FUND LAUNCHED
2005

FUNDS UNDER MANAGEMENT
£517.6
MILLION

NET ASSET VALUE PER SHARE
444.6%
SINCE INCEPTION*

UTILICO Emerging Markets Trust plc

China's National People's Conference

March 2025

China concluded the yearly Two Sessions during the first week of March, unveiling a series of strategic initiatives aimed at bolstering economic stability, fostering domestic demand and driving technological innovation on the back of AI application. Overall, the outcomes largely aligned with expectations, particularly regarding the fiscal budget for 2025, which was then reflected in the somewhat neutral-to-positive market reactions following the release of the Government Work Report ("GWR") on 5 March, with the SSE Composite edging up 0.53% and the Hang Seng Index rising by 2.8%.[1] However, the February inflation data published post Sessions on 10 March indicated persistent weakness in CPI (-0.7% YoY) and PPI (-2.2% YoY),[2] prompting the question: are these measures sufficient to break China's deflationary woes?

Our key takeaways from the National People's Congress ("NPC")

Summary of key targets from 2025's NPC				
	2025 Targets	2024 Targets	2024 Actuals	2025 v.s. 2024 Targets
Growth target	Around 5.0%	Around 5.0%	5.0%	0.0 ppt *
Inflation target	Around 2.0%	3.0%	0.2%	-1.0 ppt
Urban surveyed unemployment rate	Around 5.5%	Around 5.5%	5.1%	0.0 ppt
Fiscal deficit to GDP ratio	4.0%	3.0%	3.0%	+1.0 ppt
Fiscal deficit in absolute value terms	RMB 5.66 tn **	RMB 4.06 tn	RMB 4.06 tn	RMB +1.60 tn
Ultra long-term Special Treasury Bond (Central government)	RMB 1.3 tn	RMB 1.0 tn	RMB 1.0 tn	RMB +0.3 tn
- of which the allocation to consumer goods trade-in scheme	*RMB 0.3 tn*	*RMB 0.15 tn*	*RMB 0.15 tn*	*Doubled*
Special Treasury Bond for banks' capital replenishement (Central government)	RMB 0.5 tn	0	0	RMB +0.5 tn
Local Government Special-Purpose Bond	RMB 4.4 tn	RMB 3.9 tn	RMB 4.0 tn	RMB +0.5 tn

Source: The State Council of the P.R.C, Ministry of Finance of the P.R.C, ICM analysis
* Percentage point
** Trillion

Economic Growth and Inflation

The GDP growth target remains unchanged at "around 5%" for 2025, reflecting a cautious yet determined approach to economic expansion amid external trade uncertainties, although the continuous adoption of “around 5%” is clearly enabling the Chinese government wiggle room to miss the target which might highlight question marks around policy markers’ confidence to reach this target. Meanwhile, the inflation target has been cut to 2% from 3% for the first time since 2004, indicating policy makers' increased focus on tackling subdued consumer prices. Given the potential for prolonged weakness in inflation, patience will be required to invigorate domestic demand.

Monetary Policy and Rate Cuts

The "moderately loose" stance introduced at December’s Central Economic Work Conference - marking the first major shift from "prudent" to "moderately loose" since 2011 - remains in place, implying further monetary easing ahead with the market generally expecting 30-40 bps of interest rate cuts in 2025.[3] With deflationary risks mounting, as reflected in February's consumer price data as mentioned above (albeit in part due to last year’s high base from the Chinese New Year holiday), pressure is increasing on the People's Bank of China ("PBoC") to implement rate cuts. However, uncertainties surrounding tariffs from the US pose an additional challenge, as the PBoC wants to defend the yuan against the dollar particularly given rising tensions in what some are calling "Trade War 2.0."

Fiscal Policy and Government Expenditure

The fiscal deficit-to-GDP ratio has been raised from 3% (RMB 4.06 trillion) in 2024 to 4% (RMB 5.66 trillion) in 2025, again aligning with consensus expectations. Having said that, this marks a historic high for China over the past three decades, signalling stepped-up fiscal support at the central government level with RMB 1.3 trillion in ultra-long-term special treasury bonds lined up, compared to RMB 1 trillion in 2024,[4] alongside RMB 0.5 trillion earmarked for capital replenishment for large state-owned banks.

Further, the local government special-purpose bond ("LGSB") quota is set at RMB 4.4 trillion, an increase of RMB 0.5 trillion from last year, primarily aimed at idle land buybacks, property destocking, and settling overdue payments. With anticipated rate cuts ahead, capital deployment for land and property buybacks is likely to accelerate. However, this could also limit fresh investment in infrastructure. Additionally, given that local government revenue from land sales may underperform amid a weak property market, questions remain as to whether local government expenditure will meet expectations – appears that local government hands continue to be tied.

Consumption and Labor Market Initiatives

Consumption was a key focus in the GWR and is now a top priority on the government’s 2025 agenda. RMB 300 billion (out of the abovementioned RMB 1.3 trillion special treasury bond) has been allocated to the consumer goods trade-in initiative, effectively doubling the amount allocated in 2024 and expanding the scope of durable goods included. While this remains a small share of GDP, it signals a shift toward reviving domestic demand in the near term. However, for long-term structural improvements in consumption, additional measures to boost household income expectations will be necessary, which we believe are key to improve sentiment in the market.

Relatedly, birth support was introduced in the GWR for the first time, and several labour market proposals were discussed, including reducing tax burdens for low-income workers and exploring shorter workweeks to enhance the spending power of younger demographics. The key however remains in the detail which is yet to be released.

Technological and Defence Investments

Technological innovation remains a major focus in the GWR, with increased focuses on embodied AI, biomanufacturing, quantum technology, and 6G. The report outlines initiatives such as "AI+", promoting cross-border data flows and calling for application of large-scale AI models, expansion of AI use cases, and development of next-generation smart products such as AI phones, robotics, EV and intelligent manufacturing equipment. Separately, the defence budget has increased by 7.2% in response to a "severe external environment", underscoring China's commitment to continue safeguarding sovereignty and security amid heightened geopolitical tensions.

Conclusion

China appears to be moving in the right direction, prioritising domestic demand amid external headwinds. The stimulus measures announced at this year's Two Sessions meet baseline expectations, but we continue to need to seek out stronger measures that will structurally address inflation concerns, as well as industry-specific policies to revive the private economy. That said, given the incremental nature of Chinese policymaking - designed to avoid major shocks - we anticipate a gradual approach to economic adjustments. Overall, we remain cautiously optimistic given structural challenges and heightened external risks to China's growth trajectory. UEM continuously seeks investment opportunities that stand to benefit from China's long-term economic transformation, driven by advancements such as digital infrastructure and beyond.

Gillian Zhao
13 March, 2025

Source Data: ICM Limited. All references are from the Government's Work Report 2025, retrieved from https://www.gov.cn/yaowen/liebiao/202503/content_7010168.htm unless otherwise stated below:
1.Factset data
2.National Bureau of Statistics of China, retrieved from https://data.stats.gov.cn/english/easyquery.htm?cn=A01
3.The State Council of the P.R.C, retrieved from https://english.www.gov.cn/news/202412/12/content_WS675ae633c6d0868f4e8ede69.html
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