

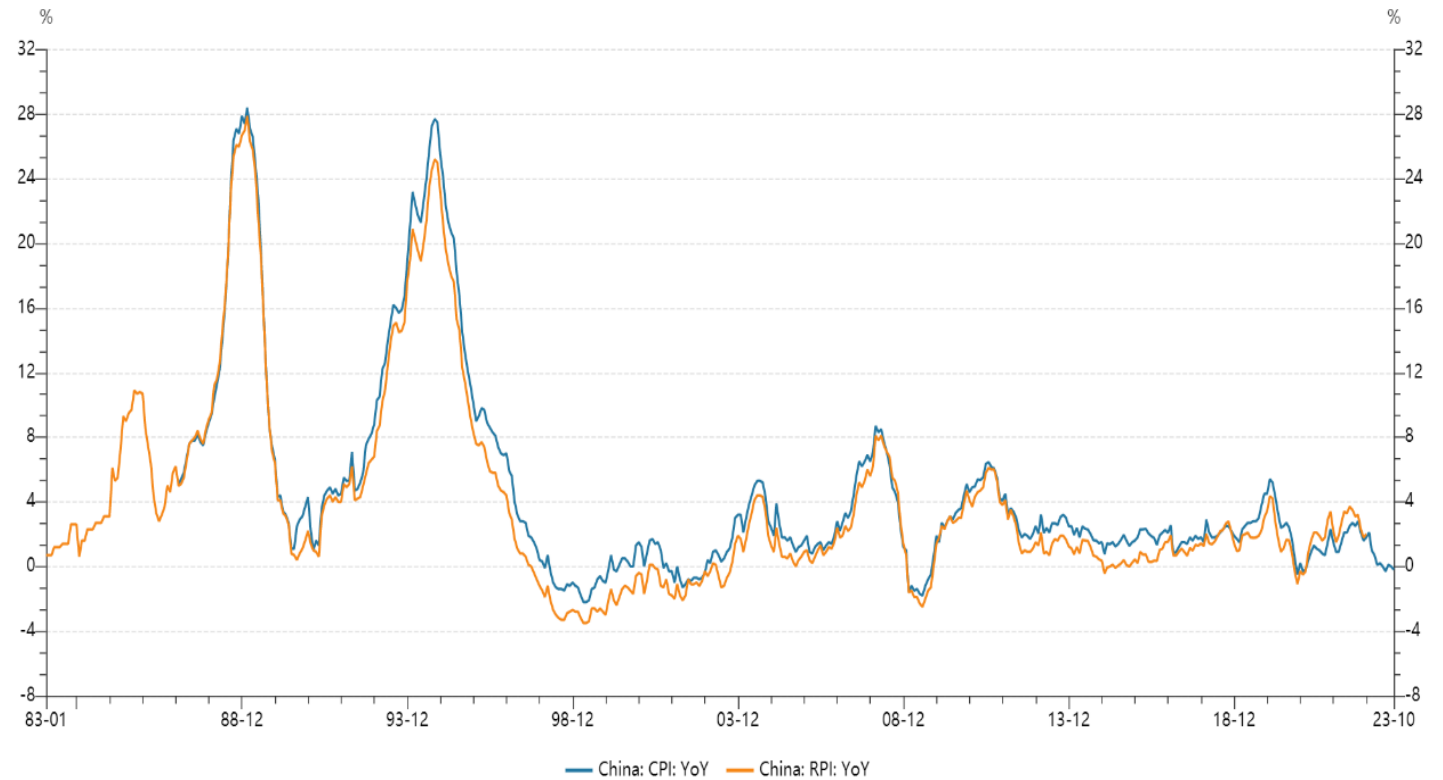
China's Prices and Policies Under Global Inflation

Daofu CHEN
19th Oct, Tokyo

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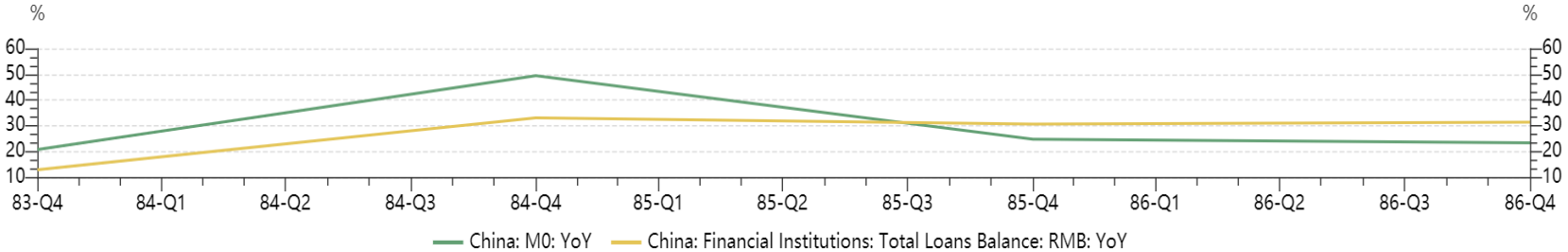
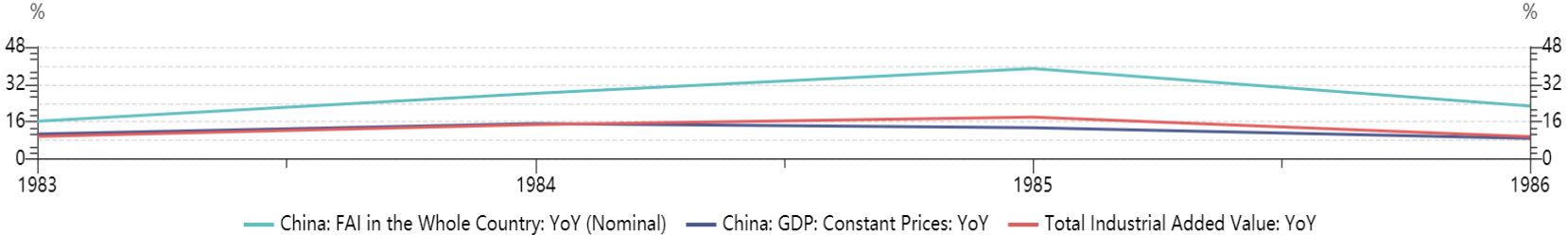
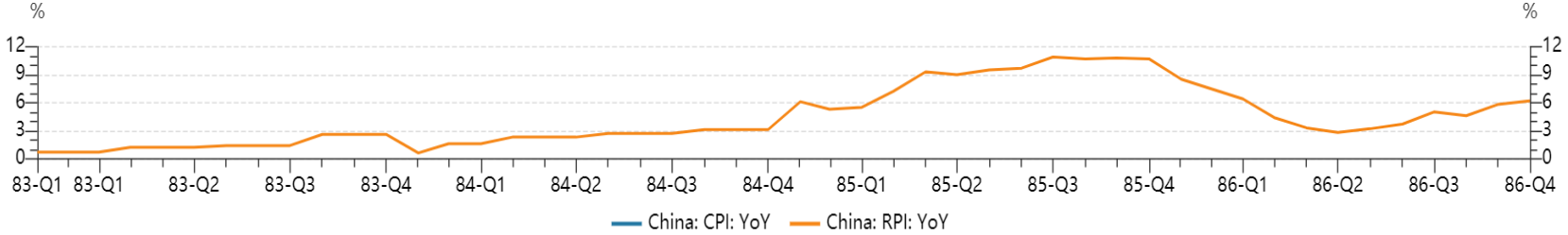
- Price Trends Since China's Reform and Opening-Up
 - China's 4 Rounds of Inflation and its Management
 - Uniqueness of China's Inflation Mechanism and Governance
 - Financialization has Impacted the Price Transmission Mechanism
 - The Uniqueness of China's Monetary Policy Transmission
- Prices and Policies within China-U.S. Framework
- China's Prices and Policies in the Current Stage
 - Main Features of China's Economic Operations
 - Fundamental Factors in the Current Economic Trends
 - Debate on Three Economic Policy Approaches

1.1 China's 4 rounds of Inflation

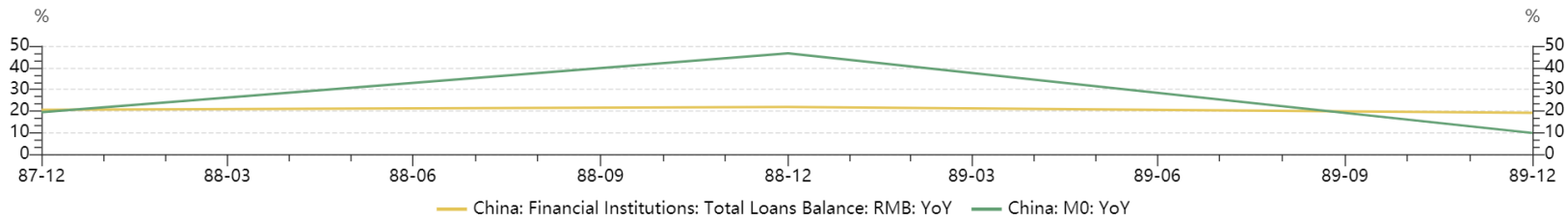
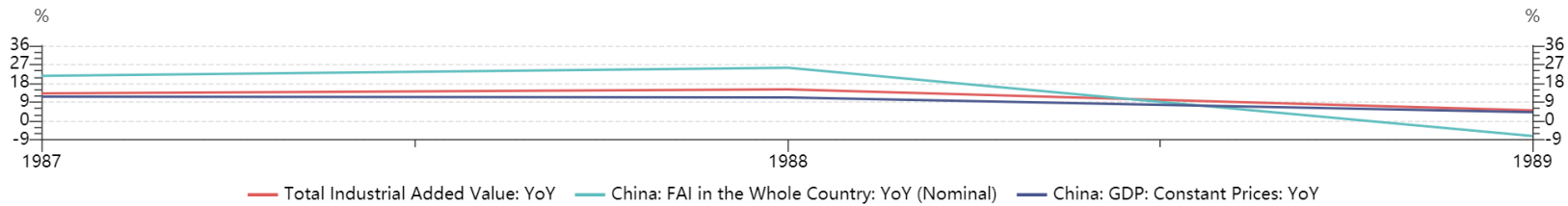
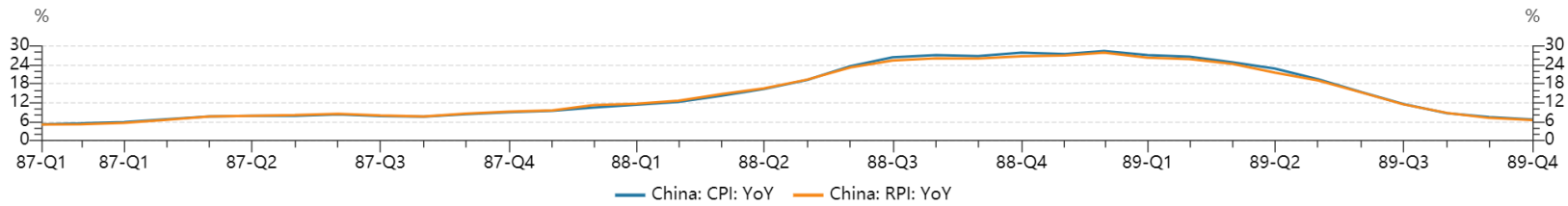


Source : Wind

Inflation and Its Management In 1984



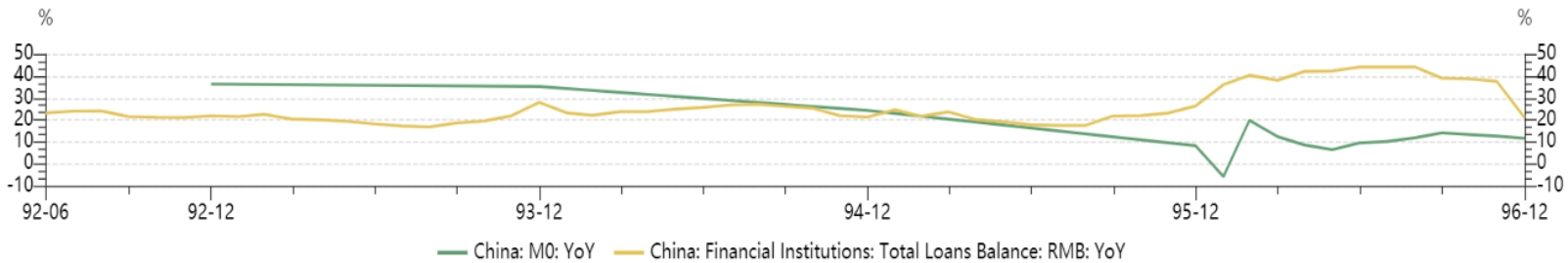
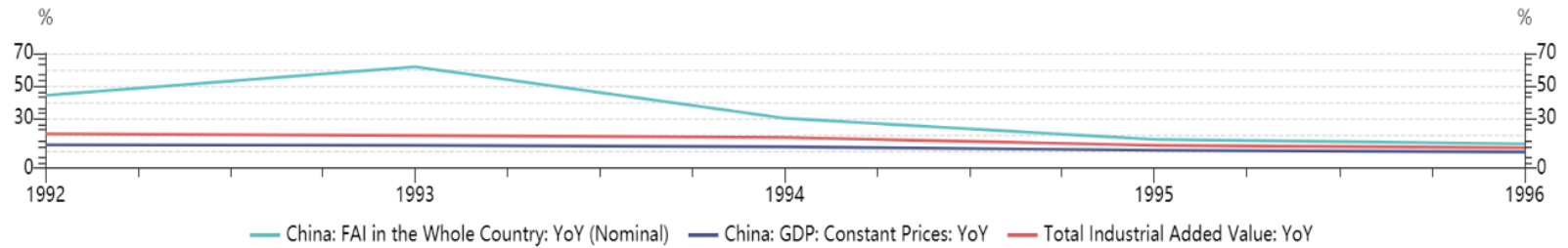
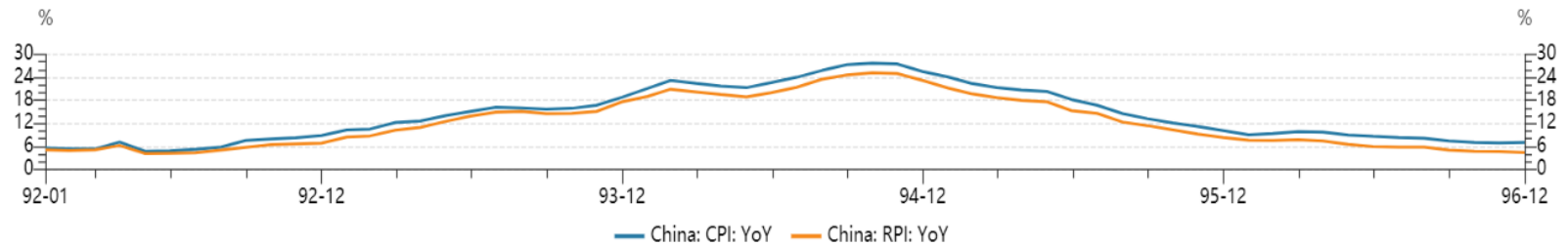
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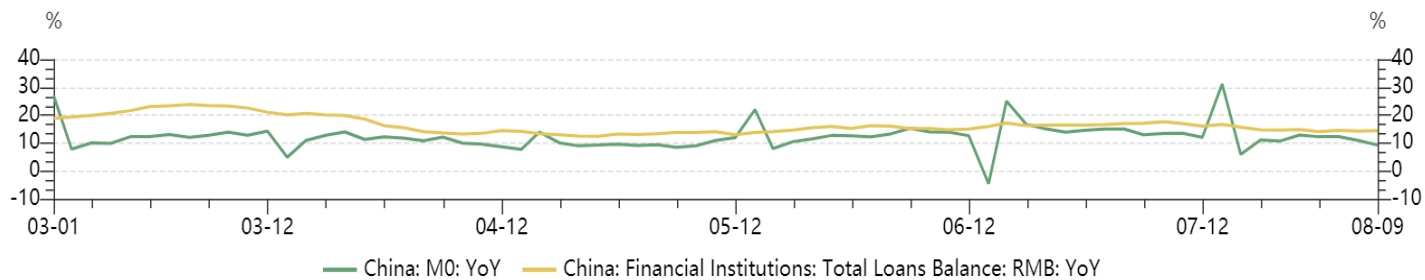
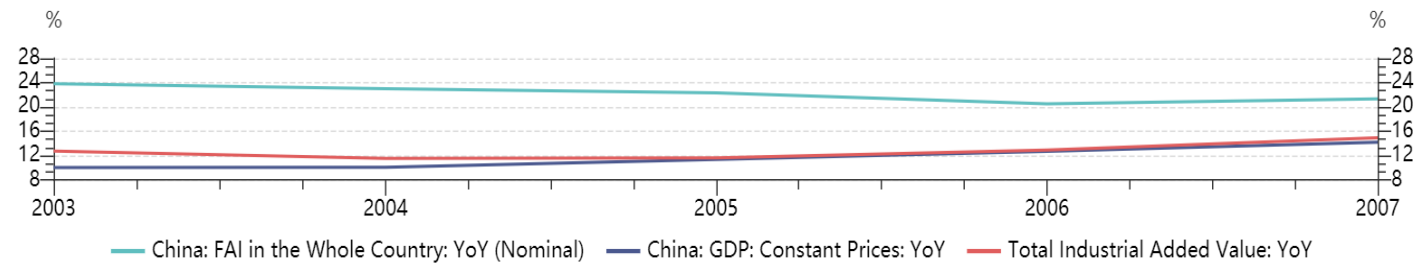
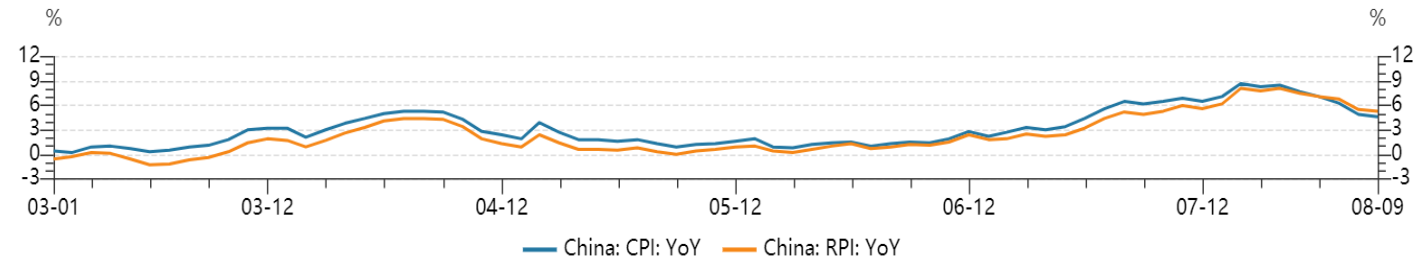
Inflation and Its Management in 1988

Inflation and Its Management in 1993-1994



Source : Wind

Inflation Pressure and Its Management in 2004 and 2007



Source : Wind

1.2 Uniqueness of China's Inflation Mechanism and Governance Methods

China's inflation is always related to some form and degree of supply constraints, often accompanied by economic and social structural adjustments and the development of industries.

Price Barrier Breaking and Release of Suppressed Price Pressure during Transition

Non-Market Goals and Soft Budget Constraints Exacerbating Inflation

Monetary Credit Always Supports Inflation to Some Extent

Inflation is Both a Result and a Means; Governance is Needed for the Self-reinforcing Loop of Inflation

1.3 Financialization & Price Transmission Mechanism

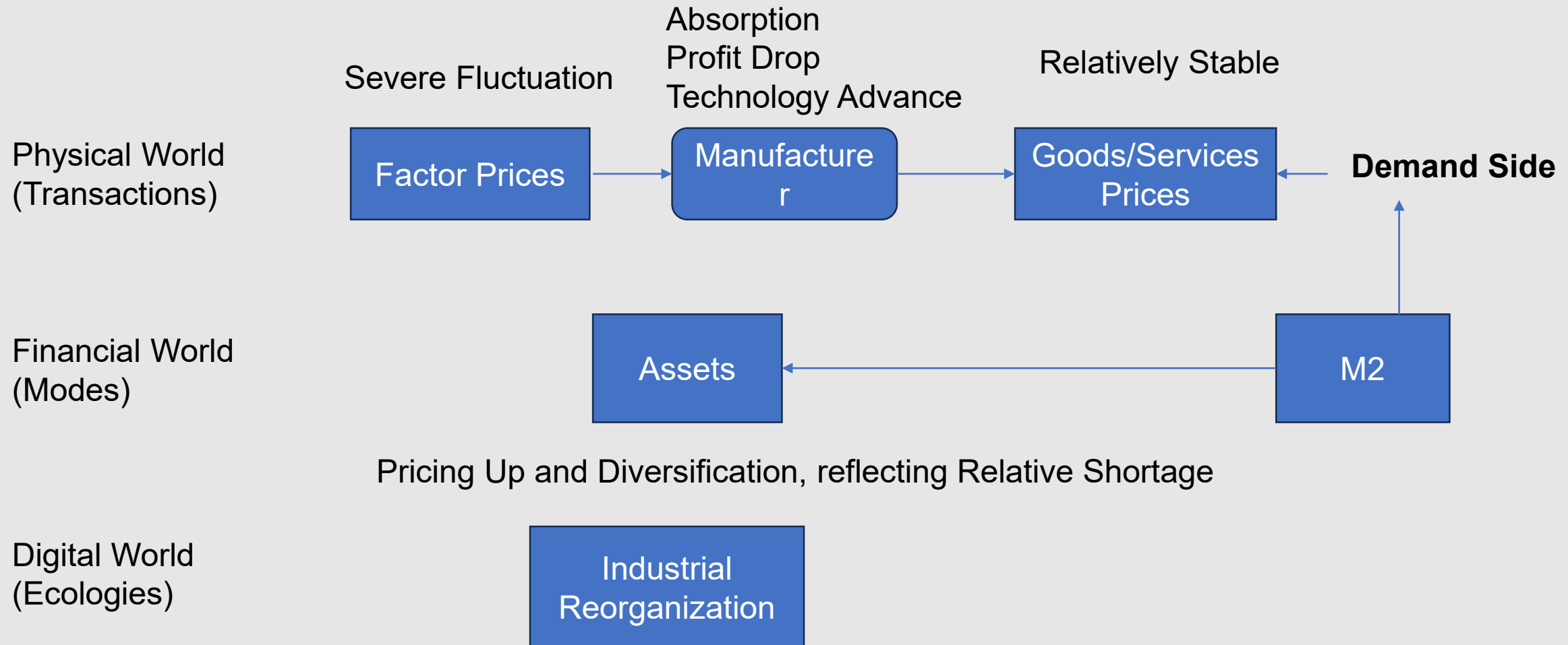
The financialization of commodities has significantly influenced the traditional price adjustment mechanism

With ample market liquidity and expectations of increased demand for commodities during economic recovery, commodity prices adjust rapidly in a short period

Reduces the enthusiasm of commodity producers to quickly resume production

The price adjustment mechanism along the industrial chain shifts from demand-driven profit to cost-sharing, decreasing price adjustment efficiency

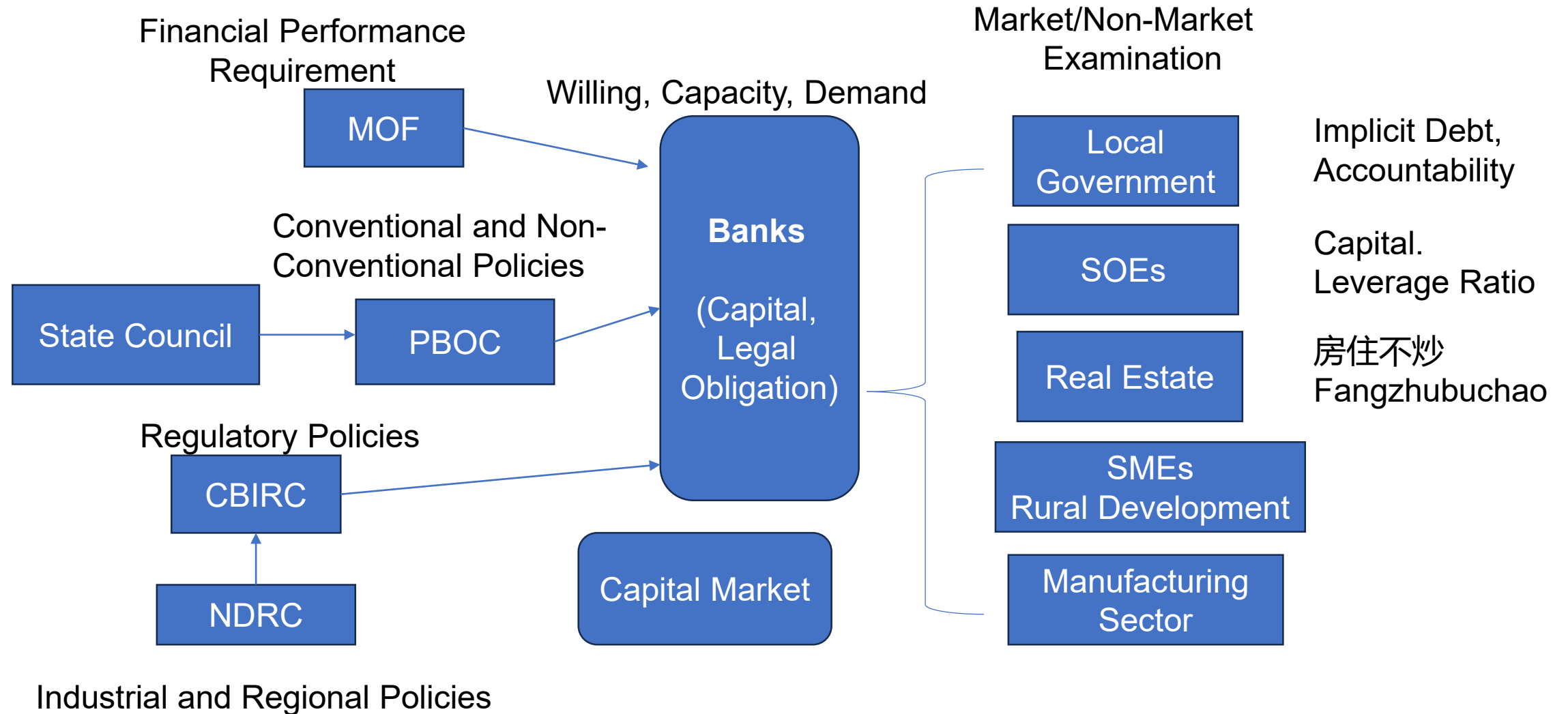
Three parallel worlds of prices



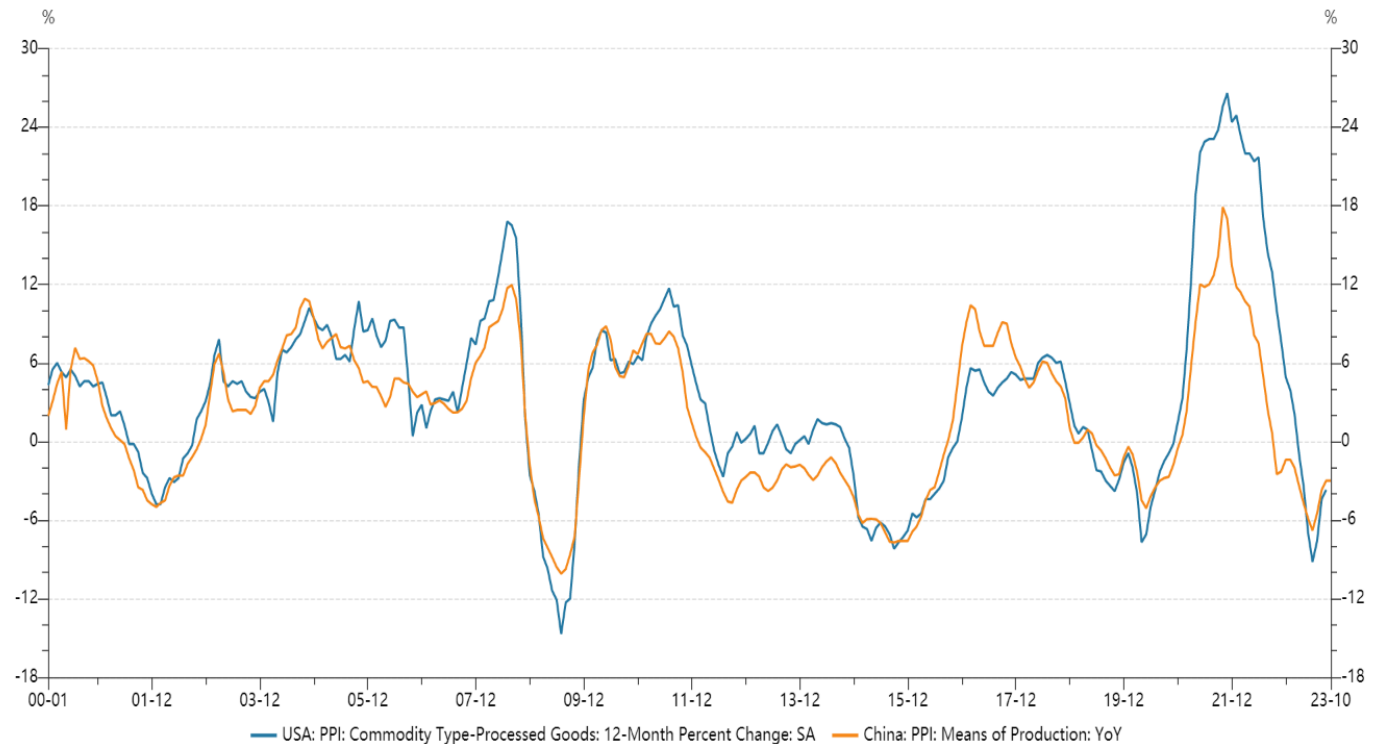
1.4 The Uniqueness of China's Monetary Policy Transmission

- the period of strict scale control
- the period when foreign exchange deposits dominated money supply
- other periods, China's monetary policy transmission efficiency was not satisfactory
 - Many periods fell under policies that aimed for a loose monetary policy
 - Chinese financial institutions were more concerned about non-economic factors and financial stability
- China's monetary policy transmission, to some extent, is not policy transmission but rather coordination and cooperation among government departments.

China's Monetary Policy Transmission



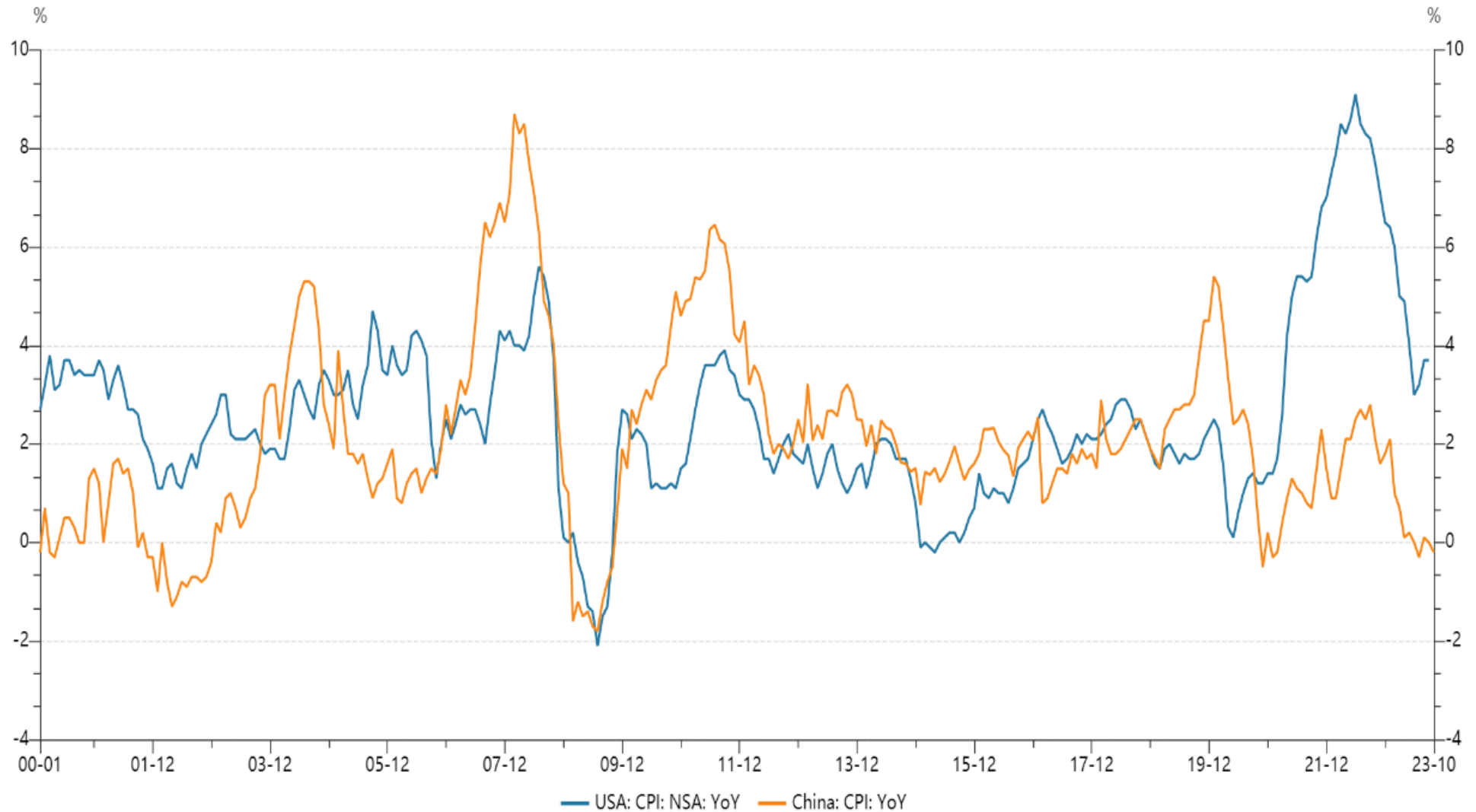
2 Prices and Policies within China-U.S. Framework



Source: Wind

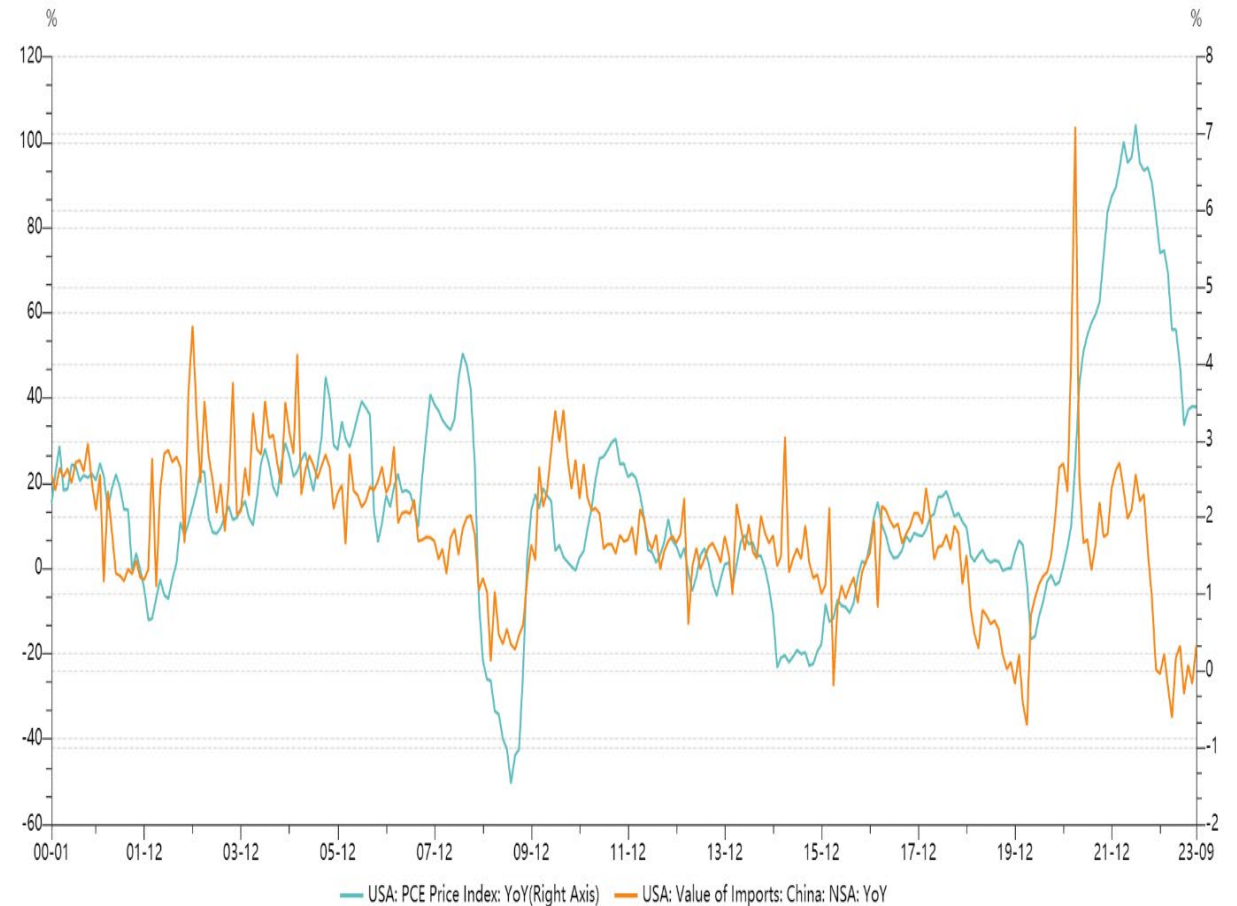
- Analyzing China's inflation also requires an analysis within the China-U.S. framework. When the economies of China and the United States operate in a China-American manner, the price trends in both countries are highly correlated.

CPI is different



2 Prices and Policies within China-U.S. Framework

Further observation of the relationship between the year-on-year growth rates of consumer spending in the United States and the year-on-year growth rates of imports from China reveals a strong correlation between the two. However, this correlation weakened after 2021.



Source : Wind

3 China's Prices and Policies Now

3.1 Main Features of China's Economic Operations

- Differentiated Recovery in August, Yet Fragile Foundation
- High M2 and Social Financing Growth, Low Inflation and GDP Growth, Widespread Micro-Entity Debt Swaps
- Macroeconomic Liquidity is Reasonably Abundant, but Micro-Entity Liquidity is Scarce
- Market Confidence is Still Insufficient and Fragile



3.2 Fundamental Factors in the Current Economic Trends

Pains and Differentiation
Under Structural
Transformation

Rapid Decline in Real
Estate and Exports

Micro Entities Adopting
Risk-Averse and Low-
Desire Behavior
Patterns

3.3 Debate on Three Economic Policy Approaches

Intensifying
Short-term
Demand
Stimulus

Structural
Reforms to Break
the Stalemate

Seeking
Solutions
Outside the
Economic Field

Q&A

Thanks!