Box 2.2

Economic performance of the Mainland in 2016

Given its close economic ties with Hong Kong, the Mainland’s economic development is highly important to our economy. This article briefly reviews the Mainland’s macroeconomic performance in 2016, and some salient developments in its structural reform over the year.

In 2016, the Mainland economy maintained growth at a medium-high rate of 6.7% in real terms. Despite a slight deceleration by 0.2 percentage point as compared to 2015, the economic growth rate in 2016 met the annual growth target of 6.5-7% set by the Mainland authority early last year, surpassing what many had then expected. Analysed on a quarterly basis, the seasonally adjusted quarter-to-quarter growth rates had stabilised since the second quarter of 2016 (Chart 1). All in all, although the Mainland’s economic growth in 2016 was somewhat slower as compared to recent years, it was still notably faster than many other major economies. Moreover, as the Mainland economy became much bigger in size, its corresponding incremental growth volume in real terms was hence larger than those in the past.

Chart 1: The Mainland economy maintained steady growth

(1) For instance, the International Monetary Fund (IMF) projected early last year that the Mainland economy would grow by 6.3% in real terms in 2016.

(2) The Mainland economy grew at an average of 9% per annum in real terms for the 10 years from 2007 to 2016, indicating that the actual size of the Mainland economy had more than doubled in real terms over the period.
Important structural changes in the Mainland economy were evidenced by the diversedevelopments in different economic segments. On the front of retail sales, the consumptiondemand in the Mainland remained resilient. Total retail sales of consumer goods recorded areal growth of 9.6% last year, slightly lower than that of 2015 but exceeding the overalleconomic growth rate notably. This shows that the overall economy of the Mainland wasunderpinned by the sustained resilience of its domestic demand. The enhanced role ofconsumption in economic growth also tied in with the Mainland’s broad direction ofenhancing its economic structure (see below for details).

On investment, affected by factors such as excess capacity in some traditional industries andhigh inventory in property markets outside the first- and second-tier cities, investment infixed assets increased by 8.8% in real terms last year, decelerated from the 12.0% increase in2015. Nevertheless, investment in infrastructure continued to grow at a faster pace. Thegrowth of investment was particularly notable in such industries as “management of waterconservancy, environment and public facilities”, “education”, “health and social work” and“culture, sports and entertainment”. All these contributed to the further enhancement of thelong-term economic development potential of various Mainland regions.

Relatively speaking, external demand remained weak, imposing greater downward pressureon the Mainland’s external sector in 2016. Total goods exports in US dollar terms declinedby 7.7%, a drop widened by 4.8 percentage points as compared with that in 2015. Exportperformance, however, stabilised in the late months of last year. Total goods exports in thefourth quarter of 2016 declined year-on-year by 5.2%, slightly narrower than the 8.6% dropin the first three quarters, indicating that the relevant downward pressure had eased slightly(3).In fact, a similar trend was observed in the total value of goods re-exported through HongKong from the Mainland, which registered a 0.8% year-on-year increase in the fourth quarterof 2016, a reverse from the 5.1% year-on-year decline in the first three quarters.

While maintaining a medium-high growth pace, the Mainland economy continued with itsstructural transformation and enhancement, and progressed steadily towards a developmentmodel based on domestic consumption and services, driven by innovation and technologicalupgrading. First of all, the role played by consumption in economic growth became moreprominent. In 2016, the contribution of final consumption expenditure to GDP growth was64.6%, 4.7 percentage points higher than that in 2015. The services industry also played amore vital role in the Mainland’s economic development. The value added of the tertiaryindustry accounted for 51.6% of GDP in 2016, 1.4 percentage points higher as compared withlast year(4) (Chart 2). The tertiary industry grew by 7.8% in 2016, a rate faster than theoverall economic growth. Moreover, the Mainland’s industrial sector was moving towardshigh-tech-oriented development in 2016. The value added of the high-tech industry grew by10.8% in real terms, 0.6 percentage point faster than in 2015 and visibly higher than the 6.0%real growth of the total value added of the industrial enterprises above the designated sizeover the same period. This indicated a development trend of industrial upgrading andtransformation with more emphasis on technological enhancement. Investment relating to thehigh-tech industry also maintained double-digit growth last year, a sign of continuousimprovement of investment structure conducive to the further upgrading of productiontechnology.

(3) When denominated in Renminbi (RMB), the Mainland’s exports even recorded year-on-yeargrowth in certain late months of 2016. The exports in November, for example, increased year-on-year by 4.2% in RMB terms.

(4) Almost 12 percentage points higher than the 39.8% growth in 2000.
As for prices, the Mainland’s consumer price inflation remained steady throughout 2016. The Consumer Price Index (CPI) rose modestly, at an average annual rate of 2.0%. Some service components such as health care, education services and housing rental saw faster price increases, an indication of continuous transformation towards a service-based economy. As regards industrial prices, with a marked rise in prices of commodities such as coal and steel due to the cutting of excess capacity by individual sectors, the Producer Price Index for the Industrial Sector reverted to a year-on-year increase since September last year after registering year-on-year declines for 54 consecutive months. The index registered greater increases towards the end of the year, despite an average annual decline of 1.4% for the whole of 2016.

On promoting the supply-side structural reform, the main objectives of the Central Government in 2016 included cutting the excess capacity in certain industries, reducing inventory in the property market, preventing and controlling financial risks, lowering business costs and enhancing effective supply. These initiatives were gradually yielding results. On cutting excess capacity, substantive progress was made in the steel and coal industries, attaining the target set at the beginning of the year. On reducing property market inventory, the floor space of commercial buildings for sale decreased in 2016, while the inventory of residential buildings even recorded a double-digit decline. Besides, relevant authorities including the People’s Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission stepped up prevention and control of financial risks, and further enhanced the risk surveillance and regulatory system on financial institutions. Furthermore, by adopting diversified monetary policy instruments, the People’s Bank of China adjusted the liquidity of the financial markets with greater flexibility and precision. Separately, a market-oriented debt-for-equity swap programme was also implemented to reduce the debt leverage of certain enterprises. These initiatives also began to bear fruit. In 2016, the RMB broad money supply increased by 11.3%, a drop of 2.0 percentage points from 2015, while the increase in the stock of loans of non-financial enterprises also moderated.
Box 2.2 (Cont’d)

During the Central Economic Work Conference held in December last year, it was clearly stated that the Mainland government would continue to deepen the supply-side structural reform in 2017 so as to further enhance the Mainland’s economic structure. Besides, in view of the exuberance in the property market of the first- and second-tier cities in the Mainland last year, it was also emphasised in the Conference that stable and healthy development of the property market should be promoted to fend off asset market bubble risks. On the other hand, it was also reiterated that efforts should be made to support the real economy, to raise the quality of economic development and to strengthen core competitiveness. Support was also pledged to foster strategic emerging industries and to upgrade the traditional industries by adopting new technologies.

Looking into 2017, it is expected that the Mainland economy, with the support of solid fundamentals, will continue to attain medium-high speed growth. Although external uncertainties will continue to put pressure on the Mainland’s external sector, the resilient and robust domestic demand will provide significant anchor to the overall economy. Also, there are ample policy room and tools for the relevant Mainland authorities to stabilise economic development. In January 2017, the IMF projected that the Mainland economy would grow by 6.5% this year. With the continuous implementation of the aforementioned initiatives under the supply-side structural reform, the structural transformation and upgrading of the Mainland economy will advance, yielding an economic development with better quality and greater sustainability. Throughout this process, more development opportunities will also be created for various sectors of Hong Kong, to the benefit of its long-term economic development.