HSBC Global Research

13 March 2023

China NPC wrap-up

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New line-up of government leaders, ambitious institutional reform

China

- This year's NPC set a more conservative-than-expected growth target, indicating a cautious approach in light of ongoing headwinds
- A number of key institution leaders were retained, pointing to continuity in policy implementation as the recovery continues to solidify
- Institutional reform, aimed at financial regulation, science and technology and data management, will help to streamline and coordinate policy making

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Facts

With the wrap up of the 8.5 days long policy event, the NPC unveiled the new top leadership for the next five years. On the morning of 13 March, Li Qiang met with the press for the first time in his new position as Premier and it marked the close of the NPC.

Transcript of Press Conference (Chinese): http://www.news.cn/politics/2023lh/zb/zljzh9879/index.htm

Table 1. Key targets in the Government Work Report

	2023 target	HSBC forecast for 2023 targets	2022 Actual	2022 target
Real GDP growth	Around 5.0%	Above 5.0%	3.0%	Around 5.5%
Urban job creation	Around 12mn	At least 12m	12.06mn	At least 11m
Surveyed urban unemployment rate	Around 5.5%	<5.5%	5.5%	<5.5%
CPI	About 3.0%	About 3.0%	2.0%	About 3.0%
M2 growth	Steady growth that is consistent with nominal GDP growth	Steady growth that is consistent with nominal GDP growth	11.8%	Steady growth that is consistent with nominal GDP growth
TSF growth	Steady growth that is consistent with nominal GDP growth	Steady growth that is consistent with nominal GDP growth	9.6%	Steady growth that is consistent with nominal GDP growth
Fiscal deficit, % of GDP	3.0%	3.2%	2.8%	2.8%
Tax cuts and fee reductions	No specific target; Extend and refine policies	-	RMB 4.2trn	RMB2.5trn
Special local government bond issuance	RMB3.8trn	RMB4.0trn	RMB 4.04trn	RMB3.65trn
International balance of payment	Maintaining basic equilibrium	-	-	Maintaining basic equilibrium
Exports and imports	Stable and increase quality	-	-	Stable and increase quality
Macro leverage ratio/Debt to GDP ratio	No mention	Stable	Stable	Stable
Exchange rate	Stable	-	-	Stable
Cut energy consumption, per unit of GDP	Continue to reduce	-	Fell by 8.1% in the last five years	Will be in accordance with 14th Five Year Plan
Discharge of major pollutants	Further decline	-	-	Further decline
Grain output, trn 0.5kg	>1.3trn	-	1.37trn	>1.3trn

Source: Government Work Report, HSBC

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Implications

Key takeaways for the 2023 NPC

This year's NPC affirmed China will be focusing on the recovery this year by setting a GDP growth target of "around 5%". While high frequency data has shown signs that a recovery is underway, there remain headwinds to growth stemming from slower global growth and still underlying pressure in the domestic economy such as from the labour market and the property sector. Thus, to achieve this year's growth target, there will need to be ongoing policy support from the fiscal side as well as from monetary policy.

Fiscal policy will still take the front seat, with the fiscal deficit providing a larger amount of support this year, and maintaining a positive fiscal impulse. The government is targeting a larger official government budget deficit of 3.0% of GDP (vs. 2.8% in 2022) as well as a larger special local government bond quota of RMB3.8trn (vs RMB3.65trn in 2022). Looking at the broadly-defined fiscal balance, the fiscal stance remains expansionary, and the fiscal support is notably higher than in pre-pandemic times.

Meanwhile, still low inflationary pressures should keep monetary policy accommodative with liquidity injections and targeted credit support. A de-emphasis on the macro leverage ratio should also provide flexibility for ongoing credit support this year, particularly in allowing for further stabilization in the property sector to take shape.

Premier Li Qiang's first press conference

In Premier Li Qiang's remarks to the media, he reemphasized stability of growth, prices and employment as the key goals of the government. But his tone about achieving this year's "around 5%" GDP growth target remained cautious as China faces global headwinds and high base level of economic output. Thus, the government would need to "redouble" efforts in policies to stabilize growth.

Looking to the longer term, high-quality development on the back of continued technology and innovation should help China to realize longer-term sustainable growth. In his remarks on the private economy, Li was notably supportive. Calling back to his professional experience leading the economies of fast developing regions (e.g. Jiangsu, Shanghai, Zhejiang), he re-emphasized Beijing's commitment to fostering private development and entrepreneurship. With the private sector having an outsized share of the economy in terms of output (>60%), innovation (>70%) and jobs (>80%) (Xinhua, 29 June 2022), instilling more confidence in the private sector to continue to innovate can help to spur both near-term and longer-term growth. In terms of government policies, this can include implementing a more level playing field between private and public sectors, encouraging better protection of intellectual property, and continuing to open up to foreign investment and encourage flow of goods, services, people and ideas.

In terms of opening up, Premier Li Qiang adopted a much more constructive tone towards Sino-US relations in today's press conference. Highlighting a record high trade flow of nearly USD760bn trade between China and the US in 2022, he noted that "suppression does no good to either side". This can point to a more pragmatic approach to managing these relations, which could help to lessen some of the tensions which have risen in recent years and even recent weeks. In turn, this would help improve business confidence for both foreign and domestic players.

Both new and old faces at the top were unveiled

As largely expected, Li Qiang was appointed the new Premier while Xi Jinping was re-elected for Presidency for his third term. There were several new faces for Vice Premierships too (see table 2). But in a key surprise, despite the unofficial rules around retirement, some of the heads of economic policy making departments were retained: Yi Gang at the PBoC, Liu Kun at the MoF and Wang Wentao at MOFCOM. The continuity in leadership should translate to a continuity in policy implementation where an overall accommodative stance should remain.

Table 2. State Council and key heads of institution appointments at the 2023 NPC

Name	Position	Key roles held before	New to the role?
Li Qiang	Premier	Party Secretary of Shanghai (2017 – 2022)	Yes
Ding Xuexiang	Vice-premier	Director of the General Office of the CPC Central Committee (2017 – 2023)	Yes
He Lifeng	Vice-premier	Head of the National Development and Reform Commission (2018 – 2023)	Yes
Zhang Guoqing	Vice-premier	Party Secretary of Liaoning (2020 – 2022)	Yes
Liu Guozhong	Vice-premier	Party Secretary of Shaanxi (2020 – 2022)	Yes
Zheng Shanjie	National Development and Reform Commission	Party Secretary of Anhui (2021 – 2023)	Yes
Liu Kun	Minister of Finance	Minister of Finance (2018 – present)	No
Wang Wentao	Minister of Commerce	Minister of Commerce (2020 – present)	No
Yi Gang	Governor of the People's Bank of China	Governor of the People's Bank of China (2018 – present)	No

Source: NPC, HSBC

Institutional reforms

The State Council Institutional Reform Plan was approved by the NPC during the 2023 Two Sessions. The reform plan introduces several important changes, aiming to enhance the capacity and efficiency of the state governance. Important changes include the restructuring of the Ministry of Science and Technology, overhaul of the financial regulatory regime, and setting up a National Data Bureau. Out of these, the financial regulatory overhaul may have attracted the most market attention.

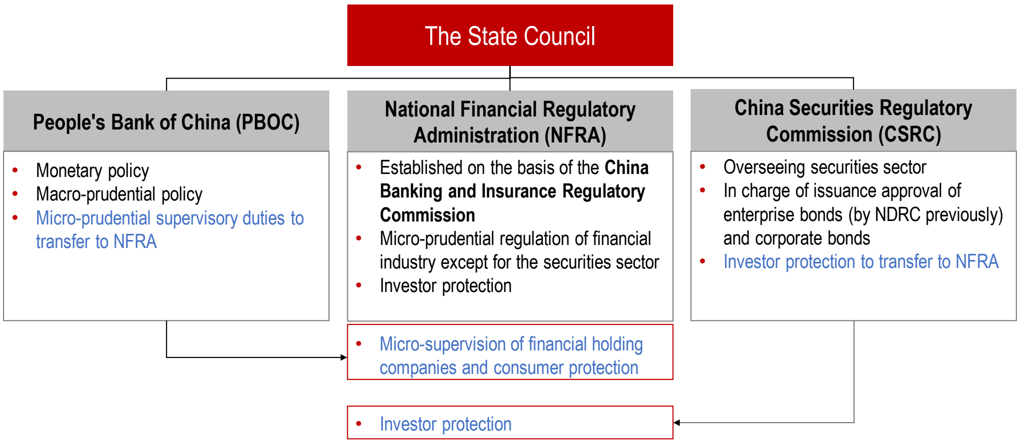
Under the new regime (Chart 1), the PBoC will specialize in monetary and macro-prudential policies, while spinning off micro-prudential supervision in financial holding companies and consumer protection function to the newly established National Financial Regulatory Administration (NFRA, 国家金融监督管理总局). The NFRA expands on the basis of the CBIRC, which consolidates the consumer protection function of all financial regulators, as well as micro-prudential supervisory functions in all but the securities sector. Responsible for behavioral regulations in the entire financial industry, the NFRA may be able to address regulatory gaps that existed due to the division of responsibilities and different standards. This is particularly important in the era of financial innovation which has blurred the boundaries of financial activities and entities.

The CSRC will oversee the securities sector and takes over the National Development and Reform Commission's function related to the approvals of bond issuance. Previously, the issuance of so-called "enterprise bonds" (企业债) which typically refers to bond issuance by state-owned enterprises (SOEs) including local government financing vehicles (LGFVs) for project financing purposes, was regulated by the NDRC. On the other hand, the issuance of the "corporate bonds" (公司债), which could be done by both SOEs and POEs for project financing, debt repayment, or other investments, was regulated by the CSRC. The division was out of legacy reasons, and the reorganization could go a long way towards leveling the standards for corporate bond issuance and help improve market efficiency.

Other important changes include the abolition of regional branches of the PBoC (while setting up provincial ones) and the establishment of a local financial regulatory system primarily led by the local branches of the central financial regulators. These changes aim to address entrenched problems. For example, conflicts of interest may arise between national financial regulators and local financial regulatory institutions as the latter are typically established under local governments and may prioritize local development goals over national-level financial risk controls. In addition, local governments may face a shortage of financial technocrats and end up implementing looser regulatory standards which could create opportunities for regulatory arbitrage and even fraud. One example of this is the P2P industry problem, often cited as an instance of such problem (Reuters, 6 Sep 2019).

Overall, the new regime streamlines financial oversight responsibilities and has the potential to address regulatory gaps and standardize policies, making financial regulation more agile in facilitating innovation while also protecting consumers and investors.

Chart 1: The new financial regulatory regime



Source: China National People's Congress 2023, HSBC

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