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- Executive Summary -

China’s Economy	The 2019 NPC and China’s Policy Outlook

Though the 2019 NPC downgraded the target for real GDP growth to ‘+6–6.5%’ (2018’s target: ‘around +6.5%’), it indicated it was prepared to defend the lower range of +6.0% as it seeks to bolster employment and finish building a moderately prosperous society in all respects. It said it would pursue a more proactive fiscal policy based on cutting enterprise costs and expanding infrastructure investment. It also pledged to pursue a prudent monetary policy that strengthened the supply of funds to private enterprises and small and micro businesses while refraining from introducing a deluge of stimulus measures. US/China trade frictions could continue to exert downward pressure. The economy could slow as the authorities keep stimulus and easing in check. Observers will need to monitor whether authorities can stabilize the economy by conducting economic policy management in an appropriate and timely manner.

News from the China Advisory Department	Characteristics of Chinese Stocks and a Related Future Outlook

Shanghai stocks are currently rapidly recovering, and the pace is faster than expected. In the past, the Chinese stock market experienced the “China Shock” series of events, along with a boom thereafter. The market remains highly volatile, which is causing a fundamental problem. This article will summarize the structural problems in the Chinese stock market and will provide an outlook for the future.

The 2019 NPC and China's Policy Outlook

- Though Economic Stimulus Is Being Stepped Up, There Is Still Uncertainty About the Future -

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1. The National People's Congress met amid concerns about the downward pressure from US/China trade frictions, etc.

The National People's Congress (a body equivalent to China's parliament; hereinafter 'NPC') met over March 5–15, 2019. The 2018 NPC had recognized China's economic slowdown while introducing several policies aimed at structural reform, including measures to tackle financial risk (such as deleveraging and regulations on the shadow banking sector). If anything, these measures worked too well, with China's economy subsequently slowing at a faster-than-expected pace. The downward impact of US/China trade frictions also started to emerge from the latter half of 2018. As such, the authorities were forced to prioritize stability again. This meant trying to prevent their policies from having an excessive impact on the economy. The 2019 NPC took place as the country approached 'the 70th anniversary of the founding of the new China.' Given recent events, the NPC reaffirmed its commitment to maintaining stability while also announcing several specific policies (Fig. 1). This report examines the key aspects of the economic policies for 2019 with a focus on Premier Li Keqiang's *Report on the Work of the Government* (hereinafter 'the Report').

Fig. 1: Outline of Premier Li Keqiang's *Report on the Work of the Government*

Item	Outline
Recognition of current challenges	◆**Overseas:** Growth in the global economy is slowing. Protectionism and unilateralism are mounting, and there are drastic fluctuations in the prices of commodities on the international market. Instability and uncertainty are visibly increasing, and externally-generated risks are on the rise. ◆**Domestic**: Downward pressure on the Chinese economy continues to increase, growth in consumption is slowing, and growth in effective investment lacks momentum. Private firms and small and micro businesses face problems related to accessing affordable financing, rising costs. China's capacity for innovation is not strong. Budgetary deficits in some localities are quite large. There are still many risks and hidden dangers in the financial and other sectors. China still faces many difficulties in the fight against poverty. Ecological conservation continues to be a weighty task. There is still public dissatisfaction in many areas, such as education, healthcare, elderly care, housing, food and drug safety, and income distribution. ◆**Government initiatives**: Some measures and policies for reform and development have not been fully implemented. The government still has a serious problem with pointless formalities and bureaucratism, excessive and over-frequent inspections and evaluations, and negligence of some officials working at the primary level.
Major economic policy measures	◆**A GDP growth target** of around +6–6.5%: Pursue ambitious but realistic targets, including the promotion of high-quality development (including other targets), in keeping with the current realities of China's development, and doubling GDP by 2020. ○ **Fiscal policy**: Pursue a proactive fiscal policy with greater intensity and enhance its performance. The Deficit-to-GDP ratio this year is projected at 2.8%. ○ **Monetary policy**: Monetary policy will be eased or tightened to the right degree. Increases in M2 money supply and aggregate financing should be in keeping with nominal GDP growth. Maintain sufficient liquidity to ensure the economy operates within a reasonable range. ○ Other: The status of the employment-first policy will be elevated; continue to pursue supply-side structural reform; continue the three tough battles (financial risk measures, environmental measures and poverty alleviation).
Priorities when implementing policy	◆China needs to get the following relationships right in order to pursue successful policies. (1) Handle in a holistic way the relationship between domestic and international issues, and focus on running domestic affairs well. Against the backdrop of a complex and fast-changing international environment, China must maintain strategic focus and carry out work in accordance with the goals and plans already set. (2) Achieve the right balance in the relationship between maintaining stable growth and guarding against risks. The many risks and potential problems that have built up over the years demand stronger mitigating action. China needs to decisively forestall any systemic or regional risks. Ensure the effects of tightening are not amplified, and never allow economic indicators to slide out of the appropriate range. (3) Balance the relationship between government and market, and energize market entities through reform and opening up.
Priority tasks	(1) Continue to develop new and improved approaches to macro-control and keep the main economic indicators within an appropriate range (2) Work to energize market entities and improve the business environment (3) Continue to pursue innovation-driven development and foster new growth drivers (4) Stimulate the development of a robust domestic market and keep unlocking the potential of domestic demand (5) Make solid progress in poverty alleviation and rural revitalization and move closer to completing the tasks of building a moderately prosperous society in all respects (6) Promote coordinated development across regions and improve the quality of new urbanization (7) Strengthen pollution prevention and control, enhance ecological improvement, and make big advances in green development (8) Deepen reforms in key sectors and speed up the improvement of market mechanisms (9) Promote all-round opening up and foster new strengths in international economic cooperation and competition (10) Speed up the development of social programs to better ensure and improve living standards

Source: Prepared by Mizuho Research Institute based on *十三届全国人大二次会议开幕会* ("新华网" March 5, 2019)

2. Points regarding economic policy management in 2019

(1) Numerical targets

a. The target for real GDP growth was lowered to '+6–6.5%'

The 2019's target for real GDP growth was set at '+6–6.5%.' This was down on 2018's target of 'around +6.5%' (Fig. 2). With regards to the situation facing the Chinese economy, the Report states that 'growth in the global economy is slowing…instability and uncertainty are visibly increasing,' while 'downward pressure on the Chinese economy continues to increase, growth in consumption is slowing, and growth in effective investment lacks momentum.' This probably reflects an awareness that these factors will inevitably lead to an economic slowdown.

Despite this inevitability, the authorities are determined to maintain growth of at least '+6.0%.' The

Fig. 2: Major numerical targets for 2019

Item	2019 Numerical target	2019 Comparison with 2018 target	2018 Numerical target	2018 Result
Real GDP growth	+6.0-6.5%	(↓)	Around +6.5%	+6.6%
Investment in fixed assets (nominal)	(not announced)	–	(not announced)	+5.9%
Total retail sales of consumer goods (nominal)	(not announced)	–	Around +10.0%	+9.0%
Consumer price index (CPI)	Around +3.0%	(→)	Around +3.0%	+2.1%
Number of new urban employees	At least 11 million persons	(→)	At least 11 million persons	13.61 million persons
Registered urban unemployment rate	4.5% or below	(→)	4.5% or below	3.8%
Surveyed urban unemployment rate	Around 5.5%	(→)	5.5% or below	4.8%-5.1%
Budgetary deficit/local government special bonds (against GDP)	RMB 2.76 trillion/2.15 trillion (2.8%/2.2%)	(↑)	RMB 2.38 trillion/1.35 trillion (2.6%/1.5%)	RMB 2.38t trillion/1.35 trillion (2.6%/1.5%)
Investment in railway construction/road construction and waterway projects	RMB 800 billion/1.8 trillion	(↑)	RMB 732 billion/1.8 trillion	RMB 802.8 billion/2.3 trillion
Central government budget for infrastructure investment	RMB 577.6 billion	(↑)	RMB 537.6 billion	RMB 537.6 billion
Reduction of enterprise costs	RMB 2 trillion (reduced tax burdens and social insurance contributions)	(↑)	RMB 1.1 trillion (reduced tax burdens and fees)	RMB 1.3 trillion
Money supply (M2)	(Increases should be in keeping with nominal GDP growth, with growth maintained on the previous year)	–	(Growth should be maintained on the previous year)	+8.1%
Total social financing balance		–		+9.8%

Source: Prepared by Mizuho Research Institute based on *十三届全国人大二次会议开幕会* ("新华网" March 5, 2019), 国家发展和改革委员会 *关于2018年国民经济和社会发展计划执行情况与2019年国民经济和社会发展计划草案的报告* and *36组数据带你看，2018《政府工作报告》量化指标任务落实了！* ("中国政府网" March 1, 2019)

Report mentions keeping 'main economic indicators within an appropriate range' on five occasions while also listing as its first priority task the implementation of stimulus policies to achieve this goal[1]. This also suggests the authorities are determined to protect this lower limit.

One reason for this determination are rising concerns about employment stability in the face of the economic slowdown that began last year. Employment insecurity could threaten social stability. To avoid this, the authorities will need to ensure economic growth strong enough to create job opportunities. The Report also mentions how 'maintaining stable growth, first and foremost, is to ensure employment' (employment-related policy measures will be discussed in more detail below).

Another reason is given by the Chinese Communist Party's pledge to 'finish building a moderately

[1] When concerns about an economic slowdown intensified in 2015, the following year's NPC also placed the maintenance of economic stability through macroeconomic policies as its number one priority task.

prosperous society in all respects' by 2020, with the Report also mentioning how the targets for growth and so on are 'aligned with the goal of completing the building of a moderately prosperous society in all respects.' One symbolic target on the way towards this goal is the doubling GDP in 2020 compared to 2010. Based on results up until 2018, China will need to achieve average growth of +6.14% in 2019 and 2020 in order to hit this target.

b. With uncertainty about the future rising, the NPC refrained from setting a consumption target this time

Though the NPC had previously set an annual target for consumption growth (total retail sales of consumer goods) as one numerical target for the real economy, it refrained from doing so this time around. This probably reflects rising uncertainty about the direction of consumption, which began slowing last year.

The 2018 slump in consumption was primarily due to transitory factors, with automobile sales falling after a tax break on small vehicles came to an end, for example, but consumption was also pushed down by deteriorating household budgets, with household spending down on slower growth, for example, and households in urban areas facing larger mortgage repayments[2]. Some analyses show that spending has also been hit by a deterioration in consumer confidence on intensified US/China trade frictions.

The decline in automobile sales will gradually ease off going forward, with consumption likely to begin bouncing back in 2019. As for above-mentioned negative factors related to deteriorating household spending and consumer confidence, the Chinese government has indicated it will examine measures to stimulate consumption (such as providing subsidies for the replacement of automobiles or household appliances) as well as a three-year action plan to boost household incomes. However, these negative factors are structural in nature and are also susceptible to changes in the economic situation, so there is considerable uncertainty about the effectiveness of these policies or the duration of any effects that do occur.

China is transitioning from a pattern of investment-led growth to one of consumption-led growth, and the Chinese government stresses that consumption (including government spending) has made a larger contribution to stable economic growth in recent years. In 2019, though, it seems consumption will exert downward pressure on the economy.

(2) Fiscal and monetary policy

a. The government will pursue a proactive fiscal policy 'with greater intensity' based on cutting enterprise costs and boosting infrastructure investment

The budgetary deficit is the most representative indicator when it comes to gauging the scale of any economic downturn. At RMB 2.76 trillion/2.8% of GDP, the budgetary deficit in 2019 was up compared to 2018's figure of RMB 2.38 trillion/2.6% of GDP (Fig. 3 on the next page). With the government forced to ramp up its economic stimulus, there has been some expectations that the deficit could top 3% of GDP in 2019, though the actual level was somewhat lower. When discussing the reasoning behind 'moderately increasing the deficit-to-GDP ratio' (the Report), the authorities have mentioned several factors, such as

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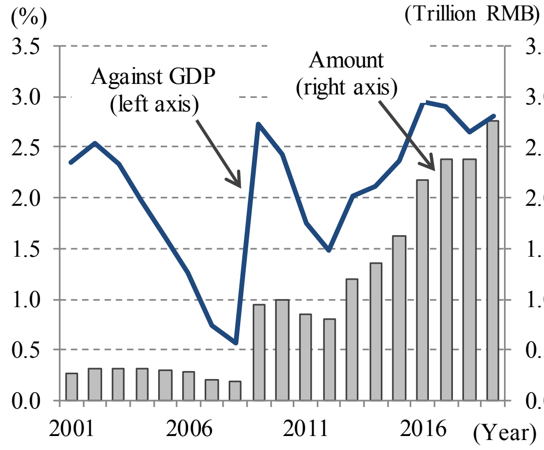
[2] For details, see 大和香織 *中国で低迷が続く自動車販売* (みずほ総合研究所 "みずほインサイト" December 26, 2018).

'the need to leave policy space to address risks that could arise in the future' (the Report) and 'fiscally sustainably development' (a press conference by the Ministry of Finance). All this suggests the authorities also considered mid- to long-term fiscal space when making the decision.

A glance at the details of this expanded budgetary deficit points to two major components: tax cuts and increased infrastructure spending. The tax cuts are mainly aimed at manufacturers and small and micro businesses, with the value-added tax rate set to be lowered. When reduced enterprise contributions to social insurance schemes are added to the equation, the government has said it will cut enterprise costs by a total of RMB two trillion[3]. As for infrastructure spending, RMB 577.6 billion is included in the 2019 central government budget for this purpose, an increase of RMB 40 billion on 2018. Priority areas include intercity transportation and logistics as well as next-generation information infrastructure.

Fig. 3: The budgetary deficit



Prepared by Mizuho Research Institute based on *十三届全国人大二次会议开幕会* ("新华网" March 5, 2019) and materials from the Ministry of Finance and CEIC Data

The amount of funds actually invested in the real economy is expected to be larger than the aforementioned budgetary deficit. This is because there is funding that is not included in the budgetary deficit. For example, local government special bonds are used as a means to raise funds for infrastructure investment. Though RMB 1.35 trillion (equivalent to 1.5% of GDP) of these bonds was issued in 2018, this figure is set to rise to RMB 2.15 trillion (2.2% of GDP[4]) in 2019, with issuances growing at a faster pace compared to the budget deficit. A further example is transfers of funds from fiscal stocks[5] or other accounts[6]. These transfers have often been used to bolster spending in recent years and they are expected to hit around RMB1.5 trillion (1.5% of GDP) in 2019[7]. Other examples include net income from the sale of land-use rights. There could also be more issuances of corporate bonds by the National Development and Reform Commission, bonds by the China Railway Corporation, or bonds by local government finance platforms, for example. Once these are added to the budgetary deficit, the amount of fiscal funding will rise to around 8% of GDP (the actual figure stood at 6.0% in 2017).

b. Monetary policy: The Report mentioned strengthening the provision of funds to small and micro businesses while refraining from a 'deluge of stimulus policies'

When it came to the stance of monetary policy, the NPC retained the word 'prudent' while removing the

3 According to a press conference by the Ministry of Finance, approximately 70% of the RMB 2 trillion cost reductions will take the form of tax cuts.
4 This is an estimate calculated by Mizuho Research Institute based on the deficit-to-GDP ratio.
5 Central/local government budget stability adjustment funds or carried-over funds not used by local governments in the previous fiscal year. The balance of central government budget stability adjustment funds stood at RMB 376.4 billion as of the end of 2018.
6 Central government-managed funds or state-owned capital operation budgets.
7 The details show RMB 280 billion transferred from the central government budget stability adjustment fund, RMB 39.4 billion transferred from central government-managed funds or state-owned capital operation budgets, and RMB 1.2 trillion accounted for by local government budget stability adjustment funds or funds carried over from the previous fiscal year, for example, with most of the funding coming from fiscal stock, particularly from local governments. The proposed budget stood at RMB 285.3 in 2018, but actual spending stood at RMB 1.47 trillion as government bodies tried to pay for fiscal outlays not included in the budget, with these funds helping to ensure that fiscal deficits stood at the same level as budgets at the time of settlements.

word 'neutral.' With the Chinese government stepping up moves to take measures to prevent financial risk, such as by regulating the shadow banking sector, it adopted the phrase 'prudent and neutral' to describe monetary policy from the end of 2016. However, these policies resulted in several unwanted side effects, with small and micro businesses facing financing problems, for instance. As a result, the government switched direction and introduced several stimulus measures, with the word 'neutral' subsequently missing from a number of monetary policy announcements from late July 2018 onwards. The Report also reaffirmed that the government would 'maintain reasonably sufficient liquidity' and 'effectively mitigate difficulties faced in the real economy, especially by private enterprises and small and micro businesses, in accessing affordable financing.'

The authorities announced they would be lowering required reserve ratios in 2019 too in order to improve liquidity. However, ratios have been lowered five times since last year and have already been cut by 3.5%Pt. In a press conference on March 10, Yi Gang, governor of the People's Bank of China (POBC), said required reserve ratios had already been lowered to the same level as in Europe and the US, with room for further cuts less pronounced compared to 2018. As such, the pace and scale of any cuts are likely to be muted. Furthermore, the government wants to expand financing to private enterprises and small and micro businesses, so any cuts made will likely not be aimed at all financial institutions. In fact, the Report emphasized that 'more targeted cuts will be made to required reserve ratios for medium and small banks…the additional funds thus released will be lent to private enterprises and small and micro businesses.' Other tools utilized in 2018 include the provision of liquidity to financial institutions via the MLF (which placed restrictions on how funds could be used) or relending and rediscounting. These tools might be utilized again in 2019. In October 2018, the authorities also announced that a certain proportion of all new bank loans should be extended to private enterprises. In 2019, they also called on large state-owned commercial banks to increase lending to small and micro businesses by at least 30%.

The Report also announced that the authorities would 'deepen reforms to strengthen the market's role in setting interest rates and lower real interest rates.' In the aforementioned press conference, PBOC governor Yi Gang said that high risk premiums were making it hard for small and micro businesses to obtain financing, even though risk-free rates (the 7-day repo rate or 10-year bond yields) were lowered in 2018. As such, the governor recognized that high risk premiums needed to be lowered in order to reduce real interest rates. To this end, he acknowledged that China needed to build a more competitive lending market by strengthening the market's role in setting interest rates. He also spoke about the need to improve information transparency and bankruptcy structures through supply-side structural reforms. However, the Report also mentioned the use of 'interest rates,' so there could be some rate cuts (cuts to base lending rates) from here on. The PBOC released its 2018 Q4 Monetary Policy Execution Report in February 2019. This talked about the need to control interest rate levels under a 'prudent monetary policy' to ensure they concord with the economy's rate of potential growth. In 2019, China's rate of potential growth stands at around +6.0%[8], so if concerns grow that growth might dip below the +6.0% floor of the 2019 growth target, rate cuts could become an option.

Though the authorities are ramping up easing measures primarily to support private enterprises and small

[8] The base scenario according to PBOC statistics (中国銀行国際金融研究所 *中国经济潜在增长率的估算与预测* 中国銀行業監督管理委員会 "金融监管研究" No. 8 2016).

and micro businesses, as mentioned above, the 2018 sentence about how 'monetary policy will be eased or tightened to the right degree' was also retained in the 2019 Report. The Report recognized that 'the macro leverage ratio is basically stable' and it said that 'increases in M2 money supply and aggregate financing should be in keeping with nominal GDP growth,' with the authorities refraining from introducing 'a deluge of stimulus policies.' M2 and the balance of the aggregate financing growth rates fell to the same level as the nominal GDP growth rate at the end of 2018 thanks to moves to strengthen shadow banking regulations. From here in, it seems the authorities will continuing implementing policy in a manner that ensures rates remain at these levels while excess funding liquidity is kept in check.

The Central Economic Working Conference did not outline its thinking on exchange rates when it met in December 2018, but the Report mentions how 'we will improve the exchange rate mechanism and keep the RMB exchange rate generally stable and at an adaptive and balanced level.' The 2018 Report stated that 'we should deepen reforms to make the interest rate and exchange rate more market-based, and see that the RMB exchange rate remains generally stable at an adaptive and equilibrium level,' but the wording about making rates 'more market-based' was removed from the 2019 Report. It was instead replaced by wording about 'the exchange rate mechanism.' This seems to refer to the foreign exchange stabilization measures (foreign exchange risk reserve requirements and the counter-cyclical factor, etc.) that were introduced again in 2018 to prevent the RMB from falling excessively. Foreign exchange policy is one of the sticking points in US/China trade negotiations. The US appears to be calling for stabilization measures, so from here on the focus could fall on the response if monetary easing measures push the RMB lower.

(3) Main focus policies

a. Employment measures

The Report lists 'an employment-first policy' after fiscal policy and monetary policy. The Report states that 'this year, for the first time, we are elevating the employment-first policy to the status of a macro policy (on the same level of importance as fiscal and monetary policy). This is to increase society-wide attention to employment and support for it.' There are several reasons behind this move. For example, the Report says that 'pressure on aggregate job creation will continue unabated' as more graduates enter the workforce and the urban labor pool expands as the rural population flows into the cities as a result of urbanization. The Report also mentions how 'related structural issues will become more pronounced,' a sign of concerns about the employment mismatch among regions and industries, with the Report also stating how 'new factors that affect employment will continue to grow[9].'

All this explains why the number of new urban employees was set at the same level as 2018, despite the growth rate target being lowered in 2019. Though the Report sets a minimum target for the number of new urban employees, it states that it will seek to surpass this target in order to 'ensure employment for the urban workforce while creating nonagricultural employment opportunities for the surplus rural workforce.' As for specific employment policies, in the Report the authorities say they will: 'encourage more private actors to engage in innovation and start businesses'; encourage the development of service industries and labor-intensive industries with high employment absorption capacities; ensure employment for key groups

[9] *人社部：今年就业总量压力不减 四方面稳定就业局势* (“中国新闻网” January 18, 2019) http://www.chinanews.com/gn/2019/01-16/8730444.shtml）

such as college graduates, demobilized military personnel, and rural migrant workers; expand vocational skills training; and offer support for flexible employment, etc. The authorities are trying to ensure employment opportunities despite slowing growth not only by creating more jobs but also by making the labor market more efficient (by strengthening matching, for example). However, at 'around 5.5%,' the surveyed urban unemployment rate target has essentially been raised from 2018's target of '5.5% or below.' This suggests the authorities are prepared to accept a temporary upswing in the unemployment rate from the 4.9% recorded in December 2018.

The focus of this employment-first policy will undoubtedly be private enterprises and small and micro businesses, which account for around 40% of all hires and around 80% of all employed persons (including the self-employed). In fact, a report by the National Development and Reform Commission[10] says the employment-first policy will support private enterprises and small and micro businesses so they can fully play a role as an important route to employment. As mentioned above, fiscal and monetary policy is also focused strongly on alleviating the difficulties faced by these companies.

b. Financial risk

Though monetary policy is being used more to support the economy, the NPC indicated it would continue to tackle financial risk. The authorities have positioned preventing and defusing major risks as a key policy issue in the run up to 2020[11]. As with the Central Economic Work Conference, the NPC also reconfirmed that it would 'continue structural deleveraging' in order to slash the debts of local governments and state-owned enterprises. The Report also mentions the need to 'guard against and control externally-generated risks' (such as the global economic slowdown or US/China trade frictions), a subject not discussed by the Central Economic Work Conference. Other initiatives announced by the NPC include: strengthening the control and supervision of internet finance, etc.; defusing shadow banking risk; establishing control and supervision methods for financial holding companies; and establishing standards regarding the hidden debt of local governments, etc.

However, when discussing priorities for the implementation of policy in 2019, the Report mentions the need to 'achieve the right balance in the relationship between maintaining stable growth and guarding against risks.' The Report recognizes that 'the many risks and potential problems that have built up over the years demand stronger mitigating action.' Given the events of 2018, though, the Report also expresses several concerns about excessive moves to tackle risk. Its mentions how 'we need to defuse risks step by step in the course of pursuing development,' for example, while also stating that 'in working to forestall and control risks, we need to get the pace and intensity right. We should see that the effects of tightening are not amplified, and we must never allow economic indicators to slide out of the appropriate range.' Given the focus on stimulating the economy in 2019, it seems initiatives to tackle financial risk will only be implemented at a gradual pace.

c. Promoting industry upgrading and the development of new industries

As its third priority task for 2019, the Report states 'We will continue to pursue innovation-driven

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[10] *2018 年度国民経済・社会発展計画の執行状況と 2019 度年国民経済・社会発展計画案についての報告*
[11] This has been designated one of the 'three tough battles' alongside targeted poverty alleviation and environmental pollution control.

development and foster new growth drivers.' Though the Report does not mention the 'Made in China 2025' industrial policy, it does mention the final goal of 'working faster to make China strong in manufacturing.' To this end, the Report states that 'we will support enterprises in speeding up technological transformation and equipment upgrading by extending the preferential policy of accelerated depreciation of fixed assets to the entire manufacturing sector' (this policy was originally introduced in 2014–2015 in a few select industries[12]).

The Report also talks about speeding up the growth of emerging industries by strengthening R&D and the application of big data and artificial intelligence technologies, for example, while fostering clusters of emerging industries like next-generation information technology. The Report also pledges to 'increase the capacity of and upgrade mobile networks, to provide faster and more reliable broadband connections for internet users.' This suggests the authorities are planning to accelerate the commercialization of 5G. The Report also states that 'average broadband service rates for small and medium enterprises will be lowered by another 15%, and average rates for mobile internet services will be further cut by more than 20%.' According to the National Development and Reform Commission's report, the authorities are pushing forward with the formulation and implementation of a next-generation 'Internet Plus Action Plan' while also examining the formulation of a 'Broadband China' strategy.

As for science and technology, the 2019 Report adds a phrase about how the authorities will 'step up original innovation, and work harder to achieve breakthroughs in core technologies in key fields,' with the authorities placing more importance on basic research (by increasing the proportion of indirect funding for basic research projects, for example). The NPC announced that R&D expenditures would be equivalent to 2.2% of GDP, up slightly on 2018's target of 2.16% (and the actual result of 2.18%).

d. Real estate

When it came to the real estate market, the Report first of all stressed the role of municipal governments in real estate policy, saying 'we will better address people's housing needs [and] require local governments to shoulder primary responsibility.' Though the Central Economic Work Conference said it would continue to keep speculation in check when it met in December 2018, it newly emphasized the importance of controlling speculation in a manner that considered the situation in each city rather than in a uniform manner dictated by the central government. The contents of the Report are in accord with this policy. In fact, though the authorities have introduced purchase restrictions and other measures in cities with rising house prices, some local governments in cities with stabilized housing market conditions have moved to relax excessive purchase restrictions from the end of 2018, with the central government seemingly turning a blind eye. Secondly, the Report also talks about 'improving housing market and support systems,' with the NPC emphasizing the need to continue with supply-side initiatives aimed at stabilizing housing markets (such as improving rental housing). Thirdly, the Report talks about the importance of 'building government subsidized housing and rebuilding rundown urban areas to meet the basic housing needs of disadvantaged

[12] According to the Ministry of Finance's *Notice Regarding Improvements to the Corporate Income Tax Law to Accelerate the Depreciation of Fixed Assets*, the preferential policy would be introduced in six priority sectors in 2014 (the biopharmaceutical industry; manufacturing of special machineries; manufacturing of transportation equipment for railways, shipping, aviation and space travel, etc.; manufacturing of computers, telecommunications and other electronic equipment; manufacturing of measuring instruments; and information transmission, software and information technology services) and four priority sectors in 2015 (light industry, textiles, machinery, and automobiles).

groups.' When it comes to rebuilding rundown urban areas, though, it seems the pace of development could slow from here on considering the state of completion of the three-year plan up until 2020 and the excess redevelopment that occurred from 2015[13].

Based on these circumstances, the real estate market is expected to slow at a gentle pace in 2019. The National Development and Reform Commission report also echoes the Central Economic Work Conference's insistence that 'housing is for living in, not for speculation.' The Commission has announced a policy of 'stabilizing land and house prices while preventing overheating in the real-estate market,' for example, and it has indicated its opposition to any easing of control policies, even during the economic slowdown.

The idea of introducing legislation pertaining to a real estate tax was newly outlined in 2018, with the Report stating that the authorities are making 'steady progress' in this area. Furthermore, when Li Zhanshu, Chair of the Standing Committee of the National People's Congress, said during a speech that 'we will focus our energy on effectively implementing major legislative items identified by the Party Central Committee,' he mentioned a real estate tax as one example of these items to be implemented[14], so the situation will require monitoring from here on.

e. US/China trade frictions

The only mention of US/China trade frictions in the Report is a sentence about how 'we handled economic and trade frictions with the United States appropriately,' though the Report outlines several policies pertaining to items that have cropped up in US/China trade talks.

When it comes to opening up to the outside world, for example, the Report talks about permitting wholly foreign funded enterprises to operate in more sectors, implementing reform and opening up measures in the financial sector, and strengthening efforts to protect foreign investors' lawful rights and interests, for example. As for the latter, a new foreign investment law was hastily drawn up after the US/China heads of state meeting of December 2018, with the NPC then approving the law. The law contains one article prohibiting forced technology transfers by administrative measures and another protecting the intellectual property rights of foreign investors and foreign-invested enterprises, two issues that the US had accused the Chinese authorities of taking too lightly, with the establishment of the new law forming an important part of China's efforts to alleviate US/China tensions. Under the context of strengthening Chinese innovation, the Report states that 'we will strengthen intellectual property protection across the board [and] improve the system of punitive compensation for IP infringements.' The NPC recognizes the importance of these measures for China too and it is moving hastily to revise the Patent Law to incorporate these items.

One further reason behind growing US concerns about China is the 'Made in China 2025' policy. Though NPC reports had mentioned this policy from 2015 onward, it was missing from the 2019 Report, perhaps to avoid antagonizing the US, which has criticized China's industrial policy (such as its provision of subsidies to state-owned enterprises). However, though the Report did not use the phrase 'Made in China

[13] See 高瀬美帆 (2019) *調整局面を迎える中国の住宅市場～2018 年の価格の伸び率上昇要因と今後の展望* (みずほ総合研究所 "みずほインサイト" January 24, 2019) for details about the rebuilding of rundown urban areas. 6.26 million homes were redeveloped as part of this scheme in 2018.

[14] *十三届全国人大二次会议第二次全体会议* ("新华网" March 8, 2019) http://www.xinhuanet.com/politics/2019lh/zb/20190308a66076/wzsl.htm

2025,' it did announce China would steadily push forward with initiatives aimed at making industry more sophisticated, as outlined above, with the NPC committed to 'making China strong in manufacturing.'

Foreign exchange was raised as a new issue during US/China trade talks in February. As mentioned above, the Report discussed maintaining stable exchange rates. During a press conference, meanwhile, the governor of the PBOC said the two sides had exchanged opinions and reached an agreement on observing pledges made at the G20 Summit to refrain from competitive devaluations, for example.

Though no direct relation to US/China trade frictions, the Export Control Act was raised during the NPC as a priority for the 2019 legislative agenda. A draft of this act was first released in 2017. It stipulates the need to consider the impact on trade and industrial competitiveness when formulating list of regulatory targets. It also incorporates regulations on re-exporting, as also set down in US Export Administration Regulations (EAR). The act forms one part of China's trade policy and some observers have suggested it could have a negative impact on the Chinese business activities of foreign-invested enterprises[15], so moves to pass the act into law will require monitoring from here on.

3. Conclusion

As outlined above, with the Chinese government prepared to defend the lower range (+6.0%) of its growth rate target for 2019, it confirmed it would implement policy with a focus on economic stability (by ramping up stimulus using fiscal and monetary policy, for example). However, though slumping consumption was one reason behind the economic downswing in 2018, it is unclear whether measures to stimulate consumption will bring about any recovery in the short term. Furthermore, it seems enthusiasm for structural reform (such as measures to tackle financial risk) has waned compared to 2018. Nonetheless, the NPC has stressed it will not introduce 'a deluge of stimulus policies.' It has also outlined specific targets when it comes to the intensity of monetary easing, which suggests some limits will be placed on easing going forward.

There is ample reason for believing US/China trade frictions will continue to exert downward pressure. Under these circumstances, the economy could still slow if stimulus policies are not as effective as hoped or if restrictions on easing serve to reduce the impact of stimulus policies. If this happens, the authorities will probably ramp up economic stimulus (through further infrastructure investment, monetary easing or a relaxation of real estate controls, for example), with structural reform initiatives placed on the back burner. This is likely to lead to renewed concerns about swelling debt and financial risk. The Chinese economy faces considerable uncertainty, particularly when it comes to the external situation. Under these circumstances, observers will still need to monitor events closely to gauge whether the authorities can conduct economic policy management in an appropriate and timely manner.

[15] For example, the Center for Information on Security Trade Control (CISTEC): *国輸出管理法草案についての留意点* ("CISTEC Journal" November 2017)

Characteristics of Chinese Stocks and a Related Future Outlook: Learning from the "China Shock"

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1. Introduction

Kweichow Moutai, the Chinese liquor/beverage company, is known for its high-class Moutai brand of *baijiu* (Chinese distilled spirits). Since I started to work in China, I started drinking *baijiu* very often, but as it is strong, I never get used to drinking it. However, when I drank Moutai for the first time, I remember it was different from *baijiu*, which I was usually drinking, although the difference in price may have led me to feel that way. I am writing about Kweichow Moutai because this company is very different from other Chinese companies. As is shown in Figure 1, the top 10 Shanghai companies in terms of stock weight are almost entirely dominated by financial and energy companies. However, only Kweichow Moutai, which makes and sells this brand of *baijiu* is ranked fourth as a liquor/beverage company, as of March 12, 2019. The stock price of this company continued to constantly rise, thanks to an increase in sales after changing its customer base, achieving market capitalization of one trillion yuan in FY2018. Even though it once seemed to be dropping due to the impact of the trade frictions between the U.S. and China, the fall was cancelled out this year, returning to an uptrend.

Figure 1: Top 10 Shanghai stock companies in terms of weight

Rank	Industry	Top 15 Shanghai stocks (as of March 12, 2019)	Weight (%)
1	Finance	Industrial and Commercial Bank of China	4.55
2	Energy	PetroChina Company Limited	3.77
3	Finance	Agricultural Bank of China	3.58
4	Beverage	Kweichow Moutai	2.81
5	Finance	Bank of China	2.42
6	Finance	Ping An Insurance Group	2.25
7	Finance	China Merchants Bank	1.90
8	Finance	China Life Insurance Company Limited	1.79
9	Energy	China Petroleum & Chemical Corporation	1.71
10	Finance	The People's Insurance Company Group	1.13

Source: Bloomberg

Figure 3 compares Kweichow Moutai with other highly weighted Shanghai stock companies. It shows that they have different movement. At the time of the "China Shock" event of August 2015, Shanghai stock prices fluctuated violently, but the stock price of Kweichow Moutai did not significantly change. This is partly because companies involved in consumer goods with high brand value are popular, but it should be pointed out that foreign investors, who are sensitive to economic conditions, do not hold stocks of this company. As shown in Figure 2, the majority of the institutional stockholders of this company are related to the government, and thus the stock price of this company does not change significantly even at the time of stock price fluctuation, mainly as a result of political protection. In general, the ratio of foreign investors is small in the Chinese stock market, and the majority of investors are domestic, which is another reason why the Chinese stock market is different from other stock markets in the world.

This article will summarize the characteristics of the Chinese stock market in order to provide an outlook for the future. It should be underlined that some of the contents of this article include the personal opinions of the author.

Figure 2: Ratio of institutional stockholders for Kweichow Moutai

Institutional stockholders of Kweichow Moutai	Ratio
Government-related	78.65%
Investment advisory company	11%
Intermediary bank	9.12%
Sovereign wealth fund	0.76%
Others	0.34%
Pension fund	0.05%
Holdings company	0.04%
Hedge fund	0.02%
Business corporation	0.02%

Source: Bloomberg

Figure 3: Kweichow Moutai stock price and other Shanghai stock prices

Source: Bloomberg

2. Chinese stock market: Recovered from the fall in 2018

In 2019, Shanghai stock prices have been on a recovery trend. In 2018, the Shanghai stock market opened trading by appreciating, following the uptrend in the worldwide stock market. However, after recording a high since the beginning of the year in January, the trend was reversed and stock prices continued falling. In the domestic market, investor sentiment deteriorated due to speculations about the shadow banking[16] issue, as well as the tightening of the real estate market. Furthermore, concerns grew over a slowdown in the Chinese economy having witnessed a series of defaulting corporate bonds, which led Chinese stock prices to fall significantly. In response to this, the Chinese monetary authorities announced their decision to cut the deposit reserve requirement ratio in June and supplied liquidity in July. In addition, various political measures were announced, such as the expansion of infrastructure investment in order to support economy. However, toward the second half of the year, the depreciation of stock prices accelerated further, along with the intensification of the trade frictions between the U.S. and China. As a consequence, Shanghai stock prices once fell below 2,500 for the first time since November 2014.

However, these stock prices have currently recovered by more than 50% from the fall observed in 2018. In 2019, stock prices appreciated in developed countries, while the media continued reporting positive news regarding the trade negotiations between the U.S. and China regarding an agreement between the two, and this improved the sentiment of investors in the market. On March 5, the government work report was released at the National People's Congress, with the intention to strengthen the economic stimulus measures, which also supported stock prices. As of the writing of this article (middle of March), stock prices continue to appreciate. Thus, it seems that Shanghai stocks tend to move significantly once there is a trend, even though the majority of the factors comes from the Chinese domestic environment. This is one of the structural characteristics of the Chinese stock market.

[16] This is the general term for the financial business style used by security companies, trust companies, and special management companies for securitization, etc.

Figure 4: Shanghai stocks and underlying lending interest rates

Source: Bloomberg

3. Characteristics of Chinese stocks and investor behavior

(1) Summary of the Chinese stock market

The stock market in China is large and is mainly divided into the Mainland market and the Hong Kong market. The stock exchange opened in Shanghai in December 1990 and in Shenzhen in July 1991. At both stock exchanges, two kinds of stocks, A shares and B shares, are traded. As Figure 5 shows, market participants are mainly investing in A shares in Shanghai and Shenzhen and in "Main Board" stocks in Hong Kong, based on the number of securities and on market capitalization. In the Mainland market, A shares were originally for Chinese domestic investors, while B shares were originally for foreign investors. However, the market was gradually deregulated, and foreign investors are now allowed to invest in A shares, albeit to a limited degree, while B shares have already been open to Chinese domestic investors. Furthermore, the ban on mutual transactions between the Mainland market and the Hong Kong market has been lifted, and it has become possible for foreign investors to sell and buy A shares in the Mainland market through the Hong Kong market, while it is also possible for Chinese domestic investors to sell and buy stocks in the Hong Kong market through the Mainland market (Shanghai-Hong Kong Stock Connect channel).

Figure 5: Comparison of stock markets

		Market capitalization
Shanghai Stock Exchange	A shares	5.19 trillion dollars
	B shares	13.5 billion dollars
Shenzhen Stock Exchange	A shares	3.3208 trillion dollars
	B shares	9.8 billion dollars
The Stock Exchange of Hong Kong Limited	Main Board and GEM	3.8101 trillion dollars

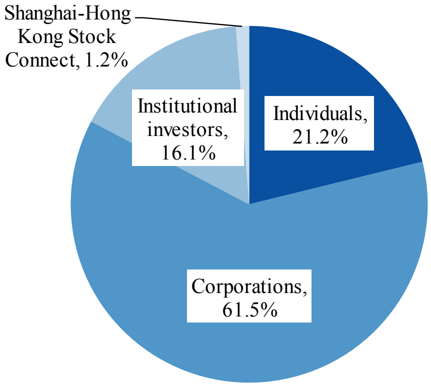
Source: Compiled based on information from the website of each stock exchange

The difference between Shanghai and Shenzhen in the Mainland market lies in the fact that large companies tend to be listed in Shanghai and venture companies tend to be listed in Shenzhen, at the time of initial public offering. It should also be pointed out that the Shenzhen A-share market is divided into the "Main Board," mainly for large companies, the "Small and Medium Enterprises Board," mainly for small and medium-sized companies, and "ChiNext Market," for micro and small companies. Furthermore, as of the time of the writing of this article (again, middle of March), the Shanghai Stock Exchange plans to newly establish a new market specialized in high tech and innovation-related companies called the "Science and Technology Innovation Board." In order to be listed on the Science and Technology Innovation Board, the companies are required to be highly innovative, while venture companies and startups without any strong management basis can easily be listed, as companies can be listed depending on certain conditions even if they have not produced profit after the company's foundation or even if they have accumulated a deficit.

(2) Structure of investors in the Chinese stock market

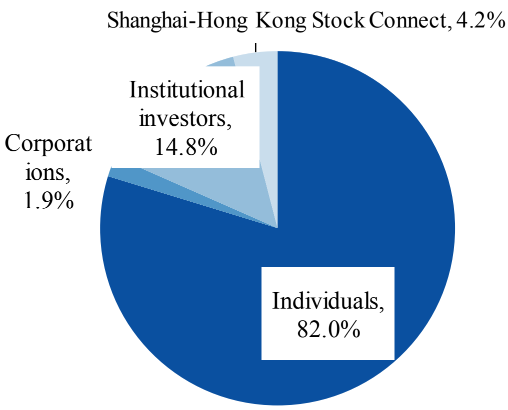
Figure 6 and Figure 7 show the value of stocks held and the transaction volume by each investor group in the Shanghai stock market in 2017. The breakdown reveals that, in terms of the ratio of stocks held, corporate investors account for more than 60%, making corporations the majority of stockholders. On the other hand, in terms of the volume of transactions, individual investors exceed 80%. This means that most of stocks held by corporations investors are not traded. Why then are there so many corporations, in terms of the value of stocks held, in the Chinese stock market? In China, there are traded stocks and non-traded stocks. Previously, nearly 90% of all stocks were state-owned non-traded stocks that cannot be bought or sold. However, from 2005, "non-traded stock reforms" started, and existing non-traded stocks were converted into traded stocks with some restrictions for sales, after which the restrictions were lifted. As a result, most of the past non-traded stocks have become traded stocks. However, only approximately 20% of all such stocks were sold, and the remaining 80% of the stocks are still held by corporations. Company performance is normally evaluated based on the appropriate price formation by institutional investors. However, in the Chinese market, with a high percentage of general corporations with few stock transactions, such evaluation is not sufficiently working. On the contrary, the majority of transactions comes from individual investors. There are many individual investors that do not have sufficient financial knowledge, and this makes it likely for them to sell or buy stocks based on speculative motivations based on rumors or newspapers and other media reports. Therefore, stock prices tend to fluctuate more violently in such an environment. In order to foresee the future trend of the Chinese stock market, it is thus important to predict the behavior of individual investors.

Figure 6: Value of stocks held by investor type in the Shanghai Stock Exchange (2017)



Source: Compiled based on *Shanghai Stock Exchange Statistical Yearbook*

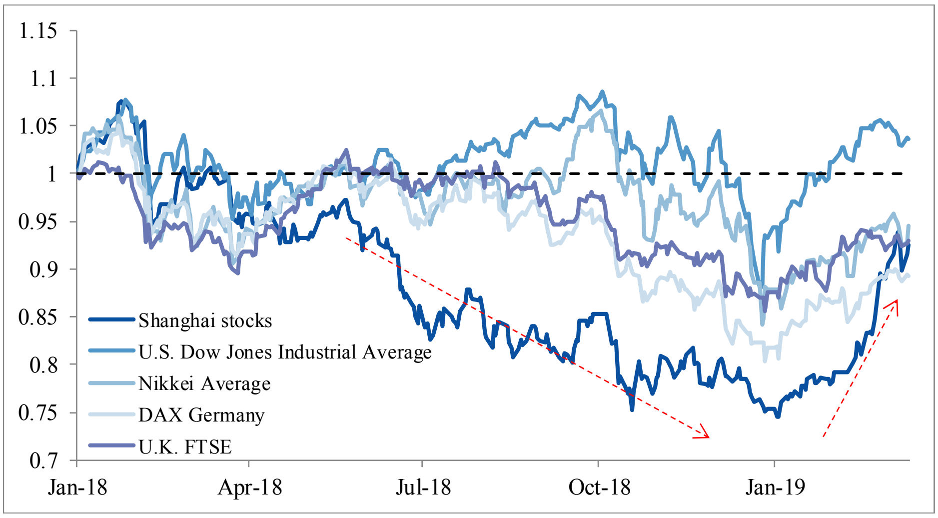
Figure 7: Transaction volume by investor type in the Shanghai Stock Exchange (2017)



Source: Compiled based on *Shanghai Stock Exchange Statistical Yearbook*

Figure 8 shows the rate of change since the beginning of 2018 in the stock market in various countries. In 2018, there were many factors related to China, such as concerns over a slowdown in the Chinese economy as well as the trade frictions between the U.S. and China. Thus, Shanghai stock prices fluctuated more than other stock markets in major countries. In terms of transaction volume in the Chinese stock market, the ratio of individual investors is high, and they seem to have reacted excessively to media reports. In the times ahead, the stock market will be further liberalized, and there will be more foreign investors, and this will gradually lower the ratio of individual investors in the Chinese market, reducing the stock price fluctuation.

Figure 8: Rate of change since the beginning of 2018 in the stock market in various countries



Source: Bloomberg

(3) Measures of market liberalization

In June 2017, MSCI decided to introduce Chinese stocks into its Emerging Markets Index. The company was originally considering incorporating Chinese stocks since around 2013. However, the decision on this had been postponed, as investment in A shares was limited to foreign institutional investors with a particular approval (QFII and RQFII)[17] and the approved foreign investors accounted for less than 2% of the market capitalization of A shares, showing a delay in stock market liberalization. However, the Chinese stock market is so large that its total market capitalization became the world's second largest, while market liberalization has advanced through the expansion of investment allocation for foreign institutional investors to invest in domestic securities as well as through the Shanghai-Hong Kong Stock Connect channel (introduced in November 2014). For these reasons, MSCI decided to incorporate Chinese stocks into its MSCI Emerging Markets Index, although the weight was limited to 0.8%. From the time of the incorporation of Chinese stocks into the MSCI Index, the Chinese monetary authorities deregulated the market further. In May 2018, the investment allocation for the Shanghai-Hong Kong Stock Connect channel was increased by 400%, and at the same time, the People's Bank of China (PBOC) also announced its decision to approve the purchase of onshore Chinese yuan by foreign investors for the purpose of the purchase of Chinese stocks. Furthermore, in June of the same year, the existing regulations related to QFII and RQFII were revised, and a plan was announced to lift the ban on investment in A shares by foreign nationals

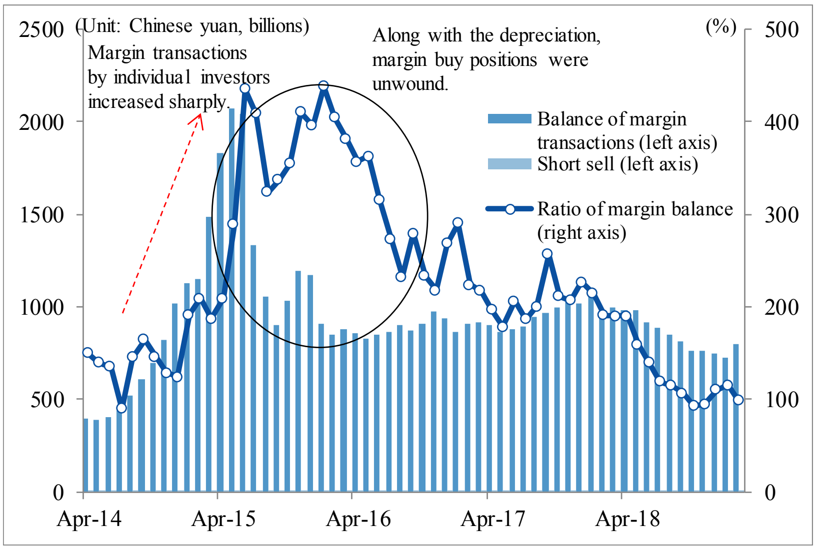
[17] "Qualified Foreign Institutional Investor" (QFII) refers to foreign institutional investors that were approved to invest in the securities market in China. The Renminbi Qualified Foreign Institutional Investor (RQFII) program refers to a system in which investors are approved to invest in securities denominated in Chinese yuan in the securities market in Mainland China, using Chinese yuan circulating outside of Mainland China in the investment.

(individuals), accelerating the market liberalization. While the trade frictions between the U.S. and China persist, the monetary market in China would have to be further liberalized, and thus there are likely to be more measures for further liberalization in 2019. In February 2019, MCSI announced its decision to raise the weight of stocks of Mainland China to 3.3% in three steps from May to November. It was expected that more than 46 billion U.S. dollars would flow into the Mainland stock market from funds related to the MSCI Index, leading Shanghai stock prices to appreciate. In the times ahead, foreign institutional investors are expected enter the market, along with the incorporation of Chinese stocks into the MSCI Index, and these investors are likely to prefer investing in good stocks for a long term. The further increase of foreign investors as a result of market liberalization is expected not only to train Chinese domestic investors but also to enhance the monitoring effect on listed companies.

4. Learning from the "China Shock" events of 2015

In the middle of June 2015, Chinese stock prices, which had been rising sharply, started to fall rapidly. Thereafter, the Chinese government introduced a series of measures to keep the stock prices from falling. First of all, why did the stock prices start rising sharply? The appreciation was triggered by the deposit reserve requirement ratio cut announced by the PBOC in November 2014. Speculative buying was boosted, mainly by individual investors with expectations for the support of stock prices and economic stimulus measures based on the interest rate cut. As the Chinese economy had been slowing down, the gap between stock prices and the real economy widened. Funds flew into the stock market, as market participants expected the Chinese government to clarify its principle to develop the capital market, while waiting for the effects of reforms such as the introduction of the Shanghai-Hong Kong Stock Connect channel to be visible. In addition, the restriction on the number of accounts for Mainland Chinese investors was lifted, and each investor was authorized to open multiple accounts, whereas this was restricted to one previously, further encouraging individual investors to invest in the stock market. In particular, as Figure 9 shows, leverage transactions expanded based on margin transactions, which was one of the most-important factors.

Figure 9: Balance of margin transactions



Source: Bloomberg

It should also be mentioned that the balance of margin transactions shown in Figure 9 constitutes only part of the margin transactions actually carried out. In addition to official margin transactions, there was a rapid increase in highly risky margin transactions using fund procurement methods that are not accepted within the legal framework (known as "off-site funding"), and such transactions were not included in the statistics. Having witnessed such a situation, the Chinese government announced its decision to strengthen regulations on margin transactions on June 12, 2015. This accelerated the depreciation of stock prices, encouraging market participants to sell more stocks. Then, in August 2015, the Chinese yuan was unexpectedly devaluated, which shocked market participants, leading the Shanghai stock prices to fall even further. The stock prices rallied thereafter, thanks to the extraordinary measures taken by the Chinese government to keep stock prices from falling. However, stock prices fell sharply again at the beginning of 2016 (Fig. 10).

Figure 10: Shanghai stocks and the U.S. dollar/Chinese yuan central parity rate (January 2014)

Source: Bloomberg

Thanks to the strengthened regulations, there has currently been no sign that margin transactions are significantly increasing. On the other hand, the ratio of individual investors remains high in terms of transaction volume, suggesting that speculative investment persists. From a long-term perspective, the Chinese monetary authorities are likely to strengthen surveillance, while more foreign institutional investors will enter the market, thanks to the market liberalization, as a result of which appropriate financial knowledge is expected to spread among individual investors, resulting in a healthier Chinese stock market.

5. After the National People's Congress

On March 5, 2019, the second session of the 13th National People's Congress was held in Beijing, and the Chinese Premier Li Keqiang announced in the government work report that the economic growth target rate for 2019 would be lowered from the previous year's target rate "around 6.5%" to "6–6.5%." The lower end of the growth range was set at the lowest level in approximately 30 years, by lowering the target rate for the first time in two years, due to the fact that the annual GDP for 2018 turned out to be the lowest in 28 years, at 6.6% while the sense of uncertainty persists regarding both domestic and international political situations.

In the government work report released this time, the growth rate outlook was revised downward. However, economic stimulus measures were emphasized in order to achieve the goal of doubling the total GDP from that of 2010 in 10 years, by 2020. For example, the government is likely to continue taking measures of monetary easing, such as in the adjustment to the deposit reserve requirement ratio, large-scale tax cuts for companies and value-added tax reforms, infrastructure investment, and further market liberalization. Even though it will take time for the effect of such political measures to be visible, there has been growing expectation for the outlook, possibly encouraging individual investors to rapidly buy stocks.

The Communist Party of China defines 2019 as an important year marking the 70th anniversary of the country's foundation. The Chinese monetary authorities are thus likely to introduce new economic stimulus measures from both a monetary and fiscal point of view, and this is expected to lead stock prices to rally.

Figure 11: Government targets for 2019

	2019	2018	
	Target	Result	Target
GDP	6-6.5%	6.60%	Around 6.5%
CPI	3.00%	2.10%	3.00%
M2	N/A	8.10%	na
Fiscal deficit as a percentage of GDP	2.80%	2.60%	2.60%
Tax cuts and other decreases in revenues	2.0 trillion yuan	1.1 trillion yuan	1.3 trillion yuan
Number of new employees in urban areas	11 million	13.6 million	11 million
Unemployment ratio in urban areas	Around 5.5%	4.90%	Below 5.5%
Net increase in local governments' special bonds	2.15 trillion yuan	1.41 trillion yuan	1.35 trillion yuan
Fiscal expenditures	23 trillion yuan (YoY +6.5%)	22.1 trillion yuan	21 trillion yuan
Infrastructure investment expenditures (in the budget of the central government)	577.6 billion yuan	N/A	537.6 billion yuan

Source: Compiled based on various media reports and on data from Bloomberg

6. Conclusion

The current stock price appreciation is partly a result of positive factors such as economic stimulus measures. However, it is not that the persistent problems such as the trade and debt issues have been resolved. Even if funds are circulated thanks to the monetary policy, the real economy would not grow if the funds do not reach private companies in the end. On March 14, the Shanghai Stock Exchange deregulated the issuance of LGFV bonds in order to make refunding easier and to prevent the number of defaults from increasing in China, as was the case last year.

As a result of the market liberalization expected in the times ahead, the number of foreign investors in China is likely to increase, thanks to deregulation on investment. If the ratio of individual investors decreases in terms of the transaction volume in the Chinese stock market, one-sided investor behavior based on rumors and media reports is likely to also gradually decrease.

If various economic measures introduced at the National People's Congress have some visible effect before the end of the year and keep stock prices from falling thereafter, the Chinese monetary authorities are expected to start gradually raising the Chinese yuan interest rates, which have currently significantly fallen, leading the Chinese yuan to also appreciate.