

China Economy

Takeaways of 2020 Government Work Report

- **GDP target was not specified explicitly**, so as to concentrate efforts on the “six stabilizes and six guarantees” and prevent distortions that may be caused by merely achieving growth target. We view this as a pragmatic move. Not specifying GDP target does not imply growth or policy boost is trivial. In fact, the “six stabilizes and six guarantees” take as prerequisite healthy growth of the economy and firms. **Our forecast range of annual GDP growth is 2.8%-3.5% in 2020E.**
- **Employment priority.** Due to COVID-19 disruptions, the Report lowered employment targets in 2020 – urban new employed population to increase 9 million, urban surveyed/registered jobless rate to stay around 6.0%/around 5.5% (vs. 2019 target of 11million, around 5.5%, within 4.5%). The Report vowed for all-rounded measures to stabilize employment, including job support for affected populations, low-income people, providing professional training to 35 million people, etc.
- **Fiscal expansions. 1) to raise target fiscal deficit ratio to 3.6% (of nominal GDP) from 2.8% in 2019**, which represents net deficit increment from 2019 of RMB 1tn. **2) To issue RMB 1tn special treasury bond (vs. our estimate of RMB 1.5tn).** The RMB 2tn increment in 1) and 2) will all be transferred to local authorities to guarantee employment, people’s livelihood and market participants. **3) RMB 2.5tn tax and fee savings for corporates.** These savings come from VAT tax rate cuts and pension rate cuts (RMB 500bn), temporary reductions of VAT tax and fees for SMEs as well affected industries towards YE20, and corporate tax deferrals for SMEs and self-employed merchants. **4) To arrange RMB 3.76tn local government special bond (> our estimate of RMB 3.35tn and RMB 2.15tn in 2019).** Overall speaking, the magnitude of fiscal stimulus is in line with our expectation. Although the amount of special treasury bond issuance fell short of our estimate, fiscal deficit and LGSB exceeded our forecast.
- **Monetary policy - more flexible. 1) To promote combined use of RRR cut, interest rate cut and relending programs. 2) M2 and TSF growth will significantly outpace last year, as monetary easing steps up supporting the real economy. We peg M2/TSF growth forecast at 11%/11.8% YoY in 2020E.** Our forecast implies a net increase of RMB 29tn TSF compared to 2019. **3) The Report also mentioned policy tool innovations that could effectively channel funding to the real economy and lower lending rate. 4) Financial support for SMEs will step up, for example the Report required inclusive loan balance of large commercial banks to increase at least 40% by YE20.**
- **Expand domestic demand. 1) Boost recovery of consumption** via employment and job support and support for most-affected service sectors, elderly and child care, rural consumption, etc. **2) Enlarge effective investment.** For example, local government special bonds are primarily designated for new infrastructure, new urban construction projects and key projects of transportation, water conservancy, etc. (“两新一重”)
- **Reform and open-up to revitalize the economy**, including reforms to ensure market-based allocation of factors, SOE reforms, manufacturing upgrade, technology innovation. The Report also outlined measures to shorten the negative list of foreign investment and etc.

Ding Wenjie, PhD

(852) 3900 0856 /

(86) 755 2367 5597

dingwenjie@cmbi.com.hk

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Figure 1: Major economic goals laid out in the Government Work Report

	2020 Target	2019 Target
GDP growth	Not specified	6.0% to 6.5%
CPI	Around 3.5%	Around 3%
Employment		
- New urban jobs	Add 9 million	Add 11 million
- Surveyed urban jobless rate	Around 6.0%	Around 5.5%
- Registered urban jobless rate	Around 5.5%	Within 4.5%
Import/Export		
	Stable, better-structured imports and exports	Basic equilibrium in the balance of payments
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Personal income growth	In step with GDP growth	In step with GDP growth
Poverty reduction	Reduce the remaining rural poor population	Reduce over 10 million in rural poor population
Risk and leverage		
	-	Basically stable macro leverage ratio
	Prevention of major financial risks	Prevention of financial and fiscal risks
Environmental protection		
	Reduce energy consumption per unit of GDP	-3% drop in energy consumption per unit of GDP
	Reduce the release of major pollutants	Reduce the release of major pollutants

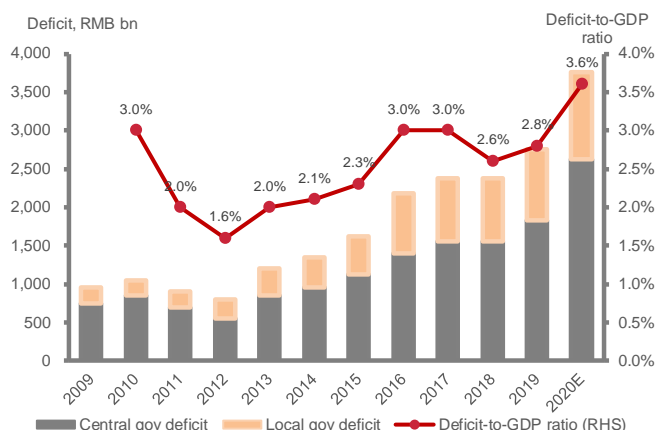
Source: Government Work Reports, CMBIS

Figure 2: Goals of fiscal and monetary policy

	2020	2019
Fiscal policy key targets		
Overall stance	More expansionary and responsive (更加积极有为)	Step up efforts to increase efficiency (加力提效)
Fiscal deficit rate	3.6%	2.8%
Fiscal deficit (amount)	RMB 3.76tn	RMB 2.76tn
Local gov. special bond	RMB 3.75tn	RMB 2.15tn
Tax and fee cut	RMB 2.5tn	RMB 2tn (2019A = RMB 2.36tn)
Monetary policy key targets		
Overall stance	Flexible and appropriate (稳健的货币政策要更加灵活适度)	Prudent, with easing or tightening only as appropriate.(稳健的货币政策松紧适度)
Money supply M2 and TSF	M2 and TSF growth higher than those in 2019	Maintain growth compatible with nominal GDP
Others	Use RRR cut, interest rate cut, relending programs Maintain RMB exchange rate at reasonable level Channel lending to the real economy and cut lending rate	Reasonable and ample liquidity

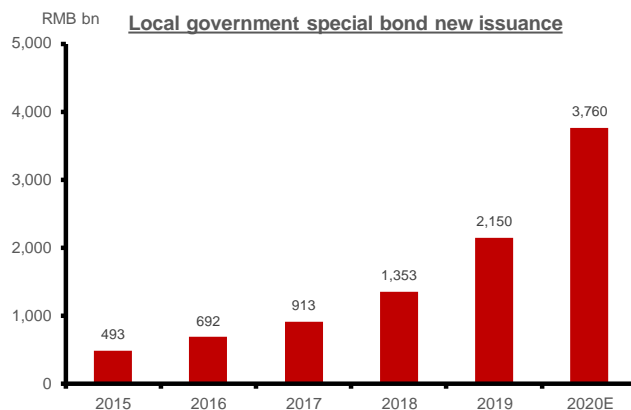
Source: Government Work Reports, CMBIS

Figure 3: Fiscal deficit ratio rose to 3.6% in 2020, with RMB 1tn increment in fiscal deficit



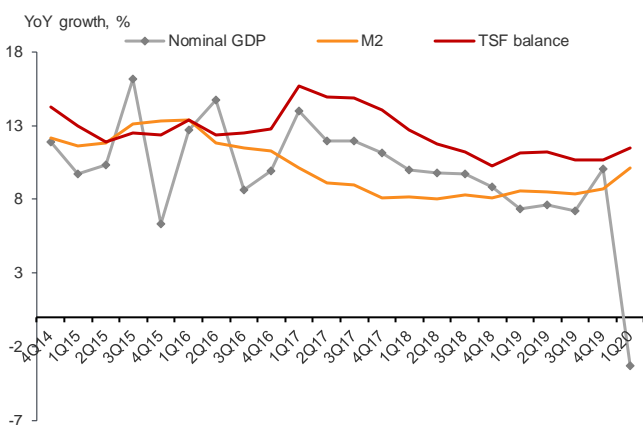
Source: Government Work Reports, MoF, CMBIS estimates

Figure 4: To arrange RMB 3.76tn local government special bond issuance



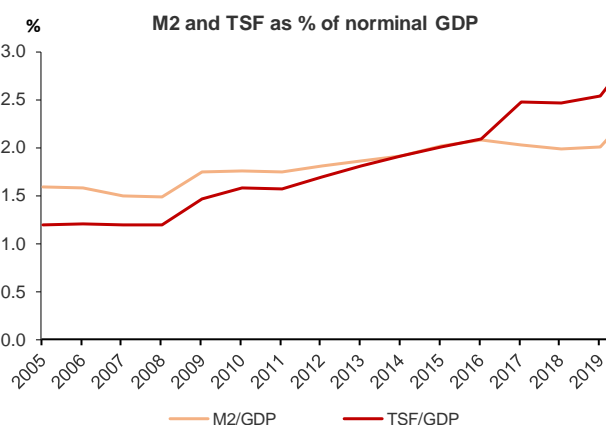
Source: NBS, Wind, CMBIS

Figure 5: M2 and TSF growth will be significantly higher than those in 2019



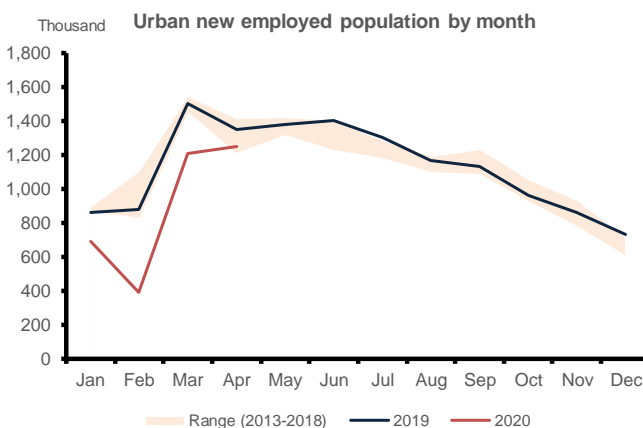
Source: PBoC, NBS, Wind, CMBIS

Figure 6: M2 and TSF as percentage of GDP rose in 1Q20



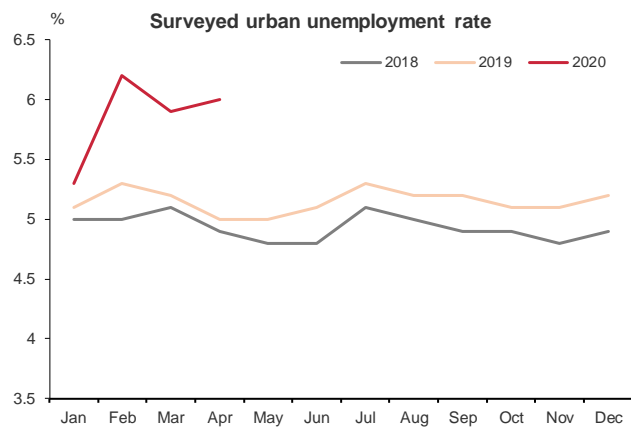
Source: PBoC, NBS, Wind, CMBIS
Note: Data ended 31 Mar 2020

Figure 7: New employed population added 4.59million in Jan-Apr 2020 (vs. 3.54 million in Jan-Apr 2019)



Source: NBS, Wind, CMBIS

Figure 8: Surveyed urban employment rate was 6.0% in Apr 2020



Source: NBS, Wind, CMBIS

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