

## ***Economic Stability Helps Regulators Strengthen Measures to Prevent Financial Risks***

YOKO HAGIWARA  
ECONOMIC RESEARCH OFFICE

11 MAY 2017

(ORIGINAL JAPANESE VERSION RELEASED ON 20 APRIL 2017)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
A member of MUFG, a global financial group

China's real GDP growth was +6.9% YoY in the Jan to Mar 2017 quarter, which came in higher than in the previous quarter (+6.8% YoY). With real GDP growth accelerating for two consecutive quarters, China's economy got off to a good start to 2017 achieving the government's yearly growth target of +6.5% YoY. China's major economic indicators for March were also favorable, supported by the accelerated growth of industrial production (+7.6% YoY), investment (+9.2% YoY) and consumption (+10.9% YoY) from the months of Jan and Feb. In particular, exports grew by 16.4% YoY, the first double-digit growth in about two years (see table 1).

These stable economic conditions provide favorable opportunities for the government to focus on curbing financial risks in the economy as its priority issue. China's financial risks stem from the investment boom caused by economic stimulus measures in response to the global financial crisis in 2008. Last year, monetary easing was implemented to achieve stable growth, which led to further concerns about the financial risks. Against this backdrop, at the Central Economic Work Conference held last December, Chinese leaders raised the priority of financial risk avoidance and decided to shift the monetary policy stance from the conventional easing trend to "neutral". Additionally, the government also expressed its strong sense of wariness about financial risks during the National People's Congress in March. It put unusually strong emphasis on financial risk management, stating that China faces mounting financial risks such as non-performing loans, defaults, shadow banking, Internet finance, etc and that those risks need to be strictly watched.

Under such circumstances, Chinese authorities have moved to step up efforts to prevent financial risks. The People's Bank of China (PBOC) has started to raise the operation interest rates since the start of 2017, while it was reported in February that new rules for regulating asset-management products were being drafted jointly by the PBOC and the banking, insurance and securities regulators. In April, the China Banking Regulatory Commission (CBRC) rolled out guidance for banks to step up control over the top 10 risks stressed in its guidance, which include credit risks and liquidity risks. According to the guidance, banks are required to submit a report of progress in the prevention and control of the 10 risks to the CBRC in July and next January.

In response to a shift in monetary stance, both long-and short-term market interest rates have trended upwards (see chart 1). The 7-day repo rate soared in the interbank market at the end of March. Some foreign media also reported that several small banks who participated in the interbank market had defaulted and the central bank had supplied funds to maintain stability in the market. Furthermore the corporate bond market saw a sharp increase in the postponement or cancellation of bond issuance. The Chinese authorities are in a difficult situation as they are required to take a fine-tuned approach to stabilize the financial and capital markets while

pursuing their efforts to rein in financial risks. The real challenge faced by China is to sustain economic growth while slowing down the credit growth which has boosted the economy.

Table 1: Main Economic Indicators (China)

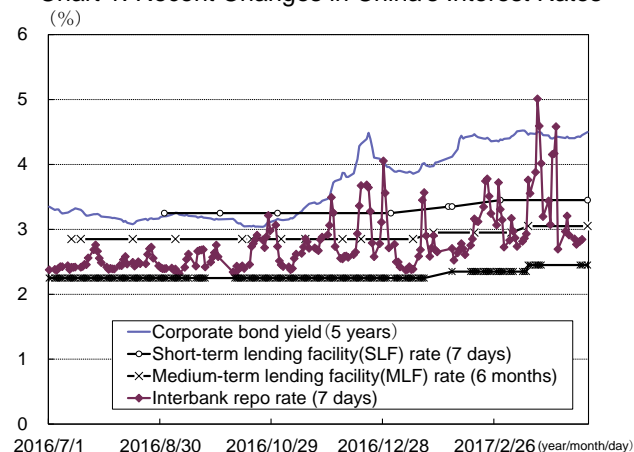
	2016		2017		
	Nov	Dec	Jan	Feb	Mar
Exports (YoY, %)	-1.5	-6.2	3.8		16.4
Imports (YoY, %)	5.5	3.1	26.3		20.3
Fixed Assets Investment (YTD, YoY, %)	8.3	8.1	8.9		9.2
Retail Sales (YoY, %)	10.8	10.9	9.5		10.9
Industrial Production (YoY, %)	6.2	6.0	6.3		7.6
Manufacturing PMI	51.7	51.4	51.3	51.6	51.8
Non-manufacturing PMI	54.7	54.5	54.6	54.2	55.1
CPI (YoY, %)	2.3	2.1	2.5	0.8	0.9
PPI (YoY, %)	3.3	5.5	6.9	7.8	7.6

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: Recent Changes in China's Interest Rates



Source: The People's Bank of China, BTMU Economic Research Office

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Yoko Hagiwara <youko\_hagiwara@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.