MARKET COMMENTARY

No surprises at China's first day of NPC meeting

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- **The first day of China's National People Congress (NPC) developed largely in line with expectations: The growth target was set at "around 5%". The budget deficit is planned at 3% of GDP plus the issuance of RMB 1 tr. (0.8% of GDP) in special ultra-long term treasury bonds. The special bond quota for local governments was raised slightly to RMB 3.9 tr. (versus RMB 3.8 tr. in 2023). The "traditional" upper bound of CPI was kept at 3%. The language around monetary policy remained similar, aiming at prudent, flexible, targeted, and effective measures.**
- **With regard to the property sector, emphasis was given to defusing risks, promoting healthy long-term growth, providing more social housing, and resolving unfinished properties that have worried homebuyers. However, the announcements were not backed up by concrete measures. This seems also true for explicit fiscal support for consumption, which President Xi recently pledged to encourage.**
- **Concerning the wider political sphere, PM Li's report left out the previous mentions of a "peaceful reunification" with Taiwan while the military budget increased in line with last year.**
- **All in, investors look underwhelmed by the lack of specifics and a "big bang" policy initiative continues to be not in sight. Markets responded "unimpressed", with the RMB/USD hardly moving while 10y CGB yields continued their downtrend and stocks their moderate upturn.**

On the first day of China's National People Congress (NPC), China's rubber-stamp Parliament, Premier Li presented the Government Work Report which includes the policy targets for the current year. The GDP growth target was set again at "around 5%", which is more ambitious than last year due to the base effect after Covid. PM Li Qiang acknowledged the difficulties, adding a "proactive" fiscal stance and "prudent" monetary policy was needed. Taken at face value, the growth target would warrant more expansionary fiscal policy support. However, China plans a budget deficit of 3% of GDP, officially down from a revised 3.8% in last October, when the deficit was enlarged to include the additional bond issuance of RMB 1 tr (0.8% of GDP). The new official budget does not again include the issuance of RMB 1 tr in special ultra-long term treasury bonds, but the issuance will again take place and the difference is only formal. The special bond issuance quota for local governments rose slightly to RMB 3.9 tr from RMB 3.8 tr in 2023.

Further targets (de facto sometimes only lower or upper bounds) set the CPI inflation target at 3%, aiming to create 12 m urban jobs this year and keeping the jobless rate at around 5.5%. Monetary policy will be conducted in a prudent, flexible, targeted, and effective manner.

With regard to the property sector, emphasis was given to defusing risks, promoting healthy long-term growth, providing more social housing (the dual-track model), and resolving unfinished properties that have worried homebuyers. China's central bank recently cut the 5y Loan Prime rate by a record 25 bps to 3.95%, which is a reference rate for mortgage rates. Together with efforts to strengthen developers financing (the “whitelist” process), this is likely to help mitigate downward pressures. However, no additional concrete measures to stabilise the property market have been announced. China’s policy looks to manage the necessary shrinking process but not to bail it out. More incremental measures remain likely in our view.

Recently, policymakers (especially President Xi) have called for a consumption initiative aiming at replacing durable goods with newer, high-quality ones. This suggested that China could eventually shift from almost exclusively “subsidizing” production to also encompassing consumption. The Government Work Report mentioned the new option of a “year of promoting consumption”, but this again has not been backed up by concrete measures, leaving this initiative somewhat uncertain.

All in, the first day of the NPC had no bigger impact on the outlook for China’s development and, accordingly, markets responded “unimpressed”.