

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office

BTMU Global Business Division

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■ BIWEEKLY DIGEST

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- **China's growth for 2017: IMF revised its projection upward to 6.5%** Home delivery business grew dramatically also in rural villages in 2016
- **Financial revenues increase 4.5% YoY in 2016, lowest growth since 1988**

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- **December home prices in 70 mid to large-sized cities: The month-on-month surge is slowing down**
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BIWEEKLY DIGEST

[Economy]

◆ Main economic indicators in 2016: GDP growth +6.7%

On January 20, the National Bureau of Statistics of China (NBS) announced that China's real GDP growth rate in 2016 was 6.7%, down 0.2 percentage points from a year earlier, but remained in the government's target range of 6.5% to 7.0%. Furthermore, the real GDP growth rate in 2016 4Q was 6.8% year-on-year, up 0.1 percentage points from 6.7% in Q1, Q2, and Q3, showing that the economy has been picking up.

Investment in fixed assets grew 8.1% year-on-year for the January-December period, down 0.2 percentage points from the January-November period. Industrial production (value-added basis) for December rose 6.0% year-on-year, down 0.2 percentage points from the previous month. By contrast, consumption remained strong, with total retail sales of consumer goods for December increasing 10.9% year-on-year, up 0.1 percentage points from the previous month.

The NBS evaluated that the +6.7% growth rate of the Chinese economy in 2016 under the "New Normal" stayed in a rational range and realized mid to high speed growth,

maintaining a high growth rate from a global view. The NBS also touched on the point that economic structural changes have been advancing as the ratio of the contribution of consumption to the GDP reached 64.6%, driven by the increased proportion of the service sector, the high-tech industry has been growing, etc.

In the real estate market, the NBS pointed out that investment in development, new construction area, sales, etc. increased remarkably nationwide compared to 2015, while the price gap between areas had obviously widened. Until the end of last September, housing prices in the first- (*) and second- (*) tier cities had been dramatically rising, however, the NBS evaluated that the rise in housing prices has been suppressed since last September in light of various property control measures. The NBS also made it clear that the surge in the property prices and buying and selling for speculation purposes will be controlled and efforts will be made to resolve the excess real estate in third-tier and other regional cities.

Regarding concerns over an increase in debt due to new borrowing and increases in investment by state sectors, debt held by industrial companies of a certain scale stood at 56.1% at the end of last November, down 0.6% year-on-year. The NBS underlined that the issue of debt by Chinese companies is manageable as a certain level of fund injection is indispensable for the real economy.

(*) First-tier cities: the four cities of Beijing, Shanghai, Guangzhou and Shenzhen

Second-tier cities: 31 cities including provincial and sub-provincial cities

Third-tier cities: 35 cities excluding the above-mentioned first and second-tier cities from the 70 cities

<Main economic indicators in 2016>

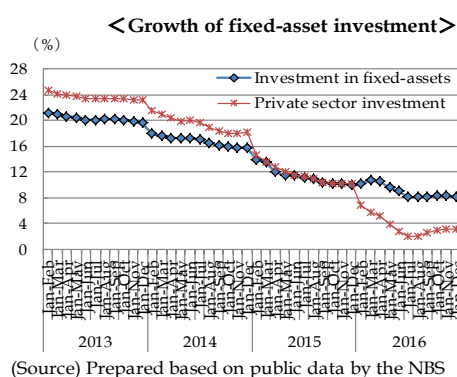
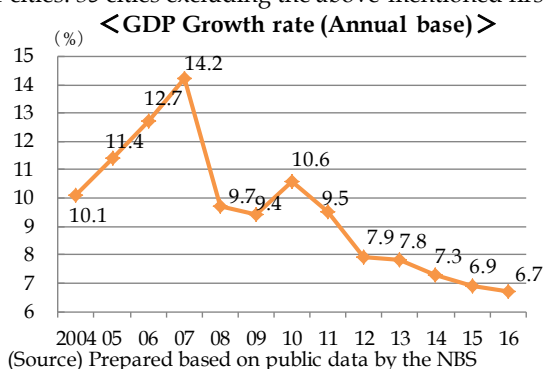
Item	December FY2016		FY2016			
	Amount		Amount	YoY (%)		
Gross domestic product (GDP)*	(RMB Bn)	-	(RMB Bn)	74,413	6.7	
Investment in fixed assets**	(RMB Bn)	-	(RMB Bn)	59,650	8.1	
State-owned sector	(RMB Bn)	-	(RMB Bn)	21,310	18.7	
Private sector	(RMB Bn)	-	(RMB Bn)	36,522	3.2	
By industry						
Primary industry	(RMB Bn)	-	(RMB Bn)	1,884	21.1	
Secondary industry	(RMB Bn)	-	(RMB Bn)	23,183	3.5	
Tertiary industry	(RMB Bn)	-	(RMB Bn)	34,584	10.9	
Value-added industrial production***	-	6.0	-	-	6.0	
Total retail sales of social consumables	(RMB Bn)	3,176	10.9	(RMB Bn)	33,232	10.4
Consumer price index (CPI)	-	-	2.1	-	2.0	
Industrial producer price index (PPI)	-	-	5.5	-	▲ 1.4	
Industrial producer purchase price index	-	-	6.3	-	▲ 2.0	
Export	(USD Bn)	209.4	▲ 6.1	(USD Bn)	2,097.4	▲ 7.7
Import	(USD Bn)	168.6	3.1	(USD Bn)	1,587.5	▲ 5.5
Trade balance	(USD Bn)	40.8	-	(USD Bn)	510.0	-
Inward direct investment (Executed base)	(USD Bn)	-	-	(USD Bn)	-	-

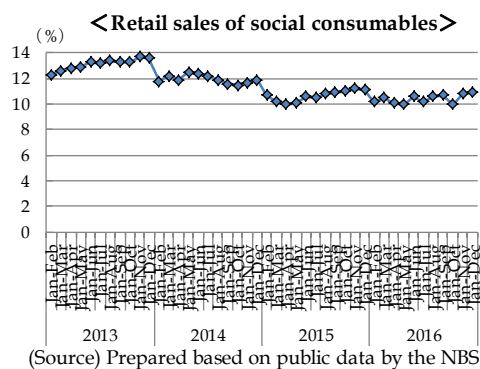
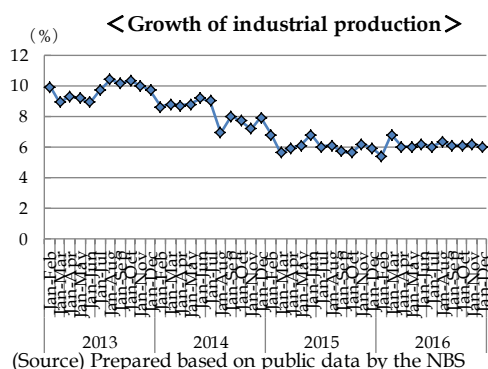
*: Cumulative total for January-December

** : Cumulative total for January-December excl. investment by rural companies

***: State-run companies with independent accounting and non-state-run companies with annual sales of at least RMB 20 Mn

(Source) Prepared based on data published by the NBS





◆China's growth for 2017: IMF revised its projection upward to 6.5%

On January 16, the International Monetary Fund (IMF) announced its "World Economic Outlook". The IMF projected that China's GDP growth would slow to 6.5% in 2017 and 6.0% in 2018. The projection for 2017 was revised up by 0.3 percentage points from the previous projection in last October and remained unchanged for 2018.

< IMF projection of GDP growth in the Chinese/World economy > (%)

	Announced Date	2017	2018
China	October 2016	6.2	6.0
	January 2017	6.5	6.0
World	October 2016	3.4	3.6
	January 2017	3.4	3.6

(Source) Prepared based on the "World Economic Outlook" (January 2017) by IMF

The projection for global economic growth remained the same as previous: 3.4% in 2017 and 3.6% in 2018.

The 2017 forecast for economic growth in China was revised up due to the prediction that policy support will continue over the short term. By contrast, the IMF pointed out that if dependence on economic stimulus continues over the medium to long term, it will bring about rapid expansion of credit, stagnation in debt disposal in enterprises and financial stress in state-owned companies, leading to increased risk of a sharp slowdown in economic growth and drastic corrective measures, and in particular, pressure on capital outflow would worsen these risks amid instability in the external environment.

For the global economy, the IMF projected that economic activities would be vitalized in emerging countries and developing countries, however, it also pointed out that the outlook may become uncertain depending on the policies of the new administration in the United States.

◆Financial revenues increase 4.5% YoY in 2016, lowest growth since 1988

On January 23, the Ministry of Finance (MoF) announced that national revenues increased 4.5% YoY in 2016 (up 5.8% YoY in 2015) to RMB 15.96Tn, while national expenditures increased 6.4% YoY (up 13.2% YoY for 2015) to RMB 18.78Tn. Revenue growth slowed for the fifth consecutive year to the lowest since 1988. The Ministry of Finance's analysis is that measures such as tax incentives and exemption of administrative fees implemented to lighten corporate burden caused the slowdown.

Among the revenues, tax revenue increased 4.3% YoY (up 4.8% YoY in 2015) to RMB 13.35Tn.

Among the major tax revenue items, revenues were transferred from the business tax item to the domestic value added tax item due to value added tax reforms, resulting in a 30.9% rise in domestic value added tax to RMB 4.07Tn while business tax dropped 40.4% to RMB 1.15Tn. If we combine the two items, the sum was a 5.4% increase YoY, adding 36.6% YoY in January-May and falling 16.9% in June-December. With the full rollout of the value added tax reforms (expanded to all business types from May 2016), revenue fell for relevant items.

The result for corporate income tax varied sharply by industry, decreasing 1.3% to RMB 732.9Bn for the industrial sector but increasing 2.7% to RMB 880.2Bn for the financial sector and 26.8% to RMB 364.1Bn for the real estate sector.

In individual income tax, property transfer income tax soared by 30.7% YoY due to active property transactions.

Meanwhile, at the National Tax Conference held on January 12, the State Administration of Taxation explained the tax policies for 2017, and stated that they will promote tax reforms to help taxpayers enjoy the benefit of tax cuts, and crack down on tax evasion and overseas tax avoidance.



(Source) Created based on public data from MoF and the National Bureau of Statistics of China.

<Revenues from major tax items>

	2015		2016	
	Amount (RMB Bn)	Increase rate	Amount (RMB Bn)	Increase rate
Indirect tax	(6,317)		(6,566)	
Domestic VAT	3,111	0.8%	4,071	30.9%
Sales tax	1,931	8.6%	1,150	-40.4%
Import VAT/consumption tax	1,252	-13.2%	1,278	2.0%
Domestic consumption tax	1,054	18.4%	1,022	-3.1%
Custom duty	256	-10.2%	260	1.7%
Export VAT refund	-1,287	13.3%	-1,215	-5.5%
Direct tax	(3,574)		(3,894)	
Enterprise income tax	2,713	10.1%	2,885	6.3%
Individual income tax	862	16.8%	1,009	17.1%
Real estate-related	(1,402)		(1,502)	
Deed tax	390	-2.6%	430	10.3%
Land appreciation tax	383	-2.1%	421	9.9%
Urban land use tax	214	7.5%	226	5.3%
Farmland occupation tax	210	1.9%	203	-3.3%
Property tax	205	-88.9%	222	8.3%

(Source): Created based on public data from the Ministry of Finance.

[Industry]

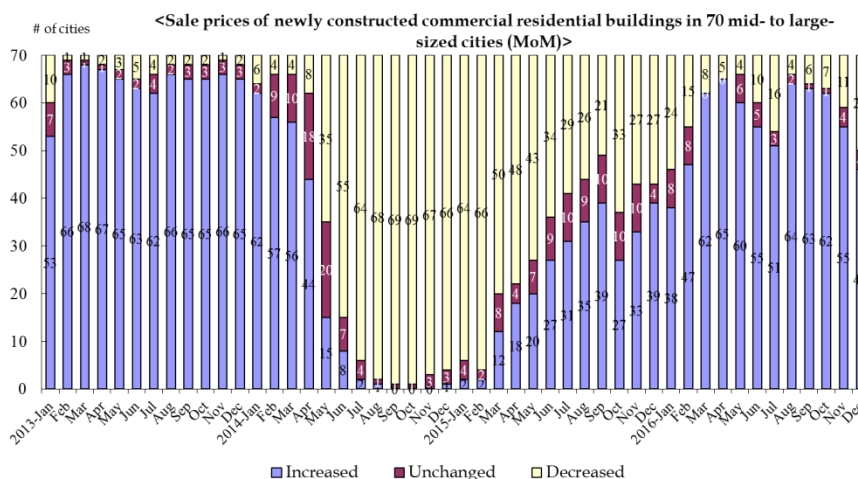
◆December home prices in 70 mid to large-sized cities: The month-on-month surge is slowing down

On January 18, the National Bureau of Statistics of China (NBS) released the housing price index of 70 mid- to large-sized cities for December.

Sale prices of newly constructed commercial residential buildings rose in 46 cities month-on-month in December, down by nine from November, while prices declined in 20 cities, up by nine from November.

Specifically, new home prices significantly increased month-on-month by 1.2% in Sanya (Hainan Province), and by 1.1% in Chongqing. Shenzhen and Fuzhou (Fujian Province), Nanchang (Jiangxi Province), and Dandong (Liaoning Province) all saw a significant fall of 0.4%.

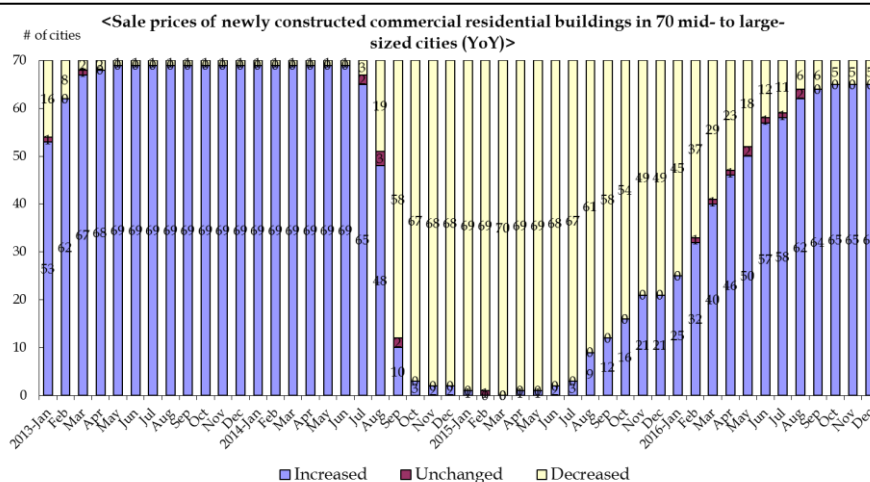
The average growth of housing prices declined month-on-month for all tiers, with first-tier cities remaining steady (November: +0.1%), 0.2% growth for second-tier cities (November: +0.4%), and a 0.4% rise for third-tier cities (November: +0.8%).



Source: Prepared based on data published by the NBS

On a year-on-year basis, prices increased in 65 cities in December, unchanged from the previous month, while they decreased in five cities, unchanged from the previous month.

In particular, prices surged 46.5% year-on-year in Hefei (Anhui Province), 41.9% year-on-year in Xiamen (Fujian Province), and 41.0% year-on-year in Nanjing (Chiangsu Province). Prices plunged 2.9% year-on-year in Jinzhou (Liaoning Province), 1.4% year-on-year in Urumqi (Xinjiang Uygur Autonomous Region), and 1.2% year-on-year in Mudanjiang (Heilongjiang Province).



According to monitoring conducted for a total of 15 cities including the first-tier cities and a popular subset of second-tier cities, housing prices declined month-on-month in 12 cities, remained unchanged in two cities, and increased 0.7% month-on-month in the city of Guangzhou alone, though the growth range has shrunk for three straight months. In light of those results, the NBS said that the home purchase controlling policies introduced in these cities from the end of September have started to take effect and the surge in housing prices is rapidly slowing down.

(*)First-tier cities: the four cities of Beijing, Shanghai, Guangzhou and Shenzhen

Second-tier cities: 31 cities including provincial and sub-provincial cities

Third-tier cities: 35 cities excluding the above-mentioned first and second-tier cities from the 70 cities.

◆Trend of consumption for 2016: Good results for online shopping, convenience stores and shopping centers

On January 20, the Ministry of Commerce issued a report summarizing the trend of China's consumer market for 2016.

Annual retail sales of consumer goods marked stable growth in 2016 reaching RMB 33.23Tn in total, up 10.4% year-on-year (YoY). Monthly retail sales marked record growth in December at RMB 3.18Tn, up 10.9% YoY, suggesting that consumption is currently expanding. GDP contribution rate of consumption rose to 64.6% for 2016, up 4.7 percentage points from the previous year. Consumption is the greatest driver of economic growth.

The following characteristics were pointed out for the consumer market for 2016.

By sector, retail online shopping sales maintained fast growth at +25.6% YoY. Convenience stores(Note) and shopping centers (SCs) also grew significantly at +7.7% YoY and +7.4% YoY respectively, exceeding the average growth rate of +3.0% for other sectors.

By purchased product, there is growing consumer need for high quality, next generation, smart and environmentally-friendly products, with sales marking an annual growth of 37.0% YoY for high definition 4K TV sets(Note) and 18.5% YoY for 4G cell phones(Note), and high-end electric appliances including(Note) double-door refrigerators, energy-saving air conditioners and drum-type washing machines also growing by 15.0-20.0%.

Further, consumption is shifting from tangible products to intangible services, with vigorous consumption observed in restaurant, entertainment, culture, leisure, health and care businesses. Revenue from domestic tourism increased 14.0% YoY while restaurant sales rose 10.8% YoY.

Regarding the Chinese consumer market going forward, the Ministry of Commerce commented that there is still significant room for growth with the growing middle class and progress in urbanization, and projects that stable development will continue in 2017.

(Note) Based on the 5,000 focus retail companies monitored by the Ministry of Commerce.

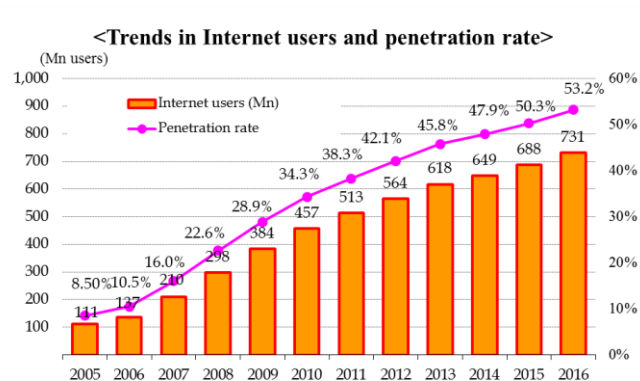
◆China's Internet situation in 2016

On January 22, the China Internet Network Information Center (CNNIC) released the 39th Statistical Report on Internet Development in China.

According to the report, there were 731 million Internet users in China at the end of 2016, up 6.2% YoY, and Internet penetration rate was 53.2%, up 2.9 percentage points YoY. There were 201 million users in rural areas, accounting for 27.4% of all users, up 2.7% YoY, and the penetration rate increased 1.5 percentage points YoY to 33.1%. Further, mobile Internet users added 75.5 million people to reach 695 million users, accounting for 95.1% of all Internet users.

In terms of the growth of mobile Internet use by purpose, online payment jumped 31.2% YoY to 469.2 million users, with the percentage using mobile terminals in brick-and-mortar shops for online payment also increasing to 50.3%. Online shopping followed with 440.93 million users, up 29.8% YoY, followed by online gaming with 351.66 million users (up 25.9%) and travel reservation with 261.79 million users (up 24.7%). Further, instant messaging and calling apps such as WeChat returned to 10% level growth for the first time in two years with 637.97 million users, up 14.5%, with a high penetration rate of 91.8% among all mobile Internet users.

Aside from the above, online car dispatch services, leaders in the sharing economy, are also growing significantly, counting 168 million users as of end-2016, up 37.9% from the first half of the year.



(Source) Prepared based on public data from CNNIC.

<Internet usage by purpose>

Top: connection from all devices/Bottom: connection from cell phones

	2014		2015		2016	
	All users 649 Mn Users via cell 557 Mn	YoY increase rate	All users 688 Mn Users via cell 620 Mn	YoY increase rate	All users 731 Mn Users via cell 695 Mn	YoY increase rate
Instant messaging (We Chat, etc.)	588 Mn 508 Mn	10.4% 17.8%	624 Mn 557 Mn	6.2% 9.8%	666 Mn 638 Mn	6.8% 14.5%
Online shopping	361 Mn 236 Mn	19.7% 63.5%	413 Mn 340 Mn	14.3% 43.9%	467 Mn 441 Mn	12.9% 29.8%
Online payment	304 Mn 217 Mn	17.0% 73.2%	416 Mn 358 Mn	36.8% 64.5%	475 Mn 469 Mn	14.0% 31.2%
Online gaming	366 Mn 248 Mn	8.2% 15.3%	391 Mn 279 Mn	7.0% 12.5%	417 Mn 352 Mn	6.5% 25.9%
Online banking	282 Mn 198 Mn	12.8% 69.2%	336 Mn 277 Mn	19.2% 39.7%	366 Mn 334 Mn	8.7% 20.5%
Online travel reservation	222 Mn 134 Mn	22.7% 194.6%	260 Mn 210 Mn	17.1% 56.4%	299 Mn 262 Mn	15.3% 24.7%

(Source) Prepared based on public data from CNNIC.

[Finance/ Exchange]

◆SWIFT: Share of RMB payments fell back to 6th place in December

On January 26, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) announced that RMB fell back to 6th place in the December 2016 ranking table of currencies for international payments by value. The share shrank to 1.68% from 2.00%. Further, RMB-denominated payments dropped 15.08% month-on-month (MoM) in December, significantly lower than the rate of plus 0.67% for all currencies.

<Share of currencies in international payment>

Top: currency / Bottom: share of payment

Rank	2013				2014				2015				2016											
	Jan	Jan	Jan	Jan	Jan	Jan	Jan	Jan	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec				
1	EUR	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD				
2	USD	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR				
3	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP	GBP				
4	JPY	JPY	JPY	CNY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY	JPY				
5	AUD	CAD	CNY	JPY	JPY	CNY	CNY	CAD	CAD	CAD	CAD	CAD	CNY	CNY	CNY	CNY	CAD	CNY	CAD	CAD				
6	CHF	AUD	CAD	CAD	CAD	CAD	CAD	CAD	CNY	CNY	CNY	CAD	CAD	CAD	CAD	CNY	CAD	CAD	CNY	CNY				
7	CAD	CNY	CHF	AUD	CHF	CHF	AUD	AUD	AUD	AUD	AUD	AUD	CHF	AUD	CHF	AUD	AUD	AUD	AUD	AUD				
8	SGD	CHF	AUD	CHF	AUD	AUD	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF				
9	HKD	HKD	HKD	HKD	HKD	HKD	SEK	HKD	SEK	HKD	SEK	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD	HKD				
10	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB	THB				

(Note) USD: US dollar, EUR: euro, GBP: British pound, JPY: Japanese yen, CNY: Chinese yuan, CAD: Canadian dollar, AUD: Australian dollar
CHF: Swiss franc, HKD: Hong Kong dollar, THB: Thai baht, SEK: Swedish krona, SGD: Singapore dollar

(Source) Created based on public data from SWIFT.

SWIFT cited three factors behind the decrease in RMB payments in December: the slowing Chinese economy, unstable RMB rate and capital outflow restrictions.

RMB payments dropped 29.5% annually in 2016.

◆2016 loan statistics by category: Personal mortgage loans continues to grow

On January 20, the People's Bank of China announced the loan statistics for financial institutions by loan category. In 2016, new RMB loans increased by approx. RMB 925.7Bn to RMB 12.65Tn, of which loans for real estate increased RMB 2.8Tn to RMB 5.67Tn, accounting for 44.8% of all new loans, up 2.3 percentage points from January-September.

RMB loan balance was RMB 106.6Tn as of end-December 2016, up 13.5% YoY, a growth of 0.5 percentage points higher than at end-September. Specifically, real estate loans gained 27.0% to RMB26.68Tn, a 1.8 percentage point boost in growth from end-September.

As for the breakdown of the real estate loans, land development dropped 4.9% YoY to RMB 1.45Tn, turning negative from the 0.9% as of end-September. Building development increased 12.2% YoY to RMB 5.66Tn, up 2.6 percentage points from end-September. Meanwhile, personal mortgage loans increased 35.0% YoY to RMB 19.14Tn, up 1.6 percentage points from end-September, 8 consecutive months of increase.

