

China Government Work Report

Consolidate recovery and nurture new drivers

The 2021 Government Work Report (GWR) released on 5 Mar primarily sets out two themes of work this year 1) to solidify post-pandemic recovery in a stable and sustainable way; and 2) to promote new drivers for growth in the 14th five-year period, which were underpinned by scientific innovation, reforms and a stronger domestic market.

- **2021 GDP growth targeted at “above 6.0%”.** Previously, the 31 provincial and municipality governments announced their growth target for the year, all pegging at above 6.0%. We forecast the economy is likely to achieve ~8% GDP growth in 2021 given last year’s low base. The 6% target, in addition to specifying this year’s goal, also considers compatibility with growth targets in the 14th five-year period (i.e. “within reasonable range”). Other growth targets also resume normal as the economy recovers from COVID-19. New urban employment is to add 11 million and surveyed urban unemployment rate to stay within 5.5%, same as the goals in 2019. Grain yield target is mentioned for the first time in GWR’s primary targets, underscoring the importance of food security and agricultural development in the new stage.
- **Policy – from broad to structural and precise support.** The government pledged to maintain “**continuity, stability and sustainability**” of fiscal, monetary and other policies. However, it is inevitable that it is gradually retreating from pandemic-era broad stimulus to post-pandemic structural and precise support.
- **Fiscal support came out a bit exceeding expectation** in that **1)** arranged deficit is RMB 3.57tn in 2021, only RMB 190bn short of last year’s but RMB 810bn more than deficit in 2019; **2)** RMB 3.6tn of special local government bond will be issued, vs. RMB 3.75tn in 2020 and RMB. 2.1tn in 2019. **3)** RMB 2.8tn special central budget will be transferred straight to local governments, vs. RMB 2tn last year. The majority of fiscal support gets extended in post-pandemic era and precise tax reduction is stepping up for small businesses and individual merchants, and for R&D expenditures. Overall fiscal policy remains more proactive than that in pre-pandemic years.
- **Monetary policy – flexible, precise and appropriate.** Directly benefiting the real economy is the priority. M2 and TSF will grow in line with nominal economic growth and macro leverage will be stable. Inclusive loans for small businesses are planned to increase 30% for large commercial banks. These goals are the same as 2019’s. While policy makers will avoid making U-turn on pledged monetary support, we think they are leaning against speculative asset price bubbles and financial risks.
- **Growth drivers. 1) Technological innovation as the fundamental driver for quality growth.** The GWR pledged R&D expenditure to grow at >7% CAGR in the 14th five-year period and central budget for basic research to increase 10.6% in 2021. Manufacturing firms are allowed to deduct 100% of R&D expenses before tax. **2)** Enhance reforms to incentivize market participants; **3)** Enlarge domestic demand and explore domestic market.

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Figure 1: Major targets in the Government Work Report (2019 – 2021)

	2021 Target	2020 Target	2019 Target
GDP growth	Above 6%	Not mentioned	6.0% to 6.5%
Employment			
- New urban employment	Add 11 million	Add 9 million	Add 11 million
- Surveyed urban unemployment rate	Around 5.5%	Around 6.0%	Around 5.5%
CPI	Around 3%	Around 3.5%	Around 3%
Import/Export	Stable quantity & improving quality	Stable, better-structured	Stable balance of payments
Personal income growth	Stable increase	In step with GDP growth	In step with GDP growth
Energy consumption per unit of GDP	Reduce by 3%	Not mentioned	Reduce by 3%
Grain yield	> 1.3 trillion jin (669.5 bn kg)	Not mentioned	Not mentioned

Source: Government Work Report, CMBIS

Figure 2: Major targets of fiscal policies

Fiscal policy measures	2021	2020	2019
Overall stance	Improve quality and efficiency, sustainable ("提质增效, 更可持续")	More proactive and impactful ("更加积极有为")	Increase efficiency ("加力提效")
Fiscal deficit rate	Around 3.2%	>3.6%	2.8%
Fiscal deficit (amount)	RMB 3.57tn	RMB 3.76tn	RMB 2.76tn
Fiscal expenditure	Positive growth	N/A	RMB 23tn
Central transfer payment	7.8% YoY	RMB 8.4tn	10.9% YoY
Special transfer going straight to local governments	RMB 2.8tn	RMB 2tn	N/A
Local gov. special bond	RMB 3.6tn	RMB 3.75tn	RMB 2.15tn
Tax and fee cut	More reduction for small businesses	RMB 2.5tn	RMB 2tn

Source: Government Work Report, CMBIS

Figure 3: Major goals of monetary policies

Monetary policies	2021	2020	2019
Overall stance	Flexible, precise and appropriate ("灵活精准、合理适度")	Flexible and appropriate ("更加灵活适度")	Easing or tightening as appropriate ("松紧适度")
Money supply M2 and TSF	In line with nominal GDP growth	Grow at notably higher rates than the previous year	In line with nominal GDP growth
Liquidity	Reasonable and ample	N/A	Reasonable and ample
Macro leverage ratio	Stable	N/A	Stable
Inclusive loans of large commercial banks	+30% YoY	+40% YoY	+30% YoY
Borrowing rate	Reduce borrowing cost	Reduce interest rate	Reduce interest rate

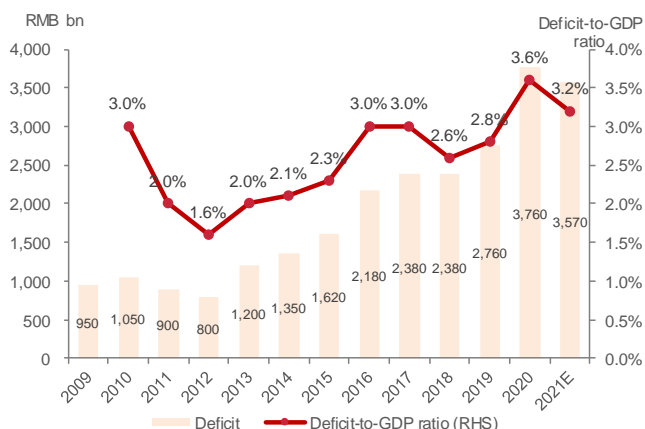
Source: Government Work Report, CMBIS

Figure 4: Growth targets of provinces and municipalities

Province/Municipality	GDP value (RMB 100mn)		GDP growth		
	2020A	2019A	2020A	2021 Target	
1 广东省	Guangdong	110,761	6.2%	2.3%	6.0%
2 江苏省	Jiangsu	102,700	6.1%	3.7%	6.0%
3 山东省	Shandong	73,129	5.5%	3.6%	6.0%
4 浙江省	Zhejiang	64,600	6.8%	3.6%	6.5%
5 河南省	Henan	54,997	7.0%	1.3%	7.0%
6 四川省	Sichuan	48,599	7.5%	3.8%	7.0%
7 福建省	Fujian	43,904	7.6%	3.3%	7.5%
8 湖北省	Hubei	43,443	7.5%	-5.0%	10.0%
9 湖南省	Hunan	41,781	7.6%	3.8%	7.0%
10 上海市	Shanghai	38,701	3.0%	1.7%	6.0%
11 安徽省	Anhui	38,681	7.5%	3.9%	8.0%
12 河北省	Hebei	36,207	6.8%	3.9%	6.5%
13 北京市	Beijing	36,103	6.1%	1.2%	6.0%
14 陕西省	Shaanxi	26,182	6.0%	2.2%	6.5%
15 江西省	Jiangxi	25,692	8.0%	3.8%	8.0%
16 辽宁省	Liaoning	25,115	5.5%	0.6%	6.0%
17 重庆市	Chongqing	25,003	6.3%	3.9%	6.0%
18 云南省	Yunnan	24,522	8.1%	4.0%	8.0%
19 广西壮族自治区	Guangxi	22,157	6.0%	3.7%	7.5%
20 贵州省	Guizhou	17,827	8.3%	4.5%	8.0%
21 山西省	Shanxi	17,652	6.2%	3.6%	8.0%
22 内蒙古自治区	Inner Mongolia	17,360	5.2%	0.2%	6.0%
23 天津市	Tianjin	14,084	4.8%	1.5%	6.5%
24 新疆维吾尔自治区	Xinjiang	13,798	6.2%	3.4%	6.5%
25 黑龙江省	Heilongjiang	13,699	4.2%	1.0%	6.0%
26 吉林省	Jilin	12,311	3.0%	2.4%	7.0%
27 甘肃省	Gansu	9,017	6.2%	3.9%	6.5%
28 海南省	Hainan	5,532	5.8%	3.5%	10.0%
29 宁夏回族自治区	Ningxia	3,921	6.5%	3.9%	7.0%
30 青海省	Qinghai	3,006	6.3%	1.5%	6.0%
31 西藏自治区	Tibet	1,903	8.1%	7.8%	9.0%
Nation		1,015,986	6.0%	2.3%	>6.0%

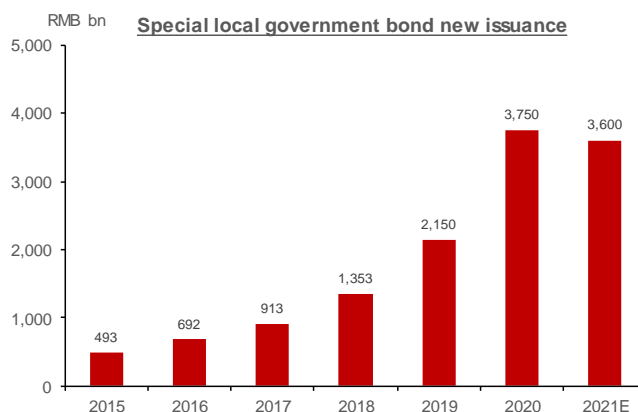
Source: Government Work Report, Wind, CMBIS

Figure 5: Deficit-to-GDP ratio is arranged at around 3.2%, with RMB 3.57tn deficit



Source: Ministry of Finance, Government Work Report, CMBIS

Figure 6: RMB 3.6tn special local government bond will be issued in 2021



Source: Ministry of Finance, Government Work Report, CMBIS

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