China | What do we expect for 2024 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. 2024 is also the year that NPC has established for 70 years and CPPCC for 75 years. This year, the NPC conference will commence on March 5th 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 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 risks to the announcement of 2024 key economic targets and policy stimulus plan, from promoting high-end manufacturing, green economy and technology advancement as China’s “new growth model” to outlining the blueprint of “Chinese-style modernization” with high-quality growth, etc.

The 2024 March “two sessions” have specially attracted global attention due to a confluence of domestic and international factors, including the ongoing China’s economic downturn, the housing market crash, China’s historical drop of FDI, global economic slowdown and global central banks’ 2024 “pivot”, as well as the rising geopolitical tensions including the 2024 US president election and Taiwan’s newly elected president 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 solve housing market crash and to outline the expansionary monetary and fiscal policy to rebuild market confidence, but also a series of long-term issues, such as aging problem, debt overhang, urbanization, geopolitics and Chinese style modernization.

Here are the highlights of what we expect of 2024 March ‘two sessions”:

- **To promote “Chinese style modernization” is the new concentration.** In our opinion, “Chinese style modernization” is a new political slogan but intrinsically similar to the previous one such as “Chinese new growth model” which was raised in 2021. (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. Beyond the economic implications, “Chinese style modernization” should also consider common prosperity of the people, balanced regional development, etc.

- **GDP growth target for 2024 is anticipated to set at "around 5%" and 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 latter one as the "around 5%" growth target is in line with the authorities' determinations to stimulate housing market and to rebuild the market confidence given that China still has policy room to maneuver the growth prospective. It is also in line with IMF's China growth forecasting at 4.6% and market consensus forecasting at 4.6%. 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 ongoing deflationary environment. (Table 1)

- **Expansionary fiscal policy to stimulate growth and rebuild market sentiments**. We expect the 2024 fiscal deficit to be announced around 3% red line, while the actual 2024 fiscal deficit is anticipated to be 3.5-3.8%. Most of the extra RMB 1 trillion special government bond issued at end-2023 will be deployed to stimulate infrastructure investment in 2024. It is expected the authorities will issue special government bond in 2024 by another RMB 1 trillion, similar as of the end-2023. The local government special bond issuance quota is also anticipated to be raised to RMB 4 trillion, part of them will be used to swap the local government debt and local government financial vehicles. In addition, tax cut/refund and fee deduction are also anticipated but with a much lower amount compared with the Covid-19 pandemic period.

- **Easing monetary policy to support growth but will refrain from resorting to a deluge of strong stimulus,** considering financial stability and debt concern. 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 which we estimate will be around 7.5-8%. In addition, the monetary policy will refrain from resorting to a deluge of strong stimulus policies, considering the FED and ECB's "high for longer" policy rate and the financial instability risks such as debt overhang, RMB depreciation and capital outflows etc. Under this circumstance, we anticipate 2-3 LPR cuts in 2024 and another 2 RRR cuts this year after FED materializes interest rate cut possibly in June 2024, on top of the recent RRR cut and asymmetric 5-year LPR cut at the beginning of the year. 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.

- **To deal with the potential financial risks and China's long-term challenges.** These potential financial risks chiefly include real estate market risk, local government debt and small financial institutions risk, as mentioned and emphasized in the Central Government Economic Conference in December 2023. Among all these risks, real estate remains the top priority. We anticipate there will be more easing measures on housing market both for the supply and demand side, such as further lowering the mortgage rate and the down payment ratio, easing the restrictions of second and third house purchase in tier-1 and tier-2 cities etc. from the demand perspective, as well as to continue to carefully deal with the liquidation of big crashed housing developers from the supply side. Other housing policies such as "housing is to dwell in not to speculate" as well as to promoting "three large projects" of housing sector such as to construct indemnificatory housing, "village in the city" reconstruction and public facilities under both normal conditions and in emergencies will persist in 2024. Beyond the short-term risks, the authorities will also promulgate the plans to deal with the long-term issues, such as aging, debt overhang, urbanization and Chinese modernization etc.

- **To attract FDI inflows and guide them to the high-end manufacturing and green economy sectors.** China's historical low FDI inflows have been attracting global eyes recently. China's authorities should deliver the message to the world that they are still growth oriented and know how to balance growth and national securities. First, Chinese government is expected to announce to persist reform and opening up policy and enhance foreign investor's sentiments to invest in China by promulgating more preferential policies on FDI. Second, Chinese government needs to continue to support Chinese economic growth and to avoid systemic financial risks, as the stable domestic environment is the prerequisite of foreign FDI. Third, Chinese government needs to stabilize China-US relationship as well as to establish deeper investment and trade relationship with One Belt One Road (OBOR) and RCEP countries. Although the China-US long-term trade war, technology war and finance war will persist in the future, Chinese government could still seek some marginal improvement of bilateral relationship with the US. (see our recent Economic Watch: China | Should we worry about the falling FDI?)

Table 1. COMPARISON OF 2023 AND 2024 TARGETS ANTICIPATED TO BE ANNOUNCED BY THE GOVERNMENT WORK REPORT

	2023 target	2023 actual	2024 target expected
GDP	around 5%	5.2%	4.5-5%
CPI	3%	0.2%	3%
M2	In line with nominal GDP growth	11.3%	In line with nominal GDP growth
Total social financing	In line with nominal GDP growth	9.5%	In line with nominal GDP growth
Fiscal Deficit	-2.8%	-3.8%	-3%
Special Government Bond	No issuance	RMB 1 trillion	RMB 1 trillion
Local Government Special Bond	RMB 3.65 trillion	RMB 5.99 trillion	RMB 4 trillion
Survey unemployment rate	5.5%	5.2%	5%

Source: BBVA Research and 2023 Government Work Report

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