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Impact on China's Supply Chain by COVID-19

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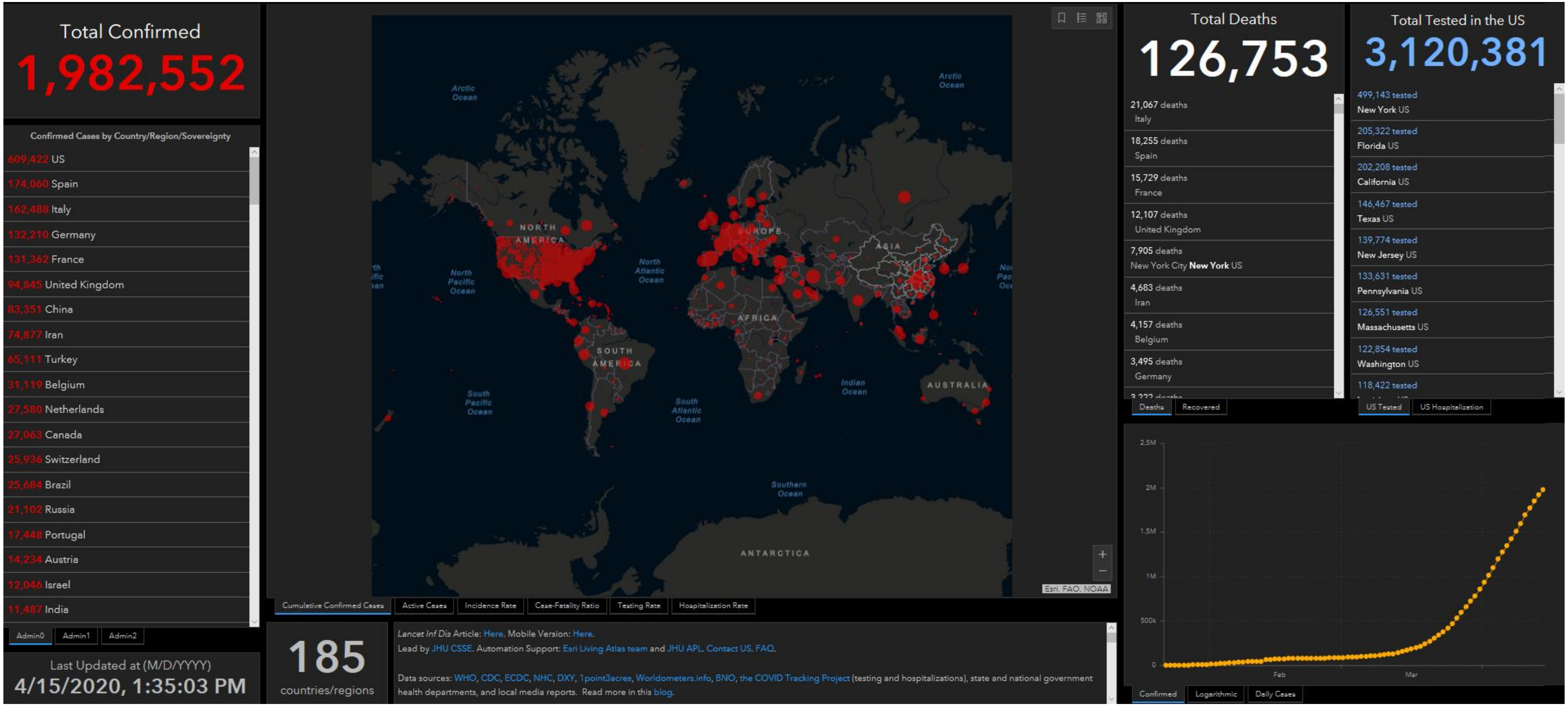
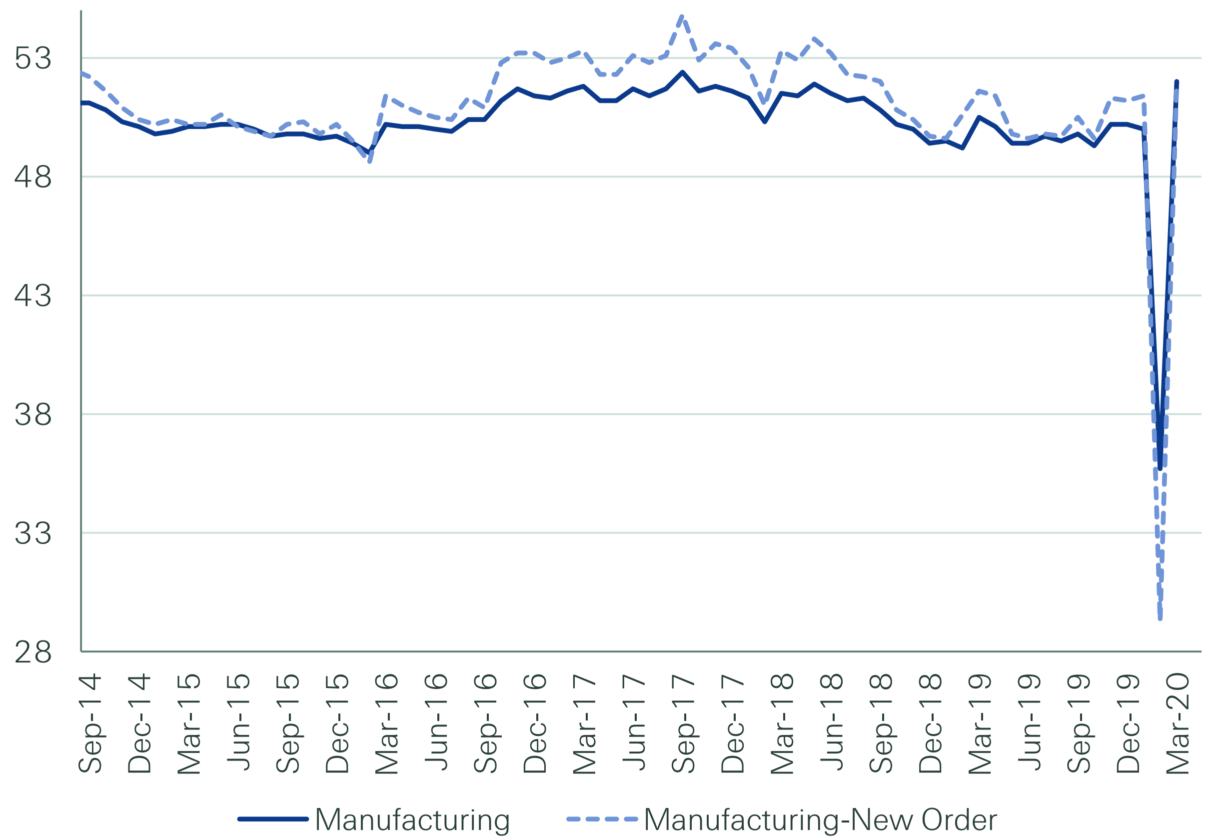
COVID-19 Map



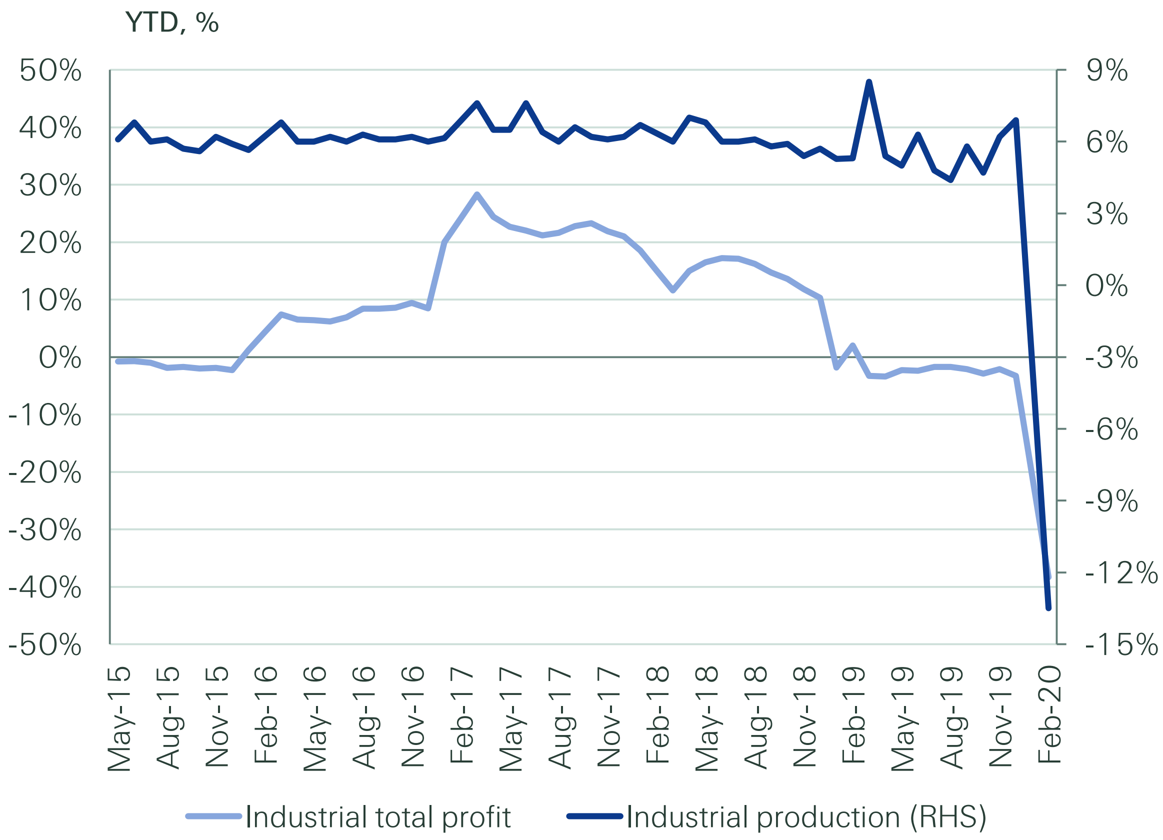
https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

Supply chain disruption caused by Covid-19: China's manufacturing and industrial sectors plunged in February to all-time lows

China's official manufacturing PMI



Growth of industrial production and profit



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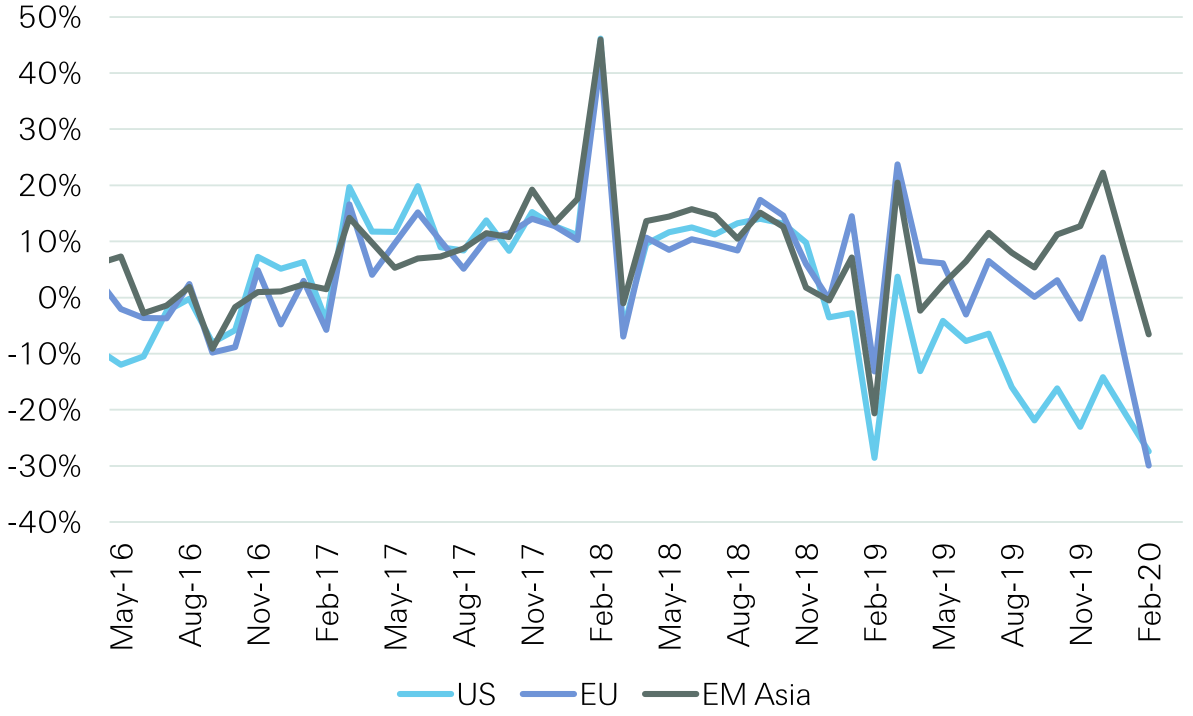
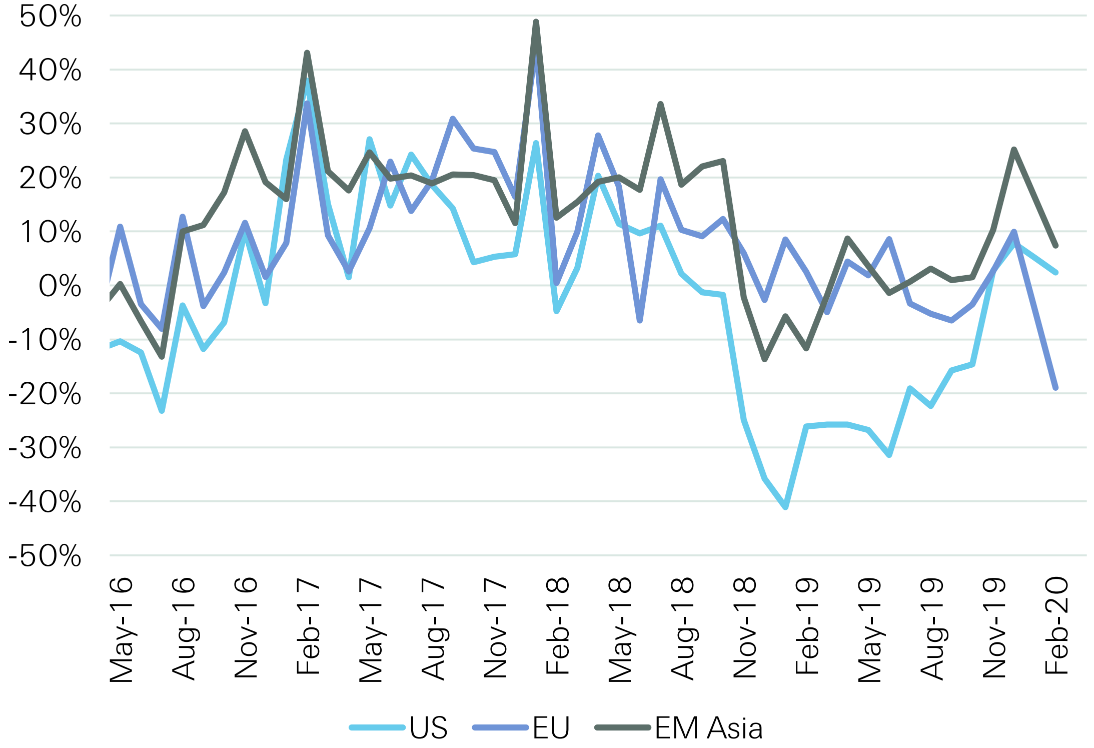
Source: Wind

Supply chain disruption caused by Covid-19: trade with major partners declined sharply in February

China Export (monthly growth rate %, yoy)



China Import (monthly growth rate %, yoy)



Note: EM Europe includes Hungary, Poland, Russia. EM Asia includes India, Indonesia, Turkey, Malaysia, Pakistan, Philippines, Thailand, Vietnam
Source: Thomson Reuters, Swiss Re Institute

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China's role in global value chain has been rising in recent decade

- Since 2009 China has been the world's largest exporter of merchandise goods. Since 2013, it has been the largest goods trader.
- Today, we see increasing vertical integration with more onshoring of manufacturing production in China itself (see Figure below). China is also relocating some of the lower value-added production further to other emerging markets, as it focuses on domestic production of higher value-added products. This has the effect of suppressing external goods trade but boosting service-related value creation within China itself.

Figure Domestic value added in domestic final demand, as % of value added by industry

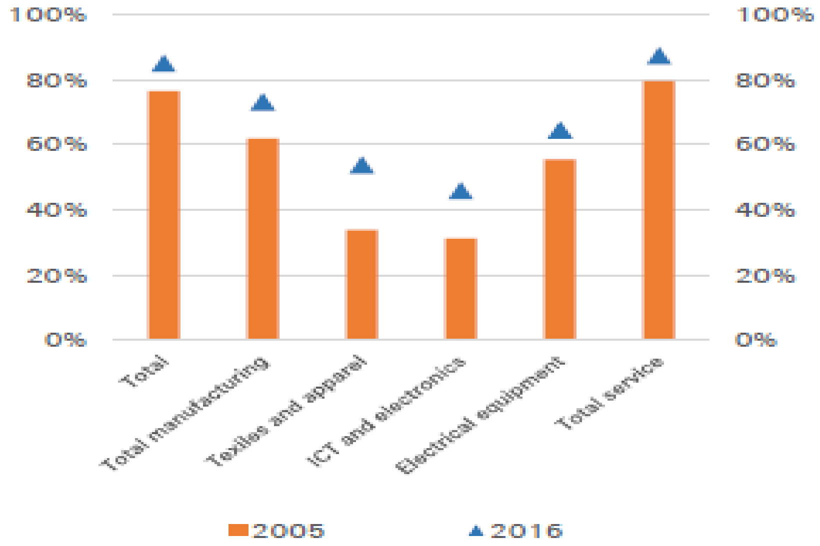
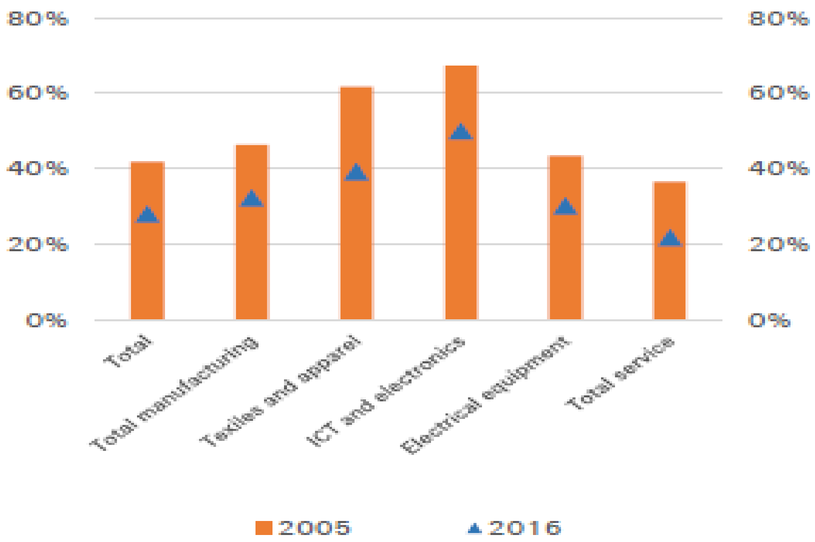


Figure: Imported intermediate inputs used for exports, as % of intermediate imports



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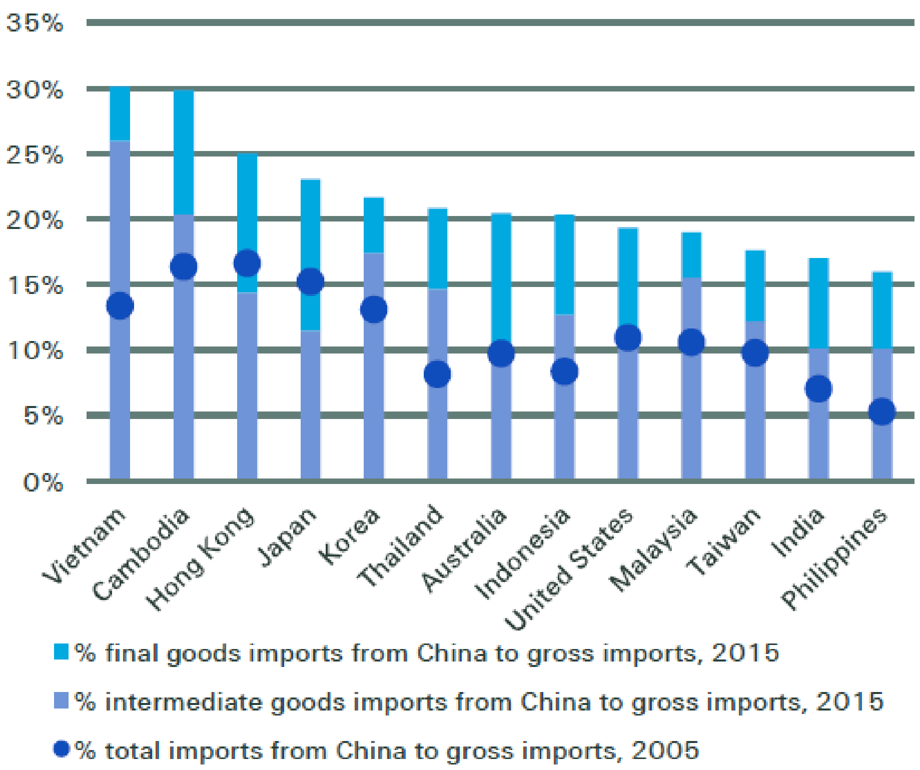
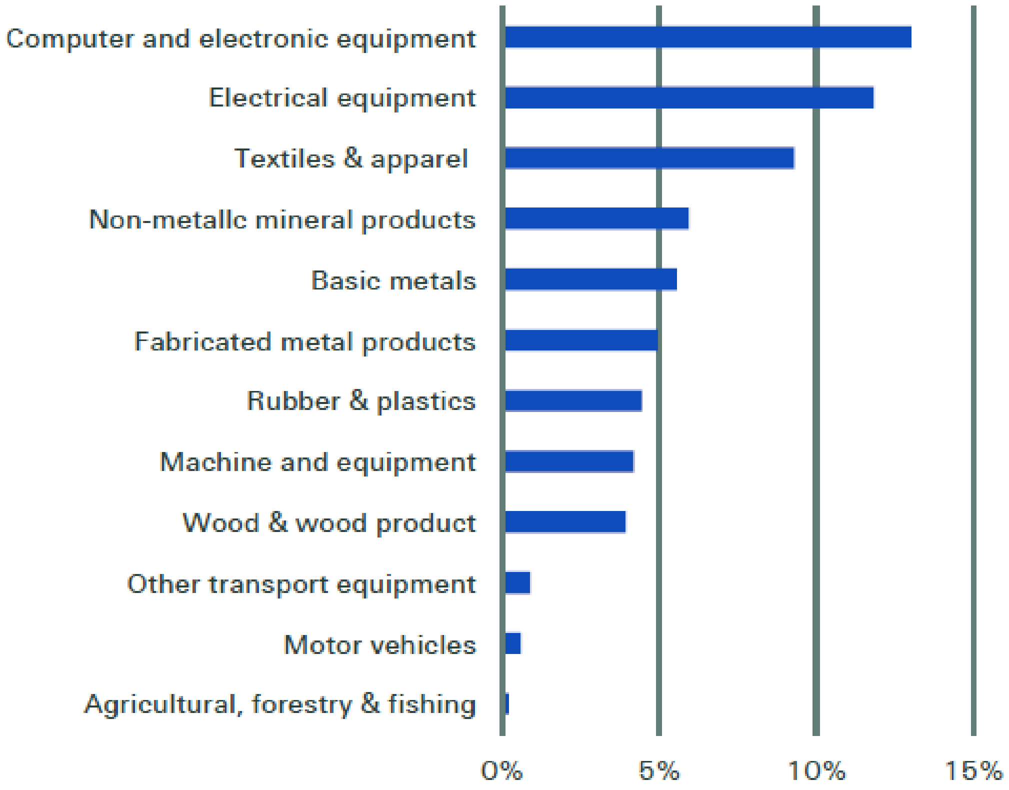
Source: OECD TiVA, Swiss Re Institute

Disruption to China's supply chain is having rippling impact on China's major trading partners, especially for countries in Asia

Goods imports from China as a percentage of total gross imports



Chinese intermediate inputs as a percentage of total global output ex. China, by industry (2015)



Source: OECD TiVA, Swiss Re Institute

Supportive measures to support work resumption

People's Bank of China measures

- **Interest rates:** Lowered 7d OMO rate by 30bps. Lowered MLF rate by 10bps, steering 1y loan prime rate down by 10bps.
- **Required reserve rate for commercial banks**: Lowered RRR by 50-100bps for qualified banks in March and additional 100bps for small banks in April/May
- **Excess reserves rate**: Cut excess reserves rate from 0.72% to 0.35% (the first time since 2008)
- **Other supportive measures:**
- Allow mortgage and credit card repayment to extend for one more month while the delinquency in Feb/Mar would not be recorded in personal credit rating system.
- Extend corporate loan up to 1y for new start-ups, and provide flexible loan support to small and micro enterprises.

Government measures

- **Fiscal policy support**
- Ministry of Finance announced to increase fiscal deficit (to GDP) ratio in 2020 (2019: 2.8%; 2018: 2.6%)
- **Increasing gov bond issuance**: By 31 Mar, newly issued special bond reached CNY 1.08 trillion, up 63% y-o-y
- **Extend matured tax exemption/reduction policies to 2023**: mainly for small and micro enterprises and rural enterprises
- **Emergency fund for Covid-19**: By 13 Mar, total emergency spending by amounted to CNY 116.9 bn.
- **Tax exemption/reduction for medical service individuals and targeted areas**
- **Lower corporates' required contribution (for basic pension, unemployment and workers' injury insurance) to social security fund for 3-6 months since Feb 2020**: Free for SME and micro enterprises up to 6m; reduced by half for large corporates up to 3m.
- **Provide re-financing support to key medical suppliers and related supporting sectors (who are qualified for banks' special-purpose loans):** MoF will cover 50% of interest payment to ensure the actual loan rate is below 1.6%, maturity is within 1 year.

Source: Swiss Re Institute

Chinese economy is recovering from a severe shutdown

How effective are efforts to get the Chinese economy working again?

* Official data suggests industrial sector has already resumed by 80-90% by the end of March.

- Official manufacturing PMI rebounded to 52%, and service PMI picked up to 52.3% in March, indicating Chinese economy is recovering.
- Newly increased total social financing reached CNY 5.2 trillion in March, a yoy growth of 74%, which will provide effective financing for public investment projects in the coming months.
- Insurance growth in Jan-Feb have shown resilience in growth, much in line with our expectation:
  - P&C: premium growth is -3.7% in Jan-Feb
  - life: premium growth is +2.07% in Jan-Feb
  - Health: premium growth is +22.09% in Jan-Feb

Appendix

- Policy measures in details

China's monetary policy to help companies, especially SMEs, to stay in business

- **Feb 3** - The PBOC cut 7- and 14-day reverse repo rates by 10bp.
- **Feb 7** - The PBOC provided Rmb300bn special re-lending to commercial banks.
- **Feb 17** - The PBOC cut the 1-year medium-term lending facility (MLF) rate by 10bp.
- **Feb 20** - The PBOC cut the 1-year and 5-year loan prime rate (LPR) by 10bp and 5bp, respectively.
- **Feb 25** - The PBOC increased the re-lending and re-discount quota by Rmb500bn; policy bank lending of Rmb350bn.
- **Mar 13** - The PBOC announced a 50-100bp cut in the required reserve ratio (RRR) for banks meeting inclusive financing standard, and another 100bp cut for qualified joint-stock banks.
- **Mar 15** - The PBOC pledged to lower loan costs for firms with measures including: 1) Using monetary tools to ensure reasonably ample liquidity; 2) Continued LPR reforms to enhance monetary policy pass-through; and (3) Leveraging the deposit benchmark rate.
- **March 30** – PBOC lowered 7 day reverse repo rate by 20bps from 2.4% to 2.2% and provided RMB50bn to the market
- **April 3** – PBOC cut reserve requirement rate by 100bps, 50bps each on 4/15 and 5/15 to rural credit cooperatives, rural commercial banks, rural cooperative banks.
- **April 3** - announced to cut excess reserves rate from 0.72% to 0.35% from April 7
- **April 15** - announced the banking and financial organization need to enhance the collaboration with the core enterprises in supply chain industry to reduce liquidity pressure on SMEs.

China's fiscal policy to help companies, especially SMEs, to stay in business and to stimulate infrastructure investment

- **Feb 7** - For firms in the transportation, catering, accommodation and tourism sectors, their losses logged in 2020 can be carried over to an extended maximum period of eight years; People working in the transportation, livelihood-related service and daily necessities delivery service sectors will be exempted from the value-added tax, effective from January 1, 2020.
- **Feb 11** - MoF pre-approved another **RMB848bn** local government bonds ahead of annual NPC meeting (RMB558bn of general bond and RMB290bn of special bond), in addition to the RMB1tn pre-approved LGSB quota at the year start
- **Feb 18** - Firms in Hubei and small firms in other provinces won't have to pay pensions, jobless and work-injury insurance until June, and payment by large firms in other provinces will be reduced by half until April. These measures could help reduce corporates' financial burden by >Rmb500bn. Before the end of June, firms can apply for delaying their payments to the state-run housing provident fund.
- **Feb 19** - Foshan announced a one-year subsidy plan for auto purchase starting from March 1, the first city in China to do so in the Coronavirus outbreak, following the Feb. 3rd Politburo meeting's call to stabilize auto consumption
- **Feb 20** - Provincial authorities could take discretion to halve corporates' medical insurance contribution by no more than 5 months, which is worth as much as **RMB150bn.**
- **Feb 22** - The electricity price of enterprise users except those in high energy consuming sectors will be cut by 5% from Feb. 1 to June 30. The supportive two part tariff will be implemented in the same period. Meanwhile, the off-season natural gas price policy will be implemented in advance.

China's fiscal policy to help companies stay in business and stimulate infrastructure investment

- **Feb 25 -** From March to May, VAT for small-scale taxpayers will be exempted in Hubei; its rate in other regions will be cut to 1% from 3%.
- **Mar 3 -** Continued to halve tax on urban land use for storage; exempted port construction fees for import and export goods, and reduced government-set fees on port facilities by 20% from Mar to Jun; Halved railway insurance fees and charges on extended use of containers for transportation and logistics firms till end-June
- **Mar 4 -**For every available seat kilometer, Beijing would award 0.0176 yuan for routes that have been shared by multiple carriers and 0.0528 yuan for routes that are only operated by one carrier effective for flights between Jan. 23 and June 30.
- **Mar 9 -**Fee reduction for aviation and port sector
- **Mar 10 -** Delayed import declaration fees exempted for firms hit by the virus
- **Mar 17 -** Raised export rebates for 1084 products; exempted port construction fees and halved oil pollution damage compensation during Mar 1 to June 30

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