China | What do we expect for 2025 March “two sessions”?

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The annual “two sessions” of China, namely the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC), have always been the top priority in China’s political agenda every year. It usually commences in Beijing in March annually and lasts for around one week.

In particular, National People's Congress is China's top legislature, while the National Committee of the Chinese People's Political Consultative Conference is the country's top political advisory body. 2025 is also the year that NPC has established for 71 years and CPPCC for 76 years. This year, the NPC conference will commence on March 5 and the CPPCC conference will be on March 4.

In the week-long sessions, delegates from around the country at all of the administrative levels including province, municipality and county etc. will review the Government Work Report read by Premier Li Qiang that will discuss the most important issues concerning various dimensions of national and international affairs, ranging from the summary of last year’s economic achievements and main economic risks, to the announcement of 2025 key economic targets; from the continuation of jumbo size stimulus package which was initially announced in September 2024 to outlining the blueprint of “Chinese-style modernization” with focus on high-end manufacturing in the long term, etc.

The 2025 March “two sessions” have specially attracted global attention due to a confluence of domestic and international factors, including the trade war with the US under Trump 2.0 and rising China-US confrontations, ongoing China’s economic downturn with housing market crash, global economic deceleration and global central banks’ “pivot”, etc.

We expect the key economic topics in this year’s “two sessions” will include not only the short-term issues such as how to implement stimulus package to support domestic growth in a bid to offset the trade war with the US, but also a series of long-term issues, such as aging problem, debt overhang, urbanization, geopolitics and “Chinese style modernization” with a concentration of “new quality productivity”.

Here are the highlights of what we expect of 2025 March ‘two sessions”:

- **Growth target in 2025 is expected to be “around 5%” again,** which signals the authorities’ strong determination to support growth amid Trump’s tariff war with China and China-US relationship uncertainties. Other economic targets will also be promulgated, including inflation target, credit target, emission target, employment target etc. (Table 1)

  Regarding the growth target, there are two voices in the market at the moment: “around 5%” or “4.5%-5%”. We tend to agree with the former one as the “around 5%” growth target is in line with the authorities’ determination to stimulate domestic growth to offset tariff war effect with the US, given that China still has policy room to maneuver the growth prospective. It is higher than IMF’s China 2025 growth forecasting at 4.6% and market consensus at 4.5%. In addition, there are also some other policy targets instead of the growth figure per se, chief among them is the sustainable and high-quality growth. Moreover, in terms of employment, we expect it will set a target of creating over 11 million new urban jobs this year, and a surveyed urban unemployment rate of 5%, in line with the previous year's targets. The inflation target is set to be around 3%, although it is very easy to achieve this inflation target given the current deflationary environment. (Table 1)

- **Expansionary fiscal policy to stimulate growth and rebuild market sentiments**. Fiscal deficit budget will be announced in "two sessions", and the market expects it will surpass the 3% red line in 2025 to 4%. Total scale of deficit is expected to be more than RMB 5.5 trillion, while special local government bond issuance is anticipated to be RMB 4.5 trillion to swap local government debt and to support resolve housing stocks at the local government level; RMB 2 trillion long-term special central government bond is expected to support "large-scale equipment renewal for corporates and trade-in old consumer goods" program to support consumption growth. The market also expects the government to issue RMB 0.5-1 trillion special government bond to inject in state-owned banks. Altogether, the augmented fiscal deficit in 2025 is expected to be 9%.

- **"Moderately loose" monetary policy stance to support domestic growth**. In 2025, the easing monetary policy stance will continue to support growth, following the Central Government Work Conference in December 2024. However, this does not mean the central bank will cut the interest rate to zero or extremely low like what FED and ECB did during the pandemic time. This is not the policy option of China. Indeed, PBoC might be more cautious on rate cut as FED paused rate cut and delay it to possibly December 2025, considering financial stability and RMB exchange rate depreciation. Thus, we maintain our RMB exchange rate forecast at 7.4 at end-2025 taking into consideration that Trump may hike tariffs on all Chinese exports to 60% after Trump-Xi meeting in June 2025. That means, we could not understand RMB depreciation as a tool to counter the tariff war effect, by contrast, the PBoC will take use of various policy tool to maintain RMB exchange rate stability to support market sentiments.

  Under this circumstance, we expect 1-year LPR will be cut by 2-3 times from 3.1% to 2.5% this year. RRR cuts will also be conducted 2-3 times. We also expect bank deposit rate and mortgage rate will continue to be lowered than before. The government work report is expected to announce M2 and total social financing annual growth to be in line with the nominal GDP growth rate target. The authorities are also anticipated to emphasize the targeted easing measures, particularly to SMEs and agricultural sector as well as more structural and quantitative monetary policy tools.

- **How to support consumption growth will be the concentration of domestic growth stimulus.** China's long-lasting weak consumption is constrained by several factors in the short term, including (i) high unemployment rate in young group, (ii) "salary cap campaign" in finance, government and SOE sectors; (iii) wealth effect by sliding housing and stock price and (iv) weak market sentiments. In the past year, the authorities issued RMB 300 billion long-term government bond to support consumption by "large-scale equipment renewal and trade-in old consumer goods" and "consumption coupon" to stimulate retail sales. We expect another RMB 300 billion special central government bond to continue the "trade-in old consumer goods" program in the new year. Beyond that, the authorities are anticipated to promulgate new measures in the long term to support social insurance, such as to increase benchmark pension for retirement people, to increase the medical insurance subsidies and to subsidize maternity benefits in a bid to support households' consumption.

- **Promoting "new quality productivity" as new growth engine to achieve "Chinese style modernization".** In our opinion, "Chinese style modernization" is a new political slogan but intrinsically similar to the previous one such as "Chinese new growth model" with the concentration on "new quality productivity". (see our previous Economic Watch | Understanding China's new growth model) "Chinese style modernization" is a combination of several factors: high-end manufacturing, green economy transformation, digital economy and technology advancement. In particular, the authorities are promoting China's economic transformation from previous real estate and "old" infrastructure driven economy to green economy, high-end manufacturing and technology driven economy; from export and investment driven economy to consumption driven economy.

The recent success of Deepseek in China shows the Made-in-China AI technology catches global eyes, which successfully revered the weak market sentiments and the stock market trend in both A share and Hang Seng Index, and even drag the US Nasdaq index and the stock price of chip giant Nvidia.

- **Providing a favorable environment for private-owned enterprises (POEs).** Under China's socialist political framework with the dominant position of state-owned enterprises (SOEs), Chinese POEs actually contribute 50% fiscal revenue, 60% GDP and 80% employment, which plays a very important role in Chinese economy. Thus, how to support POEs development and how to deal with the relationship between the market and the government in China are essential to stimulate growth amid grow slowdown in the past years. President Xi' recent high-level meeting with key POE CEOs in Beijing provides a strong signal that the authorities want to provide a favorable environment for POEs amid this round of stimulus measures, which suggests a significant turnaround from China's 2021 regulatory storms when some POEs were hit most. In March "two sessions", we believe the authorities will continue this tone to support POE development, particularly in the technology and high-end manufacturing sectors.

Table 1. COMPARISON OF 2024 AND 2025 TARGETS ANTICIPATED TO BE ANNOUNCED BY THE GOVERNMENT WORK REPORT

	2024 target	2024 actual	2025 target expected
GDP	Around 5%	5%	Around 5%
CPI	3%	0.24%	3%
M2	In line with nominal GDP growth	7.3%	In line w/ nominal GDP growth
Total social financing	In line with nominal GDP growth	-9%	In line w/ nominal GDP growth
Fiscal Deficit	-3%	-3% achieved	-4%
Long-term Special Government Bond	No issuance	RMB 1 trillion	RMB 2 trillion
Local Government Special Bond	RMB 3.65 trillion	RMB 4 trillion	RMB 4.5 trillion
Survey unemployment rate	5%	5.1%	5%

Source: BBVA Research and Government Work Report

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