

## ***Sustainable Growth and Financial Risk Avoidance were the Major Focuses of China's 2017 National People's Congress***

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21 APRIL 2017

(ORIGINAL JAPANESE VERSION RELEASED ON 23 MARCH, 2017)

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In China, the annual National People's Congress (NPC) was held from March 5 to 15, 2017. At the NPC meeting, Chinese leaders have concluded to continue efforts to push forward supply-side structural reform aimed at cutting excess production capacity, while China's real GDP growth rate target was lowered to +6.5% YoY in 2017, from a range between +6.5% and +7%YoY in the previous year. Additionally, the growth target for China's M2 money supply and total social financing was reduced by 1% point to +12% YoY from the previous year's target. Although these changes in growth targets are only marginal in the eyes of Western countries, it is important to understand the Chinese government's intention behind these changes in growth goals.

The real GDP growth target level set by the government reflects its determination and confidence to achieve sustainable economic growth. In 2016, the downturn in the economy caused by progress in reducing excess production capacity, which is identified as the most important issue, was offset by an increase in infrastructure and property investment. As a result, 2016's full-year real GDP growth was +6.7% YoY, achieving the government's growth target. China's official economic indicators for the period from the start of 2017 until now, which were released during the NPC meeting, suggest that the economy will continue sustainable growth. Looking at the average growth of major economic indicators for the months of January and February to eliminate seasonal distortions related to the Lunar New Year holidays, industrial production rose +6.3% YoY and investment also increased +8.9% YoY, accelerating from last December, while exports grew by 4.0% YoY, the first positive growth in about a year (see table 1).

On the other hand, the lowering of growth targets for both real GDP and monetary indicators reflects the government's sense of caution about increased financial risk behind stability in the real economy. China's monetary easing policy caused housing prices to soar particularly in large urban areas and an increase in leverage, rather than deleveraging that is also another main issue of supply-side reform. All of these factors fueled concerns of a property bubble (see chart 1). China's total social financing grew at +12.8% YoY, roughly in line with the government's growth target, while nominal GDP growth rate remained at +8.0% YoY, which pushed up the total social financing-to-GDP ratio to 209.6%, an increase of 8.9% points over last year. Growing debt levels and a property bubble heightened concerns about the possibility of non-performing loans problem in China.

2017 is an important year for the government due to the holding of the National Congress of the Communist Party. In such environment, economic policy will be implemented with a focus on not only sustainable growth but also financial and exchange risk avoidance, which are both essential factors for maintaining stability, the government's highest priority. An increase in the

operating interest rate by the central bank before the Chinese New Year can be considered as one means of that.

Table 1: Main Economic Indicators (China)

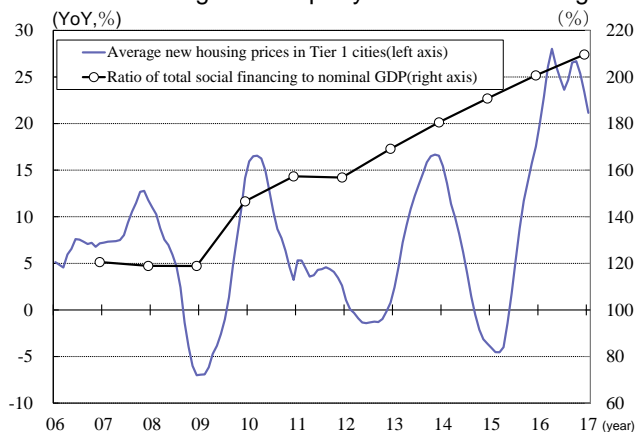
	2016			2017	
	Oct	Nov	Dec	Jan	Feb
Exports (YoY, %)	-7.9	-1.5	-6.2	4.0	
Imports (YoY, %)	-1.6	5.5	3.1	26.3	
Fixed Assets Investment (YTD, YoY, %)	8.3	8.3	8.1	8.9	
Retail Sales (YoY, %)	10.0	10.8	10.9	9.5	
Industrial Production (YoY, %)	6.1	6.2	6.0	6.3	
Manufacturing PMI	51.2	51.7	51.4	51.3	51.6
Non-manufacturing PMI	54.0	54.7	54.5	54.6	54.2
CPI (YoY, %)	2.1	2.3	2.1	2.5	0.8
PPI (YoY, %)	1.2	3.3	5.5	6.9	7.8

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 Economic Research Office

Chart 1: Changes in Property Prices and Leverage



Note: "Tier 1 cities" include Beijing, Shanghai, Guangzhou and Shenzhen.  
Source: National Bureau of Statistics of China, People's Bank of China, BTMU Economic Research Office

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