PICTET WEALTH MANAGEMENT

China: Key takeaways from the premier's work report at the National People's Congress

Modest growth target and prudent policy support

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FLASH NOTE

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SUMMARY

- The economic targets that the Chinese government announced for 2023 are fairly modest, reflecting a pragmatic stance after a traumatic 2022.
- Policy support will likely be tightly targeted and prudent. No massive stimulus is expected this year.
- The government sees domestic consumption and job creation as essential for the recovery.
- The property sector's recovery will likely be gradual, and it faces some important structural headwinds ahead.

The Chinese legislature, the National People's Congress (NPC), started its annual gathering on 5 March 2023. This is the first NPC meeting since the Chinese Communist Party's 20th Congress last October unveiled the China's top leadership for the years to come. The NPC will finalise the appointment of most other senior government positions for the coming five years.

On the first day of the week-long NPC gathering, the outgoing premier Li Keqiang delivered his last government work report, highlighting the government's main achievements over the past five years and outlining its policy priorities for 2023. Li also announced the government's targets for key economic and social indicators such as GDP growth and inflation *(see table below)*. In this note, we summarise our key takeaways from the work report.

Chinese government target for major economic and policy indicators

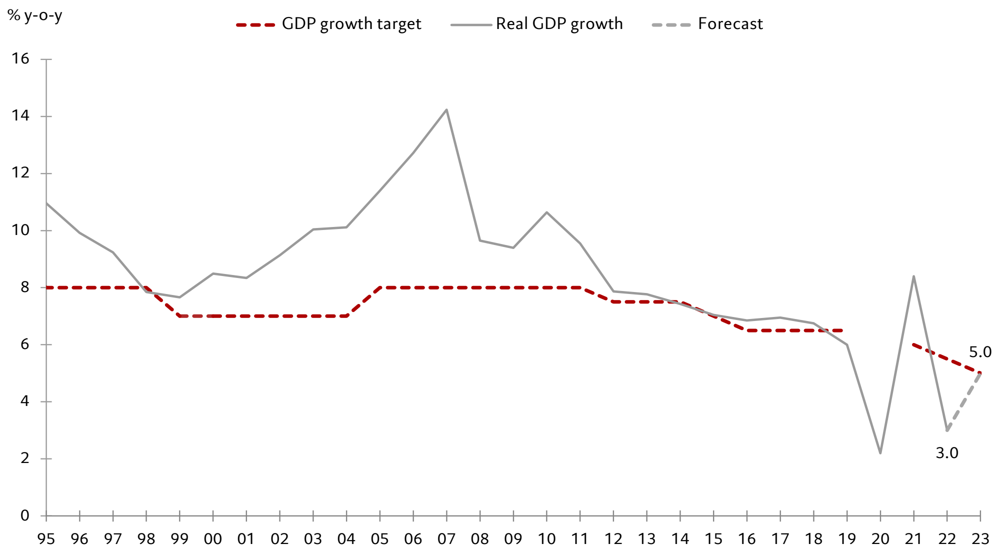
	2023		2022		2021	
	Target	Forecast	Target	Actual	Target	Actual
Real GDP growth (%)	*~5.0*	5.0	*~5.5*	3.0	*>6.0*	8.1
CPI Inflation (%)	*~3.0*	3.0	*~3.0*	2.0	*~3.0*	0.9
Unemployment rate (%)	*~5.5*	-	*<5.5*	5.5	*~5.5*	5.1
Fiscal deficit (% of GDP)	*3.0*	-	*2.8*	*4.7*	*3.2*	*3.8*
Credit growth (%)	*In line with GDP growth*	10.5	*In line with GDP growth*	9.6	*In line with GDP growth*	10.3

Source: Pictet Wealth Management, National Bureau of Statistics of China, National Development and Reform Commission (NDRC), as of 06.03.2023.

MODEST GPD GROWTH TARGET

The main economic targets announced for 2023 are generally modest. The government sets the GDP growth target at "around 5.0%" for 2023, which is in line with our own forecast but is lower than market consensus and last year's target of 5.5% *(Chart 1).* The target for headline inflation is kept unchanged from last year at "around 3.0%". The fairly mild price momentum in China may allow room for pro-growth policy support. The work report emphasises the need to maintain stability in growth, inflation and employment.

Chart 1: Chinese real GDP growth (with our forecast) and government target



Note: No growth target was announced in 2020.
Source: Pictet Wealth Management, National Bureau of Statistics of China, NDRC, as of 06.03.2023

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PRUDENT AND TARGETED POLICY SUPPORT

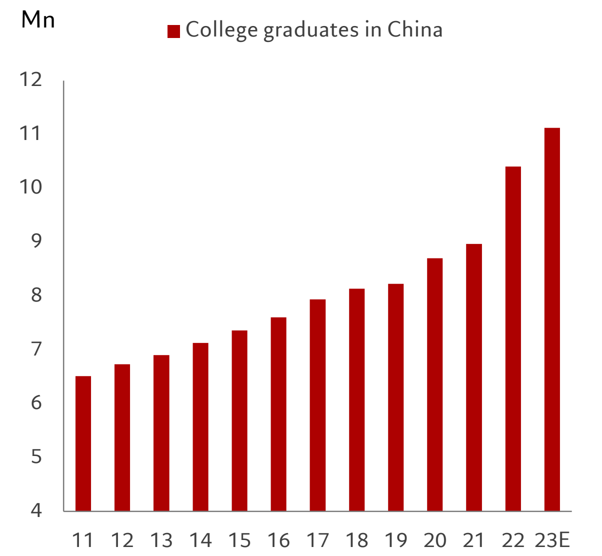
On monetary policy, the government advocated "targeted and forceful" policy tools. This may suggest there is a low probability of blanket easing such as cuts in policy rates or banks' required reserve ratios in the coming months, whereas there may be scope to deploy more structural tools such as targeted credit facilities. As in the previous two years, the government expects credit growth to stay "in line with GDP growth". Given the rebound in economic activity following China's re-opening, we expect a moderate 10.5% increase in credit growth this year, up from 9.6% in 2022.

On the fiscal front, the headline budget deficit is projected to be 3.0% of GDP in 2023, slightly above the 2022 level of 2.8%. If we include other government funds and transfers, the effective fiscal deficit target is 4.5% of GDP, down from 4.7% in the 2022. Local government special bond (LGSB) issuance is set to be Rmb3.8 trn (USD550 bn) in 2023. While this is slightly higher than the initial 2022 target of Rmb3.65 trn, it is below actual issuance of Rmb4.04 trn last year. Hence, there is to be no net new fiscal stimulus from the government in 2023, in line with our expectations.

PRIORITISING RECOVERY OF HOUSEHOLD CONSUMPTION AND LABOUR MARKET

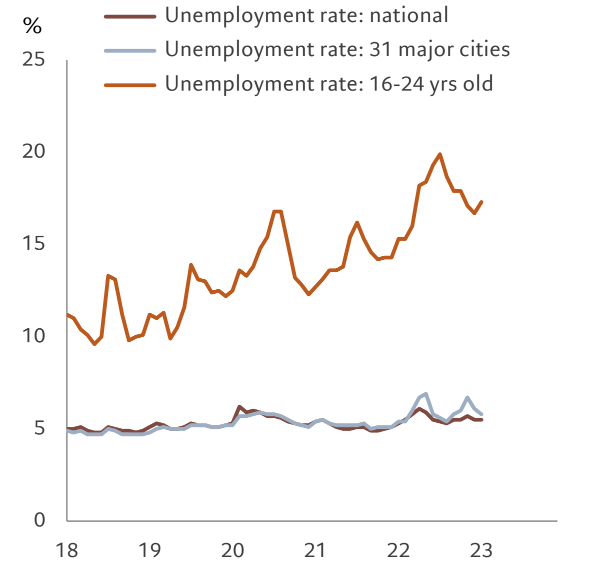
The government work report makes it clear that supporting the recovery of domestic consumption will be a key focus this year. We expect more measures to be launched at both national and local levels in the near term, such as continued support for rural households and for large-ticket items like automobiles. But large-scale cash handouts to households at large are unlikely.

Chart 2: New college graduates in China



Source: Pictet Wealth Management, National Bureau of Statistics of China, as of 06.03.2023

Chart 3: Chinese unemployment rate



Source: Pictet Wealth Management, National Bureau of Statistics of China, as of 06.03.2023

The government has raised its target for job creation to 12 million in 2023 (vs. 11 million in 2022) and set a more flexible target to reach an unemployment rate of

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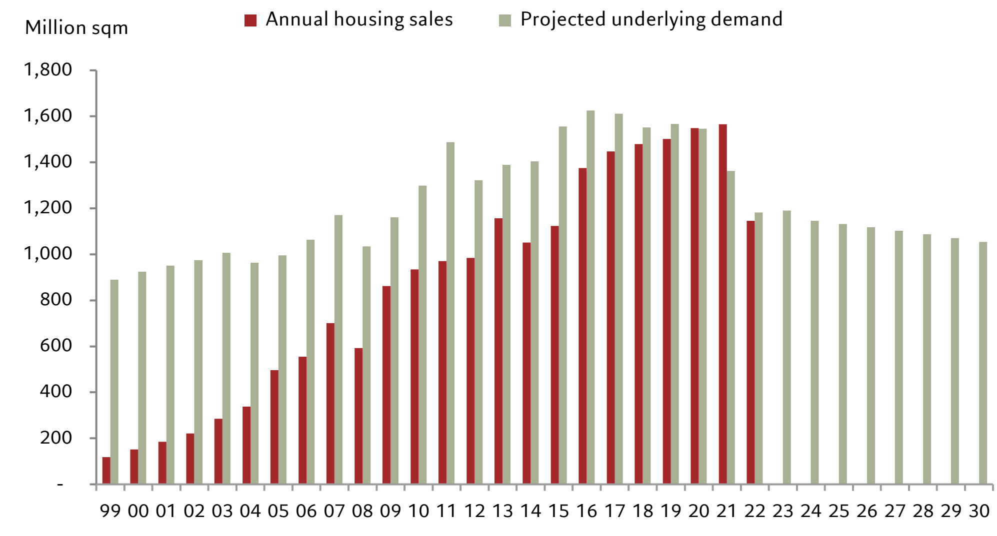
"around 5.5%" (vs. "below 5.5%" in 2022). A large pool of new college graduates (more than 11million) is expected to enter the labour market this year, highlighting the employment challenge *(Charts 2 & 3).* In January, unemployment rate at the national level was at 5.5%, but that for the youth group (16-24 years old) remain at a very high level of 17.3%. In our view, the higher target for job creation together with the more flexible unemployment target rate show that the authorities are fully aware of the mounting pressures in the labour market and explain why job creation is a key priority.

STRONGER SUPPORT TO THE PRIVATE SECTOR

Li urged that efforts be undertaken to ensure equal treatment of private and state-owned enterprises, and called for the private sector to be encouraged, especially micro, small and medium-sized enterprises (MSMEs) and self-employed individuals. In our view, Li's comments are positive for the revival of business sentiment in China after three years of stringent covid controls. It's also worth noting that unlike last year there was no mention of anti-monopoly regulations in Li's work report. This could be a positive signal for China's tech sector, which has been under significant regulatory pressure over the past two years.

STABILISATION OF THE PROPERTY SECTOR

Chart 4: New housing sales and projected underlying housing demand in China



Source: Pictet Wealth Management, National Bureau of Statistics of China, as of 06.03.2023.

The work report calls for a long-term mechanism for property market development, via an adequate supply of affordable housing and an increase in public rental housing. On the liquidity front, the report vows to prevent further spreading of financial risks of leading property developers, which is positive for the sector. But it also aims to prevent "disorderly expansion" of the sector, which suggests that developers should expect no fresh stimulus. The overall tone of the report is consistent with our view that while the property sector will be less of a drag on China's

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growth this year, its recovery will likely be gradual. In addition, the Chinese housing market may face some structural headwinds ahead, as new demand for urban housing likely has peaked and may continue to decline going forward *(Chart 4).*

HIGHLIGHTING SELF-RELIANCE IN KEY TECHNOLOGIES

The work report stresses the strategic importance of China's self-reliance in key technologies and the need to encourage R&D as well as to strengthen strategic leading-edge industries. In addition, it advocates boosting the digital economy.

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