

## ***NPC determined to implement reforms toward sustainable growth***

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In March 5 to 16, 2016, National People's Congress (NPC) was held in China and revealed, in the 13<sup>th</sup> Five Year Plan (2016~2020) which starts from this year, its policy guidelines that aim at growth target of between 6.5%~7.0% for the first year 2016 and above 6.5% on average for the whole period.

Economic indicators released during the NPC meetings generally showed a subdued performance. Comparing on two months averages of January and February to avoid the distortions by timing effect of Chinese new year, industrial production slowed down to an increase of +5.4% yoy, the lowest level in about 7 years, while exports recorded a larger drop in double digits (Table 1). In addition to the exports to emerging countries, exports to advanced countries also showed a greater drop due to sluggish demand on electronics and textile products which constitute major export items of China and possibly to the reaction from high level of exports in the previous year. On the import side, imports of natural resources continued to decrease reflecting the fall of prices, and "ordinary imports" of machinery and tools as well as "imports for processing/assembling" relating to electronics expanded the degrees of decrease reflecting the control of excessive investments and stagnant external demand (Chart 1).

At the NPC the government set out supply-side reforms as one of its priority policies and announced its determination to implement structural reforms that include positive and proper disposition of zombie corporations with excessive production capacity through mergers and acquisitions, debt restructuring or bankruptcy liquidation, while subscribing 100 billion yuan from the central government fiscal resources to a special fund to help restructured employees to be redeployed and gain re-employment. On the other hand, although the fiscal deficit is expected to expand to 2.18 trillion yuan (3% of GDP) in 2016, it is mainly due to tax reductions to corporations and improvement of safety-nets such as unemployment measures and enhanced social security system that are indispensable to a sustainable expansion of consumption, and therefore its immediate effects on the expansion of domestic demand cannot be expected. Also major part of infrastructure investments is accounted for by the implementation of existing projects accounts and seemingly it is not intended to stimulate the economy with additional investments as had been in the past. While there is a hope for the implementation of reforms aimed at sustainable growth, resistance against these measures is expected to inevitably come from such vested interests as local governments and state owned enterprises, and any risks that the economic growth will slow down below the target in the short run should be taken into account in forecasting.

Table1: Main Economic Indicators (China)

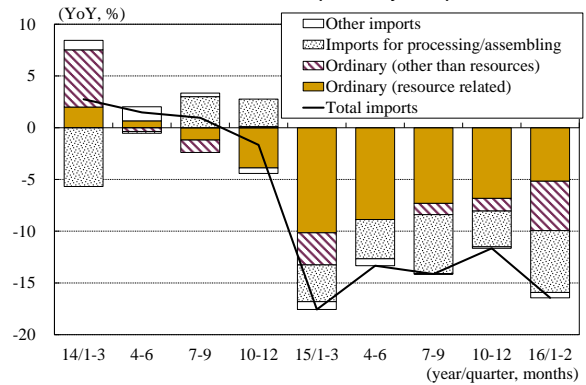
	2015				2016	
	Sep	Oct	Nov	Dec	Jan	Feb
Exports (YoY, %)	-3.9	-7.0	-7.0	-1.7	-18.4	
Imports (YoY, %)	-20.2	-18.6	-8.8	-7.5	-16.4	
Fixed Assets Investment (YTD, YoY, %)	10.3	10.2	10.2	10.0	10.2	
Retail Sales (YoY, %)	10.9	11.0	11.2	11.1	10.2	
Industrial Production (YoY, %)	5.7	5.6	6.2	5.9	5.4	
Manufacturing PMI	49.8	49.8	49.6	49.7	49.4	49.0
Non-manufacturing PMI	53.4	53.1	53.6	54.4	53.5	52.7

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.

2) Shadow ed portion indicates lower growth rates or decline in indicators from previous months.

Source: China National Bureau of Statistics, BTMU

Chart 1: China's Imports by Purpose



Note: Resource related refers to the total of iron ore/products, copper ore/products, coal, crude and refined products.

Source: Chinese General Administration of Customs (GACC), BTMU

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