

China

China targets economic growth of around 6.5 per cent

Focus on debt, internet finance risks in final year of President Xi's first term



© EPA

15 HOURS AGO by: **Tom Mitchell**, **Lucy Hornby** and **Yuan Yang** in Beijing

China has lowered its annual economic growth target to “around” 6.5 per cent, as Beijing plans to focus on risk control in the final year of President Xi Jinping’s first term.

The figure, down from the government’s target growth range of 6.5 to 7 per cent for 2016, was revealed on Sunday morning by Premier Li Keqiang in his annual “work report” to China’s parliament, the National People’s Congress. Actual growth came in at [6.7 per cent \(http://next.ft.com/content/3533b1b0-ddfb-11e6-9d7c-be108f1c1dce\)](http://next.ft.com/content/3533b1b0-ddfb-11e6-9d7c-be108f1c1dce) last year.

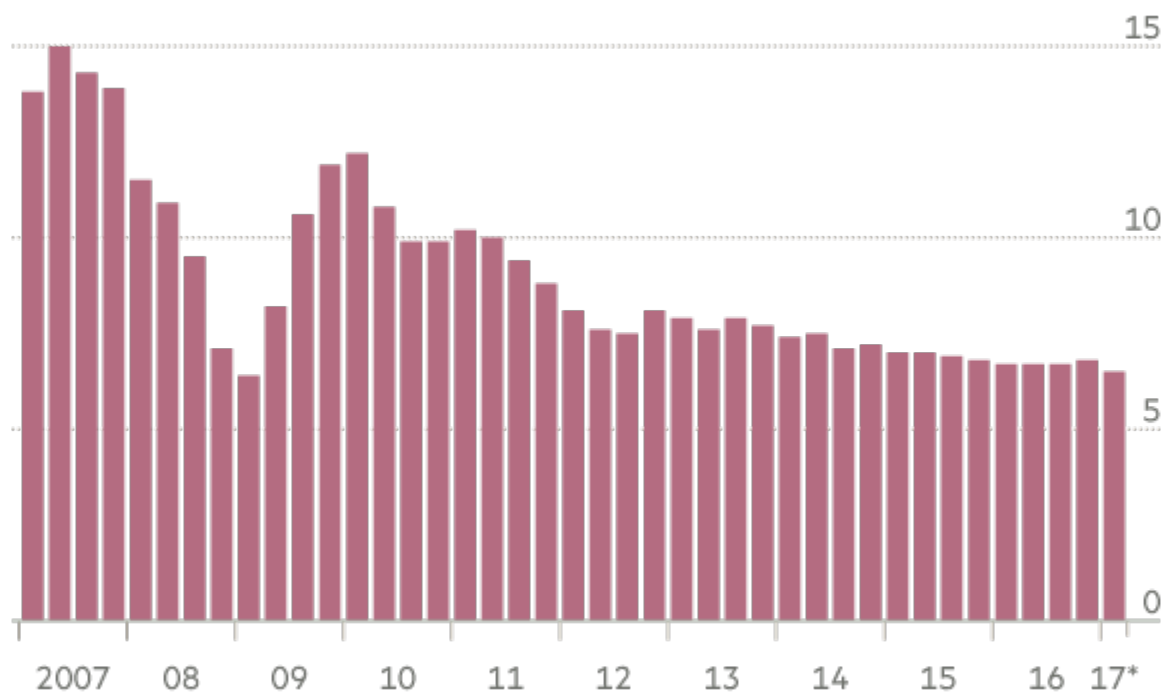
“At present, overall systemic risks are under control,” Mr Li said. “But we must be fully alert to the build-up of risks, including risks related to non-performing assets,

bond defaults, shadow banking and Internet finance.” He added that his government was also concerned about “high leverage in non-financial Chinese firms”.

The NPC session, which runs for two weeks, is the last before the country’s ruling Communist party convenes a congress at the end of the year that will mark the beginning of Mr Xi’s second term in office and install his allies in a number of key posts.

Over the past year, the government has appointed new heads of the securities and banking regulators as well as the National Development and Reform Commission, an economic planning agency. Most are reform-minded technocrats who have sounded the alarm about the risks stemming from speculative bubbles in China’s property, equity and [insurance sectors \(http://next.ft.com/content/37d43dce-fa7d-11e6-9516-2d969e0d3b65\)](http://next.ft.com/content/37d43dce-fa7d-11e6-9516-2d969e0d3b65).

China GDP growth
Annual % change, quarterly



* 2017 figure is full-year government estimate
Sources: National Bureau of Statistics; CEIC



This contrasts with a [policy debate \(http://next.ft.com/content/57371736-4b69-11e6-88c5-db83e98a590a\)](http://next.ft.com/content/57371736-4b69-11e6-88c5-db83e98a590a) that broke out in wake of last year's NPC session about China's growing debt levels, which some officials felt were necessary to support economic growth. That debate has since been settled in favour of officials who feel the government should pay more attention to financial and economic risks even if it results in slower economic growth.

“Financial supervisors should fix weak links and act hard against illegal activities,” Mr Xi said ahead of the NPC session. He also reiterated the need to rein in China's runaway housing prices, especially in large, economically prosperous cities, noting that “houses are built to be lived in, not [for] speculation”.

Reflecting Beijing's caution, Mr Li said the government's fiscal deficit target would remain unchanged at three per cent of GDP; last year it came in at 3.8 per cent. On Saturday, an NPC spokesperson confirmed that there would be only a modest increase in China's defence budget of [about seven per cent \(http://next.ft.com/content/150353c8-009c-11e7-ace0-1ce02ef0def9\)](http://next.ft.com/content/150353c8-009c-11e7-ace0-1ce02ef0def9).

Eswar Prasad, a China finance expert at Cornell University, said the premier's lower growth target was “symbolically important”.

“[It signals] the government's concerns about rising financial risks and environmental degradation wrought by the earlier emphasis on high growth at all costs and the unbalanced growth model that sustained it,” he added.

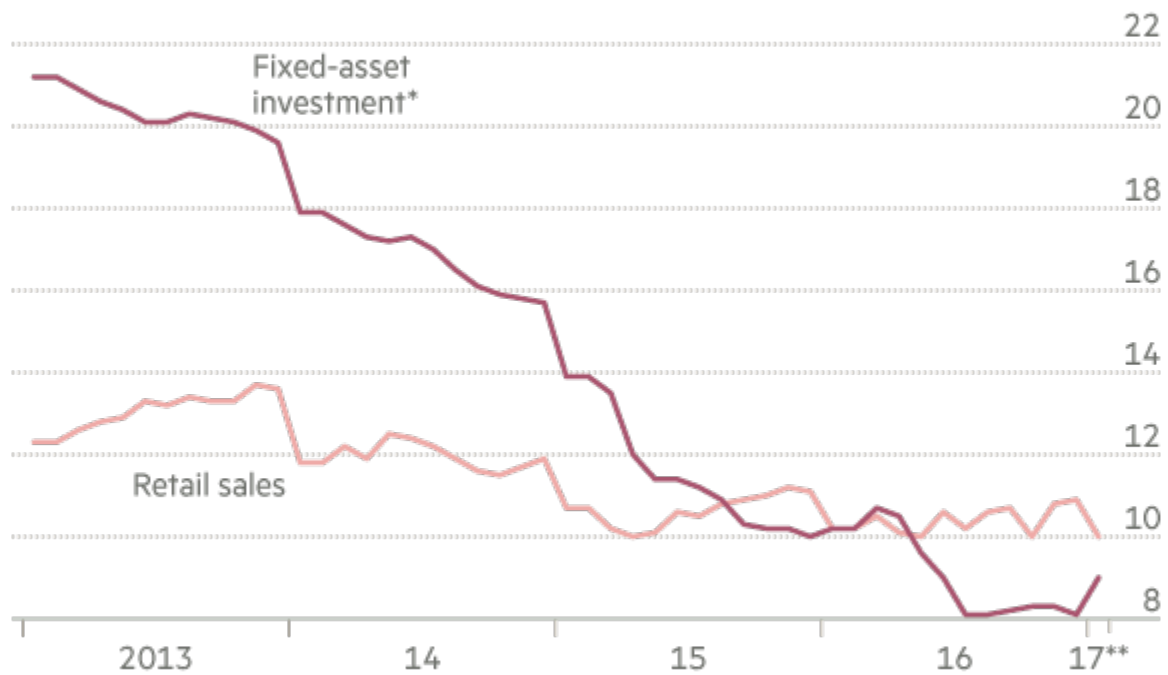
In his work report, Mr Li also predicted that fixed asset investment, a key driver for the world's second-largest economy, would increase nine per cent. Fixed-asset investment grew only 8.1 per cent last year, below the government's initial target of 10.5 per cent.

Retails sales growth is also expected to moderate slightly to ten per cent this year. Mr Li raised the government's urban job creation target to 11m new positions from 10m in 2016. Last year Beijing exceeded its official urban jobs target by more than

30 per cent.

China key activity indicators

Annual % growth, monthly



* Year to date

** 2017 figures are full-year government estimates

Sources: National Bureau of Statistics; CEIC

FT

Mr Li admitted that the government's efforts to steer the economy to a "new normal" of slower, less debt-dependent growth was a difficult one. "Like the struggle from chrysalis to butterfly, this process of transformation and upgrading is filled with promise but also accompanied by great pain," the premier said.

Many analysts have been disappointed by what they see as the government's reluctance to implement bold economic reforms (<http://next.ft.com/content/b7683e1a-feff-11e6-96f8-3700c5664d30>) over recent years. "There remains a gap between the stated priorities and actual reform efforts," said Prof Prasad. "Nevertheless, it is clear that the leadership recognizes the enormous challenges it faces in steering the economy on to a sustainable growth path."

Zhou Hao, Commerzbank economist, said that "China's policy stance has turned to risk control".

“Monetary policy will gradually tighten,” he added. “China still faces pressure from the US as the Fed is about to raise interest rates.”

Last week Janet Yellen, chair of the US Federal Reserve, said that an interest rate hike was likely before the end of the month.

The Chinese government has been fighting to slow the [renminbi \(http://next.ft.com/content/c0853956-fa7e-11e6-bd4e-68d53499ed71\)](http://next.ft.com/content/c0853956-fa7e-11e6-bd4e-68d53499ed71)’s three-year decline against the dollar, a fall which could exacerbate trade tensions with the US. China’s currency almost fell through Rmb7 : \$1 at the end of last year, but has settled at around Rmb6.9 over recent months.

Speaking on Saturday, Yi Gang, a central bank vice governor, said that China “will never devalue the renminbi to promote exports. “China is a responsible country,” he added. “Our overall direction is to keep the exchange rate basically stable.”

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others. © The Financial Times Ltd.

Read latest

The Big Read

Electric cars: China’s battle for the battery market

Latest on China

The Big Read

Electric cars: China’s battle for the battery market

Beijing invests billions to try to squeeze out Japanese and South Korean rivals