

China Policy

Policy signals from NPC meetings

The 2026 Government Work Report signals a pragmatic downshift in growth ambition alongside a marginally softer fiscal impulse, reflecting policymakers' willingness to tolerate slower near-term activity as the economy transitions toward "new quality productive forces." Policy emphasis shifts toward investment, with expanded fiscal resources reallocated to crowd in private capital into emerging sectors such as AI infrastructure, digital, and green industries. Incremental support for consumption and housing largely meets market expectations, with limited upside in social welfare, trade-in subsidies and additional housing market stimulus. Importantly, authorities elevate reflation as a clearer policy objective for the first time, targeting a moderate and reasonable recovery in price level by pairing supply-demand rebalancing. Overall, we read the stance best characterized as investment-led stabilization with targeted demand support and a stronger emphasis toward price normalization. The fiscal budget implies nominal GDP growth of around 5% in 2026, which on our estimates, maps to a roughly 0.4% GDP deflator and about 4.6% real GDP growth.

- **Growth targets lowered while fiscal expansion marginally scaled back.** The GDP growth target was revised down from last year's 5% to a "4.5–5%" range for 2026, well-anticipated by the market. This reflects (i) demand pull-forward in 2025 from the trade-in program and "front-loaded exports," which makes it technically harder to sustain last year's pace, and (ii) policymakers' greater tolerance for slower near-term growth during the "transition from old to new growth drivers" in exchange for higher-quality medium-to-long-term development. Correspondingly, the policy stance of the 2026 broad fiscal deficit is slightly weaker, edging down to 7.9% of GDP from 8.0% in 2025. The general public budget deficit remains at 4% of GDP at RMB5.89tn; central government ultra-long special bonds are maintained at RMB1.3tn (0.9% of GDP); and local government special bonds are kept at RMB4.4tn (3% of GDP), implying demand support is below market expectations. Within the ultra-long bond program, RMB800bn is allocated to the "Two Major" projects (unchanged vs. 2025), RMB250bn to durable-goods trade-in subsidies (down from RMB300bn in 2025), and RMB200bn to equipment upgrades (unchanged). We believe the remaining RMB50bn may form part of the RMB100bn "special fund to boost domestic demand." Local special bonds in 2026 also add a mandate to "swap hidden debt," which will likely crowd out resources previously earmarked for investment and construction. In addition, special treasury bonds for recapitalizing state-owned banks are reduced to RMB0.30tn from RMB0.50tn, while local refinancing special bonds are maintained at RMB2.0tn.
- **Stronger policy emphasis on investment.** The Government Work Report devotes substantial space to expanding investment, which we expect to be a key policy priority this year. Ultra-long special bonds allocate a combined RMB1.0tn to the "Two Major" projects and equipment upgrades (broadly unchanged from 2025). Central government budgetary investment is set at RMB755bn, up RMB20bn from 2025. The PBoC will also establish RMB800bn of policy-based financial instruments to crowd in private capital into infrastructure investment, up RMB300bn from 2025, with funds likely directed to AI infrastructure, the low-altitude economy, the digital economy, and green/low-carbon sectors. The investor base may shift from government-led to broader participation, including guiding private capital toward high-tech industries, and further opening the services sector to foreign investment, particularly in telecoms, healthcare, and the digital economy.

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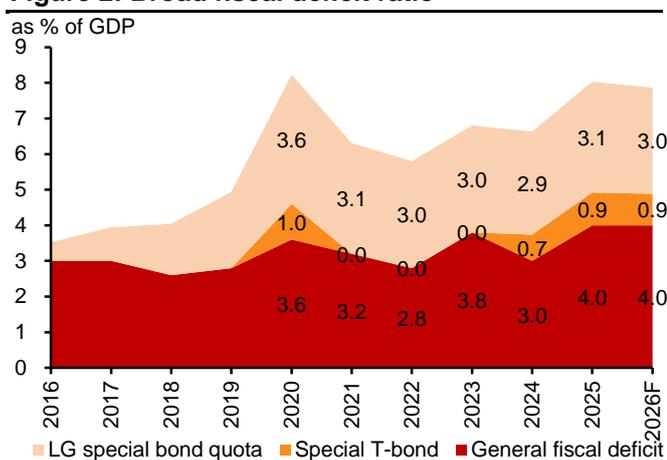
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- **Support for consumption and property broadly in line with expectations.** The report reiterates the importance of boosting consumption, but incremental measures are limited: trade-in subsidies are trimmed to RMB250bn from RMB300bn, while social security support shows no upside surprise: minimum basic pensions for urban and rural residents rise by only RMB20, unchanged from last year's increase. A new RMB100bn "special fund to boost domestic demand" will be used for fiscal interest subsidies, including on loans to SMEs and micro businesses, service-sector operators, a dedicated guarantee scheme for private investment, equipment-upgrade loans, and personal consumption loans. Incremental policy directions include invigorating services consumption, including culture and tourism, sports events, wellness/eldercare, and adding spring/autumn breaks for primary and secondary schools, while attracting inbound spending by overseas visitors. On housing, the report maintains the existing policy framework: controlling incremental supply, reducing inventory, optimizing supply, and city-by-city tailoring with no material change in language. Given the ongoing sharp contraction in the property sector, we expect further substantial easing in housing market, including interest subsidies, rate cuts, and government acquisition of unsold inventory. One measure was better than expected: loosening eligibility for children of migrant agricultural workers to register for local high-school entrance exams, alongside adjusting central fiscal transfers and construction land quotas in line with population flows.
- **Reflation objective reiterated and made more explicit.** The annual CPI target remains unchanged at 2%. However, the report for the first time states an intention to "improve overall supply-demand conditions" and "turn the overall price level from negative to positive," with "moderate and reasonable" increases in consumer prices, signaling reflation as a more prominent policy objective. The fiscal budget implies 2026 nominal GDP growth of around 5%, consistent with roughly a 0.4% GDP deflator and 4.6% real GDP growth. Policy measures include intensifying the anti-involution campaign which will benefit industry leaders and advancing price reforms in utilities and public services. Supported by consumption measures, the anti-involution campaign, and rising global commodity prices, we expect CPI, PPI, and the GDP deflator to rebound in 2026 toward 0.7%, 0.3%, and 0.4%, respectively, from 2025's 0.1%, -2.6%, and -0.7%.
- **Policy support for "new quality productive forces" and tech sectors largely as expected.** Key changes vs. last year include: (i) for the first time, the report designates four emerging pillar industries: integrated circuits, aerospace, biomedicine, and the low-altitude economy, adding integrated circuits and biomedicine to last year's list; (ii) it introduces "future energy" and brain-computer interfaces as future industries and calls for mechanisms to address risk-sharing; and (iii) it upgrades last year's "AI+" focus (terminals and applications) to a "new form of the intelligent economy," emphasizing AI agents, open-source communities, intelligent computing clusters, power-compute coordination, and satellite internet.

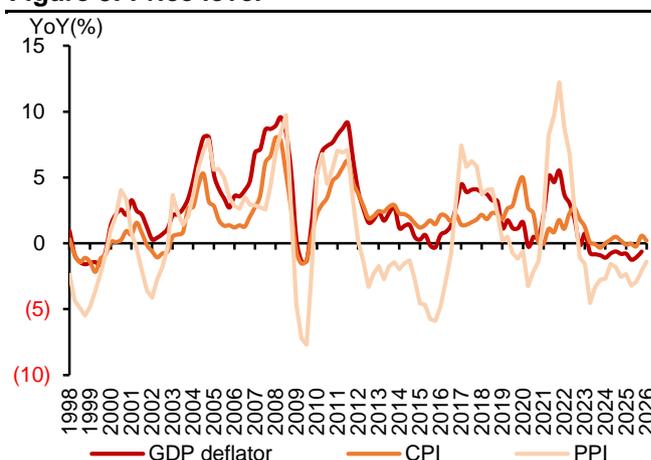
Figure 1: Government targets for major economic and policy indicators

		2021		2022		2023		2024		2025		2026
		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target
GDP growth	YoY(%)	>=6	8.4	5.5	3.0	5.0	5.2	5.0	5.0	5.0	5.0	4.5-5
CPI growth	YoY(%)	<=3	1.4	<=3	2.0	<=3	0.2	<=3	0.2	<=2	0.0	<=2
Urban unemployment rate	(%)	<=5.5	5.1	<=5.5	5.5	<=5.5	5.1	<=5.5	5.1	<=5.5	5.1	<=5.5
General fiscal revenue growth	YoY(%)	8.1	10.7	3.8	0.6	6.7	6.4	3.3	1.3	3.0	(1.7)	2.2
General fiscal expenditure growth	YoY(%)	1.8	0.3	8.4	6.1	5.6	5.4	4.0	3.6	5.0	1.0	4.4
General fiscal deficit	(Rmb bn)	3570	3570	3370	3370	3880	3880	4060	4060	5660	7140	5890
General fiscal deficit as % of GDP	(%)	3.2	3.1	2.8	2.8	3.0	3.0	3.0	3.0	4.0	5.1	4.0
Government special fund revenue growth YoY(%)		1.1	4.8	0.6	(20.6)	0.4	(9.2)	0.1	(12.2)	0.0	(7.0)	0.6
Government special fund expenditure growth YoY(%)		11.2	(3.7)	22.3	(2.5)	6.7	(8.4)	18.6	0.2	14.0	11.3	5.1
Local govt special bond quota	(Rmb bn)	3650	3650	3650	4038	3800	3800	3900	3900	4400	4500	4400
Local govt special bond quota as % of GI (%)		3.3	3.2	3.0	3.3	3.0	3.0	2.9	2.9	3.1	3.1	3.0
M2	YoY(%)	-	9.0	-	11.8	-	9.7	-	7.3	-	8.5	-
Energy consumption per unit GDP	YoY(%)	(3.0)	(2.7)	no target	(0.1)	(2.0)	(0.5)	(2.5)	(3.8)	(2.5)	(5.1)	(3.8)

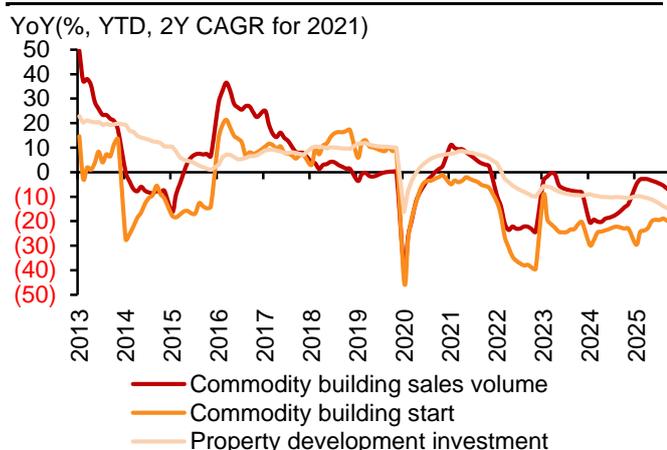
Source: Wind, CMBIGM

Figure 2: Broad fiscal deficit ratio

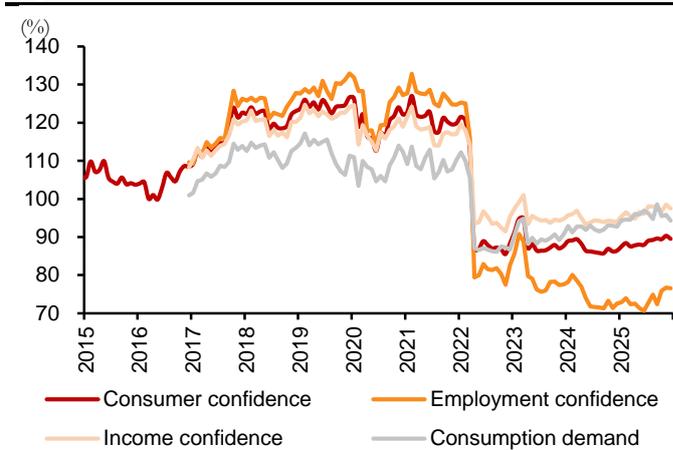
Source: Wind, CMBIGM

Figure 3: Price level

Source: Wind, CMBIGM estimates

Figure 4: Property market sales, starts & investment

Source: Wind, CMBIGM

Figure 5: Consumer confidence

Source: Wind, CMBIGM

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