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Flash Notes

China: 2015 Growth Target Lowered

Growth Target Lowered But Market Liberalization Continues

At the opening of the annual National People's Congress (NPC) session today (Thur, 5 Mar 2015), Premier Li Keqiang delivered the economic work and budget reports. As expected, the growth target for 2015 has been **lowered to "about" 7%** vs. the 7.5% objective for 2014, with the actual outturn at 7.4% and the slowest since 1990.

Other key economic targets/assumptions for 2015 include CPI inflation at about 3% (2014: 2%), urban employment creation of 10 million (2014: 13.22 million), urban registered jobless rate below 4.5% (end-2014: 4.1%), and M2 target of 12% (2014: 12.2%).

Fiscal deficit is projected to rise moderately to 2.3% of GDP for 2015, from 2.1% of GDP in 2014, or an increase of RMB270bn to RMB1.62tn. Central government investment is projected to increase by RMB477.6bn, but the government will also act to spur private investment along towards more areas. Urbanization will be a key driver for domestic demand. Premier Li reiterated that the government will refrain from short term, massive stimulus measures, and will keep to "targeted" measures.

On financial market and monetary policy, Premier Li pointed out that the monetary policy will remain "stable" and the government is aiming to implement deposit insurance scheme, pushing forward interest rate liberalization. It will be flexible in employing open market operations, interest rate and reserve requirement ratio (RRR). **The RMB will be kept at reasonable/equilibrium level, while strengthening flexibility/two-way moves for the currency** (保持人民币汇率处于合理均衡水平, 增强人民币汇率双向浮动弹性). Slowly and steadily open up the capital account and broaden the use of RMB internationally, with to launch the "Shenzhen-HK Connect" pilot scheme at an appropriate time.

Comments

Under the "new normal" economic environment, it is no surprise that the growth target is lowered and to "around" 7% for 2015, as many had expected. With the use of the word "about", this means that there is risk that the actual growth rate could come under the target as well.

Nevertheless, as we pointed out in our NPC preview report earlier, with the objective of doubling China's economy and per capita income between 2010 and 2020 and with China having expanded an average 8.6% annual growth between 2010 and 2014, it only needs to accomplish an average 6.5% to 7% annual growth rate in the coming years. As such, it is reasonable for the growth assumption to be lowered, and

to focus on improving the quality of the growth, which Premier Li had explained in a comprehensive manner in his work report in the work report for 2015 NPC.

With the greater flexibility for the use of interest rate and RRR as well as for the RMB exchange rate, this could also mean that PBoC would also operate on a “data dependent” mode. As such, we are keeping to our view of one more round to the interest rate and RRR cuts and PBoC would pause.

In addition, we think that the PBoC would likely to remove entirely the Interest rate ceiling implementation over the next 1-2 interest rate cut announcements, and concurrently implement the deposit insurance scheme, thus liberalizing the interest rate market in China.

We are also maintaining our forecasts for RMB at 6.28/USD for end-1Q15, 6.33/USD at end-2Q15, and at 6.29/USD for end-2015. We also think a widening of trading bands from 2% currently to 3%, could take place before the end of the 2015.

As for China’s growth forecast, we are maintaining our 2015 forecast at 7.2%, with the assumption of quarterly growth rate of around 7.1-7.3% for this year.

China: Interest Rate and RRR Forecasts					
	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015
1-year Best Lending Rate	5.60%	5.35%	5.10%	5.10%	5.10%
1-year Deposit Rate	2.75%	2.50%	2.25%	2.25%	2.25%
Reserve Requirement Ratio	20.00%	19.50%	19.00%	19.00%	19.00%
Source: UOB Global Economics & Markets Research					

FX Outlook					
FX	05-Mar-15	End 1Q15F	End 2Q15F	End 3Q15F	End 4Q15F
USD/JPY	119.8	121.0	125.0	126.0	127.0
EUR/USD	1.1041	1.10	1.09	1.09	1.08
GBP/USD	1.523	1.50	1.48	1.49	1.50
AUD/USD	0.781	0.75	0.73	0.72	0.70
NZD/USD	0.754	0.69	0.67	0.65	0.65
USD/SGD	1.369	1.37	1.39	1.40	1.40
USD/MYR	3.655	3.65	3.68	3.70	3.68
USD/IDR	13,027	12,900	13,000	13,000	13,000
USD/THB	32.42	34.1	33.7	33.5	33.4
USD/PHP	44.17	45.0	44.0	43.0	42.0
USD/INR	62.21	62.4	63.5	64.8	66.0
USD/TWD	31.50	32.3	32.5	32.6	32.4
USD/KRW	1,101.3	1,140	1,150	1,150	1,150
USD/HKD	7.76	7.75	7.75	7.75	7.75
USD/CNY	6.268	6.28	6.33	6.34	6.29
Source: Reuters, UOB Global Economics & Markets Research			Updated 03:18 PM, Thursday, 05 Mar 2015		

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