

Economic Watch

China | Main take-aways of 2021 “Two Sessions”

Jinyue Dong

March 5th, 2021

The annual “two-sessions” of China, namely the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC), commenced in Beijing on March 4th 2021 and will be last for around one week. The “two sessions” are always the top priority in China’s political agenda every year.

In the week-long sessions, delegates from around the country will review the Government Work Report by Premier Li Keqiang which discussed the most important issues concerning all dimensions of national affairs, ranging from the summary of last year’s pandemic control endeavors and economic achievements to the announcement of 2021 key policy targets, from concluding the past 13th Five-year Plan accomplishments to announcing the next 14th Five-Year Plan’s policy outlook.

This year’s “two sessions” are particularly important as it is held in the post-pandemic time after China’s “first-in, first-out” of the Covid-19, which has a catastrophic impact on the global economy probably in the next 10 years. Chinese economic recovery has been better-than-expected due to its successful pandemic containment. Thus, key topics in this year’s “two sessions” include how to normalize the unprecedented fiscal and monetary policies and at the same time avoid “policy cliff” to foster recovery, as well as how to revert the policy focus from pandemic relief to structural reforms going forward. Other topics also include poverty alleviation, property market, industry policy, opening-up policy, technology advancement, China-US relationship and climate change etc.

Here are the highlights of this year’s “two sessions”:

- **GDP growth target for 2021 at “above 6%”.** The global recovery is still fraught of risks on vaccine roll-out process and its effectiveness, and at the same time, China’s external demand is facing enormous uncertainties of its strong export and current account normalization. Under this circumstance, the authorities set an apparently low and easy-to-achieve target for this year at “above 6%”, compared with the market consensus forecast (Bloomberg consensus: 8%) and the international organization’s estimations (IMF: 8.1%). The conservative growth target of 2021 indicated the authorities’ consideration of global economic uncertainties and the potential turbulence led by QE Tapering ahead, and more importantly to leave more space to curb financial risks and press ahead structural reforms. In addition, in terms of unemployment target, China also set a target of creating over 11 million new urban jobs this year, compared to a target of 9 million last year, and a surveyed urban unemployment rate of 5.5%, compared to around 6% last year. The inflation target is set to be around 3%. Thus, the comparatively loosening and “easy” target indeed leaves a lot of room for policy normalization this year. (Table 1)
- **The 14th Five-Year Plan is formally launched and details will be reviewed in the “two sessions”.** The government work report also promulgated the next 14th Five-Year Plan policy outlook, which will be reviewed by the delegates during “two sessions”. Main policy initiatives include: (i) To pay attention to the quality of growth and increase growth efficiency; (ii) Technology advancement is the new focus of the 14th Five-year plan; (iii) The “dual circulation” model with the focus of “internal circulation” will be the authorities’ new strategy throughout the next five years; (iv) Promoting new urbanization; (v) Optimize regional economic development, i.e. Beijing-Tianjin-Hebei district, Yangtze River Delta district, Great Bay Area etc.; (vi) Press ahead reform and opening-up policy, particularly on SOE reform, One-Belt, One-Road initiative and factor market reform, etc. (vii)

Green economy and environment protection. (see our recent [China Economic Watch: Understanding the 14th Five-year Plan and the 2035 long-term development target](#))

- **2021 fiscal policy stance: normalization is the main theme.** Compared with the neutral but accommodative monetary policy stance, the normalization step of fiscal policy will probably be faster. Instead of the previous year's 5% GDP fiscal stimulus package, this year, there will be a very limited fiscal expansion. In particular, the government work report clarified that: (i) Fiscal consolidation of approximately 3.2% of GDP fiscal deficit relative to 2020's 3.6%, but still more accommodative relative to 2019's 1.6% of GDP. (ii) No additional issuance of special treasury bonds is anticipated compared with 1% of GDP scale of issuance in 2020. (iii) Reduction of special-purpose local government bonds issuance from RMB 3.75 trillion to RMB 3.65 trillion.
- **Neutral but still accommodative monetary policy to foster economic recovery.** The government work report announced that M2 and total social financing annual growth are set to be in line with the nominal GDP growth rate which we estimate will be around 10%. That means, the authorities expect a slowdown of M2 and TSF in 2021, in line with the monetary policy normalization stance. (See our recent [China Economic Watch: China | What will be the monetary policy stance in 2021?](#)) In addition, the authorities also emphasized the monetary policy will not have "a sharp turnaround", suggesting a neutral and still accommodative measure throughout 2021 will continue to foster post-pandemic recovery. Under this circumstance, we do not anticipate any LPR cut this year. Beyond that, the government work report also mentioned that the authorities will keep the RMB exchange rate generally stable at an adaptive, balanced level.
- **Environment protection and carbon neutrality target.** The report also quantifies the target of environment protection. In particular, energy consumption and carbon emission per unit of GDP should be reduced to 13.5% and 18% y/y. In addition, clean energy usage ratio for warming system in northern China should reach 70%. This is the first time to raise a series of specific environment protection target in the annual policy target section, instead of only being dwelled in the five-year plan, indicating the determination of pressing ahead environment protection.

Table 1. COMPARISON OF 2020 AND 2021 TARGETS SET BY GOVERNMENT WORK REPORT

	2020 target	2020 actual	2021 target
GDP	No target	2.3%	Above 6%
CPI	3.5%	2.5%	3%
M2	Significantly higher than 2019	10.1%	In line with nominal GDP growth
Total social financing	Significantly higher than 2019	13.3%	In line with nominal GDP growth
Fiscal Deficit	3.6%	3.7%	3.2%
Special Government Bond	RMB 1 trillion	RMB 1 trillion	No issuance
Local Government Bond	RMB 3.75 trillion	RMB 3.6 trillion	RMB 3.65 trillion
Survey unemployment rate	6%	5.6%	5.5%
Urban employment	9 million	11.86 million	11 million

Source: BBVA Research and 2021 Government Work Report

In summary, this year's "two sessions" set up a comprehensive development blueprint in the post-pandemic time. The top priority of this year's "two sessions" is centering around the policy focus transmission from pandemic relief back to a series of structural reforms to deal with some rooted problems of Chinese economy, amid better-than-expected economic recovery. That means, taking lessons of RMB 4 trillion stimulus package during 2008-2009 Global Financial Crisis which accumulated debt overhang problem, the authorities would like to adopt a more balanced stimulus method and started the policy normalization progress in a timely manner.

At the same time, the authorities also emphasized "no sharp policy turnaround" in both monetary and fiscal measures in a bid to continue to foster post-pandemic growth. That means, we do not anticipate an early exit of accommodative monetary and fiscal measures, although it is certainly a gradual normalization process going forward compared with what they did during the pandemic time. Under this circumstance, we anticipate Chinese GDP growth will continue to expand this year, and due to a significant low base effect, it will bounce back to around 7.5% with some upside bias. The authorities' "above 6%" easing-to-achieve growth target this year obviously provides more room for normalizing previous easing monetary and fiscal easing measures, curbing financial risks and pressing ahead various fronts of structural reforms.

DISCLAIMER

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA.

ENQUIRIES TO:

BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com

