

Government Promotes Structural Adjustment under Current Stable Economic Situation

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China's economic deceleration, which was triggered by a slowdown in investment activity, has persisted, but recent economic indicators remain overall stable. Real GDP growth was +6.7% YoY in Jul-Sep, sustaining the same pace of growth for three quarters in a row. The monthly economic indicators for September showed that fixed asset investment (yea-to-date, for urban areas) accelerated slightly to +8.2% YoY (from +8.1% YoY in August). Retail sales also continued to grow strongly by +10.7% YoY (versus +10.6% YoY in August) (see table 1).

Looking ahead, increased infrastructure investment and private consumption are expected to support China's economy, but there is still considerable room for reduction in surplus capital stock and debt, and slowing investment—particularly in heavy industries—is likely to continue to weigh on the economy. In October, the State Council released a memorandum providing guidelines aimed at lessening corporate leverage. The memorandum stated that zombie companies and those with low credit rating will be eliminated from debt-for-equity swap programs. The China Banking Regulatory Commission plans to ease regulations to manage corporate debt and speed up disposal of non-performing loans. Under the new measures, local governments will be allowed to set up more asset management companies (AMCs) (currently, only one AMC per province is allowed) and the local AMCs will be able to purchase and sell non-performing assets from/to other companies across provinces in China (currently, the only legal means available are bankruptcy procedures to dispose non-performing assets). In response to the announcement of those government's policies, a large state-owned special steel manufacturer has filed for bankruptcy on an unprecedented scale (with total debt of RMB 55.6 billion and approximately 20,000 employees).

On the other hand, state-owned companies with several hundred thousand employees will continue in business with support from the government. It is worth bearing in mind that the initiative to reduce corporate leverage is likely to be pushed forward prudently considering the impact on employment and regional economies of China.

Under such circumstances, attention should be paid to the stance of the People's Bank of China (PBOC) with regard to lowering expectations of further monetary easing (for example, as expressed in the speech of the PBOC governor at the G20 Finance Ministers and Central Bank Governors Meeting held in the beginning of October). This comes against a backdrop of increasing wariness of an asset bubble amid continued strong growth in new bank lending to Chinese households—particularly in mortgage (see chart 1). Going forward, companies are expected to reduce debt faster under the new measures, but the government will be required to make careful judgments in implementing the new policies in such a way that they will not weigh on the economy.

Table 1: Main Economic Indicators (China)

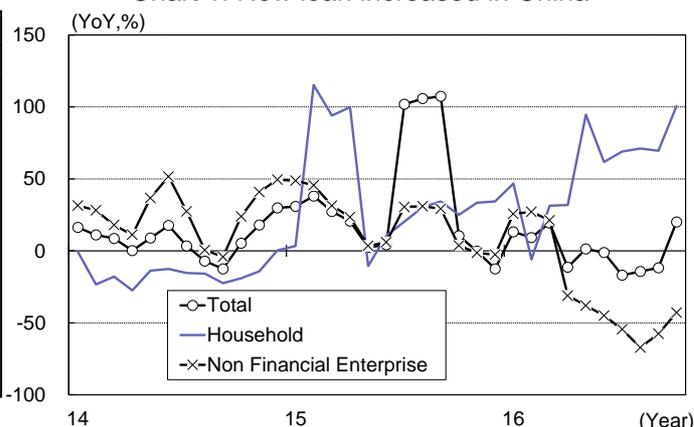
	2016				
	May	Jun	Jul	Aug	Sep
Exports (YoY, %)	-5.7	-5.6	-5.6	-2.8	-10.0
Imports (YoY, %)	-0.3	-8.7	-12.6	1.5	-1.9
Fixed Assets Investment (YTD, YoY, %)	9.6	9.0	8.1	8.1	8.2
Retail Sales (YoY, %)	10.0	10.6	10.2	10.6	10.7
Industrial Production (YoY, %)	6.0	6.2	6.0	6.3	6.1
Manufacturing PMI	50.1	50.0	49.9	50.4	50.4
Non-manufacturing PMI	53.1	53.7	53.9	53.5	53.7

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

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

Source: China National Bureau of Statistics, BTMU

Chart 1: New loan increased in China



Note: *Non-financial enterprises* include government agencies and organizations. *Total* includes *Households*, *Non-financial enterprises* and *Nonbanks*. 3-month moving average.

Source: China National Bureau of Statistics, BTMU

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