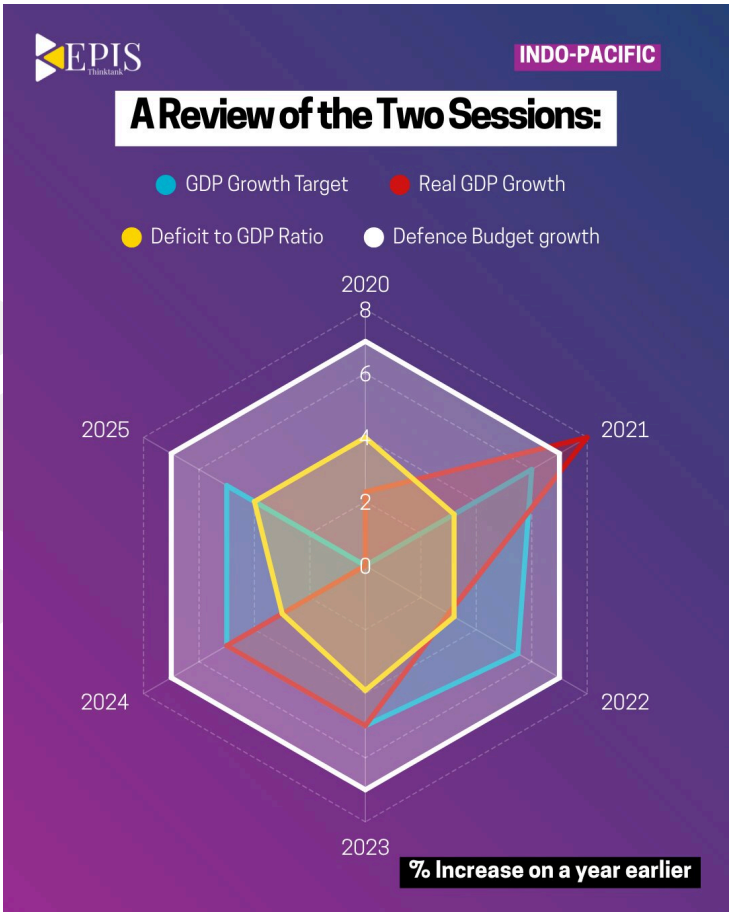
# A Review of the Two Sessions

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## A Review of the 2025 Two Sessions: What to Expect From China in the Coming Year?

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Like in 2024, the Chinese government has set the ambitious goal of 5% GDP growth for 2025 amidst uncertainty after the US presidential election and mounting sanctions, especially on the technology sector. However, in autumn 2024, the Politburo was forced to announce a series of stimulus measures as it failed to speed up the sluggish economy after weak consumption during the national day celebrations, the second most

important holiday for China. This was a cause of concern for the Chinese government as the 5% GDP did not seem viable then. The monetary easing package consisted of measures that reduced existing mortgage rates, lowered banks' required reserves ratios, and provided monetary facilities to support security firms, local governments and banks. Although the market sentiment improved significantly for a short period after the initial package, the policies were designed to stabilise GDP in the short term, which it successfully did so. However, it is highly improbable that this year, with challenges in sight for the Chinese government, it would be able to again keep its 5% target with the increased tariffs from the Trump administration. Beijing would have to find ways to continue stimulating consumption to avoid falling into the same situation that it found itself last year.

Consumption

According to the list of ten "major tasks" for 2025 presented by Chinese Prime Minister Li Qiang in the annual government work report, stimulating domestic consumption is the number one priority. Consumption was mentioned a record 32 times in the Prime Minister's speech – topping the previous record from 2009 when China aimed to revive consumption after the global financial crisis. Plans to boost domestic consumption follow a low consumer demand in recent years, largely due to the Covid-19 pandemic and the struggling property market. Increasing domestic consumption is seen as crucial, as it is supposed to be the "main engine" for achieving the 5% GDP growth target for 2025 according to Li. Apart from this short-term perspective, a domestic demand driven economy would reduce the country's reliance on exports, which makes it a long-term priority for the Chinese government.

The main measure for boosting consumption, announced at the Two Sessions, is the allocation of 300bn yuan in special ultra-long-term bonds for a trade-in programme encouraging households to replace their old appliances with newer ones. This is double the amount allocated last year, which reportedly resulted in 240bn yuan of sales in home appliances. Other measures include accelerating consumption tax reforms, a pay rise to civil servants and a 4.5% increase in medical-insurance subsidies for rural population and city-dwellers. The basic pensions for the letter mentioned groups will also increase, by 20 yuan a month. Moreover, just a few days after the Two Sessions, the Chinese Communist Party's central committee announced its ambitions of boosting consumption, by reducing financial burdens, promoting wage growth and adjusting the minimum wage. Another measure – a subsidy for childcare, aims to achieve an increase in consumption along with tackling the sharp demographic decline.

Private Enterprises

Xi Jinping's summit with the private sector in February has sparked optimism among entrepreneurs in China, signaling a potential shift in the government's approach towards private businesses. Historically, under Xi's leadership, state-owned enterprises (SOEs) have been favored as the

primary drivers of economic growth, while private firms have faced challenges due to a shrinking economy and increased regulatory pressures both domestically and internationally.

However, the introduction of DeepSeek AI has presented new opportunities for the private sector. The Chinese government has identified AI as a key area for achieving technological self-sufficiency, and the recent government work report emphasizes the integration of private tech firms, easing regulations, and investing in emerging technologies such as AI, quantum computing, and 6G. These measures indicate a growing recognition of the private sector's role in driving technological innovation and economic growth.

Despite these positive developments, the absence of the "Private Economy Promotion Law" from the Two Sessions agenda has raised concerns among some observers. This law, if passed, would provide enhanced legal protection for private businesses and further solidify their position in the Chinese economy. The delay in its introduction suggests that the government may still be hesitant to fully embrace the private sector and that state-owned enterprises may continue to enjoy preferential treatment in certain areas. It remains to be seen whether the government is willing to create a level playing field and provide adequate support for its growth and development.

Li Qiang's working report also revealed plans for a substantial increase in the official fiscal deficit to 4% of GDP, a significant jump from the 3% last year. This expansionary fiscal policy signals a clear intent to stimulate economic growth and will be supported by monetary easing measures, including anticipated interest rate cuts, building upon the monetary policies implemented last year. The fiscal stimulus package also includes a record issuance of 1.3 trillion RMB ultra-long bonds, 500 billion RMB special bonds for banks, and 4.4 trillion RMB bonds for local governments. While the bonds allocated for local governments have seen a slight increase compared to 2024, the amount remains relatively modest considering the estimated 60 trillion RMB debt burden faced by local governments, as per IMF estimates.

The combination of increased government loans and a higher fiscal deficit strongly suggests that Beijing is prepared to accept another year of mounting debt to achieve its economic objectives. This approach underscores the government's commitment to maintaining economic stability and supporting growth, even if it entails a higher level of debt. Whilst the expansionary fiscal policy and monetary easing measures are expected to boost aggregate demand and stimulate economic activity, Beijing will need to ensure that the debt remains within manageable levels. It will also need to implement structural reforms to improve the efficiency of government spending and enhance the productivity of the economy.

China's defence budget for 2025 will increase by 7.2%, the same increase as last year. In fact, increases of around 7% have been announced regularly

since 2016. The official defence budget for 2025 – 1.784 trillion yuan ($328.3 billion) – is the second highest in the world after the United States. Nevertheless, China's slowing economic growth poses questions about whether the defence spending can be sustained. China's official defence budget has historically fluctuated around 1.3% of GDP, as economic growth and inflation kept pace with increases in defence spending. However, with slower economic growth and deflation, the defence budget is likely to account for a larger share of GDP, even if annual increases in defence spending remain steady. It is important to note that the official defence budget does not include every expenditure related to China's defence. According to experts, China's defence spending might, in fact, be 40% higher than the official budget.

In regard to defence, Prime Minister Li Qiang's report mirrored the 2024 report, stating the importance of the People's Liberation Army (PLA) to meet Xi's 2027 centenary modernisation goal. New phrases in the 2025 report include a goal for the PLA to establish a distinct military theory and a need for creating an integrated "network information system" in the PLA.

To summarise, the 2025 Two Sessions highlighted China's economic and strategic priorities. The government's 5% GDP growth target is to be achieved through an increased domestic consumption and a reinvigorated private sector. Nonetheless, the government's commitment to economic growth comes at the cost of a higher fiscal deficit, which increased to 4% of GDP. Lastly, a steady 7.2% increase in defence spending reflects Beijing's strategic ambitions despite the slowing economic growth. As China navigates challenges in the world and at home, the Two Sessions set forth Beijing's trajectory for 2025.