China Flash

In light of the gloomy data and Li Keqiang's recent words, we are targeting to lower our growth projections but maintaining 7% as a bottom

Today's media reported that Premier Li Keqiang presided over a meeting on March 26 to discuss current economic development, where he stressed to sustain the economy in 2014 within a "reasonable zone". The "reasonable zone" is interpreted by market analysts as a combination of two limits: an upper bound of 3.5% for inflation, and a bottom line of 7.0% GDP growth. China's growth momentum has moderated since Q3 last year, and activity indicators for January and February have suggested that the economy might decelerate further. However, Premier Li has conveyed the message that the government will react with more growth supportive measures if needed.

Looking ahead, **we aim at a moderate downward revision of our 2014 growth projection for China based on the smoothening effect of Li Keqiang's words of potential preemptive action on the background of quite gloomy data** (see our China Flash). As such, we expect growth momentum to stabilize in the second quarter, after a small dipping in the first quarter. **Nevertheless, we project that GDP growth in 2014 will slow down with 7% as a bottom.**

- **Why growth momentum has slowed down in the first quarter?** We attribute current economic slowdown mainly to the authorities' efforts to tackle financial risks and curtail rapid credit growth. Meanwhile, the government's measures to address the air-pollution issue and the over-capacity issue in some industries, as well as of the adverse impact of the anti-corruption campaign, have also dampened both manufacturing production and consumptions.
- **The government has already fine-tuned their policy stance over the past weeks.** The interbank rates have been kept at lower levels than those in December, despite remaining high compared to historical levels, while the RMB has weakened significantly. Meanwhile, the government has pledged to accelerate public investment on a few occasions, to support growth.
- **Looking ahead, the government will push ahead key reforms to boost potential growth.** Premier Li emphasized the market's role in resource allocation and vowed to streamline public administration process as well as reduce the government's intervention to the market. He also vowed to enhance the market access of private and foreign investors, facilitate the development of the service sector, and boost the emerging industries.
- **Fiscal policy, especially public infrastructure investment, will underpin growth.** The government will disburse fiscal funds timely, continue social housing construction, and accelerate public infrastructure investment (railway, highway, and water conservancy) in the middle and western China.
- **The government will also reform the financial system to better support enterprises especially SMEs.** On the monetary policy front, the PBoC is likely to maintain stable interbank rates. Nevertheless, we don't expect interest rate cuts for 2014, while Reserve Requirement Ratio (RRR) may be adjusted according to capital flows.

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