

China: NPC Preview – What To Expect?

China's annual proceedings of its legislative body National People's Congress¹ (NPC) will convene on Sunday, 5 Mar 2017, while the country's top advisory body National Committee of the Chinese People's Political Consultative Conference (CPPCC), will begin on Friday, 3 Mar 2017. The CPPCC and NPC sessions are the closest China has to a parliament and provide a glimpse of the government's policy and priorities in a public forum.

For investors and China watchers, the most important parts of the "Two Sessions" will be the Government Work Report and annual budget (both delivered on the first day of the NPC), and the closing press conference. The Work Report generally reviews and updates economic progress and development in the past year, and presents outlook, targets, priorities, and challenges of the coming year. The post-meeting press conference, led by the Premier on the final day of the week-long proceedings and broadcast live on domestic media, adds further insights and nuances of a broad range of government's views generally not found in the Work Report.

What Are The Key Themes In The 2017 NPC?

Growth/Economic Targets

As the second largest economy in the world, China's growth and economic targets are of importance to both domestic and international investors. China has aimed for average annual growth of more than 6.5% from 2016 to 2020 as part of its 13th 5-year plan to double China's GDP and per capita income by 2020 from the 2010 level. Keeping this goal in mind, the government announced a growth range of 6.5-7.0% at the 2016 NPC session, the first time in two decades that a target range, rather than a point estimate, had been used.

For the 2017 NPC, we believe there is scope that this range could be widen further to 6.0-7.0% (see table) to provide more flexibility in implementing its reform and deleveraging policy. Further, the government also needs to consider uncertainty of the external environment from the US under President Trump as well as potential political risks in Europe as negotiations for UK's Brexit are set to begin and major countries including France and Germany enter into their election cycles. Under the existing forecast range, 6.5% would be seen as the lower bound or even line in the sand, which is inconsistent with the 13th 5-year plan target. Our growth forecast for China remains at 6.6% for 2017, after the 6.7% expansion in 2016.

China: Economic Targets At A Glance					
Indicator	2017 (Possible Targets)	2016 Actual	2016 Target	2015 Actual	2015 Target
GDP growth rate/range	6.0-7.0%	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	10-12%	11.3%	About 13.0	13.3%	12.0
Total Social Financing (% change)	10-12%	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)	10.0	13.14	10.0	13.12	10.0

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

¹ The proceedings are also known as "Two Sessions" or "Lianghui" as China's political advisory body National Committee of the Chinese People's Political Consultative Conference (CPPCC), will also be convened concurrently with the NPC. This year is the fifth sessions of the 12th NPC and CPPCC, and the first national assembly following a major political meeting in October 2016 when Xi Jinping was endorsed as "the core" of the Central Committee of the Communist Party of China (CPC). About 5,000 government officials, top businessmen and CPC officials are expected to attend the "Two Sessions", drawn from 35 constituencies, including provinces, regions, municipalities and the semi-autonomous Hong Kong and Macau.

Prudent And Neutral Monetary Policy

With the Central Economic Work Conference having set the tone in Dec 2016, PBoC is thus expected to continue to enforce this “prudent and neutral” policy stance, with a bias towards tightening, to prevent systemic risk and curb excessive leverage. The central bank has taken the steps of raising market interest rates both before and after the Lunar New Year period. This trend is likely to continue in the months ahead as it fine tunes the interest rate corridor and policy transmission mechanism.

We expect PBoC to keep its benchmark interest rates (1Y lending and deposit rates) unchanged this year, leaving the banks to adjust to the reality of higher money market interest rates (prices). On the FX front, we expect the government to reiterate the mantra that RMB is at equilibrium level and no basis for depreciation. However, with the US dollar supported by higher US Fed interest rate trajectory and possibility of US fiscal measures, **we are keeping our RMB forecasts of 7.02 for mid-2017 and 7.16 for end-2017**, with larger two-way flexibility.

Furthermore, these policy signals may also be reinforced in the form of slower growth targets for M2 and total social financing for 2017 (quantity). **We expect at least one percentage point lower for M2 and total social financing growth projections (see table).**

In addition to the traditional monetary policy toolbox, PBoC will be tightening via the macroprudential assessment (MPA) framework to curb asset price bubbles and prevent excessive financial speculation. This is also highlighted in the latest 4Q16 Monetary Policy Report as well as recent news of unified, stricter regulation by PBoC and the three regulatory commissions on financial institutions’ asset management products.

Deepening Supply Side Reforms And Economic Restructuring

In the ongoing efforts to deleverage, supply side reforms of capacity reduction and destocking would be deepened further in various sectors including steel and coal, while property sector especially those in third and fourth tier cities would be under closer scrutiny. We also anticipate state-owned enterprises (SOEs) reform to continue the trend in 2015-16 and accelerate further in 2017.

Belt And Road

China President Xi Jinping’s speech on 17 Jan 2017 at the World Economic Forum in Davos, Switzerland signaled China’s determination to stay open, just as some major economies appear to turn inwards and towards isolationist. With the hosting of the Belt and Road Forum for International Cooperation this coming May in Beijing, the Belt and Road initiative is likely to get more attention at the NPC session. According to the speech, more than 40 countries and international organizations have signed cooperation agreements with China, and Chinese companies have made over US\$50 billion of investment in the countries along the Belt and Road.

Paving The Way For Cpc’s 19th National Congress

The Communist Party of China (CPC) will hold its 19th National Congress in the autumn of 2017 to elect new Party leadership. The “Two Sessions” will thus be seen as a key platform for preparation leading up to the National Congress, which is expected to identify and put in position the country’s next generation of top leaders.

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