Economic Watch

China | What do we expect from 2023 March “Two Sessions”?

Jinyue Dong and Le Xia

March 2, 2022

The annual “two sessions” of China, namely the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC), have always been the top priority in China’s political agenda every year. In particular, National People's Congress is China's top legislature while the National Committee of the Chinese People's Political Consultative Conference is the country's top political advisory body. This year the 14th “two sessions” will commence in Beijing on March 5th and will last for around one week.

The “two sessions” of this year have specially attracted global attention due to a confluence of factors, including the ongoing global economic downturn, China's recovery in the post-Covid era, and the reshuffling and reforms of China’s State Council, the country’s chief administrative authorities.

Based on the outcome of the 20th National Congress of the Communist Party of China (CPC) held in October 2022, the top agenda of the coming “two sessions” is expected to secure a smooth transformation to President Xi Jinping’s third-term accompanied by reshuffling and reforming the State Council. In particular, the incumbent Premier Li Keqiang will step down at this year’s “two sessions” as well as most of the existing cabinet members. Regarding the institutional reforms of the State Council, the authorities are reported to focus on the areas of national security, finance and high tech in a bid to tackle the ever-increasing challenges stemming from political and geopolitical risks.

The new government leadership is also expected to send a policy signal to support economic recovery and China’s long-term reforms and development, helping to rebuild market confidence after the three-year “Zero Covid” policy. The market also expects that the authorities will disclose the details of the new stimulus package. Amid global growth slowdown due to aggressive interest rate hikes by major central banks, external demand in 2023 is expected to be weak for China. Under such a circumstance, how to stimulate domestic demand and secure a soft-landing of real estate market constitutes the main challenge to China’s authorities.

We expect the key economic topics in this year’s “two sessions” will include not only the short-term issues such as how to provide expansionary monetary and fiscal policy to rebuild market confidence and how to reposition the role of real estate sector in Chinese economy, but also a series of long-term issues, such as aging, debt overhang, urbanization and China’s new growth model. The market is particularly concerned about the following questions in this year’s “two sessions”: (i) Amid slowdown of external demand in 2023, how to stimulate domestic consumption and investment; (ii) How to stimulate real estate activities and reposition real estate sector for Chinese economy; (iii) What will be the growth target in 2023 and the other related economic targets; (iv) What measures will be announced to boost FDI, portfolio inflows and exports, and ultimately financial liberalization and RMB internationalization? (v) How to describe China’s long-term “new growth model” and how to balance short term growth stimulus with long-term debt overhang and financial stability; and at the same time, how to deal with a series of long-term challenges, such as geopolitical risks, aging society, structural reforms, technology self-reliance as well as transformation of “new growth model”?

Here are the highlights of what we expect of this year’s ‘two sessions”:

- **Top leadership reshuffle:** The new premier Li Qiang will take place of the incumbent Li Keqiang at this year's "two sessions". In the meantime, the majority of incumbent Vice Premiers and Ministers are to be replaced, including the central bank governor and financial regulators. The new Premier Li Qiang, who has a long history of working under President Xi, is anticipated to loyally enforce President Xi's policy without compromise at the State Council. With President Xi's consent, the new Premier will pick the members of his cabinet.
- **Institutional Reform of State Council:** The authorities indicated that they will conduct some important institutional reforms of the State Council, the country's chief administrative authorities. Although they haven't disclosed any details about this far-reaching reform, we can envisage that a first principle will be cementing President Xi's control of the entire state apparatus to tackle domestic and international challenges. It is reported that significant reforms will concentrate on a number of areas including national security, finance and high tech. In particular, the authorities might adopt the model of super regulator for the financial sector, which is to unify the supervisory powers of the PBOC, CBIRC and CSRC. In the high-tech area, the authorities aim to carve out a new science and technology innovation system to meet the challenges from other countries' high-tech sanctions and decoupling.
- **GDP growth target for 2023 at "around 5%" and other economic targets will also be promulgated.** The "around 5%" growth target is in line with the economic recovery scenario after China reopened its economy at end-2022 while it also considers the challenges to stimulate domestic demand and to rebuild market confidence after three years of "Zero Covid" policy as well as the weak external demand. It is also in line with IMF's China growth forecasting at 5.2% and market consensus forecasting at 5.1%. While a faster growth rate is expected, there are other policy targets, including sustainable and high-quality growth instead of pursuing the growth figure per se. In addition, in terms of employment, we expect it will set a target of creating over 11 million new urban jobs this year, and a surveyed urban unemployment rate of 5.5%, both figures are the same with the previous year's targets. The inflation target is set to be around 3% while household income growth will be in line with GDP growth. (Table 1)
- **Expansionary fiscal policy to stimulate growth.** We expect the total fiscal stimulus package will be around the same scale as of the 2022 scale. The anticipated several figures on fiscal expansion in 2023 include: (i) Fiscal budget will be approximately -3.2% of GDP which is in line with the previous year's deficit budget. (ii) Tax cut/refund and fee deduction with the total scale of RMB 2 trillion, which is modestly lower than the level of 2022. (iii) Maintain the special-purpose local government bonds issuance quota at RMB 3.65 trillion, the same scale of the previous year in a bid to support infrastructure investment.
- **Accommodative monetary policy to support growth but will refrain from resorting to a deluge of strong stimulus policies amid FED interest rate hike cycle.** The government work report is expected to announce M2 and total social financing annual growth to be in line with the nominal GDP growth rate which we estimate will be around 7.5%. In addition, the monetary policy will refrain from resorting to a deluge of strong stimulus policies, considering the FED interest rate hike and the financial instability risks such as debt overhang, RMB depreciation and capital outflows etc. Under this circumstance, we anticipate no LPR cut throughout 2023 and 1-2 RRR cut this year after FED actually stops rate hike in the second half of this year. The authorities are anticipated to emphasize the targeted easing measures, particularly to SMEs, Covid-19 damaged sectors and agricultural sector as well as more structural and quantitative monetary policy tools instead of price tools.
- **The government work report is anticipated to re-emphasize the long-term Chinese new growth model:** In the medium-to-long term, China will stick on the "new growth model", underpinned by "three pillars": common prosperity, self-sufficient technology and carbon neutrality. The new economic model emphasizes not only the headline growth figures but also a more balanced growth including national security, carbon neutrality, common prosperity, the continuation of opening-up policy and market economy, supply-chain self-sufficiency and technology advancement. This new growth model indicates Chinese growth engine is transforming from real

estate and infrastructure investment driven to domestic consumption, high-end manufacturing, technology and green economy driven. (see our China Economic Watch: Understanding China's new growth model) But how to foster the transformation from "old" growth model to "new" growth model remains challenging for the new leadership.

Table 1. COMPARISON OF 2022 AND EXPECTED 2023 TARGETS SET BY GOVERNMENT WORK REPORT

	2022 target	2022 actual	2023 target (expect)
GDP	5.5%	3%	5%
CPI	3%	2%	3%
M2	In line with nominal GDP growth	In line with nominal GDP growth	In line with nominal GDP growth
Total social financing	In line with nominal GDP growth	In line with nominal GDP growth	In line with nominal GDP growth
Fiscal Deficit	-2.8%	-3.2%	-3.2%
Special Government Bond	No issuance	No issuance	No issuance
Local Government Special Bond	RMB 3.65 trillion	RMB 3.65 trillion	RMB 3.65 trillion
Survey unemployment rate	5.5%	5.6%	5.5%
Urban employment	11 million	12.06 million	11 million

Source: BBVA Research and 2022 Government Work Report

Creating Opportunities

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