

10 March 2017

## **2017 NPC: Government announces macroeconomic targets and policies**

The fifth session of the 12th National People's Congress (NPC) started on 5 March. Premier Li Keqiang presented the *Government Work Report* on behalf of the State Council on the day. Besides, the National Development and Reform Commission (NDRC) submitted the *Report on the Implementation of the 2016 Plan and on the 2017 Draft Plan for National Economic and Social Development* to the congress.

We will discuss the macroeconomic targets and policies of the year stated in the *Government Work Report* as well as the key measures for boosting consumption mentioned in the NDRC's report.

### **Macroeconomic targets**

The government sets a real GDP growth target of about 6.5% for 2017, compared to the actual growth rate of 6.7% in 2016 and the 6.5% - 7.0% growth target set for 2016. According to Premier Li, the slight reduction in the economic growth target would give the government more room to improve the quality and the efficiency of the economy and to accelerate economic restructuring and upgrade. The NDRC Chairman He Lifeng also commented that setting a lower growth target did not imply the government was concerned about the economic growth for this year. At a press conference on 6 March, He Lifeng said he had confidence that the real GDP growth target of about 6.5% could be achieved this year.

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#### **Exhibit 1: Macroeconomic targets set for 2017**

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1. Real GDP growth of about 6.5% (*vs. 6.7% actual in 2016*).
  2. CPI growth of about 3% (*vs. 2.0% actual in 2016*).
  3. Fixed asset investment to grow by about 9% (*vs. 7.9% actual in 2016*).
  4. Retail sales of consumer goods to increase by about 10% (*vs. 10.4% actual in 2016*).
  5. Over 11 million new jobs in urban areas (*vs. 13.14 million actual in 2016*).
  6. M2 growth of about 12% (*vs. 11.3% actual as of end-2016*).
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*Source: the Government Work Report*

## ***Macroeconomic policies and key measures for boosting consumption***

### ***Fiscal policy***

The fiscal policy should be more proactive and effective. The ratio of fiscal deficit to nominal GDP is set at 3% for 2017, the same as for 2016. Consequently, the fiscal deficit is budgeted to be 2.38 trillion yuan in 2017, higher than the actual fiscal deficit in 2016 by 200 billion yuan. The major reason for maintaining the high level of fiscal deficit is that the government plans to further cut taxes and fees this year: the taxes and the fees on enterprises are expected to be reduced by 350 billion yuan and 200 billion yuan respectively in 2017.

### ***Monetary policy***

The central bank will continue with its prudent and neutral monetary policy and will maintain stable liquidity conditions. The target for the broad money supply (M2) growth is about 12% in 2017, compared to the actual growth of 11.3% in 2016. More financial resources will be diverted to the real economy, especially the agricultural sector, villages, and farmers, and small and micro-enterprises.

### ***Exchange rate***

In 2017, the government will continue with the market reform of the Chinese yuan exchange rate and maintain the stable position of the yuan in the global monetary system. (It is noteworthy that, unlike in the previous three years, the phrase 'the Chinese yuan exchange rate will be kept basically stable at a reasonable and equilibrium level' is not mentioned in the Government Work Report this year. A possible reason for such a change is that the yuan exchange rate has become a more sensitive issue since the US President Trump took office early this year, and thus the government is unwilling to disclose its stance on the exchange rate.)

### ***Key measures for boosting consumption***

To boost consumption, the government will continue to push forward the '10 initiatives for boosting consumption' (See exhibit 2 for more details); relax unreasonable restrictions on entry into the service sectors; support non-governmental agencies to provide education, elderly care and medical services; promote information consumption in areas such as digital homes, online education and virtual reality; launch the 'specific actions for accelerating innovation in distribution for domestic trade, pushing forward the supply-side structural reforms and expanding consumption'; foster the integrated development of brick-and-mortar stores and online shopping; and ensure that more domestically sold products come off the same production lines, meet the same standards, and are of the same quality as export products.

**Exhibit 2: 10 initiatives for boosting consumption**

Urban Sales	Facilitating the flows of products in distribution network, with a focus on reducing logistics costs while enhancing efficiency, and extending sales of high-quality brands to third- and fourth-tier cities
Rural Consumption	Tapping the potential for e-commerce consumption in rural areas, facilitating flows in two-way sales channels between urban and rural areas, improving rural infrastructure for consuming information goods and services, and bringing about higher-quality consumption in rural areas
Housing	Cutting the housing inventory by using measures which are tailored to local conditions, establishing a housing system which encourages both renting and purchasing, ensuring efficient use of the housing provident fund, and meeting consumer demand for better housing conditions
Automobile	Initiating trials to loosen restrictions on driving pickup trucks in cities, accelerating construction of parking facilities, working to improve after-sales services for automobiles, and meeting consumer demand for automobiles
Tourism & Leisure	Developing demonstration zones for all-for-one tourism, accelerating the development of cruise and yacht tourism, promoting ecotourism and elderly-friendly tourism, and stepping up development of the general aviation market
Health, Elderly Care, & Domestic Services	Providing more training for domestic service workers, developing combined medical and care services for the elderly, supporting the integration and transformation of idle non-governmental resources to provide elderly care services, and encouraging development of diversified and personalized health services
Education, Culture & Information	Developing high-level vocational education, promoting Chinese-foreign cooperation in operating schools, encouraging the development of cultural & creative industries, increasing application of new information products such as smart-home technology, and strengthening infrastructure for cultural consumption such as physical bookstores, digital cinemas in county-level cities
Sports & Fitness	Continuing to put stadiums and gymnasiums to best use, improving market-based competitive mechanisms for sports event operations, and hosting a wider range of sports events to stimulate and satisfy household demand in the area of sports
Green Consumption	Carrying out a 'frontrunner program' for energy efficient household appliances, increasing the supply of eco-friendly household purifiers, and promoting the use of green materials in construction
Consumption Environment & Quality	Extending application of the national platform for sharing information on credit, making effective use of the '12358' pricing monitoring platform, strengthening price monitoring, working to improve the quality of consumer goods, and supporting development of new forms of consumption such as sharing economy

*Extracted from Report on the Implementation of the 2016 Plan and on the 2017 Draft Plan for National Economic and Social Development*

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