

April 26, 2021: Advisory Department, Mizuho Bank (China), Ltd.

—The macroeconomy—

Summary

At +18.3%, the real GDP growth rate in January–March hit its highest level since quarterly statistics began in 1992. Average two-year growth over the pandemic period stood at +5.0%. March saw some economic indicators rising and some falling compared to January–February. The COVID-19 crisis response will be “adjusted in a timely and appropriate manner” (PBC), with the authorities also likely to focus again on structural adjustment and reform (of real-estate markets and local government finances, etc.) while monitoring the extent of the economic recovery.

1. Some March indicators accelerated and some slowed compared to January–February

- Q1 real GDP growth hit +18.3% on buoyant consumption, with average two-year growth hitting +5.0%
- In March, production and investment both slowed on January–February, though consumption was up slightly
- House prices rose at a slightly faster pace, while more cities saw m-o-m growth
- The trade surplus shrank in March as imports surged
- The CPI data returned to positive territories; the PPI data grew at a faster pace
- New bank loans increased and total social financing expanded
- “Employment faces both quantitative and structural problems” (NBS)

2. The policy response: The authorities will adjust the measures adopted to tackle CovidCOVID-19 in a timely and appropriate manner while monitoring the economic recovery

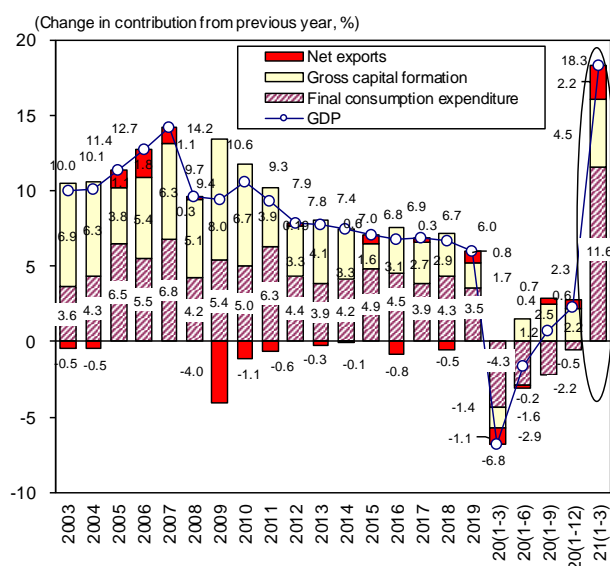
- “Some sectors and companies are recovering at a slower pace, with small/micro businesses and the self-employed in particular facing difficulties” (NDRC)
- The authorities are focused on employment/commodity price movements and business support (FSDC)
- Policies enacted during the special period will be sorted and adjusted in a timely and appropriate manner (PBC)
- The authorities have moved to rein in bank loans to the real-estate market, with the MOF also discussing the legislation and reform of the real estate tax
- The “Opinions of the State Council on Further Deepening Reform of the Budget Management System” mentioned the bankruptcy, restructuring or liquidation of LGFVs

1. Some March indicators accelerated and some slowed compared to January–February

• Q1 real GDP growth hit +18.3% on buoyant consumption, with average two-year growth hitting +5.0%

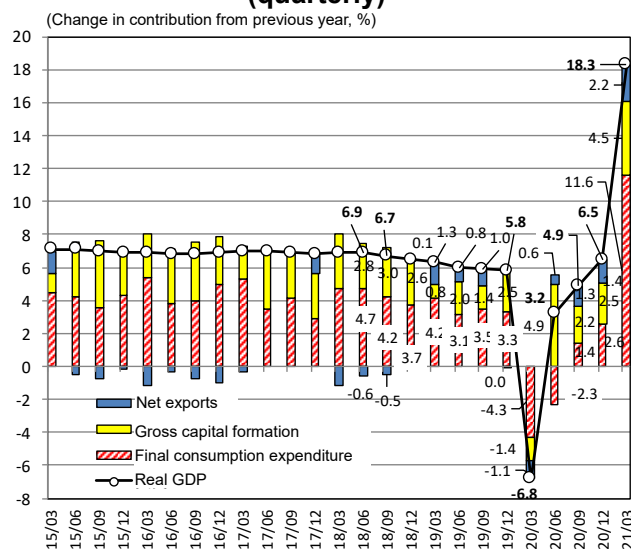
On April 16, the National Bureau of Statistics (NBS) announced that China’s real GDP growth rate for the first quarter (Q1) was up +18.3% on the same period last year (from here on, all figures refer to a “same-period previous-year comparison” unless otherwise specified) and +10.3% on Q1 2019, with average two-year growth of +5.0%.¹ Growth was up +0.6% on the previous quarter (Fig.1).² A glance at contribution levels by demand item over Q1 shows all three items making a positive contribution, with the contribution of final consumption expenditure up by +11.6 percentage points followed by gross capital formation at +4.5 percentage points and net exports at +2.2 percentage points (Fig. 2).

Fig.1: Breakdown of GDP by demand item



Source: NBS, CEIC

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



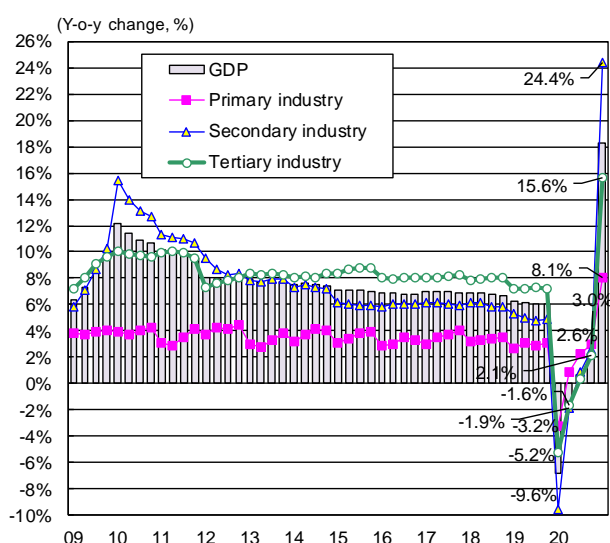
Source: NBS, CEIC

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

² NBS, April 16, 2021, “National Economy Made a Good Start in the First Quarter”

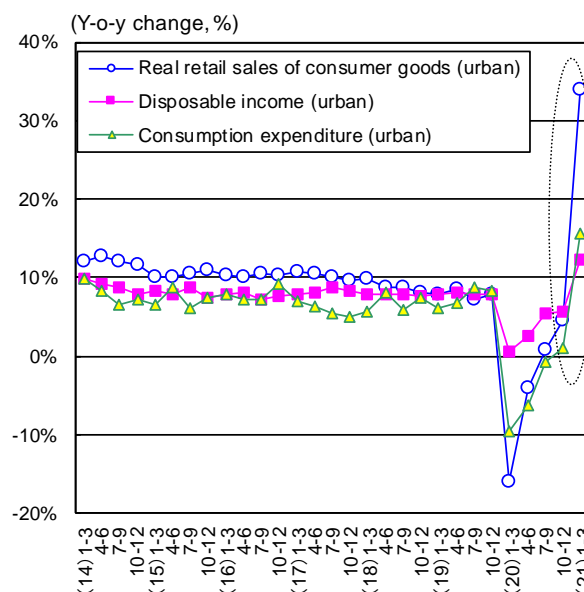
http://www.stats.gov.cn/english/PressRelease/202104/t20210416_1816315.html

Fig.3: GDP by sector



Note: The figures show the cumulative results until the most recent period.
Source: NBS, CEIC

Fig.4: Urban disposable income



Source: NBS, CEIC

A breakdown by sector shows the primary industry growing by +8.1 percentage points over Q1, the tertiary industry by +15.6 percentage points, and the secondary industry by +24.4 percentage points, with the secondary sector growing at a fast pace (Fig. 3).

In March, production and investment both slowed on January–February, though consumption was up slightly

Q1 value-added industrial production was up +24.5% and +14.0% on the same period in 2020 and 2019, respectively, with average two-year growth hitting +6.8%. At +14.1%, the standalone figure for March was down on January–February’s +35.1%³ (+0.6% m-o-m) (Fig. 5). According to the NBS, noteworthy Q1 production trends included: (1) strong growth when it came to equipment manufacturing (+39.9%, with automobiles up +55.1% and electric machinery +45.3%) and hi-tech manufacturing (+31.2%, with microcomputers at +73.6% and integrated circuits at +62.1%); and (2) a faster recovery when it came to consumer products (though textile garments and leather products were still not back to Q1 2019 levels, the pace of the contraction slowed compared to January–February).⁴

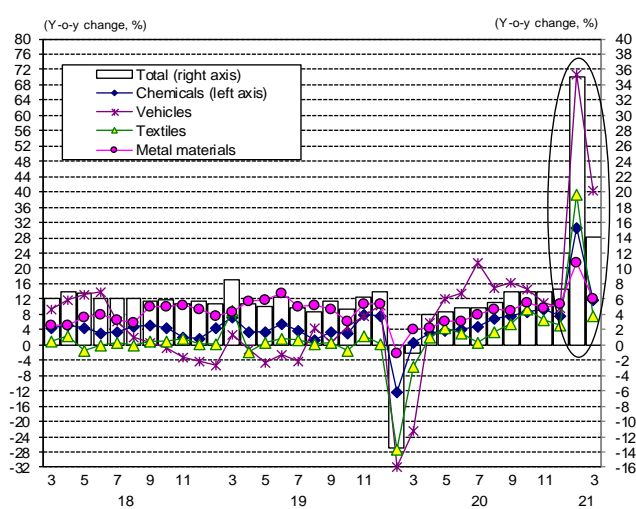
At +25.6%, nominal fixed asset investment in January–March slowed on January–February’s +35.0%. The figure was up +6.0% on Q1 2019, with average two-year growth hitting +2.9%. At +19.4%,⁵ the March figure was down on January–February (+1.5% m-o-m). At +29.7%, investment in infrastructure construction slowed slightly over January–March (January–February: +36.6%), as did manufacturing investment (from +37.3% to +29.8%) and real-estate investment (from +36.8% to +24.7%) (Fig.6).

³ The comparison is made with the average for January–February to level out the impact of the Chinese New Year holiday.
⁴ NBS, April 16, 2021, “江源：工业经济稳中向好 企业效益明显改善 (Jiang Yuan: Industrial Production Moved Stably and Strongly; Corporate Results Showed Clear Improvements)” Jiang Yuan is the deputy director of the Department of Industrial Statistics of the NBS. http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816447.html
⁵ Calculated by this report’s author based on cumulative figures.

Nominal retail sales of consumer goods grew by +33.9% in January–March, up slightly on January–February’s figure of +33.8%, with average two-year growth hitting +4.2% (Fig. 7). At +34.2%, the March figure was up slightly on January–February (+1.8% m-o-m). Internet retail sales of goods and services grew by +29.9% to hit RMB 2,809.3 billion over January–March (goods: RMB 2,306.7 billion; services: RMB 502.6 billion), with average two-year growth hitting +13.5%. Internet retail sales of goods grew by +25.8% to account for 21.9% of total retail sales of consumer goods during this period (RMB 10,522.1 billion), with average two-year growth standing at +15.4%.⁶

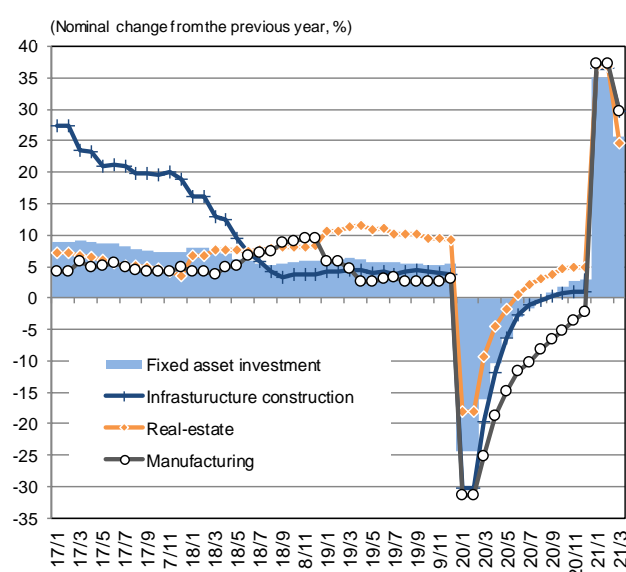
The catering industry was hit hard by COVID-19 during the same period last year, so growth then surged by +75.8% over January–March (RMB 1,059.6 billion), with average two-year growth hitting +1.0%.

Fig.5: Value-added industrial production



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

Fig.6: Fixed asset investment



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

According to the NBS, noteworthy Q1 consumption trends included: (1) strong growth when it came to general merchandise retailing, with eight items basically recovering to pre-pandemic levels (including cosmetics, sports and entertainment goods, and telecommunication equipment), while average two-year growth stood at over +10%; (2) contact-type consumption was recovering, with dining out hitting +91.6% in March (average two-year growth reached +0.9%, up on the -0.2% figure in January–February), and lodging hitting +138.1% in March (though average two-year growth remained in negative territories at -4.9%, this was nearly 10 percentage points up on the figure recorded in January–February); (3) Real retail sales rose by +42.2% over January–March, with average two-year growth accelerating by 0.4 percentage points to hit +4.5% (supermarkets, convenience stores and specialty stores saw accelerating average two-year growth at +4.5%, +5.3% and +7.7%, respectively). The NBS observed that the

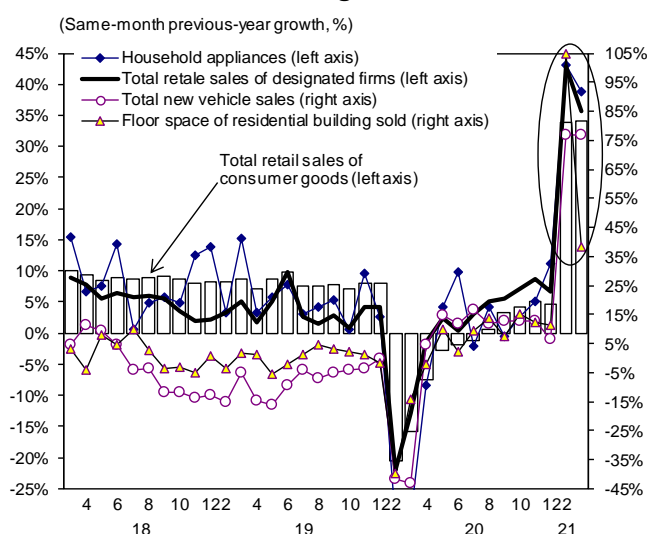
⁶ NBS, April 16, 2021 “Total Retail Sales of Consumer Goods Went Up by 34.2 percent from January to March 2021”
http://www.stats.gov.cn/english/PressRelease/202104/t20210419_1816560.html

lodging and dining out sectors have not recovered to pre-pandemic levels, with business at real stores still lacking momentum.⁷

Disposable income is also recovering, as evinced by a +12.2% rise (RMB 13,120) in the urban sector (Fig. 4). The NBS noted that pandemic-related factors had led to spending on transportation and communication jumping by +16.0%, on education, culture and recreation by +55.7%, and on other goods and services (including lodging, and hair and beauty salons) by +24.2%, though the two-year average for each of these sectors remained in negative territories at -1.9%, -0.2% and -1.7%, respectively.⁸

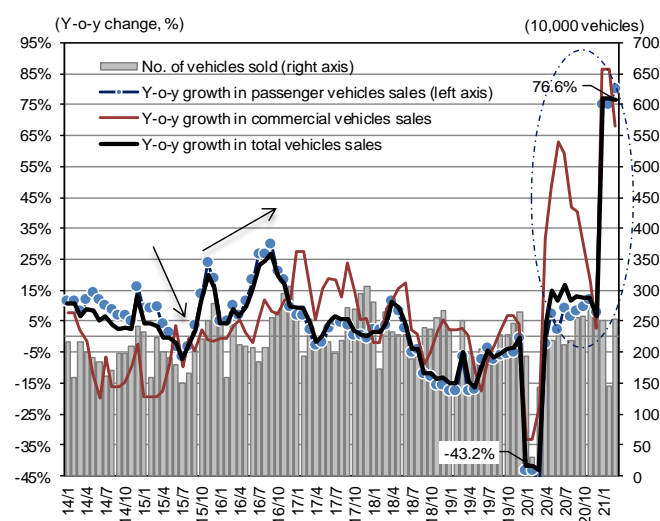
At +76.8% (6.484 million), sales of new vehicles in January–March grew at a slightly slower pace compared to January–February (+76.9% and 3.9581 million). Yet at +76.6% (2.526 million), the figure for March represented the twelfth straight month of growth since April 2020 (+4.5% and 2.07 million), when sales had recorded y-o-y growth for the first time since June 2018 (+4.7%) (Fig. 8). Car sales in Q1 2020 had slumped on the pandemic (-42.4%; 3.6674 million), so the Q1 2021 data represented a reactive bounce-back, though it was also up +1.8% compared to Q1 2019 (6.3689 million).

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



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

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



Note: The figure for January and February shows cumulative y-o-y change for the period January–February.
Source: China Association of Automobile Manufacturers, CEIC

According to the China Association of Automobile Manufacturers, noteworthy Q1 new car sales trends included:

⁷ NBS, April 16, 2021, “董礼华：一季度消费市场持续恢复 复苏势头不断增强 (Dong Lihua: The Consumer Product Market Continued to Recover in January–March; Recovery Momentum Remained Strong)” Dong Lihua is the director-general of the trade and external economic relations department of the NBS.

http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816455.html

⁸ NBS, April 16, 2021, “方晓丹：居民收入增长持续稳定恢复 居民消费支出恢复性反弹 (Fang Xiaodan: Household Incomes Continue to Recover Stably and Consumer Spending Has Rebounded)” Fang Xiaodan is the director of the household survey department of the NBS.

http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816459.html

(1) record sales of new-energy vehicles (NEV; up 3.8 times on Q1 2020 at 515,000 sales); (2) a rise in the share of Chinese brands (+81.5% and 2.108 million, with the share of Chinese brands up 1.4 percentage points on Q1 2020 to hit 41.5%); (3) the market concentration of key players (the share of the top 10 carmakers in terms of sales) was down on Q1 2020 (down 0.4% percentage points on Q1 2020 to hit 87.8%); (4) car exports rose by 74.6% to hit 357,000 (down on January–February’s figure of +97.8%).⁹

The recent recovery was due to various measures introduced by the central and local governments to stimulate consumption.¹⁰ 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 vehicles¹¹ finished at the end of 2017, with the sector seeing policy-led increases in sales followed by subsequent slowdowns.

▪ House prices rose at a slightly faster pace, while more cities saw m-o-m growth

At +63.8% (360.07 million m²), the floor space of residential buildings sold in January–March was up on 2019’s figure of -0.1% and 2020’s +2.6% (1,760.86 million m²), though it was down on the figure for January–February (+104.9%). Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People’s Bank of China (PBC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen in March 2016¹² subsequently spread to other cities with surging house prices,¹³ with the restrictions being tightened further.¹⁴

⁹ China Association of Automobile Manufacturers, April 12, 2021, “2021 年 3 月汽车工业经济运行情况简析 (A Basic Analysis of Automobile Industry Economic Performance in March 2021)”

http://www.caam.org.cn/chn/1/cate_3/con_5233595.html

¹⁰ Regarding the policies to stimulate automobile consumption, refer to figure 4 of “Mizuho China Business Express Economic Journal (No. 99)” by this author.

https://www.mizuhobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0099-XF-0105.pdf

¹¹ 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.

¹² 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.

¹³ 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.

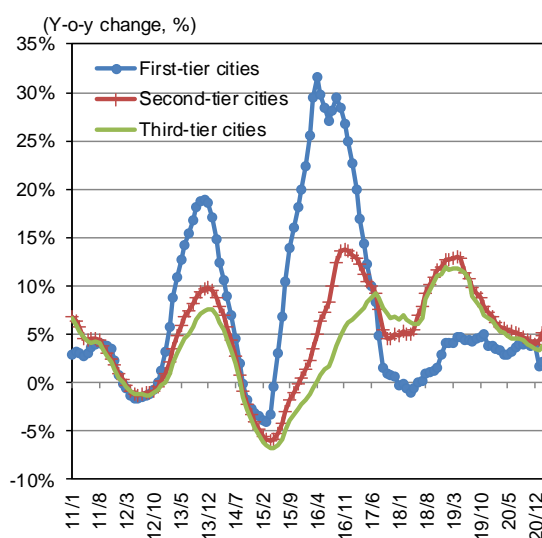
http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm

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>

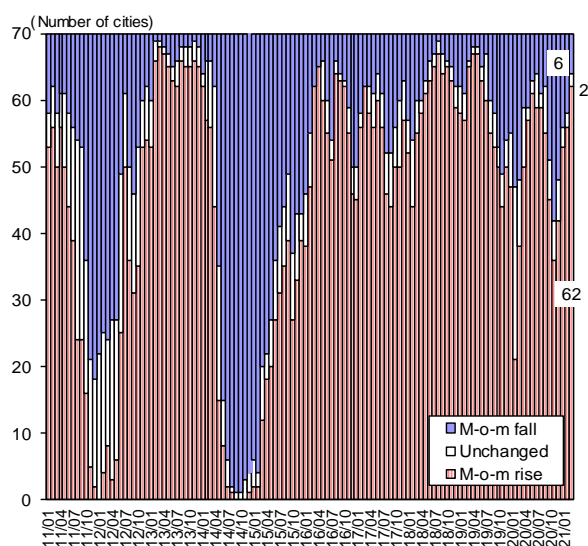
¹⁴ The 21st Century Business Herald, March 20, 2017, “北京最严楼市调控“认房又认贷” 下半年全国楼市降温可期 (Checks on housing and loan

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 the housing market on the back of monetary easing to tackle the impact of COVID-19. The authorities subsequently held a seminar with some major real-estate companies in August 2020 to discuss fundraising controls and financial management regulations.¹⁵ Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans that banks can extend.¹⁶

records: Beijing’s strictest real estate controls set to chill housing markets nationwide in 2H.” Beijing has introduced “the toughest controls in history.” It lifted the down payment rate for second home purchases to at least 60% on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property. Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.

http://epaper.21jingji.com/html/2017-03/20/content_58356.htm

¹⁵ Ministry of Housing and Urban-Rural Development, August 23, 2020, “住房和城乡建设部、人民银行联合召开房地产企业座谈会 (The Ministry of Housing and Urban-Rural Development and the PBC Hold a Seminar with Real-estate Companies)”

http://www.mohurd.gov.cn/xwfb/202008/t20200823_246876.html

The 21st Century Business Herald, September 16, 2020, “1-8 月商品房销售额增速转正 “三条红线”影响隐现 (The Impact of the “Three Red Lines” Emerges as Commercial Home Prices Return to Positive Growth over January-August).” According to this and other reports, (1) the authorities have introduced three quantitative “red lines” in order to control lending, namely: a 70% ceiling on debt-to-asset ratios, after excluding funds from advanced sales; a 100% cap on debt-to-capital ratios; and a requirement that short-term debt does not exceed cash reserves. (2) Real-estate firms will be divided into four tiers: Red (firms that fail to clear all the red lines), Orange (firms that fail to clear two red lines), Yellow (firms that fail to clear one red line) and Green (firms that clear all the red lines). (3) Firms adjudged to fall into the Red tier will not be able to increase their interest-bearing debt for one year, while firms in the other tiers will be allowed to increase interest-bearing debt by up to 5%, 10% and 15%, respectively.

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

¹⁶ 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

In March, 65 cities saw the price of new homes rising on the previous year, up one city on February. Growth accelerated when it came to first-tier cities (from +1.9% in February to +2.2%), second-tier cities (from +4.9% to +5.2%) and third-tier cities (from +3.6% to +3.9%) (Fig. 9).¹⁷

On a monthly basis, 62 of the 70 cities surveyed saw the price of new homes rising, up from 56 in February. Two cities saw prices moving flatly on the previous month (unchanged on February), while six cities saw prices falling on the previous month (down from 12 in February) (Fig. 10).¹⁸

▪ The trade surplus shrank in March as imports surged

Exports grew by +49.0% (\$709.98 billion) and imports by +28.0% (\$593.624 billion) in January–March, with exports and imports both growing at a much faster pace. The trade surplus stood at \$116.35 billion, with the total trade amount up +38.6%. Exports were also up by +28.7%, imports by +24.0% and total trade by +26.5% on the same period in 2019 (Fig. 11). On a standalone monthly basis, exports in March were up +30.6% (\$241.13 billion) and imports by +38.1% (\$227.34 billion), with the trade surplus shrinking to \$13.80 billion on surging imports.

With regards to trade trends over January–March, the Ministry of Commerce explained¹⁹ that: (1) momentum had surpassed pre-pandemic levels and exports and imports had risen on a y-o-y basis by levels not seen since 2011, with exports up +22.5%, imports by +18.2% and total trade by +20.5% on the same period in 2019; (2) trading relations with emerging markets had deepened, so while the ASEAN region remained the number one trading partner, total trade with countries along the Belt and Road routes had risen by +21.4%; (3) quality had improved, with the export unit value of high-value-added products like mobile phones, household electronics, cars and liquid crystal displays rising by +7.1%, +4.5%, +6.0% and +5.0%, respectively; (4) there had been brisk trade when it came to new industries and models, with the cross-border e-commerce amount rising by +46.5%, for example, while bonded maintenance services and second-hand car transactions also grew stably. Exports and imports grew at a faster pace when it came to almost all countries and regions, while the volatility of trade with the US and Europe grew more pronounced (Figs. 13 and 14).

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/view/pages/ItemDetail.html?docId=955098&itemId=928&generalttype=0>

¹⁷ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Yinchuan +14.1%, Jining+10.1%, Xuzhou+9.9% (March).

¹⁸ NBS, April 16, 2021, "Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in March 2021"

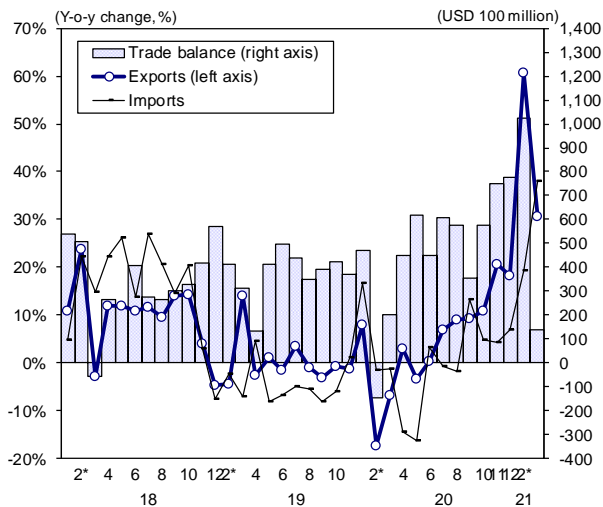
http://www.stats.gov.cn/english/PressRelease/202104/t20210416_1816306.html

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

¹⁹ Ministry of Commerce, April 14, 2021, "商务部外贸司负责人谈 2021 年一季度我国外贸运行情况 (Officials from the Department of Foreign Trade of the Ministry of Commerce Discuss China's Foreign Trade Movements in January–March 2021)." The figures in the article are RMB denominated. The ASEAN region accounts for 14.7% of China's total trade (this author's estimate).

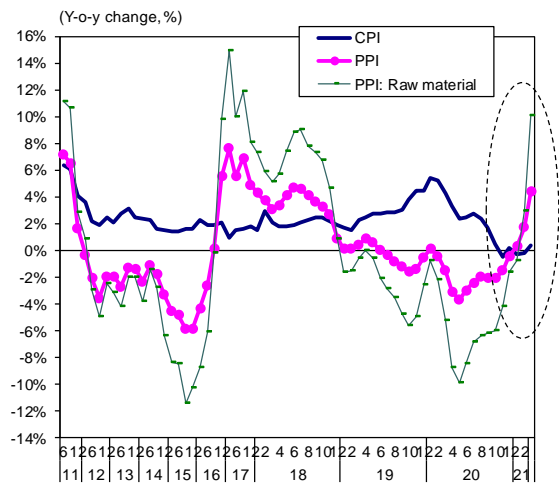
<http://www.mofcom.gov.cn/article/ae/sjjd/202104/20210403052298.shtml>

Fig.11: Imports/exports; trade balance



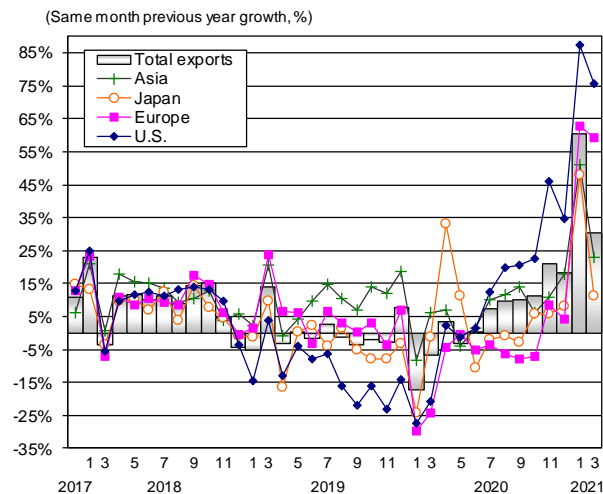
Note: *The figures show a same-period previous-year comparison results of January-February and total.
Source: China Customs Statistics

Fig.12: CPI, PPI



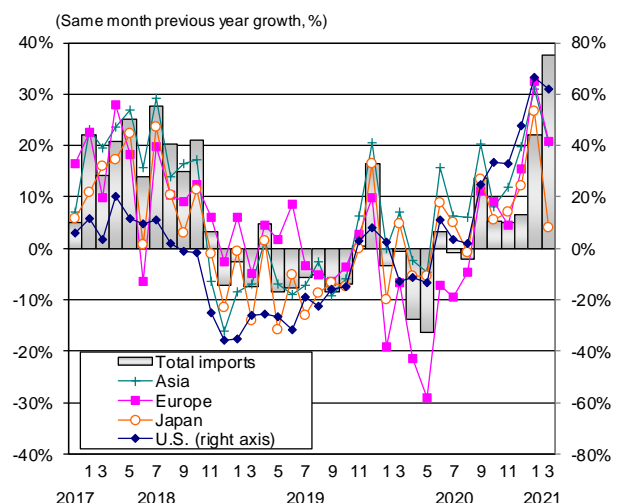
Note: The data from June 2011 to 2017 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Fig.13: Exports by major region



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

Fig.14: Imports by major region



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

▪ The CPI data returned to positive territories; the PPI data grew at a faster pace

At +0.4%, CPI (Consumer Price Index) growth returned to positive territories in March (January–February: -0.3%). At -0.5% m-o-m, CPI growth slowed on a monthly basis (February: +0.6%) (Fig. 12). Average growth for January–March moved flatly at 0.0%. A breakdown of the CPI data shows food prices contracting by -0.7% in March (January–February: +0.7%). Vegetable prices only rose by +0.2% in March, down on the +7.1% figure seen in January–February, while pork prices²⁰ contracted at a faster pace (from -9.4% in January–February to -18.4% in

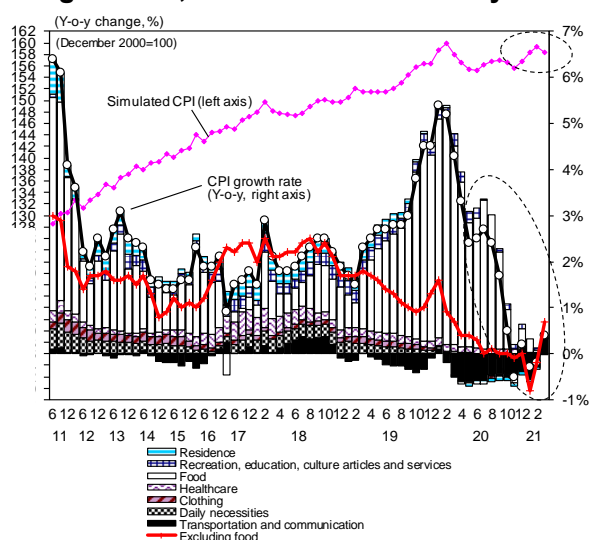
²⁰ In terms of the pork cycle (a cycle whereby farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs), pork prices declined after a peak in May 2016, though it bounced back after bottoming 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

March) on “a sustained recovery in production” (NBS²¹). At +0.7%, non-food prices returned to positive territories in March (January–February: -0.5%) (Figs. 15 and 16).

At +4.4%, Producer Price Index (PPI) growth accelerated in March (January–February: +1.0%), with the average for January–March standing at +2.1%. A glance at the details for March shows the price of producer goods growing by +5.8%, up on January–February’s figure of +1.4%, while price growth also accelerated when it came to mining (from +3.9% to +12.3%), raw materials (from +1.1% to +10.1%) and processing (from +1.4% to +3.4%). At +0.1%, the price of consumer goods also began growing again after contracting by -0.2% in January–February.

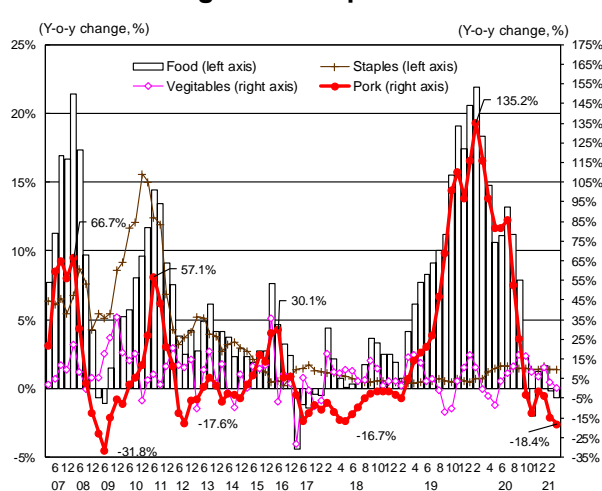
When asked during an April 19 press conference²² about whether the rising price of international goods was impacting inflation within China, Meng Wei, spokesperson for the National Development and Reform Commission (NDRC), said a number of factors were at work, such as a short-term adjustment in supply and demand conditions on the global economic recovery, for example, as well as an abundance of liquidity and speculation, with price rises being of a corrective and transitory nature. She also said the global economic recovery remained unstable and imbalanced, with the supply and demand of goods unlikely to undergo any comprehensive trend shifts, before adding that the conditions were not in place for a long-term rise in prices.

Fig.15: CPI; Growth contribution by item



Note: The contribution by item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by the author based on the m-o-m growth rate for each month, with December 2000 as the base month. The data from June 2011 to 2017 only shows the quarterly (March, June, September and December) figures.

Fig.16: Food prices



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

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%)

²¹ NBS, April 9, 2021, “国家统计局城市司高级统计师董莉娟解读 2021 年 3 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the March 2021 CPI and PPI Data)”

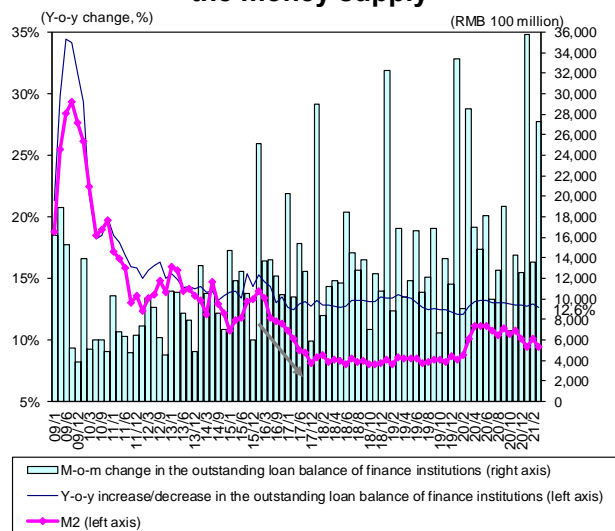
http://www.stats.gov.cn/tjsj/sjjd/202104/t20210409_1816125.html

²² NDRC, April 19, 2021, “国家发展改革委举行 4 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 National Development and Reform Commission Discusses Macroeconomic Performance and Answers Key Questions at its April Press Conference)”

https://www.ndrc.gov.cn/xwdt/xwfb/202104/t20210419_1273739.html

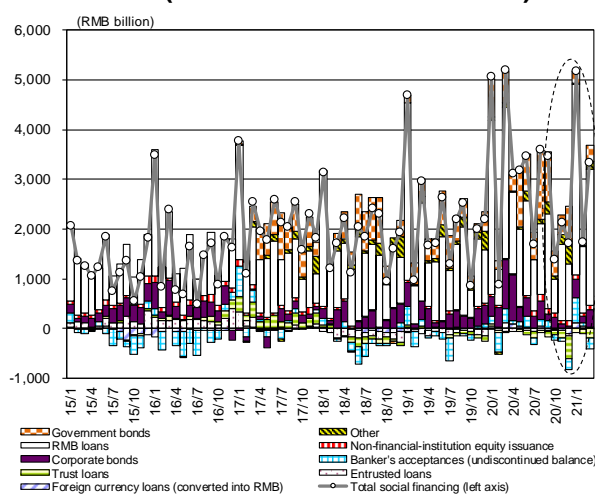
Source: NBS, CEIC

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

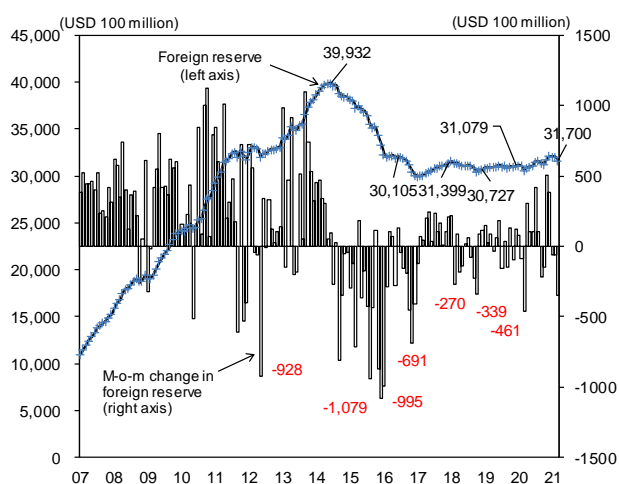
▪ New bank loans increased and total social financing expanded

According to the PBC, M2 money supply growth hit +9.4% in March, down on February’s figure of +10.1%. New bank loans increased by a net RMB 2,730.0 billion in March, up on February’s figure of RMB 1,360.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, rose by a net RMB 3,341.6 billion, up on February’s figure of RMB 1,723.9 billion. A glance at the details reveals that: RMB loans, corporate bonds, government bonds, non-financial-institution equity issuances, and loan repayments all grew at a faster pace, while foreign currency loans grew at a slower pace. Deposit-taking financial institution ABS moved from contraction to expansion, while banker’s acceptances went from expansion to contraction. Entrusted loans contracted at a slower pace, while trust loans contracted at a faster pace (Fig. 18).

Foreign exchange reserves stood at \$3,170.03 billion at the end of March, down \$34.97 billion on the end of February (\$3,204.99 billion) and \$46.49 billion on the end of 2020 (Fig. 19). Wang Chunying, Deputy Administrator and Press Spokesperson for the State Administration of Foreign Exchange (SAFE) explained²³ that “due to the COVID-19 pandemic and vaccine progress, as well as fiscal and monetary policy expectations of the major countries, the US Dollar Index climbed, the bond prices of the major countries dropped to a certain extent, and the global stock markets rallied. Under the combined effect of foreign exchange rate conversion and asset price changes, the volume of China’s foreign exchange reserves dropped in the month.”

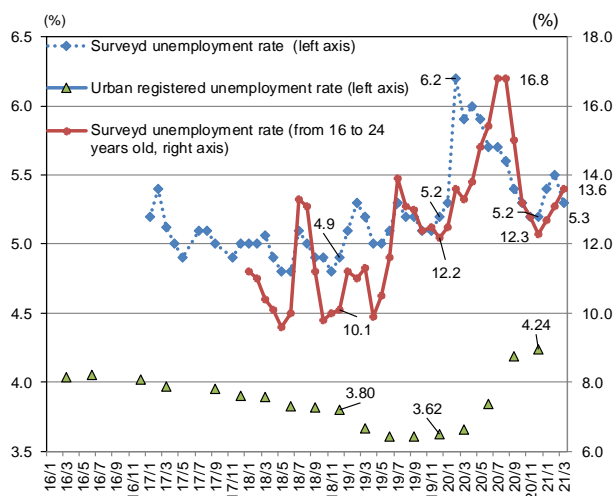
²³ SAFE, April 7, 2021, “SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for March 2021”
<http://www.safe.gov.cn/en/2021/0407/1822.html>

Fig.19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 to 2020, and the latest monthly figure.
Source: PBC, CEIC

Fig.20: The surveyed unemployment rate



Note: The figures within the graph denote the highest figures for 2018–2020 and the latest end-of-month data, as of the time of publication.
Source: NBS, CEIC

▪ **“Employment faces both quantitative and structural problems” (NBS)**

The surveyed unemployment rate hit 5.3% at the end of March, down on 5.5% at the end of February (Fig. 20). NBS spokesperson Lin Aihua explained during a press conference on April 16²⁴ that people aged 16 to 24 accounted for 13.6% of the figure, up from 13.3% in the same period in 2020, with young people facing difficulties finding work. The spokesperson also said coastal industrial provinces or provinces with brisk foreign trade were having large-scale difficulties recruiting people.²⁵ In the NBS’s most recent survey of 90,000 industrial firms, she added, 44% had pinpointed recruitment difficulties as their most pressing challenge, (the highest percentage in recent years), with employment facing quantitative and structural problems.

2. The policy response: The authorities will adjust the measures adopted to tackle COVID-19 in a timely and appropriate manner while monitoring the economic recovery

▪ **“Some sectors and companies are recovering at a slower pace, with small/micro businesses and the self-employed in particular facing difficulties” (NDRC)**

China’s economy has undergone a remarkable recovery. This is partly a reaction to the slump that occurred during the same period last year, but it is also due in large part to the fiscal and monetary measures introduced to tackle COVID-19. The question now is when and to what extent the authorities will start to normalize policy from this crisis response. This will depend on how they assess the extent of China’s economic recovery.

²⁴ NBS, April 7, 2021, “国家统计局新闻发言人就 2021 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 January–March 2021)”
http://www.stats.gov.cn/tjsj/sjjd/202104/t20210416_1816376.html

²⁵ The 21st Century Business Herald, April 10, 2021, “中国“十三五”就业图谱：私营个体就业占比过半，制造业从业者“西迁” (The employment picture in the 13th Five-Year Plan: Private firms and the self-employed will account for the majority of jobs, with manufacturing employees shifting west).” This points to the following changes that have occurred in the employment situation over the past five years: (1) Employment by private firms and the self-employed topped 50%; (2) the number of people working in the secondary industry continued to fall, with the number dipping below 200 million in 2019 and many workers moving to the western areas; (3) the university graduation rate had approached 7%.

NBS spokesperson Liu Aihua took a cautious view of the situation. She talked about how COVID-19 was still spreading globally, with the international situation quite complicated, uncertain and unstable. She also said the foundation for a domestic economic recovery remained shaky, adding that China still faced long-standing structural contradictions, with new circumstances and challenges arising during the process of development. Meng Wei, spokesperson for the NDRC also spoke about how some sectors and companies were recovering at a slower pace, with many small/micro businesses and the self-employed in particular facing difficulties.²⁶ Furthermore, an economist for the NDRC said the recovery in consumption was relatively weak, while there were also concerns about the investment recovery. He also discussed fiscal sustainability risks, finance and debt risks, and imported inflationary pressure.²⁷

During a symposium with economic experts and entrepreneurs on April 9,²⁸ Premier Li Keqiang heard from participants “how measures on tax and fee cuts proved beneficial and effective. As a result, the whole economy, and production and management of enterprises keep recovering, but the big price rise in major international commodities is adding pressure for cost increases,” with the Premier then expressing the opinion that “the relatively low base of the same period last year is non-comparable and complicated and severe international circumstances are bringing new uncertainties, and the domestic economy is not recovering in a balanced manner.” He then stressed that the economic situation needed to be studied comprehensively and objectively, adding that “it is necessary to pay close attention to (1) growth rates year-on-year and those on a quarterly basis...(2) both macro economic data and concerns of market entities (businesses, etc.)...and (3) new circumstances and challenges and the overall trend of economic operation.”

▪ The authorities are focused on employment/commodity price movements and business support (FSDC)

At the aforementioned meeting Premier Li Keqiang also said the authorities should “keep up with policies that secure employment, people’s livelihoods, and market entities.” He pressed for efforts to help market entities regain vitality and gather momentum by putting in place various measures to support small/micro-sized enterprises and the self-employed while making full use of policies, such as raising the ratio of extra tax deductions on manufacturing firms’ R&D costs to facilitate their innovation and upgrade. He also said that “further efforts should be made to strengthen financial services for market entities, especially small/micro-sized enterprises and the self-employed to navigate more capital flow into the real economy and effectively defuse risks.” He noted that “the real estate market should continue to undergo a stable and healthy development” and he added that “market adjustments should play a bigger role in raw materials to ease enterprises’ cost burden.” This confirmed that the authorities would continue to extend policy support to sectors hit by COVID-19.

The State Council’s Financial Stability and Development Committee (FSDC), headed by Vice Premier Liu He, held a meeting on April 8 and confirmed that priority targets for macroeconomic policy were securing jobs and markets. The meeting also discussed the importance of maintaining basic price stability and monitoring the prices of major commodities in particular. The meeting concluded that the government would provide strong support to help businesses and promote the sound development of private firms and medium, small and micro-sized

²⁶ Same as footnotes 22 and 24

²⁷ Comments by Liu Manping of the Senior Economist of the Price Control Centre of the NDRC; Economic Daily, April 8, 2021, “看好中国经济今年表现成共识 (A Shared Recognition that China’s Economic Performance is Improving This Year)”

http://paper.ce.cn/jjrb/html/2021-04/08/content_441308.htm

²⁸ People’s Daily, April 12, 2021, “李克强主持召开经济形势专家和企业家座谈会强调 扎实推动经济稳中加固向好 保持宏观政策连续性稳定性可持续性 韩正出席 (At a symposium with economic experts and entrepreneurs, Premier Li Keqiang insists the economy is moving stably while steadily recovering, with the authorities implementing macro policies in a continual, stable and sustainable manner)”

http://paper.people.com.cn/rmrb/html/2021-04/12/nw.D110000renmr_20210412_3-01.htm

enterprises.²⁹

▪ Policies enacted during the special period will be sorted and adjusted in a timely and appropriate manner (PBC)

The People's Bank of China's Monetary Policy Committee (MPC) held its regular meeting on March 24.³⁰ In the subsequent press release, the phrasing about the running of the economy (economic assessment) was changed to "sustained economic recovery," an improvement on the "gradually returning to normal" phrase used in the press released after the Q4 2020 MPC meeting.³¹ However, a phrase about how the "economic recovery is still uneven despite...the remarkable increase of positive factors" pointed to the complexity of the current economic situation. When it came to the direction of monetary policy, the phrase about "not turning sharply" was removed from the recent press release, though the phrase about placing "utmost priority on stability" remained.

At a press conference on April 12, Sun Guofeng, head of the PBC's Monetary Policy Department, explained that the policies enacted during the special (COVID-19) period would be sorted and adjusted in a timely and appropriate manner in order to promote corporate (business) stability and protect jobs.³² He added that while the authorities conducted a quantitative adjustment, they would provide further policy support to areas that needed long-term help, such as scientific and technological innovation, micro-sized enterprises, and green development.

As for interest rate levels, the phrase about "strengthening efforts to lower real lending rates" from the PBC's 4Q 2020 press release was absent this time around. Instead, the PBC talked about the need to "optimize the regulation of deposit rates, and facilitate further decline in real lending rates." The PBC also said it would continue to unleash the potential of reform to lower lending costs. The Loan Prime Rate was released on April 20 and it was left unchanged at 3.85% for the 12th straight month (Fig. 21).

At the press conference, Sun Gofeng was asked about reports that the PBC would be keeping a lid on lending in 2021 to ensure it didn't surpass the amount of lending in 2020. Specifically, he was asked whether PBC policy was shifting from a focus on stability (stable fund provisions) to a focus on deleveraging and overall risk prevention. In response, he said that quantitative growth would proceed in a stable and reasonable manner that corresponded to the demand for loans in the real economy. He added that from a structural perspective, the authorities would enhance inclusive finance³³ aimed at micro-sized firms and strengthen mid-to long-term lending for the manufacturing industry. This suggests the authorities will try to provide funds in a more targeted manner by maintaining and monitoring a flexible, accurate, reasonable and appropriate monetary policy.³⁴

²⁹ State Council website, April 8, 2021, "刘鹤主持召开国务院金融稳定发展委员会第五十次会议 (Vice-premier Liu He presided over the 50th meeting of the Financial Stability and Development Committee (FSDC) under the State Council)" http://www.gov.cn/guowuyuan/2021-04/08/content_5598472.htm

The FSDC also discussed the sustainable development of regional financial institutions and it called for these institutions to concentrate on their core business and to base themselves and take root in their local areas. It also encouraged blue chip financial institutions to merge with risky financial institutions based on market and legal principles.

³⁰ Financial News, March 26, 2021, "中国人民银行货币政策委员会召开 2021 年第一季度例会 稳健的货币政策要灵活精准合理适度 (The Monetary Policy Committee of the PBC Holds its Regular Meeting for 1Q 2021; Neutral Monetary Policy will be Flexible, Targeted, Reasonable and Appropriate.)"

https://www.financialnews.com.cn/jg/dt/202103/t20210326_214958.html

³¹ Financial News, December 30, 2020, "中国人民银行货币政策委员会召开 2020 年第四季度例会 (The Monetary Policy Committee of the PBC Holds its Regular Meeting for 4Q 2020)"

https://www.financialnews.com.cn/jg/dt/202012/t20201230_208695.html

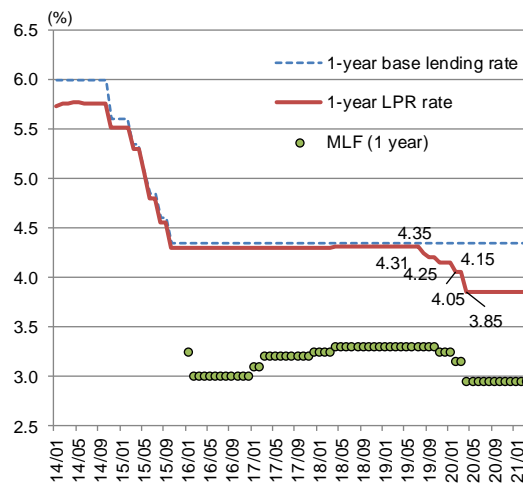
³² Financial News, April 12, 2021, "2021 年第一季度金融统计数据新闻发布会文字实录"

https://www.financialnews.com.cn/jg/dt/202104/t20210412_216294.html

³³ Inclusive finance refers to financial structures that provide services to all layers of society in an effective and comprehensive manner.

³⁴ A measure announced at the December 2020 Central Economic Working Conference

Fig.21: Interest rate movements



Source: National Interbank Funding Centre, PBC

• The authorities have moved to rein in bank loans to the real-estate market, with the MOF also discussing the legislation and reform of the real estate tax

At the aforementioned press conference, one participant asked about rising real-estate prices and moves to keep a lid on funds flowing into the real-estate market. In response, Zou Lan, head of the PBC’s Financial Market Department, said that in some cities with strong expectations for rising real-property prices and lots of speculative activity, there were cases of people fraudulently obtaining bank loans for home purchases, with organized criminal activity even involved in some places. He added that if these activities were not controlled, they would minimize the effect of real-estate regulations while also seizing credit resources that would otherwise have gone to micro-sized firms, with the authorities issuing a notice regarding this problem of bank loans flooding into the real-estate market.³⁵

On April 7, at a press conference on implementing the 14th Five-Year Plan and moving faster to build a modern fiscal and tax system, Wang Jianfan, head of the Department of Tax Policy of the Ministry of Finance (MOF), spoke about the need to “gradually increase the proportion of direct tax and improve the direct tax system,” adding that the government would “actively and steadily” promote the legislation and reform of the real estate tax.³⁶

• The “Opinions of the State Council on Further Deepening Reform of the Budget Management System” mentioned the bankruptcy, restructuring or liquidation of LGFVs

³⁵ March 26, 2021, the China Banking and Insurance Regulatory Commission (CBIRC), the Ministry of Housing and Urban-Rural Development (MOHURD), and the People’s Bank of China jointly issued the Notice on Preventing Illegal Flow of Business Loans into the Real Estate Sector. On April 8, the vice premier of MOHURD held talks with officials from Guangzhou and Dongguan (Guangdong), Hefei (Anhui), Nantong (Jiangsu), Ningbo (Zhejiang), five cities with soaring property prices, during which the officials were told to rein in property speculation. Economic Daily, April 13, 2021, “[打起房地产调控城市主体责任 \(Cities Asked to Take Responsibility for Real-Estate Controls\)](http://paper.ce.cn/jjrb/html/2021-04/13/content_441627.htm)”

“The General Office of CBIRC, PBC and Ministry of Housing and Urban-Rural Development Jointly Issue the Notice on Preventing Illegal Flow of Business Loans into the Real Estate Sector”

<http://www.cbirc.gov.cn/en/view/pages/ItemDetail.html?docId=975681&itemId=981>

³⁶ The State Council Information Office, April 7, 2021, “SCIO briefing on implementing the 14th Five-Year Plan and moving faster to build a modern fiscal and tax system”

http://english.scio.gov.cn/pressroom/node_8023535.htm

The “Opinions of the State Council on Further Deepening Reform of the Budget Management System”³⁷ was released on April 13. Article 21 of the Opinions (“Preventing and Eliminating Hidden Regional Government Debt Risk”) states that “the authorities should clean up and standardize Local Government Financing Vehicles (LGFV); if these cannot make repayments without government financial support, they should be declared bankrupt, restructured or liquidated in accordance with the law.”

Structural adjustment and reform were prioritized less as the government focused solely on the economy during the COVID-19 crisis, but the Opinions seem to reconfirm that these will become more of a priority again going forward as the economy recovers and the government moves to normalize financial and fiscal policy away from the crisis response. The authorities will probably announce some policies related to structural adjustment while trying to strike a balance with economic trends, so the situation will require monitoring from here on.

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.

³⁷ State Council website, April 13, 2021, “关于进一步深化预算管理制度改革的意见 (Opinions of the State Council on Further Deepening Reform of the Budget Management System)”

http://www.gov.cn/zhengce/content/2021-04/13/content_5599346.htm

LGFV are local government bodies that shoulder the burden of infrastructure investment or real-estate loans.