China’s Two Sessions sets the stage for 2024

The much-anticipated government work report was unveiled at the latest "Two Sessions". 2024 economic targets were set, with growth targets in line with expectations and signals for moderately increased fiscal stimulus. The top-level policy tone for the year was unveiled

5% 2024 GDP Growth Target

As expected

Key targets for the year

The government work report set the key economic targets for the year. The GDP growth target was left unchanged at 5%, which signalled that growth stability will remain a priority this year. This outcome had largely been expected, especially after provincial growth targets were set.

The fiscal deficit-to-GDP target was unchanged from 3%, which came in below expectations. While an increased target would have signalled a more supportive fiscal policy stance for the year and bolstered confidence, an unchanged target does not necessarily preclude more fiscal stimulus, as it was revised higher last year. This may also reflect caution over debt sustainability, which may have been in focus after Moody's downgraded China's sovereign outlook in December.

That said, the special government bond issuance target was raised from RMB3.8 tn to RMB3.9 tn, which does send a positive signal for fiscal policy. In addition to this local government debt, RMB1.0 tn of ultra-long special central government bonds will be issued to help alleviate short-term funding issues and fund long-term projects.

The inflation target was kept unchanged at 3%. This comes as no surprise despite inflation not reaching 3% since early 2020, as it is a general indication of the level of inflation tolerated rather than a goal to achieve for the year.

The labour market targets were also left unchanged, in line with expectations. No deviation from this continues to show commitment to ensuring job market stability.

China: Two Sessions Economic Targets

	2019	2020	2021	2022	2023	2024	ING Forecast
GDP (% YoY)	6-6.5%	Not set due to COVID	Above 6%	Around 5.5%	Around 5%	Around 5%	*Around 5%*
Inflation (% YoY)	Around 3%	Around 3.5%	Around 3%	Around 3%	Around 3%	Around 3%	*Around 3%*
New urban employment	Above 11 mn	Around 9 mn	Around 11 mn	Around 11 mn	Around 12 mn	Around 12 mn	*Around 12 mn*
Urban Unemployment Rate (%)	Around 5.5% (survey), under 4.5% (registered)	Around 6% (survey), 5.5% (registered)	Around 5.5%	Around 5.5%	Around 5.5%	Around 5.5%	*Around 5.5%*
Fiscal deficit (% of GDP)	2.8%	Above 3.6%	Around 3.2%	Around 2.8%	3%	3%	*Around 3.5%*
Special government bond issuance (RMB)	2.15 tn	3.75 tn	3.65 tn	3.65 tn	3.8 tn	3.9 tn	*4 tn*

Sources: Chinese government website, ING

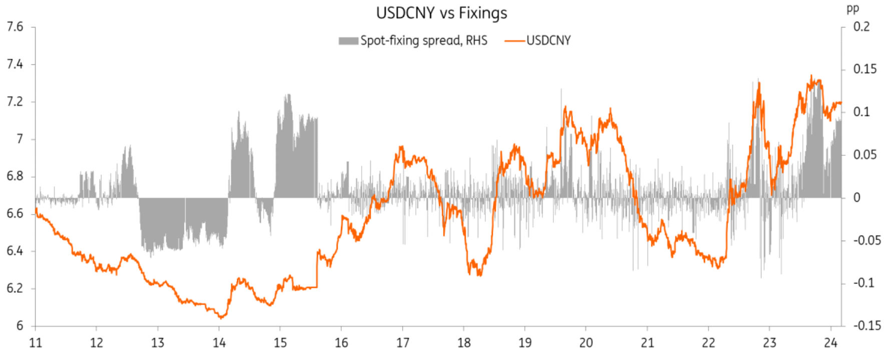
Policy stance and priorities

On the key policy stances, the overall direction of "strengthening and improving efficiency of proactive fiscal policy" was maintained, though with a slight tweak from "strengthen" to "moderately strengthen." Language on avoiding "stimulus flooding" was removed from this report. Combined with the fiscal targets, we're likely to see a moderately more supportive fiscal policy stance this year.

On the monetary policy side, "prudent monetary policy" continued to be the priority. The People's Bank of China (PBOC) has already eased monetary policies this year with a 50bp required reserve rate (RRR) cut and a 25bp cut to the 5-year Loan Prime Rate (LPR). While markets may have hoped for an adjustment to allow for more aggressive easing, this stance signals that the room for further monetary policy easing will be somewhat limited before global central banks start easing.

On the RMB, the language was left unchanged, indicating the goal was to maintain the basic stability of the RMB exchange rate at a "reasonable and balanced level." We therefore believe that last year's 7.32 peak level for the USDCNY will likely remain the proverbial line in the sand in terms of how far the PBOC will tolerate depreciation. The PBOC has already begun pushing back against RMB depreciation via the counter-cyclical factor.

PBOC has resumed pushback against RMB depreciation in 2024



Sources:Bloomberg, ING

Key themes for 2024

Overall, there is a continued focus on developing new growth drivers for the future as China's economy continues its transition toward higher-quality growth.

Expanding effective domestic demand has been a focus in recent years, and this year's Two Sessions repeated this theme, prioritizing increasing income and optimizing supply. Policies to support "new consumption" focused on digital, green, and healthy consumption will be implemented. This could be focused on automobiles and housing appliances, as well as promoting the recovery of services including catering, tourism, and other recreation. These categories outperformed last year and the trend could continue this year.

On the property sector, there was an emphasis on the so-called "new model of real estate development," which is focused on increasing affordable housing and optimizing the supply-demand balance, but few details have been given at this stage. Unsurprisingly, a key slogan "homes are for living not speculation" did not make an appearance in the government work report. This slogan was previously seen as symbolic of restrictive property market policies. The property sector will likely remain a prolonged drag on growth, but we do not see it boiling over into a full-blown crisis.

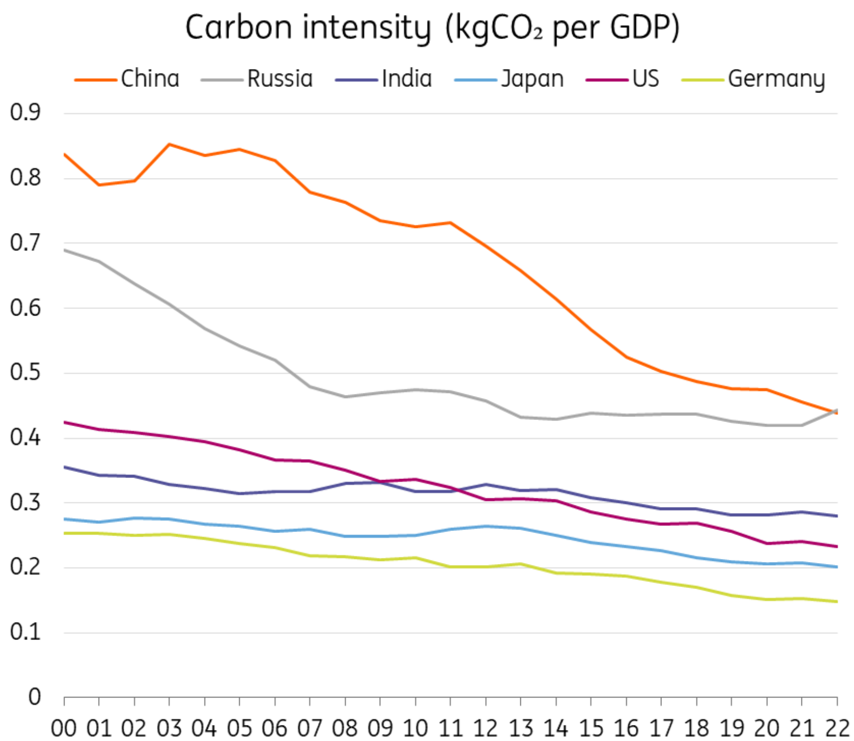
Innovation remains a long-term strategic priority. China's target for R&D spending for 2024 will be RMB 370.8 bn, around a 10% YoY increase, and there was an emphasis on maintaining self-sufficiency and strengthening corporate innovation.

The digital economy was also highlighted, with a commitment to promote the integration of digital technology with the real economy. Areas of focus included big data and AI.

The green economy is the other long-term strategic theme for China. The Two Sessions targeted a 2.5% decline in energy consumption per unit of GDP and continued to emphasize green and low carbon development via taxation, R&D, and investment. Renewables and NEVs will continue to receive policy support as China aims to reach peak carbon by 2030.

China's green economy push will be a long term strategic theme

Carbon intensity has been declining rapidly amid shift to higher quality growth



Source: Global Carbon Atlas, ING

Our view

There was little surprise that the GDP growth target was set at around 5% again, as lowering the target would have further weakened confidence. With that said, it will be a more challenging path to repeating 5% growth in 2024, as the base effect becomes less supportive, and as many of the boosts to the economy coming out of anti-pandemic measures will gradually wane. Real estate will likely remain a drag on the economy in 2024.

While consumption was the key driver of growth in 2023, weak consumer confidence and a negative wealth effect are significant headwinds that will make it difficult for consumption to carry the load again in 2024. With these headwinds comes a shift in consumption patterns from conspicuous consumption toward more value-for-money purchases, leading us to be more positive on an “eat, drink, and play” theme for the year. F&B, entertainment, and travel and tourism sectors may continue to outperform this year.

Trade is unlikely to be a major engine of growth as well, with global trade growth expected to remain below historical averages. There is also a risk to see further trade protectionism, which could affect the recent outperforming NEV exports.

As such, if China is to achieve its “around 5%” GDP growth target, we will likely need to see more support from the investment side. Government investment has outstripped private investment since 2019, and we expect this trend to continue until sentiment achieves a meaningful turnaround. With public investment likely to be a more important driver this year, the Two Sessions’ special government bond issuance targets and RMB1 tn long-term central government bond issuance will send a positive signal for government-led spending to help fill the gap. Another caveat of note would be that compared to the past, there is less room to invest in low-hanging fruits with high multiplier effects, namely real estate and transportation infrastructure (railways, highways, airports). We will likely see a lower multiplier effect from fiscal stimulus.

Sentiment bottoming out and recovering would be the main catalyst for a sustainable recovery. While we saw some positive signals in the government work report, a road to restoring confidence will likely take some time and the process will likely be uneven. The policy rollout in subsequent weeks and months will play a large role in determining whether or not this bottoming out will occur this year.

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