

China

China's Two Sessions will set the economic stage as China-US trade talks loom

After a fairly quiet February, policymaking is about to heat up as Beijing unveils its 2025 growth target and priorities as trade war headwinds intensify



Thousands of delegates will take part in the 'Two Sessions' gathering in Beijing

China's growth target likely to be set at "around 5%" again this year

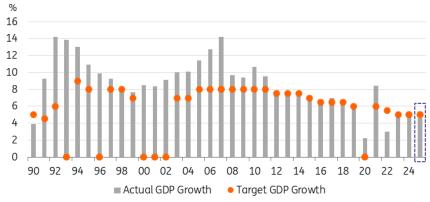
We expect China to stick with its "around 5%" growth target again in 2025, a show of confidence that external headwinds might not derail growth in Asia's biggest economy.

The setting of China's annual growth target at the "Two Sessions" tends to be one of the premier economic events of the year, signalling the direction of policy. Since 1990, China's growth has only fallen notably short of the GDP goal twice -- in 1990, the first year Beijing announced a target, and in 2022 amid pandemic lockdowns.

At times last year, China's initial "around 5%" target seemed to be on shaky ground amid weak domestic demand. However, a big stimulus push beginning in September catalysed a strong

rebound in the fourth quarter, putting growth back on track.

Another "around 5%" target, to be announced on 4 March, would suggest a renewed determination to maintain rapid growth. An "above 4.5%" target would be on the softer side but still show a commitment to keep growth from weakening significantly. However, such a downshift would likely be poorly received by markets. It would be read as a sign that growth will come under greater pressure this year.



China historically almost always meets annual growth targets

Source: CEIC, ING

Two Sessions to shed light on monetary and fiscal policy direction

China's official monetary policy tone was altered at December's Central Economic Work Conference to "moderately loose" from "prudent," the first change in language since 2010. This new posture will likely be validated at the Two Sessions. While these descriptive terms aren't binding, they're likely to signal that monetary easing will continue. We currently forecast 30bp of rate cuts and 100bp of reserve requirement ratio (RRR) cuts this year.

Policies from the People's Bank of China over the last year have generally been well-received by market participants. But fiscal policy is likely to be under greater scrutiny in 2025. While troubled local government finances limited the rollout of policy support last year, there's hope that last November's RMB 10tr fiscal package will ease downward pressure. We expect the Two Sessions will prioritise increased fiscal spending, a higher debt ceiling (set at RMB 35.5tn in 2024), higher levels of special government bond issuance, and telegraphing Beijing's strategy to support domestic demand.

Early signs are that fiscal policy will focus on expanding the trade-in policies to support consumption and broadening the government's equipment renewal scheme. Markets will watch the Two Sessions closely for any hints of directional shifts in fiscal stimulus. Possible areas to watch: expanded consumption voucher programmes and tax relief for low-income households.

China-US talks expected ahead of key deadlines in April

China was the first country hit with new tariffs in President Trump's second term. An additional 10% levy took effect in February. China's initial retaliation moves have been mild so far -- 10-15% tariffs on just 10% of US imports. This early restraint from both sides has fuelled some optimism,

but few expect this to be the end of the US-China trade clash.

Early April features two key dates from the US side. First, an investigation into China's purchases under the "Phase One" trade agreement to be completed by April 1. It will find that China fell short of purchases, though the pandemic and policy shifts under Joe Biden's administration could offer some justification. Second, Trump's decision to keep TikTok operating in the US expires on 5 April. While neither variable represents a hard deadline, an escalation in tensions seems likely without high-level talks in March.

Striking another trade deal and heading off a tariff arms race could be a win-win for both nations. This, however, could be challenging given the US prioritising increased export controls on high-tech exports in the Trump 2.0 era.

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