BEA 東亞銀行

Economic Research **March 2025**

Market Monitor – Chinese Mainland

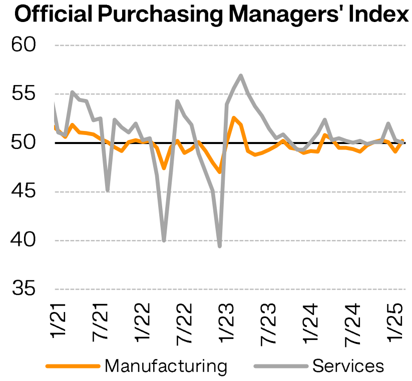
A 5% growth target reflects confidence in the Mainland economy

- Continuous policy support and technology breakthroughs supported growth momentum after the Chinese New Year.
- The Government Work Report maintained a 5% GDP growth target, indicating confidence on the Mainland economy amid external uncertainties.
- Stronger policy support and confidence in the Chinese Mainland's technological development partly offset the trade policy uncertainties.

Growth momentum held up in early 2025

Continuous policy support and technology breakthroughs supported growth momentum after the Chinese New Year. Since September 2024, the Mainland authorities continued to step up efforts in stabilising the economy, boosting consumption, and supporting the asset market recovery. In late January, technological breakthroughs from the artificial intelligence (AI) start-up DeepSeek has notably boosted market confidence towards the Mainland's high-quality development. The above development is expected to drive a firmer start at the beginning of 2025. In February, both official and Caixin manufacturing PMIs increased from 49.1 and 50.1 in January to 50.2 and 50.8, respectively, while their services PMIs stayed unchanged at 50.0 and increased from 51.0 to 51.4, respectively, in February. It is also worth noting that the official financial services and capital market sub-indices outperformed in February, driven by the recent equity market rally. Meanwhile, a notable rebound of property sales was recorded among the nation's top 100 developers in February, though it remains to be seen if the improvement can be spread more widely.

Official Purchasing Managers' Index

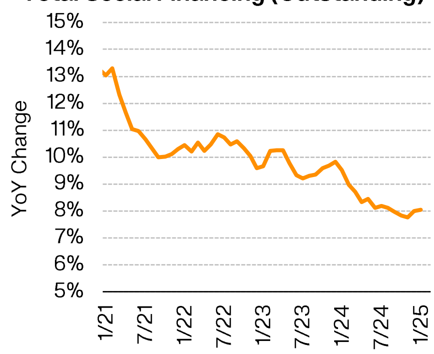


Source: CEIC

Monetary statistics indicated support from an appropriately accommodative policy stance in early 2025. In January 2025, the Chinese Mainland's RMB loans and total social financing (TSF) grew by RMB 5.1 trillion and 7.1 trillion, respectively.

Medium- to long-term loans for enterprises increased by RMB 3.5 trillion, as banks often front-load lending to utilise their quota effectively. Solid government bond issuance also contributed to the 8.0% year-on-year (YoY) increase in the outstanding TSF, indicating macro-policies remain in supportive mode.

Total Social Financing (Outstanding)



Source: CEIC

A 5% growth target reflects confidence in the Mainland economy amid external uncertainties

The Central Government is committed to stabilising the economy. The Government Work Report (GWR) confirmed that key macroeconomic goals remain largely unchanged from the previous year: the GDP growth target is maintained at around 5%, while the surveyed urban unemployment rate target is set at around 5.5%, and more than 12 million new urban jobs are expected to be created. Recognising easing cost pressure, the inflation target is lowered for the first time in more than two decades from 3% to 2%. These targets reflect a strategic effort not only to stabilise the economy but also to address social needs, thereby laying a robust foundation for the upcoming 15th Five-Year Plan.

More forceful and well-coordinated policies to ensure steady growth ahead. Fiscal policy will adopt an expansionary stance, with a higher budgeted deficit-to-GDP ratio (from 3% in 2024 to around 4% in 2025), a higher issuance quota of special local government bonds (from RMB 3.9 trillion to 4.4 trillion) and ultra-long special treasury bonds (from RMB 1.0 trillion to 1.3 trillion), and an issuance of RMB 500 billion of special treasury bonds for capital injections into major banks. Monetary policy will be appropriately accommodative, with a commitment to making timely cuts to required reserve ratios and interest rates when needed. New structural monetary policy instruments are also under consideration to enhance support for key sectors such as real estate, the stock market, technology, green development, consumption, and private enterprises. Moreover, the authorities are also committed to better coordinate between fiscal, monetary, employment, industrial, regional, trade, environmental, regulatory, and other policies so as to unleash greater synergy.

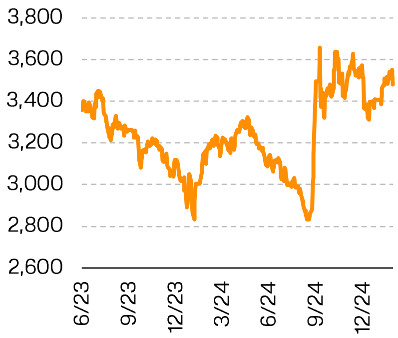
Boosting domestic demand and developing new quality productive forces are the top policy priorities. First, addressing inadequate domestic demand, particularly through enhancing consumption, is the top policy priority for 2025. The GWR outlines a comprehensive strategy to stimulate spending power, improve the supply of quality goods and services, and create a favourable consumption environment. The Central Government will also issue RMB 300 billion in ultra-long special treasury bonds to support consumer goods trade-in programmes, and RMB 735 billion will be earmarked for funding investment projects.

Second, the GWR calls for fostering new growth drivers while revitalising traditional sectors, reflecting a commitment to high-quality development. Emerging industries such as commercial space, the low-altitude economy, bio-manufacturing, quantum technology, 6G technology and embodied AI are highlighted. Furthermore, stepping up support for private enterprises and fostering a more equitable market environment; expanding higher-standard opening up and stabilising foreign trade and investment; defusing risks in key areas, including housing, financial and local government debt risks; and ensuring no systemic risks, etc., are also highlighted in GWR as this year's work priorities. All these reflected the Central Government's comprehensive efforts to not only stabilise short-term growth and defuse risks, but also to further accelerate high-quality development and cultivate reforms for the longer term.

US policy uncertainties will continue to cloud the Mainland's external outlook

China will remain a major target for the new US administration. After 10% tariffs on all Chinese imports were effective on 4th February, another 10% tariff on all imports and 25% on steel and aluminium were or will soon be implemented on 4th March and 12th March, respectively. The America First Investment Policy memorandum would also restrict the bilateral investment between the two countries. Moreover, the US is also considering reciprocal tariffs and reviewing the all-round trade relation with China under the memorandum of the America First Trade Policy, which is due to be completed in early April. In response, China retaliated with 10-15% tariffs on US agricultural products, such as chicken, wheat, cotton and soybeans (effective on 10th March) and added 15 and 10 US companies to its export control list and Unreliable Entity List, respectively. However, it remains to be seen whether the US will further respond to China's retaliatory measures. More Chinese goods are expected to be subject to higher tariffs, and China-US relations could remain tense until both sides are able to negotiate a new economic and trade relationship in the future. Nevertheless, as discussed above, the continuous policy support and technology breakthroughs have notably supported growth momentum and confidence, which could be a meaningful offset to the challenges created by US trade policy.

Shanghai Stock Exchange A Share Index



Source: Bloomberg, data as of 28/2/2025

Technological breakthroughs drove the recent equity rally

A strong equity rally was recorded in February despite external uncertainties. Recently, China's breakthrough in AI and other technological areas, together with President Xi's convening of a symposium with private enterprises, including influential technology start-ups, has boosted investor confidence in China's efforts to accelerate high-quality development. Moreover, the market expected more policy support to come after the Two Sessions. Market sentiment improved notably, and the Shanghai Stock Exchange A-share index rose by 2.2% in February. However, the tariff threats from the US somewhat affected currency performance. The onshore CNY and offshore CNH fluctuated between the range of 7.2400 and 7.3200 per US dollar in February.

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