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China Sets Conservative Growth Target as Challenges Loom

Officials aim for around 5% GDP growth this year, the lowest target in a quarter-century

Premier Li Keqiang announced China's growth target at the start of the country's annual legislative session Sunday.

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HONG KONG—China unveiled its lowest growth target in more than a quarter-century as Beijing faces challenges in the domestic and global economy following its emergence from three years of strict Covid-19 measures.

China's target of around 5% growth this year in gross domestic product, announced on Sunday by Premier Li Keqiang at the start of the country's annual legislative session, suggests that officials are less concerned about raw economic expansion as they turn their attention to other priorities.

At this week's legislative meetings, leader Xi Jinping is expected to further consolidate his grip over the realms of security, finance and technology, reshuffling key posts to further dilute the government's role in policy-making at the expense of the Communist Party, The Wall Street Journal has reported.

This year's growth target was more conservative than the roughly 5.5% goal set by Beijing last year—a target that the world's second-largest economy missed by a wide margin, held back by Mr. Xi's stringent Covid controls and a prolonged property slump. Last year's 3% growth rate was the slowest in decades, with the exception of Covid-plagued 2020, when officials dropped its target altogether.

"This year, it is essential to prioritize economic stability and pursue progress while ensuring stability," Mr. Li said in the government work report, his last before he is set to step down.

That emphasis on stability comes after three years of "zero-Covid" policies, when containing the pandemic trumped all other priorities, including supporting the economy. If China's economy is able to find its footing following the dismantling of Covid-related restrictions, it could put the country back onto a trajectory that would allow it to eventually surpass the U.S. as the world's largest economy—a prospect that many economists had grown increasingly skeptical of as the pandemic stretched on.

Achieving a growth rate of around 5% this year would mean the Chinese economy would expand by an average of roughly 4.6% for the four years from 2020 to 2023, down a notch from the 6.7% average annual growth rate between 2015 and 2019.

In the near term, the relatively conservative 5% growth target shows that policy makers are wary of a litany of challenges that could slow down the pace of recovery, even with Covid controls scrapped—a list of headwinds that includes tepid business and consumer confidence, weak overseas demand for Chinese-made goods and heavy local government debt loads that could limit their ability to stimulate the economy.

The 5% target is especially cautious given the strong rebound in business activity in the first two months of the year, said Louise Loo, a Singapore-based China economist for Oxford Economics. Official and private gauges of China's manufacturing, service and construction sectors all rebounded strongly in January and February.

"The language today suggests that Beijing believes the reopening boost is likely to be only temporary," Ms. Loo said. "The policy push is to spend just enough to reach the 5% growth target."

Mr. Li said Sunday that the government would boost fiscal spending by 5.6% this year, less than last year's increase, while fiscal revenue was expected to grow by 6.7% this year, more than last year. Officials are aiming for a fiscal deficit of 3% relative to GDP this year, up modestly from 2.8% in 2022—suggesting Beijing isn't likely to stimulate aggressively.

One question this year will be the extent to which export growth slows after powering China's economy through much of the pandemic. Export growth began to slow in year-on-year terms, and then to reverse course in October, after consumers and businesses in the West cut back on spending amid central banks' aggressive moves to tame inflation.

China is scheduled to release trade data on Tuesday for the first two months of the year. Analysts say plunging shipping costs and a glut of empty containers at Chinese ports in recent weeks suggest trade demand remains sluggish.

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"If exports turn out to be a lot weaker than we expect, policymakers may need to boost monetary or fiscal easing and infrastructure building again," Goldman Sachs economists told clients in a note March 2.

Another critical factor for China's overall recovery is the sustainability of any postpandemic rebound in consumer spending.

Economists are watching to see how Chinese households deploy their pile of excess savings built during the pandemic, though some have argued that lingering uncertainty will crimp consumers' urge to splurge.

Though Mr. Li called for the government to "stabilize spending on big-ticket items and promote recovery in consumption of consumer services," he made no mention of cash handouts, a pandemic-era practice widely adopted in many Western economies to spur consumption.

Instead, Mr. Li called for the boosting of people's income levels to encourage consumption, without elaborating. Youth joblessness remains high by official measures after peaking at nearly 20% last year. Migrant workers face higher job insecurity as factories likely hold back on hiring as export demand wobbles.

Officials on Sunday also signaled little in the way of fresh support for the beleaguered property market, which has been stuck in a downturn since late 2020, when regulators began strictly enforcing lending curbs on real-estate developers.

The government work report called for support for first-time home buyers, new urban residents and young people. However, it also reiterated the "housing is for living in, not for speculating on" mantra that Mr. Xi and other officials have adopted in their campaign against runaway housing prices.

That suggests that property, though likely to enjoy some relief from regulators this year, may not be given the chance to reprise its historic role as a major engine of growth.

The overall cautious tone in the government work report reflects a continuing concern with fiscal rectitude in Beijing—a preoccupation that predates the pandemic.

"Beijing will prioritize the fiscal sustainability issue this year," says Houze Song, a fellow at the Paulson Institute in Chicago.

To that end, Beijing signaled modest support on Sunday for local governments, whose debt burden ballooned amid Covid-related spending mandates and the downturn in the property market, hitting the land auctions that had become a major revenue source for local officials.

Fiscal transfers from Beijing to local governments are set to increase 3.6% to 10.06 trillion yuan this year, a far cry from last year's 18% increase.

Beijing will allow localities to issue a combined 3.8 trillion yuan, or $550 billion, worth of local government special-purpose bonds, which are mainly used to fund infrastructure projects, down from last year's 4.04 trillion yuan.

Beyond the goals outlined in Sunday's government work report, the economy's performance will hinge on whether the new cabinet—packed with loyalists to Mr. Xi—can revive confidence among households and private businesses.

"The challenge the government faces is how to bolster the private sector, which is crucial for better employment and productivity growth," said Eswar Prasad, a professor of trade policy at Cornell University.

—Grace Zhu in Beijing contributed to this article.

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