Normalization

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- **China reinstates its growth target for 2021 after scrapping it last year.**
- **The above 6% growth may sound conservative. However, it does not imply a tightening bias as China does not want to slash the growth target next year when base effect abates.**
- **Most of growth-related targets have been adjusted back to 2019 target, sign of normalization.**
- **The 3.2% fiscal deficit target and CNY3.65 trillion local government bond issuance target are still much higher than that in 2019**
- **The gradual exit of fiscal support is a clear sign of no U-turn of macro policy.**
- **Premier Li add keeping macro leverage ratio basically stable into the work report, which could be the cause for more short-term volatility in the market.**

Chinese Premier Li Keqiang delivered his 2021 government work report this morning. China reinstates its growth target for 2021 after scrapping it last year due to pandemic. Although the "above 6%" target sounds very conservative after taking base effect into account, the set of growth target still serves two purposes. First, it will become the anchor for other growth-related targets such as CPI and job creation etc. Second, the growth target will also play a role of glue to put the local governments and central government on the same page to make China's top down policies more effective.

Table 1: China's key targets for 2021

	2019 Target	2020 Target	2021 Target
GDP	6%-6.5%	No target	above 6%
CPI	0.03	0.035	0.03
Urban Job Creation	11 millions	9 millions	11 millions
Surveyed jobless rate	0.055	0.06	0.055
Fiscal deficit as % of GDP	0.028	3.6% and above	0.032
Special Treasury bond	No	CNY1 trillion	No
Local Gov Special bond	CNY2.15 trillion	CNY3.75 trillion	CNY3.65 trillion
Aggreagate Social Financing	Matching Nominal GDP growth	Notably higher than last year	Matching nominal GDP growth
Growth of loan to small and micro companies from big banks	0.3	higher than 40%	higher than 30%

Gradual exit of fiscal policy

We think normalization is likely to be the key word for 2021 government work. Most of growth-related targets have been adjusted back to 2019 target, such as CPI, urban job creation and jobless rate etc. However, the exit of fiscal support is much slower. The 3.2% fiscal deficit target and CNY3.65 trillion local government bond issuance target are still much higher than that in 2019 as shown in table 1. This will reinforce market view that there is no U-turn of macro policy.

On monetary policy, Premier Li reiterated that China's prudent monetary policy to be more flexible and targeted. Nevertheless, he also highlighted that China needs to keep macro leverage ratio basically stable this year, a sign that the room for further easing is limited. Against the backdrop of rising concern about higher macro leverage ratio, we think the higher volatility in China's bond market may persist for a while.

The National People's Congress will last until 11 March. So we will continue to receive more details about China's plan for the next five year as well as long term plan through the Year 2035.

Table 2: China's key tasks for 2021

Supports to Corporate	Threshold line for VAT for smaller business will be increased to monthly turnover of 150K from 100K. The rates for broadband and dedicated internet access services will be cut by 10% on average.
Consumption	Increase big items consumption including car and electronic appliance at a steady pace
Innovation	Key breakthrough in key industries
Property	Solving property supply demand mismatch in big cities via increasing land supply and developing rental housing.
Opening	Speed up the implementation of RCEP and China EU investment treaty.

In conclusion, the lower than expected growth target does not imply a tightening bias as China does not want to slash the growth target next year when base effect abates. The "above 6%" growth target shows that China has the stomach for higher growth. The gradual exit of fiscal support is a clear sign of no U-turn of macro policy. However, China's intention to keep its macro leverage ratio stable may be the cause for more market volatility going forwards.