

China



	2020	2021	2022	2023	2024	Forecasts		
						2025	2026	2027
GDP growth (%)	2.3	8.6	3.1	5.4	5.0	5.0	4.5	4.0
CPI inflation (%)*	2.5	0.9	2.0	0.2	0.2	0.1	1.0	1.5
Fiscal balance (% of GDP)	-9.6	-5.9	-7.3	-6.7	-7.3	-8.6	-8.5	-8.4
Public debt (% of GDP)	69.0	70.1	75.5	82.0	88.3	96.3	102.3	106.3
Reference rate (%)	4.7	4.7	4.3	4.2	3.6	3.5	3.4	3.4
Exchange rate (CNY/USD)*	6.9	6.5	6.7	7.1	7.2	7.2	7.2	7.2
Current balance (% of GDP)	1.6	1.9	2.4	1.4	2.3	3.3	2.8	2.5
External debt (% of GDP)	12.8	13.1	13.1	12.4	11.7	11.6	11.6	11.7

Note: * Annual average.

Source: CaixaBank Research, using data from Thomson Reuters Datastream.

Outlook

In 2025, China's economy remained robust, albeit with certain nuances. Over the whole year, growth reached the 5.0% target set by the Chinese authorities, although in Q4 it was 4.5% year-on-year, the lowest in three years. The indicators showed that there was a slight slowdown in the second half of the year: consumption lost momentum, investment contracted to historical lows and the growth rate of industrial production slowed. Meanwhile, exports continued to rise at a solid rate of over 5%. The trade truce reached with the US at the end of October after negotiations that began in May has prevented a "hard decoupling", although risks of further escalation of trade tensions remain, most notably in critical sectors where the two powers have bottlenecks, such as rare earths, chips and technologies related to the digital and green sectors. However, the trade barriers between the two countries have grown significantly over the last few years. In this context, the US Supreme Court's recent decision is relatively favourable for Chinese imports, which will see the average tariff reduced by around 10 pp to a level close to 20%, still higher than at the end of 2024 (between 10% and 15%).

Economic policies

Despite the strong growth, deflationary risks linger. Headline inflation stood at 0% in 2025, with industrial production prices falling for the third year in a row. This is due to the problems faced by the authorities in addressing the imbalance between consumption and investment, marked by excess production capacity and a growing trade surplus, which surpassed \$1 trillion for the first time in 2025. The government has announced initiatives to reverse this imbalance and stimulate inflation growth, such as reforms in sectoral pricing mechanisms and business incentive schemes by local governments. However, deflationary pressures remain high and, without structural measures to boost demand, are likely to remain unchanged in the medium term.

Monetary policy will continue to offer limited support. The People's Bank of China (PBoC) will likely continue to pursue a cautious strategy, although the appreciation of the yuan since the summer of 2025 could provide room for a more expansionary monetary policy. We also expect further interest rate cuts in the coming months. Furthermore, with industry experiencing overcapacity and the real estate sector contracting, the credit slowdown should continue.

Fiscal policy continues to be skewed towards investment. Fiscal policy should remain in the expansionary territory in 2026. However, fiscal support will remain subdued and investment-oriented, despite the authorities' plans to redirect fiscal support to households and key sectors. In addition, the downturn in the real estate sector and the rebalancing of local public finances will continue to pose a headwind to the authorities' ability to stimulate China's economy.

Exchange rate

The yuan exchange rate will continue to appreciate moderately against the dollar in the short term, thanks to the active management of the PBoC and expectations of a somewhat weaker dollar. However, the yuan will remain within the fluctuation band defined by the Central Bank to avoid capital outflows. The latest estimates continue to suggest that the yuan remains below its equilibrium level, so further appreciation may be likely in the medium term. In this regard, a sharper appreciation would pose further risks to the economic recovery and deepen deflationary pressures.

Risks

China's risk profile appears to be skewed to the downside. Notable risks include:

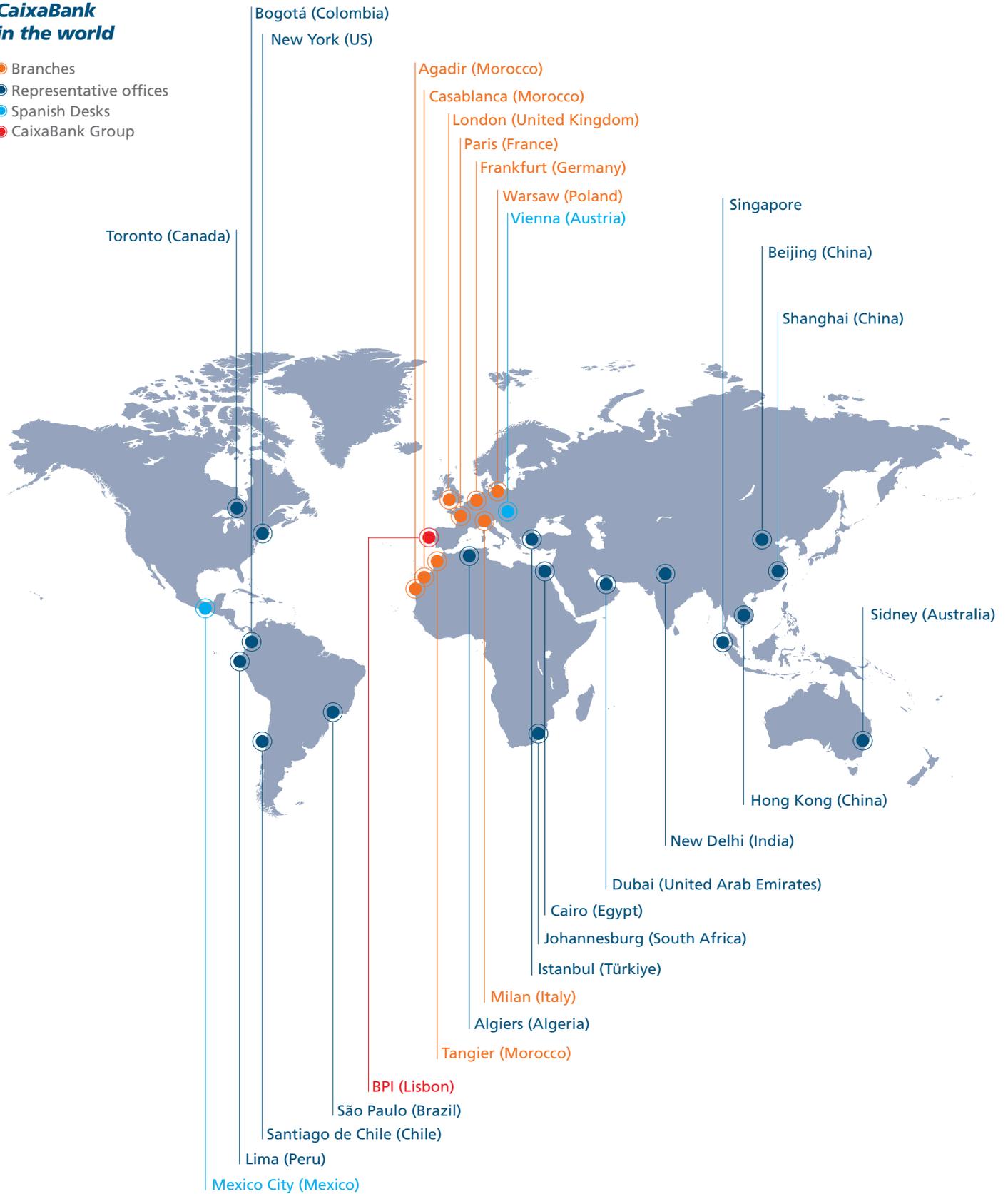
- **An unbalanced economic model.** The low level of household consumption in China is due to an economic model that, for a number of decades, has prioritised supply-side policies and a high propensity to save, driven by a weak social safety net (in particular for rural and migrant workers). As the "traditional" drivers of growth (exports and investment, in particular, in real estate) lose steam, these imbalances will become increasingly apparent. Moreover, the headwinds caused by unfavourable demographics will intensify as the working age population declines and the dependency ratio rises.
- **A prolonged downturn in the real estate sector.** Since the real estate crisis in 2021, activity in the sector has contracted, sales and prices have fallen sharply, and construction has gradually slowed. Nevertheless, the housing *stock* remains high and consumer confidence remains at historically low levels, both of which could hamper the recovery of consumption and inflation.
- **Rising trade and geopolitical tensions.** Despite the heightened trade tensions, China's exports performed well in 2025, thanks to the geostrategic dominance of its critical economic sectors, such as commodities and the green economy, and its flexibility to divert trade through connector countries. However, a number of risk factors remain on the horizon. Firstly, further escalation of trade tensions is likely, in particular with the US, but also with other trading partners whose key industries have been losing competitiveness against their Chinese counterparts. Secondly, the emergence of further geopolitical tensions cannot be ruled out. In this context, the diplomatic crisis that recently erupted with Japan, the Taiwan issue and instability in the Pacific and South China Sea region, and the potential for destabilising conflicts in this region, all pose a major risk.

Sovereign credit rating				
Rating agency	Rating*	Last modification	Outlook	Last modification
	A+	21/09/17	Stable	21/09/17
	A1	01/05/25	Negative	05/12/23
	A	03/04/25	Stable	03/04/25

Note: *A shaded cell indicates "investment grade" and an unshaded cell indicates "speculative grade".

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