

China Watch

# NPC PREVIEW – BEIJING TO SET AMBITIOUS GROWTH TARGET

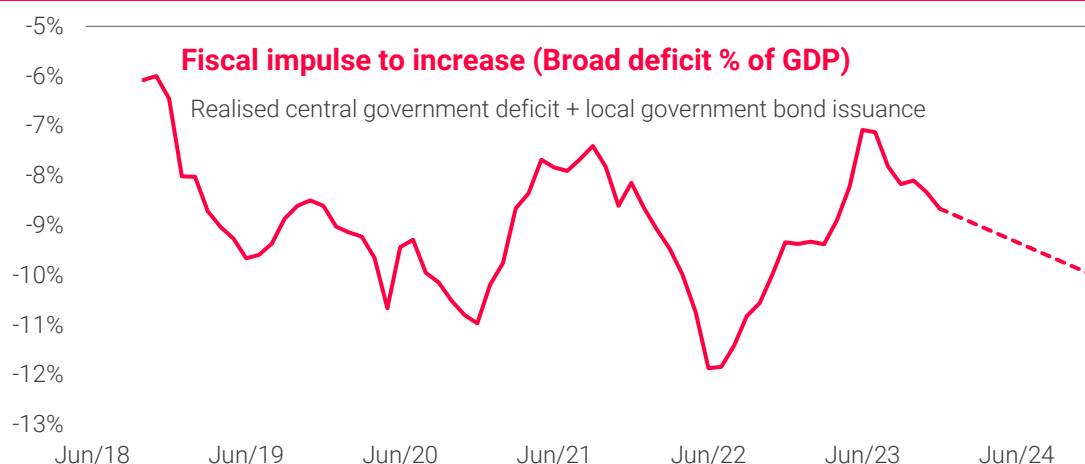
Rory Green

- China GDP target will likely be "around 5%" in 2024
- Stimulus will surprise to the upside this year - but not at the NPC
- Limited growth excitement for equities; however, markets are sleeping on RMB risk

The "Two Sessions" will kick off on Monday, 4 March. Prime Minister Li Qiang will give his work report on 5 March outlining GDP targets, fiscal ammunition and key priorities for 2024. We think an ambitious goal of "around 5%" growth will be set, with an expansionary deficit and continued heavy emphasis on tech advancement. While that will provide little fuel for equities to continue their upward trajectory, an outright negative shock is unlikely. The resulting growth outlook reinforces our view about Xi Jinping's "strong RMB" policy and the likelihood that US growth and political shocks will stop the pursuit of that policy, pushing USD/CNY to a new high in 2024.

**Beijing is likely to set the same "around 5%" growth target as in 2023.** This has been the whisper number for some months now in the Chinese capital. Local government GDP targets align with policy rumours. All 31 provinces and special regions have set their goals for 2024: the GDP weighted average is 5.6% yoy – it is typical for the aggregated provincial target to be 50-100 bps higher than the official one. The political-economic backdrop also suggests to us that a target of at least 5% is likely. Xi has de-emphasized outright growth and numerical targets in favour of slower "high quality growth"; however, given the current economic malaise, a GDP target with a four handle is probably untenable owing to the significant damage it would cause to household, business and market confidence.

## Chart 1: China moving away from H1/23 hawkish fiscal position



Source: GlobalData TS Lombard

**A lack of favourable base effects and pent-up Covid demand will make 5% yoy much harder to achieve than last year.** We expect TS Lombard's measure of GDP to slow further to 3.4% yoy, down from 3.8% in 2023. Consumption support measures are likely to feature at the NPC, primarily in the form of vouchers/discounts/incentives to upgrade a range of consumer durables. Such measures, though positive, will be insufficient to counter the negative wealth, income and confidence effects that we think will slow retail sales to 4-5% in 2024.

**Chart 2: Provincial GDP targets suggest "around 5%" growth goal**



Sources: Provincial Government Work Reports.

**With household spending slowing, Beijing can at least count on relative improvements in exports (global trade is picking up) and less of a drag from property.** Real estate policy will be finetuned further at the NPC. Officials have begun to push "common prosperity" aligned development – that is, affordable housing, subsidized rental housing, urban village renovation, etc. At the same time, more funds are being channelled to developers to enable pre-sale completions, primarily via project "white lists" and pledged supplementary lending (PBoC liquidity provided through policy banks). This will not solve the structural supply/demand mismatch and liquidity issues (it may even exacerbate dire fundamentals); but in the short term, construction activity and investment should improve, certainly relative to last year. We think the drag from real estate could halve this year to ~1ppt of potential growth.

**Strong policy-favoured sector growth, weaker consumption and relative improvements in exports and property will not be enough to achieve 5% growth.**

To reach its target, Beijing will need to increase infrastructure investment. This traditional growth driver faces two imposing obstacles: 1) local governments don't have any money; and 2) there is a lack of projects that would promote Xi's longer-term policy objectives. The NPC will partly address the former, setting an expansive fiscal stance, with central government taking on greater debt and redistributing to weaker provincial authorities. Our expectations of deficit target of 3.2%, a central government special-purpose bond quota of RMB1trn, and a local government special purpose bond quota of RMB4trn would mark a significant departure from the hawkish fiscal stance over H2/22 and H1/23, as Chart 1 shows.

**An expansive fiscal position will follow the encouraging signs that Beijing is shifting to a cyclical pro-growth stance.**

We first noted a change in rhetoric in December: since then, monetary, property and market action has followed through. While politicians are more concerned about growth, our projections for the NPC and existing stimulus will not suffice to reaccelerate activity. Growth will continue to grind lower; and we think the authorities will be forced into further easing in Q3/24. In addition to the stimulus announced at the NPC, we expect government borrowing (RMB1trn between central and provincial balance sheets) and pledged supplementary lending (RMB500bn) in H2/24. Alongside adjustments to allow a wider array of projects (similar to new "common prosperity" aligned property investment). All of this would just be enough to report official growth at 5%. TSL's measure will be significantly weaker – at 3.4% yoy. China is on a multiyear structural slowdown, although the pace of deceleration will slow this year against a moderately more supportive government backdrop.

**Chart 3: NPC targets and forecasts**

		2024		2023		2022	
		Target	Forecast	Target	Actual	Target	Actual
<b>GDP growth</b>	% yoy	~5	5	~5	5.2	~5.5	3
<b>CPI*</b>	% yoy	~3	1	~3	0.2	~3	2
<b>Fiscal deficit</b>	% of GDP	3.2	3.8	3.8	3.8	2.8	2.8
<b>CG Special bond quota</b>	RMB trn	1	1	0	0	0	0
<b>LG special bond quota</b>	RMB trn	4	4	3.8	3.8	3.65	4.04
<b>New employment</b>	mn jobs	>11	NA	>11	12.4	>11	12.1
<b>Unemployment</b>	%	~5.5	5.2	~5.5	5.2	5.5	5.6

Source: NBS, CEIC, GlobalData TS Lombard. \*CPI average for 2023

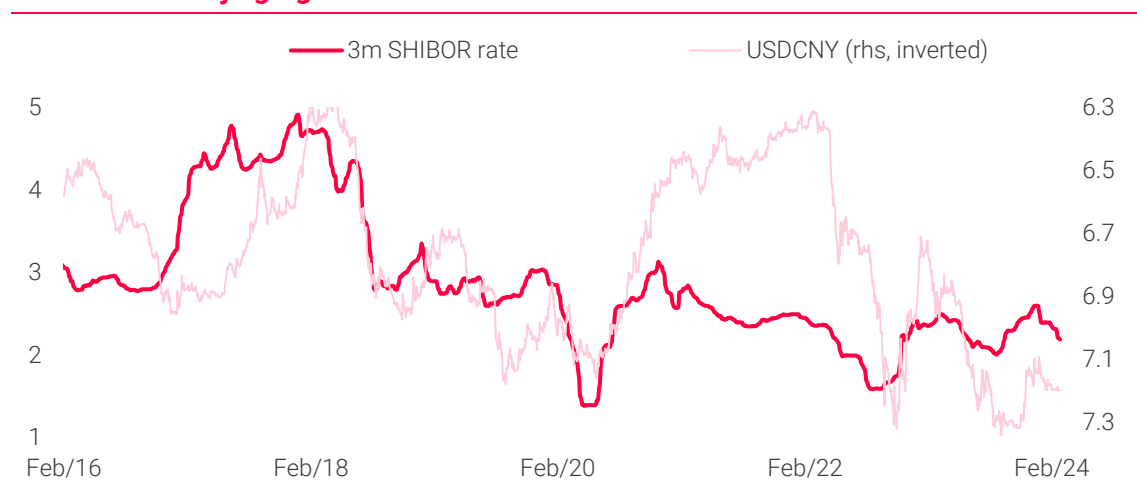
**What else to watch for? "Tech tech tech" is sure remain a huge focus.** "New productive forces" is the latest Party slogan to champion national mobilization in order to make breakthroughs in advanced manufacturing. Beijing's massive industrial policy push is just beginning; and tech hardware sectors will be the biggest positive in the PRC through 2024 and beyond. Global trade competition is bound to increase as a result.

**There may be suggestions of more pronounced fiscal reform efforts.** Such measures have been hinted at for several months. The fact that Politburo Standing Committee members have not been seen in public in the past weeks is fuelling speculation that the much delayed Third Plenum – a key event that typically unveils major political economic changes – is imminent. We think Beijing is cognizant of many of the difficulties facing the PRC but still far from presenting a coherent plan to address them.

**We also expect the NPC to address areas highlighted as “lacking” in a review of the 14th Five Year Plan (2021-25) objectives.** The NDRC has vowed to accelerate progress in four areas: 1) the reduction of energy consumption per unit of GDP; 2) the reduction of carbon dioxide emissions per unit of GDP; 3) an increase in the percentage share of days with good air quality in cities; and 4) an increase in the number of nurseries for infants under the age of three.

**Markets are bottoming out from heavily oversold position, encouraged by direct market intervention and robust data.** More is needed to drive a sustainable rally. The factors that drove equities lower – anaemic growth, low confidence and the rising risk premium for foreign investors – all remain; and there is no doubt that the third is deteriorating further in a US election year and the first two changing only slowly. The NPC will not alter those fundamentals, which also point to RMB weakness.

#### Chart 4: Will Beijing tighten rates to defend USD/CNY?



Sources: BBG, GlobalData TS Lombard.

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