

CHINA ECONOMICS WEEKLY

Takeaways from the National People's Congress

The National People's Congress (NPC) is still in session. But the key outcomes are already known. Here are four takeaways.

First, the economic targets and policy settings for this year were cautious and restrained. We discussed them in detail [here](#). The upshot is that while this conservative approach reduces some of the upside to economic growth this year, it gives officials a bit more leeway to tackle structural issues and financial risks.

Second, the signals on foreign policy were hawkish. Prior to the recent flare-up in tensions over a Chinese balloon's incursion into US airspace, there were growing hopes of a thaw in the icy relations between the two countries. But to the extent that there was a genuine attempt by Chinese officials late last year to mend ties, there are few signs of one now.

In a speech to the political advisory body that meets alongside the NPC, President Xi noted that "Western countries, led by the US, have implemented all-round containment, encirclement and suppression against us", an unusually direct criticism of US policy. And in his debut at the NPC, the new foreign minister, Qin Gang, struck a defiant tone that wasn't dissimilar with the "wolf warrior" approach of his predecessor.

Third, pessimism over the trajectory of relations with the west is leading to greater focus on self-sufficiency. In particular, the government's Work Report called for "forceful steps to shore up weak links in industrial chains". In this vein, the annual Budget promises a 44% rise in spending on scientific and technological advancement, as well as a 49% increase in special funds for development of high-end manufacturing.

The push for self-reliance was also on display in the government restructuring plan unveiled on Tuesday and approved by the NPC today. The Ministry of Science and Technology (MOST) will be given a

more prominent role in a new whole-nation system for pooling and mobilising resources to make key technological breakthroughs. The State Intellectual Property Office (SIPO) will also be transformed into a separate institution directly under the State Council, giving it more power to support R&D spending and intellectual property creation.

Policymakers clearly intend to throw the kitchen sink at boosting self-sufficiency but it won't be easy. We discussed some of the challenges in [our report](#) on the government's 14th Five-Year Plan and in [our coverage](#) of US-China decoupling.

Lastly, the Party is tightening its control over policymaking. The State has always been subservient to the Party in China. But government officials did enjoy a period of relative autonomy in the 1990s and 2000s. The Party still set the overall direction of policy, but many of the specifics were left to bureaucrats. Under Xi, the Party has reasserted control, with the centre of economic policymaking shifting from the State Council to Party committees.

The Party-State restructuring currently underway looks set to take this further. The full details haven't been revealed yet. But we did learn from the NPC that a new Party committee for science and technology will be created, which will lead the push for self-sufficiency and oversee MOST's work. There are also unconfirmed reports that He Lifeng, who is expected to succeed Liu He as China's economic tsar, will also serve as Party Secretary of the PBOC and head up a new Party committee to oversee financial work. This centralisation of power may be good or bad depending on how it is used, a topic we discussed in [our preview](#) of the 20th Party Congress.

The week ahead

Government appointments will be announced over the weekend. The new Premier will then hold a press conference at the close of NPC on Monday. Later in the week, data will likely point to a robust rebound in consumer spending at the start of this year.

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Data Previews

Medium-term Lending Facility Rate (Mar.)

Wed. 15th Mar.

Forecasts	Time (China)	Previous	Consensus	Capital Economics
MLF Rate (1-year)	09.20	2.75%	2.75%	2.75%

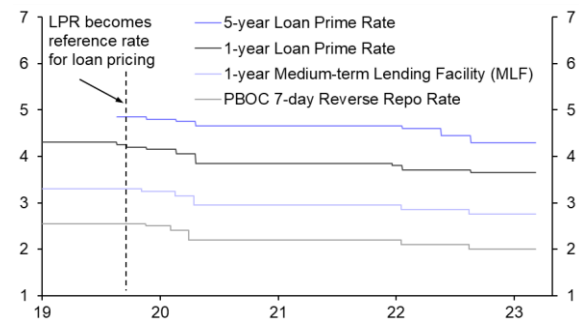
NPC points to an extended hold

The PBOC has refrained from adjusting its main policy rates since the middle of last year. (See Chart 1.) And the reports presented at National People’s Congress (NPC) suggest that changes are unlikely anytime soon.

Last year’s guidance that financial institutions will be encouraged to “lower real lending rates”, and that “there will be a drop in overall financing costs” was removed from the reports. Instead, the only mention of borrowing costs was in the context of targeted support for SMEs. With activity and credit demand bouncing back strongly since zero-COVID was abandoned, the PBOC is turning its attention towards financial risks – the NPC reports added a commitment to “effectively prevent and defuse major risks”, and the PBOC has recently directed

banks to slow their lending. Rate cuts at this juncture would also exacerbate the recent surge in [early mortgage repayments](#), which have triggered concerns among regulators.

Chart 1: Policy Rates (%)



Sources: CEIC, Capital Economics

Activity & Spending (Jan. & Feb.)

Wed. 15th Mar.

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Industrial Production (% y/y)	10.00	(+1.3%)	(+2.6%)	(+2.0%)
Fixed Asset Investment (ytd % y/y)	10.00	(+5.1%)	(+4.5%)	(+3.5%)
Retail Sales (% y/y)	10.00	(-1.8%)	(+3.5%)	(+13.0%)

Reopening lifted activity at the start of the year

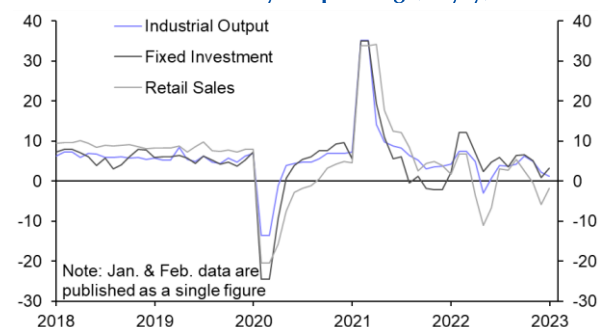
After the usual pause in data releases in February, the upcoming release will provide our first comprehensive snapshot of the state of the economy this year. Growth almost certainly accelerated from relatively depressed levels in December. (See Chart 2.)

Consumption should benefit most from reopening. Tourism spending rebounded strongly over the Lunar New Year. Mobility data suggest that shoppers rapidly returned to the streets. And the services PMIs soared.

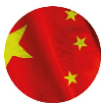
The output components of the manufacturing PMIs also jumped, to their highest since end-2020. And [export](#) volumes rose for the first time since September. But import volumes were little changed relative to the end of last year, pointing to only a modest reopening boost to industry has so far.

Investment spending probably rose. Businesses have turned more optimistic now that zero-COVID has ended. Fiscal support for infrastructure spending is being front-loaded. And there are early signs that policy support for homebuyers and developers is reversing the slump in the property sector.

Chart 2: Activity & Spending (% y/y)



Sources: CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
March						
Mon 13 th		Chn Conclusion of National People's Congress (including the press conference with the new Premier)	-	-	-	-
Wed 15 th		Chn 1-Year Medium Term Lending Facility (MLF) Auction (Mar.)	(09.20)	2.75%	2.75%	2.75%
		Chn Retail Sales (Jan. & Feb.)	(10.00)	(-1.8%)	(+3.5%)	(+13.0%)
		Chn Industrial Production (Jan. & Feb.)	(10.00)	(+1.3%)	(+2.6%)	(+2.0%)
		Chn Fixed Asset Investment (Jan. & Feb.)	(10.00)	(+5.1%)	(+4.5%)	(+3.5%)
		Chn Surveyed Unemployment Rate (Feb.)	(10.00)	5.50%	5.30%	5.30%
		Chn Property Investment (Jan. & Feb.)	(10.00)	(-10.0%)	(-8.3%)	(-12.0%)
		Chn Foreign Exchange Net Settlement and Receipts (Feb., RMB)	-	+4.1b	-	-
Thu 16 th		Chn Home Prices (70 Cities, Feb.)	(09.30)	+0.0%	-	-
		HK Unemployment Rate (Feb.)	(16.30)	3.40%	-	3.20%
Also expected during this period:						
11 th – 18 th		Chn Foreign Direct Investment (Feb.)	-	(+14.5%)	-	-
TBC		Chn PBOC Depository Corp. Survey (Feb.)	-	-	-	-

Selected future data releases and events:

March

Mon 20 th		Chn 1-Year Prime Loan Rate (Mar.)
Thu 23 rd		HK Consumer Prices (Feb.)

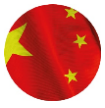
Also expected during this period:

TBC		Chn Government Revenue and Expenditure (Feb.)
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Main Economic & Market Forecasts

%q/q annualised (%o/y/y), unless stated	Latest	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	2022	2023f	2024f
Official GDP	0.0(+2.9)*	(3.4)	(7.6)	(5.1)	(6.4)	(5.6)	(3.0)	(5.5)	(5.0)
GDP (CE CAP-derived estimates)	-2.6(-5.9)*	(-0.9)	(7.2)	(5.9)	(10.3)	(6.7)	(-2.4)	(5.5)	(5.0)
Consumer Prices	(+1.0)**	(2.8)	(2.1)	(2)	(2.2)	(2)	(2.0)	(2.4)	(1.6)
Producer Prices	(-1.4)**	(-1.2)	(-3)	(-0.7)	(0.1)	(0.1)	(4.1)	(-1.0)	(0.5)
Broad Credit (AFRE)	(+9.9)**	(9.1)	(9.2)	(9.8)	(10.4)	(10.4)	(9.6)	(10.4)	(9.2)
Exports (US\$)	(-6.8)***	(-14.2)	(-16.4)	(-18.3)	(-8.4)	(-1.2)	(7.0)	(-14.5)	(0.0)
Imports (US\$)	(-10.2)***	(2.9)	(-3.4)	(-8)	(1.2)	(1.2)	(1.1)	(-2)	(3.5)
RMB/\$ [†]	6.96	6.75	6.80	6.65	6.50	6.48	6.95	6.50	6.40
7-day PBOC reverse repo [†] %	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-year Loan Prime Rate [†] (LPR) %	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65
1-year MLF Rate [†] %	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-year Government Bond Yield [†] %	2.88	2.80	2.70	2.90	3.10	3.10	2.85	3.10	3.10
RRR (major banks) [†] %	11.00	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75
CSI 300 Index [†]	3,994	4,100	4,275	4,550	4,770	4,850	3,872	4,770	5,110
Hong Kong GDP	(-4.2)*	(1.5)	(2.3)	(7.4)	(9.8)	(9.5)	(-3.5)	(5.5)	(9.5)
Hang Seng Index [†]	19,532	20,000	22,000	24,000	26,000	26,375	19,781	26,000	27,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q4; **Feb.; ***Jan. & Feb., [†] End of period



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