

China's NPC reinforces 14th Five-Year Plan commitment

Key takeaways

- ◆ China's National People's Congress (NPC) reiterated a **progressive policy normalisation** with no major shifts in fiscal or monetary policy, setting minimum GDP growth target at 6% year-on-year.
- ◆ Measures to support **innovation-driven growth, the "Dual Circulation Strategy"** and **technology upgrade** under the 14th Five-Year Plan (FYP) were unveiled.
- ◆ **We remain overweight China equities and bonds** – catalysts are strong economic growth, robust exports, consumer confidence and accommodative policy.



Patrick Ho, CFA
Chief Investment Officer,
North Asia, Private Banking &
Wealth Management, HSBC



Lawrence Lok
Investment Analyst,
HSBC Private Banking



Cynthia Leung
Senior Investment Strategist
Private Banking & Wealth
Management, HSBC

Key highlights of the China's National People's Congress (5-11 March 2021)

- **Aim for quality growth** – This year's GDP growth target is set at minimum 6% with an aim to support employment, smaller firms and longer-term development strategies under the new five-year plan.
- **Monetary policy is about balancing growth with macro risks** – The main goal is to improve credit support and better transfer into the real economy. Total social financing and M2 are projected to grow 11% and 9% y-o-y, respectively, while the 1-year Loan Prime Rate is likely to stay at 3.85%. Short-term funding rates (the 7-day interbank repo rate as a proxy) will remain stable and the 10 to 30-year central government bond curve is expected to flatten. To manage systemic risk, there will also be a tighter regulation on the Fintech industry.
- **Fiscal policy to stay accommodative:**
 - Fiscal deficit narrows from 3.7% of GDP in 2020 to 3.2% this year;
 - Phasing out reduction on social security fees but keeping tax fee cuts for SMEs and manufacturing enterprises, e.g. 50% income tax cut for firms and self-employed individuals with a taxable income below RMB1m p/a;
 - Tax deduction on manufacturing firms' R&D costs to raise from 75% to 100%;
 - The quota for special local government bonds will be set at RMB3.65trn to fund infrastructure, industrial zone construction and environmental protection projects, as well as affordable rental housing projects.
- **More measures to support the FYP**
 - Innovation-driven growth: Increase the central government funding for basic research by 10.6% this year. Spending on this area should increase from 6.2% in 2020 to 8% of total R&D over the next 5 years;
 - Dual Circulation: Create at least 11m urban jobs plus RMB55.9bn in employment subsidy;
 - Technology upgrade: Focus on applications related to digitisation, usage of advanced machinery (including robotics) and green manufacturing. Target for 5G to reach 56% consumer penetration rate by 2025.
- **Green policy** – To achieve carbon emissions peak by 2030 and carbon neutrality by 2060 as outlined in the five-year plan. The government will invest more into renewable energy and new energy vehicles.

Investment implications

- **We remain overweight China equities and bonds** – Chinese stocks are expected to remain a cyclical outperformer, supported by strong economic growth, domestic demand and accommodative policy. The mix of monetary and fiscal policy also keeps liquidity adequate.
- **We have added more exposure to cyclical sectors** – We prefer industries that are direct and indirect beneficiaries of the new FYP. The focus on innovation and spending on basic research will benefit local industry leaders in the high-tech hardware and components, robotics and automation, smart manufacturing, artificial intelligence, 5G communications, etc. The infrastructure projects for digitisation and public services should also support the e-commerce, discretionary and service consumption.

The rise in household income will continue to favour consumption in China, especially companies with strong brands and strong market positioning along the supply chain of consumer goods.

- The green policy brings investment opportunities in **renewable energy operators, grid and transmission, energy storage, and new energy vehicle supply chains.**

China's key economic targets for 2021

	2021 target	2020 actual	2020 target
Real GDP growth	>6%	2.3%	No target
Urban job creation	>11m	11.86m	>9m
Registered urban unemployment rate	No mention	4.24%	~5.5%
Surveyed urban unemployment rate	<5.5%	5.2%	~6%
CPI	~3%	2.5%	~3.5%
M2 growth	Consistent with nominal GDP growth	10.1%	Much higher than 2019
TSF growth	Consistent with nominal GDP growth	13.30%	Much higher than 2019
Fiscal deficit (RMB)	RMB3.57trn	RMB3.76trn	RMB3.75trn
Fiscal deficit, % of GDP	3.2%	3.7%	>3.6%

Source: Government Work Report 2020 and 2021, CEIC, HSBC Private Banking as of 8 March 2021. Past performance is not a reliable indication of future performance. For illustrative purpose only.

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