Chinese economy

Chinese vice-premier makes plea for calm as growth slows

Quarterly GDP growth of 6.5% is weakest since depths of global financial crisis

Full steam ahead? A steel plant in Jilin province © Bloomberg

Tom Mitchell and Sherry Fei Ju in Beijing OCTOBER 19, 2018

China's top economic official made a high-profile bid to bolster confidence in the country's economy, stock markets and reform programme as Beijing reported its slowest quarterly growth figure in almost a decade.

Vice-premier Liu He on Friday said the world's second-largest economy faced economic challenges and admonished bankers who he said were sometimes reluctant to support private-sector companies, but insisted China would maintain stable growth.

"If you analyse China's economy by focusing only on one thing or one period, you might feel it faces difficulty," Mr Liu told the country's main media organs: China Central Television, the People's Daily newspaper and the Xinhua news agency. "But if you look at it from a larger historical perspective, the outlook is very bright."

Mr Liu's comments came as the country reported the economy expanded just 6.5 per cent year-on-year in the third quarter, marking China's weakest quarterly year-on-year growth rate since the depths of the 2008-09 global financial crisis.

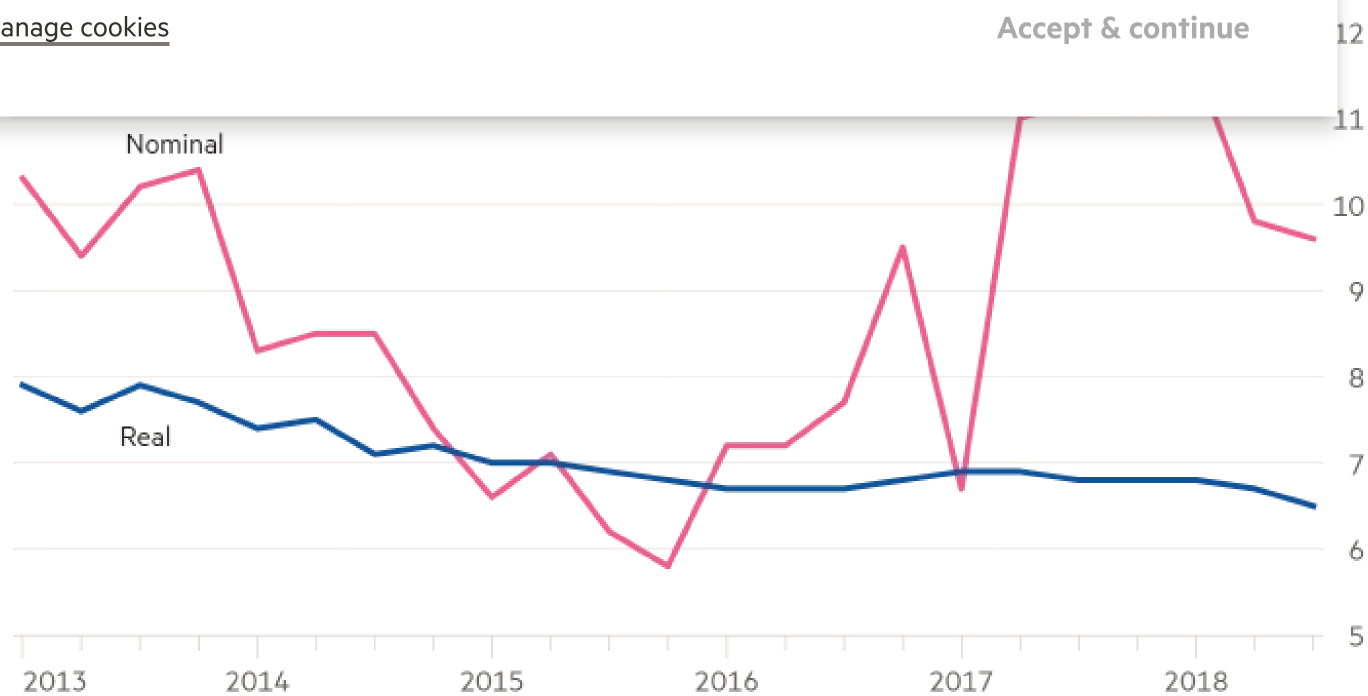
The lower than expected figure has increased the pressures building on President Xi Jinping as his government contends with the fallout from the continuing trade war with the US.

In the rare public remarks, the vice premier argued fears about the trade war were exaggerated. “The psychological impact is greater than the actual impact,” Mr Liu said. “China and the US are currently in contact,” he added, referring to discussions about a possible meeting between Mr Xi and President Donald Trump at next month’s G20 meeting in Buenos Aires.

The Chinese government remains on track to exceed its full-year growth target of 6.5 per cent. The gross domestic product expansion, reported by the National Bureau of Statistics, was slightly lower than projections by many economists and analysts.

“China’s slower but still strong headline growth masks rising domestic and external vulnerabilities that are likely to presage a further growth slowdown in the absence of concerted policy measures,” said Eswar Prasad, professor of trade policy at Cornell University in the US.

The NBS said China faced an “extremely complex environment abroad and the daunting task if reform and development at home”, adding that the economy would experience “greater downward pressure” in future. But it also emphasised the Chinese economy’s “resilience”, arguing that “investment trends are still relatively stable” while the trade sector was performing “better



Sources: National Bureau of Statistics, CEIC
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Hours before state media published Mr Liu's comments, Chinese regulators also sought to boost investor confidence on the countries' stock exchanges, which have suffered steep falls this year — including a 25.5 per cent decline in the CSI 300, which tracks the largest companies listed on the Shanghai and Shenzhen bourses.

In a statement, securities regulator Liu Shiyu said the government would take measures to facilitate private equity investments in listed companies, speed up merger approvals and support bond issuance.

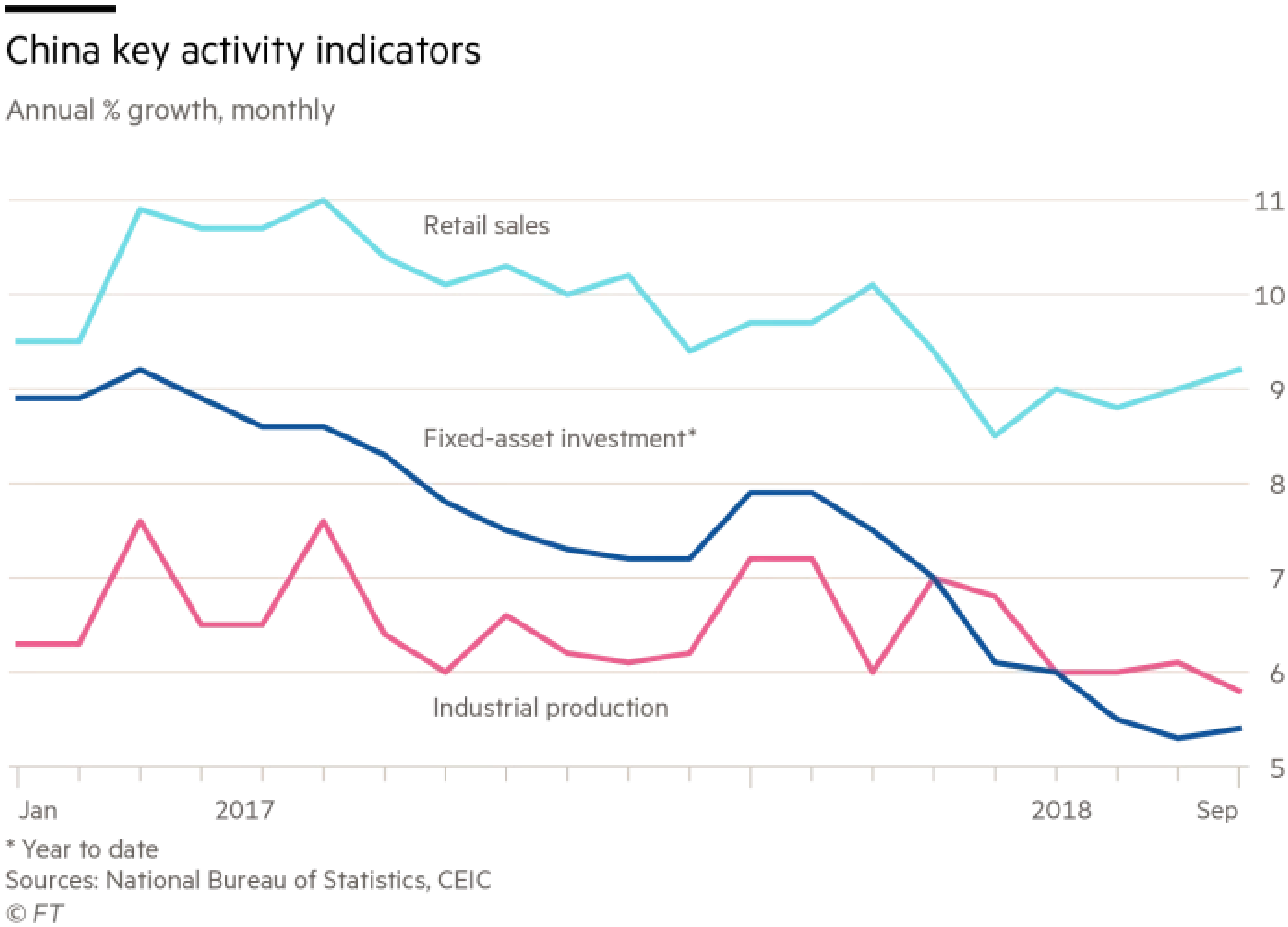
In a report earlier this week, the Chinese Academy of Social Sciences predicted the economy would grow 6.6 per cent in both the third quarter and for the full year, before slowing to 6.3 per cent in 2019.

"Rising US interest rates, the intensifying trade war and increasing risks in emerging economies will negatively affect China," wrote the authors at Cass, a leading government think-tank.

An official campaign against financial risk has been the biggest drag on China's economy so far this year, dramatically slowing investment in infrastructure and property. The Cass report noted that central authorities appeared to have pulled the plug on more than 2,000 public-private partnership projects worth Rmb2.5tn.

PPP projects had initially been encouraged by Beijing to spur flagging private-sector investment, but their popularity faded amid fears that local governments were taking on costly projects they could not afford, such as a series of subway lines in small northern cities that have since been cancelled.

Fixed asset investment increased 5.4 per cent year-on-year over the first three quarters, according to the NBS, up slightly from an all-time low of 5.3 per cent in August. September industrial production and retail sales increased 5.8 per cent and 9.2 per cent respectively, compared to increases of 6.6 per cent and 10.3 per cent in the same month last year.



Trading activity, by contrast, has been relatively strong. While US President Donald Trump has imposed tariffs on more than half of all Chinese exports to the US, the largest tranche was imposed in late September, with the next escalation not expected until January.

"There hasn't been any real impact from the trade war yet," said Andrew Polk at Trivium, a Beijing-based consultancy. "There's always another round of tariffs coming that traders want to front-run." In one indication of this, Chinese exports increased more than 14.5 per cent year-on-year in the first three quarters.

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Chinese exports have also been supported by the booming US economy and a weakening renminbi, which has fallen 10 per cent against the dollar since April.

Chinese officials are, however, increasingly worried that economic growth could slow faster than expected as more US tariffs come into effect early next year. In response, they have recently taken measures aimed at relieving some of the fiscal pressures building on local governments across the country.

China's central bank recently lowered the amount of reserves that Chinese lenders are required to keep on deposit, freeing up more than $100bn in additional financing.

Local governments have also been encouraged to issue more bonds to fund infrastructure projects, countering some of the effects of a long-running crackdown on the off-balance sheet vehicles they previously used to raise funds.

Additional reporting by Xinning Liu and Archie Zhang

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