EM Macro Strategy

CHINA – ASSESSING THE "POLICY PUT" /3

FOLLOWING THE NPC MARCH MEETING, WE STICK TO OUR STRATEGICALLY NEUTRAL MACRO VIEW ON CHINA.

On March 5, the 2025 National People's Congress (NPC) released the Government Work Report (GWR), outlining China's economic strategy for the year. Key takeaways include: 1) Policymakers appear slightly overly optimistic about growth, setting a 5% target for 2025; 2) Fiscal support is expected to intensify, with the deficit widening to -4% of GDP in 2025 from -3% in 2024, signaling a stronger commitment to economic growth and stability; 3) Policies on local government debt resolution and the property sector aligned with expectations and previous commitments from the October Policy Pivot; 4) However, announced measures on bank recapitalisation and domestic consumption stimulus fell short of expectations. Overall, we remain cautious about turning fully positive on China, given the ongoing US-China trade tensions. However, we acknowledge that domestic economic adjustments are progressing as policymakers take corrective steps. As a result, we maintain a neutral strategic stance, but with a cautiously optimistic outlook, given the positive policy direction.

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NO LEAPS AHEAD

On March 5, the 2025 National People's Congress (NPC) unveiled the Government Work Report (GWR), outlining China's economic strategy for the year.

Overall, the GDP and inflation targets for 2025 appear slightly more optimistic than both our projections and market expectations. However, the government bond issuance quota came in lower than anticipated, mainly due to reduced CGSB and LGSB issuance quotas. We expect an acceleration in bond issuances and government spending in the coming months, though it remains unclear whether the fiscal package fully accounts for the additional 20% US tariffs on Chinese goods.

Based on the fiscal figures released, we believe the government's funding plans for bank recapitalisation and the consumer goods trade-in program may be more constrained than initially expected. Additionally, given the ambitious growth target of "around 5%" and policymakers' strategy of implementing incremental policy measures in phases, there is a chance that further off-budget funding arrangements could be introduced later this year—potentially during a bi-monthly NPC Standing Committee meeting—if economic pressures intensify.

Key takeaways from the NPC are:

- **GDP and Inflation Targets – In our view, policymakers appear slightly too optimistic.** The report indicates that the government has kept its 2025 real GDP growth target at "around 5%", unchanged from last year, while lowering the CPI inflation target to "around 2%" (down from "around 3%" in 2024, **Figures 1-2**). These targets appear somewhat ambitious relative to our outlook, as we anticipate persistent growth challenges driven by increasing external pressures from tariffs and sluggish domestic demand, alongside near-zero inflation limiting real growth (**Figure 3**).

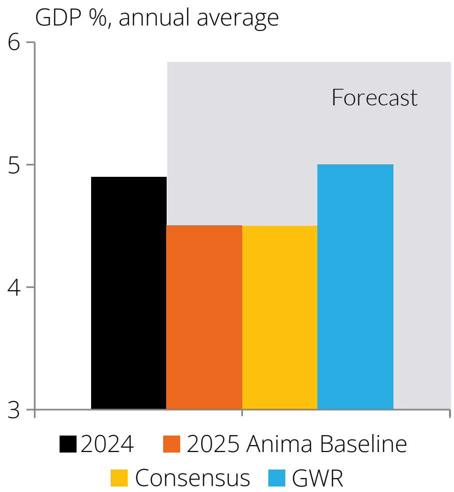
- **Bond Quotas and Fiscal Targets – Fiscal support is expected to expand moderately, with the fiscal deficit increasing to -4% of GDP in 2025 from -3%** in 2024. The central government special bond (**CGSB**) net issuance quota has been set at RMB 1.8tn for 2025, up from RMB 1.0tn last year. This includes RMB300bn allocated to the consumer goods trade-in program (vs. RMB 150bn in 2024) and RMB 500bn for bank recapitalisation (vs. none in 2024), leaving the remaining RMB 1tn for equipment upgrades and strategic investments.

  The local government special bond (**LGSB**) net issuance quota stands at RMB 4.4tn (vs. RMB 3.9tn in 2024), likely directed toward infrastructure projects, property sector funding (land and housing purchases), and local debt resolution.

  In total, government bond net issuance for 2025 is expected to reach RMB 11.9tn—higher than RMB9tn in 2024 but falling short of market expectations of RMB 12-13tn.

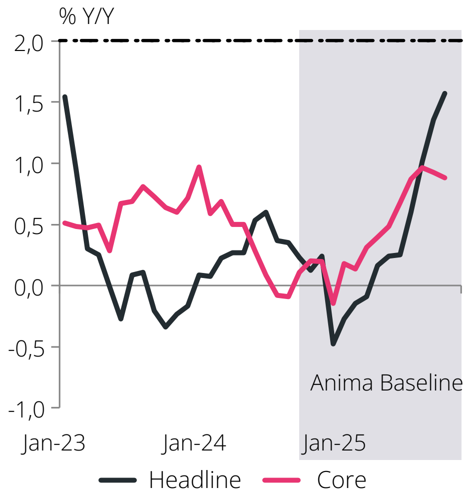
- **Local Government Debt Resolution – The strategy remains in line with expectations and commitments made during the October Policy Pivot.** According to the GWR, policymakers have earmarked RMB 2.8tn for local government debt resolution in 2025, maintaining the same level as the previous year. This allocation comprises RMB 800bn from the new LGSB issuance quota and RMB 2tn from local government refinancing bonds. Additionally, authorities are taking a flexible approach by dynamically adjusting the list of high-risk regions, ensuring a balance between debt resolution and economic growth while creating more space for investment.

FIGURE 1.
Policymakers appear somewhat optimistic about China's 2025 GDP target



Source: Haver Analytics, ANIMA Research

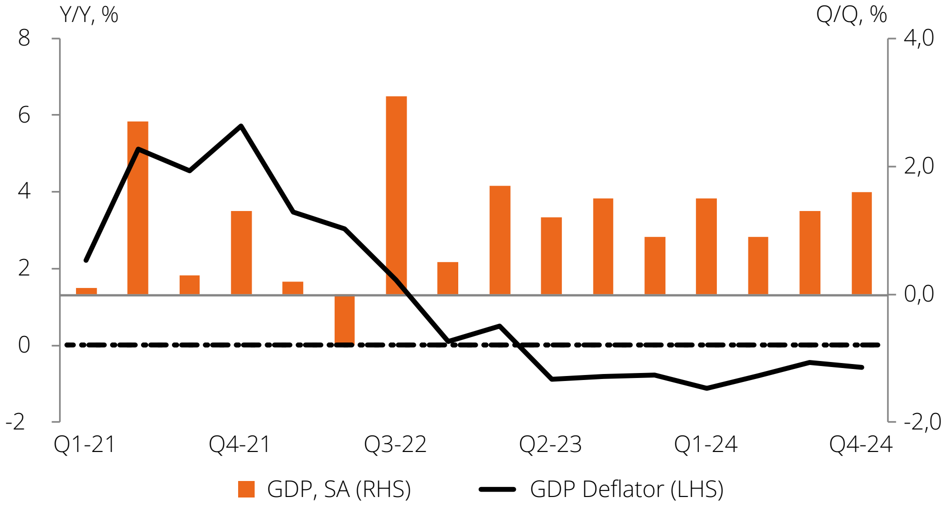
FIGURE 2.
Restricted room for a self-sustaining rise in inflation.



Source: Haver Analytics, ANIMA Research

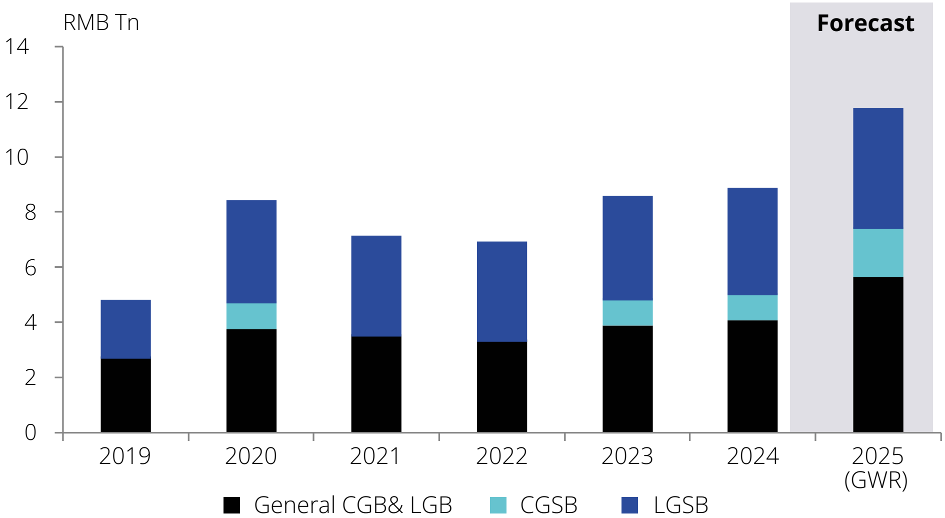
- **Property Sector – While a potential RMB 1.5 trillion is theoretically available, policymakers have yet to confirm specific figures.** With RMB 4.4 trillion in LGSB net issuance now announced, this aligns with the October policy pivot's strategy to allocate up to RMB 1.5 trillion for housing destocking. Compared to previous policy updates, the GWR places a stronger focus on mitigating property developer debt risks, speeding up urban village renovations, increasing municipal governments' flexibility in acquiring existing housing stock, and expanding public housing relending support. If properly executed, these measures could help limit downside risks in the property sector and support housing demand in major cities. However, specific details on policy implementation and the 2025 housing inventory reduction timeline are still lacking.

FIGURE 3.
GDP deflator flattened in 2024



Source: Haver Analytics, ANIMA Research

FIGURE 4.
2025 net issuance set at RMB 12tn, 30% higher than in 2024



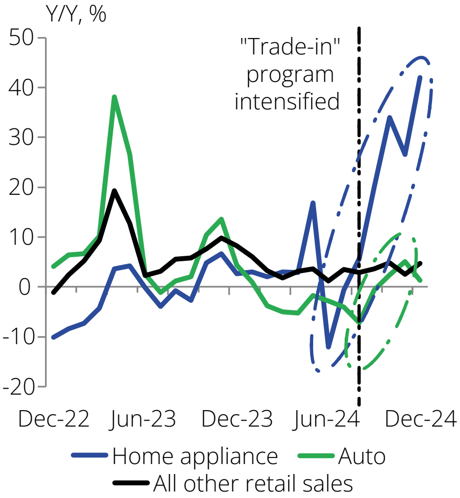
Source: US customs, Haver Analytics, Anima Research

- **Bank Recapitalisation – The support announced falls considerably short of expectations**. Beijing intends to issue RMB 500bn in special treasury bonds to strengthen the Tier-1 core capital of major state-owned banks—only half of the RMB 1tn initially promised in October and anticipated by the market. However, given that bank recapitalization is less urgent compared to other policy priorities, we believe policymakers chose to direct more resources toward initiatives that have a more immediate impact on economic growth.

- **Domestic consumption stimulus – The announced measures are insufficient to significantly drive consumption.** After the NPC Congress, policymakers allocated an additional RMB 300bn to the "consumer goods trade-in program," which subsidises the replacement of old, energy-intensive cars, household appliances, and certain digital devices1 (**Figure 7**). This is below the RMB 500bn we had expected. While the program offers some support to consumption, it is unlikely to be a major driver of household spending in 2025. Our estimates suggest the program could increase retail sales by RMB 400bn, adding 0.6 percentage points to full-year retail sales growth and 0.2 percentage points to nominal GDP growth (Figure 8). However, its long-term impact is likely to be weaker, as it primarily brings forward future replacement demand. Once again, the authorities seem reluctant to take bold action in this area.

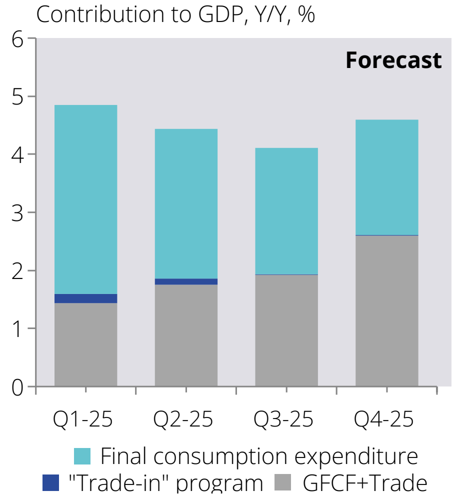
- **PBoC – We expect a continued cautious approach to easing.** The GWR reinforces a broadly dovish monetary stance, in line with our expectations. Policymakers have committed to lowering the RRR and policy rates "when appropriate", ensuring adequate liquidity to meet growth and inflation targets, guiding financing costs lower, and maintaining RMB exchange rate stability within a reasonable range. Given the PBoC's balancing act between FX stability and supporting growth, we anticipate further moderate monetary easing. However, the timing and magnitude of these will depend on future economic data.

FIGURE 5.
Only autos and home appliances were eligible for the "trade-in" program



Source: Haver Analytics, ANIMA Research

FIGURE 6.
The "trade-in" program's contribution to GDP is marginal



Source: US customs, Haver Analytics, Anima Research

1 - Similar to home appliances, consumers are not required to dispose of or exchange their old digital products. Digital products priced under RMB 6,000 per item will be eligible for a one-time subsidy covering 15% of the sales price. Each consumer can receive a maximum subsidy of RMB 500 per item, with a limit of one subsidised product per category per customer.

Bottom line. While it's still premature to adopt an entirely positive stance on China, particularly with the US/China trade war ongoing, we do believe that domestic economic adjustments are underway as policymakers work to stabilise the economy. Consequently, we maintain a neutral strategic position due to persisting headwinds. However, we remain cautiously optimistic, as the policy direction appears positive.

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