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—The macroeconomy—

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Summary

At +6.7%, real GDP growth rate in April–June was down slightly on the previous quarter (+6.8%), though it remained above the government's target for 2018 of 'around +6.5%.' June saw some economic indicators rising and some falling compared to May. Economic stimulus could be introduced amid ongoing structural adjustment/reform and concerns about US/China trade frictions.

1. June saw some economic indicators rising and some falling compared to May

- **Growth slowed slightly to hit +6.7% over April–June**
- **Production slowed, but investment and consumption accelerated**
- **The sales prices of residential buildings fell at a slightly slower pace in first-tier cities, with prices growing at a faster pace in second-tier cities**
- **The trade surplus shrank on import growth**
- **The CPI and PPI data both grew at a slightly faster pace**
- **Net new bank loans increased, while total social financing also grew**
- **Foreign direct investment is growing again**

2. The policy response: Measures to support the economy are being pursued alongside measures to curtail risk and promote structural adjustment

- **The required reserve ratio was lowered, following on from a similar move in April**
- **The FSDC discussed a three-year action plan to defuse risk**
- **Economic stimulus could be introduced amid ongoing structural adjustment and reform**

1. June saw some economic indicators rising and some falling compared to May

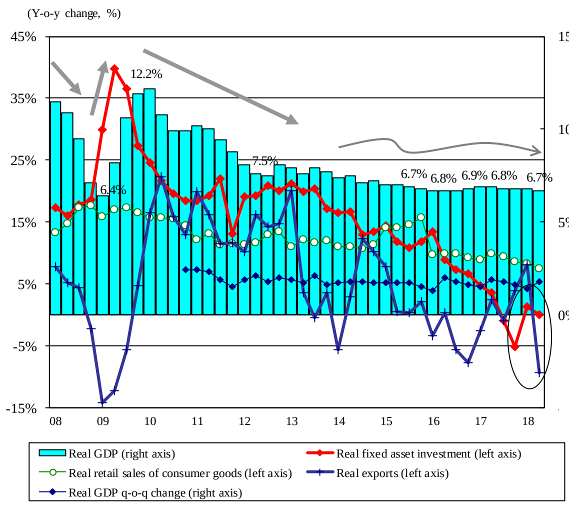
・Growth slowed slightly to hit +6.7% over April–June

On July 16, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate in January–June was up +6.8% on the same period last year (from here on, all figures refer to 'same-period previous-year' growth unless otherwise specified)[1]. At +6.7%, growth in April–June was down slightly on the previous quarter (+6.8%), though it remained above the government's target for 2018 of 'around +6.5%.' Growth was up +1.8% on the previous quarter (Fig. 1).

A glance at contribution levels by demand item over January–June shows the contribution of gross capital formation rising to +2.14%Pt (January–March: +2.13%Pt), while the contribution of final consumption expenditure also rose to +5.34% Pt (January–March: +5.29% Pt). This compensated for a slide in the contribution of net exports (from -0.62%Pt in January–March to -0.67%Pt) (Fig. 2).

A breakdown by sector shows the tertiary industry growing by +7.6% over April–June, down on 2016's figure of +7.7% and 2017's figure of +8.0%. However, the secondary industry grew by +6.1%, unchanged on 2017's figure of +6.1% (Fig. 3).

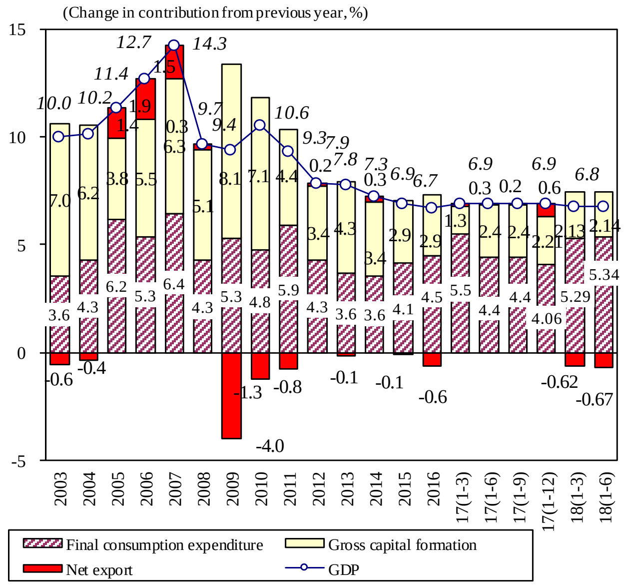
Fig. 1: GDP and major economic indicators (quarterly)



Note: The real RMB value of exports is indexed using the producer price index (PPI) ; the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI) .

Source: National Bureau of Statistics of China, CEIC

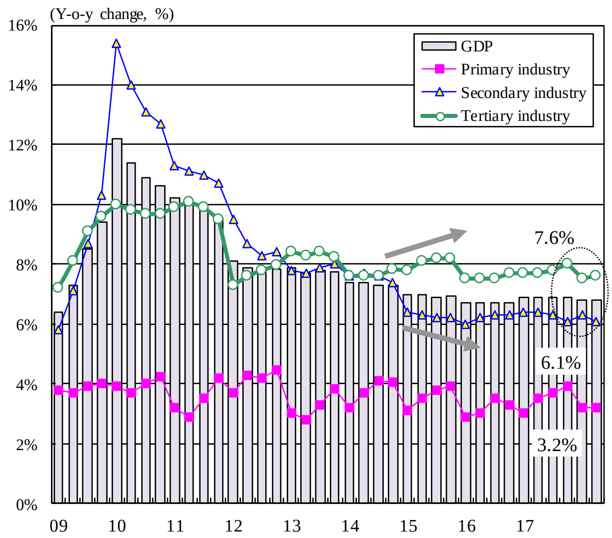
Fig. 2: Breakdown of GDP by demand item



Source: National Bureau of Statistics of China, CEIC

[1] National Bureau of Statistics of China, July 16, 2018, "上半年国民经济总体平稳、稳中向好 *(The Chinese Economy Headed Toward Recovery While Moving Calmly and Stably Overall Over 1H)"*
http://www.stats.gov.cn/tjsj/zxfb/201807/t20180716_1609850.html

Fig. 3: GDP by sector



Note: The figures denote the most recent period.

Source: National Bureau of Statistics of China, CEIC

・Production slowed, but investment and consumption accelerated

June saw some economic indicators rising and some falling compared to May. At +6.0%, value-added industrial production in June was down on May's +6.8% (the m-o-m figure was +0.4%) (Fig. 4). When commenting on production trends in January–June, an NBS spokesperson said growth in sectors like hi-tech (+11.6%), equipment manufacturing (+9.2%) and strategic emerging industries (+8.7%) was up on total value-added industrial production growth (+6.7%), a trend that reflected structural transitioning and technological improvements[2].

At 5.7%[3], nominal fixed asset investment in June was up on May's +3.9% (the m-o-m figure was +0.5%). At +6.0%, though, the cumulative figure for January–June was down on 2016's +8.1% and 2017's +7.2% (Fig. 5). With regards to fixed asset investment trends over January–June, the NBS explained that: (1) manufacturing investment had recovered and the proportion of hi-tech manufacturing had risen; (2) investment had increased when it came to environmental protection and sectors related to consumption upgrading (including education, sanitation, physical training, entertainment, and the internet); (3) private-sector investment grew sustainably; (4) investment had improved slightly in the north-east region (Liaoning Province: +12.1%)[4].

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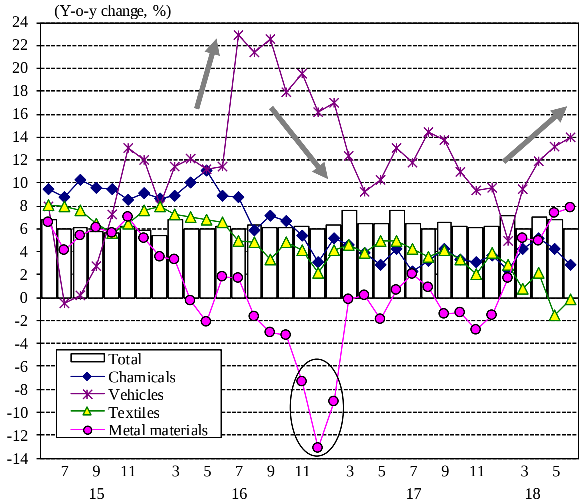
[2] National Bureau of Statistics of China, July 16, 2018, "国家统计局新闻发言人就 2018 年上半年国民经济运行情况答记者问 *(An NBS Spokesperson Answers Journalist Questions about Economic Performance in 1H, 2018)*" http://www.stats.gov.cn/tjsj/sjjd/201807/t20180716_1609974.html

[3] Calculated by the author from the cumulative data. The cumulative figure for January-June was +6.0%.

[4] National Bureau of Statistics of China, July 17, 2018, "赵培亚：投资继续保持增长 投资结构不断改善 *(Zhao Peiya: Investment Saw Sustained Growth, While the Investment Structure Continued to Improve)*" Zhao Peiya is an inspector with Department of Investment of the NBS. http://www.stats.gov.cn/tjsj/sjjd/201807/t20180717_1610384.html

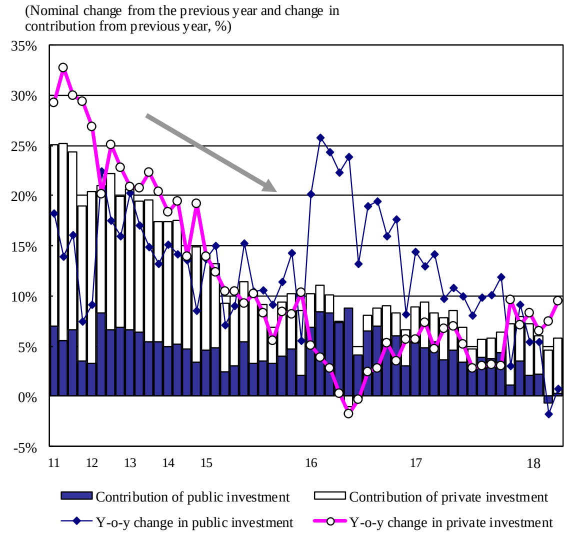
Fig. 4: Value-added industrial production



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

Source: CEIC

Fig. 5: Fixed asset investment



Note: Public investment: Investment by SOEs, etc.
Private investment: Total – public investment
The data shows figures for March, June, September and December up until the end of 2014.

Source: National Bureau of Statistics of China, CEIC

Nominal retail sales of consumer goods grew by +9.0% in June. This was up on May's figure of +8.5%, with the real figure (discounting inflationary factors) also hitting +7.0%, up on May's +6.8% (the m-o-m figure was +0.7%) (Fig. 7). Internet retail sales of goods and services grew by +29.8% to hit RMB 4,081 billion in January–June (goods: RMB 3,127.7 billion; services: RMB 953.3 billion), with net shopping accounting for 22.7% of total retail sales of consumer goods (RMB 18,001.8 billion)[5].

When it came to consumer spending fluctuations over May and June, Mao Shengyong explained that with China set to cut automobile tariffs on July 1, car sales had slowed over May and June. The NBS spokesperson added that once this factor was removed from the equation, consumer spending had grown by around +10% in May (not +8.5%) and by close to 11% in June (not 9%)[6].

Sales of new vehicles hit 2.2740 million in June (+4.7%), down on May's figure of 2.2877 million (+9.1%) (Fig. 8) . At 14.0633 million (+5.3%), the cumulative data for January–June was down on the pace of growth in both 2016 (27.939 million and +13.7%) and 2017 (28.941 million and +3.6%). This was probably because the tax break on purchases of small vehicles (instituted in October 2015) had terminated at the end of 2017[7], with consumers also

[5] National Bureau of Statistics of China, July 16, 2018 "国家统计局贸易外经司高级统计师卢山解读 2018 年 5 月份社会消费品零售总额数据 *(Lushan, Senior Statistician in Trade and External Economic Relations at the NBS, Deciphers the Retail Sales of Social Consumer Goods Data for May 2018)"*
http://www.stats.gov.cn/tjsj/sjjd/201806/t20180614_1604650.html
Furthermore, net shopping's share of total retail sales of consumer goods and services rose from 12.9% in 2015 to 15.5% in 2016 and 19.6% in 2017.

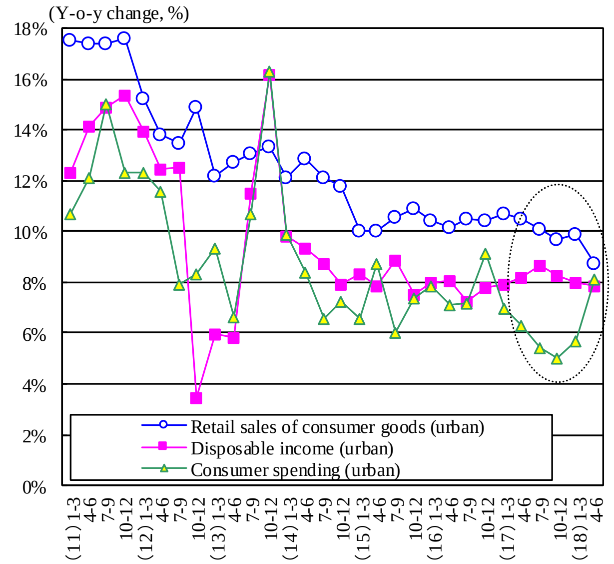
[6] Same as footnote 2.

[7] 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%, so the size of the cut (compared to the normal tax rate of 10%) will be halved in 2017 (2.5%). Ministry of Finance: "关于减征 1.6 升及以下排量乘用车车辆购置税的通知 *(Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)*"
http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html
On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016.

holding back from new purchases until the aforementioned tariff cut came into force.

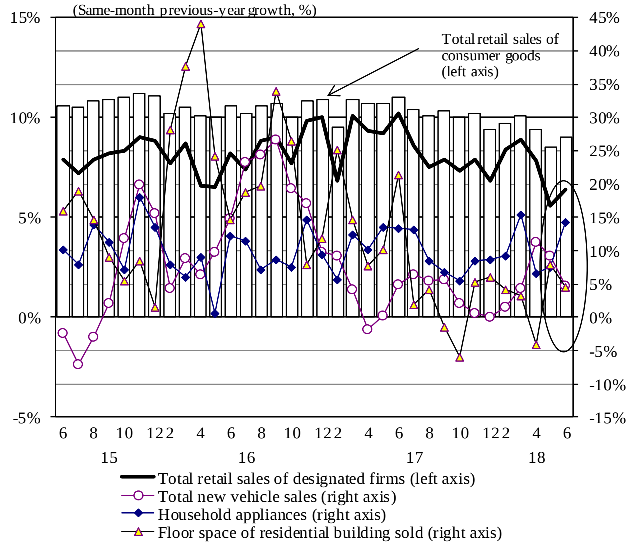
Though fixed asset investment growth has slowed, the employment and wages environment remain healthy overall, with household surveys moving steadily (Fig. 6), for example, so consumer spending looks set to move firmly from here on.

Fig. 6: A comparison of (urban) retail and wage statistics



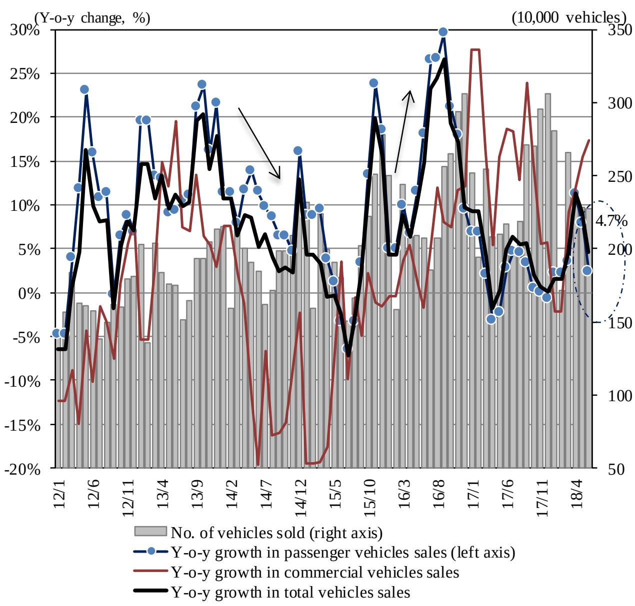
Source: CEIC

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 companies; February = the cumulative results for January–February.
Source: CEIC

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



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

http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html

・The sales prices of residential buildings fell at a slightly slower pace in first-tier cities, with prices growing at a faster pace in second-tier cities

The floor space of residential buildings sold grew by +3.3% (771.43 million m^2) in January–June. Though this was down on 2016's figure of +22.5% and 2017's figure of +7.7%, it marked an acceleration on January–May (+2.9%). 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 (PBOC) 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 2016[8] subsequently spread to other cities with surging house prices[9], with the restrictions being tightened further thereafter[10].

In June, 61 cities saw the price of new homes rising on the previous year, down from 62 cities in May. At -0.02%, prices in first-tier cities underwent y-o-y falls for the sixth straight month. This was a slightly slower pace of decline than May's figure of -0.62%, though, while prices in second-tier cities grew by +6.96%, up on May's figure of +5.41%. At +6.01%, prices in third-tier cities grew at a slightly faster pace than in May (+5.99%) (Fig. 9)[11].

On a monthly basis, 63 of the 70 cities surveyed saw the price of new homes rising, up from 61 in May. Three cities saw prices moving flatly on the previous month (up from two in May), while four cities saw prices falling on the previous month (down from seven in May) (Fig. 10)[12].

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[8] 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.

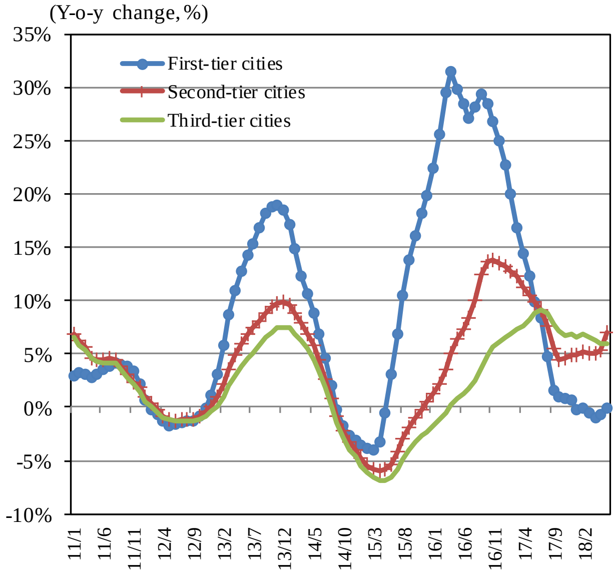
[9] Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. Source: Economic Information Daily, July 14, 2016 "房地产现严重分化 因城施策将是下半年楼市政策主线 (*China's acute property price bifurcation problem: Metropolitan real-estate measures in 2H influenced by the regional policies*)"
http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm
According to an article in the 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

[10] According to an article in the 21st Century Business Herald on March 20, 2017, entitled "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
According to an article in the Financial Times on June 13, 2018 entitled "严守"房住不炒"主基调 前 5 个月各地楼市调控达 159 次 (*'Real Estate is for Habitation, not Speculation,' Warn Authorities*)," 159 real estate control policies had been implemented over January–May 2018, up +60% on the same period in 2017.
http://www.financialnews.com.cn/cj/fdc/201806/t20180613_140111.html

[11] Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Chengdu+22.3%, Haikou+17.1%, Dandong+14.9% (as of June 2018).

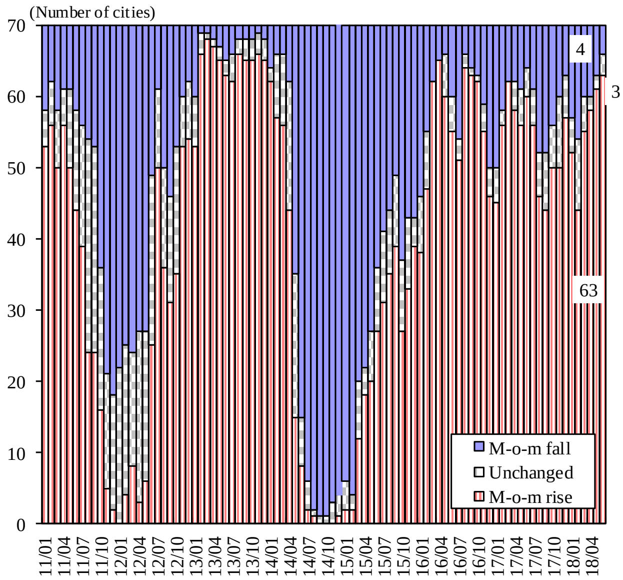
[12] National Bureau of Statistics of China, July 17, 2018, "2018 年 6 月份 70 个大中城市商品住宅销售价格变动情况 *(Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in June 2018)*"
http://www.stats.gov.cn/tjsj/zxfb/201807/t20180717_1610168.html From January 2018 the data no longer includes the sales 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: National Bureau of Statistics of China, CEIC

・The trade surplus shrank on import growth

Exports rose by +11.2% in June ($216.74 billion), while imports rose by +14.1% ($175.13 billion), with China posting a trade surplus of +$41.61 billion. Exports rose by +11.9% and imports by +20.5% over April–June, so the trade surplus dipped by -20.5% to hit $93.38 billion, with the surplus falling on a y-o-y basis for the 10th straight quarter (Figs. 11, 13 and 14).

The Ministry of Commerce explained that export items were growing more sophisticated, with exports of mechanical and electrical products increasing by +7.0% over January–June to account for 58.6% of total exports, while exports of traditional labor-intensive items (such as textile garments) dipped by -4.1%. The Ministry added that imports of mechanical and electrical products had also increased by +11.4% over the same period (with imports of metal processing machinery and metal machine tools increasing by +28.0%, integrated circuits by +22.7%, and computers by +17.7%)[13].

With trade frictions between China and the US set to intensify on July 6 with the imposition of new tariffs[14],

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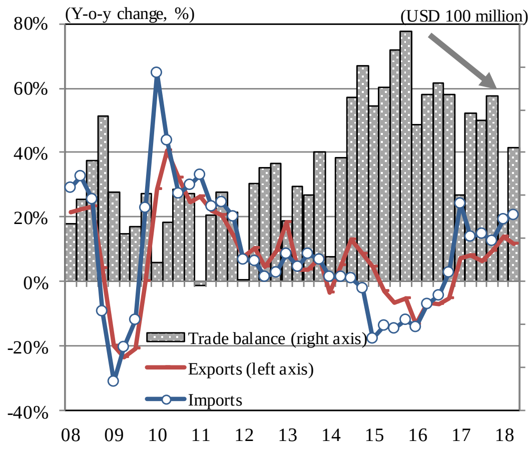
[13] Website of the Ministry of Commerce, "商务部外贸司负责人谈 2018 年上半年我国外贸运行情况 (*Official from the Department of Foreign Trade Comments on China's Foreign Trade in 1H 2018*)." Trade trends by item are RMB denominated.
http://www.mofcom.gov.cn/article/ae/ag/201807/20180702766959.shtml

[14] In June, the US decided to impose a new 25% tariff on 1,102 Chinese import products worth around $50 billion annually. The tariffs imposed on July 6 cover import items worth around $34 billion, including telecommunication satellites, industrial robots, automobiles and aircraft. The remaining tariffs (covering 284 items worth $16 billion) will be implemented over July and August after consultations with industry. On July 6, China struck back by slapping a 25% tariff on 818 US import items (also worth around $34 billion and including soy beans, beef and automobiles). On July 10, the US then announced it would implement a new punitive measure in September too. This would place a new 10% tariff on Chinese imports worth an annual $200 billion. This measure could hit up to 6,031 items, including TVs, furniture, handbags and agricultural products (such as leaf tobacco and eels). (Kyodo News).

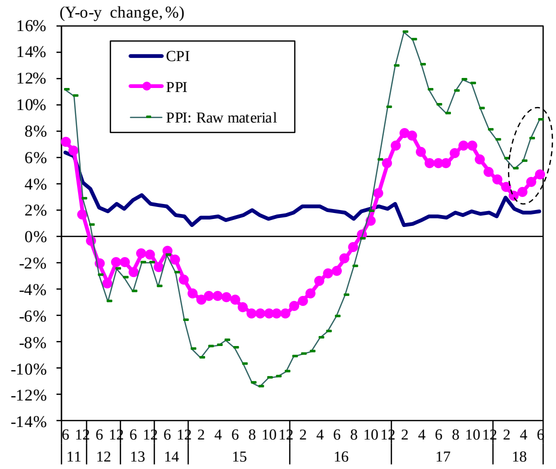
exports to the US had surged from April onwards as exporters sought to mitigate the impact of the upcoming tariffs. Amid reports about a slump in export orders for July and August, it is hard to predict how the export situation will develop from July onwards. At the same time, the authorities have pledged to import more goods, while Chinese demand for imports remains strong, so some observers believe China's surplus could shrink or even change to a deficit going forward.

Fig. 11: Imports/exports; trade balance



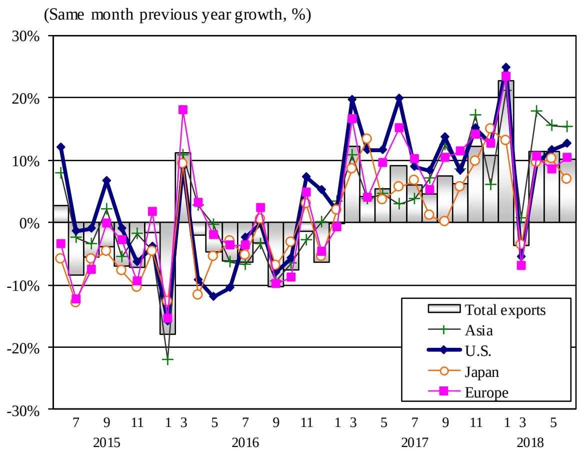
Source: China Customs Statistics

Fig. 12: CPI, PPI



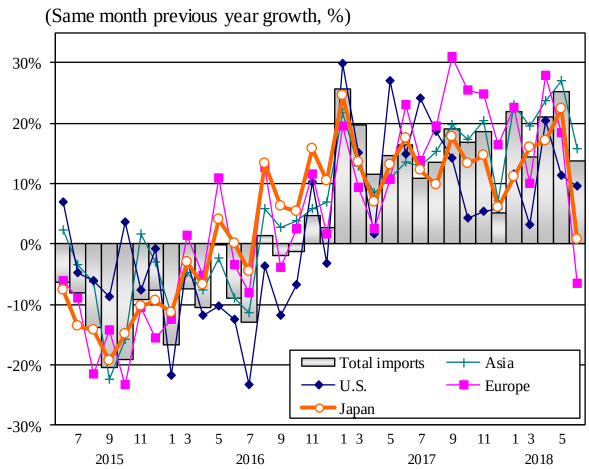
Note: The data from June 2011 to 2014 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

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 and PPI data both grew at a slightly faster pace

In June, CPI (Consumer Price Index) growth hit +1.9%. This was up slightly on May's figure of +1.8% but below

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21st Century Business Herald, July 16, 2018 "上半年外贸增长 7.9% 贸易摩擦临近 企业"抢出口 *(Trade grew by +7.9% over 1H, with firms accelerating exports as a US/China trade war draws closer)"*
http://epaper.21jingji.com/html/2018-07/16/content_90193.htm

the government's target of +3.0% (Fig. 12). At -0.1% m-o-m, CPI growth remained in negative territories on a monthly basis, though less so compared to May (-0.2%). A breakdown of the CPI data shows food price inflation accelerating from +0.1% in May to +0.3% in June, with pork price inflation contracting at a slower pace (from -16.7% in May to -12.8% in June). At +9.3%, though, the price of vegetables grew at a slower pace compared to May (+10.0%). (Figs. 15 and 16). The impact of the pork cycle[15] waned since a peak in May 2016, though it bounced back after bottoming out in June 2017. Pork output rose by +0.8% to hit 53.40 million tons in 2017 and by a further +1.4% to hit 26.14 million tons in January–June 2018, with production growing again after two consecutive years of negative growth in 2015 and 2016, for example, and recent pork prices continuing to dip on a y-o-y basis. At +2.2%, non-food price rises in June moved at the same level as the previous month (+2.2%).

In June, PPI (Producer Price Index) growth accelerated to +4.4% (May: +4.1%) (Fig. 12). According to the NBS[16], a y-o-y comparison for June showed prices rising at a faster pace when it came to sectors like the extraction of petroleum and natural gas, the processing of petroleum, coking and other fuels, the manufacture and processing of ferrous metals, the manufacture and processing of non-ferrous metals, the manufacture of chemical raw materials and chemical products, and the mining and washing of coal, with these six sectors contributing +0.49%Pt to the PPI growth rate. The NBS added that prices had grown at a slower pace when it came to the paper and paper products sector (down 0.5%Pt to hit +11.3%).

When asked about the impact of US/China trade frictions on prices, Mao Shengyong said imports of soy beans and other related products (soybean meal, pork, eggs and cooking oil) could become more expensive. However, the NBS spokesperson also pointed to the small weight of soy-related products in the CPI data and he added that the prices of other food (such as grains and meat) were moving stably, with the CPI set to continue rising at a gentle pace going forward[17].

Fig. 15: CPI; Growth contribution by item

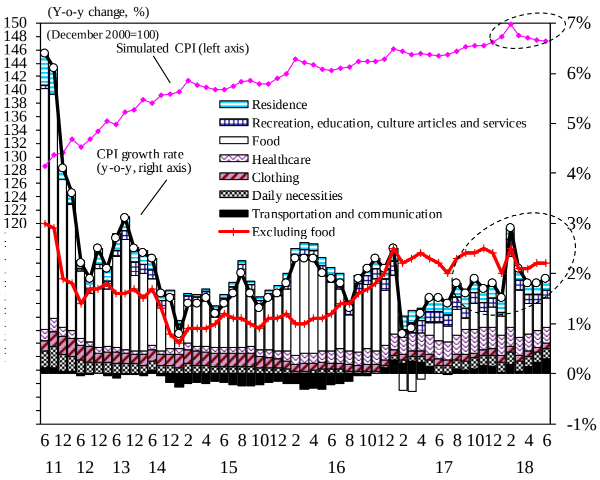
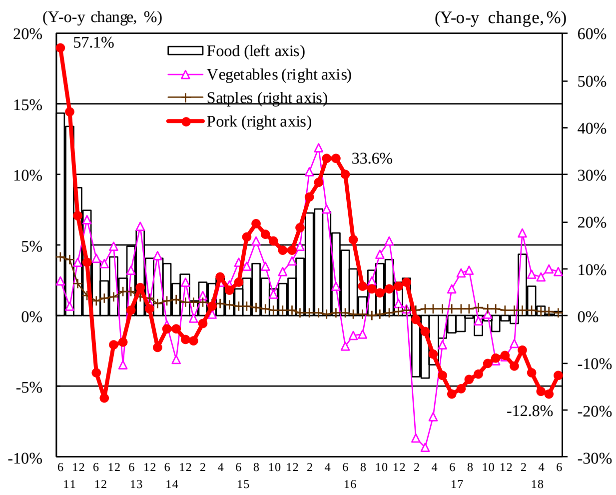


Fig. 16: Food prices



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[15] This is 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.

[16] National Bureau of Statistics of China, July 10, 2018 "国家统计局城市司高级统计师绳国庆解读 2018 年 6 月份 CPI 和 PPI 数据 *(NBS senior statistician Sheng Guoqing Deciphers the CPI and PPI Date for June 2018)*"
http://www.stats.gov.cn/tjsj/sjjd/201807/t20180710_1608907.html

[17] Same as footnote 2.

Note: The contribution rate by item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by Mizuho Bank (China) based on the m-o-m growth rate for each month, with December 2000 as the base month. The data from June 2011 to 2014 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

Note: The data from July 2011 to 2014 only shows the quarterly (March, June, September and December) figures.
Source: National Bureau of Statistics of China, CEIC

・Net new bank loans increased, while total social financing also grew

According to the PBOC, M2 money supply growth hit +8.0% in June, down on May's figure of +8.3%. New bank loans increased by a net RMB 1,840 billion, up on May's figure of RMB 1,150 billion (Fig. 17). Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 1,180 billion in June, up on May's figure of RMB 760.8 billion. A glance at the details reveals that: RMB loans grew at a faster pace; foreign currency loans, entrusted loans, trust loans and banker's acceptances fell at a faster pace; and corporate bonds switched from expansion to contraction. Non-financial-institution equity issuances grew at a slower pace (Fig. 18). Ruan Jianhong, head of the PBOC Survey and Statistics Department, spoke about the y-o-y slide in total social financing growth. She said that tougher financial controls and deleveraging were gradually starting to show results, as evidenced by the fall in entrusted loans and trust loans. From a fund management perspective, she added, it seemed entrusted loans and trust loans had been invested in local government finance platforms (local government bodies that shoulder the burden of infrastructure and real estate investment) and real-estate firms. She also stated that illegal financing in these sectors had decreased in line with the deleveraging process. She said that some entrusted loans and trust loans were funded by wealth management products (WMP) and she explained that WMP investments in bank balance sheet financing had declined over the first half of the year, with financing sources for entrusted loans and trust loans clearly shrinking[18].

Fig. 17: Financial institution lending; the money supply

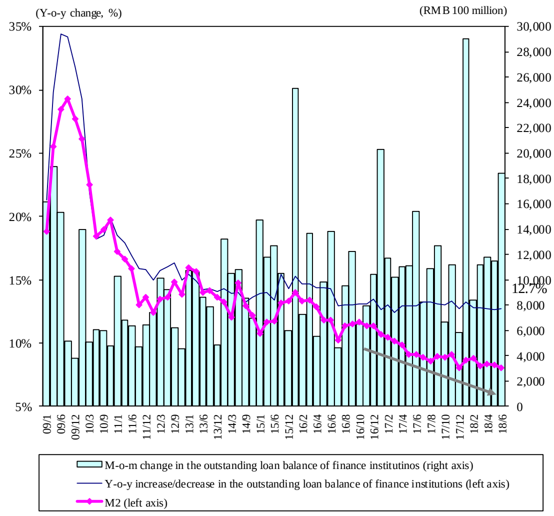
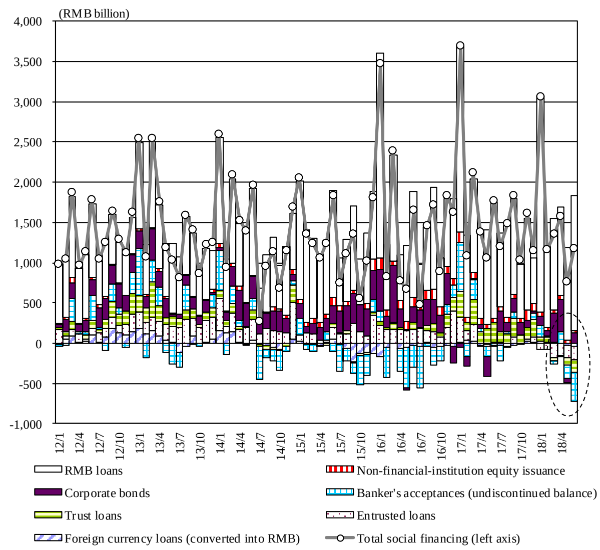


Fig. 18: Total social financing (net increase and decrease)



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[18] 21st Century Business Herald, July 16, 2018, "6 月 M2 增速 8%创新低 强监管、去杠杆致社融低迷 *(M2 growth hit a record low +8% in June, with total social financing moving sluggishly on deleveraging and tougher financial controls)*"
http://epaper.21jingji.com/html/2018-07/16/content_90194.htm

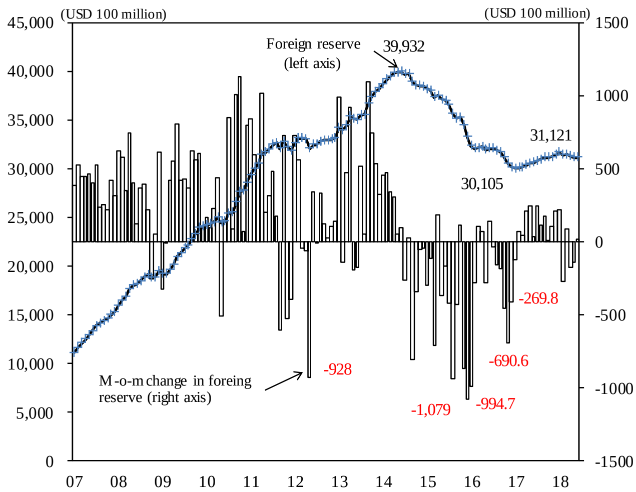
Note: The graph shows January and end-of-quarter figures up until 2015. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBOC, CEIC

Source: PBOC, CEIC

・Foreign direct investment is growing again

Foreign exchange reserves stood at $3,112.13 billion at the end of June, up $1.51 billion on then end of May (Fig. 19). On July 17, the Ministry of Commerce announced that foreign direct investment (FDI) has increased by +18.7% over January–June to hit a substantial $57.18 billion. After rocketing by +40.1% in 2016 ($170.1 billion) and then plummeting by -31.2% in 2017 ($124.6 billion), FDI is now rising again.

Fig. 19: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016, and the latest monthly figure.
Source: People's Bank of China, CEIC

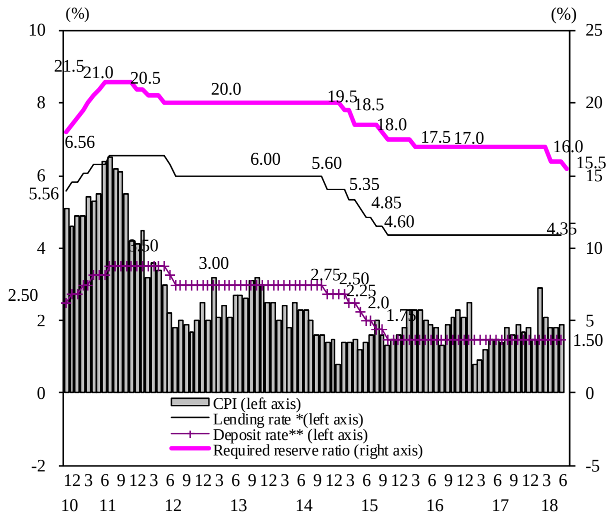
2. The policy response: Measures to support the economy are being pursued alongside measures to curtail risk and promote structural adjustment

・The required reserve ratio was lowered, following on from a similar move in April

On June 24, the PBOC decided to lower the required reserve ratio from July 5[19]. This follows on from a similar move in April. The aim is to provide the markets with RMB 700 billion to be used to (1) promote debt-to-equity swaps (債転股) and (2) increase funding to small and micro enterprises (Fig. 20).

[19] People's Bank of China, June 24, 2018, "中国人民银行决定通过定向降准支持市场化法治化"债转股"和小微企业融资 *(PBOC Decided to Support Market-Based and Law-Based Debt-Equity Swap and Financing for Small and Micro Enterprises)*"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3564334/index.html
"中国人民银行有关负责人就定向降准支持市场化法治化"债转股"和小微企业融资答记者问 *(PBOC Official Answered Press Questions on the Targeted Reserve Requirement Ratio Cut for Supporting Market-Based and Law-Based Debt-Equity Swap and Financing to Small-and-Micro Enterprises)*"
http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3564337/index.html

Fig. 20: Deposit rate and required reserve ratio



Note: *One-year working capital loan rate for corporates
**One-year fixed-term rate
Source: PBOC

・The FSDC discussed a three-year action plan to defuse risk

The Financial Stability and Development Committee (FSDC) met on July 2 for the first time since the launch of the new structure for the Xi Jinping administration's second term[20]. The FSDC was established at the National Financial Work Conference in July 2017, with the first general meeting taking place in November 2017. The recent meeting was chaired by vice-premier and senior economic advisor Liu He, with reporting done by PBOC governor Yi Gang. Ding Xuedong (deputy-secretary general of the State Council) served as vice chair, with the meeting also attended by Guo Shuqing, Liu Shiyu, Pan Gongsheng, Han Wenxiu, Lian Weiliang, and Liu Wei (hereinafter 'members of the FSDC'). The FSDC reviewed a three-year action plan for forestalling and defusing major financial risks (打好防范化解重大风险攻坚战), submitted by the committee's general affairs office. It also studied several priority areas, including; the promotion of financial reform and opening up; a prudent and neutral monetary policy; the provision of sufficient liquidity to the financial markets in a rational manner; adjusting the strength and pace of supervision and administration in an appropriate manner; and enhancing the decisive role of market mechanisms in resource allocation.

The meeting confirmed that China's policies were starting to bear fruit in several areas, such as: success when it came to the construction of supervisory system and risk-handling; progress with regards to structural deleveraging; a decline in highly-risky financial businesses; a decline in the rampant expansion of some financial institutions; and a general containment of financial disorder. The FSDC also decided to: hold periodic general meetings; hold irregular meetings covering specific themes; discuss finance-related matters in a comprehensive manner; and engage in mutual cooperation.

・Economic stimulus could be introduced amid ongoing structural adjustment and reform

Held once every five years, the National Congress of the Communist Party of China (the National Congress) is

[20] China Net, July 3, 2018, "新一届国务院金融稳定发展委员会召开第一次会议 *(The State Council's Financial Stability and Development Committee Meets for the First Time Under the New Administration)*"
http://www.gov.cn/xinwen/2018-07/03/content_5303229.htm

China's most important political event. The 19th National Congress was held in 2017 and it seems the authorities used the event to focus on promoting structural reform while ensuring a certain level of growth. The National People's Congress (NPC; China's parliament) was held in March this year. This saw the election of members to the State Council (China's cabinet) and the launch of the new structure for the Xi Jinping administration's second term. Since then, events have followed the pattern for regular years, with the authorities pursuing structural reform (such as tackling regional debt problems by curbing infrastructure investment[21]) and adopting a stronger stance when it comes to reform, with economic indicators also slowing in the year after the National Congress. However, the authorities could not have predicted the increased tensions with the US and the growing uncertainty when it comes to the direction of the economy.

If the economic slowdown intensifies on further structural reform and US/China tensions, the authorities may take some measures to bolster the economy, by vitalizing consumer spending and other forms of domestic demand, for example. From here on, the focus will probably fall on China's ongoing market liberalization, the direction of structural reform, and the scale/content of economy policy.

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[21] According to an article published on China Net on July 13, 2018 entitled "国务院办公厅印发《关于进一步加强城市轨道交通规划建设管理的意见》(*Opinions of the General Office of the State Council on Strengthening the Management of Urban Transit Plans and Construction*)," the authorities will be taking a tougher stance when it comes to issuing construction permits for urban transportation projects (subway lines, etc.). Previously, local governments were required to have budgets of at least RMB 10 billion and local GDP of at least RMB 100 billion before they could engage in such projects. These requirements have been raised to RMB 30 billion and RMB 300 billion, respectively. The population requirement (at least 3 million residents) was left unchanged, though the definition of population was changed from 'city (area)' to 'permanent urban residents.' As of the end of 2016, 27 cities were running subway lines. Construction was suspended in Hohhot and Buguțu (Baotou) of Inner Mongolia Autonomous Region, etc. entering 2017.
http://www.gov.cn/xinwen/2018-07/13/content_5306251.htm
The full opinions: http://www.gov.cn/zhengce/content/2018-07/13/content_5306202.htm