

China NPC Preview

04/03/2022

What is the NPC?

The 13th National People's Congress (NPC) will kick off its fifth annual session in **Beijing on March 5**.

The meeting is fundamentally vital for China's top leaders to review the government work report and discuss the implementation of the annual plan on national economic and social development for 2021, as well as the draft plan on national economic and social development for 2022.

This is an important meeting and will be packed with data releases. The session will examine the report on implementing the central and local budgets for 2021 and the draft central and local budgets for 2022.

Stonehorn Global Partners will receive and review all information as it is released in real-time. This event will outline critical policy implications which are vital to consider when investing in China. We will draft a summary report following the 2-week conclusion of the NPC.

What do you need to know?

The China Economic Work Conference (CEWC) emphasised that '**stability**' will be the priority for 2022. The word stability was mentioned over 26 times and will be a key mantra of the NPC.

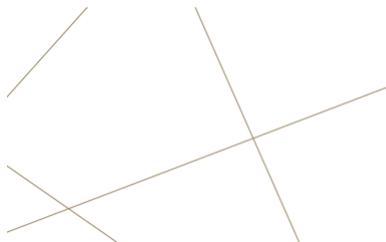
The Politburo meeting on February 25 stressed "strengthening the implementation of macro policies to stabilise the economy." In anticipation of the NPC, we have analysed several critical policy documents and spoken to connected market observers. Stimulative monetary and fiscal policies will be confirmed, too; **pro-growth measures** will take the lead in conversations.

Policy indications and implications:

Over recent months, the following statements have foreshadowed some of what we expect to be emphasised at the NPC:

- February 2, 2022, Finance Minister Liu Kun said that **tax cuts** would be larger in 2022 than last year's RMB 1.1trn (USD 174b) reductions. Liu Kun also said, "This year, the central government will significantly increase the size of transfer payments, especially general transfer payments, and continue to favour regions with difficulties and underdeveloped areas." **Rural reform and SME support** are important topics at the NPC as well.
- January 5, 2022, Premier Li Keqiang stressed intensified implementation of **tax and fee cuts** to provide relief to businesses and revitalise the market.
- December 27, 2021, the Ministry of Finance reiterated that it would "strengthen the coordination and linkage of fiscal and monetary, employment, and other policies" and that the government will "give play to the role of **fiscal policy** to stabilise investment and promote consumption."

In general, we expect the NPC to promote **high-quality development**, advance higher-level opening-up, boost rural vitalisation, and **improve people's wellbeing**.



We also expect national legislators and political advisors, especially those from **sci-tech sectors**, to discuss ways to reinforce China's strength in the sci-tech field and its innovation capability, including renewables and **China's green pursuit**.

The inside scoop, what the numbers will likely be

GDP target of approximately 5% - Local governments have announced growth targets for all provinces in 2022. Weighted by 2021 provincial GDP, the average growth target is 6.1%. Typically, the weighted average of provincial growth targets is higher than the nation's growth target; for example, last year, we saw a 0.8% gap between these targets.

We believe there are two possibilities: (1) a target range of 5-6%, or (2) a point target of around 5%. The GDP target figures will give valuable information about fiscal and monetary policy.

Fiscal Deficit Target at 3.2% - Last year, the fiscal deficit target was equivalent to 3.2% of GDP or RMB 3.6trn (USD 569.6b). The actual fiscal deficit was only 2.7% of GDP due to higher than budgeted fiscal revenue growth, lower than budget fiscal expenditure growth, and higher-than-budget nominal GDP. We expect a fiscal deficit of approximately 3.2% of GDP this year, dependent on the GDP growth target. The fiscal deficit target is a crucial indicator of the expected stimulative policy measures.

Monetary policy easing - The PBOC's 4Q 2021 Monetary Policy Implementation report stated that prudent monetary policy should be both flexible and appropriate. Monetary policy should be front-loaded. Credit and Total Social Financing (TSF)¹ growth should provide structural growth to SMEs.

We expect one more 50bp RRR cut and a small increase in TSF growth of approximately 10.7% (vs. ~9% nominal GDP growth and compared to 10.3% TSF growth in 2021).

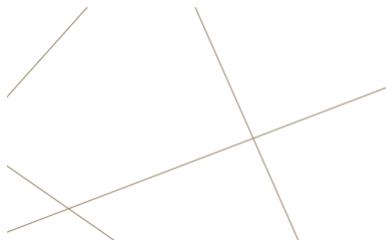
The medium-term lending facility rate was **cut 10bps on January 17**, the one-year loan prime rate (LPR) was lowered 10bps to 3.7%, and the five-year LPR was trimmed five bps to 4.6%, the first change since April 2020. We believe that a 5-10bp rate cut will occur in March-April if deemed necessary.

We will not get an explicit target for RRR/rate cuts, but we expect these to happen. Each 50bps cut provides a massive RMB1.2trillion liquidity injection into the economy. Similarly, we won't necessarily receive a target for TSF; we will likely see less quantitative expressions such as "keep the growth of M2 and TSF largely consistent with nominal GDP growth." **China's QE measures will provide ample liquidity in the real economy.**

As the developed world raises rates, **China's risk-free rate will decrease**. The result should be good for Chinese equities. China will progress its monetary policy autonomy as documented in the CEWC.

Unemployment target 5.5% - We will see a target set for unemployment; in our view, it will likely be a ceiling, although there is the possibility that this is expressed as a range. We expect a ceiling of around 5.5% - a healthy number.

¹ **Total social financing (TSF)**: also referred to in English as "aggregate financing to the real economy," refers to the aggregate volume of funds provided by China's domestic financial system to the private sector of the real economy within a given timeframe. The Chinese government employs it as a liquidity measurement tool to abet the formation of monetary policy. TSF includes indirect finance via the banking system and direct financing via stocks and bonds on the capital market. TSF is comprised of a total of ten sub-indices, including RMB loans, foreign currency loans, entrusted loans, trust loans, undiscounted bank bills of acceptance, corporate bonds, non-financial corporate domestic equity financing, insurance company repayments, investment property, and financing via other financial instruments.



Inflation target 3% - An inflation target will also be set; we expect a ceiling target of around 3.0%. 2021 target inflation was 3.0%, but realised CPI inflation for the year was only 0.9%. This was low compared to global markets, **arming China with the monetary gun powder it needs.**

In Conclusion

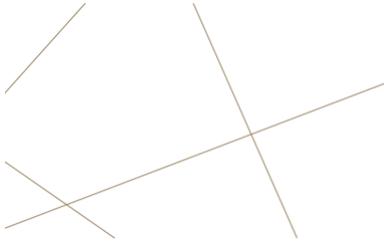
This year's NPC will be a significant event. Opposite of what is being seen in developed markets, inflation remains low, interest rate structure normal, and China has not monetised government debt to support the economy. The equity market has fallen while stock markets have risen in the developed world.

China is transitioning to stimulative monetary and fiscal policies while developed economies look to tighten. The country's economy is big enough to be driven by its own independent monetary policy set by the PBoC and not by the FED. Further policy support is needed for the Chinese economy to start picking up again, but we expect these to keep coming through. We will know very soon.

Your eyes and ears on the ground.

Kind regards,

The Stonehorn team.



Disclaimer

This document is prepared by Stonehorn Global Partners Limited (Stonehorn Global Partners). This document is published specifically professional investors for informational purposes only and must not be relied on for the purpose of any investment decisions. The opinion in this document is not intended for distribution to, or use by, any person other than individuals who are defined as professional investors. The opinions expressed herein, are subject to change and there is no guarantee to the reliability and accuracy of the third-party data presented in this document.