

China emphasises economic stability ahead of National Congress in autumn 2022

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While the stringent restrictions on movement and real estate regulations remain in place in China, retail sales decelerated in November and the sales area of commercial housing experienced a double-digit drop (Chart 1, upper). Furthermore, there are concerns that the economy may decelerate further; Evergrande Group was downgraded to a “restricted default” and there are mounting risks facing the real estate market.

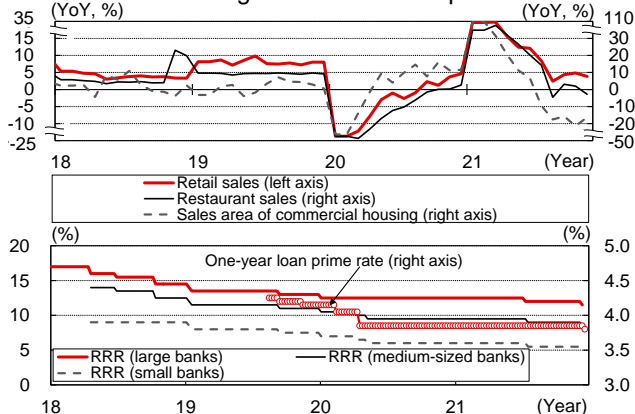
Meanwhile, attention is focused on the Central Economic Work Conference in December. In a typical year, the key aims of the Conference give an important hint as to what future economic policies will be as there are many concrete policies introduced the following year that relate to the aims. Looking back over the past few years, “eliminating excessive production capacity” and “deleveraging” were listed as the number one target at the 2016 Conference, and the government published guidance on comprehensive shadow banking regulations in 2017. After “decarbonisation” was added at the Conference in 2020, the government recommended exceeding the targets to “reduce energy intensity” (energy use per unit of economic output) introduced in 2021 and published its Action Plan for Reaching Carbon Dioxide Peak Before 2030.

Of the key missions of the Conference in December 2021, the top item is “the introduction of effective macro policies” (Table 1). After the recent lowering of reserve requirement rates and loan prime rates (Chart 1, lower), it is possible that authorities will carry out additional monetary easing, or will establish a framework for issuing more special local government bonds than it did in 2021. The second and third aims relate to the stability of financial markets and the development of the real estate market. Taking into account the current sluggishness of the real estate market, it is highly likely that the government will introduce policies to underpin it. On top of this, the government added “issues to be correctly understood and grasped” and raised topics such as common prosperity and decarbonisation. It acknowledged that it would be impossible to achieve decarbonisation targets in the short term and, bearing in mind the downward pressure on the economy that would come from sudden structural reforms, it categorised these as aims for the medium or long term.

The plan put forward by the Xi Jinping administration, which is looking to the next National Congress in autumn 2022 to cement an unusual third term, will be focused primarily on economic and social stability in 2022. It is possible this plan will be a stabilising factor in the short term for the global economy. In addition, given China’s structural problems that have come to light in

2021, it is considered important that the country addresses its medium- and long-term issues at the same time.

Chart 1: China's Retail Sales, Sales Area of Commercial Housing and Reserve Requirement Ratios



Note: RRR = reserve requirement ratio
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Table 1: Outline of 2021's Central Economic Work Conference

1. Introduce stable and effective macroeconomic policies	7. Enhance social security systems
• Continue with proactive fiscal policy and accommodative monetary policy	• Encourage new birth and child policies; address the ageing population
2. Revitalise markets through various measures	Strategically target and achieve common prosperity
• Improve trust of market participants. Effectively manage defaults	• Make the economic "pie" bigger and decide the next comprehensive system to achieve common prosperity
3. Smooth the economic cycle with structural reforms	Discipline behaviour over capital
• Escalate structural reforms and smooth the domestic economic cycle • Encourage a virtuous cycle and healthy growth of the real estate sector while maintaining that "housing is for living, not for speculation"	• Strengthen regulation of capital effectively in line with laws; prevent disorderly growth of capital
4. Steadily introduce science and technology policies	Disruptions to supply of primary products
• Implement a 3-year plan to reform science and technology systems; strengthen strategic science and technology capabilities	• Improve production capacity for resources; develop sophisticated mining technology. Promote construction of high-quality agricultural land
5. Revitalise policies to reform and open	Prevent and abolish important risks
• Expand "high-level opening up" and attract more investment from overseas	• Research methods of resolving financial risks and implement policies. Improve coordination between organisations
6. Strengthen local policies further	Start to reduce overall carbon emissions and become carbon neutral
• Promote revitalisation of rural areas; improve quality of new urban construction	• Gradually reduce the use of existing energy sources provided there are new, safe, reliable sources

Note: Seven items in bold are "key missions" and others are "issues to correctly understand and grasp"
Source: Various news reports, MUFG Bank Economic Research Office

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