China Two Sessions - what will be different from last year?

This year's government work report in the Two Sessions will be different from previous years due to Covid-19 and the deterioration of the China-US relationship. Here is what we expect

Source: Shutterstock

A different government work report

The report on the work of the government will be different this year from previous years.

First, the report is being released almost in the middle of the year. This means that room for policies for the remaining months in 2020 is limited, and policies will have to be more specific to achieve the Chinese government's objectives.

Second, with uncertainties on the economy rising, due to the possibility of a second wave of Covid-19, the likelihood of setting a GDP growth target is very small.

Third, the economy is facing more hurdles from the brewing political conflict between China and the US. This will also affect economic policies ahead.

Below is our expectation of the changes this year from last year's report on the work of the government.

1 No GDP growth target

We don't expect the report to set a GDP growth target, or even a range.
This is also widely expected by the market. The damage from Covid-19 has been huge and has affected many industries. Many major economies are also facing a similar situation. This has impacted the global economy, from supply to demand.

Policy effectiveness considerations for China alone will not be sufficient to enable accurate forecasts of China's GDP growth. To do this will require accurate forecasts on the policy effectiveness on all major economies. But this is very difficult as some countries are still in the middle of the spread of Covid-19.

It is, therefore, impractical for the government to write down a growth target.

It is also difficult to set an unemployment rate target like last year, but easier to set an inflation target.

2 Confirm the six stabilities

The report should confirm the six stabilities mentioned in last year's government work report.

We expect the report to highlight that the government is taking further steps to ensure stable employment, a stable financial sector, stable foreign trade, stable foreign investment, stable domestic investment and stable expectations.

Job stability will be the first priority among these six. This is to emphasise the importance of jobs that have been lost during the Covid-19 pandemic. This will create a lot of air time on how to help small and medium enterprises as the job losses have been mainly in smaller factories due to the withdrawal of export orders by overseas buyers.

Among the other six priorities, we are most curious to see how the government positions "stable foreign trade" as the China-US trade war is still ongoing, and the risks of another round of the trade war cannot be ruled out.

3 Target on stimulus, bond issuance but descriptive on monetary easing

We expect that there will be specific targets on stimulus. We look for fiscal stimulus of 6% to 8% of nominal GDP. But given past experience, the government's target will be below the actual stimulus by one to two percentage points. So the announcement of fiscal stimulus could be in a range of 4% to 6%.

There should be more information. For example, issuance size for special government bonds to finance some of the stimulus.

Another focus will be the size of local government special bond issuance. This is not within the budget and is eye-catching as a barometer of the strength of the actual stimulus. So far, the bond approval size is near CNY2.85 trillion, and we believe this will continue to increase. It is possible that the government will not place an exact amount on the new issuance size in the report. Recently, such bonds have supported metros and high-speed rails projects.

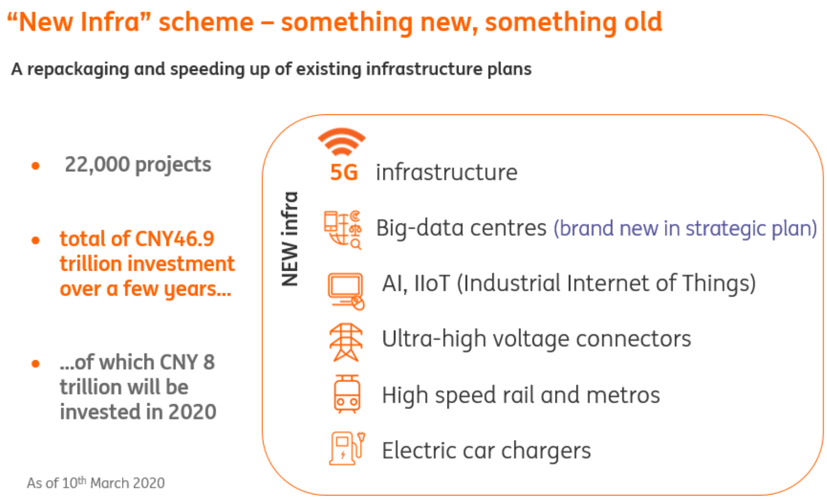
This should be accompanied by an announcement of a more aggressive monetary policy stance. We expect a 50-100 percentage point cut in the required reserve ratio during the Two Sessions.

It is highly likely that the report will not give a USD/CNY range.

4 The new growth areas

We expect the government will put some air time into the New Infra scheme (please see picture below).

Though not all the projects in the scheme are government stimulus, in fact, most of them are private sector projects. But the government will have a role in speeding up and coordinating corporates on technological ideas.



Source: ING

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com