Weekly China Insight

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2025 Two Sessions Special Edition

China sets ambitious 2025 economic targets amid growing headwinds

During China's annual Two Sessions on 5 March, Premier Li Qiang delivered his Government Work Report (GWR) to the assembly of the national legislature (NPC). Li said China has set its 2025 GDP growth target at "around 5%" – the same as last year's goal. Notably, the government has lowered its inflation target to 2%, the lowest on record.

Hitting the same economic growth target this year will be more difficult than last year due to multiple economic challenges, including a struggling real estate sector, weak consumer confidence, and intensifying trade tensions with the US. But if Beijing delivers on its policy promises, it could restore confidence and drive a positive feedback loop in consumption and investment.

China enhances efforts to attract foreign investment and support the private sector

The GWR reaffirmed Beijing's commitment to attracting foreign investment and improving the business environment, with pledges to further open key sectors for foreign investment, deepen institutional reforms, and strengthen support for private businesses. Meanwhile, a report from the economic "super ministry", the National Development and Reform Commission (NDRC), pledged to expand market access in industries such as technology, healthcare, and education, while ensuring foreign businesses receive equal treatment in resource allocation, qualifications, and government procurement. Free Trade Zones (FTZs) and the Hainan Free Trade Port will play a central role in these efforts, offering new opportunities for foreign firms to deepen integration into China's supply chains. Additionally, Beijing aims to strengthen international partnerships, including through the upgraded China-ASEAN Free Trade Area and participation in digital trade agreements.

President Xi Jinping reinforced this message during discussions with the Jiangsu delegation at the Two Sessions, emphasizing that economic powerhouse provinces like Jiangsu must take the lead in deepening reforms and expanding high-level opening-up. He called for breaking down market barriers, eliminating protectionism, and fostering fair competition, stressing the need to implement policies that support private businesses.

China's renewed push for foreign investment and private sector growth reflects its recognition that its economic recovery hinges on business confidence and market openness. While these commitments signal a more business-friendly environment, foreign investors will be watching for concrete regulatory improvements, stronger intellectual property protections, and a level playing field for fair market competition with their domestic counterparts and state-owned companies.

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China prioritizes consumption to drive economic recovery in 2025

This year's GWR placed consumption at the top of China's 2025 economic agenda, marking a shift from last year when it ranked only third in policy priorities. To restore consumer confidence and spending, the GWR pledged direct financial support to households, including doubling the special treasury bond (STB) allocation for consumer goods trade-ins to RMB 300 billion, cutting taxes, and promoting wage growth. Social policies will also expand, with increased resources for eldercare, medical insurance, and education. Additionally, the GWR and the NDRC report signaled stronger support for the property and stock markets, which are central to household wealth, partially by easing property restrictions and deploying additional SPB quotas to absorb unsold housing inventory.

The GWR's renewed focus on consumption is a positive signal that Beijing acknowledges consumption's central role in stabilizing the economy. While pro-consumption policy measures may improve consumer sentiment, the lingering effects of weak job growth, property market uncertainty, and deflationary pressure could temper consumer spending.

China signals looser monetary policy to bolster growth this year

The GWR outlined a more accommodative monetary policy stance for 2025. In the NDRC report, the macro planner pledged to lower required reserve ratios (RRRs) and interest rates "at the right time" while refining structural monetary policy tools to support the real estate and stock markets. Additionally, the central government will issue RMB 500 billion in STBs to replenish bank capital, to manage financial risks. Overall credit expansion, however, will slow, with total social financing (TSF) growth set to align with nominal GDP growth, which has been lowered to 7% from 8% in 2024.

The central government's monetary easing signals Beijing's determination to prevent deflation.

China ramps up fiscal spending to support growth

While leaving room for further monetary easing, the GWR also outlined a significant fiscal expansion for 2025, indicating the central government will raise its budget deficit target to 4% of GDP, up from 3% last year. This will translate into an additional RMB 1.6 trillion in deficit spending. The quota for special-purpose bonds (SPBs) has been increased to RMB 4.4 trillion to fund infrastructure projects, while special treasury bond (STB) issuance will rise to RMB 1.8 trillion. Overall, government spending is set to increase by RMB 3.6 trillion, a sharp 9.3% y/y rise compared to last year's 2.7% increase.

China's aggressive fiscal stance signals policymakers' determination to counter economic headwinds. The scale of future fiscal expansion should reassure markets and bolster confidence in Beijing's commitment to maintaining economic stability.

China keeps prioritizing new quality productive forces and industrial upgrading

This year's GWR placed strong emphasis on developing new quality productive forces (NQPFs) and advancing industrial upgrading as key pillars of economic strategy in 2025. Originally introduced in late 2023, NQPFs represent an innovation-driven growth model where emerging technologies foster new industries and transform traditional sectors through digitization and AI-powered upgrades. To accelerate this shift, Beijing will promote industry clusters in strategic emerging industries, support high-tech zones, and provide targeted aid to SMEs and tech unicorns. The government also plans to modernize traditional manufacturing through large-scale equipment renewal, increased digital transformation support, and the integration of advanced manufacturing with modern services.

China's continued focus on NQPFs signals a long-term push to strengthen technological self-reliance and industrial competitiveness. While these initiatives could drive high-value growth and boost productivity, their success depends on sustained investment, regulatory adaptability, and overcoming geopolitical and market uncertainties.

China accelerates green transition with focus on renewable energy and low-carbon industries

The GWR reaffirmed the green transition as a key pillar of sustainable economic growth, with a focus on carbon reduction, pollution control, and green innovation. The NDRC report also pledged to enhance policies for green industries, improve energy and water efficiency, and foster emerging sectors such as green buildings and low-carbon technologies. Major renewable energy projects, including offshore wind farms and large-scale new energy bases in desert regions, will be prioritized to expand China's clean energy capacity. While coal remains part of the energy mix, low-carbon technologies will be tested in coal-fired plants to support a gradual transition. Additionally, Beijing aims to strengthen carbon trading markets this year and push for low-carbon transformations in key industries. Policies will be introduced to promote waste recycling, circular economy models, and green consumption.

China's green transition strategy underscores its continued commitment to balancing economic growth with environmental sustainability. The push for renewables, carbon trading, and industrial decarbonization could reinforce China's global leadership in clean energy. However, Beijing will still need to contend with the struggle of a gradual phase-out of coal and ensuring green financing keeps pace with ambitious climate goals.