

## China's Two Sessions sets 5% growth, with a focus on technology and ESG

China has set a GDP growth target of around 5%, which is lower than market expectations. The main focus of this year will be Environmental, Social and Governance (ESG) and technology self-reliance. This note highlights the important points of the Two Sessions' economic targets for 2023



c.5%

China's GDP growth target

2023

Lower than expected

⬇️ **Slower growth target as the government sees a weaker external market**

The slower-than-expected GDP growth target set by the government of around 5% matches our

GDP forecast of 5% for this year. The government realises that a weakening external market would impose challenges to China's export-related industries.

## CNY 3.8tr Local government special bond

Lower than expected

### ⬇️ Slower infrastructure growth

We can tell the speed of infrastructure investment from the scale of the target for new issuance of local government special bonds of CNY3.8 trillion, which compares with our expectation of CNY 4 trillion.

The main reason behind this lower target seems obvious as the fiscal deficit last year was very high at 8% to 9% per GDP from a historical point of view. The government would like to slow down the increase in the fiscal deficit by taking advantage of the economic recovery.

We believe that this year's infrastructure investment will lean towards technology and ESG. As such, we might see more focused transportation infrastructure projects. Only those that have been planned or started will be implemented.

Usually, the precise plan for infrastructure projects would be announced one to two months after the Two Sessions. The change of government personnel could result in more precise measures and more KPI-type announcements for local governments.

## 12m New employment

As expected

### ➡️ Employment will be higher and matches the number of new graduates

The 12 million new employment target is a bit low. If we consider the number of graduates this year, it would be around 11.58 million, as announced by the government earlier, which means some graduates and some existing jobless residents would not be able to find a job. Employment is very important during a recovery as it is the backbone of consumption growth. Having said that, the government expects more startups, which should fill the gap.

### ⬆️ Technology and ESG are the strong growth drivers

The government report emphasised the importance of technology and ESG to long-term growth. Within ESG, green still gets more attention from the government as we see from the government

work report.

These two industries will attract more capital for investments from government support measures as well as from the private sector. So, apart from a consumption recovery, we should give more attention to investments in these two areas. Growth rates in these industries should be high.

But our concern is overheating if such support from the government lasts for more than three years. There are examples from the past, e.g. solar panels, and real estate, that once supported by the government would turn into fast growth and investments but may turn sour several years later.

### **In sum, it is a fair government target report**

Overall, the government realises the strength and weaknesses faced by the economy. It is not overly optimistic and does not spend too much to boost growth. It focuses more on longer-term growth challenges. In our view, achieving these targets would not be very challenging.

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