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# China: Does the Growth Target Matter?

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Much has been made in markets and media of the lower real GDP growth "target" contained in Prime Minister Wen Jia Bao's "government work report", released prior to his presentation to the National People's Congress (NPC). According to the report, real GDP would grow by 7.5% in 2012. This is down from the previous 8.0% target.

What are the real implications of this change? Does it mean that the government expects the economy to decelerate that much from the 9.3% growth of 2011? Does it mean that policymakers will passively accept a pace of growth that has not occurred since period between the Asian crisis and the 2001 recession?

The first thing that must be noted is that (official) real GDP growth seems on a trend that would take it to the neighborhood of 8% for the year, with a clear possibility that, at least during some quarters, the pace would drop even further. So the reduction of the growth target does reflect an acknowledgement of the headwinds facing the Chinese economy as exports decelerate, as Europe traverses a recession and as Beijing's policymakers struggle to develop a strategy that would preserve short-term growth at an adequately rapid pace without resorting to the massive and potentially asset-inflationary stimulus as in 2009-10.

From this perspective, the new target reflects confidence that no major political or economic disruption is in store if all the weaponry of policy is not deployed right away to stem the growth deceleration, and suggests a greater determination to pursue the goal of making the economy more consumption-driven. In other words, as the export sector slows, reducing the pace of growth for the entire economy, the government's reaction would be more controlled, more targeted, more limited than it happened in the recent cycle.

The practical consequence is that the authorities appear prepared to take some risks as they refocus their efforts in the direction of re-balancing growth. What actual policies will result from this approach is still not totally clear, but some of the key elements have been already presented to the public: a push to create jobs inland (obviously requiring accompanying financing), an expansion of the low-income housing construction push (the "work report" cites a jump from 5 million housing units underway to a new round of building in the amount of 7 million housing units). Presumably, there would also be a fiscal effort to stimulate purchases of consumer durables for the new housing.

As for monetary policy, the report strikes a rather moderate tone, with money supply growing 14%. No explicit indication of a willingness to open the spigots again, as in the 2009-10 period. However, it is highly likely that the central bank will have to turn towards a (at least) moderately expansionary stance, as money growth has decelerated sharply over the past year. A key sign of the bank's policy turn will be the pace of credit growth, which picked up for the first time in December. But it must be added that there is now a danger that the apparent new determination to re-balance the economy might lead to an insufficiently decisive turn in the direction of easier money that could jeopardize China's growth over the next few quarters. As for the renmimbi, under present and foreseeable conditions it is hard to see a return to the appreciation trend of the past few years. Exporters are facing recessionary markets in Europe, the trade surplus has diminished sharply as a share of GDP, and a number of the country's policymakers seem now of the view that the Chinese currency is near an equilibrium value.