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China Watch

NPC preview: Growth target at 5%; fiscal expansion remains the key to watch

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GEM Economics
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The National People's Congress (NPC) is due to commence on 5 March 2024, with key economic targets and policy priorities to be released in the Government Work Report (GWR). Ahead of the meeting, it is generally expected the government will again set the growth target at "about 5%" this year, while we believe there will be a higher hope for fiscal expansion and expect an above 3% budget deficit this year.

Expect 2024 growth target to be set at about 5%

The national GDP growth target is expected to be released in the GWR, which is usually in line with provincial targets released earlier. Recently, the three largest provinces, Guangdong (5%), Jiangsu (>5%), and Shandong (>5%), have all anchored their growth target at 5% range (Exhibit 2), suggesting an achievable growth target of about 5% nationwide, in our view.

Proactive fiscal policy especially from the central level

During the Central Economic Work Conference (CEWC) in Dec-2023, policy makers have pledged to "use progress to promote stability" and to "strengthen counter-cyclical policies" while making preparations for "policy reserves". Further, we believe policy orientation will continue to remain in "response" mode. Especially, in the GWR, a more proactive fiscal stance may be expected, as evidenced by a potentially more aggressive budget deficit of 3.5%, as well as the possibility of a special treasury bond (of RMB1tn) rollout. We also believe the fiscal tools, including the PSL and LGSB, will continue to support the investment this year, especially to concentrate on the "three major projects".

Boost consumption, green & digital economy; contain risks

Ahead of the "two sessions", President Xi has held the Central Financial and Economic meeting, and pledged to kick-start a replacement cycle for equipment and consumer goods. We expect more targeted measures to roll out in the near term, especially for autos and home appliances. In other key areas, we also expect more focus on the digital economy, while the green economy could also be reiterated. Separately, to contain risks in key areas, the property sector, local government debt, as well as small- and medium-sized financial institutions will also likely be highlighted.

Exhibit 1: Forecast of key targets in 2024
We expect GDP growth target to be set at "around 5%" in 2024

	GDP target	CPI	budget deficit	LGSB quota	New employment	Unemployment
	(%)	(%)	(as % of GDP)	(RMB tn)	(mn)	(%)
2024F target	5.0	3.0	3.5	4.0	>12	5.5
2023 actual	5.2	0.2	3.8*	3.96	12.44	5.2
2023 target	5.0	3.0	3.0	3.8	>12	5.5

Source: MoF, State Council, Wind, BofA Global Research estimates; **Note:** *is the revised budget deficit

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CEWC: Central Economic Work Conference

NPC: National People's Congress

NDRC: National Development and Reform Commission

PBoC: People's Bank of China

PSL: Pledged Supplementary Lending facility

LGSB: Local government special-purposed bond

UVR: Urban village refurbishment

MOHURD: Ministry of Housing and Urban Rural Development

TSF: Total social financing

Refer to important disclosures on page 6 to 7.

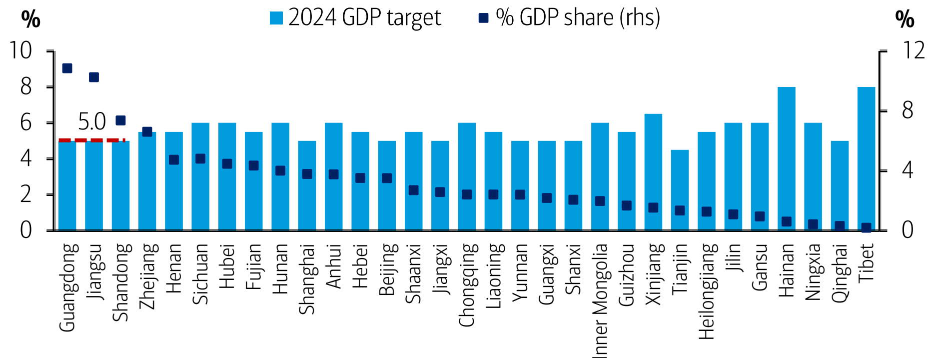
Inflation & employment target likely to remain unchanged

The GDP growth target is likely to remain unchanged. Meanwhile, we continue to expect the government to announce a CPI inflation target (a non-binding ceiling) of about 3%, the same as last year and most previous years. The risk is skewed to the downside, in our view, as we have penciled in average CPI inflation of only 0.8% yoy (from 0.2% in 2023), on the back of the slow recovery of consumer demand and the dynamics of both global oil prices and the hog cycle.

In terms of labor market related indicators, we also expect a similar target vs. last year. Specifically, given the high number of university graduates this year (of 11.79mn, vs. 11.58mn in 2023), we expect the target of annual new employment to be set at above 12mn for another year, and the unemployment rate to be set at about 5.5% (Exhibit 1).

Exhibit 2: 2024 GDP growth target by provinces

Top three economic significant provinces have anchored their GDP growth target at 5% for 2024



Source: CEIC, Local government websites

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Policy stance to stay supportive to growth

While we are not expecting a policy "bazooka" to boost the economy this year, a more coordinated policy easing mix is warranted, as highlighted in the CEWC last Dec. Especially, we expect a more proactive fiscal policy to boost investment and support consumption, while monetary policy remains accommodative.

Fiscal policy: a relatively more proactive stance is expected

Policy makers have pledged that the active fiscal policy should be "appropriately intensified", and to optimize the structure of fiscal expenditure, with strengthened financial support for major national strategic tasks at the CEWC. Given last years' fiscal budget has already risen to 3.8% after the additional RMB1tn treasury bond issuance since late 4Q, a relatively more proactive fiscal policy is expected in 2024.

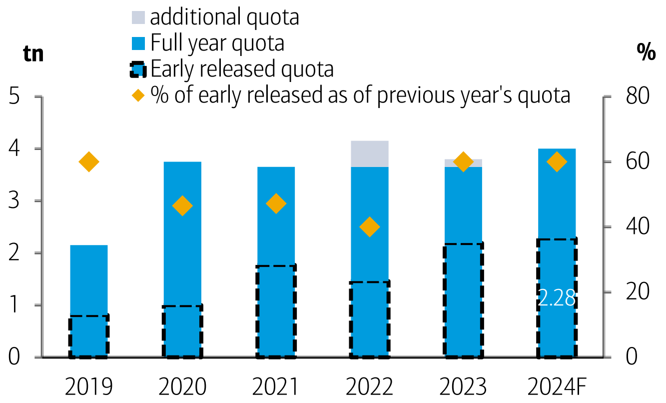
Higher headline budget deficit

Specifically, we expect the headline fiscal budget deficit to come in at 3.5% this year (above the original target of 3% in 2023), and possibly to come with an issuance of additional RMB1tn (or 0.8% of GDP) special treasury bond on top of the budget deficit. This, if materialized, could send a strong signal that the central government is willing to leverage up this year.

More LGSB quota

In terms of the local government special-purpose bond (LGSB) quota, we expect it to slightly increase to RMB4.0tn in 2024 (vs. RMB3.8tn in 2023, Exhibit 3), with its usage tilted towards targeted areas, including the "three major projects" (the construction of social housing, "dual-use" public infrastructure, and the urban village refurbishment). The early released quota of RMB2.28tn, in our view, could also fuel the investment in 1H24.

Exhibit 3: LGSB quota
The early released LGSB quota came in at RMB2.28tn (60% of previous year's quota), and we expect full-year quota to reach to RMB4tn this year



Source: MoF, CEIC, news, BofA Global Research estimates

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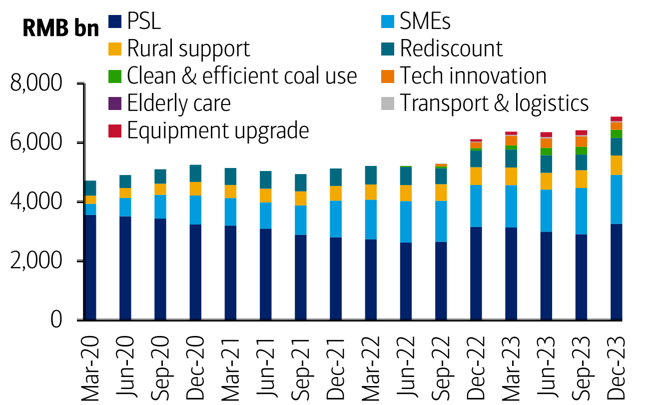
Exhibit 4: Re-lending and rediscount tools
PBoC has actively implemented re-lending and rediscount loans in supporting targeted areas



Source: PBoC, CEIC

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Monetary policy: utilizing various policy tools to remain accommodative

During the CEWC, policy makers vowed to keep monetary policy "flexible, appropriate, targeted, and effective", and to maintain "reasonably ample liquidity". We expect another year of accommodative policy stance.

Stable credit growth; lower rates

The expression of "maintaining money supply and TSF growth at a level matching nominal GDP growth" is likely to be highlighted in the GWR for another year, to suggest a steady growth of TSF and M2 growth in 2024. On the other hand, we also expect the GWR to state "the steady decline of overall social financing costs". In Feb, the PBoC has delivered a notable 25bps cut of the 5-year LPR (see: report), and we believe more rate cuts are likely going forward, especially when the Fed pivots.

Utilization of various structural monetary tools

We also expect the PBoC to continue the adoption of various monetary tools this year, including pledged supplementary lending facility (PSL), re-lending and rediscount tools (Exhibit 4). In particular, the net issuance of PSL (of over RMB500bn) in Dec-Jan signaled a re-activation of this policy bank tool. We expect it to resume in the rest of 2024, and to help support the investment need for the "three major projects". In addition, re-lending tools for equipment upgrade, elderly care and tech innovation, etc., are likely to be utilized further in supporting targeted areas.

Boosting domestic demand through facility upgrade and expanding consumption

The CEWC statement has vowed to expand domestic demand and indicated plans to expand consumption of new energy vehicles and electronic goods, as well as to promote large-scale facility upgrades. We expect the central government to roll out targeted measures to restore consumer demand this year.

Durable goods replacement cycle to provide additional stimulus

In its latest effort to lift domestic demand, in the Feb Central Financial and Economic meeting presided by President Xi, the authority pledged to kick start a replacement cycle for equipment and consumer goods. This includes the upgrade and enhancement of production and services equipment as well as the replacement of household durable goods such as autos and home appliances. Other focus areas also include a reduction in logistic costs and an enhancement to logistic efficiency. More specifically, the official statement explicitly outlined the involvement of the central government, in additional to local governments, in providing fiscal support.

- For equipment upgrades, it is expected the focus will be around improving energy efficiency and reducing carbon footprint. Target equipment includes industrial boilers, industrial and household refrigeration appliances etc. Funding support for these projects will likely come through associated lending facility that was established in 2022.
- On the other hand, in terms of consumer goods replacements, we expect more meaningful support to materialize this year. If history is any guide, we could expect subsidies to be rolled out to support consumer good purchases. For example, in 2019, 10% of the sales price for trucks and minivans was subsidized for consumers in rural areas when they traded in outdated vehicles. Similarly, back in 2009, autos and home appliances were also subsidized by via direct subsidy or trade-ins. During both episodes, 80% of the fiscal support was provided by the central government while local governments took up the rest of 20%.

According to the Minister of Commerce, Chinese consumers currently own around 430 million auto vehicles and 3 billion home appliance articles including fridges, air conditioners, washers etc. Considering that a decent share of these durable goods has been in use for decades, it could potentially result in meaningful demand for replacements and trade-ins.

The exact magnitude of such fiscal support has yet to be disclosed but market participants are expecting around RMB100bn in size. Note that this accounts for just a small share of overall policy support but nevertheless adds some optimism to the economic outlook, particularly for the consumer durables sectors.

Properties: further demand-side easing expected, while cautious tone in supply
We expect a softer tone in the demand-side policy to be delivered during the NPC, especially to highlight the supports on restoring housing demand. The construction of social housing is also likely to be specified. On the other hand, the GWR is likely to highlight the necessity to actively and prudently mitigating property sector risks in the statement, in line with the tone from the CEWC. Further, we also expect a cautious tone in policy documents on the property market during the NPC meetings, given the MOHURD has recently provided a guideline at the local level in completing the housing supply system, asking cities to scientifically set the 2024 and 2025 housing development plans.

Contain risks, promote green & digital economies

To contain risks within key areas including the property sector, local government debt, as well as small- and medium-sized financial institutions remains one of the top agenda items of the authority.

On the other hand, addressing demographic challenges, promoting tech independence, digital economy, including AI, as well as green economy, are also likely to be specified in the GWR.

Key improvement areas from the five-year plan mid-term review

Last December, the NDRC published its mid-term assessment of the 14th-Five-Year plan. According to the document, among the 20 major indicators emphasized in the plan, 16 indicators have been assessed as “meet” or “exceed” the expectation. However, four indicators have said to have lagged behind. These include carbon intensity, energy intensity, key air quality target, and childcare service intensity. In our view, this could suggest a step-up in proactive measures within the green economy and the fertility support policy system. The development of the “silver economy” is also likely to be emphasized in the GWR.

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