# China NPC Review – Understanding asset allocation, pro-growth measures, and China's importance within Emerging Markets

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## Figures released during the Chinese National Party Congress (NPC) were pretty good – focus on economic fundamentals

As equity markets are currently being sold off due to the Russian invasion of Ukraine, focusing on economic fundamentals has never been more important. It is a time of sorrow and uncertainty. Stonehorn's CEO, Sam LeCornu, is in Europe at present, where solidarity and empathy are pouring out onto the streets. What will unfold in Europe we do not know, nor can we control.

We place our time and resources on what we know – Asian investment opportunities.

Asset allocation decisions may change forever, the acronym BRICs is now obsolete, and Emerging Markets (EM) ETFs, which include Russia, are seeing mass redemptions. Asia is the new EM both figuratively as well as from an index point of view. Asia will likely see inflows at the expense of non-Asia EM. Consultants and market participants face a rethink of how they advise on allocating to EM, positioning China, India, and Southeast Asia as an important replacement.

China is the bellwether of the region. China desires stability in its economy, the design of which functions around a grand plan. Believe it or not, the Chinese are the masters of the long game and planning. The targets released in the NPC provide them with a path forward - the policies to follow are the country's compass as they navigate the future of the domestic economy. There is a common thread that reconciles with the 5-year plan. The numbers released so far look pretty good – we are encouraged. To us, China's intentions are clear: it will become the world's largest country by GDP. The timing of this depends on what they do next.

A property market collapse, imploding internal debt, and draconian regulations are taking a back seat as pro stimulus measures and stimulative monetary policy take centre stage. China is disconnecting itself from the rising rate environment in developed economies, in the Central Economic Work Conference (CEWC) 'China maintaining its monetary policy autonomy' is one of the top priorities. All of this points to China prioritising returning the country to growth.

Please see below our key observations thus far.

*Table 1: Stonehorn's preview figures vs. actual NPC release*

| Measure | Stonehorn's Estimate | NPC Release | Review Notes |
|---|---|---|---|
| GDP Growth | 5.0% | 5.5% | More ambitious than expected, will demand increased policy support. |
| Fiscal Deficit | 3.2% | 2.8% | More conservative headline number than expected but could be increased. |
| Inflation | 3.0% | 3.0% | In line, with room to lower rates. |
| Unemployment rate | 5.5% | 5.5% | In line, economic growth is vital for job creation. |

## Review

**GDP –** In the Government Work Report (GWR) delivered to the NPC by Premier Li, the GDP growth target was set at "around 5.5%", more ambitious than our preview estimate. Given the effects of China's zero-Covid policy, a slowing housing sector, and exogenous challenges (e.g., geopolitical tensions), this target will be hard to achieve. **We believe the target implies increased policy support.** China tends to meet their growth targets - they have only missed it twice, in 2014 (7.4% vs. 7.5%) and 2015 (6.9% vs. 7.0%). Premier Li acknowledged this, saying, "it will take hard effort to achieve such targets," a comment he did not make last year.

**Fiscal policy –** The fiscal deficit target was lowered to RMB 3.37trn (RMB 3.57trn in 2021), equivalent to 2.8% of GDP. According to Premier Li, the underlying rationale for the decrease is "increasing fiscal sustainability." It is important to note that China has a lot of under-utilised fiscal funds from 2021, approximately RMB 1.1trn that can be carried over to 2022. **We believe that fiscal policy will be stimulative to meet the economic growth target,** despite conservative headline numbers.

**Monetary policy –** CPI inflation target stays unchanged at 3%, as expected. It was reiterated that Total Social Financing (TSF) growth and money supply should be consistent with nominal GDP growth targets. These indications are as expected, and we maintain our view of 10.7% TSF growth for the year in 2022. **Given that the GDP growth target of 5.5% is higher than expected, this could leave room for additional rate cuts. We will have to wait and see.**

**Unemployment** – The GWR targets a 5.5% unemployment rate, as anticipated, and job creation of 11m. The record number of college graduates (10m 2022 vs. 9.1m 2021) is highlighted; these graduates will join the job market this year. **Economic growth is vital to generating enough jobs to meet these targets.**

Your eyes and ears on the ground.
Kind regards,
**The Stonehorn Team**

## Disclaimer