

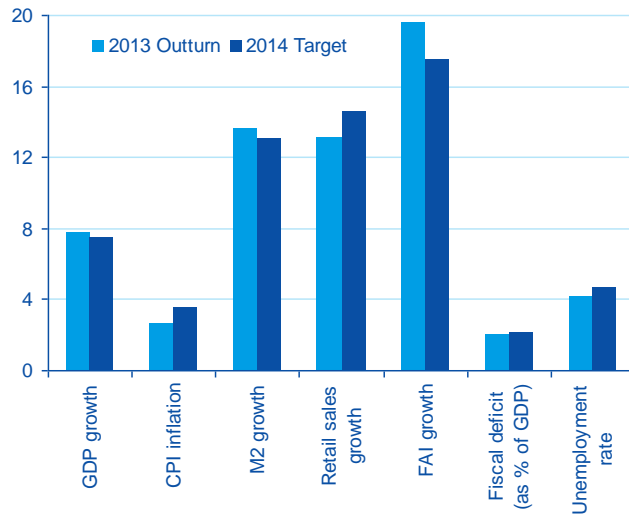
China Flash

China's NPC meeting kicks off with 7.5% growth target and emphasizes market-oriented reforms for 2014

At today's opening of the annual National People's Congress, Premier Li Keqiang presented the "Government Work Report" reviewing economic developments and policy priorities for the coming year (Table 1). The Report contained the official 2014 macro targets, all of which were in line with expectations and essentially unchanged from last year (see our quarterly [China/Asia Outlook](#)): GDP growth of 7.5%, inflation at 3.5%, M2 growth of 13.0%, and a fiscal deficit of 2.1% of GDP (Chart 1). Consistent with the policies announced at the November 3rd Plenum meeting, the Report also laid out reform priorities for 2014 in the areas of public administration and finance, the financial system, and SOEs. Improving the urbanization process and addressing environmental issues also received heavy emphasis. While the Report was in line with expectations and reemphasized the government's determination to press ahead with policies to boost productivity and rebalance the economy, it was short on new details. Also, by maintaining the growth target at last year's level, rather than lowering it to 7.0% as had been speculated some months ago, the government has signalled a preference to support near-term growth over a bolder approach to addressing rising financial fragilities and stepping up the pace of reforms.

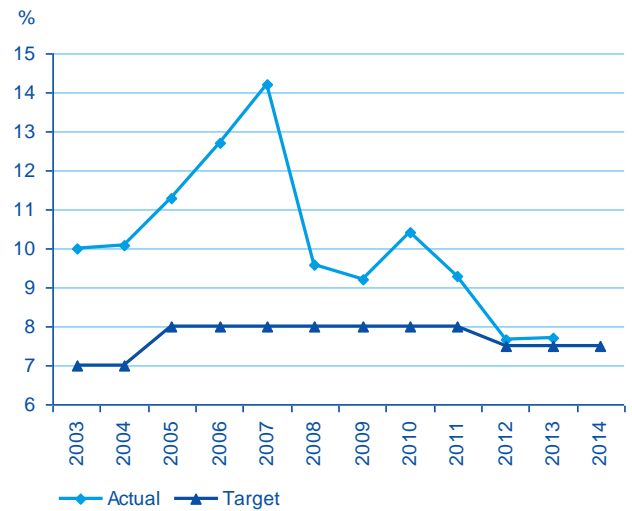
- **GDP growth and inflation targets are in line with expectations, at 7.5% and 3.5% respectively.** The targets are unchanged from last year, and may reflect the Government's desire to anchor market expectations which have recently turned pessimistic following the release of weak PMIs. The Report targets 10 million in new job creation (slightly higher than last year), and maintain the urban registered unemployment rate to within 4.6% (currently 4.1). The targets are in line with our projections of 7.6% GDP growth and 3.3% inflation for 2014, compared to outturns of 7.7% and 2.6% in 2013 respectively.
- **Macro policies will remain supportive of growth in 2014.** The fiscal deficit target will be raised by 0.2% of GDP over last year's outturn, to 2.1% of GDP in 2014. As in previous years, public investment in social housing, agriculture, infrastructure, environment, and social affairs are expected to support GDP growth. We expect monetary policy to remain cautious -- the M2 growth target of 13.0% is down from last year's outturn of 13.6% y/y -- given the need to curtail shadow banking and other financial fragilities. As such, we expect policy rates to remain unchanged through the coming year. An important new policy announcement is a widening of the daily trading band for the RMB, consistent with the authorities' recent efforts to weaken the currency toward the middle of the existing $\pm 1\%$ trading band.
- **Reforms will continue in order to enhance the quality of growth and facilitate rebalancing.** Other than the widening of the currency band mentioned above, the Report says little new in the way of reforms announced at the 3rd Plenum meeting. It reinforces the government's plans in 2014 to press ahead with the streamlining of public administration and reducing intervention in the market economy. On fiscal reforms, it mentions budget transparency, tax reforms (VAT, property tax, and resources tax), improvements in the central and local fiscal relationship, and efforts to tackle local government debt. In the area of financial reforms, the Report mentions the establishment of a deposit insurance system, advancement of interest rate liberalization, and deepening of the capital markets, along with facilitating a "healthy development" of e-banking (which is growing rapidly at present). SOE reforms are also mentioned, including opening the sector to private capital in the areas of banking, oil, electricity, railway, communications, natural resources, and public services.
- **Urbanization, industry policy, and environmental issue are also highlighted.** On the urbanization policy, the government will prioritize the urbanization of "three hundred million persons", including one hundred million of migrant workers, one hundred million in the urban slum areas, and one hundred million in the western region. The industry policy aims to promote innovation and upgrade industrial structure, and abolish over capacity in some industries. The government also vows to tackle the smog and pollution issues and promote efficiency in energy consumption.

Chart 1

2014 macro targets vs. 2013 outturns

Source: Government work report

Chart 2

GDP growth target at 7.5% for a third year in a row

Source: Wind and BBVA Research

Table 1

NPC agenda

2nd session of China's 12th NPC		
Date	Time	
04-Mar		Press conference on the agenda
05-Mar	9:00 AM	Premier Li Keqiang delivered government work report in the opening session
05-Mar		The NPC reviewed the Budget Report
	3:00 PM	The NDRC delivers annual report
06-Mar		Panel discussions on the government work report
07-Mar		Panel discussions on Budget Report
09-Mar	9:00 AM	The NPB's Standing Committee delivers work report
	3:00 PM	Panel discussions on the Standing Committee work report
10-Mar	9:00 AM	The NPC review the Standing Committee work report
	3:00 PM	The Supreme People's Court (SPC) delivers work report
		The Supreme People's Procuratorate delivers work report
11-Mar		Panel to review legal reports
12-Mar		Panel to review the Government Work Report and Budget Report
13-Mar	9:00 AM	The NPC votes on draft proposals
	10:00 AM	Premier Li Keqiang delivers press conference

Source: Media reports



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