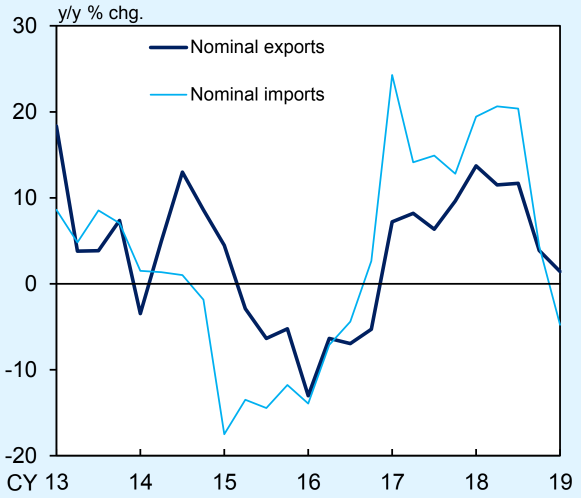
## (Box 3) Developments in the Chinese Economy and Fiscal and Monetary Policy Measures by the Chinese Authorities

As shown in Box 2, one of the factors that lie behind the recent weakness in Japan's exports is developments in the Chinese economy. Relatively weak developments have been observed in the Chinese economy, reflecting the lingering impact of measures to push forward with deleveraging that materialized in the middle of last year, coupled with effects such as the trade friction with the United States and adjustments in IT-related goods. These developments in the Chinese economy have spilled over to other areas of Asia and pushed down Japan's exports to Asia.

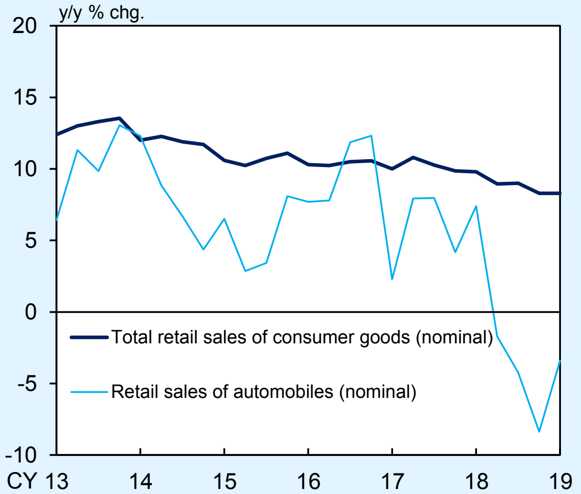
**Chart B3-1:** Nominal Exports and Nominal Imports




Source: CEIC.
Note: U.S. dollar basis.

Looking at the recent developments in the Chinese economy in detail, the year-on-year rate of increase in exports has decelerated significantly due to the impact of factors such as the hike in U.S. tariffs on imports from China and adjustments in IT-related goods (Chart B3-1). Although private consumption has been resilient on the whole, some weakness has remained in part, such as in sales of automobiles (Chart B3-2). Mainly against the background of these developments, the year-on-year rate of change in imports for the January-March quarter of 2019 has been negative and the business sentiment of manufacturing firms has been on a deteriorating trend (Charts B3-1 and B3-3).

**Chart B3-2:** Nominal Retail Sales of Consumer Goods




Source: CEIC.
Note: Based on staff calculations. Figures for nominal automobile retail sales are based on the aggregate for enterprises (units) with revenues above certain threshold amounts only.

Given these economic developments, the Chinese authorities have decided on, and have been implementing, timely policy measures both on the fiscal and monetary sides toward easing downward pressure on economic activity.

Regarding fiscal policy, it was announced at the National People's Congress (NPC) in March that, as the policy direction in 2019, it would pursue a proactive fiscal policy with greater intensity and enhance its performance. Specifically, the government raised this year's target for the ratio of fiscal deficit to nominal GDP from last year's and decided on such measures as tax cuts worth nearly 2 trillion yuan within the general public budget (Chart B3-4). In addition, the government is likely to boost off-budget fiscal expenditure, mainly on infrastructure investment, through special local government bonds and local government financing vehicles.

With respect to monetary policy, it was said at the NPC in March that prudent monetary policy would be eased or tightened to the right degree, and that the financing environment for private enterprises as well as small and medium-sized enterprises would be eased while controlling the money supply. Such funding support measures for firms already have been gradually introduced since around autumn last year, and according to a survey by the People's Bank of China (PBC), the number of banks replying that monetary policy stance is accommodative recently has increased substantially (Charts B3-5 and B3-6). In addition, the number of banks that have eased loan approval conditions also has been increasing.

As a result of this timely conduct of fiscal and monetary policies, the relatively weak developments in the Chinese economy are

**Chart B3-3:** Business Sentiment of Manufacturing Firms


Source: CEIC.
Note: Figures are based on the "Manufacturing Purchasing Managers' Index" published by the National Bureau of Statistics of China.

**Chart B3-4:** Main Fiscal Policy Measures in 2019

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|---|---|
| Tax cuts | -- Reduction of the tax burden and burden of social insurance premium contributions on enterprises by nearly 2 trillion yuan<br>-- Addition of individual income tax deduction items |
| Infrastructure investment | -- New issuance of special local government bonds to provide funding for key projects valued at 2.15 trillion yuan<br>-- Investment in railway construction, valued at 0.8 trillion yuan, and road construction and waterway projects, valued at 1.8 trillion yuan |

Sources: Ministry of Finance of the People's Republic of China; NPC, "Report on the Work of the Government."

**Chart B3-5:** Funding Support Measures from Autumn 2018 Onward

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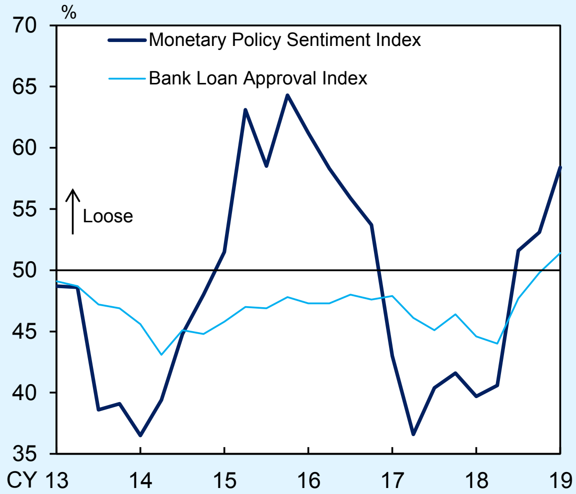
|---|---|
| Oct.18: | PBC provides guidance for setting up a support instrument run by professional institutions to promote bond financing by private enterprises through credit enhancement guarantees. |
| Dec.18: | PBC decides to introduce Targeted Medium-term Lending Facility to strengthen financial support for small and micro enterprises as well as private businesses. |
| Jan.19: | PBC decides to lower the required reserve ratio for financial institutions by 1 percentage point. |
| Jan.19: | PBC decides to launch Central Bank Bills Swap to encourage banks to replenish capital through the issuance of perpetual bonds. |
| Mar.19: | China Banking and Insurance Regulatory Commission requests five largest banks to increase their overall balance of loans to small and micro enterprises by more than 30% over the year. |

Sources: PBC; China Banking and Insurance Regulatory Commission.

expected to gradually ease from the second half of this year. In fact, in interviews of Japanese firms, some have said that orders from China have been bottoming out. However, there are some uncertainties regarding when the impact of various stimulus measures introduced recently will materialize, and its magnitude. In addition, the effects of the trade friction between the United States and China, and of existing measures to push forward with deleveraging, continue to warrant attention.

**Chart B3-6:** Banks' Lending Attitude




Source: CEIC.
Note: The "Monetary Policy Sentiment Index" and the "Bank Loan Approval Index" are taken from the "Bankers' Survey Report" published by the PBC.