Economic Analysis

China lowered its 2015 growth target to 7.0%

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On today's opening of the National People's Congress (NPC), China's Premier Li Keqiang gave his speech of the central government's Working Report (WP), in which a batch of macroeconomic targets are set for this year, including GDP growth, inflation, the number of job creation, fiscal deficit and money supply. Except for fiscal budget deficit, other targets are broadly in line with our expectations. Moreover, the WP also manifested the authorities' policy stance and indicated next steps on structural reforms.

As expected, 2015 GDP growth target is lowered to 7.0% from 7.5% last year, the lowest during the past 15 years. Indeed, the official wording for this target is "around 7.0%", reflecting that the authorities intentionally attached more flexibility to it. This target should have taken into consideration of the recent growth headwinds, including the subdued property market, the indebtedness of local government debt, prevalent over-capacity in mining and manufacturing sectors, the continuing anti-corruption campaign as well as intensifying environmental challenges etc. In addition, the inflation target of 2015 is set around 3% (lower than 3.5% target of 2014) and the targeted number of new job creation is set at 10 million (flat with that of last year). (Table 1)

China slightly expanded its 2015 fiscal deficit in bid to cushion growth slowdown, which, however, falls short of our expectation. Although the authorities pledged to enact an expansionary fiscal policy this year, the projected budget deficit only slightly increased to 2.3% of total GDP (versus BBVA forecast: 2.5%), from 2.1% of total GDP of last year. The public spending will focus on high-speed railroad construction, shantytown reconstruction, and other social wellbeing projects such as pension fund and social insurance. Nevertheless, we suspect that such a degree of fiscal expansion at the central government is not adequate to offset the ongoing fiscal consolidation stemming from the clampdown of local government borrowing, which could add additional downside risk to the 7.0% growth target.

The authorities also indicated that monetary policy will shift to easing in 2015. According to Premier Li's report, "striking a balance between policy tightening and loosening" will be the main theme of 2015 monetary policy. In particular, M2 growth target is set at 12% or above. Although such a target is lower than the 2014 target of 13%, it is indeed way above the 10.8% outturn in 2014. That said, the authorities, on top of two recent interest rate cuts and one RRR cut, are very likely to enact more monetary easing measures in the coming months. In this respect, we anticipate at least one additional interest rate cut of 25bps in the first half of the year and the RRR reduction of 50-100 bps between now and the end-year.

No new bright points on structural reforms. Most of reforms mentioned in the WP have already on the table such as the establishment of a national deposit insurance scheme, more streamlining and deregulation in the public sector, the reform of Hukou system etc. In particular, the WP didn't touch upon the much-needed reforms on China's state-owned enterprises, which we believe is key to rev up domestic demand and explore a new growth model for China.

Table 1: Comparison of this year's targets, the 2014 targets and outturns

	2015 targets	2014 targets	2014 outturns
GDP growth	7.0%	7.5%	7.4%
Inflation	3.0%	3.5%	2.0%
New job creation	10 mn	10 mn	13.22 mn
fiscal deficit	2.3%	2.1%	1.8%
M2	12.0%	13.0%	12.2%