



Economic Observatory

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China's growth target of around 8% for 2009 is re-affirmed by Premier Wen Jiabao

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The much anticipated Government Works Report to the National People's Congress (NPC) by Premier Wen Jiabao was presented yesterday. The report first reviews achievements and challenges facing the Chinese economy in 2008. It then spells out China's social economic development goals for 2009.

Consistent to our expectations, Premier Wen re-affirmed the GDP growth target at around 8% for 2009. He states that "in order to increase employment, boost income, and maintain social stability, China must maintain a relatively high rate of economic growth." He is also confident the growth target can be achieved "as long the policies are right, responses are appropriate, and executions are effective."

Some highlights of the Report:

1) Economic Challenges facing China

While recognizing impressive achievements in an extremely difficult domestic and external environment in 2008, Premier Wen is also candid about the challenges ahead. He listed five challenges facing the Chinese economy:

- Global financial crisis is still spreading and has yet bottomed. Meanwhile, risks of global deflation and trade protectionism have increased.
- China's growth has decelerated fast while

Table 1: The allocation of RMB 4 trillion investment in the fiscal stimulus package (updated version)

	Original plan		Updated plan	
	RMB bn	Share	RMB bn	Share
Affordable housing for low income population	280	(7%)	400	(10%)
Rural infrastructure facilities and programs to boost rural income	370	(9%)	370	(9%)
Investment in transportation network	1,800	(45%)	1500	(38%)
Investment on medical services, culture and education	40	(1%)	150	(4%)
Spending on ecology protection	350	(9%)	210	(5%)
Technical innovation and economic restructure	160	(4%)	370	(9%)
Sichuan post-earthquake reconstruction	1,000	(25%)	1000	(25%)
Total	4,000	(100%)	4,000	(100%)

Source: China Review News.

unemployment has increased sharply.

- Institutional and structural impediments such as insufficient domestic consumption, lagging development in the services sector, lack of technology innovation, inefficient use of energy, and environmental degradation continue to constrain sustained economic growth.
- Structural problems in social safety net, education, medical care, income distribution, and public safety needed to be addressed urgently.
- Food safety and production safety remain a challenge to social stability.

2) Growth and economic development goals in 2009

- GDP is targeted to grow at around 8%.
- Inflation is to be kept at 4%.
- Urban employment is to increase by above 9 million and the urban unemployment rate is to be kept below 4.6%;
- M2 growth is targeted to increase by 17% yoy and total loan growth by 16.5% yoy (or a total of RMB 5 trillion).

3) Further details of the fiscal stimulus package and deficit spending

- Despite some changes in the allocation (Table 1), the central government plans to increase investment by RMB 1.18 billion or 30% of the total over the next two years. The central government has invested RMB 104 billion in 2008 Q4, and will invest another RMB 487.5 billion and RMB 588.5 billion in 2009 and 2010, respectively.
- The consolidated government deficit is budgeted to be RMB 950 billion or 3% of GDP. Out of which, RMB 750 billion will be incurred by the central government (Table 2 and 3). The remaining RMB 200 billion will be spent by local governments financed by debt issuance that is guaranteed by the central government. It appears that the extra investment will be fully covered by the central government deficit spending for this year (Table 4).
- While the government spending increased, it also plans to reduce taxes and fees by RMB 500 billion in areas such as real estate and stock transaction taxes, export rebate taxes, and preferential tax

Table 2: National Budget

	Fiscal revenue		Fiscal expenditure		Fiscal balance	
	RMB billion	(% GDP)	RMB billion	(% GDP)	RMB billion	(% GDP)
2008	6,132	20.4	6,243	20.8	-111	-0.4
2009	6,623	19.6	7,573	22.4	-950	-2.8
(budgeted)						
Change	RMB billion	(% yoy)	RMB billion	(% yoy)	RMB billion	
	491	8.0	1,330	21.3	-839	

Source: Xinhua News Agency.

Table 3: Central Government Budget

	Central government revenue		Central government expenditure		Central government fiscal balance	
	RMB billion	(% GDP)	RMB billion	(% GDP)	RMB billion	(% GDP)
2008	3,267	10.9	3,538	11.8	-271	-0.9
2009	3,637	10.8	4,387	13.0	-750	-2.2
(budgeted)						
Change	RMB billion	(% yoy)	RMB billion	(% yoy)	RMB billion	
	369	11.3	849	24.0	-479	

Source: Xinhua News Agency.

Table 4: Debt Issuance

	Issuance of domestic debt	Outstanding of total debt	
	RMB bn	RMB bn	% NGDP
2006	862	3,502	16.5
2007	2,047	5,548	21.6
2008	700	6,244	20.8
2009	1,380	7,624	22.6

Sources: Xinhua News Agency and BBVA estimates.

Table 5: Central Government Expenditures

Items	RMB billion
Public investment	908.0
Subsistence allowances for both urban and rural families	220.8
Subsidizing rural residents' purchase of home appliances and etc.	103.3
Assist agriculture, rural areas and farmers	716.1
Education, medical, social safety net and etc.	728.5
Science and technology	146.1
Spending on energy conservation and emissions reduction	49.5
Supporting small and medium-sized enterprises	9.6
Others	1,504.5
Total	4,386.5

Source: Xinhua News Agency.

4) Are there any additional outlays?

- Contrary to market rumors, there does not appear to be any new fiscal stimulus announced in Premier Wen's Government Work Report to NPC (Table 5).
- Perhaps what's new in the Report is the number related to tax cuts amounted to RMB 500 billion, which was not properly accounted for in previous government statements.
- Assuming a fiscal elasticity of 0.3 for tax reduction, we estimate this will lead to extra growth of 0.5 percentage point.
- Adding this extra effect to our previous fiscal elasticity estimates based on expenditures only, we estimate the fiscal stimulus package will generate at least 4.7%-6.2% of growth rate (Table 6).

As discussed in great details in our China Watch in January 2009, we were quite optimistic that a growth rate of 8% has a high probability to be achieved thanks to China's massive fiscal stimulus package, ample room for further monetary ease, and credible institutions. Today's Government Works Report by Premier Wen also seems to agree with our assessment back in January. Since our January assessment, there have been more and larger fiscal packages announced by other key economies in the world. Our tally shows that the total global fiscal stimulus spending is going to be at around USD2.5 billion for 2009 or about over 4% of 2007 GDP. Such information may imply that a severe global recession may be averted this year.

We therefore continue to maintain our call that China has a high probability to achieve our baseline forecast of a growth rate at 8.1% for 2009.

Table 6: Contribution of Fiscal Stimulus

	Contribution to GDP growth			
Fiscal expenditure	(4.2	-	5.7)
Tax reduction	(0.5)
Fiscal stimulus	(4.7	-	6.2)

Source: BBVA estimates.