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China Economy

2025 NPC preview

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The economic targets and policy stance to be announced at the forthcoming NPC meeting are well anticipated by the market as they were already discussed at the Politburo meeting and the Central Economic Work Conference (CEWC) last December**.** In our view, the fiscal policy will be more proactive with broad fiscal deficit likely to rise from 8.1% of GDP in 2024 to 9.8% of GDP in 2025. Monetary policy will be moderately easing with possible additional RRR and LPR cuts in 2H25. Sector policies will continue to focus on accelerating tech innovation, boosting consumption and stabilising the property market. 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 Trump could escalate the trade war and the stimulus effects of domestic policies could diminish.

- **Economic targets well anticipated by the market.** Premier Li Qiang will make a cabinet work report at the NPC meeting, disclosing economic targets and policy stance for this year. The **GDP growth target** is expected to remain at 5% for 2025, aligned with the weighted average growth target of 5.3% across provincial NPCs. This would signal a strong pro-growth commitment from policymakers, particularly as China faces increasing headwinds from the Trump 2.0 shock. Meanwhile, the **CPI growth target** may be revised down to 2% for 2025 from 3% in 2024, in line with the targets of 24 out of 25 provinces. The inflation target appears to serve more as an upper bound ceiling in history rather than a goal requiring active reflationary efforts. It remains unclear whether combating deflation is a policy priority, though the broader pro-growth stance aligns with efforts to resist deflationary pressures. The **target for urban surveyed unemployment rate** is likely to remain at 5.5% for 2025. It is not difficult to achieve this target in our view, as the employed includes those engaging in a remunerated activity for at least one hour in the past week. These economic targets were set at the Politburo meeting and the CEWC last December and have been well anticipated by the market.

- **Macro policies should remain accommodative with short-term fine-tuning.** According to the CEWC, China will adopt more proactive fiscal policy and moderately easing monetary policy in 2025. Broad fiscal deficit is expected to rise from 8.1% of GDP in 2024 to 9.8% of GDP in 2025. Specifically speaking, 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. **General fiscal deficit** will be mainly used to fill the gap between government revenue and expenditures. **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 and bail out some 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 20-30bps in 2H25. USD/RMB might moderately rise to 7.48 at end-2025 as Trump may escalate the trade war in 2H25.

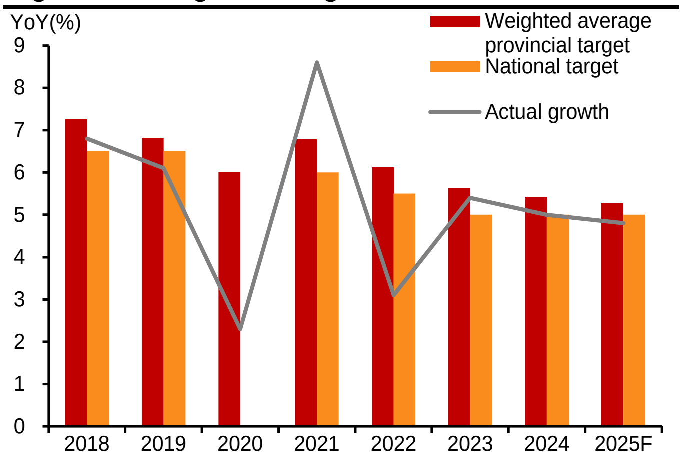
- **Sector policies will focus on accelerating tech innovation, boosting consumption and stabilising property.** The recent success of breakthrough technologies, such as DeepSeek, has likely strengthened policymakers' confidence in supply-side upgrading as a path to "high-quality development". This could lead to greater fiscal support for technology and high-end manufacturing sectors like AI, robots, unmanned aerial vehicles (UAVs), autonomous cars and biotechnology. To boost consumption, the central government has pledged to expand trade-in subsidy programs beyond autos, home appliances, and furniture to include electronic devices. We expect funding from the central government special bonds (CGSBs) to rise from RMB150bn to RMB200bn in 2025, possibly boosting total retail sales by 0.6-0.8 ppt. Additional policy measures may include tax deductions to encourage childbirth and moderate subsidies for low-income and rural households. On the property front, the government may intensify efforts in urban village renovation and inventory buybacks to stabilize the housing market. This could involve allocating more fiscal resources through local government special bonds (LGSBs) and easing land buyback restrictions for local governments. Policies may remain stable in 1H25 as economic activities improve and the worst of the Trump 2.0 shock is yet to come. However, policymakers might be under pressure to further loosen policies in 2H25, especially in the last quarter, as the stimulus effects of domestic policies could diminish and Trump could escalate the trade war after US inflation further slows.

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	4.8
CPI growth	YoY(%)	<=3.5	2.5	<=3	1.4	<=3	2.0	<=3	0.2	<=3	0.2	<=2	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	3.0	3.0
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	5.0	5.0
General fiscal deficit	(Rmb bn)	3760	3760	3570	3570	3370	3370	3880	3880	4060	4060	5660	5660
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	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)	0.0	(5.0)
Government special fund expenditure grc	YoY(%)	38.0	28.8	11.2	(3.7)	22.3	(2.5)	6.7	(8.4)	18.6	0.2	14.0	4.0
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 GI	(%)	3.6	3.7	3.3	3.2	3.0	3.3	3.0	3.0	2.9	2.9	3.1	2.9
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)	no target	(0.1)	(2.0)	(0.5)	(2.5)	(3.8)	(2.5)	(2.5)

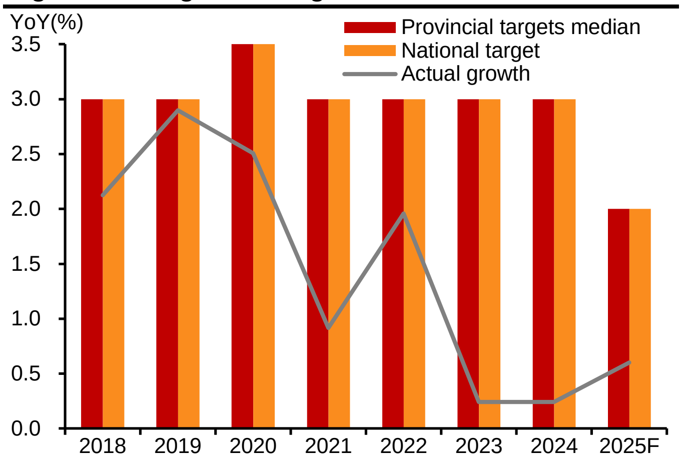
Source: Wind, CMBIGM

Figure 2: GDP growth target



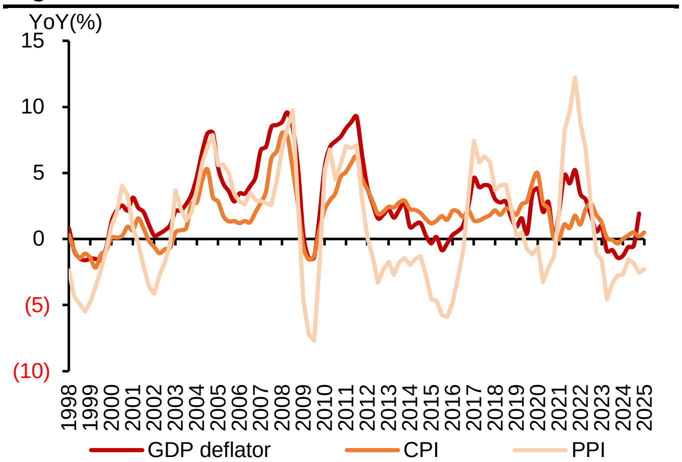
Source: Wind, CMBIGM

Figure 3: CPI growth target



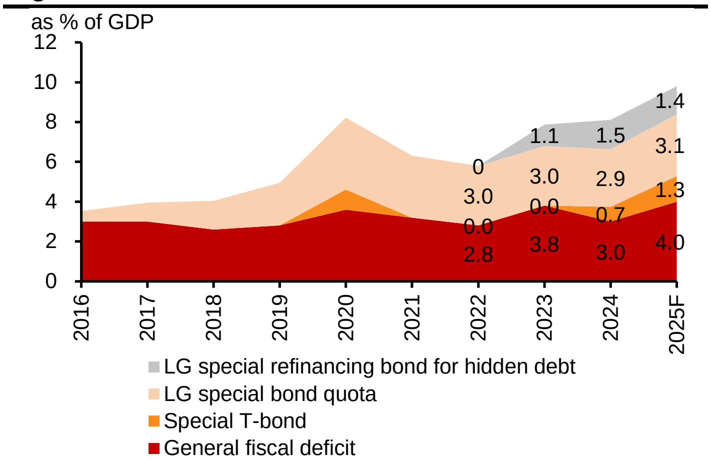
Source: Wind, CMBIGM

Figure 4: Inflation



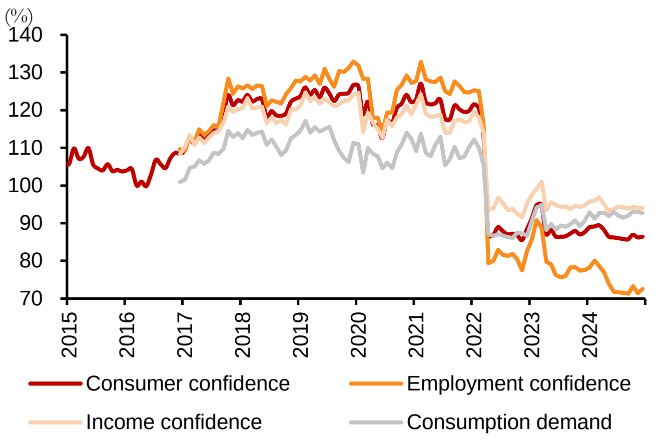
Source: Wind, CMBIGM

Figure 5: Broad fiscal deficit ratio



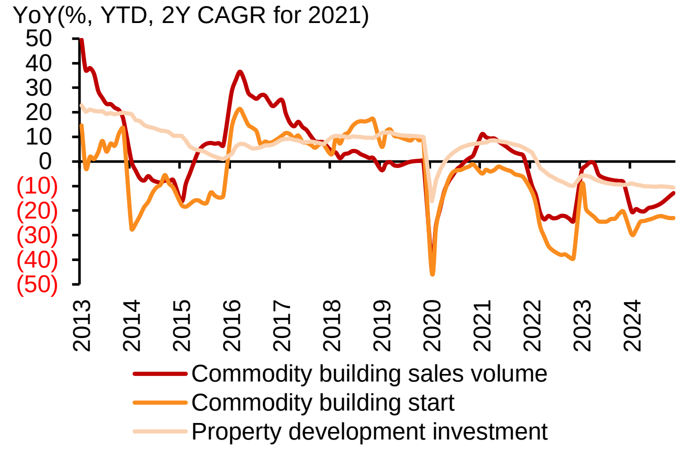
Source: Wind, CMBIGM

Figure 6: Consumer confidence index



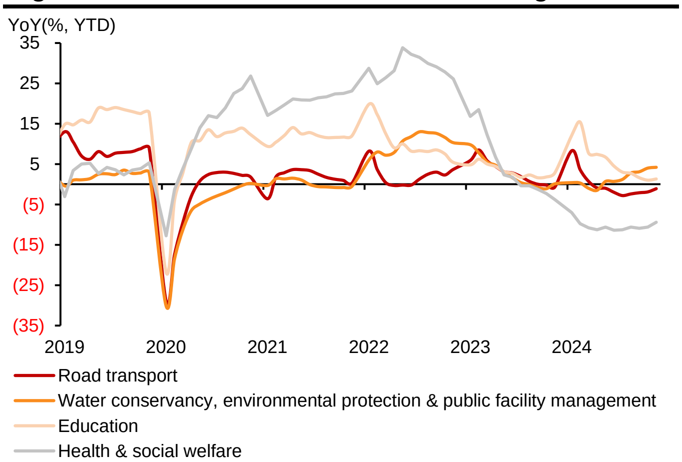
Source: Wind, CMBIGM

Figure 7: Property market performance



Source: Wind, CMBIGM

Figure 8: Local infrastructure investment growth



Source: Wind, CMBIGM

Figure 9: Real-term interest rates & financing growth

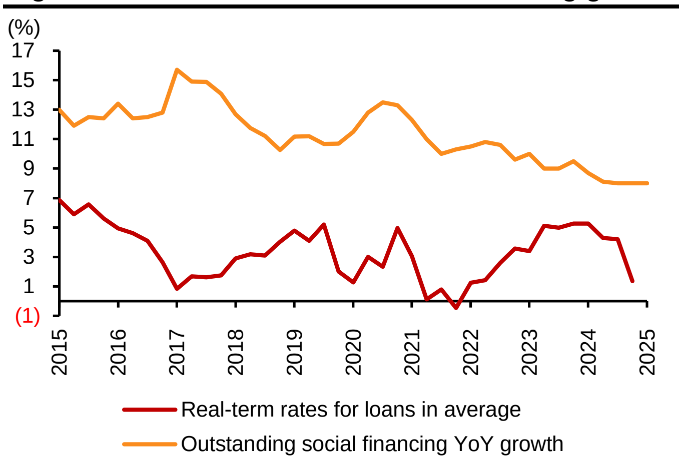
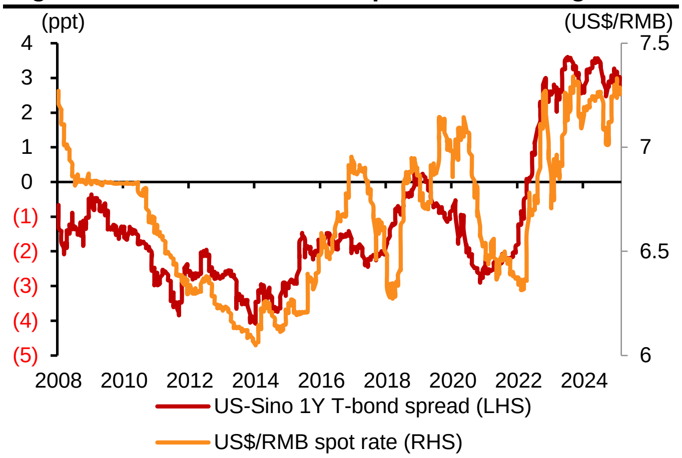
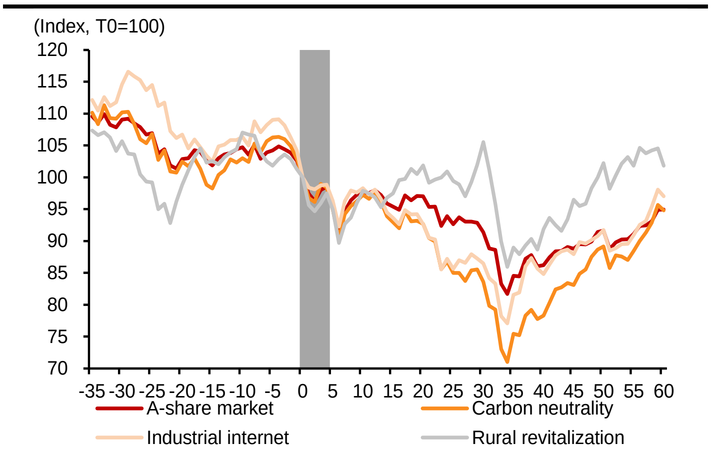


Figure 10: US-Sino interest spread & exchange rate



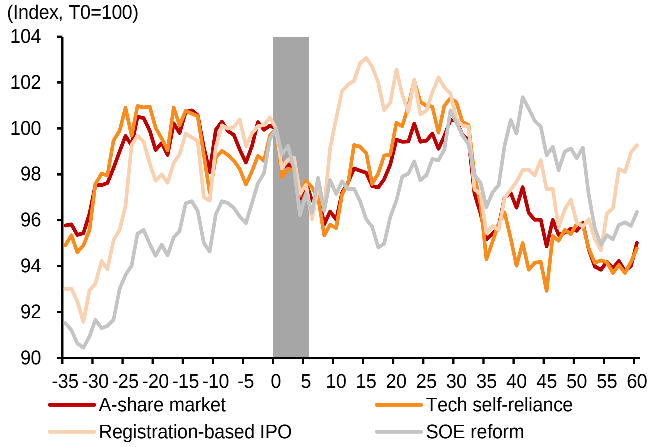
Source: Wind, CMBIGM

Figure 11: Trending concept stocks performance in 2022



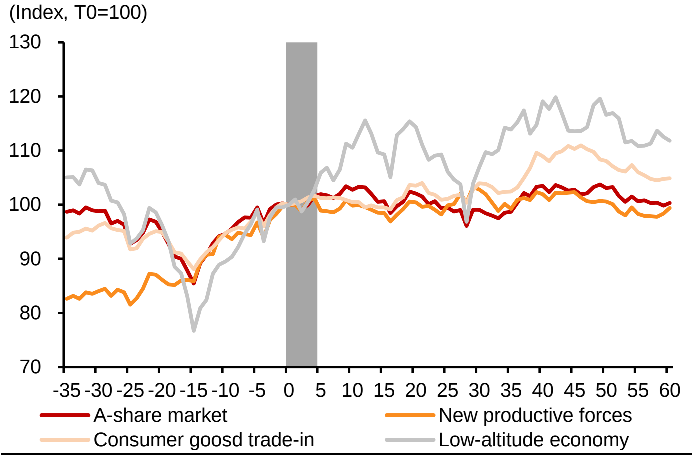
Source: Wind, CMBIGM

Figure 12: Trending concept stocks performance in 2023



Source: Wind, CMBIGM

Figure 13: Trending concept stocks performance in 2024



Source: Wind, CMBIGM

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