery. He said that although the Chinese economy in 2021 was expected to clearly recover from 2020’s slump, it could face new headwinds from sporadic COVID-19 outbreaks within China and from relations with the new US administration. It seems the government will tweak the policy response flexibly to respond to the economic impact of domestic and international factors.

<sup>29</sup> People’s Daily, January 6, 2021, “积极的财政政策要提质增效更可持续 (权威访谈·迈好第一步, 见到新气象⑥)——访财政部部长刘昆 (Toward a Higher-quality, More Effective and More Sustainable Active Fiscal Policy (Interviews with the Authorities: Taking a First Step and Monitoring the New Conditions [6]))”

[http://paper.people.com.cn/rmrb/html/2021-01/06/nw.D110000renmrb\\_20210106\\_3-02.htm](http://paper.people.com.cn/rmrb/html/2021-01/06/nw.D110000renmrb_20210106_3-02.htm)

Ministry of Finance, January 20, 2021, “刘昆同志在全国财政工作会议上的讲话 (Speeches by the Minister of Finance, Liu Kun at the National Financial Work Conference)”

[http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202101/t20210120\\_3646937.htm](http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202101/t20210120_3646937.htm)

<sup>30</sup> National Development and Reform Commission, January 19, 2021, “国家发展改革委举行 1 月份新闻发布会 (The National Development and Reform Commission Held a Press Conference in January)”

[https://www.ndrc.gov.cn/xwdt/xwfb/202101/t20210119\\_1265270.html](https://www.ndrc.gov.cn/xwdt/xwfb/202101/t20210119_1265270.html)

<sup>31</sup> People’s Daily, January 21, 2021, “China’s cabinet discusses draft gov’t work report, 14th Five-Year Plan”

<http://en.people.cn/n3/2021/0121/c90000-9811547.html>



**Fig.21: PBC priority tasks for 2021 (PBC 2021 Work Conference)**

<p><b>1. The PBC will pursue a sound monetary policy that is more flexible, targeted, adaptive and appropriate. The money supply management mechanism will be improved to keep the growth rate of broad money and aggregate financing to the real economy (AFRE) generally in line with that of the nominal GDP.</b></p> <ul style="list-style-type: none"> <li>• The PBC will optimize the mechanism for market-based interest rate formation and transmission, deepen the loan prime rates (LPR) reform and push forward the liberalization of deposit rates.</li> <li>• The PBC will also press ahead with the market-oriented reform of the RMB exchange rate and step up macroprudential management to guide market expectations and keep the RMB exchange rate basically stable at an adaptive and equilibrium level.</li> </ul>
<p><b>2. The PBC will continue to give play to the role of structural monetary policy tools and credit policies in targeted liquidity provision, and build the systems and mechanisms needed to provide effective financial support for MSBs and other entities in the real economy.</b></p> <ul style="list-style-type: none"> <li>• The PBC will keep in place the two monetary policy tools that provide direct support for the real economy, namely the deferral of repayments on inclusive* MSB loans and unsecured inclusive MSB loans.</li> <li>• It will continue with the policy of inclusive central bank lending and central bank discounts, and guide financial institutions to increase support for agriculture, rural areas and farmers, scientific and technological innovation, MSBs, private enterprises and other key areas and weak links in the national economy.</li> <li>• The PBC will take the lead to forge policy synergy to extend financial support to MSBs.</li> <li>• It will continue to effectively align financial services for poverty alleviation with ones for rural revitalization.</li> </ul>
<p><b>3. The PBC will implement the crucial decisions and arrangements for hitting carbon dioxide emissions peak and achieving carbon neutrality by improving the policy framework and incentive mechanisms for green finance.</b></p> <ul style="list-style-type: none"> <li>• The PBC will guide financial resources to tilt towards areas of green development, strengthen the ability of the financial system to manage climate change-related risks, and promote the establishment of a carbon emission trading market to reasonably price carbon emissions.</li> <li>• The PBC will progressively improve the green finance standard system to clarify the regulatory and disclosure requirements for financial institutions, introduce a system of policy incentives and constraints, improve the products and market system of green finance, and advance international cooperation on this front.</li> </ul>
<p><b>4. The PBC will work faster to improve the macroprudential policy framework. It will incorporate major financial activities, financial institutions, financial markets and financial infrastructures into macroprudential management.</b></p> <ul style="list-style-type: none"> <li>• The PBC will enhance the monitoring and evaluation of systemic financial risks, and establish a macroprudential stress test system step by step.</li> <li>• It will also accelerate efforts to establish and improve the macroprudential management framework for key areas such as cross-border capital flows.</li> <li>• It will improve the regulatory system of financial holding companies.</li> </ul>
<p><b>5. The PBC will continue to forestall and defuse financial risks. It will steadily strengthen risk screening and responses.</b></p> <ul style="list-style-type: none"> <li>• The PBC will ensure that financial institutions and their shareholders assume primary responsibilities, local governments fulfill responsibilities within their jurisdictions, and financial regulators undertake regulatory responsibilities and act as the lender of last resort.</li> <li>• The deposit insurance system and its institutional arrangements will continue to be improved.</li> <li>• The prudential supervision of the financial activities of internet platform companies will be strengthened.</li> <li>• The PBC will resolutely implement the decisions and arrangements made by the CPC Central Committee and the State Council on strengthening anti-monopoly efforts, preventing the disorderly expansion of capital, and coordinating financial development and financial security, so as to promptly shore up weak links in the regulatory system.</li> <li>• The payment industry will be subject to tightened regulation. Only licensed agencies will be allowed to engage in personal credit information businesses. The PBC will strictly forbid excessive marketing of financial products which induces over-indebtedness, and severely punish violations of laws and regulations that damage the legitimate rights and interests of financial consumers.</li> <li>• The PBC will also work to ensure that financial innovation is advanced based on the premise of prudential supervision, and that the quality and competitiveness of inclusive financial services improve steadily.</li> </ul>
<p><b>6. The PBC will be deeply involved in global financial governance, strictly prevent and control external financial risks and steadily expand two-way financial opening-up.</b></p> <ul style="list-style-type: none"> <li>• The PBC will properly deal with the debt problems of low-income countries.</li> <li>• The higher-level opening-up of the financial sector will be further expanded, and a management system of pre-entry national treatment plus a positive/negative list will be comprehensively implemented.</li> <li>• The PBC will deepen its involvement in global financial governance and steadily uphold multilateralism.</li> </ul>
<p><b>7. The PBC will adopt a steady and prudent approach to advance RMB internationalization.</b></p> <ul style="list-style-type: none"> <li>• With a focusing on serving the real economy, the PBC will facilitate trade and investment.</li> </ul>

<ul style="list-style-type: none"> <li>• The PBC will also improve the policies and systems related to the use of the RMB.</li> <li>• It will continue to push ahead with the high-quality two-way opening-up of financial markets.</li> <li>• It will promote the sound and coordinated development of the RMB and foreign currencies as well as offshore and onshore markets.</li> </ul>
<p><b>8. The PBC will deepen the reform of financial markets and financial institutions.</b></p> <ul style="list-style-type: none"> <li>• The PBC will take the lead in formulating a bond market development plan, promote the improvement of the bond market legal system, and advance infrastructure interconnectivity.</li> <li>• Steps will be taken to improve the multi-channel bond default resolution mechanism.</li> <li>• The PBC will bolster efforts to improve the unified law enforcement framework of the bond market to strengthen the investigation and punishment of debt evasion, fraudulent issuances and other illegal conduct in the bond market.</li> <li>• The PBC will steadily implement long-term mechanisms for real estate regulation, put in place a prudential management system of real estate finance, and improve the policy system for financial sector support for rental housing.</li> <li>• Large-scale banks will be guided to increase the availability of financial services at the community level, and small and medium-sized banks will be encouraged to improve corporate governance and focus on their main responsibilities and businesses.</li> </ul>
<p><b>9. The PBC will continuously improve foreign exchange management and services.</b></p> <ul style="list-style-type: none"> <li>• The PBC will advance capital account opening-up in a steady and orderly manner.</li> <li>• The PBC will support enterprises to appropriately and prudently use foreign exchange derivatives to manage exchange rate risks.</li> <li>• It will speed up improvements to the framework for foreign exchange market management which features “macroprudential management plus micro regulation.”</li> <li>• It will hold “zero tolerance” in severely cracking down on illegal activities in the area of foreign exchange.</li> <li>• The PBC will ensure the intensive and efficient operation and management of foreign exchange reserves, and keep the size of foreign exchange reserves basically stable.</li> </ul>
<p><b>10. The PBC will improve financial services and management.</b></p> <ul style="list-style-type: none"> <li>• Coordinated efforts will be made to promote rule of law in the financial sector.</li> <li>• The influence of the central bank’s research work will be further enhanced. The PBC will study and formulate key content related to the financial sector in the draft 14th Five-Year Plan and the draft 14th Five-Year Plan for the financial sector.</li> <li>• Solid work will be done to improve integrated financial statistics.</li> <li>• The modern central bank finance system will be optimized.</li> <li>• The PBC will further modernize the governance of the payment industry.</li> <li>• The PBC will improve the application and management of FinTech.</li> <li>• The DC/EP (Digital Currency Electronic Payment) pilot program will be conducted and tested properly.</li> <li>• Steps will be taken to promote the high-quality development of the Treasury.</li> <li>• Credit information will be utilized more thoroughly in digital finance and economic governance.</li> <li>• Anti-money laundering investigations and monitoring will be conducted more efficiently.</li> <li>• The internal management will be more standardized and effective.</li> </ul>

Note: \* Inclusive finance. This refers to a financial system that provides services to all layers of society in an efficient and comprehensive manner.

Source: PBC, January 6, 2021, “2021 年中国人民银行工作会议在京召开 (2021 People’s Bank of China Work Conference held in Beijing)”

[https://www.financialnews.com.cn/jg/dt/202101/t20210106\\_209191.html](https://www.financialnews.com.cn/jg/dt/202101/t20210106_209191.html)

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