

China's Economic Future: Key takeaways from the National People's Congress

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Latest developments of the Chinese economy

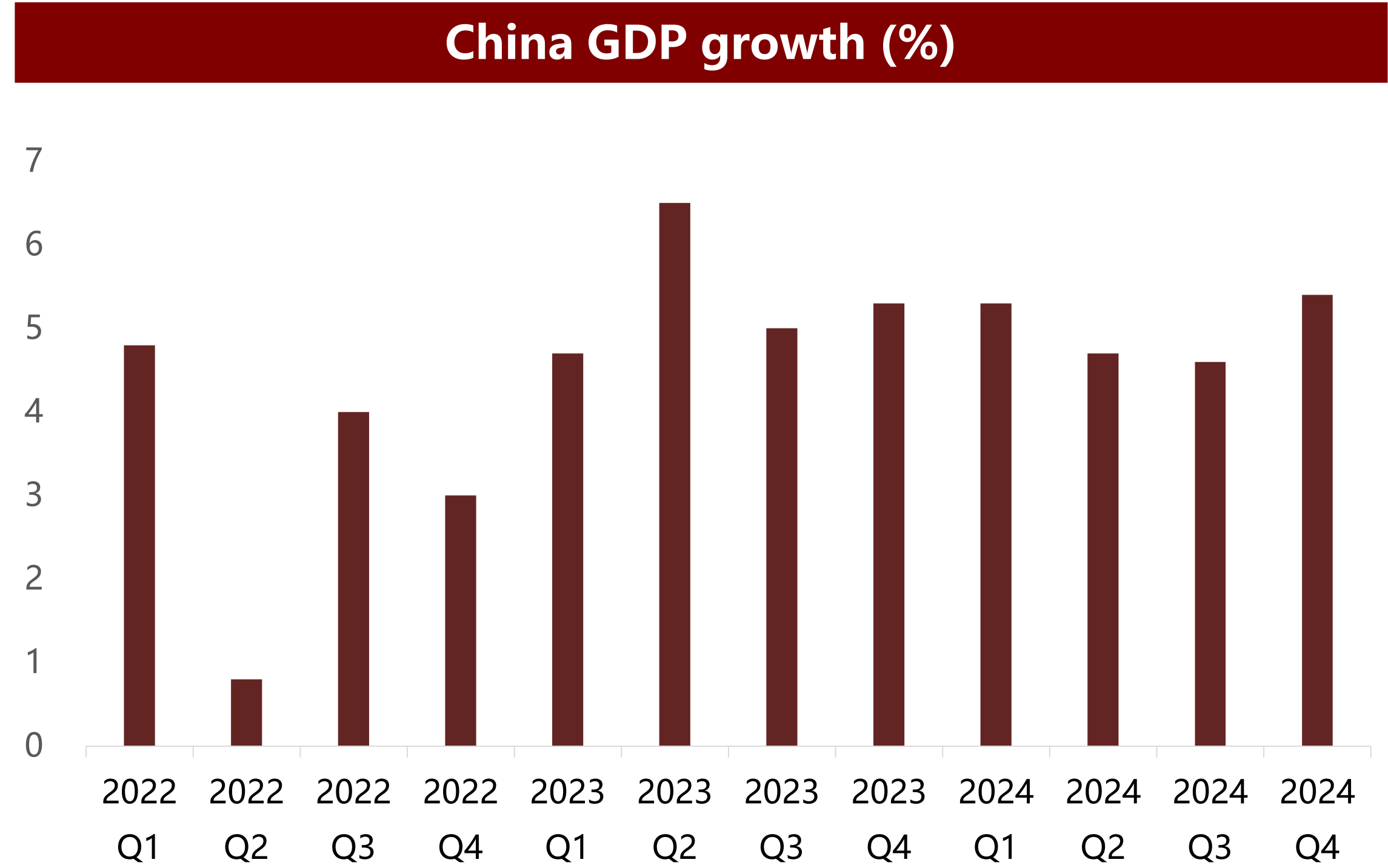
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Takeaways from the National People's Congress

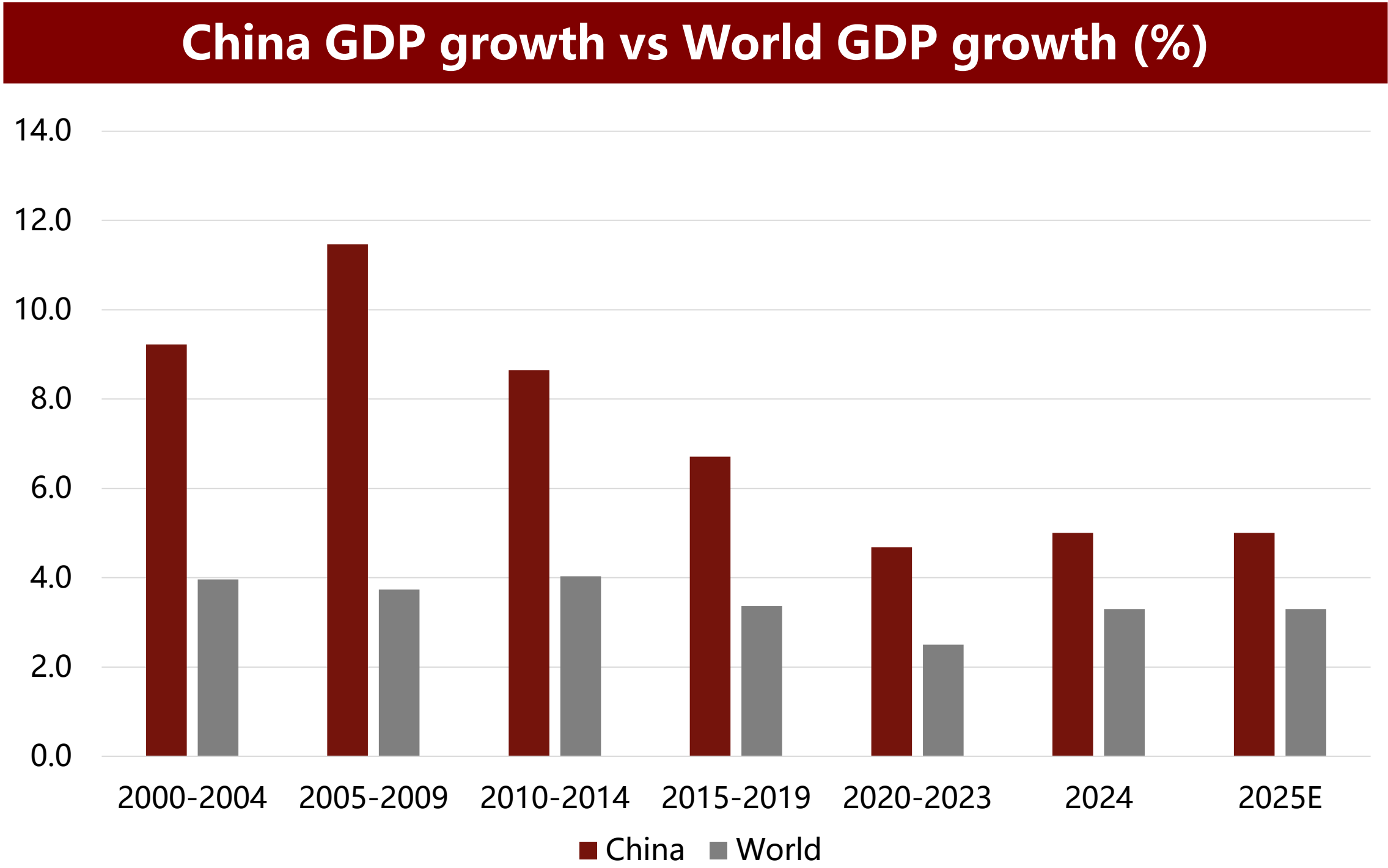
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Cooperation between Europe and China

- Unfavourable global backdrop is posing risks – uncertainties in global monetary policy and rising geopolitical tensions.
- China has managed to maintain a steady growth trajectory.
- The economy grew by 5% during 2024, highlighting progress in high-quality development and structural reform.
- The IMF projects the world economy to grow at 3.3% in both 2025 and 2026; China will remain one of the fastest growing key economies.
- With modernization and improvement in total factor productivity, China is on course for steady growth in the years ahead.



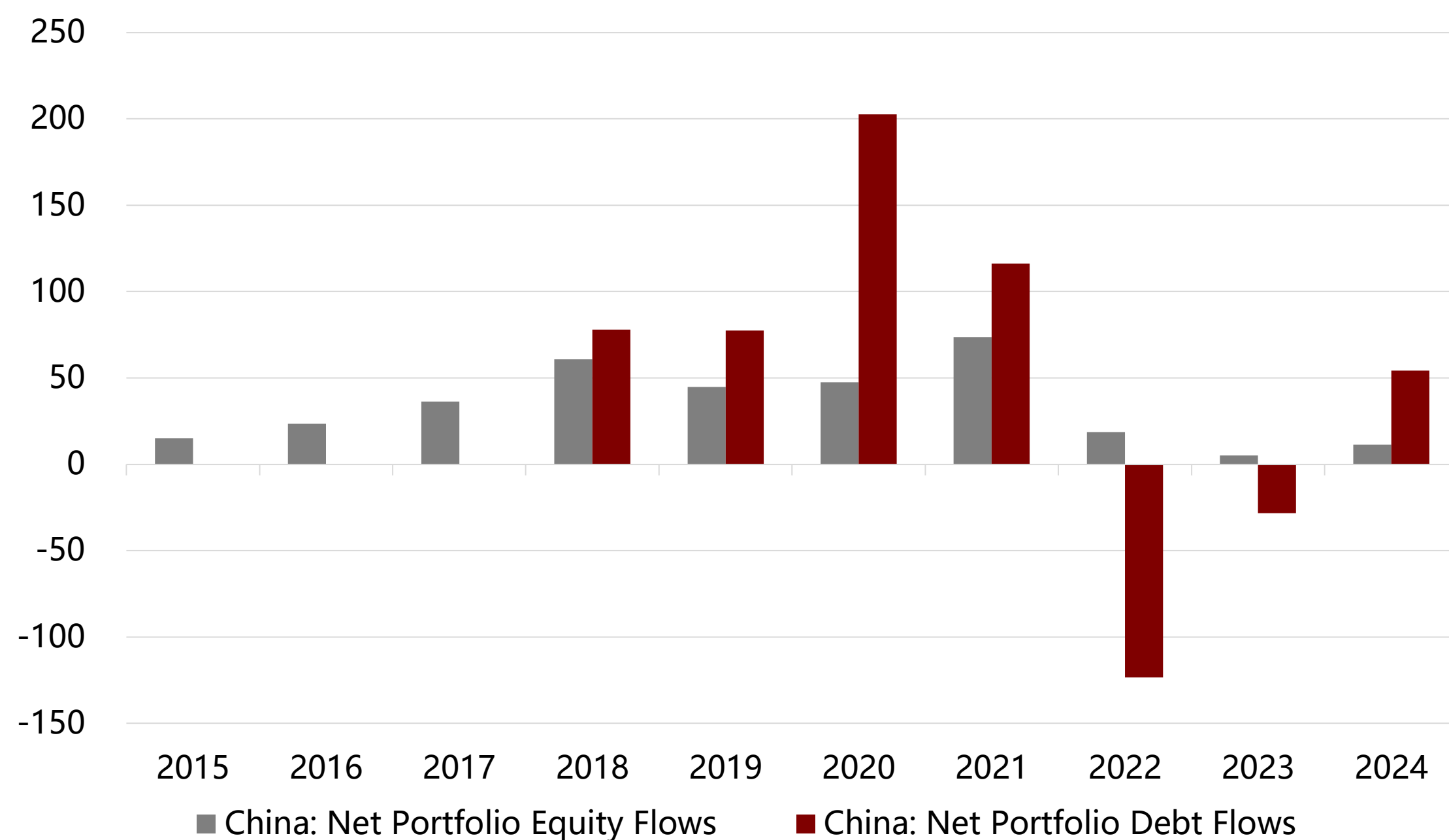
Source: ICBCI, Wind



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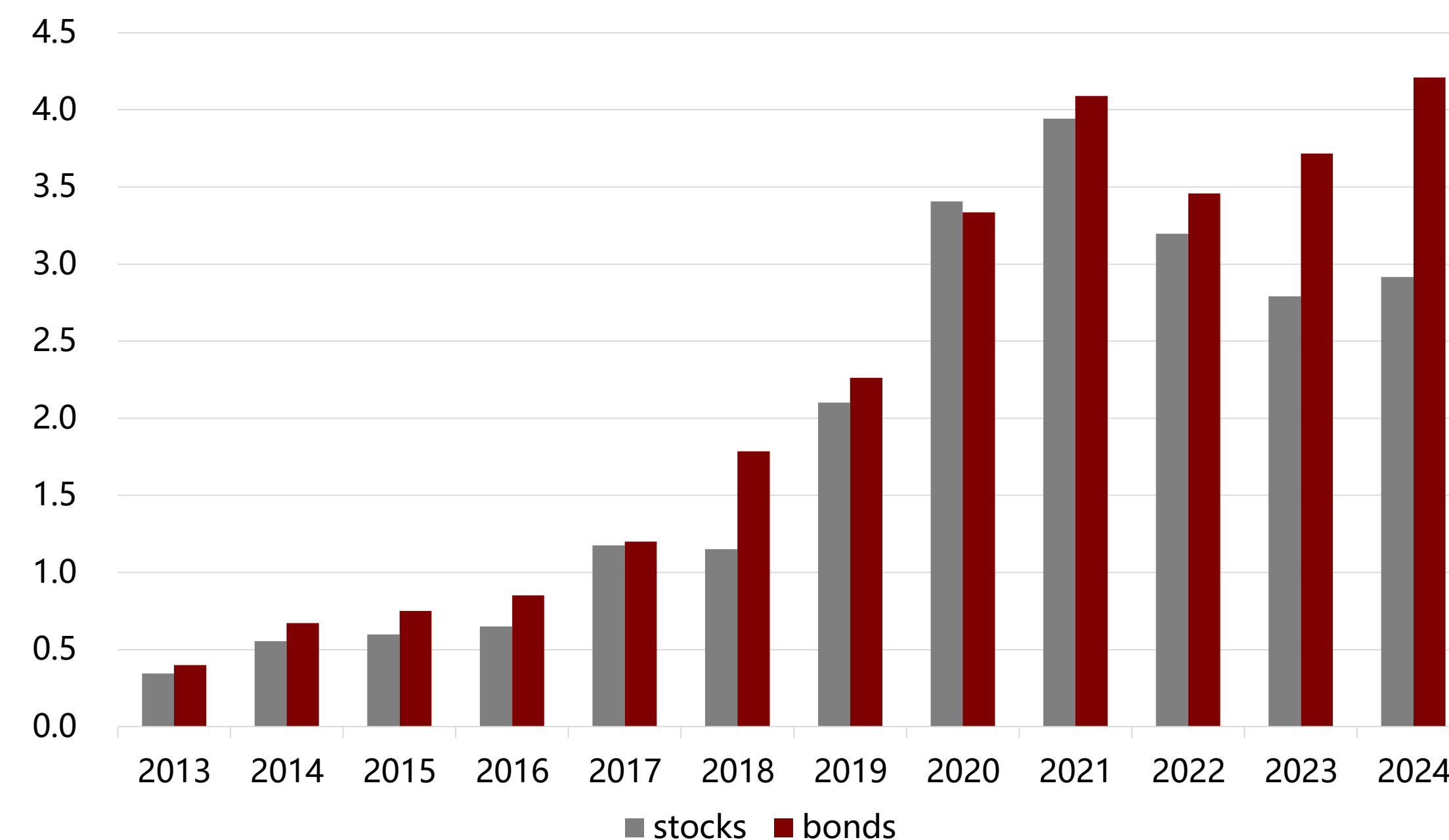
- Global investors are starting to increase the allocation of Chinese stocks and bond market assets.
- Bond market: The flow of funds into the Chinese onshore bond market has significantly increased since the fourth quarter of 2023.
- Equity market: Data from IIF shows a total of USD 11.3bn flowed into China equity market in 2024.
- The renewed inflows are a reflection of a growing confidence in the resilience and potential of the Chinese economy.

Capital flowing into Chinese onshore market (USD bn)



Source: IIF, ICBCI

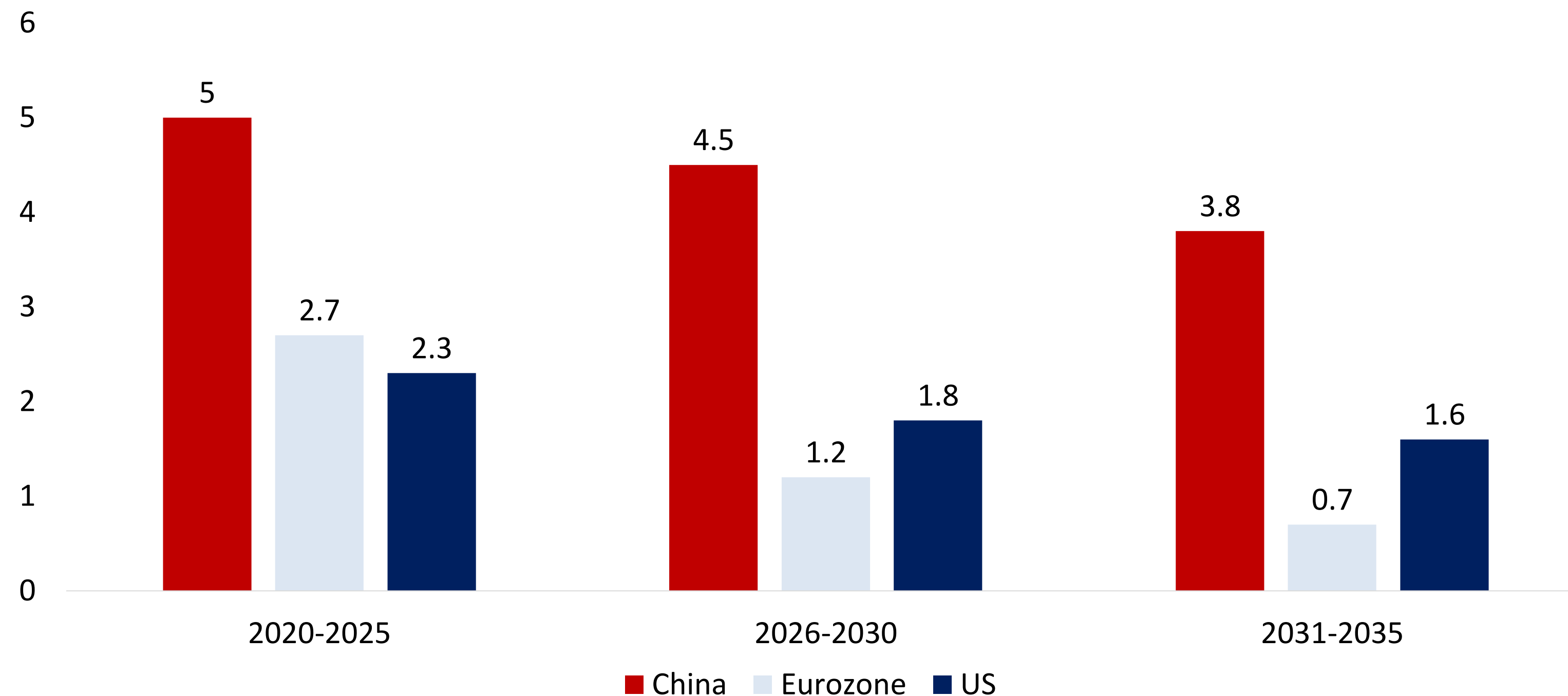
Foreign holding of onshore stocks and bonds (RMB tn)



Source: ICBCI, Wind

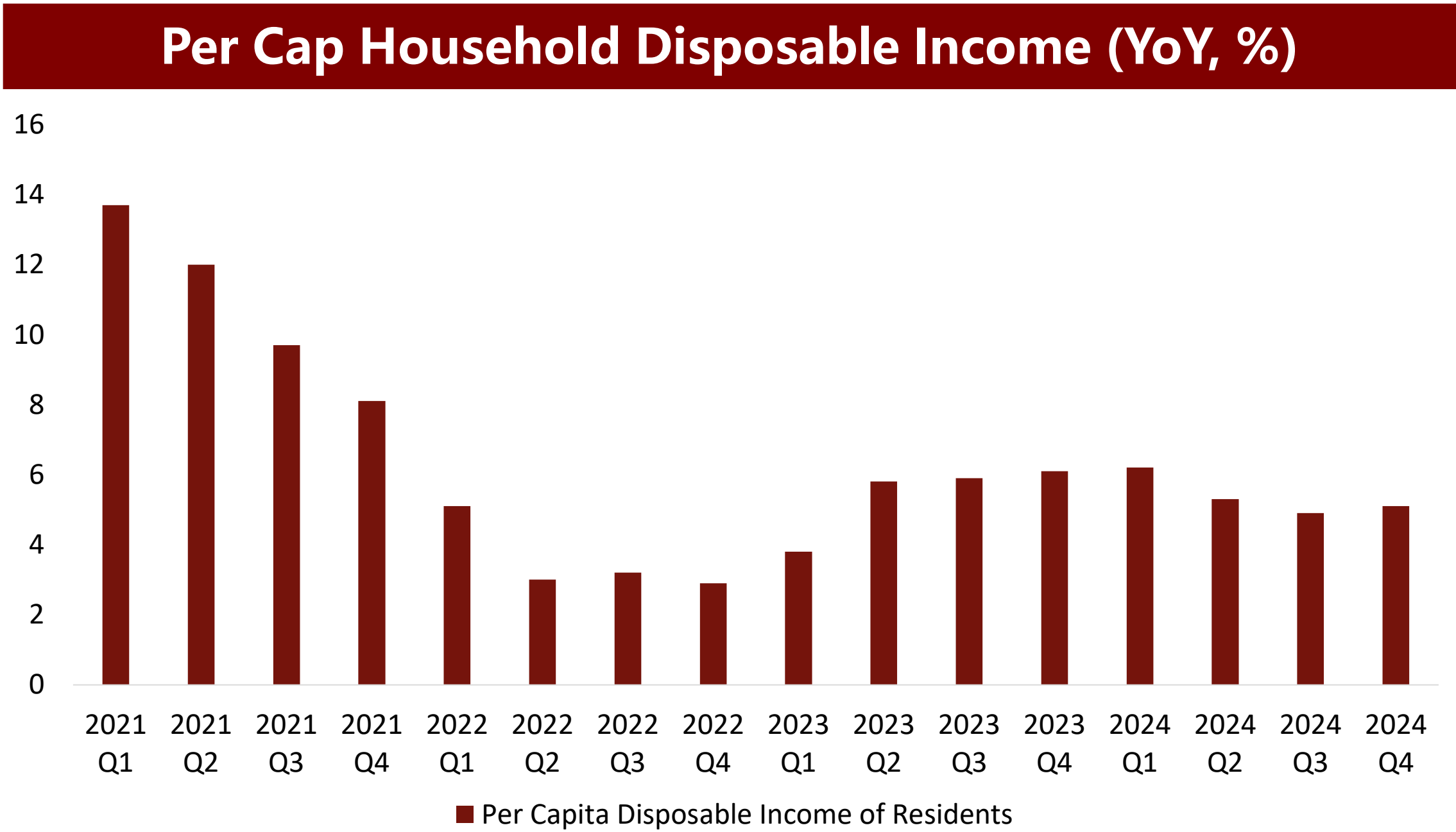
- China's long-term growth potential remains promising, and consumption and investment will remain the key engines of economic growth.
- Despite an expected slowdown, Chinese economic growth will continue to outpace most of the world economy, and it will remain an attractive destination for long-term investment.

Long-term potential economic growth rates of China, Eurozone and the U.S. from 2020 to 2035 (%)

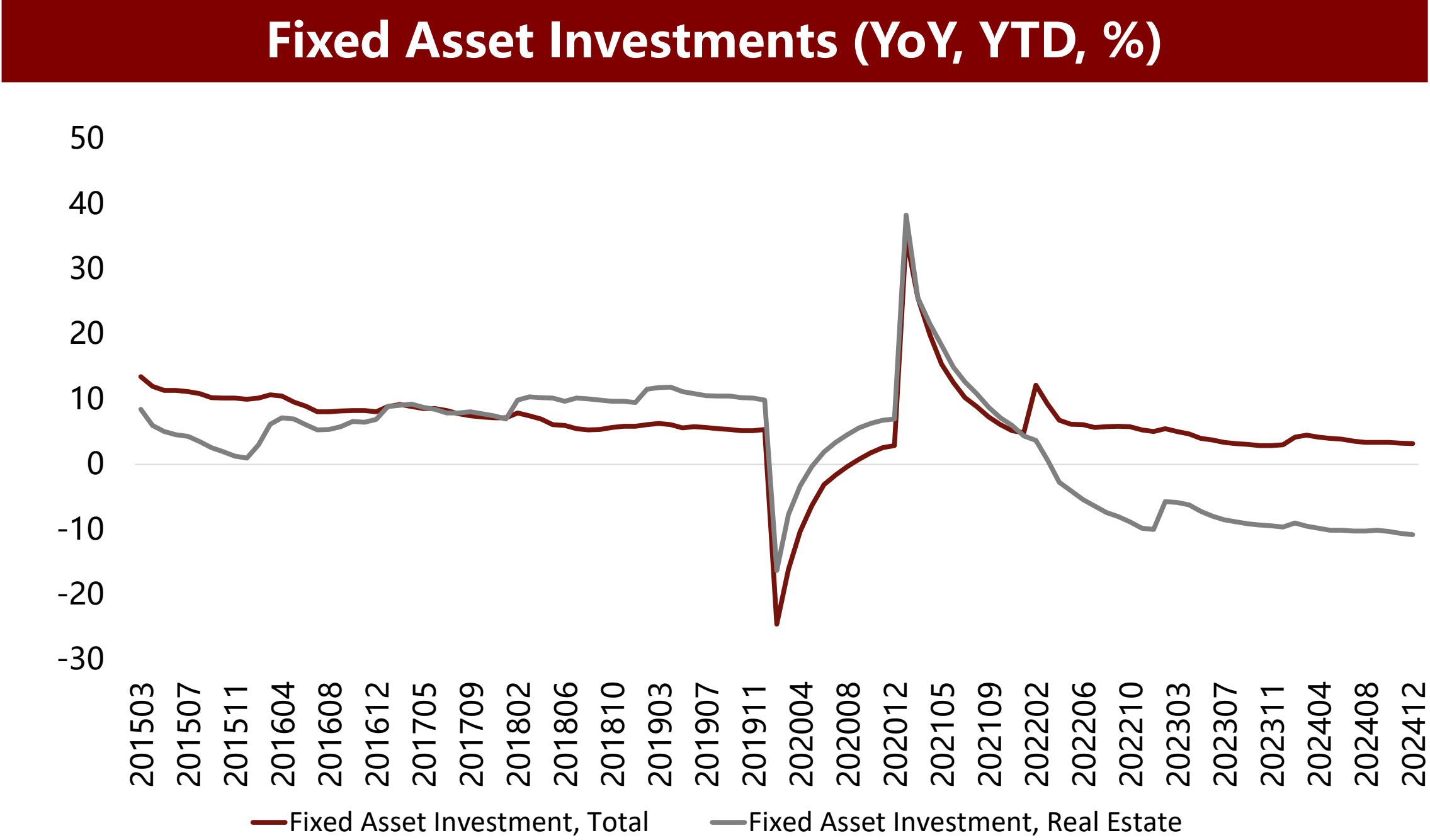


Source: Wind, IMF, World Bank and ICBCI

- Household disposable income growth has slowed, and the wealth effect brought by the property market has weakened.
- The growth of fixed asset investment has declined as there is insufficient space for investment in traditional manufacturing sector.
- Per capita household disposable income in real terms increased 6.1% in 2023 and 5.1% year-on-year in 2024, remaining below the average in the pre-pandemic period.
- Fixed asset investment growth was weighed down by the slowing growth of property investment. Growth rebounded to 3.2% in 2024, yet it was still over one percentage point lower than the pre-pandemic level.

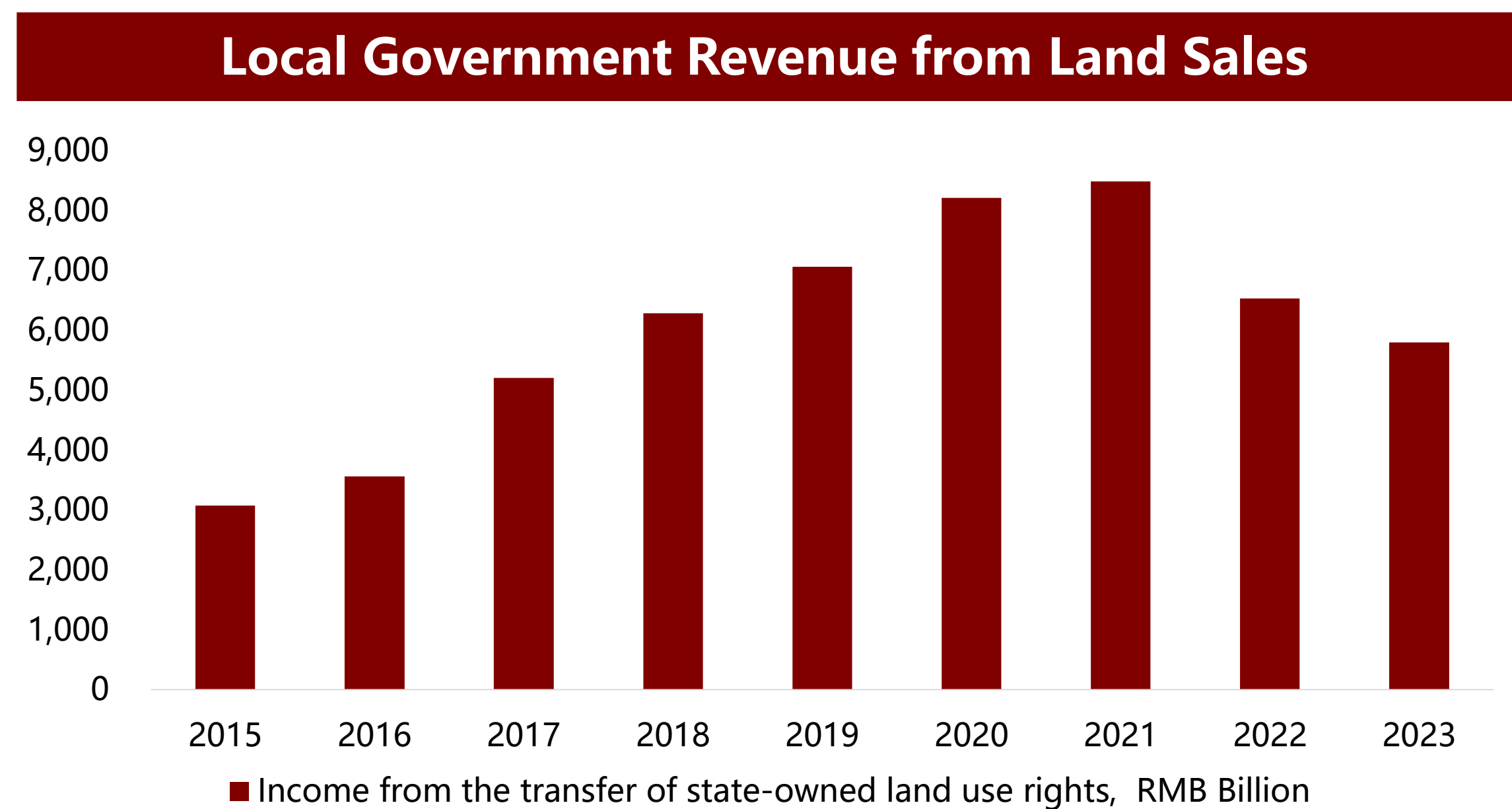


Source: ICBCI, Wind

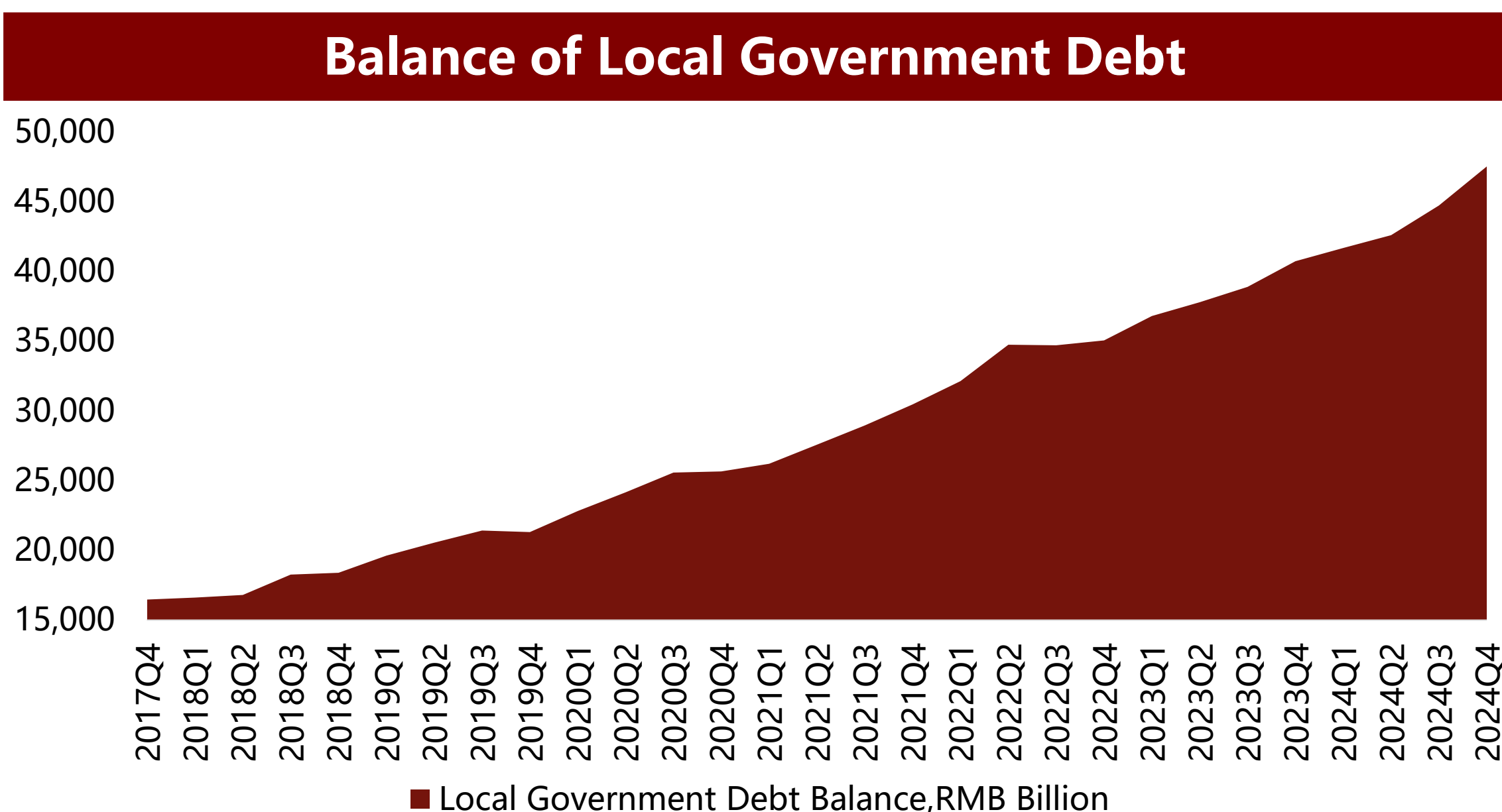


Source: ICBCI, Wind

- The financial system is exposed to risks resulting from the property market, local government debt and small and medium financial institutions.
- Property market risk: Local governments rely on proceeds from land sales to service their debts but the property market correction increases local governments' financial pressure and weakens their ability to repay debts.
- Local government debt risk: As local government debt pressure increases, they have to roll over old debts with new borrowing, which will expand local government debt and raise the risk of defaults.
- Small and medium-sized financial institutions risk: As property market and local government debt risks emerge, small and medium-sized financial institutions face liquidity pressure as they have strong ties to local governments and property market.



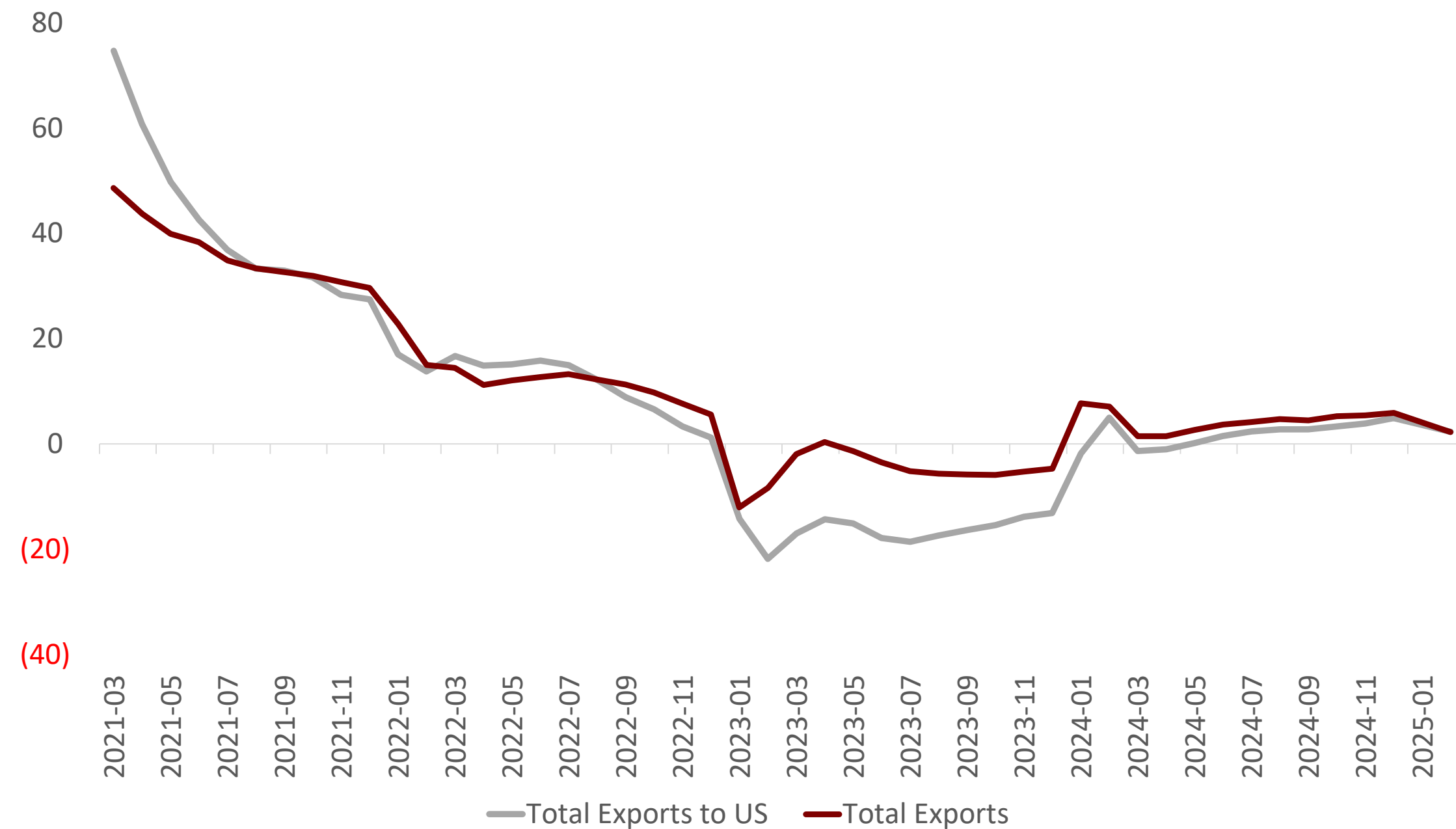
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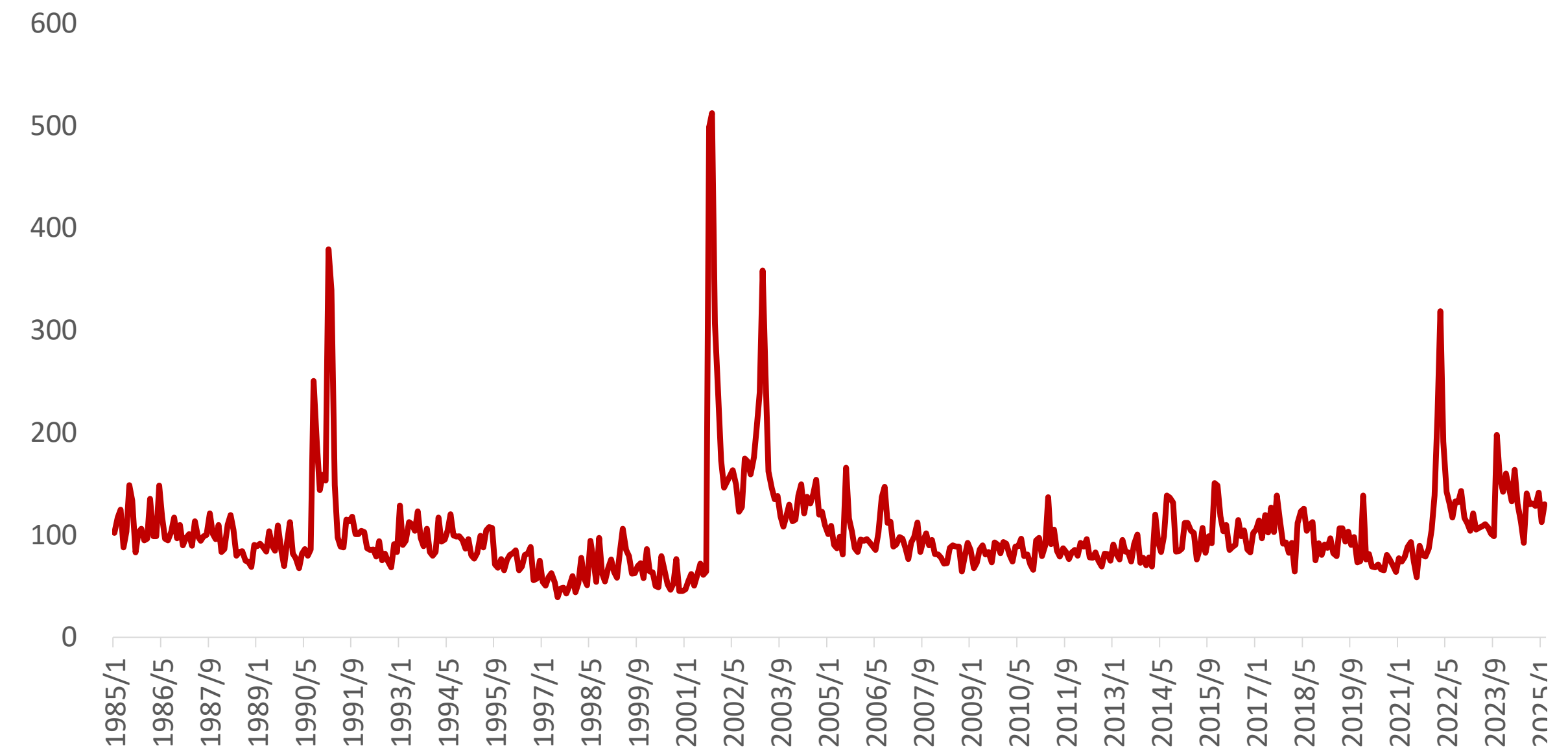
- The increasingly complex geopolitical landscape has posed risks to China's external demand and capital market.
- The rise of trade protectionism: Trump is imposing additional tariff on goods going into US, including goods from China.
- Geopolitical risks: Conflict between Russia and Ukraine is continuing while uncertainties in the Middle East have risen.
- Global inflation has slowed down, but extra tariffs and ongoing geopolitical tensions may cause uncertainties in monetary policy.

China Exports (YoY, %)



Source: ICBCI, Wind

Geopolitical risk index



Source: ICBCI, EPU (The geopolitical risk index, GPR, is a new measure of adverse geopolitical events based on a tally of newspaper articles covering geopolitical tensions and examine its evolution and economic effects.)

Sep 2024 Supportive monetary policy

- Lower the RRR by 50 bps and the 7-day reverse repo rate by 20 bps.
- Cut in the interest rate on existing mortgages and standardized the minimum down payment ratio for all mortgages.
- Create new monetary policy tools to support the stock market.

Sep 2024 the Central Political Bureau meeting

- Increase the adjustment of the fiscal and monetary policy against the cycle.
- Ensure the necessary fiscal expenditure.
- Do a good job of "three guarantees" at the grassroots level.

Oct 2024 incremental policies

- Implementation of the strategically important projects of RMB 100bn next year and arrange in advance RMB 100bn in central budget for investment plan for next year.

Oct 2024 Active fiscal policy

- On the basis of accelerating the implementation of the policy, increase the regulation of fiscal policies to achieve steady growth, expanding domestic demand, reducing risks, and promote high-quality economic development.

Nov 2024 the Standing Committee of the National People's Congress

- Increases the debt limit for local governments by RMB 6tn over three years for swap of hidden debt.
- Allocate RMB 800bn annually in next five years through special purpose bonds for debt swap.
- RMB 10tn will be allocated for swap of hidden debt in next five years.

Dec 2024 the Politburo meeting

- Economic strength, scientific and technological capabilities, and composite national strength have continued to improvemore
- Proactive fiscal policy and a moderately loose monetary policy.
- Enrich and improve the policy toolkit, strengthen unconventional counter-cyclical adjustments

Dec 2024 Central Economic Work Conference

- A more proactive fiscal policy and a moderately loose monetary policy will be implemented in 2025.
- Ensure that fiscal policy is continuously forceful and more impactful
- A moderately loose monetary policy should be implemented, with reductions in the reserve requirement ratio and interest rates at an appropriate timing to ensure ample liquidity

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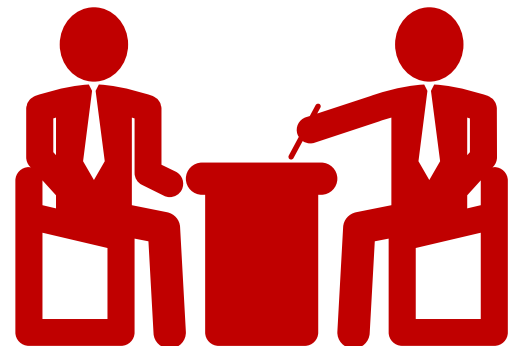
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Cooperation between Europe and China

China's 2025 Economic Targets



GDP Growth:
Around **5%**



New Urban Jobs above
12million



CPI: Around
2%



Resident income
growth in line with
economic growth



A basic balance in
international payments

Surveyed urban unemployment
rate: Around **5.5%**



Grain output above **1.4**
trillion jin (700 billion kg)



Reduce the amount of energy it uses to grow its
gross domestic product by around **3%**

Continued improvement in ecological and
environmental quality

Year		2019	2020	2021	2022	2023	2024	2025
Economic and Social Development	GDP	6%-6.5%	None	Above 6%	Around 5.5%	Around 5%	Around 5%	Around 5%
	CPI	Around 3%	Around 3.5%	Around 3%	Around 3%	Around 3%	Around 3%	Around 2%
	New Urban Jobs	More than 11 million people	More than 9 million people	More than 11 million people	More than 11 million people	More than 12 million people	More than 12 million people	More than 12 million people
	Urban survey unemployment rate	Around 5.5%	Around 6%	Around 5.5%	Around 5.5%	Around 5.5%	Around 5.5%	Around 5.5%
	Energy consumption per unit of GDP	Reduce by 3%	Achieve the goals of the 15th Five-Year Plan	Decreased by 3%	Comprehensive assessment during the 14th Five-Year Plan period	Continue to decline, focus on controlling fossil energy consumption	Decreased by 2.5%	Decreased by 3%

Year		2019	2020	2021	2022	2023	2024	2025
Fiscal Policy	Tone	Active fiscal policies should be strengthened and more effective	Active fiscal policy should be more active and effective	Active fiscal policies should be more sustainable and of higher quality.	Proactive fiscal policies should be strengthened and made more effective	Proactive fiscal policies should be strengthened and made more effective.	Proactive fiscal policies should be strengthened appropriately, and their quality and efficiency should be improved.	Proactive fiscal policies should be more proactive.
	Deficit ratio	2.8%	Above 3.6%	Around 3.2%	Around 2.8%	Around 3%	Around 3%	Around 4%
	National fiscal deficit budget	2760 billion	3760billion	3570billion	3370billion	3880billion	4060billion	5660billion
	local government special debt	2.15 trillion yuan	3.75 trillion yuan	3.65 trillion yuan	3.65 trillion yuan	3.8 trillion yuan	3.9 trillion yuan	4.4 trillion yuan
	Special government bonds (or additional government bonds)	-	-	-	-	I trillion yuan (In October 2023, the Standing Committee of the National People's Congress approved the issuance of an additional I trillion yuan of treasury bonds as special treasury bonds)	I trillion yuan (Starting from this year, it is planned to issue ultra-long-term special government bonds for several consecutive years)	I.3 trillion yuan

Year		2019	2020	2021	2022	2023	2024	2025
Monetary Policy	Positioning	A prudent monetary policy should be moderate in and looseness	A prudent monetary policy should be more flexible and appropriate	A prudent monetary policy should be precise, and reasonably appropriate	Strengthening implementation prudent policy	A prudent monetary policy should be precise and effective	A prudent monetary policy should be moderate, and effective	Implement a moderately loose monetary policy
	Broad Money Supply and Social	Match the growth of nominal GDP	Guide the rate of broad money supply total social financing to be significantly than last year	Maintain a rate basically matching the nominal growth rate	Expand the scale of new loans and maintain a rate basically matching the nominal growth rate	Maintain a rate basically matching the nominal growth rate	Match the expected targets for economic growth and price levels	Match the expected targets for economic growth and price levels

01

Vigorously boosting consumption and investment returns and stimulating domestic demand across the board

- Expand effective investment.
- Launch special initiatives to boost consumption.

03

Fully implementing the strategy of invigorating China through science and education and boosting the overall performance of China's innovation system

- Move faster to build a high-quality education system.
- Improve self-reliance and strength in science and technology.
- Enhance the overall caliber of talent.

02

Developing new quality productive forces in light of local conditions and accelerating the development of a modernized industrial system

- Foster emerging industries and industries of the future.
- Promote the transformation and upgrading of traditional industries.
- Unleash the creativity of the digital economy.

04

Accelerating the implementation of landmark reform measures and better leveraging the leading role of economic structural reform

- Make effective moves to stimulate the vitality of market entities.
- Make thorough efforts to develop a unified national market.
- Further reform the fiscal, taxation, and financial systems.

05

Expanding higher-standard opening up and stabilizing foreign trade and investment

- Work for stable development of foreign trade.
- Vigorously encourage foreign investment.
- Strive for solid progress in pursuing high-quality Belt and Road cooperation.
- Deepen multilateral, bilateral, and regional economic cooperation.

07

Making every effort to deliver in work relating to agriculture, rural areas, and rural residents and taking solid steps to advance all-around rural revitalization

- Continue to improve our capacity for ensuring stable production and supply of grains and other major agricultural products.
- Keep working to consolidate and build on our achievements in poverty alleviation.
- Take solid steps to advance rural reform and development.

06

Effectively preventing and defusing risks in key areas and ensuring that no systemic risks arise

- Make continued efforts to stem the downturn and restore stability in the real estate market.
- Take prudent steps to defuse local government debt risks.
- guard against financial risks.

08

Advancing new urbanization and coordinated regional development and further improving the spatial layout of development

- Advance strategic initiatives for new urbanization.
- Redouble efforts to implement regional strategies.

09

Making coordinated efforts to cut carbon emissions, reduce pollution, pursue green development, and boost economic growth and accelerating the green transition in all areas of economic and social development

- Enhance pollution prevention and control and ecological conservation.
- Accelerate development of the green and low-carbon economy.
- Actively and prudently work toward peaking carbon emissions and achieving carbon neutrality.

10

Working harder to ensure and improve the people's wellbeing and enhancing social governance.

- Strengthen basic medical and health services.
- Improve policies on social security and services.
- Promote cultural-ethical advancement.

Strategic Planning for the Development of New-Quality Productive Forces

- As a priority for China's future development, new-quality productive forces will give rise to a number of high-quality technology enterprises in strategic emerging industries such as artificial intelligence, biopharmaceuticals, and integrated circuits. The rapid growth of these enterprises will also generate significant financing demands.

Upholding Technology-Driven High-Quality Economic Development

- With a focus on innovation-driven growth, strategic emphasis is placed on emerging industries such as artificial intelligence and the low-altitude economy, as well as key components of the high-quality economy, including the digital economy and internet platform economy.
- At the same time, forward-looking planning and deployment are being carried out in future industries such as embodied intelligence, quantum technology, and 6G.
- The report highlights the need for sustained investment in technological research and development, with a stronger emphasis on commercialization and industrialization. The goal is to leverage technological advancements to drive real economy growth and enhance China's long-term global competitiveness.

Content

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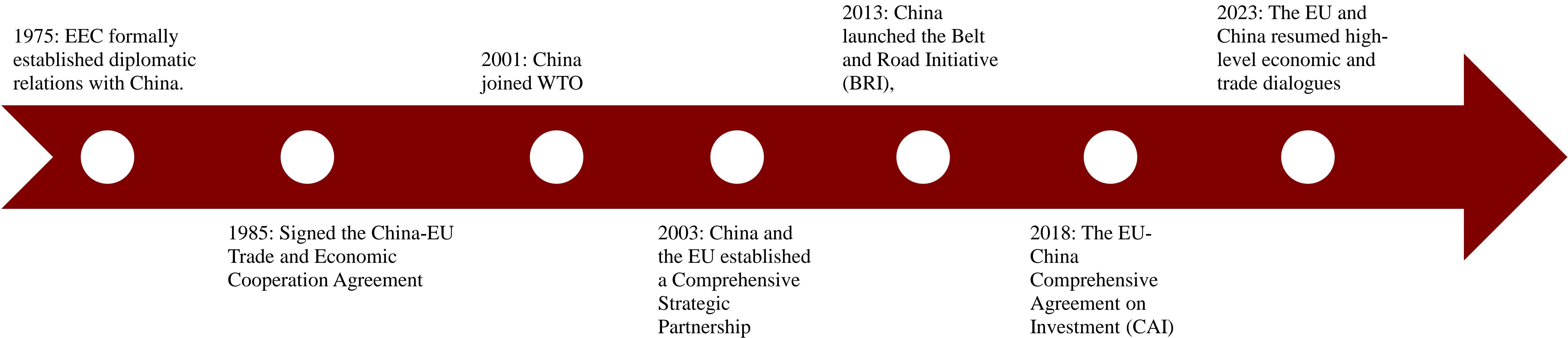
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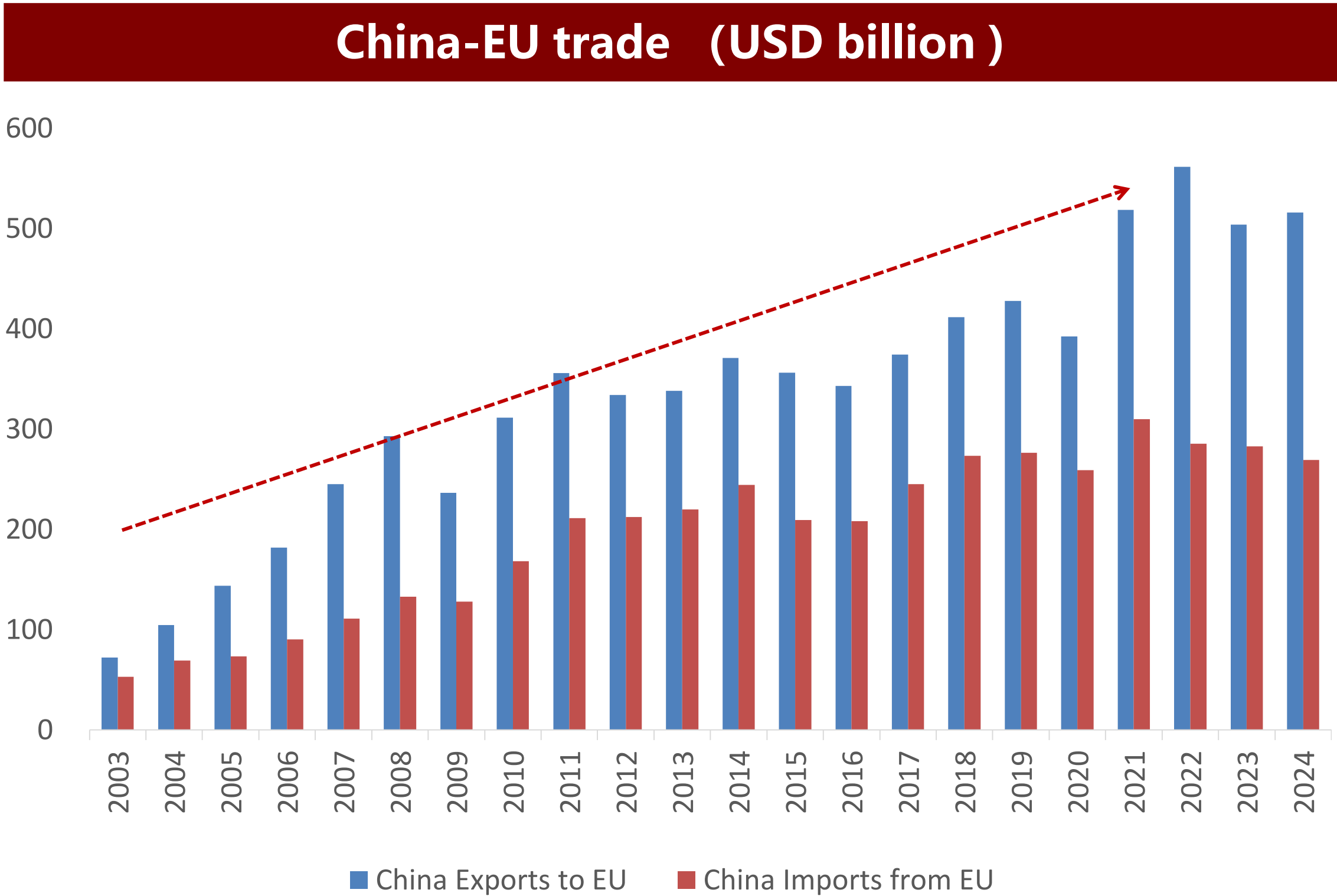
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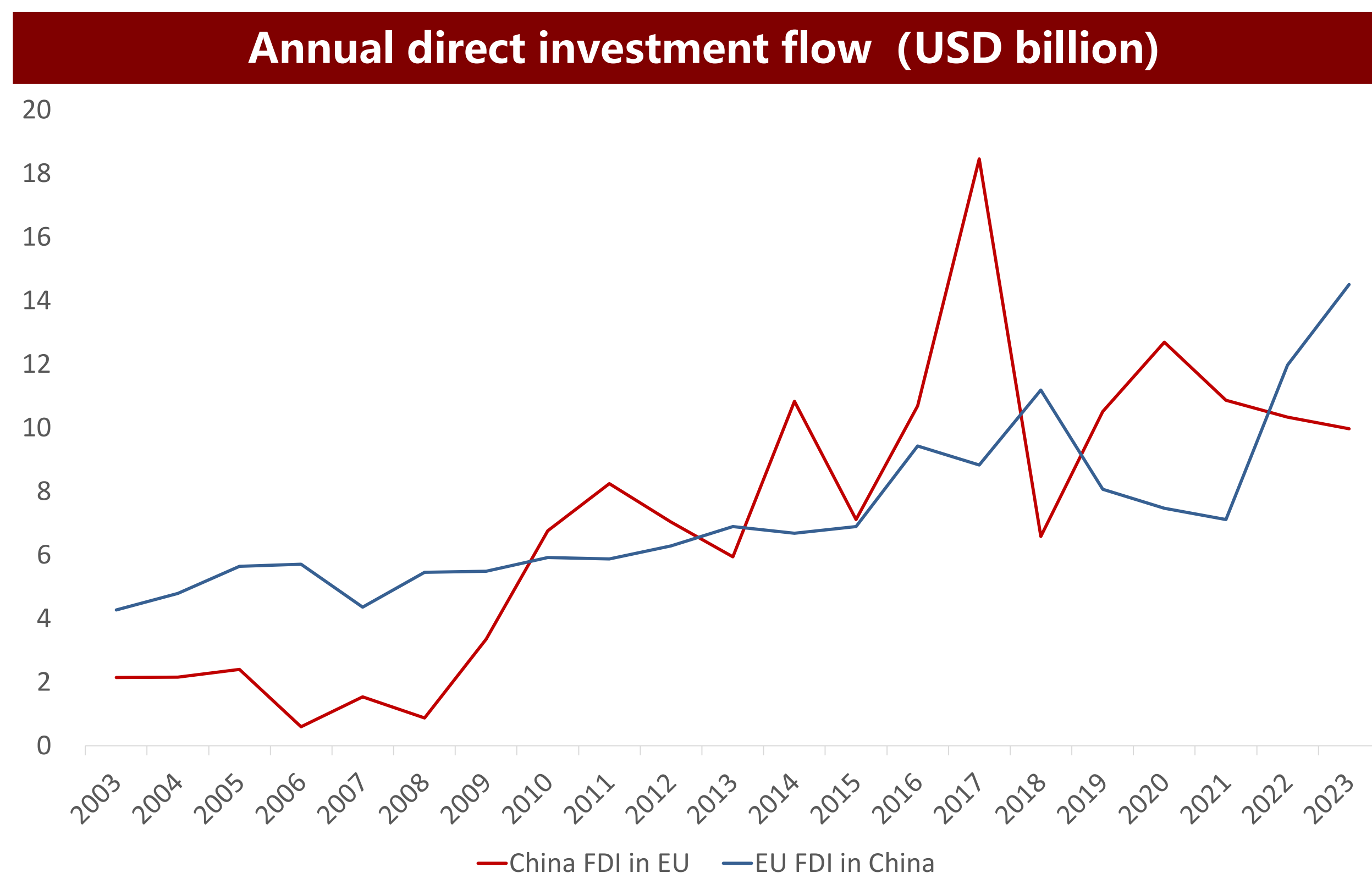


- China and the EU are among the world's largest economic entities, with bilateral trade reaching record levels.
- In 2024, China-EU trade exceeded \$700 billion, solidifying their positions as each other’s second-largest trading partners. The volume of trade has experienced consistent growth, with China serving as the EU’s largest source of imports and its third-largest export destination.
- This dynamic trade relationship is characterized by complementary economic structures. The EU exports machinery & vehicles, followed by other manufactured goods and chemicals to China, while China supplies machinery & vehicles followed by other manufactured goods and chemicals.



Source: ICBCI, Wind

- Beyond trade, China and the EU have established deep investment linkages.
- As of 2024, two-way investment stock exceeded \$260 billion, reflecting growing European business interests in China's rapidly evolving market and China's continued investments in European infrastructure, technology, and renewable energy.
- The Comprehensive Agreement on Investment (CAI), though stalled, reflects the ongoing interest in deepening economic ties.



Source: ICBCI, Wind

Opportunities

Green Energy & Carbon Market Cooperation

- The EU and China share ambitious climate goals, with both economies investing heavily in renewable energy, carbon trading, and green finance. Strengthening collaboration in solar, wind, and hydrogen energy can drive innovation and cost efficiency while supporting global sustainability efforts.

Digital Economy & AI Governance

- As AI and digital transformation reshape industries, the EU and China have both introduced regulations on AI ethics, data privacy, and cybersecurity. Aligning governance frameworks could help create a safer and more transparent digital economy while fostering innovation.

Semiconductor & Advanced Manufacturing

- Both the EU and China are heavily investing in semiconductor R&D and supply chain resilience. While the EU seeks to enhance chip production independence, China is scaling up next-generation semiconductor technologies.

Financial Market Integration & Green Finance

- China's financial markets are opening up, and the EU leads in green finance and ESG investments. Deeper capital market integration can improve sustainable investment flows and encourage joint development of green financial products.

Thanks!

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UNDER REVIEW :Analyst currently does not have adequate conviction about total stock return (including dividends) relative to relevant market index over next 12 months

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