

—The macroeconomy—

Summary

December saw some economic indicators rising and some falling. Real GDP growth hit +8.1% in 2021. This was an improvement on 2020 (+2.2%), though growth in 4Q slowed to +4.0%, with the contribution of consumption shrinking and gross capital formation making a negative contribution. China's economy grew steadily by \$2–3 trillion in 2021 (taking into account foreign exchange factors) to account for over 18% of global GDP (NBS). The LPR was lowered for the second straight month, with policy set to bolster the economy from here on too.

1. Some of December's economic indicators were up and some were down on November

- Q4 real GDP growth hit +4.0% in 4Q; consumption slowed, while gross capital formation made a negative contribution
- Though production grew at a faster pace, consumption and investment slowed
- Sales prices of residential buildings grew at a slower m-o-m pace in 50 of the 70 cities surveyed, though the number of cities with falling prices decreased
- Exports and imports both slowed
- The CPI and PPI data slowed
- New bank loans increased, but total social financing contracted

2. The policy response: “Actively launching policies conducive to economic stability”

- “Some high-quality private or state-owned enterprises in the real estate sector hold the willingness to purchase the equity or assets of high-quality projects of real estate groups that have exposed risks” (PBC)
- “Policies will be improved to strengthen support for market entities” (Minister of Finance Liu Kun)

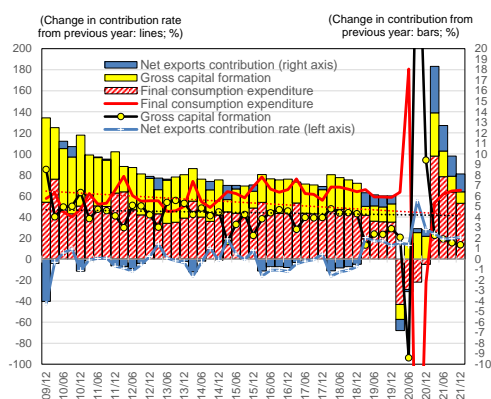
1. Some of December's economic indicators were up and some were down on November

- Q4 real GDP growth hit +4.0% in 4Q; consumption slowed, while gross capital formation made a negative contribution

On January 17, the National Bureau of Statistics (NBS) announced¹ that China's real GDP growth rate for 2021 was up +8.1% year-on-year (average two-year growth²: +5.1%), an improvement on 2020's figure of +2.2% y-o-y,³ with growth in October–December (4Q) up +4.0% 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 +1.6% on the previous quarter (Fig.1 and 2).

In his press conference, NBS Commissioner Ning Jizhe said nominal GDP in 2021 had topped RMB 110 trillion for the first time to hit RMB 114.4 trillion. In dollar terms, this stood at \$17.7 trillion, with China now accounting for over 18% of global GDP, while per-capita GDP had topped \$12,000 to hit \$12,551. Ning explained that China's nominal GDP in 2021 had grown by RMB 13 trillion y-o-y, or around \$2 trillion in dollar terms, a figure equivalent to the annual GDP of a major economy. He added that that the rise would be even more if exchange rates were considered, saying “China's GDP is equal to \$17.7 trillion this year and it was \$14.7 trillion last year. Due to the appreciation of the RMB last year, the calculated increment is \$3 trillion” (Fig. 3).⁴

Fig. 1: Breakdown of GDP by demand item



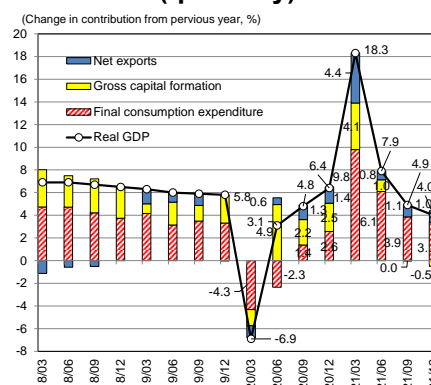
Note: The figures show the cumulative results from the beginning of the year.

Gross capital formation for Jan.–Sep. 2020: +358.3%;

Final consumption expenditure: –313.8%

Source: NBS, CEIC

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



Source: NBS, CEIC

¹ State Council Information Office, January 17, 2022, “SCIO briefing on China's economic performance in 2021”

http://english.scio.gov.cn/pressroom/node_8027805.htm

² The geometric mean of the growth as calculated and released by the NBS. Hereinafter the same.

³ In the NBS's “Announcement of the National Bureau of Statistics on the Final Verification of GDP in 2020” (December 17, 2021), the real GDP growth rate for 2020 was downgraded 0.1 percentage points from the preliminary figure of +2.3%.

http://www.stats.gov.cn/english/PressRelease/202112/t20211220_1825480.html

The revised quarterly figures for 2020 were posted in in the NBS's “Preliminary Accounting Results of GDP for the Fourth Quarter and the Whole Year of 2021” (released January 18, 2022).

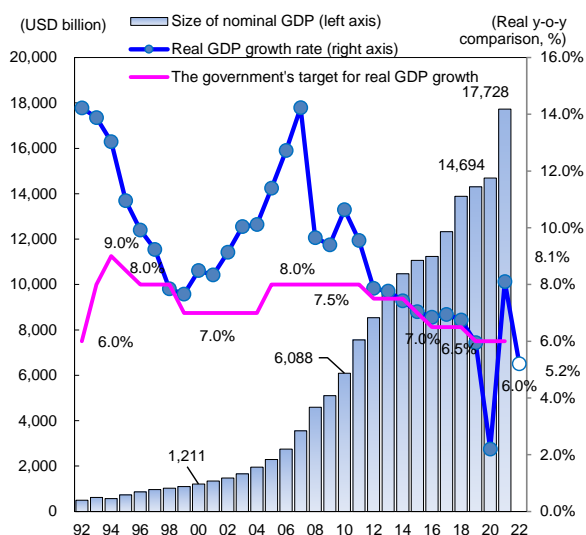
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⁴ The 2021 increase stands at \$2.017 trillion when calculated using the RMB's average rate against the dollar in 2021 (RMB 6.4512), a figure equivalent to the GDP of two Indonesias. This increase rises to \$3.034 trillion when the result for 2020 is subtracted from the result for 2021 on a dollar-denominated basis (2021's \$17.728 trillion minus 2020's \$14.694 trillion), with the increment now equivalent to the GDP of India. At \$17.7 trillion, GDP in 2021 was 2.3 times bigger than in 2011 (\$7.6 trillion). At \$12,551, per-capita GDP in 2021 is also expected to be 2.2 times higher than in 2011 (\$5,617).

A glance at contribution levels by demand in 2021 shows the contribution of final consumption expenditure returning to positive territories at +5.3 percentage points (2020: -0.5 percentage points), with the contribution of net exports also rising from +0.6 percentage points in 2020 to +1.7 percentage points in 2021. At +1.1 percentage points, though, the contribution of gross capital formation was down on 2020's figure of +2.2 percentage points. The contribution of domestic demand rose sharply from +1.7 percentage points in 2020 to +6.4 percentage points in 2021, while the contribution of external demand rose from +0.6 percentage points in 2020 to +1.7 percentage points in 2021.

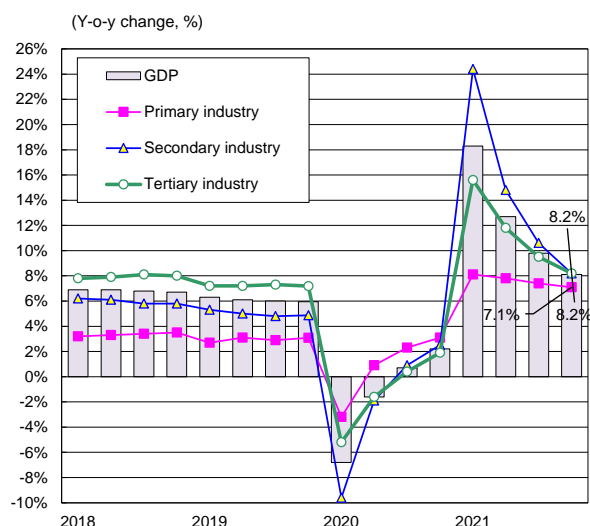
On a quarterly basis, the contribution of gross capital formation hit -0.5 percentage points in 4Q, the first negative contribution since 1Q 2020. A breakdown by sector shows the primary industry growing by +7.1% over 2021 (up from +3.1% in 2020), the secondary industry by +8.2% (up from +2.5% in 2020), and the tertiary industry also by +8.2% (up from +1.9% in 2020), with the tertiary industry seeing the largest recovery in 2021 (Fig. 4). At -2.4 percentage points, the secondary industry recorded the largest slide compared to January–September.

Fig. 3: Dollar-denominated nominal GDP and real GDP growth rates



Note: The government's target stood at 8%–9% in 1995, 6.5%–7% in 2016, 6.0%–6.5% in 2019. No target was set for 2020. The 2022 growth rate figure is a Mizuho Research & Technologies forecast. Source: NBS, CEIC, and NPC <http://www.npc.gov.cn>

Fig. 4: GDP by sector



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

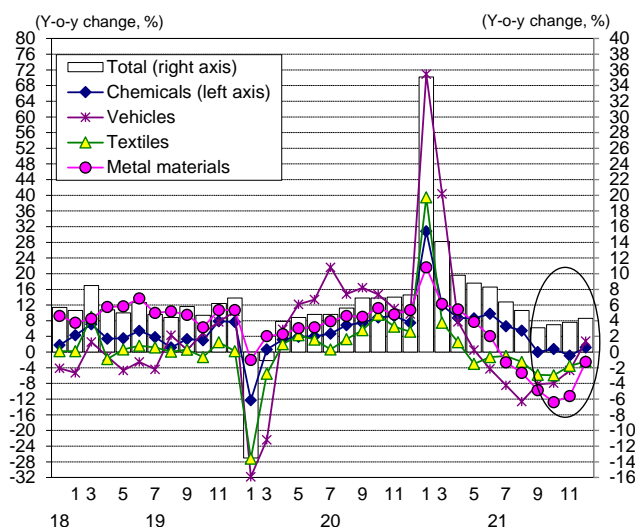
▪ Though production grew at a faster pace, consumption and investment slowed

Some of December's economic indicators accelerated and some slowed on the previous month. Value-added industrial production in December was up +4.3% on December 2020 and +11.9% on December 2019, with average two-year growth⁵ hitting +5.8%. This marked an increase on November's figure of +3.8%. At +9.6%, though, the cumulative figure for January–December was down on the cumulative figure for January–November (+10.1%). The

⁵ The geometric mean of growth as calculated and released by the NBS. Hereinafter the same.

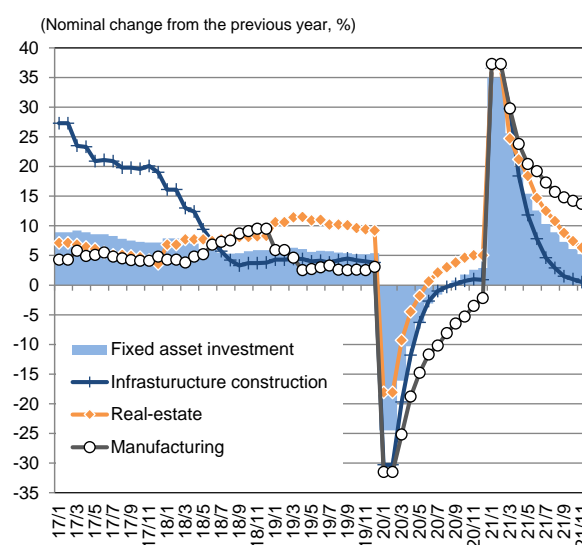
month-on-month figure for December was +0.4% (Fig. 5).

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

When discussing production over 2021, the NBS said that: (1) equipment manufacturing had grown stably by +12.9%, with strong growth seen when it came to new energy vehicles (+145.6%), industrial robots (+44.9%), solar cells (+42.1%) and micro-computers (+22.3%); (2) hi-tech manufacturing had seen strong growth (+18.2%), particularly in sectors like pharmaceuticals (+24.8%), electronics and telecommunications equipment (+18.3%) and computers and office equipment (+18.0%), with products such as 3D printers (+37.5%), smart watches (+37.0%) and IC (+33.3%) all growing at a fast clip; (3) export-driven manufacturing had also played a driving role, with sectors like pharmaceuticals (+64.6%), automobiles (+40.3%), chemical raw materials/products (+40.3%), and metal products (+39.9%) all growing strongly thanks to comparatively well-developed industrial chains and supply chains.⁶

At +4.9%, nominal fixed asset investment in January–December was down on January–November’s +5.2%. The figure was up +8.0% on January–December 2019, with average two-year growth hitting +3.9% (+0.2% m-o-m). Investment in January–December slowed on January–November when it came to infrastructure construction (from +1.0% to +0.4%), manufacturing (from +13.7% to +13.5%) and real estate (from +6.3% to +5.0%) (Fig. 6).

When discussing fixed asset investment in 2021, the NBS said growth had accelerated from +2.9% in 2020 to +4.9% in 2021, with growth driven by the ongoing expansion of tertiary investment and strong investment in the hi-tech sector (+17.1%), while investment in people’s livelihoods continued to expand.⁷

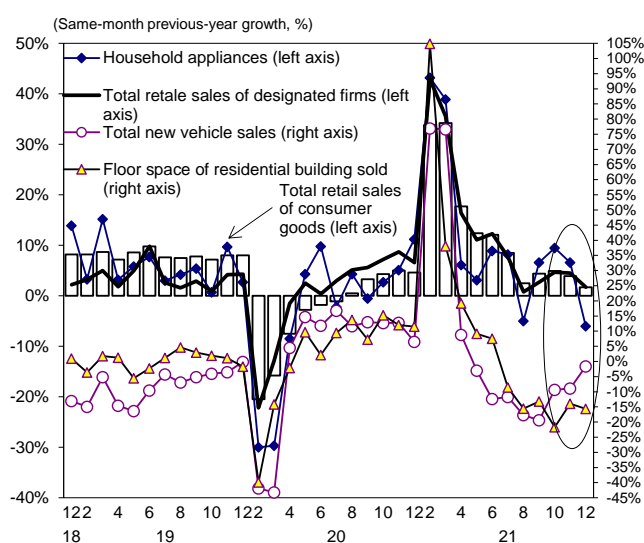
⁶ NBS, January 18, 2022, “卢山：工业生产稳中有进 企业效益持续提升 (Lu Shan: Industrial Production is Progressing a Stable and Corporate Profits Continue to Improve).”

http://www.stats.gov.cn/tjsj/sjjd/202201/t20220118_1826510.html

⁷ NBS, January 18, 2022, “翟善清：有效投资扩大 结构持续优化 (Zhai Shanqing: Effective investment expanded and the structure continued to

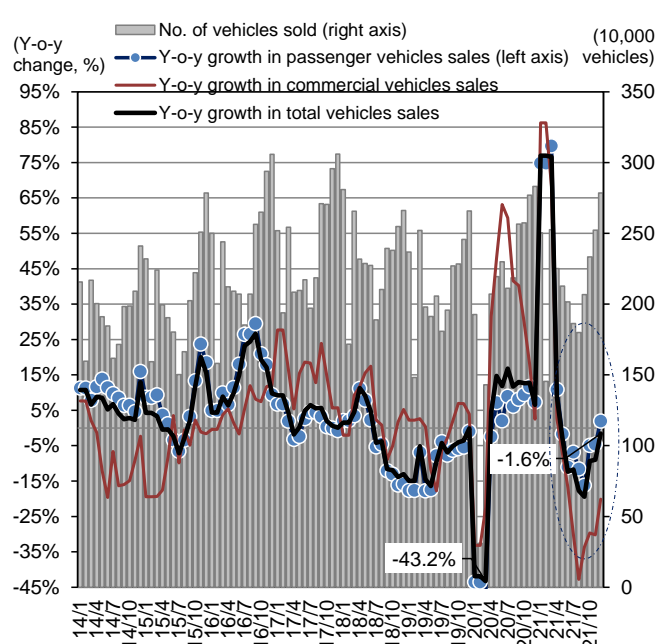
Nominal retail sales of consumer goods grew by +1.7% in December, down on November's figure of +3.9% (-0.2% m-o-m) (Fig. 7). The figure for 2021 stood at +12.5%, up +8.0% compared to 2019, with average two-year growth standing at +3.9%. At +2.3%, general merchandise retailing grew at a slower pace compared to November (+4.8%). At -2.2%, meanwhile, food and beverage revenue continued to undergo a y-o-y slide, a trend that began in November, when growth hit -2.7% (down from +2.0% in October). Food and beverage revenue grew by +18.6% over 2021, but the figure was down -1.1% on 2019 and average two-year growth stood at -0.5%, with revenue still below pre-pandemic levels.⁸

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

Online retail sales of goods and services grew by +14.1% to hit RMB 13,088.4 billion over 2021. At RMB 10,804.2 billion, online retail sales of goods grew by +14.1% (sales of services: RMB 2,284.2 billion) to account

optimize.” Zhai Shanqing is a director of the Investment Department of the NBS.

http://www.stats.gov.cn/tjsj/sjjd/202201/t20220118_1826519.html

At +2.1% and RMB 36.2877 trillion, tertiary industry fixed asset investment accounted for 66.6% of total fixed asset investment (RMB 54.4547 trillion) (secondary industry = RMB 16.7395 trillion, +11.3% and 30.7% of the total figure; primary industry = RMB 1.4275 trillion, +9.1% and 2.6% of the total figure). The figure for hi-tech manufacturing was +22.2%, with sectors like electronics and telecommunications equipment (+25.8%), air and space travel (+24.1%), medical instruments and instrument manufacturing (+22.6%) and computers (+21.1%) all growing at a fast clip. Investment in hi-tech services grew by +7.9%, with investment in e-commerce up by +60.3%, in research, development and design by +16.7%, in scientific and technological achievement transformation services by +16.0%, and in inspection and testing by +12.8%. When it came to the people's livelihoods sector, investment grew by +24.5% when it came to hygiene and +11.7% when it came to education.

⁸ NBS, January 18, 2022, “董礼华：消费市场总体持续恢复 消费结构优化升级 (Dong Lihua: Consumer markets continue to recover on the whole, with the consumption structure improving).” Dong Lihua is director-general of the NBS's trade and external economic relations department.

http://www.stats.gov.cn/tjsj/sjjd/202201/t20220118_1826523.html

for 24.5% of total retail sales of consumer goods during this period (RMB 44,082.3 billion).⁹

At 2.786 million, sales of new cars fell by -1.6% in December. This was the eighth straight month when sales had contracted. As with November, though, the scale of the contraction continued to shrink (Fig. 8). At 26.275 million, car sales grew by +3.8% over 2021. Though growth was down on January–November’s figure of +4.6% (23.462 million sales), it was up +2.0% compared to 2019 (25.754 million sales).

China Association of Automobile Manufacturers (CAAM) outlined three noteworthy trends for 2021. Firstly, automobile production and sales returned to positive growth for the first time in four years. Secondly, exports doubled on 2020 to top 2 million vehicles for the first time, with exports hitting a record high of 2.015 million. Thirdly, the production and sales of new energy vehicles (NEV) moved briskly. At 3.521 million, sales were up 1.6 times on 2020, with China topping the global rankings for the seventh straight year. At 13.4%, China’s market share was up 8 points on the previous year. Sales topped 200,000/month from March. They then surpassed 300,000/month in August and 400,000/month in November before reaching 530,000 in December.

Furthermore, Fu Bingfeng, executive vice president and secretary general of CAAM, predicted that car sales would grow by around +5.0% to hit 27.5 million in 2022. He also made four projections for 2022: (1) there was considerable potential in the automobile market, with demand set to remain strong; (2) the impact of Covid-19 would wane as prevention measures were normalized; (3) semiconductor shortages would gradually ease, with more supply capacity coming back on line; and (4) there would be hearty demand for NEVs, with more stable growth expected. He added that goal of Chinese NEV cars attaining a 20% global share would be achieved earlier than the original target year of 2025.¹⁰

▪ Sales prices of residential buildings grew at a slower m-o-m pace in 50 of the 70 cities surveyed, though the number of cities with falling prices decreased

At +1.9% (1,794.33 million m²), the floor space of residential buildings sold in 2021 was down on 2020’s figure of +2.6% (1,760.86 million m²) and January–November’s +4.8%. 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 2016¹¹ subsequently spread to other cities with surging house prices,¹² with the

⁹ NBS, January 17, 2022, “Total Retail Sales of Consumer Goods in 2021”

http://www.stats.gov.cn/english/PressRelease/202201/t20220118_1826503.html

¹⁰ CAAM, January 12, 2022, “2022 就这么干! 工信部、中汽协开年重磅发布, 回应汽车产业关切 (Bring on 2022! The Ministry of Industry and Information Technology and CAAM make a major announcement at the start of the year and reply to automobile industry concerns)”

http://www.caam.org.cn/chn/3/cate_19/con_5235338.html

Car sales are forecast to reach 27.5 million in 2022, with sales of passenger vehicles hitting 23 million (+7%), commercial vehicles 4.5 million (-6%), NEVs 5 million (+42%), and the market share topping 18%.

¹¹ 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.

¹² 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)”

restrictions being tightened further.¹³

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.¹⁴ Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans banks can extend.¹⁵

In December, 53 cities saw the price of new homes rising on the previous year, down from 54 in November. Growth slowed when it came to first-tier cities (from +1.3% in November to +0.8%), second-tier cities (from +3.7% to +3.3%) and third-tier cities (from +1.4% to +0.9%) (Fig. 9).¹⁶ Seventeen cities saw the price of new homes falling on the previous year, up from 16 in August.

On a monthly basis, 15 of the 70 cities surveyed saw the price of new homes rising, up from nine in November. Five cities saw prices moving flatly on the previous month (up from two in November), while 50 cities saw prices falling on the previous month (down from 59 in November) (Fig. 10).¹⁷

etc.

http://www.china.com.cn/shehui/2016-07/14/content_3887726.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>

¹³ The 21st Century Business Herald, March 20, 2017, “北京最严楼市调控“认房又认贷” 下半年全国楼市降温可期 (Checks on housing and loan records: Beijing's strictest real estate controls set to chill housing markets nationwide in 2H).” Beijing has introduced “the toughest controls in history.” It lifted the down payment rate for second home purchases to at least 60 percent on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property. Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.

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

¹⁴ 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>

¹⁵ 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>

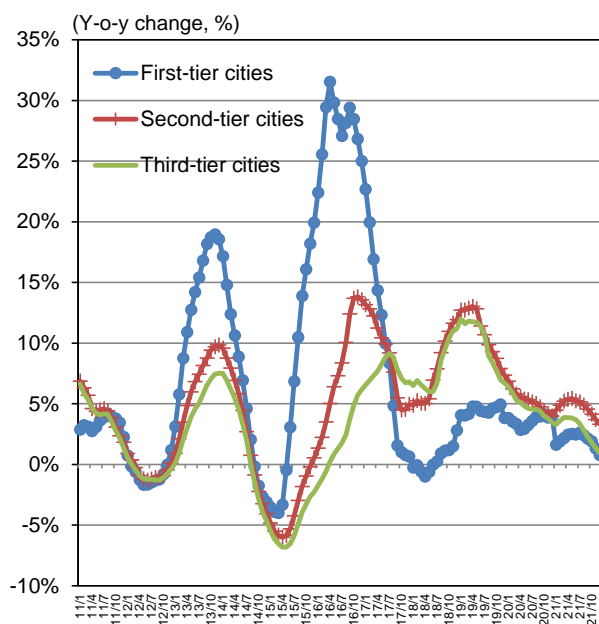
¹⁶ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Zhongqing 7.9%, Changsha + 7.5%, Yinchuan + 6.7% (December).

¹⁷ NBS, December 15, 2021, “Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in November 2021”

http://www.stats.gov.cn/english/PressRelease/202112/t20211215_1825314.html

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

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



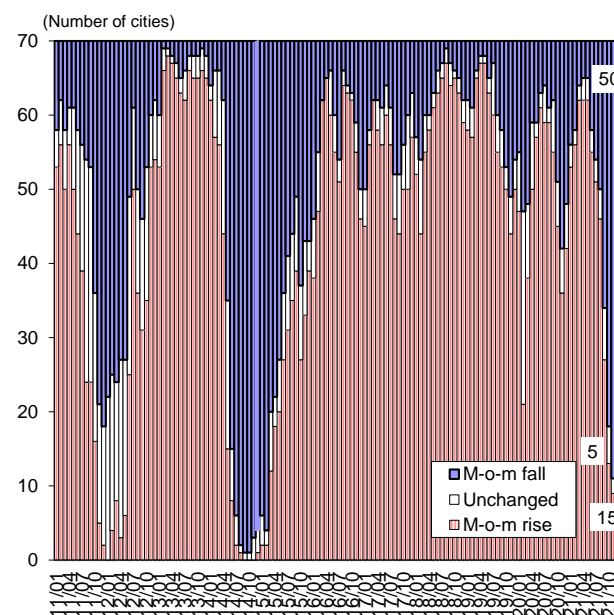
Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen

Second-tier cities: Capitals other than first-tier cities (municipality), capitals of autonomous regions, Dalian, Qingdao, Ningbo, and Xiamen

Third-tier cities: Cities other than first-tier and second-tier cities (35 of the 70 cities surveyed)

Source: CEIC

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



Source: NBS, CEIC

▪ Exports and imports both slowed

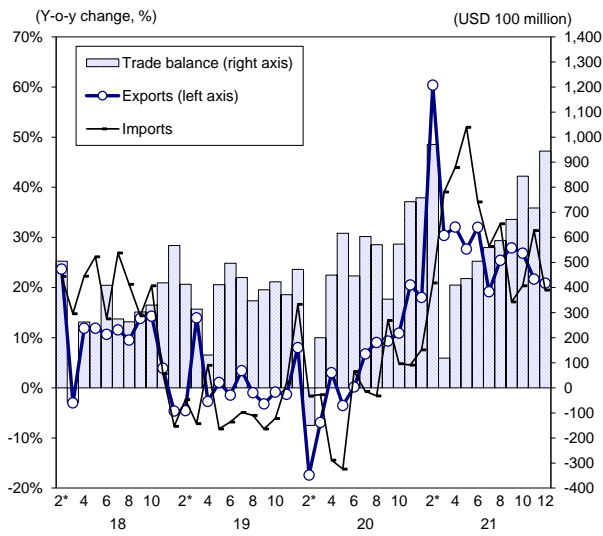
Exports grew by +20.9% (\$363.98 billion) and imports by +19.5% (\$340.50 billion) in December, with exports and imports both growing at a slower pace (Fig. 11). The trade surplus stood at \$94.46 billion, with the total trade amount up +20.3%. Exports were up by +29.9% (\$3,363.96 billion) and imports by +30.1% (\$2,687.53 billion) in 2021, with the surplus standing at \$676.43 billion and total trade growing by +30.0%. Exports were up +34.6%, imports by +29.3% and total trade by +32.2% compared to 2019.

In a press conference on January 15, Li Kuiwen, spokesperson of the General Administration of Customs (GAC) noted that: (1) exports of mechanical and electrical products had grown by +20.4% to hit RMB 12.83 trillion (approx. \$1.9888 trillion), thus accounting for 59.0% of all exports, with automatic data processing equipment and their parts and components growing by +12.9%, mobile phones by +9.3%, and automobiles by +104.6%; (2) imports of mechanical and electrical products had grown by +12.2% to hit RMB 7.37 trillion (approx. \$1.1424 trillion), thus accounting for 42.4% of all imports, with integrated chips (IC) growing by +15.4%.¹⁸

¹⁸ State Council website, January 15, 2022, “国务院新闻办就 2021 年全年进出口情况举行发布会” State Council Information Office Holds a Press Conference Regarding Trade in 2021)

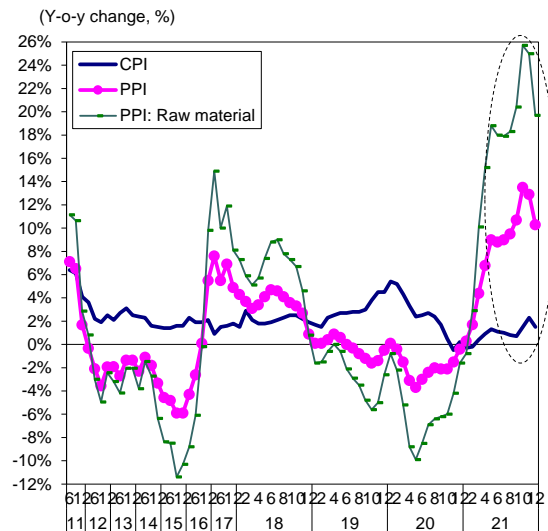
http://www.gov.cn/xinwen/2022-01/15/content_5668472.htm

Fig. 11: Imports/exports; trade balance



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

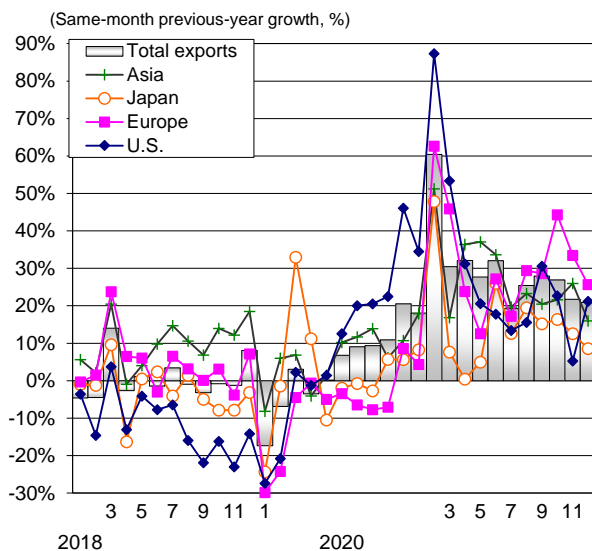
Fig. 12: CPI, PPI



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

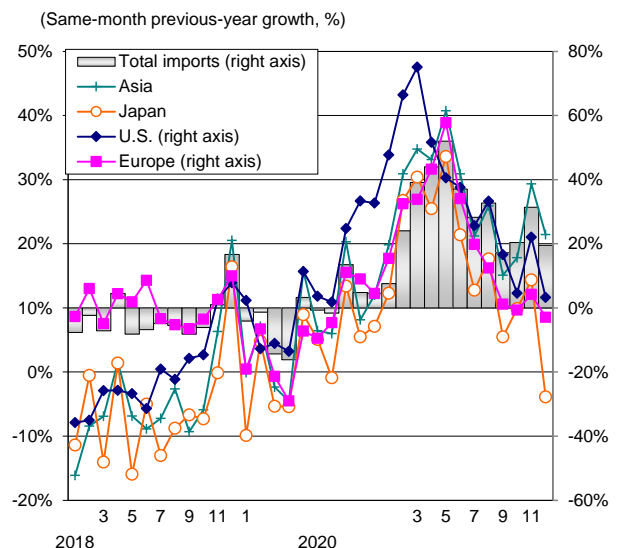
Exports to the US grew at a faster pace, though exports to Europe, Asia and Japan slowed, while imports from the US, Europe and Japan also grew at a slower pace (Figs. 13 and 14).

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

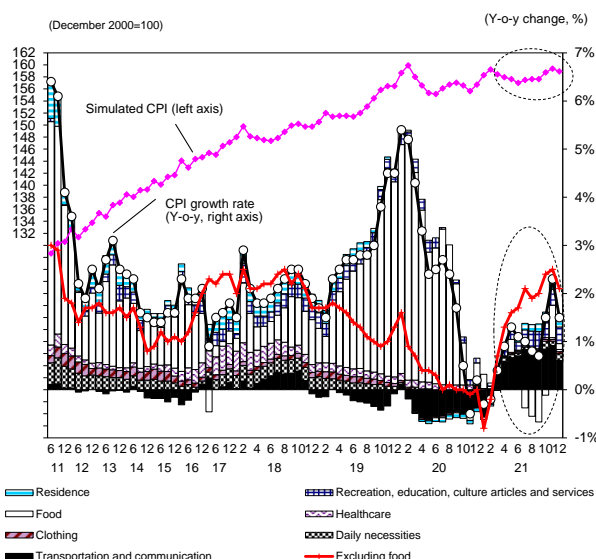
▪ The CPI and PPI data slowed

At +1.5%, CPI (Consumer Price Index) growth slowed in December (November: +2.3%), with the month-on-month data also dipping into negative territories (-0.3% m-o-m against +0.4% m-o-m in November) (Fig. 12). The

figure for 2021 was +0.9%, below the +3.0% government target unveiled at the National People’s Congress (NPC). A breakdown of the CPI data shows food price inflation falling into negative territories at -1.2% in December (November: +1.6%). Pork prices¹⁹ contracted at a sharper pace (-36.7% against November’s figure of -32.7%) as “seasonal factors peaked out and supply increased” (NBS), with vegetable price inflation also slowing sharply (+10.6% against November’s +30.6%). At +2.1%, non-food prices grew at a slower pace in December (November: +2.5%), while the core CPI figure (excluding energy and food) was unchanged on the previous month at +1.2%²⁰ (Figs. 15 and 16).

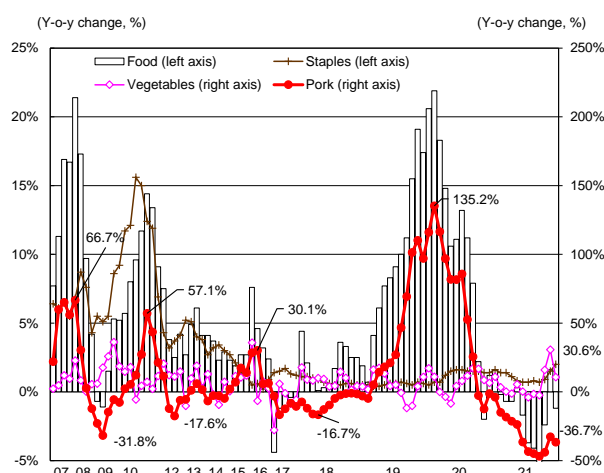
At +10.3%, Producer Price Index (PPI) growth slowed in December (November: +12.9%), with the average for 2021 standing at +8.1%. A glance at the details for December shows the price of producer goods slowing from +17.0% in November to hit +13.4%, with prices growing at a slower pace when it came to mining (from +60.5% to +44.2%), raw materials (from +25.0% to +19.7%) and processing (from +10.1% to +8.2%). The price of consumer goods rose by +0.1% in both November and December.

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. Source: NBS, CEIC

Fig. 16: Food prices



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

¹⁹ 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%)

²⁰ NBS, January 12, 2022, “国家统计局城市司高级统计师董莉娟解读 2021 年 12 月份 CPI 和 PPI 数据 (BS Senior Statistician, Dong Lijuan Deciphers the December 2021 CPI and PPI Data)”
http://www.stats.gov.cn/tjsj/sjjd/202201/t20220112_1826176.html

▪ **New bank loans increased, but total social financing contracted**

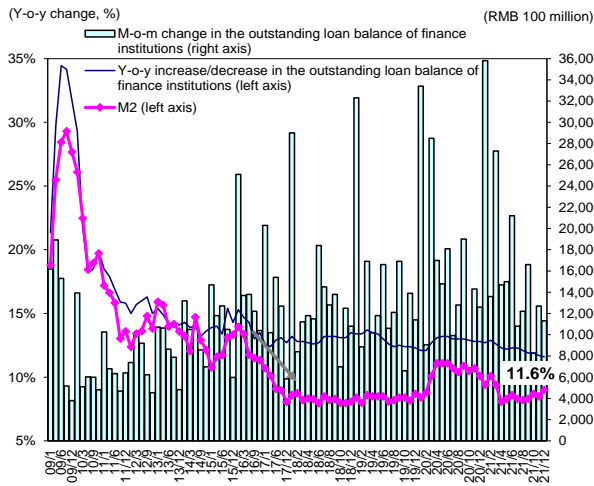
According to the PBC, M2 money supply growth hit +9.0% in December, up slightly on November's figure of +8.5%. New bank loans increased by a net RMB 1,130.0 billion in December, down on November's figure of RMB 1,270.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 2,368.2 billion, down on November's figure of RMB 2,589.3 billion. A glance at the details reveals that: government bonds, non-financial-institution equity issuances and loan repayments grew at a faster pace; RMB loans, corporate bonds and deposit-taking financial institution ABS grew at a slower pace; entrusted loans moved from expansion to contraction; and foreign currency loans, trust loans and banker's acceptances contracted at a faster pace (Fig. 18).

As with November, foreign exchange reserves grew on the previous month to hit \$3,250.17 billion at the end of December, up \$27.78 billion on the end of November (\$3,222.39 billion), with reserves up \$33.64 billion on the end of 2020 (Fig. 19). SAFE Deputy Administrator and Press Spokesperson Wang Chunying explained that "influenced by factors like the spread of Covid-19 and the monetary policy expectations of major countries, the Dollar Index fell in international financial markets, while the financial asset prices of major countries rose and fell. China's foreign exchange reserves, priced by the US dollar, rose this month due to the combined impacts of the rising dollar value of non-dollar currencies and changes in asset prices."²¹

The surveyed unemployment rate stood at 5.1% at the end of December, up slightly on the 5.0% figure recorded at the end of November (Fig. 20).

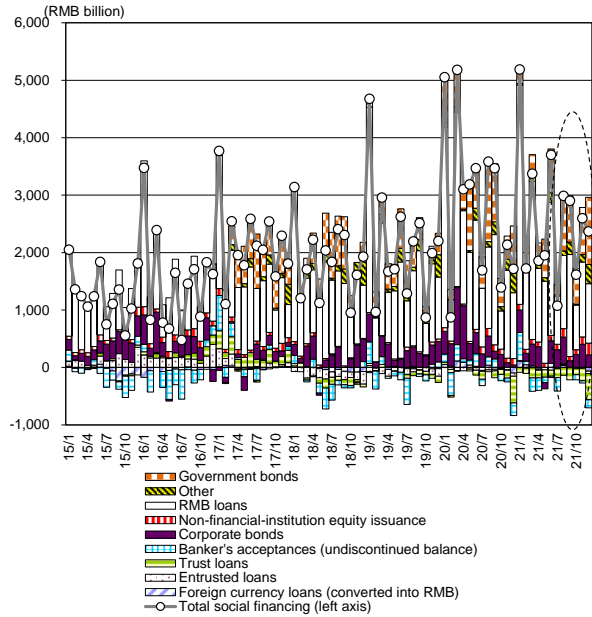
²¹ State Administration of Foreign Exchange, January 7, 2022 "国家国家外汇管理局副局长、新闻发言人王春英就 2021 年 12 月份外汇储备规模变动情况答记者问 (SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for December 2021)" <https://www.safe.gov.cn/safe/2022/0107/20449.html>

Fig. 17: Financial institution lending; the money supply



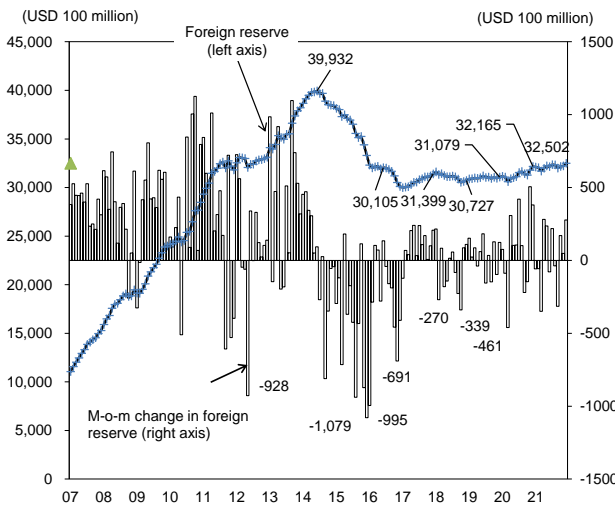
Note: The graph shows January and end-of-quarter figures up until 2017. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBC, CEIC

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



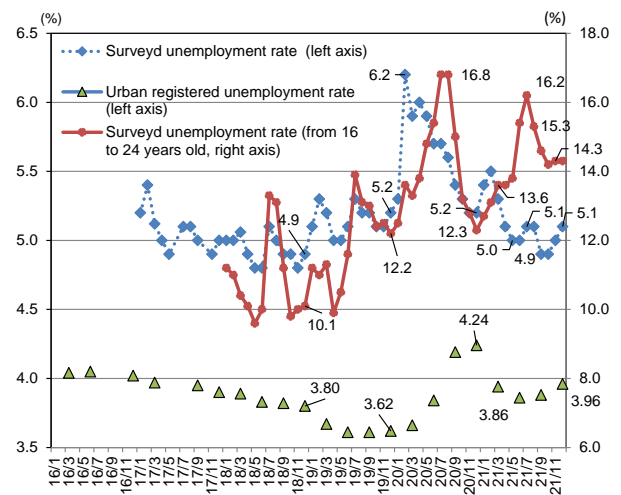
Source: PBC, CEIC

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

2. The policy response: “Actively launching policies conducive to economic stability”

When it convened in December to set fiscal and financial policy for 2022, the Central Economic Work Conference²² outlined measures to underpin the economy based on the principle of “prioritizing stability while

²² People’s Daily, December 11, 2021, “中央经济工作会议在北京举行 (Central Economic Working Conference Held in Beijing)”

actively launching policies conducive to economic stability.”

▪ **“Some high-quality private or state-owned enterprises in the real estate sector hold the willingness to purchase the equity or assets of high-quality projects of real estate groups that have exposed risks” (PBC)**

When it met by teleconference on December 27, the Work Conference of the People’s Bank of China outlined eight priority tasks for 2022 (Fig. 21).²³ Measures outlined under Task (2) (“step up financial support for key areas in a targeted way”) include: the ongoing implementation of support plans for micro enterprises; the promotion of the harmonious and orderly development of green financing activities based on an awareness and understanding of the goals of peak carbon and carbon neutrality; and the improvement of rural revitalization services. Measures outlined under Task (4) (“continue to forestall and defuse financial risks”) include upgrading and reforming major internet financial platforms and enforcing prudent control systems for real-estate finance, though Task (4) also discusses better meeting reasonable homebuyer housing demand and fostering a virtuous cycle for the healthy development of the real-estate sector. Furthermore, Task (7) mentions improving the diversified use of foreign exchange reserves based on the “optimization of foreign exchange management and services.”

Fig. 21: PBC priority tasks for 2022 (PBC Work Conference)

(1)	The PBC will pursue a sound (neutral) monetary policy that is flexible and appropriate. It will utilize multiple currency policy tools to keep liquidity adequate at a reasonable level, ensure a stable growth of aggregate credit, and keep the growth of the money supply and the aggregate financing to the real economy generally in line with nominal GDP growth. <ul style="list-style-type: none"> • Improve the mechanism for the formation and transmission of market-based interest rate, increase support for the real economy, steadily lower overall financing costs for businesses, and ensure finance brings benefits to the real economy. • Keep the RMB exchange rate basically stable at a rational equilibrium level.
(2)	The PBC will step up financial support for key areas in a targeted way. <ul style="list-style-type: none"> • Utilize inclusive* financing support tools for micro enterprises and implement the ongoing transition of the trust loan support plan for micro enterprises. • Continuously strengthen financial support for scientific and technological innovation. • Ensure awareness and understanding of the goals of peak carbon and carbon neutrality; strengthen the overall harmony and orderly development of green financing activities. • Continuously enhance the capacity and effectiveness of the financial sector in rural revitalization services.
(3)	The PBC will further improve the policy framework and governance mechanism for macroprudential management. It will incorporate major financial activities, financial institutions, financial markets and financial infrastructures into macroprudential management. <ul style="list-style-type: none"> • Improve the framework for supervising and evaluating risk and conduct macroprudential stress tests. • Promote the stable and orderly assessment of financial holding companies and pursue ongoing supervision and control. • Implement additional supervision and control for systemically important financial institutions.
(4)	The PBC will continue to forestall and defuse financial risks. <ul style="list-style-type: none"> • Defuse risks of key institutions in a steady and orderly manner based on the principles of maintaining overall stability, taking a coordinated approach with differentiated measures, and defusing bombs precisely. • Steadfastly pursue rule-based development; strengthen the law-based supervision and control of capital and platform companies; continuously upgrade and reform major internet financial platforms. • Steadfastly manage real-estate finance prudentially to better meet the rational housing demands of homebuyers and thus foster a virtuous cycle for the healthy development of the real-estate sector.
(5)	The PBC will continue to deepen international financial cooperation. It will proactively promote international cooperation on green finance. <ul style="list-style-type: none"> • Continue to utilize multilateral debt coordination mechanisms to steadfastly respond to the debt problems of low-income countries. • Continue to open up the financial sector in an orderly manner; pursue a higher level of opening-up based on negative lists; pursue orderly capital account convertibility.

Mizuho China Business Express Economic Journal (No. 118, page 9) by this author

https://www.mizuohobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0118-XF-0105.pdf

²³ Financial News, December 28, 2021, “2022 年中国人民银行工作会议召开 (PBC Holds 2022 Work Conference in Beijing)”

https://www.financialnews.com.cn/jg/dt/202112/t20211228_236253.html

<p>(6) The PBC will continue to deepen financial reform. It will launch measures for regulating financial infrastructures.</p> <ul style="list-style-type: none"> • Steadfastly pursue the reform and opening-up of bond markets. • Further improve management systems for currencies, commercial paper, gold and derivatives, etc. • Ensure the sound implementation of the deposit insurance system. • Support the efforts of relevant authorities and local governments to promote reforms of rural credit cooperatives based on their categories and local conditions. • Steadily promote RMB internationalization. • Strengthen support for the construction of Hong Kong as an offshore RMB center; promote the sound development of the offshore RMB market.
<p>(7) The PBC will further optimize foreign exchange management and services.</p> <ul style="list-style-type: none"> • Pilot trade facilitation programs will be expanded in size and improved in quality. • Roll out pilot programs for high-level opening-up of cross-border trade and investment. • Reform external debt registration and management. • Improve the diversified use of foreign exchange reserves.
<p>(8) The PBC will comprehensively improve the level of financial services and management. It will advance the development of financial laws and regulations system in a coordinated manner.</p> <ul style="list-style-type: none"> • Complete the formulation of a high-quality “14th Five-year Financial Development Plan.” • Continuously pursue pilot regional financial reforms. • Strengthen the comprehensive statistical monitoring and analysis of the financial sector. • Continue to crack down on cross-border gambling, telecommunication and cyber fraud, and illegal payments. • Promote the application and management of fintech. • Pursue digital RMB research, development and trials in a steady and orderly manner. • Provide better treasury support for people's livelihoods. • Implement the <i>Measures for the Administration of Credit Reporting Business</i>. • Enhance the role of the unified registration and publicity system for financing secured by chattels and the receivables financing service platform. • Pursue specific anti-money-laundering measures in non-financial sectors. • Implement the <i>Opinions on Promoting the High-quality Development of Inclusive Finance</i>.

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

Source: Financial News, December 27, 2021, “2022 年中国人民银行工作会议召开”

https://www.financialnews.com.cn/jg/dt/202112/t20211228_236253.html

Speaking about real-estate during a press conference on December 30, Zou Lan, Director-General of the PBC’s Financial Market Department, said the following²⁴: “nearly 500 out of over 100,000 real estate enterprises in China underwent the judicial process of bankruptcy and restructuring, which has become an important way for the sector to select the superior and eliminate the inferior. Some high-quality private or state-owned enterprises in the real estate sector hold the willingness to purchase the equity or assets of high-quality projects (subsidiaries) of real estate groups that have exposed risks or encountered difficulties in capital turnover.”

In another press briefing on January 18,²⁵ Zou Lan also stated that “the statistics show that at end-2021, the outstanding real estate loans extended by financial institutions amounted to RMB 52.2 trillion, up by +7.9% year on year, an acceleration of 0.3 percentage points from the end of September 2021. In particular, newly issued real estate loans reached RMB 773.4 billion in Q4 2021, up RMB 202.0 billion year on year and RMB 157.8 billion more than the increase in Q3 2021,” adding that “real estate sales, land purchases and financing have gradually returned to normal recently.”

At the same press briefing, PBC Deputy Governor Liu Guoqiang explained that the PBC would “employ a mix of monetary policy tools to keep liquidity adequate at a reasonable level and enhance the stability of aggregate credit

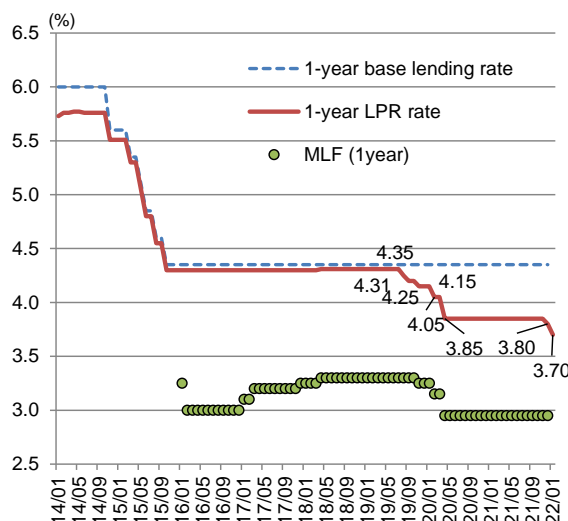
²⁴ Financial News, December 31, 2021, “进一步增强金融服务实体经济的能力 人民银行举行小微企业金融服务和绿色金融新闻发布会 (The PBC holds a press conference on financial services for MSBs and green finance as it seeks to strengthen financial services for the real economy)” https://www.financialnews.com.cn/jg/dt/202112/t20211231_236546.html

²⁵ State Council Information Office, January 18, 2022, “国新办举行 2021 年金融统计数据新闻发布会图文实录 (State Council Information Office holds a press briefing on 2021 financial statistics (transcript))” <http://www.scio.gov.cn/xwfbh/xwfbh/wqfbh/47673/47730/wz47732/Document/1719059/1719059.htm>

growth” to ensure that downward economic pressure “would be a story of the past in a few months.” Speaking about deposit reserve requirement ratios, the Deputy Governor said there was less room for further adjustments, though he added that there was “still room for maneuver...in light of the economic and financial developments as well as the needs of macro regulation.”

On the back of this, the PBC announced on January 20 that it would be lowering the Loan Prime Rate (LPR) to 3.70%. This followed on from an earlier cut (to 3.80%) on December 20, 2021 (Fig. 22).

Fig. 22: Interest rate movements



Source: National Interbank Funding Centre, PBC

▪ **“Policies will be improved to strengthen support for market entities” (Minister of Finance Liu Kun)**

According to an interview with Minister of Finance Liu Kun and a speech by Liu²⁶ at December’s National Financial Work Conference,²⁷ China will focus on six tasks as it implements a proactive fiscal policy in 2022. These tasks are: (1) carry out greater tax cuts and fee reductions, (2) maintain spending at an appropriate intensity and enhance the precision of spending, (3) guarantee the construction of key projects by rationally allocating local government special bonds, (4) increase transfer payments from the central government to the regions, (5) maintain the frugality of party and government institutions, and (6) pursue strict fiscal discipline and keep things in order.

Liu said he expected the scale of any tax cuts and fee reductions to reach RMB 1 trillion in 2021, with the figure set to be even higher in 2022. Discussing concrete policies to be undertaken as part of the moves to “strengthen support for market entities (businesses)” (one of the 10 priority tasks for 2022), Liu said the authorities would: provide more relief assistance to troubled medium, small and micro enterprises; offer incentives and subsidies to

²⁶ Ministry of Finance, December 28, 2021, “财政部部长刘昆：2022 年将实施更大力度减税降费 (Minister of Finance Liu Kun: We will implement greater tax cuts and fee reductions in 2022)”

http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/xinhuanet/202112/t20211228_3778497.htm

Ministry of Finance, January 21, 2022, “在全国财政工作会议上的讲话(节选)财政部党组书记、部长 刘昆 (Speeches by the Minister of Finance, Liu Kun at the National Financial Work Conference)”

http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202201/t20220121_3784025.htm

²⁷ Ministry of Finance, December 27, 2021, “2021 年全国财政工作视频会议在北京召开 (MOF holds 2021 National Financial Work Online Conference in Beijing)”

http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202112/t20211227_3778258.htm

inclusive finance development model zones; provide ongoing incentives and subsidies to support the reduction of debt guarantee fees for small and micro enterprises; provide state-level support for the development of ‘specialized, elaborate, characteristic and innovative’ ‘little giant’ enterprises; encourage local governments to allocate relief funds to troubled small and medium enterprises, and utilize these funds to help businesses cope with the soaring prices of raw materials and the rising cost of logistics and labor.

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

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