

China Policy

Policy signals from the NPC meeting

China maintains the 5% GDP growth target with more proactive fiscal policy and moderately easing monetary policy, which is well anticipated by the market. In face of deflation risk and the Trump 2.0 shock, China will focus on boosting domestic consumption, stabilising the property market and stimulating technology innovation. China will extend the trade-in program in durables, strengthen the social safety net and provide childcare subsidies to boost consumption. The cabinet will push local governments to intensify efforts in urban village renovation, land buyback and property project acquisition to accelerate the rebalancing of housing supply and demand. It will also leverage all policies to facilitate the extensive application of large-scale AI models, intelligent terminals, smart equipment and self-made aircrafts and chips. Macro policies may remain stable in 1H25 as economic activity improves and the worst of the Trump 2.0 shock is yet to come. However, policymakers may be under pressure to ease policy further in 2H25 especially in the last quarter as the stimulus effects of domestic policies could diminish and the negative impact of Trump's tariffs could further release. We expect additional RRR cuts by 50bps and LPR cuts by 20bps in 2H25.

- **Clearer anti-deflation goal.** China has changed the CPI growth target from not more than 3% in the past several years to 2% in 2025. By adopting a clearer and internationally consistent inflation target, the cabinet has signalled a stronger determination to combat the deflation pressure. Premier Li Qiang promised to better balance supply and demand through a combination of policies and reform measures so that the general price level will stay within an appropriate range. He also said that comprehensive steps will be taken to address rat race competition. Deflation has weakened business earnings, slowed household consumption, increased debt burdens and raised investor concerns about Japanification. It has also exacerbated China's tensions with the US and Europe. The policymakers seem to be more conscious of the harms of deflation. Investors should keep a close eye on the progress of anti-deflationary policies as they have a bearing on both China's economic prospect and the Chinese stock performance especially in consumer goods and services.
- **Stronger policy support to stabilise the property market.** The premier has vowed to effectively prevent debt defaults by real estate companies, which should be positive for market sentiment. The cabinet will push local governments to control the supply of new land for real estate projects and increase efforts to redevelop urban villages, buy back land and acquire housing inventory. Local governments are encouraged to use more special bond funds and the re-lending facility for government-subsidized housing to support those projects or transactions. Those policies could facilitate the rebalancing of housing supply and demand and stabilise housing prices.
- **Special initiatives to boost consumption.** Policies related to consumption boost are in line with expectations as there is no surprise to the market. First, the trade-in program in autos, home appliances and electronics will continue with the planned subsidies totalling RMB300bn from ultra-long special treasury bonds. Second, the cabinet will leverage all relevant policies to promote full and higher-quality employment and strengthen the social safety net. The government will provide childcare subsidies to boost birth rates. Third, policies on duty-free shops will be refined to expand inbound consumption and reduce outbound consumption.

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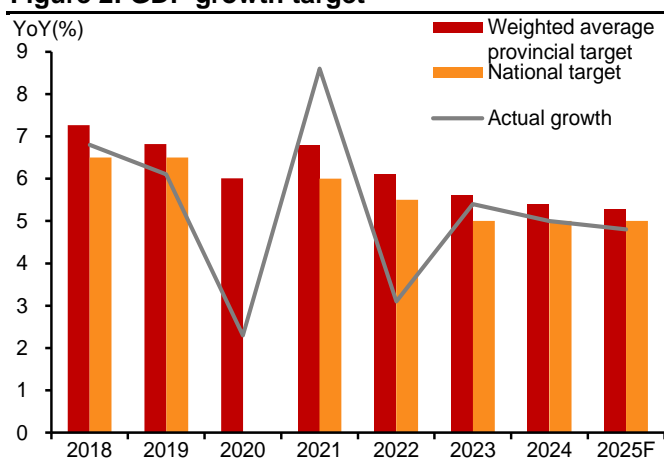
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- **Tech innovation remains important.** China will establish a mechanism to increase funding for industries of the future and foster industries such as bio-manufacturing, quantum technology, embodied AI and 6G technology. The country will support the extensive application of large-scale AI models and vigorously develop new-generation intelligent terminals and smart manufacturing equipment, including intelligent connected new-energy vehicles, AI-enabled phones and computers and intelligent robots. The NDRC report mentioned a plan to foster RISC-V as an open-source architecture to design chips. The central planner agency also said that efforts will be made to facilitate breakthroughs in emerging sectors such as virtual reality, audio-visual electronics, smart home technology, advanced computing, electronic-photonic convergence and new types of energy storage while further raising the production capacity of airliner C919 and accelerating the expansion of C909 in overseas markets.
- **Macro policies will remain accommodative with short-term fine-tuning.** China will adopt more proactive fiscal policy and moderately easing monetary policy in 2025. The broad fiscal deficit is expected to rise from 8.1% of GDP in 2024 to 9.8% of GDP in 2025. Specifically, the general fiscal deficit, special Treasury bond quota and special LG bond quota might respectively increase from 3%, 0.7% and 2.9% of GDP in 2024 to 4%, 1.3% and 3.1% of GDP in 2025, while local government debt swap quota remains at RMB2trn or 1.4% of GDP in 2025, compared to 1.5% of GDP in 2024. The general fiscal deficit will be mainly used to fill the gap between general revenues and expenditures especially for local governments. Special Treasury bond will support the trade-in program in autos, home appliances, electronics and business equipment, key infrastructure & security projects as well as capital injection to the six largest state-owned banks. Special LG bond will be mainly used to finance local infrastructure projects, repay matured hidden debt, buy back land and purchase insolvent property projects. For the monetary policy, we anticipate stable liquidity and credit supply in 1H25 and additional RRR cuts by 50bps and LPR cuts by 20bps in 2H25. USD/RMB might moderately rise to 7.40 at end-2025 as Trump may escalate the trade war against China.

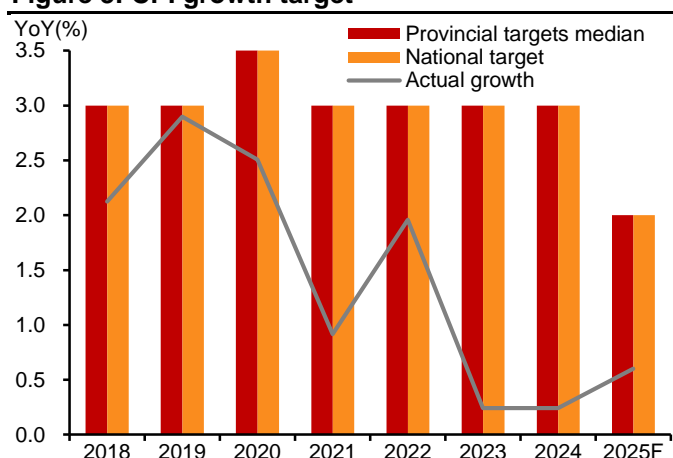
Figure 1: Government targets for major economic and policy indicators

			2020		2021		2022		2023		2024		2025F	
			Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
GDP growth	YoY(%)		-	2.3	>=6	8.4	5.5	3.0	5.0	5.2	5.0	5.0	5.0	5.0
CPI growth	YoY(%)		<=3.5	2.5	<=3	1.4	<=3	2.0	<=3	0.2	<=3	0.2	2.0	0.6
Urban unemployment rate	(%)		<=6	5.2	<=5.5	5.1	<=5.5	5.5	<=5.5	5.1	<=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	3.3	1.3	0.1	2.0
General fiscal expenditure growth	YoY(%)		3.8	2.9	1.8	0.3	8.4	6.1	5.6	5.4	4.0	3.6	4.4	4.5
General fiscal deficit	(Rmb bn)		3760	3760	3570	3570	3370	3370	3880	3880	4060	4060	5660	5660
General fiscal deficit as % of GDP	(%)		3.6	3.7	3.2	3.1	2.8	2.8	3.0	3.0	3.0	3.0	4.0	4.0
Government special fund revenue growth	YoY(%)		(3.6)	10.6	1.1	4.8	0.6	(20.6)	0.4	(9.2)	0.1	(12.2)	0.7	(5.0)
Government special fund expenditure growth	YoY(%)		38.0	28.8	11.2	(3.7)	22.3	(2.5)	6.7	(8.4)	18.6	0.2	23.1	8.0
Local govt special bond quota	(Rmb bn)		3750	3750	3650	3650	3650	4038	3800	3800	3900	3900	4400	4400
Local govt special bond quota as % of GDP	(%)		3.6	3.7	3.3	3.2	3.0	3.3	3.0	3.0	2.9	2.9	3.1	3.1
M2	YoY(%)		-	10.1	-	9.0	-	11.8	-	9.7	-	7.3	-	7.5
Energy consumption per unit GDP	YoY(%)		<-1.85	(0.1)	(3.0)	(2.7)	-	(0.1)	(2.0)	(0.5)	(2.5)	(3.8)	(3.0)	(3.2)

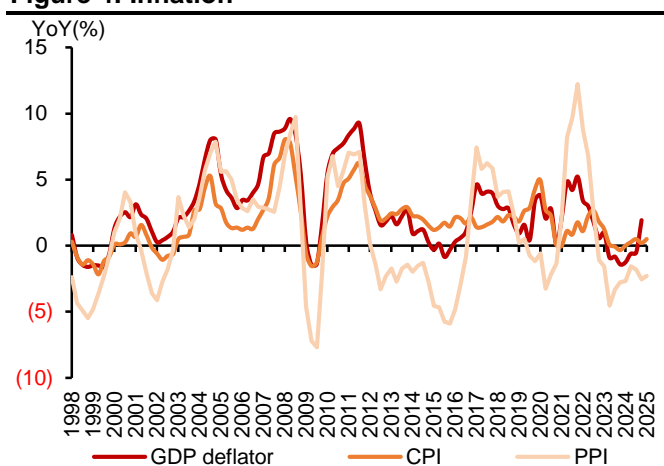
Source: Wind, CMBIGM

Figure 2: GDP growth target

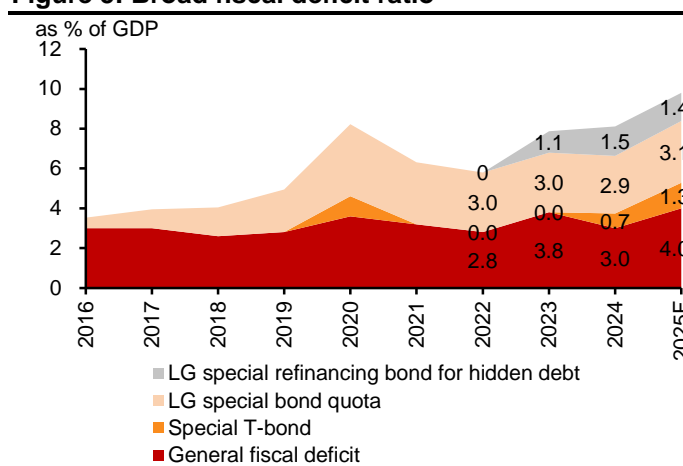
Source: Wind, CMBIGM

Figure 3: CPI growth target

Source: Wind, CMBIGM

Figure 4: Inflation

Source: Wind, CMBIGM

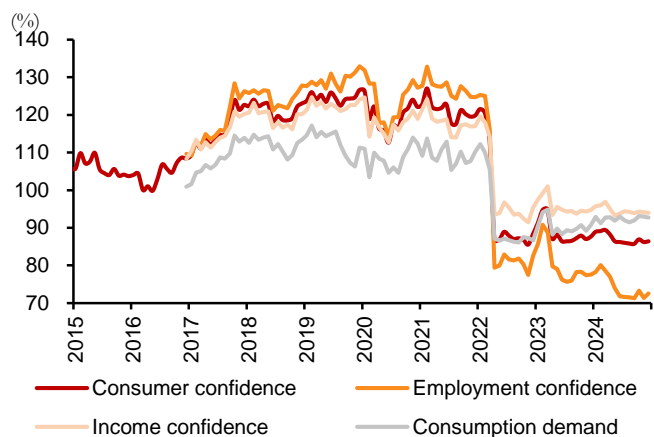
Figure 5: Broad fiscal deficit ratio

Source: Wind, CMBIGM

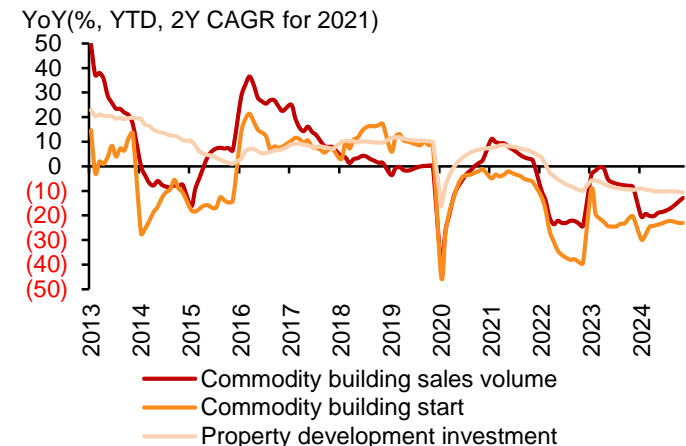
Figure 6: Major Industrial Policies

2023		2024		2025	
Expand domestic demand	Stabilize major consumption items such as automobiles, and promote the recovery of consumption of life services such as catering, culture, tourism, and sports	Emerging and future industries	Consolidate and expand the leading advantages of industries such as intelligent networked clean energy vehicles, accelerate the development of cutting-edge emerging hydrogen energy, new materials, innovative drugs and other industries, and actively create new growth engines such as biomanufacturing, commercial aerospace, and low-altitude economy. Formulate future industrial development plans and open up new tracks such as quantum technology and life sciences	Boost Consumption	Arrange 300B yuan of ultra-long-term special bonds to support the "trade-in" scheme; expand the supply of diversified services such as health, elderly care, childcare, and housekeeping; optimize the vacation system to release consumption potential in culture, tourism, sports, etc. Improve the duty-free shop policy and promote the expansion of inbound consumption
Modern industrial system	Strengthen industrial chains; accelerate the digital transformation of traditional industries and small and medium-sized enterprises; build an efficient and smooth logistics system; and support the development of the platform economy			Emerging and future industries	Promote the safe and healthy development of emerging industries such as commercial aerospace and low-altitude economy. Cultivate future industries such as biomanufacturing, quantum technology, embodied intelligence, and 6G.
Real Estate	Houses are for living in, not for speculation; expand the supply of affordable housing, promote the construction of the long-term rental housing market; stabilize land prices, housing prices, and expectations, and adopt policies based on local conditions	Digital Economy	Deepen the research and application of big data, artificial intelligence, etc., and carry out the "artificial intelligence +" action; implement the digital transformation action of the manufacturing industry, accelerate the large-scale application of the industrial Internet, promote the digitalization of the service industry, and build smart cities and digital villages	Digital Economy	Continue to promote the "Artificial Intelligence +" action; support the widespread application of large AI models, vigorously develop a new generation of smart terminals and smart manufacturing equipment such as intelligent networked new energy vehicles, artificial intelligence mobile phones and computers, and intelligent robots; expand the large-scale application of 5G, accelerate the innovative development of the industrial Internet, and optimize the national computing resource layout; promote and standardize cross-border data flows; promotethe compliance-based and healthy development of the platform economy
		Expand domestic demand	Cultivate new consumption growth points such as smart home, entertainment tourism, sports events, and domestic "trendy products". Stabilize and expand traditional consumption, encourage and promote "trade-in" scheme, and boost major consumption such as smart networked new energy vehicles and electronic products. Promote the expansion and improvement of services such as elderly care, childcare, and housekeeping, and support social forces in providing community services.		Real Estate
		Real Estate	optimize real estate policies, support the reasonable financing needs of real estate enterprises of different ownership structures equally, and promote the stable and healthy development of the real estate market. We will adapt to the development trend of new urbanization and changes in the supply and demand relationship in the real estate market		

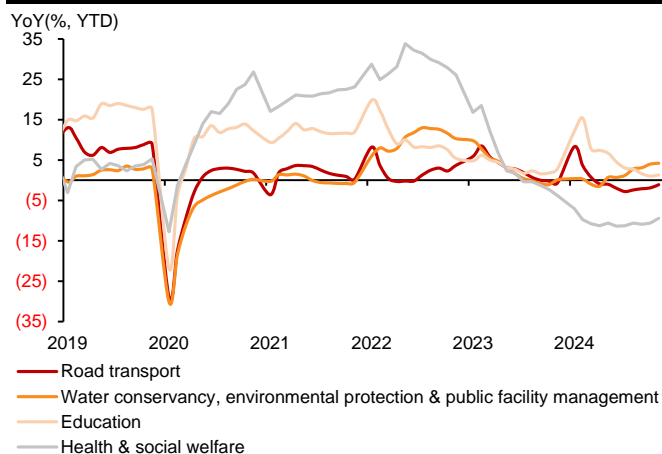
Source: Wind, CMBIGM

Figure 7: Consumer confidence index

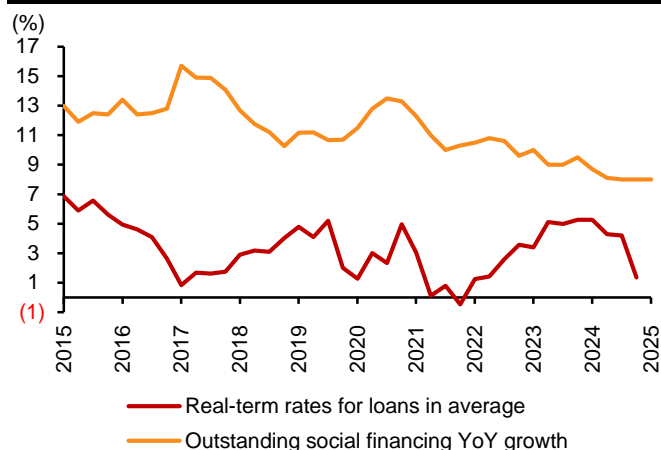
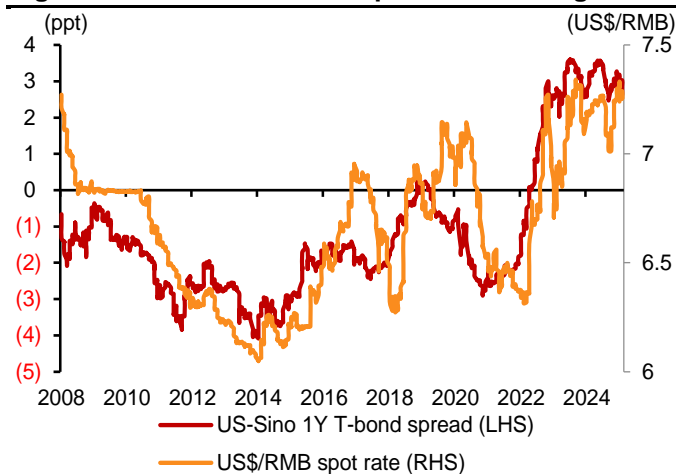
Source: Wind, CMBIGM

Figure 8: Property market performance

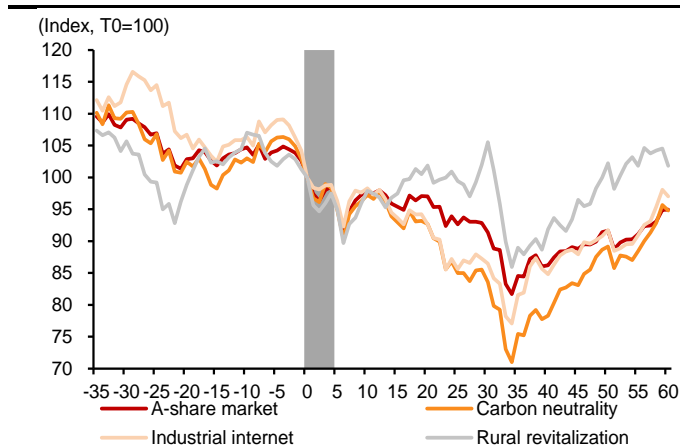
Source: Wind, CMBIGM

Figure 9: Local infrastructure investment growth

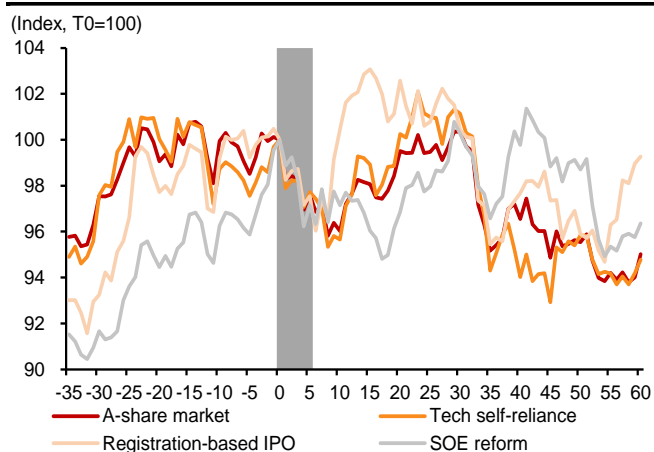
Source: Wind, CMBIGM

Figure 10: Real-term interest rates & financing growth**Figure 11: US-Sino interest spread & exchange rate**

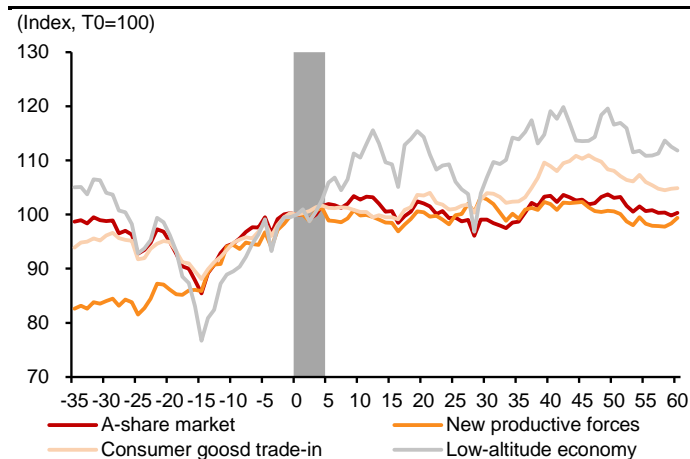
Source: Wind, CMBIGM

Figure 12: Trending concept stocks performance in 2022

Source: Wind, CMBIGM

Figure 13: Trending concept stocks performance in 2023

Source: Wind, CMBIGM

Figure 14: Trending concept stocks performance in 2024

Source: Wind, CMBIGM

Figure 15: Mix of operating income by manufacturing sector

(%)	2017	2018	2019	2020	2021	2022	2023	2024
Total manufacturing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Foods	6.1	5.1	5.0	5.1	4.8	4.9	4.7	4.4
Liquor, Beverage and Refined Tea	2.2	2.0	2.0	2.1	1.9	1.9	1.8	1.8
Tobacco	1.7	1.7	1.6	1.6	1.4	1.4	1.3	1.3
Textile	0.9	1.1	1.2	1.2	1.1	1.1	1.2	1.2
Apparel	3.6	3.0	2.6	2.4	2.3	2.2	2.0	2.0
Leather Products and Footware	2.1	1.9	1.7	1.5	1.3	1.2	1.0	1.1
Wood Related Products	1.4	1.3	1.3	1.1	1.0	0.9	0.7	0.7
Furniture	1.3	1.0	0.9	0.9	0.9	0.8	0.7	0.8
Paper Products	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6
Printing	1.4	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Cultural, Educational, Arts & Sports Goods	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Energy	1.6	1.4	1.4	1.3	1.3	1.2	1.1	1.1
Chemical Products	3.9	5.1	5.2	4.4	4.9	5.4	5.3	4.9
Medicines	8.3	7.7	7.0	6.7	7.4	7.6	7.6	7.7
Chemical Fibres	2.7	2.6	2.6	2.6	2.6	2.4	2.2	2.1
Rubber and Plastic Products	0.8	0.9	0.9	0.8	0.9	0.9	1.0	1.0
Non-metallic Mineral Products	3.0	2.7	2.7	2.6	2.6	2.5	2.4	2.5
Ferrous Metals	5.8	5.3	5.8	5.9	5.9	5.6	4.8	4.3
Non-ferrous Metals	6.6	7.2	7.6	7.7	8.6	7.3	7.2	6.8
Metal Products	5.3	5.6	6.0	5.9	6.2	6.4	6.6	7.2
General Purpose Machinery	3.5	3.7	3.7	3.9	4.2	4.0	3.9	3.9
Special Purpose Machinery	4.5	4.1	4.1	4.3	4.2	4.0	4.1	4.1
Automobile	3.5	3.2	3.2	3.5	3.2	3.2	3.2	3.2
Other Transportation Equipment	8.2	9.0	8.7	8.7	7.7	7.8	8.8	8.9
Electrical Equipment	1.4	1.3	1.2	1.2	1.2	1.1	1.2	1.3
Computers & Other Electronics	7.0	6.9	7.0	7.2	7.6	8.7	9.5	9.3
Instruments and Meters	10.0	11.6	12.2	12.8	12.5	12.9	13.1	13.6
Electronic Information Industry	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.9

Source: Wind, CMBIGM

Figure 16: Mix of fixed asset investment by sector

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Manufacturing	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural Products Processing	6.0	6.3	6.2	5.7	5.0	5.1	5.3	5.6	5.7	6.2
Foods	2.8	3.1	3.0	2.9	2.7	2.7	2.6	2.7	2.9	3.2
Liquor, Beverage and Refined Tea	2.3	2.2	2.0	1.7	1.7	1.6	1.7	2.0	2.0	2.1
Tobacco	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Textile	3.3	3.5	3.6	3.4	3.0	2.9	2.9	2.7	2.6	2.7
Apparel	2.5	2.5	2.6	2.3	2.3	1.6	1.5	1.7	1.5	1.7
Leather Products and Footware	1.2	1.2	1.2	1.2	1.1	0.9	0.8	1.0	0.9	0.9
Wood Related Products	2.3	2.3	2.3	2.5	2.2	1.9	1.9	2.1	2.0	2.0
Furniture	1.6	1.6	1.9	2.2	2.1	1.8	1.6	1.7	1.4	1.4
Paper Products	1.6	1.6	1.6	1.5	1.3	1.3	1.3	1.3	1.3	1.4
Printing	1.0	1.0	0.9	0.9	0.9	0.7	0.7	0.7	0.6	0.7
Cultural, Educational, Arts and Sports Goods	1.3	1.4	1.5	1.4	1.4	1.0	1.0	1.1	1.0	1.1
Energy	1.4	1.4	1.4	1.4	1.5	1.7	1.6	1.3	1.0	1.1
Chemical Products	8.3	7.9	7.2	7.0	7.0	7.1	7.2	7.9	8.4	8.3
Medicines	3.2	3.4	3.1	2.9	3.1	4.1	3.9	3.8	3.7	3.6
Chemical Fibres	0.6	0.6	0.7	0.8	0.7	0.6	0.6	0.7	0.6	0.6
Rubber and Plastic Products	3.6	3.7	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.5
Non-metallic Mineral Products	9.3	9.0	8.8	9.6	9.9	9.8	9.9	9.7	9.1	8.5
Ferrous Metals	2.4	2.2	2.0	2.0	2.5	3.2	3.3	3.0	2.8	2.6
Non-ferrous Metals	3.1	2.8	2.6	2.5	2.4	2.5	2.3	2.4	2.5	2.9
Metal Products	5.3	5.4	5.4	5.7	5.3	4.9	4.9	5.0	4.8	5.2
General Purpose Machinery	7.4	7.0	6.8	6.8	6.7	6.4	6.2	6.5	6.4	6.8
Special Purpose Machinery	6.8	6.4	6.4	6.7	7.2	7.1	7.8	8.0	8.3	8.5
Automobile	6.4	6.4	6.8	6.4	6.1	5.5	4.6	4.8	5.4	5.3
Other Transportation Equipment	1.8	1.6	1.5	1.4	1.3	1.3	1.4	1.3	1.3	1.6
Electrical Equipment	6.3	6.8	6.9	7.1	6.4	6.1	6.6	8.6	10.7	9.4
Computers and Other Electronics	5.0	5.6	6.7	7.1	8.0	9.3	10.0	10.9	11.1	11.4
Instruments and Meters	0.9	0.9	1.0	1.0	1.5	1.4	1.4	1.7	1.9	1.7

Source: Wind, CMBIGM

Figure 17: Mix of A-share market cap by sector

(%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 YTD
Banks	10.3	11.0	11.8	13.9	13.3	9.4	8.3	9.1	8.8	11.1	10.8
Electronic Component	3.8	4.0	5.4	5.1	7.0	7.4	6.8	5.4	8.7	9.5	10.3
Electrical Equipment	3.6	3.4	3.2	3.1	2.9	4.9	8.4	7.7	6.9	6.5	6.6
Medical Biology	6.2	6.3	6.5	6.7	7.2	9.1	8.1	7.9	8.5	6.6	6.5
Non-Bank Financial	6.7	6.4	6.9	7.7	8.8	8.5	6.3	6.5	6.0	7.0	6.4
Computer	5.2	4.0	3.0	3.2	4.0	3.4	4.0	3.8	4.9	4.7	5.3
Food & Beverage	2.8	3.2	4.4	4.9	6.5	9.6	8.3	8.4	6.8	5.7	5.3
Machinery & Equipment	5.2	4.8	4.3	3.5	3.4	3.7	3.9	3.9	4.7	4.5	5.1
Auto	3.7	3.8	3.8	3.4	2.9	3.5	4.1	4.0	4.0	4.3	4.6
Basic Chemical	6.0	6.2	5.6	5.4	5.1	5.4	4.7	4.6	4.1	3.8	3.8
Public Utility	4.2	4.0	4.0	4.2	3.6	3.0	3.5	3.7	3.7	3.8	3.5
Transportation & Infrastructure	3.7	3.2	3.9	3.8	3.6	3.3	3.4	4.0	3.3	3.5	3.4
Nonferrous Metal	2.6	2.9	3.2	2.6	2.4	2.5	3.2	3.3	3.0	2.9	3.1
Communications	1.9	1.9	2.0	2.1	1.8	1.3	1.6	1.8	2.4	2.8	3.0
Petroleum and Petrochemical	4.4	4.5	4.3	4.8	3.5	2.4	2.5	2.8	3.2	3.4	2.9
National Defense & Military	1.6	1.5	1.4	1.3	1.6	2.2	2.9	2.5	2.8	2.7	2.8
Electrical Household Appliances	1.8	1.9	2.4	2.2	2.3	2.3	2.0	1.9	1.9	2.1	2.1
Construction Decoration Materials	3.2	3.6	3.3	3.2	2.3	1.7	2.1	2.3	2.1	2.1	1.9
Media	3.6	3.7	3.3	2.8	3.0	2.4	1.8	1.7	1.8	1.7	1.7
Coal	1.4	1.5	1.7	1.6	1.3	1.1	1.3	1.9	2.0	2.0	1.6
Agriculture	1.9	1.9	1.6	1.7	1.8	2.5	2.0	2.1	1.7	1.4	1.4
Property	5.0	4.6	4.3	4.1	3.9	2.5	2.1	2.0	1.5	1.4	1.3
Trade Retail	2.1	2.3	1.8	1.7	1.4	1.0	1.5	1.7	1.2	1.2	1.1
Light Industry Manufacturing	1.7	1.9	1.6	1.4	1.4	1.5	1.3	1.3	1.2	1.0	1.0
Ferrous Metal	1.3	1.3	1.4	1.3	1.1	0.9	1.3	1.2	1.0	0.9	1.0
Environmental Protection	1.4	1.3	1.3	1.0	0.8	0.7	0.9	0.9	0.9	0.9	0.9
Construction Materials	1.2	1.4	1.2	1.1	1.3	1.3	1.5	1.3	0.9	0.8	0.8
Textile and Apparel	1.7	1.6	1.1	0.9	0.7	0.6	0.9	0.9	0.8	0.7	0.7
Social Services	0.7	0.8	0.5	0.7	0.6	1.0	0.7	0.7	0.6	0.5	0.5
Beauty Care	0.1	0.1	0.1	0.2	0.2	0.5	0.5	0.6	0.4	0.4	0.3

Source: Wind, CMBIGM

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