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China Policy

Ambitious target with easing policy stance

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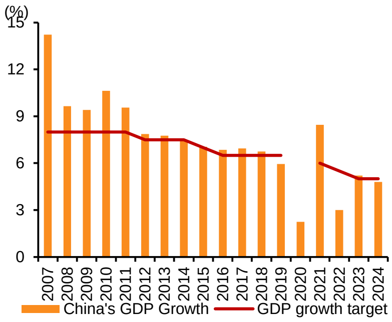
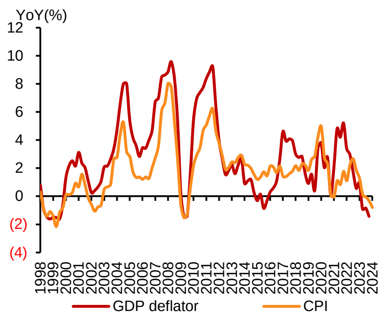
The premier's report at the NPC session put the GDP growth target for 2024 at an ambitious 5% as the government tries to boost confidence in the economy with continued policy easing. We believe it won't be easy to accomplish the growth target given the higher base, a slumping property market, deflation pressure and weak business & consumer confidence. The policymakers continue to put technology innovation and industrial upgrading as top priorities while starting to stimulate demand by facilitating production equipment and consumer durables replacement. With tentative signs of a policy shift to demand-side stimulus recently, the premier's report indicates the de-risking goals may continue to restrain the room for stimulus policies. We maintain our forecast on China's GDP growth at 4.8% for 2024.

- **Economic targets in line with expectations.** China's major economic targets for 2024 were set by top leaders at the Central Economic Working Conference last December and made public in the premier's report at the NPC session this week. The GDP growth target for 2024 is at around 5%, higher than our forecast at 4.8% and Bloomberg consensus at 4.6%. By setting an ambitious target, the policymakers may want to send a positive signal to the market. But it won't be easy to accomplish the target as challenges mount especially in terms of a slumping housing market, persistent deflation and weak business & consumer confidence. Strong and fast policy responses are needed but real progress is yet to be seen. The target for surveyed urban unemployment ratio is kept at below 5.5% for 2024. We think it is not difficult to achieve this target thanks to the relatively loose definition of employment (up to one hour of paid work in the past week) and the hardworking character of Chinese people. But the unemployment ratio for the youth may remain high as they were born in affluent times and could rely on their parents' savings. The target for CPI growth remains at below 3% for 2024 with the continued deflation making it achievable. Energy consumption per unit of GDP is targeted to decline 2.5% in 2024, compared to the YoY decline of 0.5% in 2023. The energy saving goal is challenging, indicating continued policy support on new energy industries ahead.
- **Fiscal policy slightly weaker than expected.** General fiscal deficit is at 3% of GDP in 2024. General fiscal deficit ratio for 2023 was raised from 3% to 3.8% in 4Q23 with RMB1trn added into the budget. But half of the added fiscal funds in 2023 will be spent in 2024, making the actual general fiscal deficit ratio for 2024 at 3.4%. Meanwhile, the MoF will issue ultra long-term special treasury bonds in the next several years with the quota at RMB1trn or 0.75% of GDP for 2024. The quota for local government special bond financing is set at RMB3.9trn or 2.9% of GDP in 2024, compared to RMB3.8trn or 3% of GDP in 2023. Therefore, broad fiscal deficit may reach 7% of GDP in 2024, slightly lower than we had expected. In addition, provincial governments may continue to issue special refinancing bonds to repay matured local government hidden debt as their debt swap amount may reach over RMB1trn in 2024, compared to RMB1.35trn in 2023. The premier vowed to transfer more fiscal funds to local governments especially in stressed regions and to provide additional tax cuts or credits to the technology sector and high-end manufacturing industries. More expansionary fiscal support especially to consumers is essential for solving the deflation pressure, but we see fiscal policy focus much on supply-side production and fixed investment while its support to consumers is yet to be enhanced.
- **Continued easing of monetary policy.** China will keep liquidity conditions reasonably ample and the growth of social financing & money supply in line with economic growth and inflation targets. The country targets a decline of



Source: Wind, CMBIGM



Source: Wind, CMBIGM

comprehensive financing costs for the real sector and an improvement of monetary policy transmission mechanism to avoid meaningless fund arbitrage. The authority will continue to keep renminbi exchange rates basically stable around the reasonable equilibrium levels. We expect continued easing of China's monetary policy with additional RRR cuts by 50bps in total and LPR cut by 10bps in the remainder of 2024. The government may also lower mortgage rates and down-payment ratios for first-home and second-home buyers. Given the current "debt-deflation" burden for the economy, aggressive cuts in LPRs or mortgage rates are necessary for stabilizing the property market and defying deflation. However, concerns about renminbi exchange rates, banks' NIMs and cross-market fund arbitrage activities limited the room of interest rate policy in 2023. The more-than-expected cut of 5Y LPR in February was a tentative sign that the authority may be more proactive on interest rate cuts this year, but further observation is needed on the policy front.

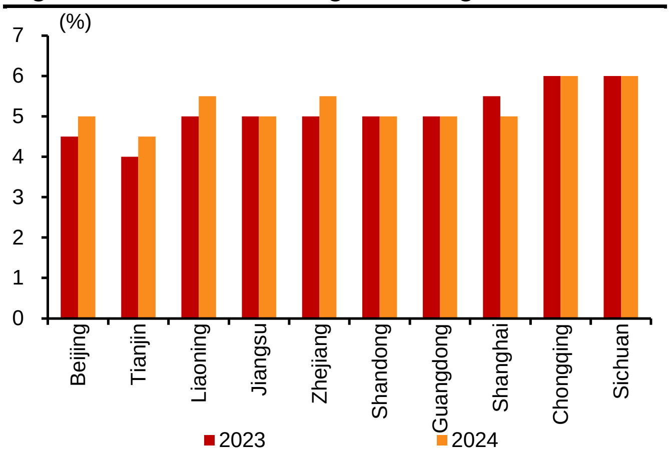
- **Strong support to technology sector especially in AI and digital economy.** The premier emphasized the importance of "new productive forces" in building the modern industry system. China will strengthen policy support to accelerate the development of smart internet connection, new energy vehicles, hydrogen power, new materials, innovative drugs, biomedicine, commercial aviation, low altitude economy, quantum technology and life sciences. Meanwhile, the country will launch AI+ programs to empower the upgrading of traditional industries and advance the development of digital economy. We expect the government to provide more tax credits and other supportive policies to boost the capex in computing power and other digital infrastructure.
- **To boost domestic consumption and fixed investment.** China will launch a large scale of consumer goods replacement programs to boost consumption, but the detail is yet to be made public. We expect the MoF and local governments may provide subsidies to consumers to replace their automobiles and home appliances with new ones. The central government may provide tax credits or loan interest subsidies to manufacturers and businesses to upgrade their production equipment. The premier also mentioned increasing fixed investment in social housing, grain and energy supply in 2024.
- **To boost exports and attract foreign capital.** The premier encouraged expanding trade credit and export credit insurance supply and supporting the development of cross-border e-commerce to boost China's exports. To attract foreign capital inflow, China will remove all foreign investment restrictions in the manufacturing sector and relax market access restrictions in service sectors such as telecommunications and healthcare. The country will also take measures to make it more convenient for foreigners to work, study and travel to China.

Figure 1: Government targets for major economic and policy indicators

		2020		2021		2022		2023		2024F	
		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Forecast
GDP growth	YoY(%)	-	2.3	>=6	8.4	5.5	3.0	5.0	5.2	5.0	4.8
CPI growth	YoY(%)	<=3.5	2.5	<=3	1.4	<=3	2.0	<=3	0.2	<=3	0.7
Urban unemployment rate	(%)	<=6	5.2	<=5.5	5.1	<=5.5	5.5	<=5.5	5.1	<=5.5	5.2
General fiscal revenue growth	YoY(%)	(5.3)	(3.9)	8.1	10.7	3.8	0.6	6.7	6.4	-	5.0
General fiscal expenditure growth	YoY(%)	3.8	2.9	1.8	0.3	8.4	6.1	5.6	5.4	-	4.0
General fiscal deficit	(Rmb bn)	3760	3760	3570	3570	3370	3370	3880	3880	4060	4060
General fiscal defecit as % of GDP	(%)	3.6	3.7	3.2	3.1	2.8	2.8	3.0	3.0	3.0	3.0
Government special fund revenue gro	YoY(%)	(3.6)	10.6	1.1	4.8	0.6	(20.6)	0.4	(9.2)	-	(5.0)
Government special fund expenditure	YoY(%)	38.0	28.8	11.2	(3.7)	22.3	(2.5)	6.7	(8.4)	-	(4.0)
Local govt special bond quota	(Rmb bn)	3750	3750	3650	3650	3650	4038	3800	3800	3900	3900
Local govt special bond quota as % of	(%)	3.6	3.7	3.3	3.2	3.0	3.3	3.0	3.0	2.9	2.9
M2	YoY(%)	Notably higher than last year	10.1	in line with norminal GDP growth	9.0	in line with norminal GDP growth	11.8	in line with norminal GDP growth	9.7	in line with growth & inflation targets	9.0
Energy consumption per unit GDP	YoY(%)	<-1.85	(0.1)	(3.0)	(2.7)	no target	(0.1)	(2.0)	(0.5)	(2.5)	(2.0)

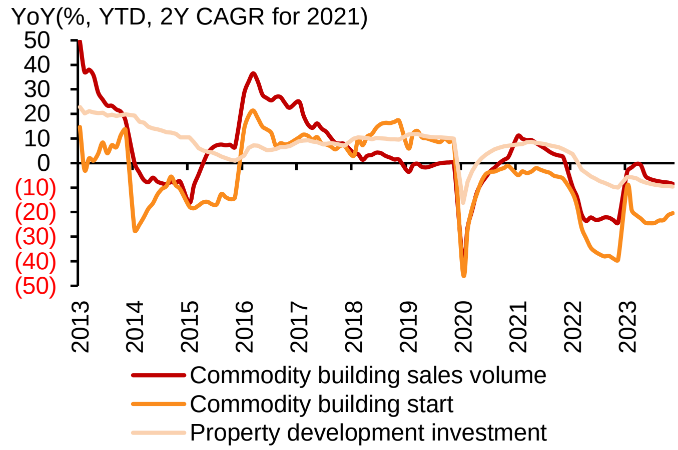
Source: Wind, CMBIGM

Figure 2: Provincial GDP growth targets



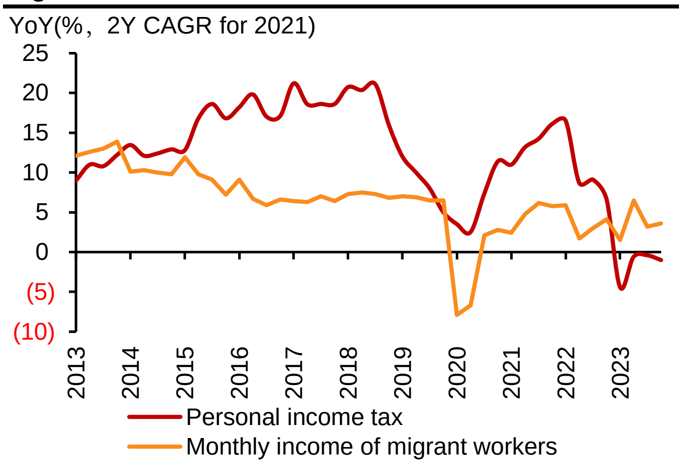
Source: Wind, CMBIGM

Figure 3: Property market performance



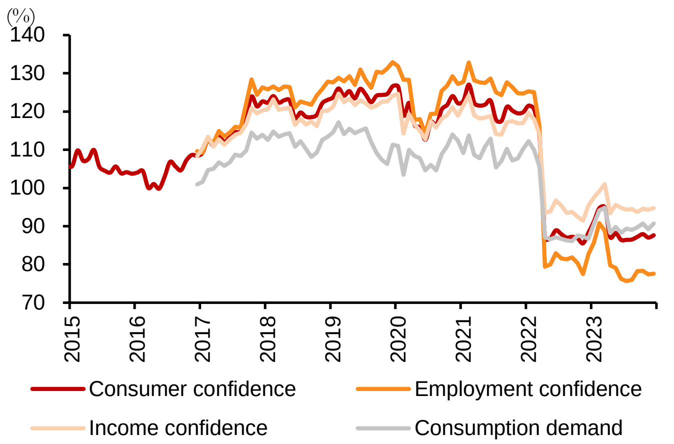
Source: Wind, CMBIGM

Figure 4: Growth of household income



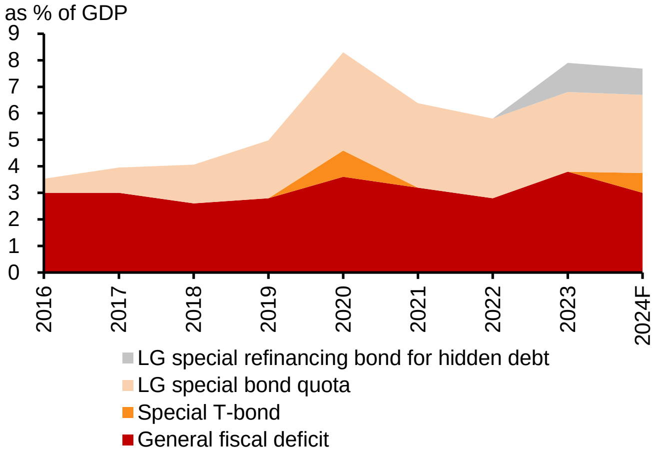
Source: Wind, CMBIGM

Figure 5: Consumer confidence index



Source: Wind, CMBIGM

Figure 6: Broad fiscal deficit



Source: Wind, CMBIGM

Figure 7: Local infrastructure investment growth

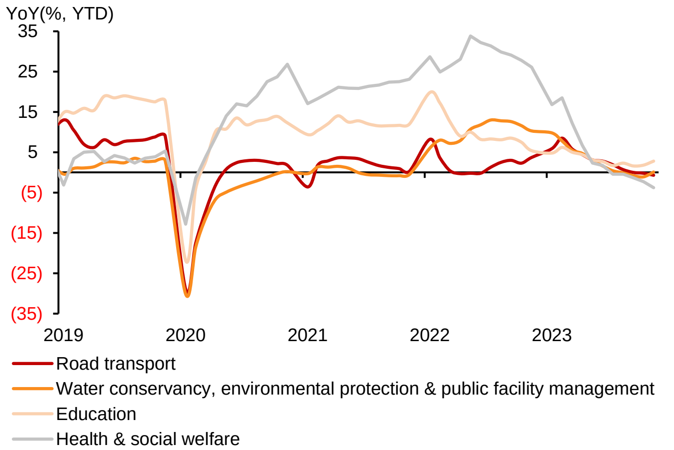
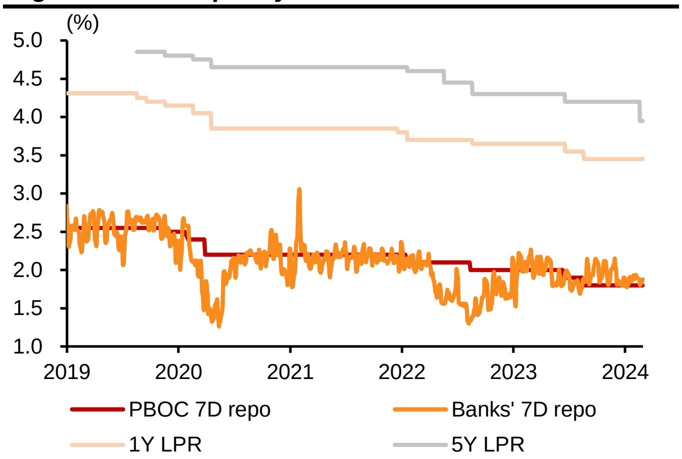
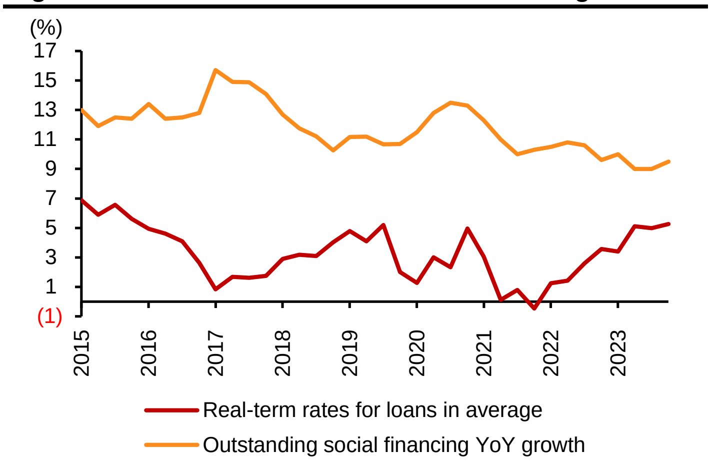


Figure 8: PBOC policy rates



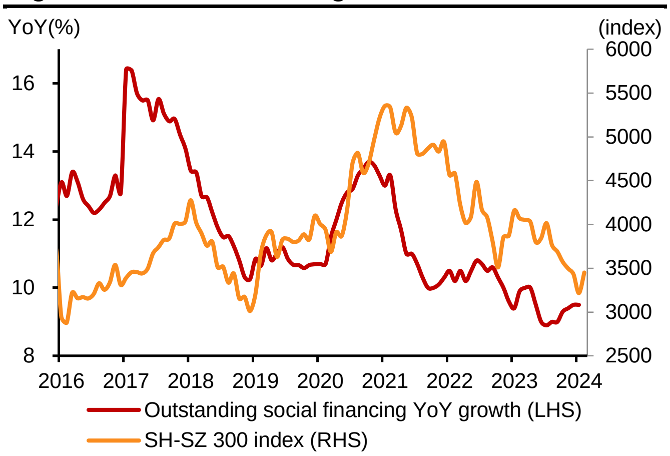
Source: Wind, CMBIGM

Figure 9: Real-term interest rates & financial growth



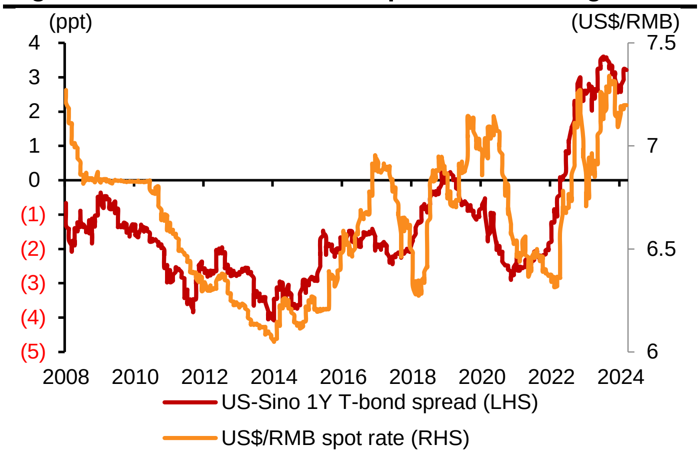
Source: Wind, CMBIGM

Figure 10: Social financing & A-share market



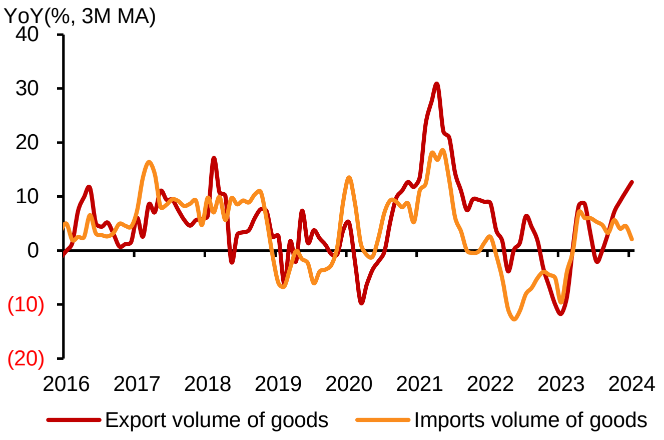
Source: Wind, CMBIGM

Figure 11: US-China interest spread & exchange rate



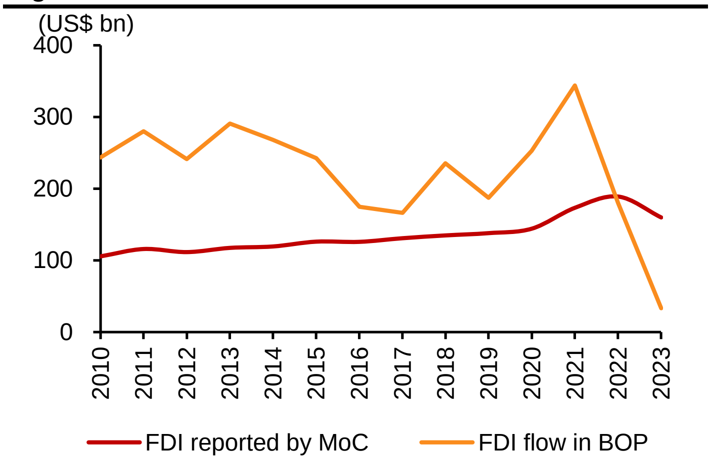
Source: Wind, CMBIGM

Figure 12: Foreign trade volume



Source: Wind, CMBIGM

Figure 13: FDI flow to China



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