

# China's National People's Congress: Key points

From the Field  
March 2024

## Key Insights

- In his opening speech to the NPC, Premier Li covered fiscal policy besides growth and inflation, projecting a 3% government deficit, lower than in 2023.
- China's equity market response was weak—the NPC has rarely acted as a catalyst for a significant market rally, as there typically are few surprises.
- China's economy is undergoing a deleveraging cycle, and policies are centered on protecting the downside rather than seeking upside via aggressive stimulus.

## NPC announcements in line with expectations

The overall message from China's National People's Congress (NPC) largely met what were fairly muted expectations ahead of the event. There was no major positive surprise to boost investor sentiment, in our view. The message was consistent with recent policy objectives. In terms of headlines, China's gross domestic product (GDP) growth target was kept unchanged from last year at "around 5%." The inflation target was also unchanged at 3%.

In his opening speech to the NPC, Premier Li's "Government Work Report" also covered fiscal policy besides growth and inflation. Li projected a 3% "official" government deficit, 0.8% lower than in 2023.

However, on a broader definition that includes off-budget expenditure, China's fiscal policy is stimulative, with a deficit of over 8% of GDP. Local government bond issuance of RMB 3.9 trillion, up slightly from last year, and a new central government special bond issuance of RMB 1 trillion, or 0.8% of GDP, were largely as expected.

## Subdued market response

China's equity market response last week was negative, with indices ending lower after peaking around midday on the second day of the NPC meeting. Historically, the NPC has rarely acted as a catalyst for a significant market rally, since there typically are few surprises given the NPC's focus on stability and policy continuity.



**Robert Secker**  
Portfolio Specialist, Equity  
Investment Specialists

“...on a broader definition that includes off-budget expenditure, China's fiscal policy is stimulative....”

In contrast to equities, Chinese bonds responded positively to dovish comments by central bank Governor Pan Gongsheng at the NPC press conference midweek. The key takeaway is that the People's Bank of China (PBoC) sees scope for further reserve ratio requirement cuts in 2024, which is the market consensus.

The central bank chief also said he would welcome the return of mild inflation and would strive to keep funding costs low while expanding relending tools, helped by the less divergent global interest rate environment. One positive surprise was the PBoC's promise to issue more ultralong central government special bonds (CGSBs) in the next few years in support of fiscal policy.

The entire issue of new CGSBs will be in the 30-year and 50-year maturities. This move dovetails with the government's call for stronger coordination between fiscal, monetary, employment, and industrial policies.

## The economic transition continues

A number of commentators have described the 5% growth target for 2024 as ambitious. The consensus forecast is around 4.5%, so there may be more work to be done to support the economy as we move through the year.

China's economy is undergoing a deleveraging cycle, and, consequently, policies are centered on protecting the downside rather than seeking upside by implementing another round of aggressive stimulus. Beijing is pursuing an economic rebalancing toward a higher-quality growth model and appears committed to seeking new structural growth drivers in preference to a major fiscal boost.

With property and local government infrastructure investment likely to remain weak, we see scope for the central government to play a larger role in 2024 and 2025. Rail equipment and power grid equipment, for example, are two areas where we might see better growth.

## Focus on "New Three" growth drivers

Premier Li's Work Report contained 10 key tasks for 2024, two more than a year ago, with technology development at the top of the list. He discussed the "New Three" growth drivers of electric vehicles, technology, and green energy.

Beijing views these new economy sectors as engines of growth that can help to reduce China's historical overdependence on property and infrastructure investment to drive GDP. These sectors account for around 5% of total exports, so there is plenty of scope for expansion.

Also under the "New Productive Forces" theme, Premier Li said China would launch an "AI Plus" initiative in 2024. The aim will be to greatly deepen the integration of artificial intelligence (AI) with the real economy. Since 2001, China has increased its research and development expenditure significantly from less than 1% of GDP to 2.6% in 2022. Investors should not underestimate Beijing's determination to transition from a labor-/capital-driven economy to an innovation-driven economy.

## How should investors respond to the NPC?

We believe the full effects of the stimulus measures taken in the second half of 2023 have yet to materialize. Together with the steps taken at the NPC, in time we expect to see improvements in both

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cyclical and structural growth that will potentially benefit a wide variety of Chinese companies.

However, rather than focusing on China's GDP, which historically has not been closely related to stock market performance, the focus should be more on company earnings. Despite the recent economic challenges, China still has many high-quality companies that have previously shown they can compound earnings over varying market cycles.

Investors should look for good idiosyncratic, bottom-up ideas, trying to steer away for now from stocks with high sensitivity to the macro environment. There are opportunities in Chinese companies that can innovate, bringing value to their customers while benefiting from structural trends in industrial and technology upgrading.

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