

China: NPC Sets Targets For 2017

2017 Growth Target Set At “About 6.5%”

China Premier Li Keqiang delivered the 2017 Government Work Report at the opening of the fifth session of the 12th National People's Congress (NPC) on Sun (5 Mar).

In the Work Report, Premier Li reviewed the country's progress made in 2016 and laid out the targets and tasks for 2017. The main theme is maintaining growth stability, job creation, prevention of risks, safeguarding financial security, protection of livelihood, and environment conservation, among others. Key economic targets for 2017 are summarized in the table below.

China: Key Economic Targets At A Glance					
Indicator	2017 Target	2016 Actual	2016 Target	2015 Actual	2015 Target
GDP growth rate/range	About 6.5%	6.7%	6.5-7.0%	6.9%	About 7%
CPI inflation	About 3%	2%	About 3.0%	1.4%	3.0%
M2 money supply growth	About 12%	11.3%	About 13.0	13.3%	12.0
Total Social Financing (% change)	About 12%	12.8%	About 13.0	12.4	-- (“Steady Growth”, 平稳增长)
Fiscal deficit (% of GDP)	3%	3.8%	3.0%	3.5%	2.3%
Job creation (millions)	Above 11.0	13.14	Above 10.0	13.12	Above 10.0
Registered urban jobless rate (%)	Below 4.5%	4.02%	Below 4.5%	4.05%	Below 4.5%

Source: Bloomberg, UOB Global Economics & Markets Research estimates.

As widely expected, China lowered its growth target for 2017 to “about 6.5%”, compared to the 6.5-7.0% range used in the 2016 Work Report. China is back to setting point estimate for growth target, after using the “range forecast” for the first time in 2 decades.

However, the goal for new job creation has been raised to “above 11 million”, instead of the previous 10 million objective, suggesting that the government is sufficiently confident of the strength of the economy to continue its job creation streak even as supply side reform measures such as capacity reduction and destocking in sectors with excess capacity (such as steel and coal industries). This is reflected in the addition of more than 13 million jobs in each of the past two years, well ahead of target.

Another figure of note is that CPI inflation rate is set at 3%, similarly to the previous two years. However, this year will not be the same as last the two as domestic producer price index (PPI) has been accelerating for five straight months (Jan 2017: +6.9%/y) after emerging from 54 months of negative readings. As such, upward pressure on consumer prices will be more significant in 2017, compared to the 2% increase in 2016 and 1.4% in 2015.

Prudent And Neutral Monetary Policy In 2017

As expected, Premier Li reiterated the prudent and neutral monetary policy that has been in place since 2016. More significantly, both the 2017 targets for M2 money supply and increase in total social financing have been lowered to about 12%/y/y, from about 13% for 2016, and at the upper end of the 10-12% projection outlined in our NPC preview report. At the same time, the central bank is to comprehensively utilize its policy tools and to ensure sufficient liquidity and guide the transmission of market interest rates.

The message for the neutral policy stance is clear as the government prioritizes prevention of systemic risks and safeguarding financial safety. This means that deleveraging will be a key task in 2017, as the government acknowledged that corporate leverage is somewhat high, due to high savings and a credit-based system. The Work Report says that lowering corporate leverage is now a critical task (重中之重), and actions such as securitization, debt-for-equity swap, equity financing, debt limits especially for state-owned enterprises, among others, will be used to lower corporate leverage to reasonable levels.

We expect China's market interest rates will likely drift higher, following the trend set in the pre- and post-Lunar New Year period. However, we expect benchmark interest rates to stay unchanged for now (at 4.35% for 1Y lending and 1.50% for 1Y depo rates).

While the term "risk" appears more frequently this year (14 times vs. 11 times in 2016), the government says that systemic risk remains under control, but it is vigilant of risks posed by nonperforming assets, debt defaults, and shadow banking. Its confidence stems from sound domestic economic fundamentals, banks' capital adequacy and loss reserves, availability of policy tools and resources, among others.

A Stable RMB In Global Exchange Rate System

On the FX front, the Work Report strikes a somewhat different tone in 2017. While maintaining that RMB market reform will continue, there is NO mention of a RMB at a reasonable and equilibrium value like it did in 2016. It however says that the currency will be stable in the global exchange rate system. The "global exchange rate system" part is new in 2017 Work Report. This suggests that RMB reform could be key this year, while reaffirming the currency's role as part of the global system and therefore will not engage in tactics such as currency war or competitive devaluation.

Near term, with the US Fed's policy rates poised to rise through 2017 and the US fiscal policy on expansion path, a stronger USD is expected to remain the case. **We are keeping our USD/CNY forecasts of 7.02 for mid-2017 and 7.16 for end-2017, while keeping a close watch on what actions, if any, the US government would take on its currency and trade policy against Asian countries.**

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