Economics

DBS Flash

China NPC: Around 5% GDP growth target set for 2025

China/Economics

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- *GDP growth target set at "around 5%," unchanged for three years.*
- *CPI inflation goal at 2%, first sub-3% target since 2004.*
- *Fiscal deficit-to-GDP ratio raised to 4% from 3% in 2024.*
- *Moderately loose monetary policy reaffirmed.*
- *Expanding domestic demand elevated as the top priority.*
- *Strengthening advanced productive forces and AI-driven innovation.*
- *Destocking measures remain key for property market stability.*

On March 5, 2025, China's National People's Congress (NPC) convened its annual "Two Sessions," setting the stage for the year's economic and policy direction. Premier Li Qiang's Government Work Report outlined growth targets, economic stability measures, and structural reforms.

GDP

The government has set a 5% GDP growth target for 2025, unchanged for the third consecutive year, signaling confidence in the economy's resilience. This aligns with the provincial governments' weighted average goal of 5.1%, as outlined in their pre-Two Sessions work reports. Meeting this goal is critical to staying on track for doubling GDP by 2035 (relative to 2020 levels), which requires an average annual growth rate of 4.8%.

(% YoY)	2020	2021	2022	2023	2024	2025
GDP growth						
Target	6.0	6.0	5.5	5.0	5.0	5.0
Actual	2.3	8.1	3.0	5.2	5.0	-
CPI inflation						
Target	3.0	3.0	3.0	3.0	3.0	2.0
Actual	2.5	0.9	2.0	0.2	0.2	-

Inflation

Policymakers have set a 2% CPI inflation target, the first sub-3% goal since 2004. This shift highlights the growing awareness of persistent deflationary pressures, with 2024 inflation at just 0.2% and the GDP deflator remaining negative for seven straight quarters. Achieving the target will require decisive measures, particularly as retail sales linger below pre-pandemic levels and overcapacity in key sectors suppresses upstream prices.

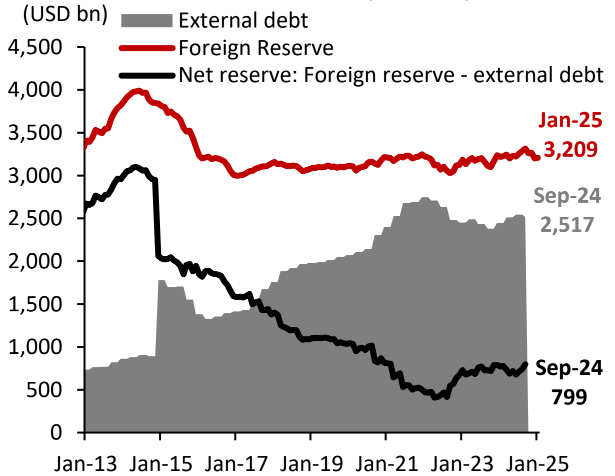
Fiscal policy

Marking a bold policy departure, the deficit-to-GDP ratio target has been raised to 4% for 2025, up from 2024's 3%—a threshold previously breached only during the pandemic (3.6% in 2020) and 2023's disaster relief (3.8%).

With central government debt under one-quarter of GDP, Beijing has room to assume greater fiscal responsibility. Ultra-long special sovereign bond sales will rise to RMB1.3 trn (up from RMB1 trn in 2024), alongside RMB500 bn in special sovereign bond issuance to recapitalize major state banks. Combined with a RMB4.4 trn quota for special local government bonds (up from RMB3.9 trn in 2024), we estimate the overall fiscal impulse will reach 9.8% of GDP.

China's fiscal expansion is further underpinned by a robust external position. As of January 2025, foreign exchange reserves stood at US$3.2 trn, covering 127% of external debt (US$2.52 trn), with half of the debt denominated in RMB, reinforcing the country's capacity to meet external obligations.

China foreign reserves and external debt (USD bn)



Source: CEIC, DBS

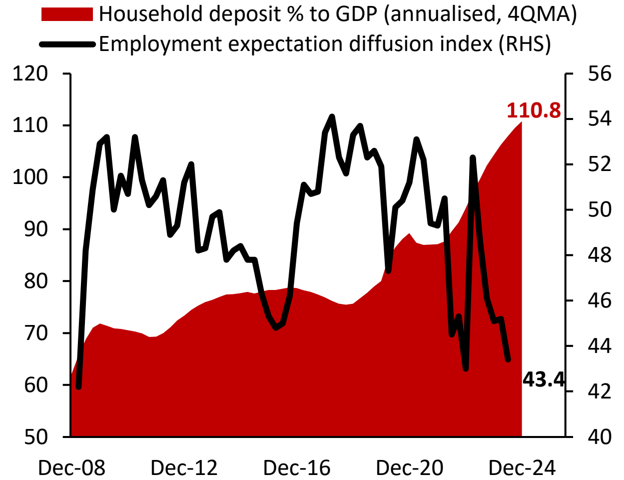
Monetary policy

The transition from "prudent" to "moderately loose" monetary policy, first announced at the December 2024 Politburo meeting, was reiterated during the Two Sessions. This shift, in our view, positions the PBOC to deliver 30bps of LPR cuts this year. While strong January loan growth and a rebound in M1 back to positive growth have tempered expectations of an imminent cut, continued monetary easing remains warranted to stimulate cautious consumer spending. Lower rates will also complement fiscal expansion and support a potential recovery in private sector capex.

Domestic demand

Expanding domestic demand tops this year's agenda, supported by targeted stimulus measures. Trade-in programs and equipment renewal subsidies will be partially funded by RMB300 bn of planned ultra-long sovereign bond issuance. Policies will also promote winter tourism and the "silver economy," addressing the needs of an aging population.

Household deposit % to GDP and PBOC employment expectation diffusion index



Source: CEIC, DBS

Labor market targets (12 million new jobs, 5.5% unemployment) aim to boost household spending and confidence, redirecting high savings into consumption. With external demand, a key 2024 growth driver, expected to weaken amid rising trade tensions, domestic consumption and investment must fill the void.

Innovation

Advancing "new quality productive forces" and technological innovation, particularly in artificial intelligence, remains central to China's strategy. The government aims to foster "industries of the future", including biomanufacturing, quantum technology, embodied AI, and 6G, by exploring new models for national laboratories and empowering young scientists and engineers with "important responsibilities" and robust support.

State-owned enterprises are mandated to prioritize AI development in the 15th Five-Year Plan, while parallel efforts to accelerate the Private Economy Promotion Law seek to dismantle barriers for private firms. These steps, alongside President Xi's recent symposium with business leaders, signal a renewed pro-business stance and encourage greater private sector investment in innovation.

Property

Destocking policies remain at the core of property market stabilization efforts. Special local government bond proceeds will fund housing inventory acquisitions and idle land reserves, with local governments granted greater flexibility in purchasing unsold homes, including pricing and future use. The PBOC's affordable housing refinancing facility and white-list project lending program will also play a key role in addressing supply-demand imbalances. These initiatives are expected to further stabilize the market, which has shown tentative signs of improvement of late, including rising sales of new and second-hand homes as well as stabilizing prices in top-tier cities.

Conclusion

China's 2025 policy agenda reflects a decisive push for fiscal expansion, innovation-driven growth, and stronger domestic demand. The 4% deficit-to-GDP target, coupled with a moderately loose monetary stance, reflect a pro-growth strategy while preserving flexibility to navigate evolving geopolitical tensions.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)