

Economic Analysis

China | The new five-year plan falls short of surprises on the positive side

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As one of the most important documents endorsed in this year's annual session of the National People's Congress (NPC), the 13th Five-Year Plan on National Economic and Social Development (hereinafter referred to as "the Plan") took off its veil yesterday. The final version of the Plan includes 20 chapters and 80 sections, comprehensively putting forward the principles for China's economic and social development during the period of 2016-2020. The Plan also set a number of targets over the next five years, some of which are binding targets while the rest are just for forecasting purpose. (Table 1)

Overall, the content of the Plan is largely in line with market expectations. In particular, the authorities set an annual floor target of 6.5% for growth rate over the next five years, adhering to their long-term goal of doubling the country's GDP size as well as household income in the decade of 2010-2020. The Plan reaffirmed the authorities' intention to push forward structural reforms and facilitate economic rebalancing. Nevertheless, the authorities appear to have become more cautious on some items in their reform agenda, especially about capital account liberalization and RMB internationalization. This reflects that the policy focus is now pivoting towards maintaining the stability of domestic economy and financial sector amidst escalating uncertainties. That being said, the completion of China's capital account liberalization is likely to be postponed to sometime after 2020.

- **No change to the target of doubling GDP level by 2020.** Although the authorities has shown certain flexibility by setting a range growth target of 6.5%-7.0% for this year, they seem adamant on the pre-set target of doubling GDP level in the decade of 2010-2020. Accordingly they set a floor target of 6.5% for annual growth rate over the next five years. This could be counterproductive in the long run if the authorities are to overstretch their limited policy capacities to meet this stiff target. We believe that the authorities will adjust this target sometime in future to avoid further distortionary effects on the economy.
- **Targeting a balanced growth.** The Plan clarifies that future growth should be innovation-driven and tilt toward private consumption away from inefficient investment. It in particular devotes several chapters to explain how to promote digital economy by improving IT infrastructure, increasing R&D investment and cultivating talents. The authorities' enthusiastic embrace of innovation and economic rebalancing is welcomed. However, it remains to be seen that to what extent the government's policy support can materially benefit them. To our understanding, the economic rebalancing is more of a natural process while mastering the trend of innovation is beyond bureaucrats' capacity. Maybe the best choice for the government is to stay aside and allow the market mechanism to play the role in both economic rebalancing and innovation.
- **The pace of capital account liberalization is to be slowed.** The Plan doesn't mention capital account convertibility and RMB internationalization at all, signaling that the authorities no longer give priority to them after experiencing two episodes of financial turmoil last August and this January. Instead, the Plan emphasizes that a new macro-prudential regulatory framework should be established in pushing forward other financial reforms in deepening interest rate liberalization and the exchange rate reform. This means a further postponement of achieving the RMB's capital account convertibility.

Table 1

New targets of economic and social development over 2016-2020

Category	Indicator	Target	Nature	Target of the 12 th FYP	Outturn of the 12 th FYP
Economic growth	Average GDP growth	>6.5%	Forecast	7.0%	Met
	Increase in service sector's share of added value	56%	Forecast	47%	Met
	Increase in urbanization rate	3.9%	Forecast	4%	Met
Research and education	R&D expenditure to GDP ratio	2.5%	Forecast	2.2%	not met (2.1)
	Patents per 10,000 people	12	Forecast	3.3	Met
	Internet penetration rate-Fixed Broad Band	70%	Forecast	NA	
	Internet penetration rate-Mobile Broad Band	85%	Forecast	NA	
Resources and environment protection	Cultivated Land Area	0%	Binding	0%	Met
	Decrease in energy intensity per unit GDP	15%	Binding	3.10%	Met
	Decrease in water consumption per unit GDP	23%	Binding	NA	Met
	Increase in forest coverage/ total stock of forest	1.38% 14%	Binding	1.30%	Met
				6%	
	Increase of non-fossil fuel's share in primary energy consumption	3%	Binding	3.1%	Met
	Decrease in chemical oxygen demand / sulfur dioxide emissions / ammonia nitrogen emissions / nitrogen oxides emissions	10%-15%	Binding	8%-17%	
	Decrease in carbon intensity per unit GDP	18%	Binding	17%	Met
People's livelihood and population	Average growth rate of household disposal income	>6.5%	Forecast	>7%	Met
	Average education period of labor force	10.8 year	Binding	NA	
	New job creation	>50 million people	Forecast	45 million people	Met
	Decreased population in rural poverty people	56 million people	Binding	NA	
	Increase in coverage of basic health insurance	8%	Forecast	1%	Met
	Construction of social housing	20million	Binding	36 million	Met
	Increase in life expectancy	1 year	Forecast	1 year	Met

Source: BBVA Research

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