

—The macroeconomy—**Summary**

China's real GDP growth rate for January–June (1H) stood at +2.5%. At +0.4%, the figure for 2Q was down sharply on 1Q's +4.8%. Some June economic indicators improved on May, but consumer and investor sentiments continue to be weighed down by frequent Covid-19 outbreaks and lockdown risks. Amid inflationary concerns and with revenue falling, the authorities will probably continue with existing economic policies rather than introducing any new fiscal or monetary measures.

1. June's economic indicators improved on May

- The real GDP growth rate slowed sharply to +0.4% in 2Q; the contribution of net exports rose as imports slowed
- Production accelerated, consumption began growing again, and investment growth moved flatly overall
- The floor space of residential buildings sold contracted at a slower pace; house prices fell for the third straight month, but more cities saw prices rising on a m-o-m basis
- Exports accelerated and imports slowed
- CPI growth accelerated while PPI growth slowed
- New bank loans increased and total social financing expanded sharply

2. The Policy Response: Topic – The authorities are viewing further economic policies with caution given inflationary concerns and falling revenues

- China will not be “introducing super large-scale stimulus measures... or sacrificing future interests for the sake of excessive growth targets” (Premier Li Keqiang)
- The authorities are monitoring prices, interest-rate differentials and fiscal trends
- “The vast majority of small and medium-sized banks are within the safe boundary” (PBC)

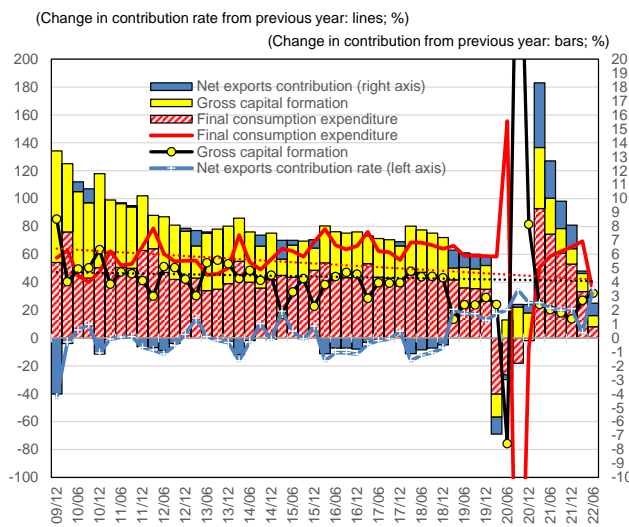
1. June’s economic indicators improved on May

• The real GDP growth rate slowed sharply to +0.4% in 2Q; the contribution of net exports rose as imports slowed

On July 15, the National Bureau of Statistics (NBS) announced¹ that China’s real GDP growth rate for January–June (1H) stood at +2.5% on the same period last year (from here on, all figures refer to a ‘same-period previous-year comparison’ unless otherwise specified), with the 2Q figure standing at +0.4%. At -2.6%, the quarter-on-quarter result slipped into negative territories for the first time since 1Q 2020 (-10.3%).

A glance at contribution levels by demand item over 1H shows the contribution of net exports standing at +0.9%, followed by gross capital formation at +0.8% and final consumption expenditure also at +0.8% (Fig. 1). The 2Q data shows the contribution of net exports expanding (from 0.2% in 1Q to 1.0% in 2Q) on slowing imports, though the contribution of gross capital formation fell sharply (from 1.3% to 0.3%) and the figure for final consumption expenditure fell into negative territories (from 3.3% to -0.8%) (Figs. 1 and 2).

Fig. 1: Breakdown of GDP by demand item



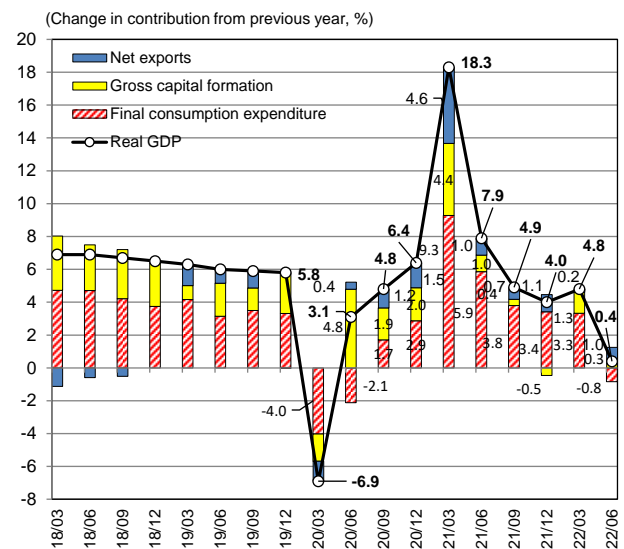
Note: The figures show the cumulative results from the beginning of the year.

Gross capital formation for Jan.–Sep. 2020: +368.0%;

Final consumption expenditure: -302.4%

Source: NBS, CEIC

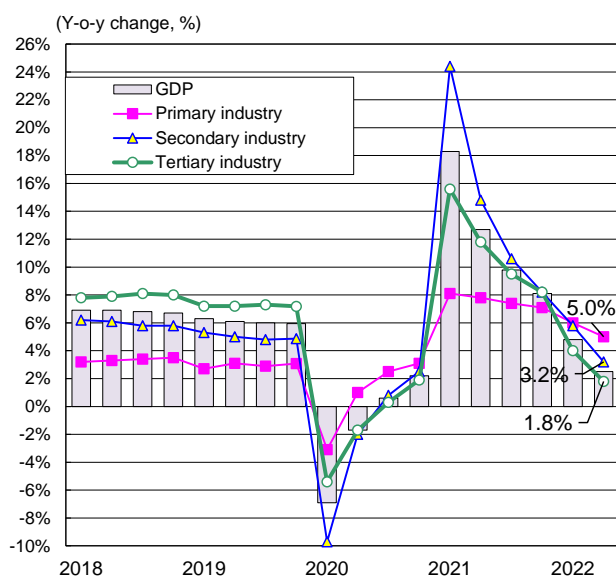
Fig. 2: Breakdown of GDP by demand item (quarterly)



Source: NBS, CEIC

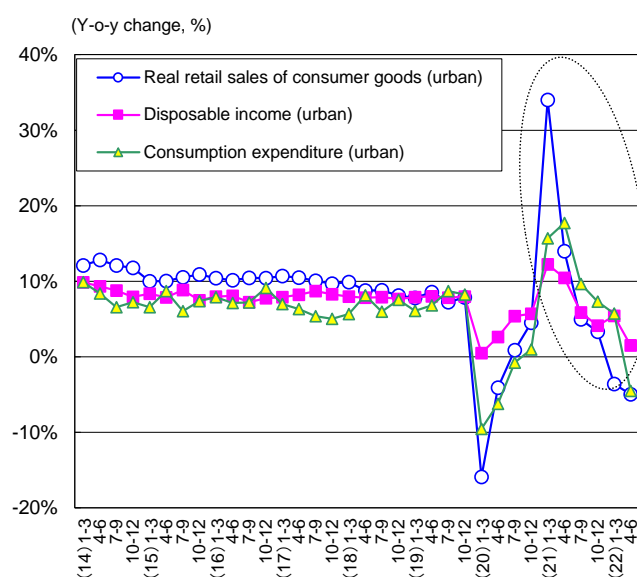
¹ NBS, July 15, 2022, “Strong Measures Adopted to Counter the Impacts of Unexpected Factors and National Economy Registered a Stable Recovery” http://www.stats.gov.cn/english/PressRelease/202207/t20220715_1886414.html

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: CEIC

A breakdown by sector over 1H shows the primary industry growing by +5.0%Pts, the secondary industry by +3.2%Pts, and the tertiary industry by +1.8%Pts. At -2.6%Pts, the secondary industry posted the largest contraction compared to 1Q (Fig. 3).

• Production accelerated, consumption began growing again, and investment growth moved flatly overall

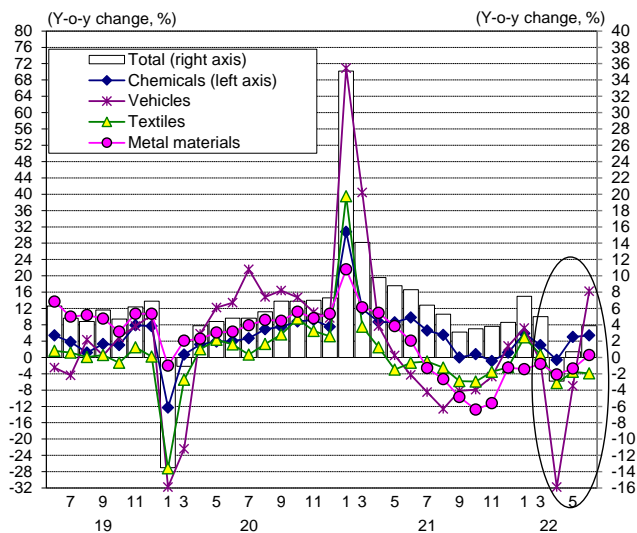
At +3.9%, value-added industrial production in June was up on May's +0.7% (the m-o-m figure was +0.8%). At +3.4%, the figure for January–June was up slightly on the +3.3% figure recorded in January–May (Fig. 5). When discussing production over 2Q, the NBS said that²: (1) growth was driven by hi-tech manufacturing (+5.7%), with lithium batteries, electronic parts and integrated circuits (IC) all growing by over 20% and strong growth also recorded when it came to the single crystal silicon sector (+61.3%, up 37.3%Pts on 1Q), the polycrystal silicon sector (+50.6%, up 13.0%Pts on 1Q) and the solar cell sector (+30.4%, up 6.1%Pts on 1Q); (2) equipment manufacturing had recovered at a faster pace, with the automobile sector rallying sharply from -7.0% in May to +16.2% in June; (3) industrial exports accelerated, with the export delivery value of industrial companies in Shanghai recovering sharply from -17.7% in May to +25.9% in June, while the figures for Jiangsu, Guangdong and Zhejiang also grew in a range between +13.2–23.4% (up 1.4–7.5%Pts on May); (4) enterprise profits contracted at a slower pace, with the figure for May hitting -6.5%, an improvement of 2.0%Pts on the previous month.

At +6.1%, nominal fixed asset investment in January–June slowed slightly on January–May's +6.2%. At

² NBS July 15, 2022, “江源: 稳经济大盘政策落地显效 工业经济稳步恢复 (Jiang Yuan: The industrial economy is recovering stably as policies to stabilize the economic base bear fruit)”. Jiang Yuan is the deputy director of the Department of Industrial Statistics of the NBS.
http://www.stats.gov.cn/tjsj/sjjd/202207/t20220715_1886508.html

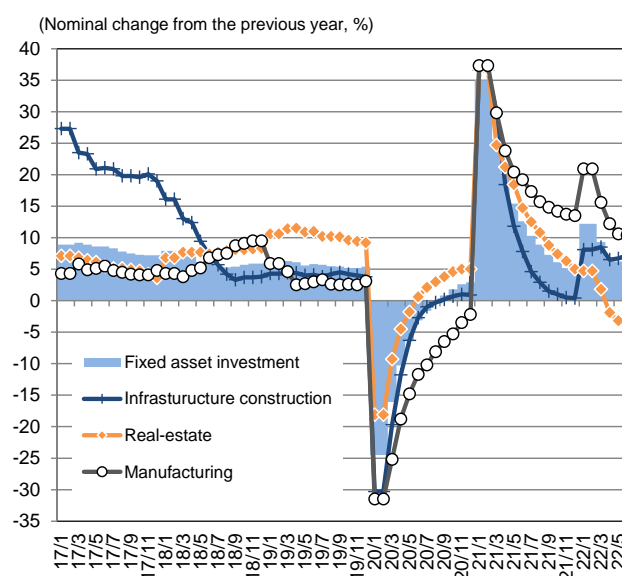
+5.6%³, the June figure was up on May's +4.6% (+1.0% m-o-m). Investment accelerated on January–June when it came to infrastructure construction (from +6.7% in January–May to +7.1), though investment slowed when it came to manufacturing (from +10.6% in January–May to +10.4%), while investment in real estate fell further into negative territories (from -3.2% in January–May to -4.2%) (Fig. 6).

Fig. 5: Value-added industrial production



Note: After discounting cost price factors. The figure for January shows the cumulative y-o-y 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

After contracting by -6.7% in May, nominal retail sales of consumer goods returned to growth again in June at +3.1% (+0.5% m-o-m) (Fig. 7). At -0.7%, the figure for 1H contracted at a slower pace compared to January–May (-1.5%). Goods sales grew by +3.9% in June, with food spending contracting at a slower pace compared to the previous month (from -21.2% in May to -4.0%).

Internet retail sales of goods and services grew by +3.1% to hit RMB 6,300.7 billion over 1H. At RMB 5,449.3 billion, internet retail sales of goods grew by +5.6% (sales of services: RMB 851.3 billion) to account for 25.9% of total retail sales of consumer goods during this period (RMB 21,043.2 billion)⁴.

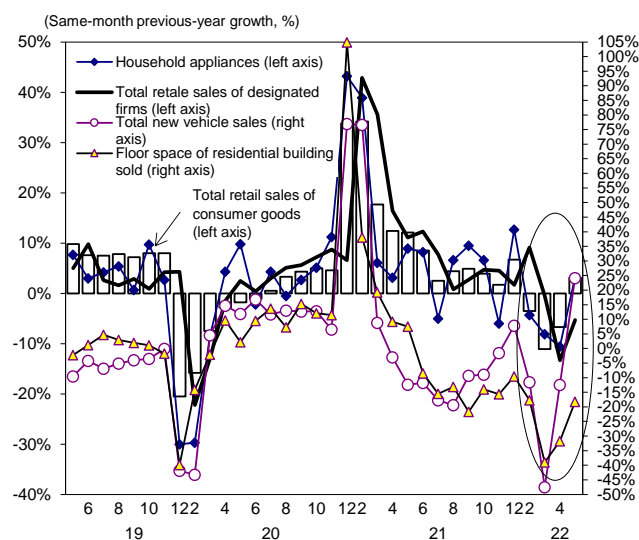
At 2.502 million, sales of new cars grew by +23.8% in June. This marked a return to positive growth following a contraction of -12.5% in May (1.862 million). At -6.6% (12.057 million), growth over 1H contracted at a slower pace compared to January–May's figure of -12.1% (Fig. 8). According to the China Association of Automobile Manufacturers (CAAM), car sales in 1H were characterized by: rapid y-o-y growth when it came to the production and sales; a noticeable bump in passenger car production and sales on the impact of preferential tax policies; the ongoing sluggishness of commercial car production and sales; record-high production and sales of new-energy

³ Calculated by this report's author based on cumulative figures.

⁴ NBS, July 15, 2022, "Total Retail Sales of Consumer Goods in June 2022"
http://www.stats.gov.cn/english/PressRelease/202207/t20220718_1886647.html

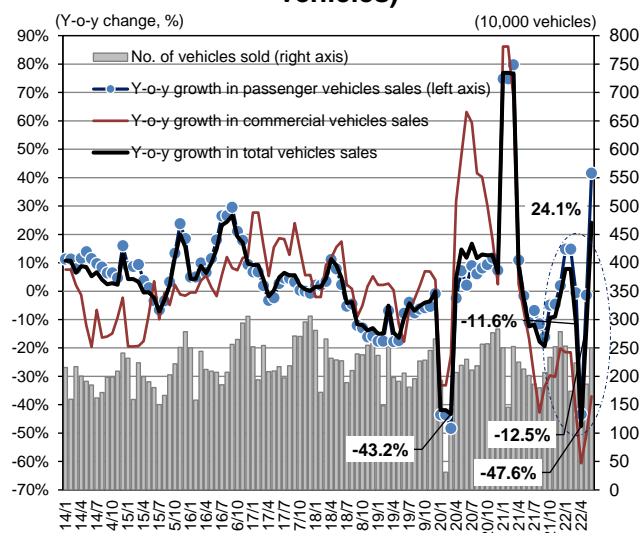
vehicles (NEV); general stability when it came to the market concentration of key players (the share of the top 10 carmakers in terms of sales); improved automobile management indices; and bullish exports.

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: CAAM, CEIC

Chen Shihua, deputy secretary general of CAAM, also explained that automobile production in 1H 2022 had been impacted by semiconductor shortages and the surging cost of the raw materials for electric vehicle power batteries, with domestic industrial chains and supply chains in the automobile industry also hit hard by frequent Covid-19 outbreaks in regions like Jilin and Shanghai. As such, car production and sales had fallen sharply from mid-March to April. However, he added that market vitality had been given a sharp boost by policies to stimulate consumption or measures aimed at stable growth (particularly moves to lower or waive purchases taxes), with the market expanding and marketing capabilities growing stronger. As a result, the market had bottomed out and begun recovering in April, with production and sales in June moving robustly compared to similar periods in the past.

When it came to the outlook for 2022, the deputy secretary general said automobile sales would grow by around +3% to hit 27 million, with passenger cars growing by around +7% (23 million), commercial cars contracting by around -16% (4 million) and NEV growing by 56% or more (5.5 million)⁵.

▪ The floor space of residential buildings sold contracted at a slower pace; house prices fell for the third straight month, but more cities saw prices rising on a m-o-m basis

⁵ CAAM, July 11, 2022, “中国汽车工业协会 2022 年 7 月信息发布会在北京召开 (CAAM Holds a Press Conference in Beijing on July 2022)”
http://www.caam.org.cn/chn/1/cate_3/con_5236023.html

At -22.2% (689.23 million m²), the floor space of residential buildings sold in June contracted on a y-o-y basis for the sixth straight month, though the scale of the contraction was down slightly compared to May (-23.6%). Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People's Bank of China (PBC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen in March 2016⁶ subsequently spread to other cities with surging house prices⁷, with the restrictions being tightened further⁸.

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 regulations⁹. Furthermore, at the end of 2020 the authorities introduced caps on the total amount of property loans or mortgage loans banks can extend¹⁰.

⁶ On March 25, 2016, the down payment rate for second homebuyers was lifted from 40% to 50–70% in Shanghai. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both moves represent a tightening of restrictions on purchases by non-resident buyers.

⁷ Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. Reference: Economic Information Daily, July 14, 2016, “房地产现严重分化 因城施策将是下半年楼市政策主线 (China's acute property price bifurcation problem: Main real-estate measures in 2H influenced by the regional policies)”, etc.

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

People's Daily on October 11, 2016 entitled “限购、限贷，近期已有 20 城市推出新举措 楼市调控 因城施策 (Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city).” Restrictions on housing purchases were introduced in 20 cities at the time the article was written. <http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html>

⁸ The 21st Century Business Herald, March 20, 2017, “北京最严楼市调控“认房又认贷” 下半年全国楼市降温可期 (Checks on housing and loan records: Beijing's strictest real estate controls set to chill housing markets nationwide in 2H).” Beijing has introduced ‘the toughest controls in history.’ It lifted the down payment rate for second home purchases to at least 60 percent on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property. Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.

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

⁹ 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

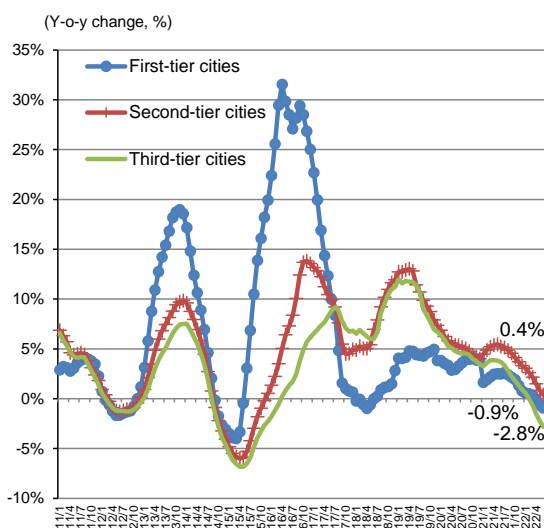
The 21st Century Business Herald, September 16, 2020, “1-8 月商品房销售额增速转正 “三条红线”影响隐现 (The Impact of the ‘Three Red Lines’ Emerges as Commercial Home Prices Return to Positive Growth over January-August).” According to this and other reports, (1) the authorities have introduced three quantitative ‘red lines’ 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>

¹⁰ 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/view/pages/ItemDetail.html?docId=955098&itemId=928&generalType=0>

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



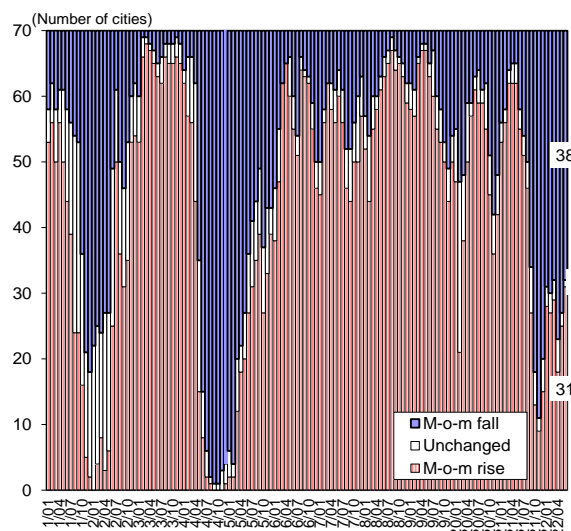
Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen

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

In June, 21 cities saw the price of new homes rising on the previous year, down two cities on May. Forty-eight cities saw the price of new homes falling on the previous year, up from 46 in May. Growth contracted further in first-tier cities (from -0.7% in May to -0.9%) and third-tier cities (from -2.2% to -2.8%) while prices grew at a slower pace in second-tier cities (from +0.8% to +0.4%).

Average growth in the 70 cities contracted by an average of -1.3% (May: -0.8%), with growth slowing on a y-o-y basis for the third successive month (Fig. 9)¹¹.

On a m-o-m basis, 31 of the 70 cities surveyed saw the price of new homes rising, up from 25 in May. One city saw prices moving flatly on the previous month (down from two in May), while 38 cities saw prices falling on the previous month (down from 43 in May) (Fig. 10)¹².

▪ Exports accelerated and imports slowed

Exports grew by +17.9% (\$331.26 billion) and imports by +1.0% (\$233.32 billion) in June, with export growth accelerating and import growth slowing (Fig. 11). The trade surplus stood at \$97.94 billion, with the total trade amount up +10.3%. Exports rose by +14.2% (\$1,732.28 billion) in 1H while imports grew by +5.7% (\$1,346.85 billion), with the surplus standing at \$385.44 billion.

¹¹ Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Hangzhou + 6.3%, Beijing + 5.8%, and Yinchuan + 4.7% (June)

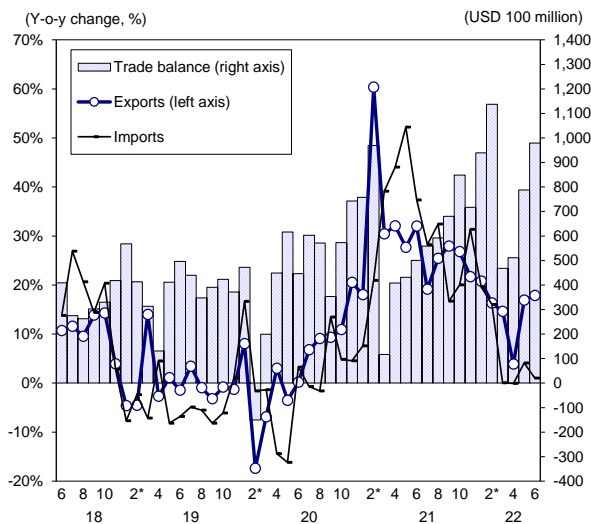
¹² NBS, July 16, 2022, “Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in June 2022”

http://www.stats.gov.cn/english/PressRelease/202207/t20220716_1886612.html

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

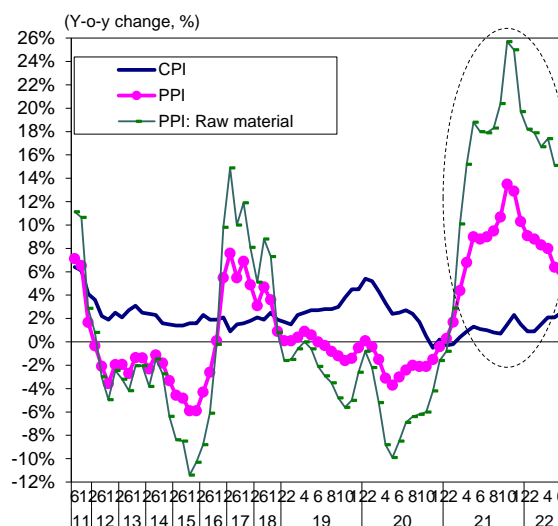
Exports to all major regions (apart from Europe) accelerated, while imports from all major regions slowed (Figs. 13 and 14).

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

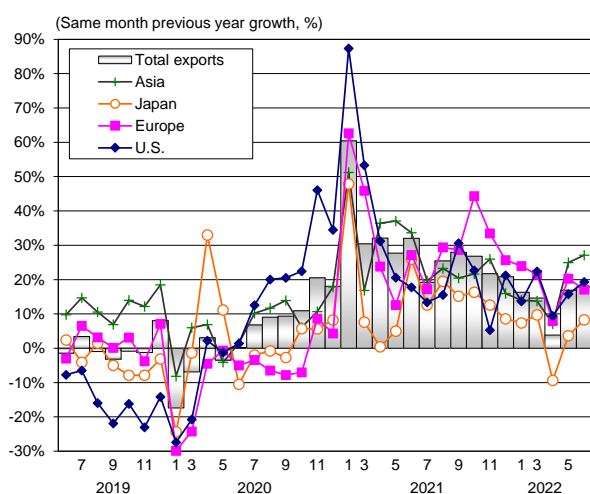


Note: The data from June 2011 to 2018 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Speaking about trade trends at a press conference on July 14, Ministry of Commerce (MOFCOM) spokesperson Shu Jueting said “First, trade figures hit record highs. Total imports and exports amounted to RMB 19.8 trillion, up 9.4% on the large base in the same period last year. To break this down, total imports and exports as well as total exports alone hit monthly record highs in June. Second, the structure and quality improved. China’s exports to emerging markets accounted for 51.8%, up 2 percentage points compared with the same period last year. The imports and exports of private enterprises increased by 13.6% and accounted for 49.6% of the total, up 1.9 percentage points. The competitiveness of a number of high-tech, high-value-added products leading green transformation continued to increase. Third, foreign trade made greater contribution to the national economy. In the first half of this year, net goods export registered RMB 2.48 trillion, a year-on-year increase of 57.5%, giving a strong boost to GDP growth... The number of importers and exporters reached 506,000, a year-on-year increase of 5.5%. Foreign trade played a bigger role in...promoting employment stability and ensuring people’s livelihood.¹³”

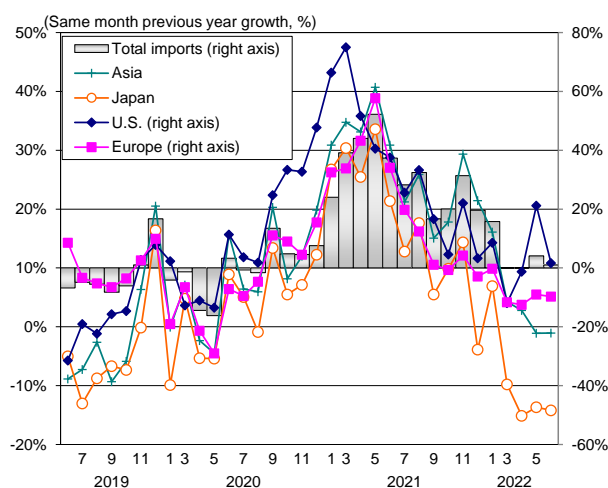
¹³ The Ministry of Commerce, July 14, 2022, “商务部召开例行新闻发布会 (Ministry of Commerce Holds a Regular Press Conference)” <http://www.mofcom.gov.cn/xwfbh/20220714.shtml>

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

▪ CPI growth accelerated while PPI growth slowed

At +2.5%, CPI (Consumer Price Index) growth accelerated in June (June: +2.1%) to hit its highest level since July 2020. Average growth for 1H stood at +1.7%, below the +3.0% target set by the National People’s Congress for 2022. The m-o-m data picked up from -0.2% in May to ±0.0% (Fig. 12). The breakdown shows food prices rising at a faster pace at +2.9% (May: +2.3%). At -6.0%, pork prices¹⁴ underwent a single-digit contraction in June (compared to -21.1% in May) as “some pork farmers held off selling and consumer demand grew as pandemic conditions eased” (NBS), though vegetable price inflation slowed from +11.6% to +3.7%.

At +2.5%, non-food prices grew at a faster pace in June (May: +2.1%) as “gasoline prices increased by +33.4% and diesel by 26.3% on rising global crude oil prices, while the price of air tickets rose by +28.1% on a revival in services consumption” (NBS). At +1.0%, the core CPI figure (excluding energy and food) slowed slightly (May: +0.9%) (Figs. 15 and 16)¹⁵.

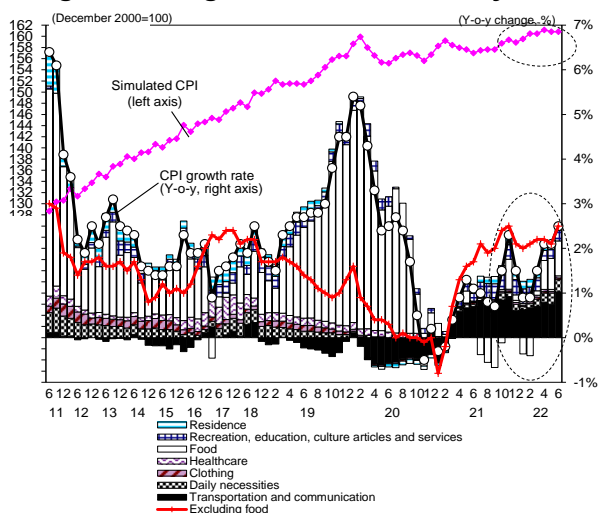
At +6.1%, Producer Price Index (PPI) growth slowed in June (May: +6.4%), with growth undergoing a m-o-m slide for eight straight months after peaking out at +13.5% in October 2021 (Fig. 12). The breakdown shows the price of producer goods slowing from +8.1% in May to +7.5% in June. Prices grew at a slower clip when it came to mining (from +29.7% to +27.3%) and processing (from +3.2% to +2.4%). However, prices grew at a faster pace when it came to raw materials (from +15.1% to +15.2%) and consumer goods (from +1.2% to +1.7%). Speaking

¹⁴ 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%) and 52.96 million tons in 2021 (+28.8%).

¹⁵ NBS, July 9, 2022, “Consumer Prices for June 2022”
http://www.stats.gov.cn/english/PressRelease/202207/t20220712_1886329.html

about the m-o-m change in the PPI data, the NBS explained¹⁶ that “fluctuations in global crude oil prices has pushed up related costs within China (the extraction of petroleum and natural gas (+7.0%) and the processing of petroleum, coking and other fuels (+3.6%)), while the mining and washing of coal sector saw prices rising by +0.8% on increased demand for electricity over summer.” With investment growth slowing, though, “demand for steel and cement, etc. was sluggish, with the manufacture and processing of ferrous metals sector (-3.1%) and the manufacture of non-metallic mineral products sector (-1.5%) seeing m-o-m falls.”

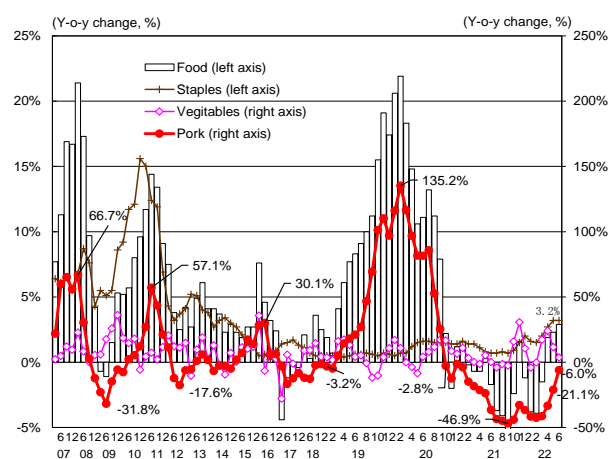
Fig. 15: CPI; growth contribution by item



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 2018 only shows the quarterly (March, June, September and December) figures.

Source: NBS, CEIC

Fig. 16: Food prices



Note: The data until 2018 only shows the quarterly (March, June, September and December) figures.

Source: NBS, CEIC

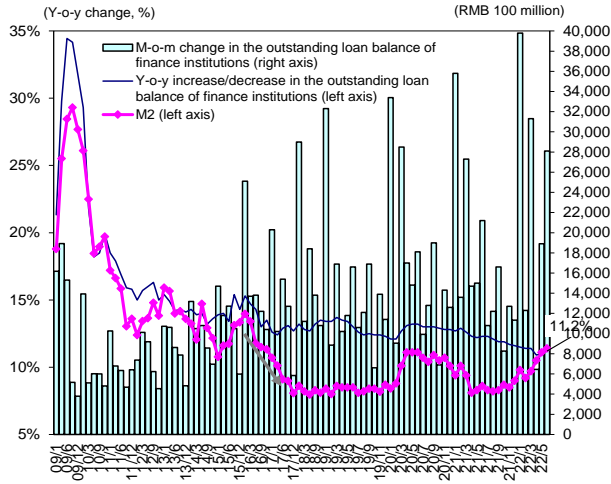
▪ **New bank loans increased and total social financing expanded sharply**

According to the PBC, M2 money supply growth hit +11.4% in June, up on May’s figure of +11.1%. New bank loans increased by a net RMB 2,810.0 billion, up on May’s figure of RMB 1,890.0 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, rose to a net RMB 5,173.3 billion in June, up on May’s figure of RMB 2,835.8 billion. A glance at the details reveals that RMB loans, corporate bonds, government bonds, non-financial-institution equity issuances and loan repayments grew at a faster pace, while banker’s acceptances began growing again. Deposit-taking financial institution ABS contracted at a slightly slower pace, while foreign currency loans, entrusted loans and trust loans contracted at a faster pace (Fig. 18).

¹⁶ “国家统计局城市司高级统计师董莉娟解读 2022 年 6 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the June 2022 CPI and PPI Data)”

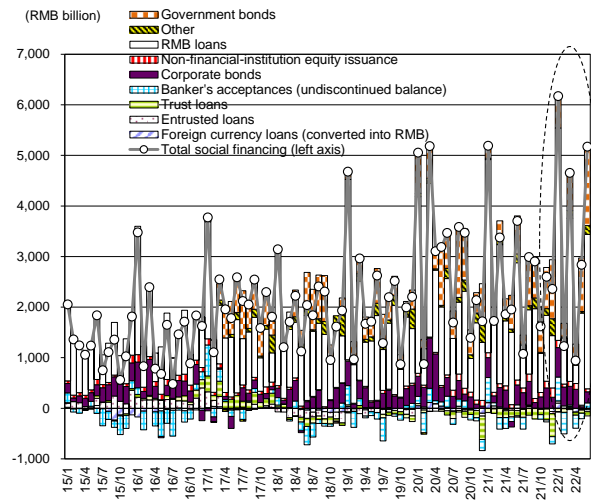
http://www.stats.gov.cn/tjsj/sjjd/202207/t20220709_1886257.html

Fig. 17: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2018. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBC, CEIC

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

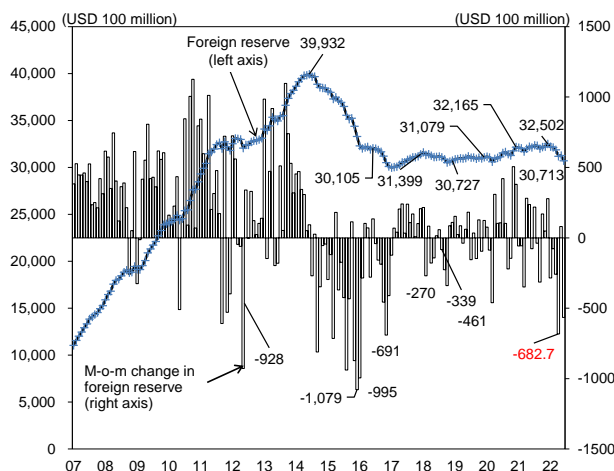


Source: PBC, CEIC

Foreign exchange reserves stood at \$3,071.27 billion at the end of June, down \$56.51 billion on the end of May (\$3,127.78 billion) and \$142.74 billion on the end of 2021 (Fig. 19). SAFE Deputy Administrator and Press Spokesperson Wang Chunying explained¹⁷ that “in the international financial market, influenced by the monetary policies and inflation expectations of major countries, global economic growth prospects, and other factors, the US dollar index rose significantly, and the financial asset prices of major countries fell sharply. Denominated in the US dollar, China’s foreign exchange reserves declined this month due to the combined effects of non-US dollar currency translation decrease and asset price changes.”

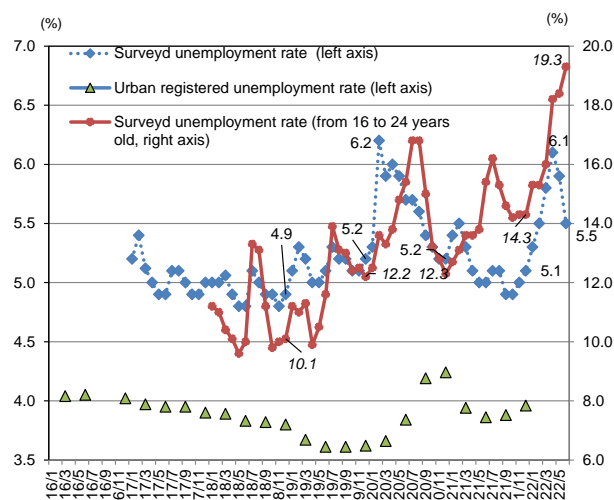
¹⁷ NBS, July 7, 2022, “国家外汇管理局副局长、新闻发言人王春英就 2022 年 6 月份外汇储备规模变动情况答记者问 (SAFE Deputy Administrator and Press Spokesperson Wang Chunying Answers Media Questions on Changes in Foreign Exchange Reserves for June 2022) <https://www.safe.gov.cn/safe/2022/0707/21176.html>

Fig. 19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 to 2021, and the latest monthly figure.
Source: PBC, CEIC

Fig. 20: The surveyed unemployment rate



Note: The figures within the graph denote the end-of-month data for 2018–2021 and the latest month and the highest figure as of the time of publication.
Source: NBS, CEIC

2. The Policy Response: Topic – The authorities are viewing further economic policies with caution given inflationary concerns and falling revenues

• China will not be “introducing super large-scale stimulus measures... or sacrificing future interests for the sake of excessive growth targets” (Premier Li Keqiang)

Though some economic indicators improved in June compared to May, the employment and earnings environment remains weak (Figs. 4, 20 and 21)¹⁸, with consumer and investor sentiments continuing to be weighed down by frequent Covid-19 outbreaks and lockdown risks. When asked at a July 15 press conference about the possibility of hitting the +5.5% real GDP growth target, NBS spokesperson Fu Linghui said it would be difficult to hit the target given how China continued to face three difficulties: the growing risk of global economic stagflation, an increase in external instability and uncertainty, and domestic demand contractions, supply shocks and bearish forecasts¹⁹.

In response to this, the authorities will probably continue to push forward with existing policies rather than introducing any new fiscal or monetary measures. At the World Economic Forum (WEF) Special Virtual Dialogue with Global Business Leaders on July 19, Premier Li Keqiang spoke²⁰ about how “keeping major economic indicators within an appropriate range is mainly supported by stable employment and prices,” thus indicating that he was not overly concerned with hitting the +5.5% target. The Premier also spoke about the relation between

¹⁸ The surveyed unemployment rate at the end of June improved to 5.5% (compared to 5.8% at the end of May), though rate for people aged 16–24 had risen from 18.4% at the end of May to 19.3%

¹⁹ NBS, July 15, 2022, “国家统计局新闻发言人就 2022 年上半年国民经济运行情况答记者问 (An NBS Spokesperson Answers Journalist Questions about Economic Performance from January to June, 2022)”

http://www.stats.gov.cn/tjsj/sjjd/202207/t20220715_1886475.html

²⁰ People’s Daily, July 21, 2022 “李克强出席世界经济论坛全球企业家特别对话会 (Premier Li Keqiang Attends the World Economic Forum Special Virtual Dialogue with Global Business Leaders)”

http://paper.people.com.cn/rmrb/html/2022-05/24/nw.D110000renmrb_20220524_4-01.htm

economic policy and price movements, saying “since 2020, the policies we have implemented in response to major shocks such as the Covid-19 pandemic are reasonable in scale, without ‘flooding’ the economy with mass stimulus policies, and create conditions for preventing inflation.”

He also ruled out any further economic stimulus, saying China would not be “introducing super large-scale stimulus measures, excessive money supply, or sacrificing future interests for the sake of excessive growth targets.”

▪ The authorities are monitoring prices, interest-rate differentials and fiscal trends

Inflation, interest-rate differentials and fiscal trends lie behind the prudent stance of the authorities with regards to new economic policies. Chinese prices are moving stably compared to developed nations with surging inflation, but recent comments by officials suggest the authorities are paying more attention to price movements when making policy decisions. When asked about currency policy over 2H (July–December) during a press conference on July 13²¹, Zou Lan, director general of the PBC Financial Market Department, said the PBC would “comprehensively consider economic growth, price conditions, and other fundamentals, rationally match monetary policy tools, maintain reasonably ample liquidity, further promote financial institutions to reduce corporate financing costs, and create a suitable monetary and financial environment for consolidating economic recovery.” The director general had not spoken about “price conditions” at his press conference in March. He also said “we paid great attention to the accelerated tightening of the monetary policy in major economies. We have taken forward-looking measures such as adjusting the foreign exchange deposit reserve ratio and strengthening macro-prudential regulation of cross-border capital flows in the early stage, reducing the negative spillover impact caused by changes in the external environment to a certain extent.” This suggests the authorities are also wary of capital outflows as the gap grows between Chinese interest rates and those of other major nations.

Fiscal revenue fell by 10.2% to RMB 10,522.1 billion over 1H²². This was partially due to a sharp increase in value-added tax refunds to companies hit by the spread of Covid-19.

▪ “The vast majority of small and medium-sized banks are within the safe boundary” (PBC)

During the aforementioned PBC press conference about the 1H financial data, Sun Tianqi, director general of the PBC Financial Stability Bureau, was asked about people having difficulties withdrawing money in Henan and

²¹ The State Council Information Office, July 13, 2022, 国新办举行上半年金融统计数据情况新闻发布会 (State Council Information Office Holds a Press Conference Regarding 2022 1H financial statistics)”

<http://www.scio.gov.cn/xwfbh/xwfbh/wqfbh/47673/48511/wz48513/Document/1727004/1727004.htm>

Sun Guofeng, then-director general of the PBC Financial Market Department, did not mention prices in response to a question at the same press conference in April. Specifically, he said the authorities would “employ when necessary appropriate monetary policy tools such as required reserve ratio (RRR) cuts, and further strengthen the financial sector’s support for the real economy, especially for industries, micro, small and medium-sized enterprises (MSMEs) and self-employed businesses severely affected by the Covid-19. The financial system will reasonably forgo its profits in favor of the real economy and reduce the overall financing costs.”

Financial News, April 15, 2022, “2022 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/202204/t20220415_244111.html

²² National general public budget revenues grew by +3.3% over 1H when tax refunds are removed from the equation.

The Ministry of Finance, July 15, 2022, “上半年全国一般公共预算收入增长 3.3%——财政收入企稳回升 留抵退税效应显现 (National General Public Budget Revenues Grew by +3.3% Over 1H; Fiscal Revenues are Recovering Stably; Revenues Were Impacted by Tax Refunds)”

http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/jjrb/202207/t20220715_3827195.htm

so on²³. In response, he said that 99% of bank assets were safe, with only 316 financial institutions found to be high risk when the PBC surveyed 4,398 institutions at the end of 2021. He added that these high-risk institutions “accounted for 7% of the participating banks but only 1% of the total assets. That is to say, the vast majority of small and medium-sized banks are within the safe boundary in the central bank’s credit ratings.”

With regards to the incident with the village banks in Henan, the local financial authorities have announced²⁴ they will be advancing payments to depositors and they look set to replenish the capital of troubled financial institutions through special government bonds²⁵, with the impact on the overall financial system likely to be muted.

Bank non-performing loans (NPL) had risen to RMB 2.95 trillion as of the end of June, but with lending also expanding, the rate remains low at 1.67% (Fig. 22).

Another problem facing the financial industry is the recent news about “the refusal to repay housing loans.” Amid signs the scale and impact of this issue could grow from here on, the authorities are strengthened their guidance regarding the promotion of lending to ensure projects are completed, for example²⁶.

²³ Same as footnote 21. Director General Sun Tianqi’s reply at 15:44: Of the 4,398 participating banks, “4,082, or 93%, were rated at levels of 1-7 and within the safe boundary, making up 99% of total assets of the participants. Among them, 24 large banks have always kept their ratings within the excellent and good levels of 1-5, with their assets accounting for 70% of the total and serving as the ballast of the entire financial industry.” He also said that the authorities would “strive to reduce the number of high-risk financial institutions nationwide to fewer than 200 by the end of the 14th Five-Year Plan period (end of 2025)” (16:08).

²⁴ The Local Financial Supervision and Administration Bureau of Henan Province, July 11, 2022 “河南银保监局 河南省地方金融监管局公告 (第 1 号)”, July 21, 2022, “河南银保监局 河南省地方金融监管局公告 (第 2 号)” announced that payments would be advanced to customers of the provinces four village banks of Yuzhou Xin Minsheng, Shangcai Huimin, Zhecheng Huanghuai, and Kaifeng Xin Dongfang, with customers with deposits of up to RMB 50,000 set to receive payments by July 15 under Notification No. 1 and customers with deposits of up to RMB 100,000 set to receive payments by July 25 under Notification No. 2.

<https://jr.henan.gov.cn/2022/07-11/2485267.html> <https://jr.henan.gov.cn/2022/07-21/2490891.html>

²⁵ Financial News, July 7, 2022 “银保监会：上半年向河南等四省（市）分配 1030 亿元专项债额度补充中小银行资本 (China Banking and Insurance Regulatory Commission: “RMB 103 Billion of Special Bonds Granted in 1H to Replenish the Capital of SMEs in Four Provinces (Cities), Including Henan.” In 1H, a combined quota of special-purpose local government bonds worth RMB 103 billion was granted to Liaoning, Gansu and Henan provinces and the city of Dalian. The authorities have also recently approved plans by some regions to issue special bonds, with RMB 320 billion set to be apportioned by the end of August.

https://www.financialnews.com.cn/jg/dt/202207/t20220718_251452.html

²⁶ China Banking and Insurance Regulatory Commission, July 21, 2022 “银保监会国新办新闻发布会问答实录 (CBIRC Holds Media Conference at the State Council Information Office)”: See statements by Liu Zhongrui, deputy head of the Statistics, IT & Risk Surveillance Department of the China Banking and Insurance Regulatory Commission (15:59, 16:26).

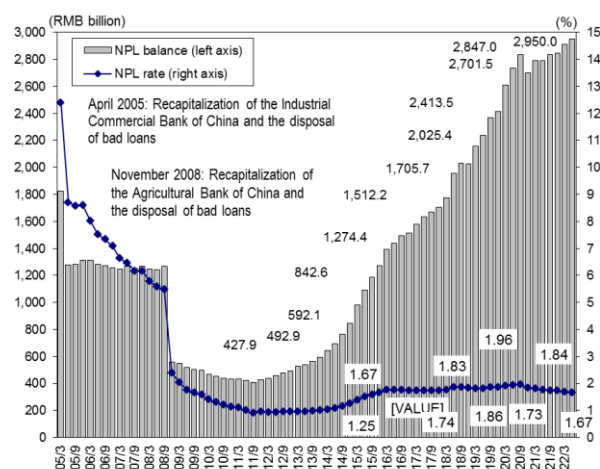
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1062920&itemId=915>

Fig. 21: Saving, investment and home purchase intentions of urban residents



Source: PBC Survey on Urban Household Savings, CEIC

Fig. 22: Commercial bank NPLs



Note: The numbers in the graph show figures from the end of 2014–21, September 2020, and June 2022.
Source: China Banking and Insurance Regulatory Commission, CEIC

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