

China: Economic Priorities Set For 2014

China's annual Central Economic Work Conference concluded last Friday after a 4-day session (10 to 13 Dec), and set forth 6 major areas of policy priorities for 2014, with an overarching emphasis of maintaining growth stability. These initiatives are largely in line with the announcements made at the recent Third Plenum session:

- 1) Ensure food safety and security and self-sufficiency, by maintaining both quality and quantity
- 2) Continue to pursue industry restructuring, to deal with excess capacity through a more decisive role by market forces and competition and industry upgrading. Enforcement of environment protection and safety measures.
- 3) Control risks of local government debt, by incorporating debt issuance into formal budgeting process and solving the problem at the source.
- 4) Promote a balanced approach to economic development across regions.
- 5) Improve livelihood through education, employment, income distribution, social security, health care, housing, food safety, among others. Particularly, employment prospects for graduates and those affected by purging of industrial excess capacity.
- 6) Increase opening up while enhancing export competitiveness. Create a stable, transparent, and fair investment environment, and at the same time encourage "going out" through overseas direct investment.

Overall, the Conference went along the similar vein of the recent Third Plenum, with the additional emphasis on ensuring growth stability while at the same time exhorting the need to carry out reforms and restructuring. It is also interesting to note that there is a clear recognition, and shift of policy thinking, from "growth at all cost" in the past to "growth at a reasonable price". Hence, the use of the term "growth stability" was sprinkled throughout.

No economic targets were released at the Conference itself, but as in past practice would be cascaded in subsequent weeks by various key policymakers via different occasions. Particularly for local government debt, the central government is clearly concerned of the systemic risks. The latest audit is expected to be due anytime which will provide a clearer picture of the extent of the increase since the last reported figure of RMB10.7tn for end-2010, in June 2011.

With no major surprises coming out from the Conference, we continue to maintain our forecasts for China made at our recently issued Quarterly Global Outlook for 1Q2014 (released on 13 Dec). To reiterate: China's growth outlook into 2014 remains constructive, although market liberalization efforts could pose downside pressures on the economy. Overall, we see China's GDP growth to pick up its pace slightly to 7.7% in 2014 from about 7.6% in 2013. China's monetary policy is expected to stay neutral with a bias towards tightening, on the back of inflationary pressures and leverage concerns. We do not anticipate any change to policy interest rates or reserve requirement ratios going into 2014. While the RMB is considered to be near equilibrium value, a moderate 1-3% annual appreciation pace trend is likely to continue. We are keeping to our forecasts for the USD/RMB of 6.05 at end-2013, and 5.90 at end-2014.