China announces measures to underpin economy before exports worsen

YOKO HAGIWARA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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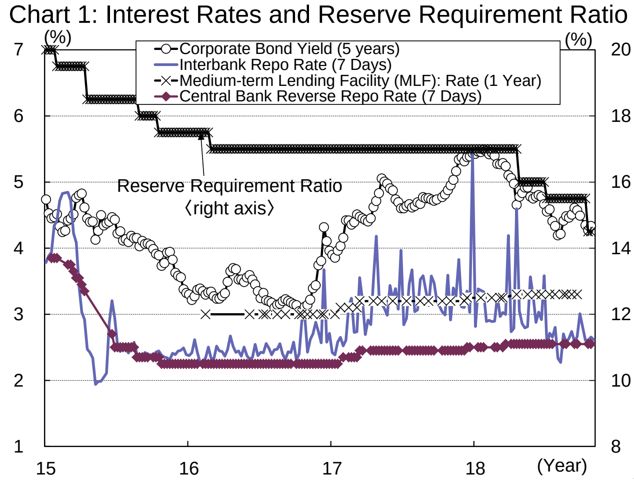
In the July-September quarter, the real GDP growth rate slowed slightly to 6.5% YoY from the previous quarter (6.7% YoY), falling below the range recorded over the past 12 quarters (6.7 to 6.9% YoY). The main reason for this was a deceleration in investment, which seems to be due to deleveraging (trimming excess debt) aimed at curbing shadow banking and uncertainty about the future, sparked by the growing intensity of the trade war between China and the US. There was strong growth of 14.5% YoY in exports in September. In particular, it appears that the impact from China's trade friction with the US is not being felt as exports to the US increased by double figures for the fifth consecutive month. However, it seems that the rush of exports to the US before the import tax hike had a significant impact on this result. On 24th September, the US government imposed additional tariffs on USD 200 billions' worth of Chinese goods in line with their prior announcement, and the Chinese government responded with their own tariffs on USD 60 billions' worth of US goods. As a result, half of US imports from China and 70% of Chinese imports from the US are now subject to tariffs, taking into account the tariffs already in effect. There are also deep concerns that exports will fall sharply after the rush and will worsen in the future.

Meanwhile, Chinese authorities have made a move by introducing measures to support the economy. On 7th October, the People's Bank of China (PBOC) cut the reserve requirement ratio for the third time this year (to take effect on 15th October, reduction of 1 percent point, Chart 1). It directed banks to use RMB 450 billion of the funds released to repay medium-term lending facility loans and use the remaining RMB 750 billion to increase funding to small- and medium-sized corporations and private corporations. The governor of the PBOC said there is scope for further rate cuts. In a continuation from September, the State Council decided to raise the rebate rate on exports (to take effect in November) and set a target to shorten the average processing time from 13 to 10 working days on 8th October. In addition, the State Council announced a 3-year (2018-2020) plan to improve the structure that stimulates consumption on 11th. It aims to boost consumption through various methods, such as developing mechanisms to increase and upgrade consumption – including preferential tax measures on new electric vehicles and a points system for sustainable consumption – and strengthening support in terms of financing and income. This plan also holds significance in terms of reducing the Chinese economy's dependence on exports.

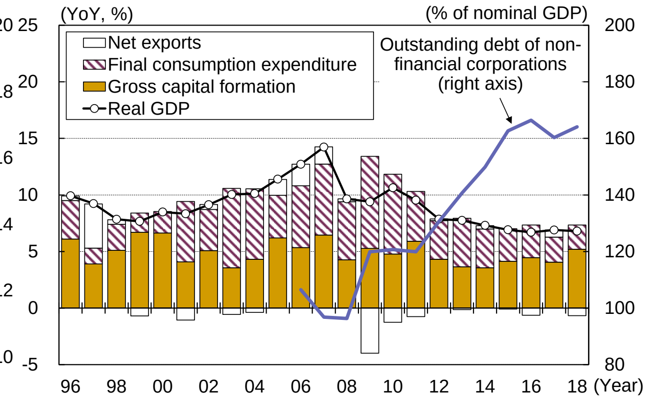
It seems that the Chinese government is suppressing the huge rise in investment, which increased amid a significant expansion in corporate debt following the global financial crisis. That being said, it will be important to keep an eye on the degree of impact the rise in trade tension between the US and China has on the Chinese economy and the economic measures at that time.

Chart 1: Interest Rates and Reserve Requirement Ratio



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

Chart 2: China's GDP and Outstanding Corporate Debt



Note: 2018 "outstanding debt of non-financial corporations" uses data from March, others use data from January to September
Source: National Bureau of Statistics of China, Bank for International Settlements, MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Yoko Hagiwara <youko_hagiwara@mufg.jp>