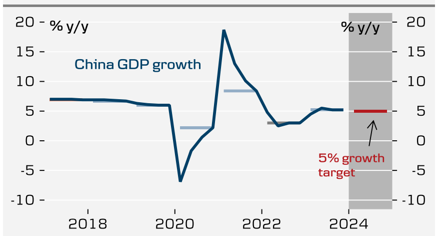
5 March 2024

Research China

5% growth target as expected, stimulus signals disappoint

- **As expected, China revealed a new growth target of 'around 5%' in the Work Report at the National People's Congress.**
- **However, the report disappointed markets as there were no clear sign stronger stimulus signals. In some respects the wording and planned measures were stronger but it was buried in the details.**
- **Lifting consumer spending is getting a high priority and the issuance of ultralong bonds for several years also suggests stimulus measures are set to continue.**
- **Other takeaways were stronger language on Taiwan, vowing support for the private sector, stronger efforts to attract FDI and a strong tech focus.**

Growth target at 5% again in 2024



Source: Macrobond Financial, NBS, NPC

5% target will require decent growth through 2024

Source: Macrobond Financial, NBS, NPC

Key message from the work report

This morning China's premier Li Qiang delivered his first work report after taking over from Li Keqiang. As usual the **report did not provide any big surprises** as much of the signals have already been revealed through politburo meetings and China's annual Economic Work Conference held in December. Nevertheless, it **seems markets had hoped for China using the occasion to take even stronger measures** to lift confidence and announce new strong stimulus measures. These hopes were not met and Chinese offshore H-share stocks lost 2.6% by the end of the trading session.

Overview of targets and wording on key topics:

	2024 target	2023 target
GDP growth	Around 5%	Around 5%
CPI	Around 3%	Around 3%
Budget deficit	3%	3%
Special bonds	3.9 trillion yuan of special-purpose bonds for local gov. on, It is proposed that, starting this year and over each of the next several years, ultra long special treasury bonds be issued. 1 trillion yuan will be issued in 2024	3.8 trillion yuan of special-purpose bonds for local gov.
Fiscal policy wording	We should appropriately enhance the intensity of our proactive fiscal policy and improve its quality and effectiveness.	We should enhance the intensity and effectiveness of our proactive fiscal policy
Private consumption	We will promote steady growth in consumer spending. We will take a full range of steps to unlock potential demand by increasing	We should give priorit y to the recovery and expansion of consumption.
Employment	Over 12 million new urban jobs	Around 12 million new jobs
Unemployment	Urban unemployment around 5.5%	Urban unemployment around 5.5%
RMB	The RMB exchange rate should remain generally stable at an adaptive, balanced level	The RMB exchange ra te should be kept generally stable at an adaptive, balanced level.
Energy	A drop of around 2.5% in energy consumption per unit of GDP	Continued reductions in energy consumption per unit of GDP

Source: Report on the work of the government, 2024

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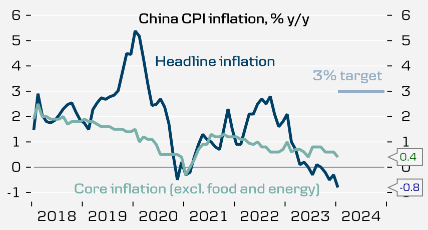
Nevertheless, in some respects the announced targets do point to somewhat stronger efforts to shore up the economy. First, the 5% target is more ambitious this year as unfavourable base effects will make it more difficult to reach compared to 2023. Second, Li Qiang announced the government will issue ultra-long bonds for several years starting this year with issuance of 1 trillion yuan for major projects. This has only been done three times before over the past four decades. Third, measures to consumer spending got around a half page space in this years' report versus five lines last year. Finally, the real estate sector gets more focus with a statement that subsidized housing will be scaled up. Still, one could have hoped for a stronger signal of how the government plans to deal with the continued decline in home sales that is symptom of weak confidence and reluctance to open the wallet to spend.

Lack of inflation reflect insufficient demand



Source: Macrobond Financial, NBS, NPC

The inflation target is unchanged at 3% but it is not that interesting. The target has been around 3% for several years and despite CPI inflation being -0.8% y/y, we have not seen aggressive measures to turn this around. Monetary policy has been eased only moderately as China has been concerned about a too rapid depreciation of the CNY that could be destabilizing (if/when the Fed cuts rates it will leave room for more easing in China). As expected, the government vowed **further support for the private sector** and improving conditions for competing at a level playing field. Stronger efforts to attract **foreign investments** were highlighted again and China will remove all restrictions on foreign investments within manufacturing. Li Qiang said China is **"*keenly aware of problems and challenges that confront us*"** pointing to lack of effective demand, overcapacity in some sectors, and low public expectations (i.e. the confidence crisis). **Technology, innovation and education was again stressed** as part of China's new development pattern and China will continue to invest heavily in these areas.

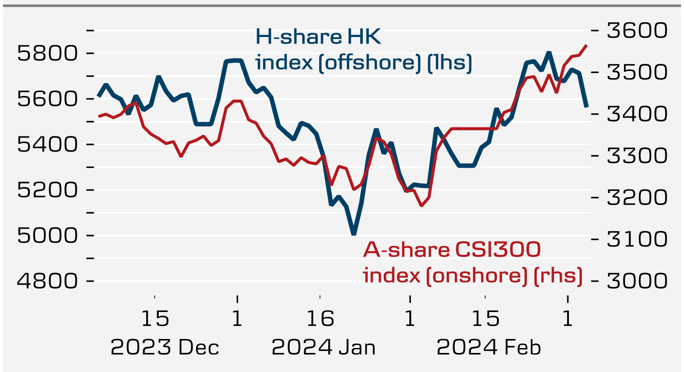
On Taiwan, the wording was strengthened slightly as the report no longer refers to 'peaceful reunification' but instead says China will be "*firm in advancing the cause of China's reunification*".

For selected quotes in the work report see the box overleaf.

Our view and market implications

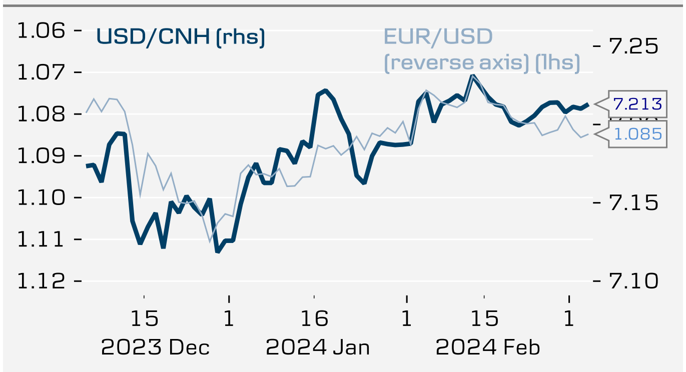
The work report does not change our expectations for a continued muddling through scenario for China's economy this year. Our growth forecast is 4.5% and hence below the government target of 'around 5%' as we see continued headwinds from the housing crisis to weigh on private consumption. However, there is a possibility that China will step up stimulus as the year progresses to hit the 5% target – as was the case in 2023.

Offshore stocks took a hit, onshore market better supported



Source: Macrobond Financial, Bloomberg. Note: Past performance is no guarantee of future performance.

CNH has been stable lately, little reaction to the NPC



Source: Macrobond Financial, Bloomberg. Note: Past performance is no guarantee of future performance.

Offshore stock markets were clearly disappointed and it reflects the low conviction about China's ability to get out of the doldrums in the short term. The A-share market did not see the same negative reaction, possibly due to support from Chinese state funds.

We expect to see choppy trading in offshore stocks around the current low levels until we see more clear signs that the worst of the housing crisis is behind us. The other thing that could lift markets, a mini-bazooka of stimulus from Beijing, does not seem likely. China's focus tends to be on the medium to long term and they partly see the current pain as a consequence of a needed restructuring of the economy that cannot be fixed with short term big stimulus. The bad experience with massive stimulus in 2008/09 during the Global Financial Crisis that caused problems for China in subsequent years is still fresh in mind. 'High-quality development' implies not splashing money out with no clear direction but rather carefully directing money to areas that China sees as beneficial in the future, such as tech investments and green projects.

The CNY did not respond much. It is mostly sensitive to changes in monetary policy and there were no new signals on this front in the report that still refers to 'prudent monetary policy'. We continue to look for a gradual rise in USD/CNY on the back of broad based USD strength and further monetary easing by PBOC.

Box: Selected quotes from the Work Report

Consumption: "We will promote steady growth in consumer spending. We will take a full range of steps to unlock potential demand… We will encourage and promote consumer goods trade-in programs and boost spending on intelligent connected new-energy vehicles, electronic products, and other big-ticket items….To improve the consumption environment, we will launch a year-long program to stimulate consumption and roll out a "worry-free consumption" initiative."

Private sector: "We will work to stimulate the vitality of market entities. We will strive to create a sound environment in which enterprises under all forms of ownership can compete and grow on a level playing field. We will fully implement the guidelines and their supporting measures on promoting the development of the private sector and further address prominent problems concerning market access, access to factors of production, impartial law enforcement, and protection of rights and interests. The share of loans to private businesses will be increased, and the scale of financing for private businesses raised through bond issuance will be expanded. and quotas. We will encourage entrepreneurship and support entrepreneurs in focusing on innovative development, seizing the initiative to make bold explorations and invest in new operations, and leading their companies to greater success."

Foreign investments: "We will intensify efforts to attract foreign investment. We will further shorten the negative list for foreign investment. All market access restrictions on foreign investment in manufacturing will be abolished, and market access restrictions in services sectors, such as telecommunications and healthcare, will be reduced. We will strengthen services for foreign investors and make China a favored destination for foreign investment."

Risks and overcapacity: "We are keenly aware of problems and challenges that confront us. The foundation for China's sustained economic recovery and growth is not solid enough, as evidenced by a lack of effective demand, overcapacity in some industries, low public expectations, and many lingering risks and hidden dangers."

Taiwan: We will implement our Party's overall policy for the new era on resolving the Taiwan question, stay committed to the one-China principle and the 1992 Consensus, and resolutely oppose separatist activities aimed at "Taiwan independence" and external interference.

We will promote the peaceful development of cross-Strait relations, be firm in advancing the cause of China's reunification, and uphold the fundamental interests of the Chinese nation.

Source: NPC 2024, Work Report of the Chinese Government

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Ad hoc

Date of first publication

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