After the CPC National Congress, the balance between stable growth and curbing debt will be an issue

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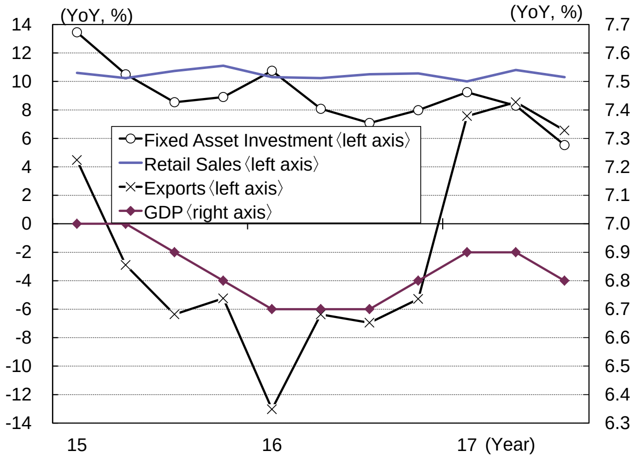
In China, the National Congress of the Communist Party of China (CPC National Congress), which is held once every five years, took place from 18th to 24th October. Within this period, the real GDP growth rate for the July-September period was announced on 19th (6.8% YoY) and revealed marginally slower growth from the previous quarter. Looking at other monthly statistics, there was a deceleration in infrastructure investment, which has been driving the economy at a high level. Furthermore, there was an apparent slowdown in exports owing to the strengthening of the RMB since the start of the year (Chart 1). Nevertheless, economic growth has been within a tight range (between 6.7% YoY and 6.9% YoY) over the past two years and longer, and it is almost certain that the government's 2017 target of 6.5% YoY will be reached.

Such stable growth is not unrelated to the CPC National Congress, and it was pursued as a whole premise in order that General Secretary Xi Jinping could build a solid system over the course of his second term through members of the leadership, who will be decided at this Congress. However, the rise of debt as the economy grows has roused strong concerns from overseas and there are also harmful effects from a succession of downgrades of Chinese government bonds. Based on this situation, there is a widespread view, particularly amongst foreign analysts, that Xi Jinping will probably focus on structural reforms after the CPC National Congress and will come to terms with sluggish growth. On the contrary, it is already possible to glimpse the administrations' intentions to try and maintain deceleration at a gradual pace.

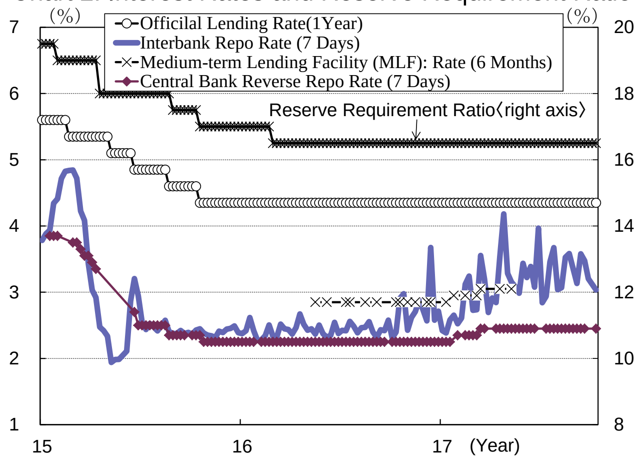
At the State Council Executive Meeting on 27th September, a reserve requirement ratio cut was included in a round of measures to support small and medium-sized enterprises. Subsequently, on 30th September, the People's Bank of China (PBOC) decided that for banks whose lending to groups such as small enterprises, agriculture and the impoverished exceeded 1.5% of their lending balance or the amount by which their new lending increased last year, the PBOC would cut the reserve requirement ratio by 0.5% points. For banks whose lending to these groups exceeds 10%, they will reduce the reserve requirement ratio by 1.5% points (to be enacted from the start of 2018). Since the start of this year, the PBOC has been raising market rates through operation rate hikes (Chart 2). They emphasised that they would not change the conventional, neutral monetary policy, but it appears that most banks can attain the conditions for the 0.5% point cut, which will create room for increased lending no lower than RMB 600 billion from the start of next year. It is unusual that the change in the reserve requirement ratio was announced three months before it will be enacted at the beginning of next year, and is also suggests a political intention to increase support to the vulnerable people ahead of the CPC National Congress. Even though a reduction in debt is on the horizon after the CPC National Congress, there is a possibility that maintaining stable economic growth will continue to be an important issue for authorities.

Chart 1: China's GDP and Related Indicators



Source: China National Bureau of Statistics, BTMU Economic Research Office

Chart 2: Interest Rates and Reserve Requirement Ratio



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

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