

China: What a super low “above 6%” GDP growth target means?

China unexpectedly set a GDP growth target, but at a relatively low level compared to the consensus forecasts and our forecast. What does this mean for the economy? This note will give an answer and also discusses the other main points of the government work report



Worry and questions from the very low GDP target

The very low GDP growth target seems like there is no target at all because the consensus is 8% and our forecast is 7%.

But when we look at this with other numbers, e.g. the fiscal deficit at 3.2% of GDP - the government explains that the main use of this money will be for job stability - then I am worried that the low GDP target could signal a possibility that the government includes a scenario for the comeback of Covid.

Summary of figures announced in the government work report 2021

- GDP growth target: above 6% vs no target set for 2020
- Fiscal deficit: 3.2 % of GDP vs 3.6% in 2020 with the objective to ensure job stability, and will issue special local government bonds of CNY3.65 trillion for infrastructure like water management, renewable energies.
- Surveyed jobless rate in urban areas: 5.5%, add 11 million jobs in urban areas
- CPI: around 3%
- Current account: almost balanced
- Technology advancement: tax reduction and increase government technology R&D expense by 10.6%, set milestone targets to be achieved by 2030
- Reforms: anti-monopoly with special mention on fintech; cut energy consumption per GDP by around 3% through reducing pollution emissions

Technology is the focus

If I worry too much and Covid in fact does not make a comeback in China then most of the fiscal money will be used to advance technology.

Technology R&D is the focus. The government report brings back the concept of [Technology Innovation 2030](#), which means the government has a roadmap for its technological advancement, but the 2030 targets were set several years back (2017-2018) so there should be some revisions to the 2030 technology targets as following the old plan won't beat the world's most advanced technology.

Green is a commitment

The target is to cut energy consumption per GDP by around 3% by reducing pollution emissions, and 70% of heating in the northern region will come from clean energy. This should be a start to commit to the net-zero carbon emission target by 2060.

Overall comment

Wording on the fiscal and monetary policies is the same as last year. The PBoC, China's central bank, will continue to stay put in 2021, even as this is a year for deleveraging. And the fiscal spending we discuss above shows that money can be used on Covid if there is a comeback or else it can be used on technology R&D.

There is in fact not much surprise from the government work report except for the super-low GDP target. This makes me feel uneasy as I don't know what exactly the government wants to tell us about the recovery path it expects.