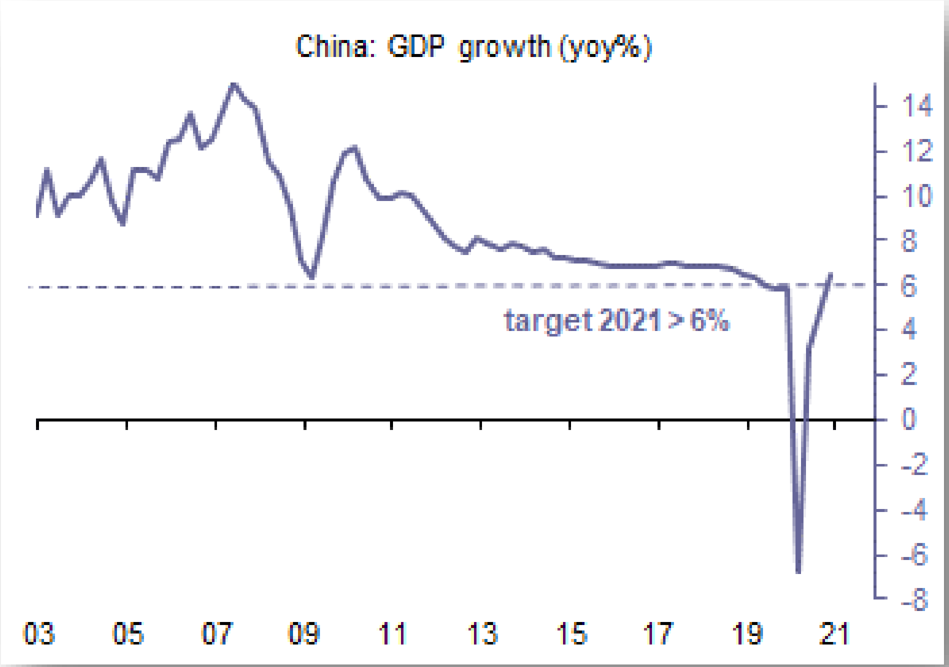
China: after Covid's air pocket the goal is a "quality" growth of at least 6%

Yesterday the press conference held by Chinese PM Li Kequiang ended with the closing of the **National People's Congress (NPC)**, which is along with the **Chinese People's Political Consultative Conference (CPPCC)** part of the "two sessions" (*lianghu* in Mandarin), the two main institutional assembles designed to receive the CCP's directives and create China's future economic and political direction.

The main takeaway, as predicted, is the **confirmation of an average growth goal above 6%, a level already reached before the pandemic.**

This is the expected cruise speed the Chinese economy will be kept at after the air pocket between 2020 (+2.3%) – 2021 (+8.4% as prediction).

In the short term this means there will not be new stimuluses for the economy, which will grow beyond the goal this year, **but it also means there will be no need to hit the brakes.**

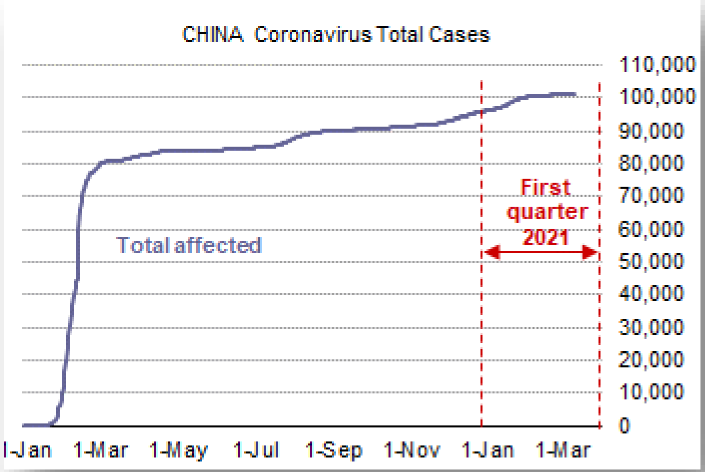

China: GDP growth (yoy%)
target 2021 > 6%
14
12
10
8
6
4
2
0
-2
-4
-6
-8
03
05
07
09
11
13
15
17
19
21

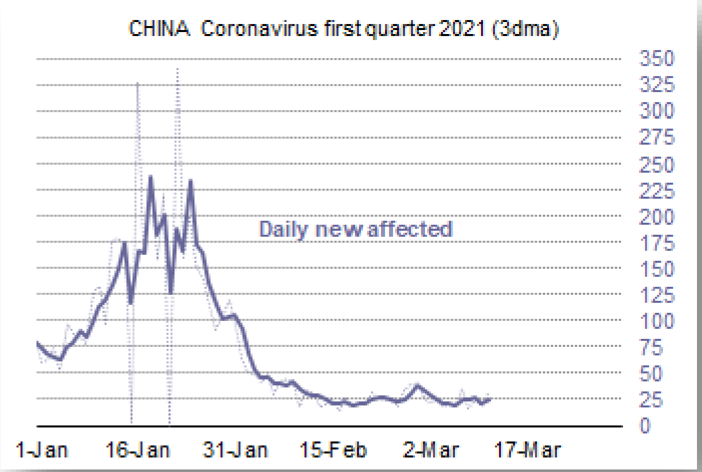
From one session to another during the pandemic

The two reunions took place after months of strong recovery following the explosion of the pandemic. In fact, starting from the second half of 2020, China managed to successfully contain the second wave of contagions and a subsequent macroeconomic improvement that allowed it to be **the only big global economy to close the year in positive**, with a GDP growth that stabilized itself at 2.3% for 2021.

Main points of the 14th five-year Chinese plan (2021 – 2025) announced the day before the summit included yearly goals definition based on nowadays' context evolution, support to the job and employment market, technological advancement (caused by a minor willingness by the US on technological exchanges) and other goals, such as increasing by 7% the yearly investment on research and development (which would bring the total to 3.76 trillion yuans / 580 billion dollars).

On top of this, there's also the goal to bring the population living in urban areas up to 65% from the previous 60.9% in 2019, which would cause the relocation of 50 million people, healthcare reform to add 84000 doctors a year, and reforestation efforts to tackle the effects of climate change and incentive for the usage of nuclear energy to ease the energetic transaction process.


CHINA Coronavirus Total Cases
110,000
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Total affected
First quarter 2021
l-Jan
1-Mar
1-May
1-Jul
1-Sep
1-Nov
1-Jan
1-Mar

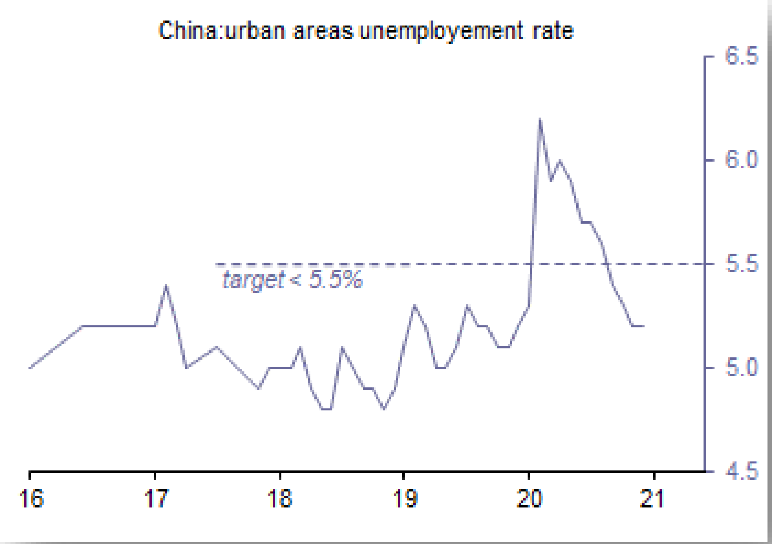

CHINA Coronavirus first quarter 2021 (3dma)
350
325
300
275
250
225
200
175
150
125
100
75
50
25
0
Daily new affected
1-Jan
16-Jan
31-Jan
15-Feb
2-Mar
17-Mar

Pre-Covid targets on growth and employment are confirmed

In yesterday’s press conference the PM Li Kequiang pointed out the **Chinese government’s priority revolves around economic growth and job creation**, highlighting China’s need to follow through a sustainable and stable growth path rather than a volatile and fluctuating one that might cause imbalances.

The GDP growth target for 2021 has been pinpointed above 6%, bringing it back to the level from before the pandemic. A robust growth in 2021 would be welcome to the Chinese government, which in turn is aware of the uncertainty around the economic rebound in China, as much as in the world.

<u>On employment</u> the PM underscored the results obtained during the healthcare crisis through stimulus actions like tax breaks and employment incentives specifically designed for state-owned businesses. **The declared goal is maintaining the unemployment level below 5.5% thanks to an increase in 2020’s stimuluses**, considering how pressure on the job market is still high. When the pandemic exploded, unemployment rates in urban areas quickly surpassed 6.0% in February to then constantly decrease.


China:urban areas unemployement rate
6.5
6.0
5.5
5.0
4.5
target < 5.5%
16
17
18
19
20
21

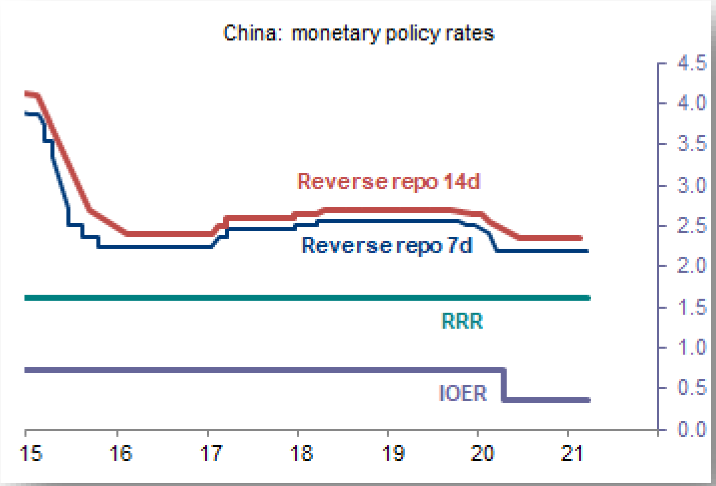
The central role of economic politics

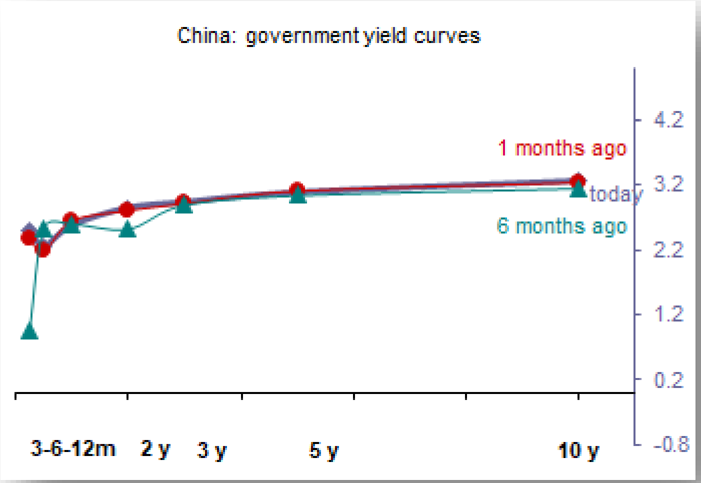
China now aims at a **type of growth focus on quality and stability rather than quantity and speed**, and wants to do so through an improved sustainability of its internal market expansion while simultaneously decreasing its indebtment and pushing businesses to innovate more. The concession of a “sustainable” target has another positive implication, which is to stifle the phenomenon where local governments take on costly infrastructural ventures financed by debt emissions.

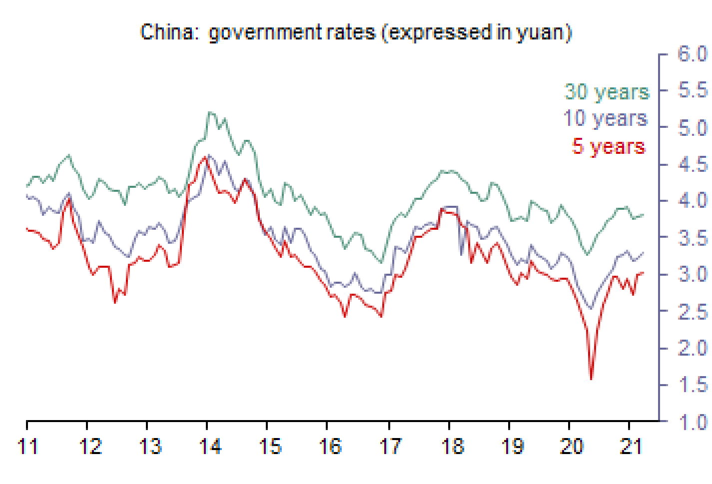
From the fiscal policy point of view, a deficit goal has been declared for the year, in order to bring it around 3.2% from the previous 3.6%, which may not yet cause a reduction in fiscal stimuluses; considering the quota for local special bonds emissions (to finance the infrastructural projects within the five-year plan) has diminished by 100 billion yuans, but the government did not make full use of last year’s budget, remaining resources might be used to fill in the gaps. It’s also important to note that China has a considerable position in the global demand for raw materials and possible fluctuations in its infrastructural plan might influence those prices, at least in the short run.

From the monetary policy perspective, after an accommodating phase that in 2020 helped China restore both its macro fundamentals and asset class prices, **during these last months the People's Bank of China (PBOC) intervened almost exclusively to guarantee liquidity to financial markets in precise defining moments** like the expiring of fiscal impositions at the end of the year. Furthermore, authorities established their goal of maintaining expansion speed of credit in line with its economic growth.

This implies that if its GDP should remain near the new target, credit expansion would decelerate with respect to last year, and the monetary incentives with it. From NPC's indications there are also signals for financial institutions to give away a part of their profits to maintain low interest rates on loans; this factor, created to reduce financing costs for small and medium enterprises, does not exclude a possible tax increase. **Ten-year yields are up by 80 basis points from its minimum hit in April 2020 and are now at 3.23%, and end-of-the-year predictions see an increase of 3.5%**; this dynamic might strengthen the yuan against other values, attracting foreign capital.


China: monetary policy rates
Reverse repo 14d
Reverse repo 7d
RRR
IOER
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
15
16
17
18
19
20
21


China: government yield curves
1 months ago
today
6 months ago
4.2
3.2
2.2
1.2
0.2
-0.8
3-6-12m
2 y
3 y
5 y
10 y


China: government rates (expressed in yuan)
30 years
10 years
5 years
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
11
12
13
14
15
16
17
18
19
20
21


China: EUR/CNY
7.4
7.2
7.0
6.8
6.6
6.4
6.2
6.0
12
13
14
15
16
17
18
19
20
21