

## China: Government Work Report focusing on the well-being and medium term productivity

Friday, March 05, 2010

Premier Wen Jiabao delivered the 2010 Government Work Report this morning. He set the growth target at 8% again for 2010. In addition, he also set the target for CPI, new loan, M2 growth and fiscal deficit at 3%, CNY7.5tn, 17% and CNY1.05tn (2.8% as percentage of GDP) respectively. In terms of the macro policy, Premier Wen reiterated the proactive fiscal policy and moderately loose monetary policy. Meanwhile, the reassurance of a basically stable Yuan at a balanced level helped to downplay the recent hot debate about the potential for a one-off Yuan revaluation.

Overall, the macro policy for the year highlighted by the Premier is in line with market expectation. It will be more interesting to look beyond the macro policy and take a close look at the policies focusing on the medium term productivity and well-being in our view.

### Boosting medium term productivity

- With both advanced and emerging economies looking for rebalancing after the global crisis, Asian governments have spent more efforts on boosting productivity to keep Asian economies growing for the next decade. The budget announced by Singapore government on 22 Feb 2010 had also allocated more weights to medium-term productivity enhancement rather than crisis-type relief measures.
- Like Singapore, productivity boosting measures have also been written down in the Government Work Report as part of economic restructuring. China will boost productivity via innovation, education and opening monopoly industry to the private sector. **1)** The government will support the innovation, environment friendly and energy saving technology. **2)** Just ahead of the National People's Congress, the government has set the plan to boost the education expenditure as percentage of GDP to 4% by 2012. The 4% has been a moving target since 1993 and is still way behind the peers such as 5% for India. However, it also suggests there is more room for China to boost the education investment, which will support the short term economic growth and medium term productivity enhancement. **3)** Monopoly always results in low efficiency; the reform in China's monopoly industry will be unavoidable in order to remain competitive on the global stage. The gradual liberalisation in certain monopoly industries will be positive news for the private sectors. And it will also help boost the efficiency and medium term productivity.

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**Well-being**

- Among all the policies to boost the well-being, property market related policies always catch the most attention in the market. In today's report, Premier Wen reassured that the government will help curb the excessive rise in housing prices in certain cities. Four measures will be taken to stabilize the property prices – these include 1) increasing the supply of economic houses 2) supporting medium to low end residential projects 3) curbing the speculation via the selective credit tightening and tax 4) enhancing the land management and preventing the land prices from rising too fast.
- There is no mention about the property tax in today's report; however this topic will be an ongoing focus. We think the property tax is positive for the society, which will help redistribute the wealth. In the long run, the imposition of the property tax should not have the significant impact on the property prices, based on Singapore's experience. However, due to the high vacancy rate in China's property market, the property tax may have a negative impact in the short run, as the rising cost of carry may trigger some repositioning by the speculators.

**A tough year for the policymakers**

- In conclusion, today's Work Report is encouraging as it focuses more on boosting medium term productivity and well-being. Looking at the macro policy, it will be a tough year for the policymakers as the government needs to be more active to strike a balance between the managing economic growth, economic reforms and inflationary pressures. For the investor, it will be important to clarify the definition of a moderately loose monetary policy to avoid disappointment e.g. 7.5tn rather than 9tn for the whole year new loan falls into the category of moderately loose. We expect to see more liquidity management from the central bank including reserve requirement ratio hike and open market operations going forward. We also retained our call for 9.2% GDP growth this year after today's Work Report.

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