

## China's Two Sessions to emphasise economic stability amid heightened geopolitical tensions

China's Two Sessions will be held between 4-5 March. This is a great opportunity for the government to announce supportive economic policies as consumption has weakened. It is also a good chance for the government to emphasise stability at a time when geopolitical tensions are high



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### Two Sessions to set a pro growth tone

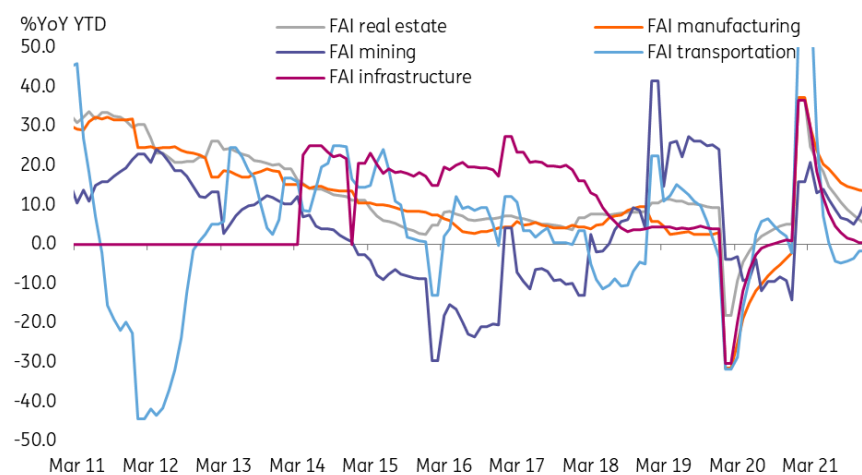
This Two Sessions will be a bit different from previous ones. China is still under a zero-Covid policy and consumption has been weak, while policy implications on the real estate and technology sectors linger on. Outside China, geopolitical tensions are high while supply chain disruption and semiconductor chip shortages continue. Against this challenging backdrop, the government should provide more supportive measures to keep up economic growth, job opportunities and wages.

We expect the biggest plan for this year to be a fiscal deficit of 3.2% of GDP, including CNY3.85

trillion of local government special bond issuance, which is an increase from the issuance of CNY3.47trillion in 2021. These bonds should be used in infrastructure investments. These include new and old infrastructure projects, like full coverage of 5G for all factories, digitalisation of factory operations, and building more green energy. When these infrastructure projects are completed, they should increase the productivity of the economy.

Infrastructure projects usually start with mining activities and infrastructure, and are followed by, for example, transportation investments. We have already seen mining investments pick up, and in 2Q22 to 4Q22 we should see infrastructure investments follow.

## Infrastructure investments have started with mining



Source: CEIC, ING

## Yuan becomes a safe haven

The development of geopolitical tensions has made the Chinese yuan a safe haven currency. From 28 February to 1 March, both onshore CNY and offshore CNH appreciated to 6.30 per dollar coming from 6.32 about a week ago. This confirms our view that investors are comfortable holding CNY assets, and have confidence in the Chinese economy and financial system, which has resulted in the yuan becoming a safe haven currency.

But not all entities in the economy welcome a strong yuan. This is especially true for exporters, however they can take advantage of this moment to change the invoice currency to CNY to avoid exchange rate risk.

We also believe that more central banks will hold yuan-denominated assets, which in turn will give even stronger support for the yuan to keep its safe haven status.