China enacts cautious economic policies based on stable long-term growth and an economic slowdown

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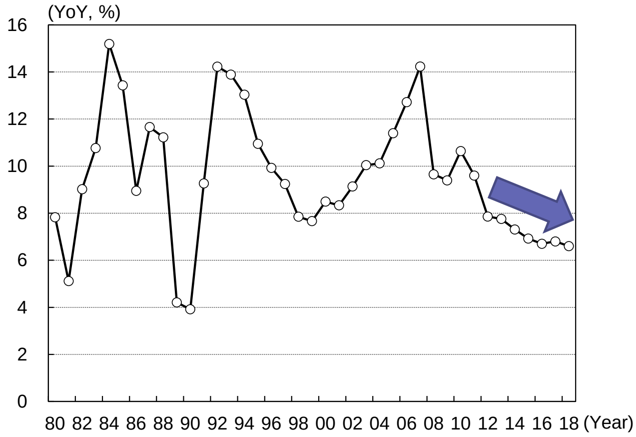
7 FEBRUARY 2019
(ORIGINAL JAPANESE VERSION RELEASED ON 30 JANUARY 2019)

China's real GDP growth rate slowed to 6.4% YoY in the October-December quarter, decelerating for the third consecutive quarter. Throughout 2018, growth also slowed to 6.6% YoY: a decline of 0.2% points. The main reason for this was a worsening of the contribution of net exports to growth (-1.2% points), but there was also a significant deceleration in infrastructure investment which the rise in consumption was unable to offset fully. Overseas media focused entirely on the fact this was the slowest growth in 28 years; however, the Chinese government is establishing the sort of economic management that avoids spikes in growth (Chart 1) and that a gradual slowdown in economic growth over a long period of time is a natural consequence of this (with growth at 6.6% YoY, the government still exceeded its target of 6.5% YoY).

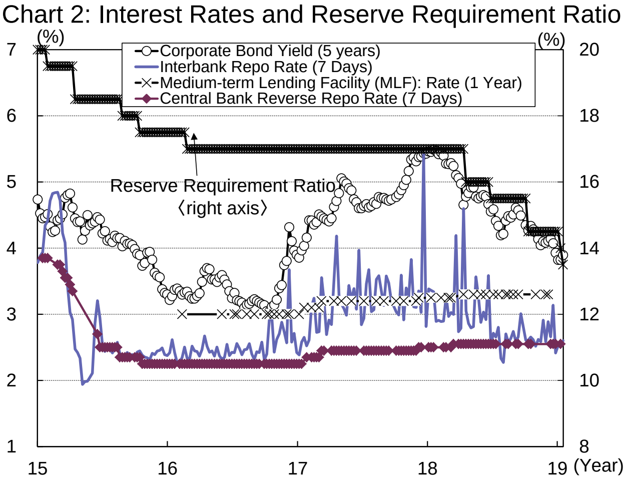
At present, a matter of greater concern is to what extent a worsening of trade friction between China and the US acts as a headwind for the overall deceleration in growth. Since the end of last year, automobile sales have fallen, business activities in the manufacturing sector have stagnated and trade statistics show the year-on-year growth of imports and exports has fallen into negative territory. Such indicators suggest a sudden fall in economic activities and are becoming more noticeable, but there is also downward pressure which appears to have stemmed from the effects of existing national policies, such as restrictions on shadow banking and the reaction to a rise in people purchasing automobiles earlier than planned due to the tax rate cut on cars. Therefore, it is not easy to isolate the negative impact of the US-China trade friction. On the monetary side, the People's Bank of China lowered the reserve requirement ratio by 1% point in January (Chart 2) and has established a "targeted medium-term lending facility" (TMLF), of which the interest rate is 0.15% lower than that of the medium-term lending facility (MLF), which lends to banks with the aim of encouraging them to increase their financing to small- and medium-sized businesses. On the fiscal side, the Ministry of Finance is expanding policies following the direction of a State Council meeting, such as reducing the corporate income tax, the value-added tax and various regional taxes for small- and micro-sized companies (between 2019 and 2021, RMB 200 billion per year). However, there are many that deem the scale of these measures as small compared with the policies which were enacted after the global financial crisis (the "4 trillion yuan stimulus package"), meaning the Chinese government cannot necessarily identify the negative effects of its trade friction with the US. Instead, until the result of its negotiations with the US become apparent, the Chinese government appears to have adopted a stance which keeps an eye on both the negative effects of the trade friction and a deterioration of structural issues, such as an expansion of debt resulting from its policies to stimulate demand in response to the trade fiction. Nevertheless, it may be necessary to keep an eye out for the implementation of additional policies related to demand by the Chinese government, depending on the outcome of its negotiations with the US.

Chart 1: China's Real GDP Growth Rate



Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Chart 2: Interest Rates and Reserve Requirement Ratio



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

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