UOB Investment Insights

Thinking Ahead

11 March 2025

Key takeaways

- Announcements from China's National People's Congress (NPC) meeting were largely in line with expectations, promising greater efforts to support domestic consumption.
- Investors now anticipate more stimulus measures to achieve the economic growth target.
- China's support measures may mitigate external headwinds, but the Asia outlook remains uncertain. Investors with the appropriate risk profile can consider a market neutral strategy for Asia.

China focuses on boosting consumption to mitigate impact of external headwinds

At China's annual week-long NPC meeting which began on 5 March 2025, boosting domestic consumption was the government's top priority among all policies unveiled. Chinese stock markets reacted positively as investors anticipate fresh stimulus from Beijing and grew increasingly optimistic about China's artificial intelligence (AI) capabilities.

Key takeaways from China's NPC meeting

1. **Growth target set at "around 5%", boosting consumption is now the top priority**
    - The Chinese government kept its economic growth target unchanged at "around 5%" for 2025 despite escalating trade tensions with the United States (US) and a sluggish domestic economy.
    - Boosting consumption is now China's top priority for the first time in over a decade.
    - The government will offer loans at subsidised rates for personal consumption in certain areas, and for businesses like catering, accommodation, elderly care, and housekeeping. An action plan for a special program to boost consumption will also be released soon.
2. **Monetary policy easing set to continue but there are limits**
    - China intends to lower interest rates and the Reserve Requirement Ratio (RRR) at an appropriate time to encourage borrowing and stimulate consumer demand.
    - However, the scope for monetary easing may be limited if a weak currency threatens broader financial risk.
3. **More proactive fiscal policy, fiscal budget deficit to rise to around 4% of GDP**
    - Fiscal stimulus is expected to play a significant role, and a higher fiscal deficit target provides reassurance the Chinese government will do more to boost economic growth, mitigate the impact of US tariffs, support the property market, and counteract deflationary pressures.
    - Of the CNY 11.86 trillion of total bond issuance planned for this year, the government plans to issue a total of CNY 1.3 trillion in ultra-long special sovereign bonds.

- CNY 300 billion will fund subsidies for Chinese residents to purchase consumer goods such as cars, appliances, and home products. The remaining funds will support major infrastructure projects and help companies upgrade their equipment.

- An additional CNY 500 billion in special sovereign debt will be issued to bolster core tier-1 capital levels of major state-owned banks, so they can help support the economic recovery.
  - State banks have been facing increased pressure due to record low net interest margins resulting from China's interest rate cuts and mortgage rate reductions, as well as slowing profit growth and rising bad debt levels.
- Local governments will also be allowed to issue CNY 4.4 trillion in special debt this year for infrastructure spending.

4. **Promote foreign investments**
   - China will ramp up efforts to encourage foreign investments and support collaboration with companies across the supply chain.
   - Premier Li Qiang affirmed the country's commitment to open up its economy, promising further reforms and development opportunities.
5. **Accelerate artificial intelligence (AI) development**
   - China called for a broader deployment of AI in the country's manufacturing sector, with the aim of leveraging its industrial strength through AI applications.
   - The government continues to pursue development in Electric Vehicles (EV) and said it would "vigorously develop" AI capability for new energy vehicles as part of its broader AI initiatives.
   - A new bond platform will be established to assist tech companies in issuing debt onshore and utilizing the funds for innovation, mergers and acquisitions, and project financing.

What you can do

- The NPC meeting announcements were in line with expectations. Due to growing uncertainty caused by tariffs and geopolitical issues, achieving the growth target of around 5% will require more government support.
- Anchor your portfolio with Core investments such as multi-asset strategies that can lower portfolio volatility while capturing opportunities in different asset classes, sectors and regions. You may also consider investment grade bond funds given attractive bond yields.
- The Chinese government's commitment to larger stimulus and support for AI development may help to mitigate the impact of external headwinds, supporting the economy and financial markets. That said, the actual implementation and impact of the stimulus remains to be observed.
- The outlook for the rest of Asia remains uncertain due to potential global trade tensions. Investors with the appropriate risk appetite can consider a market-neutral strategy for Asia, designed to generate returns regardless of market movements and help reduce portfolio volatility.
- Speak to a UOB Advisor to find out how these events may impact your portfolio.

Right By You

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