

Appendix

Report on the Questionnaire Survey on China's Macroeconomic Situation and Policy in 2016

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To keep abreast of China's macroeconomic situation and policy, a semiannual questionnaire survey has been launched since August 2013, jointly sponsored by the Economic Information Daily, which is an affiliate to China's Xinhua News Agency, and the Center for Macroeconomic Research at Xiamen University, which is one of the Key Research Institutes of Humanities and Social Sciences of the Ministry of Education of China.

In this 7th questionnaire survey, twenty-one questions about China's macroeconomic situation and policy have been raised. Many distinguished economists in relevant fields are invited to join this survey by email in late July, 2016. We finally got responses from 116 of them. This survey reflects the latest understandings and judgments of these experts concerning the global economic situations, forecasts of some major indicators about China's macro-economy, China's macroeconomic policies to be implemented in the second half of 2016, and predictions of China's average economic growth rate during the 13th Five Year Plan (2016–20).

Detailed results of the survey are presented as follows:

1. The global economic situations in 2016

According to the latest economic forecast by the IMF on June 23, the US GDP growth rate is projected to be 2.2% in 2016. Hence, a question is raised on the trend of US economic growth. The result is that, 58% of the experts forecast that the US GDP growth rate in 2016 would be “between 2.0 and 2.2%”, 30% predict that it would be “between 2.3 and 2.5%”, 10% expected that it would be “below 1.9%”, 1% forecast that it would be “between 2.6 and 2.8%”, and 1% predict that it would be “2.9% or more”. In sum, more than two thirds of the experts forecast that the US economic growth would slow down in 2016, while more than 30% of the experts predict that the US economy would rebound in 2016, more optimistic than that of IMF's forecast.

Impacted by the outcome of UK referendum, the forecast of GDP growth rate of the euro area was revised down to 1.6 in 2016 and 1.4% in 2017 by the IMF on July 8. The result of survey on the trend of the euro area's economic growth is that, 83% of the experts predict that the euro area GDP growth rate would be “between 1.3 and

1.6%” in 2016, 9% forecast that it would be “between 1.7 and 2.0%”, 8% expect that it would be “below 1.2%”, and no experts chose “between 2.1 and 2.4%” or “2.5% or more”. In sum, more than 90% of the experts predict that the economy of the euro area would show a downward trend in 2016. But nearly 10% of them believed that the euro area economy would recover in 2016.

In the first half of 2016, the global and domestic bulk commodity markets recovered and the prices of bulk commodity went up significantly. What is the trend in the second half of 2016? The survey shows that, 59% of the experts forecast that the global commodity prices in the second half of 2016 will be volatile, 29% predict that it would rise, 2% expect that it would decline steadily. In sum, more than 30% of the experts believed that the commodity prices in the second half of 2016 would show an upward trend.

Brexit may trigger deflation in the euro area. What is the trend of the exchange rate of the EURO against the USD in the second half of 2016? The survey shows that, 77% of the experts predict that it would be “slightly depreciated”. 14% claim that it would be “volatile”, 6% forecast that it would be “slightly revaluated”, while 3% expect that it would be “significantly depreciated”, and no one anticipate that it would be “significantly revaluated”. In sum, more than three quarters of the experts predict that there would be a continuous trend of depreciation of the EURO against the USD in the second half of 2016.

2. Forecast of China's major macroeconomic indicators in 2016

According to the data released by China National Bureau of Statistics (NBS) on July 15, China's GDP increased by 6.7% in the first half of 2016. What is the growth rate of China's GDP in 2016? The survey shows that, 59% of the experts predict that it would be “between 6.5 and 6.7%”, 20% forecast that it would be “between 6.4 and 6.5%”, 19% expect that it would be “between 6.7 and 6.9%”, 1% choose “7.0% or more” and 1% choose “6.3% or less”. In sum, 80% of the experts predict that China's economic growth would continue to edge down in 2016.

China's CPI increased by 2.1% in the first half of 2016. What is the trend of China's CPI in 2016? The survey shows that, 61% of the experts predict that it would be “between 2.1 and 2.5%”, 31% forecast that it would be “between 1.6 and 2.0%”, 6% expect that it would be “between 2.6 and 3.0%”, 1% anticipate that it would be “1.5% or less”, and 1% expect it would be “3.1% or more”. In sum, more than two thirds of the experts expect that the CPI growth rate would rise in the second half of 2016, while more than 30% predict that it would continue to decline.

China's PPI decreased by 3.9% in the first half of 2016. What is the trend of the PPI in 2016? The survey shows that, 67% of the experts expect it to be “between -3.8 and -2.8%”, 15% predict that it would be “between -2.7 and -1.7%”, 14% hold the view that it would be “-3.9% or less”, 3% expect that it would be “between -1.6 and -0.6%”, and 1% claim that it would be “-0.5% or more”. In sum, 86% of the experts predict that the decline in China's PPI would be slowed in 2016.

By June 30, 2016, the rate of the US dollar against RMB was about 6.6312. What is the trend of the RMB exchange rate in 2016? The survey shows that, 44% of the experts predict that it would be “between 6.6 and 6.7%”, 32% expect that it would be “between 6.7 and 6.8%”, 19% forecast that it would be “between 6.5 and 6.6%”, 3% claim that it would be “6.9% or more”, and 2% think that it would be “6.4 or less”. In sum, more than 30% of the experts forecast a continued depreciation of the RMB exchange rate in 2016. But more than 20% of the experts expect that the RMB exchange rate would appreciate, and more than 40% forecast that it would maintain stable.

The CFETS slightly depreciated in the first half of 2016. On June 30, the CFETS devalued by 5.86% from last year. What is the trend of CFETS in the second half of 2016? We also conducted a questionnaire survey about this. The survey showed that 51% of the experts expected it would be “depreciate slower and lower than 5.86%”. 27% considered that it would be “continue to depreciate and higher than 5.86%”. 20% of the experts thought that “keep steady at an appropriate and balanced level”. 2% claimed that it would be “slight revaluation”. In sum, nearly 90% of the experts believed a continuous trend of depreciation of CFETS in the second half of 2016.

China's investment in fixed assets (excluding rural households) in the first half of 2016 was about 25.84 trillion yuan, up by 9.0% YoY, 1.7 percentage points lower than that in the first quarter. What is the growth rate of China's investment in fixed assets in 2016? The survey shows that, 50% of the experts expect that the growth rate of total investment would be “between 8.1 and 9.0%”, 40% think that it would be “between 9.1 and 10.0%”. 5% forecast that it would be “between 10.1 and 11.0%”. 3% expect that it would be “8.0% or less”, and 2% claim that it would be “11.1% or more”. In sum, more than 50% of the experts predict that total investment growth would slow down in the second half of 2016., and 47% predict that it would continue rising.

In the first half of 2016, China's investment in real estate market was 4.66 trillion yuan, up by 6.1% YoY, slightly down by 0.1% over that in the first quarter. What is the impact of property investment on private investment? The survey shows that, 61% of the experts expect that it would be “negative and the real estate expansion increased the cost of land and capital, thus reduced private investment”. 30% think that it would be “positive and it can stimulate private investment and provide new opportunities”, and 9% claim that there would be “no impact”. In sum, more than 60% of the experts believe that the expansion of property investment reduced private investment in China.

China's private investment growth dropped sharply to 2.8% YoY in the first half of 2016. What is will be the growth rate of private investment in 2016? The survey shows that, 69% of the experts expect that it would be “between 2.1 and 3.0%”, 19% think that it would be “between 3.1 and 4.0%”, 8% predict that it would be “2.0% or less”, 3% believe that it would be “between 4.1 and 5.0%”, 1% chose

“5.0% or more”. In sum, more than 20% of the expert predict that the private investment growth would rise in next half of 2016.

Due to the continued decline in the private investment growth, the proportion of private investment in total investment decreased from 64.2% in 2015 to 61.5% in the first half of 2016. What are the causes? The survey shows that, 80% of the experts believe that it should be “private enterprises lack confidence in the economy”. 77% think it would be the lack of effective investment objective, that is, weak macro economy environment combined with the shrink of traditional manufacturing and falling profits cause less profitable effective investment objective. 66% of the experts hold the view that new financing problems and some policy-relevant factors resulted in a situation that bank loans has largely been channeled to state-owned enterprises or back into the financial system, thus reduced private investment. Along with some default on debt, private firms are facing more and more financing challenges. 59% claimed that the tertiary industry is still being controlled, the investment fields are restricted and the approval procedure for private investment is cumbersome, thus economic policies may never be fully implemented. 36% of experts believed that the rising house prices limited the development of real economy and reduced private investment. Furthermore, other policies were put forward by 5% of experts: the orientation of private firms were ambiguous, the policies encourage private investment used to be short-term policies which cannot increase the confidence of investors among people, the macro-economic stability wasn't enough and large potential risk still exist, domestic investment environment was deteriorated and the capital outflows were increased, the monopoly power of state-owned firms reduced private investment, and the National Bureau of Statistic adjusted the data, etc.

According to the report released by NBS on July 15, 2016. China have made progress in cutting overcapacity. In the first half of 2016, the coal production declined by 9.7%, and the crude steel production decreased by 1.1%. What about the effects of curbing excess capacity? The survey shows that, 60% of the experts hold the view that the process was slow and it may affect supply-side structural reforms, 19% chose “progressed well” and 8% claimed that the process was too slow to hasten and excess capacity need to be solved as soon as possible. But 7% of the experts thought that the processes need to be slow down and adjusted slightly. 6% believed that it should be “too fast, caution”. In sum, nearly 70% of the experts maintained that the process of dissolving excess capacity in the industrial sector was slow and might affect supply-side structural reforms in China.

China's total retail sales of consumer goods in 2016 were 15.61 trillion yuan, up by 10.3% YoY. What is the growth rate of China's total retail sales of consumer goods in 2016? The survey shows, that 57% of the experts expect that the total retail sales of consumer goods would increase year on year at the rate “between 10.3 and 10.8%”, 34% predict that it would increase at the rate “between 9.7 and 10.2%”, 5% of experts claim that it would be “between 10.9 and 11.4%”, 2%

consider that it would be “11.5% or more”, and 2% maintain that it would be “less than 9.6%”. In sum, more than 60% of the experts predict that the growth of the total retail sales of consumer goods would continue going up in 2016.

China's total value of exports in dollar terms dropped by 7.7% in the first half of 2016 down by 8.6 percentage points over the same period last year. What is the growth rate of total value of exports in 2016? The survey shows that, 33% of the experts expect that it would be “between -2.5 and -2.1%”, 33% predict that it would be “between -2.0 and -1.0%”, 19% forecast that it would be “between -2.9 and -2.5%”, 9% expect that it would be “less than -3.0%”, and 6% forecast that it would be “between -0.9 and -0.0%”. In sum, 60% of the experts predict that the exports growth would continue to decline in 2016, and nearly 40% expect that it would continue slightly rising in 2016.

3. China's macroeconomic policies to be implemented

By the end of 2016, China's broad money supply (M2) was 149.05 trillion yuan, grew by 11.8% YoY. What is the growth rate of China's M2 in 2016? The survey shows that, 45% of the experts predict that it would be “between 12.1 and 12.5%”. 39% expect that it would be “between 11.0 and 12.0%”. 11% forecast that it would be “between 12.6 and 13.0%”, 5% anticipate that it would be “between 13.1 and 14.0%”. In sum, the results reflect that nearly 60% of experts thought that the growth rate of M2 would rise in the second half of 2016, suggesting that China's central bank would continue to implement a moderately loose monetary policy.

China's new loans were 7.53 trillion yuan in the first half of 2016, up by 967.1 billion yuan over the same period last year. What are the roles of the new loans? The survey shows that, 75% of the experts maintain that they have helped solve the financing problems of private investment. 75% think that they have stimulated the real estate market. 57% considers that they have guaranteed the investment in infrastructure, 53% hold the view that they have not entered into the real economy, so the investment growth continues slowing down. 50% claim that these new loans have accelerated the investment growth of SOEs, and 48% believe that credit expansion has been stalled by monetary policy transmission channel. In addition, 1% of the experts put forward other views such as the loan figures can't reflect the fact because rolling over old debts with new borrowing is common among cities.

China expanded its reform to replace business tax with VAT since May 1, 2016. What is the impact of this policy have on the economy? The survey shows that, 65% of the experts expected that this policy would reduce taxes and motivate businesses to innovate, thus promote the upgrading of economy, 60% of them believed that it would promote the development of production service industry, accelerate the division of industry, elongate the industrial chain and further drives the innovation and upgrade of manufacturing enterprises. 59% claimed that it reduced national revenues due to the fact that the growth rate of national revenues fell to 1.7% in June, which was the slowest rate in 2016. 41% of the expert thought that fully implement the policy to replacing business tax with vat would reduce the

financing costs of business entity and improve economic efficiency of the whole industry. Furthermore, other policies were put forward by 6% of experts: no obvious effects, it is conducive to solve parts of employment issues and guide labor in informal sectors transfer to formal sectors, firms are facing greater pressure due to the fact that nominal business tax in many industries decreased but actual tax increased, no obvious effect on tax reduction, the share of taxes of the nation increased but the taxes for business did not decrease, it is beneficial to foreign company, etc.

By the end of May in 2016, the asset-liability ratio of China's industrial enterprises above designated size is 56.8%. And according to the Bank for International Settlement (BIS), China's non-financial corporate debt was about 150% of GDP at the end of 2015. Since deleveraging is also in the context of the current supply side reform, and then, how can we reduce the high corporate debt load? The survey shows that, 81% of the experts believe that it would be the joint effort of fiscal policy and monetary policy to protecting the macro-environment of deleveraging. Reducing taxes, improving investment efficiency and creating fair competition environment along with promoting PPP to attract private investment are necessary method to enhance firm's capacity of deleveraging. 65% claim that it would be good to develop multilevel capital markets, accelerate the development of financing tools, and attract self-owned capital into stock market. 64% of them believed that we should deepen enterprise's reform along with deleveraging, such as promoting the employee stock ownership or enforcing debt-to-equity swap. Government should reduce the cost and taxes in creating a better environment, break the soft budget constraints as well as rigid payment. 60% of them maintain that debt restructuring should be promoted under the principle of market and institutionalization. 41% of the experts expect that it should improve supply-side structural reforms, raise the capability of the enterprise for sustainable development by stimulating innovation and improving social security system. In addition, other suggestions were put forward by 7% of experts: improve the enterprise system and reduce operating costs; improve the investment system and make the enterprises take responsibilities for their decisions; implement the structural tax policy, that is, raise the tax on the financial income but reduce the tax on the income of entity enterprises; make reform of political system and improve the efficiency of government; renew the management ideas and methods; absorb financial funds, especially those from first to high net-worth clients, to restructure corporate debt, and allow there funds to investment in such long-term capital instruments as preferred stocks, subprime product, and convertible debt; facilitate failure of zombie companies; etc.

4. Projected China's average economic growth rates in 2016–20

As to China's projected average economic growth rates during the 13th Five Year Plan (2016–20), the survey shows that 41% of the experts expected that it would be "between 6.3 and 6.5%". 39% forecast that it would be "between 6.6 and 6.8%". 14% predict that it would be "between 6.0 and 6.2%", and 6% anticipate that it would be "between 6.9 and 7.0%". In sum, most of the experts predict that China's economic would continue to slow down during the 13th Five Year Plan.

Table A.1 Forecast of major indicators of China's Economy by the CQMM team and the experts

Major indicators	By CQMM team (%)	By experts	
		Interval (%)	Ratio
GDP growth rate	6.63	6.5–6.7	59
CPI growth rate	2.01	2.1–2.5	61
PPI growth rate	–3.19	–3.8 to –2.8	67
Total retail sales of consumer goods	10.3	10.3–10.8	57
		9.7–10.2	34
Investments in fixed assets	8.97	8.1–9.0	50
		9.1 to 10.0	40
Exports in dollar terms	–6.01	–2.0 to –1.0	33
		–2.5 to –2.1	33