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AMRO Annual Consultation Report

China - 2025

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Acknowledgments

1. This Annual Consultation Report on China has been prepared in accordance with the functions of AMRO to monitor and assess the macroeconomic status and financial soundness of its members; identify relevant risks and vulnerabilities; report these to member authorities; and if requested, assist them in mitigating these risks through the timely formulation of policy recommendations. This is being done in accordance with Article 3 (a) and (b) of the AMRO Agreement.

2. This Report is drafted on the basis of the Annual Consultation Visit of AMRO to China from 28 August to 12 September 2025 (Article 5 (b) of AMRO Agreement). The AMRO Mission team was headed by Dr Jae Young Lee, Group Head and Lead Economist and Dr Fan Zhai, Senior Economist and Deputy Mission Chief. Members include Mr Suan Yong Foo, Senior Economist and Desk Economist for China; Dr Ke Ji, Economist and Co-Desk Economist for China; Dr Jerry (Xianguo) Huang, Senior Economist; Mr Jungsung Kim, Economist; Mr Dek Joe Sum, Fiscal Specialist; and Ms Yin Muyar Soe, Associate. AMRO Director Mr Yasuto Watanabe and Chief Economist Dr Dong He also participated in key policy meetings with the authorities. This AMRO Annual Consultation Report on China for 2025 was peer-reviewed by a group of economists from AMRO's Country Surveillance, Financial Surveillance, and Fiscal Surveillance teams; endorsed by the Policy and Review Group; and approved by Dr Dong He, AMRO Chief Economist.

3. The analysis in this Report is based on information available up to 15 September 2025.

4. By making any designation of or reference to a particular territory or geographical area, or by using the term "member" or "country" in this Report, AMRO does not intend to make any judgments as to the legal or other status of any territory or area.

5. On behalf of AMRO, the Mission team wishes to thank the Chinese authorities for their comments on this Report, as well as their excellent meeting arrangements and warm engagement during our visit.

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Table of Contents

Acknowledgments **1**

Executive Summary **4**

A. Context: China's Economic Transition to Sustainable High-Quality Growth **7**

A.1 Fragmented and Uneven Road of Recovery and Transition 7

A.2 Recovery in 2025: Policy Tailwinds Confront Structural and External Headwinds 8

A.3 Rebalancing for Resilience: Laying the Foundations for High-Quality Growth 9

B. Deep Dive: Disentangling the Weaknesses **10**

B.1 Structural Shift and Slumping Property Sector: A Drag on China's Recovery 10

B.2 Property Downturn and Local Fiscal Stress 12

B.3 Muted Demand, Ample Supply, Low Inflation 14

C. A Bright Spot: Continued External Sector Resilience **16**

Box A. China's External Balance Sheet: Emerging as a Systemic Capital Exporter 17

D. Outlook and Risks **19**

D.1 Near-term Outlook 19

D.2 Risks, Vulnerabilities, and Challenges 20

E. Short-Term Priorities: Supporting Growth and Stability Amid Economic Transition **21**

E.1 From Stabilization to Stimulation: Rethinking the Fiscal Policy Approach 21

Box B. China's Fiscal Space 22

E.2 Calibrating Monetary Policy amid Weak Demand 24

Box C. The PBC's Recent Monetary Policy Measures to Support Growth 25

E.3 Real Estate Market Recovery Hinges on Confidence and Coordination 27

F. Medium-Term Strategy: Advancing the Transition, Tackling Structural Challenges **27**

F.1 Resolving Structural Legacies: Real Estate and Local Government Finances 27

F.2 Unlocking Domestic Demand: Lifting Confidence through Social Protection and Reform 29

F.3 Advancing Monetary and Financial Reform 30

F.4 Shifting From Excess to Emergence – Industrial Rebalancing and Innovation-Driven Growth 30

Appendices **32**

Appendix 1. Selected Figures for Major Economic Indicators 32

Appendix 2. Selected Economic Indicators for China 36

Appendix 3. Balance of Payments 37

Appendix 4. Statement of General Government Operations 38

Appendix 5. Monetary Sector 39
Appendix 6. Data Adequacy for Surveillance Purposes 40

Executive Summary

1. China's post-COVID economic recovery has followed a two-speed trajectory, with emerging sectors gaining momentum while traditional growth engines remain subdued. New sectors have been expanding rapidly, but they remain relatively small and concentrated, limiting broad-based job creation, income growth, and consumption gains. In the meantime, domestic demand has been constrained by the deleveraging of households and local governments, as the prolonged property downturn has eroded household balance sheets and undermined local government revenues. Moreover, the rise of new-economy sectors has brought its own set of challenges, including risks of cyclical oversupply, intensifying price competition, and protectionist pressures in overseas markets.

2. Growth rebounded in late 2024 as policy support offset the underlying drag. Following the mid-year slowdown, policy pivots in September 2024—featuring a broad stimulus package encompassing monetary easing, fiscal expansion, and targeted property measures—revived growth momentum. Growth accelerated to 5.4 percent in both Q4 2024 and Q1 2025, before moderating slightly to 5.2 percent in Q2. Private consumption, buoyed by fiscal subsidies through consumer goods trade-in programs, accounted for more than half of real GDP growth in H1 2025. Export strength, aided by frontloaded shipments ahead of expected U.S. tariff hikes, also supported the recovery. However, inflation remained subdued in 2025. Headline CPI contracted by 0.1 percent yoy in the first eight months, while core inflation rose only 0.5 percent, despite modest gains from consumer goods trade-in programs.

3. A deep dive into structural weaknesses underscores the policy urgency of addressing legacies in the real estate sector and local government finance.

- The property sector has yet to recover from the downturn, reflecting both structural adjustment and cyclical weakness. Demand is subdued amid oversupply, weak household confidence, and developer distress. Inventories continued to rise in H1 2025, especially in lower-tier cities. Policy measures, such as lower down payments, reduced mortgage rates, expanded credit to viable projects, and local government purchases of unsold stock, have led to a modest rebound in sales. However, the overall recovery is expected to remain slow.

- The property downturn has exposed vulnerabilities in the land-based fiscal model of local governments. The sharp decline in land sale proceeds has strained local government revenues, even as central government transfers and expanded bond issuance have provided some relief recently. While the fiscal stance in 2025 is assessed as expansionary—with the cyclically adjusted primary deficit widening by 0.6 percent of GDP—the overall fiscal impulse is tempered by local governments' constrained capacity. Subdued revenues, mandatory social spending obligations, off-balance-sheet debt repayment pressures, and stricter borrowing controls have constrained many local governments, especially lower-tier ones, to adopt cautious fiscal stances, limiting their capacity to provide countercyclical support.

- Consumer confidence remains fragile amid weak income prospects and property-related wealth losses. Survey evidence indicates subdued consumer sentiment, reflecting wage pressures in sectors such as finance and the public sector and a large drop in second-hand home prices since 2021. While per capita consumption grew by 5.3 percent yoy in H1 2025, supported by policy stimulus such as consumer goods trade-in programs, these measures largely front-loaded demand for durable goods and are unlikely to sustain momentum.

4. China's external sector remained resilient in 2025 despite escalating trade tensions. Goods exports expanded strongly, driven by EVs, auto parts, and robust demand from non-U.S. markets, while sluggish imports widened the trade surplus to record highs. The services trade deficit returned to pre-COVID levels amid a rebound in outbound tourism and rising payments for intellectual property and insurance services. FDI inflows persisted but increasingly shifted toward high-tech and policy-supported sectors. Large and sustained financial outflows pushed the balance of payments into deficit although foreign exchange reserves remained stable at around USD 3.3 trillion.

5. Growth is expected to remain stable through the remainder of 2025 and into 2026. Subdued household income growth, negative property wealth effects, and an uncertain global trade environment will constrain domestic demand and weigh on exports and manufacturing investment. Nevertheless, infrastructure investment and continued fiscal support are expected to help cushion growth. GDP growth is projected at 5.0 percent in 2025 and 4.6 percent in 2026, with headline inflation remaining flat in 2025 and edging up to 0.4 percent in 2026.

6. Risks to China's economic outlook are tilted to the downside. Domestic challenges include a delayed recovery in the real estate sector, rising financial strains on some local governments, persistent weakness in parts of the corporate sector, and deteriorating asset quality among some small and medium-sized banks. Externally, rising geopolitical tensions and trade conflicts could slow global economic growth and deepen geoeconomic fragmentation.

7. China's ability to sustain the recovery and achieve its medium- to long-term growth targets will depend on a successful transformation of its growth model.

- Short-term policy priorities should focus on supporting growth and stability during the economic transition. Continue to implement expansionary fiscal policy to ease pressures on local governments, with targeted measures to bolster household incomes and consumption. Monetary policy should remain accommodative, calibrated as needed to support demand while safeguarding financial stability and complementing fiscal efforts. At the same time, addressing high housing inventories in lower-tier cities requires stronger central–local coordination, ensuring the delivery of pre-sold homes and protecting consumers to restore confidence.

- In the medium term, China must address key structural challenges to advance its growth transition. Achieving sustained, high-quality growth over the longer term will require placing local government finances on a sound and sustainable footing. This calls for further reforms in the central-local fiscal relationships. Equally important is fostering more resilient and inclusive household consumption, underpinned by a higher labour share in national income and a people-centered fiscal framework that prioritizes public services, social protection, and human capital. A successful growth transition will require recalibrating incentive systems that have driven over-investment in a few concentrated sectors. A more disciplined industrial policy could raise productivity, crowd in private investment, and facilitate green and digital transformation. Deeper financial sector and capital markets reforms, supported by stronger monetary policy transmission, will help improve the allocative efficiency of capital. At the same time, upholding a rules-based global trade order and repositioning outbound investment as a tool for shared development will help anchor China's role in the global economy.

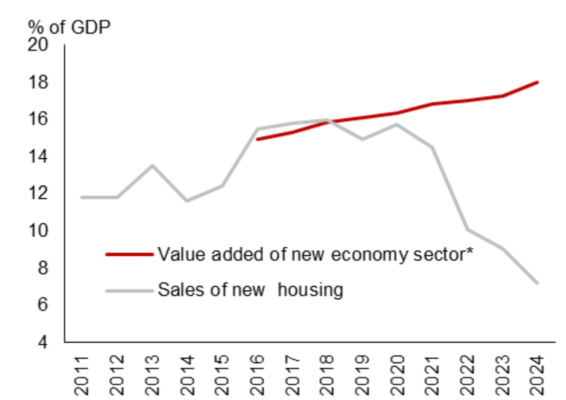
A. Context: China's Economic Transition to Sustainable High-Quality Growth

A.1 Uneven Road of Recovery and Transition

1. China's post-COVID economic recovery has followed a two-speed trajectory, with emerging sectors gaining momentum while traditional growth engines remain subdued. High-end manufacturing, new energy, and segments of the export sector have posted solid gains, supported by rapid technological shifts and product innovation, industrial upgrading initiatives, and resilient external demand. In contrast, the property sector—along with its upstream and downstream industries—and large parts of low-end manufacturing have remained lackluster (Figure 1). Despite their rapid expansion, the new growth drivers still account for only a relatively small share of the overall economy. With job creation and income growth concentrated in a narrow set of economic segments, the rise of new-economy sectors has been insufficient to revive broad-based household consumption. As a result, the economic recovery has been uneven, marked by widening disparities across industries, and between external and domestic demand.

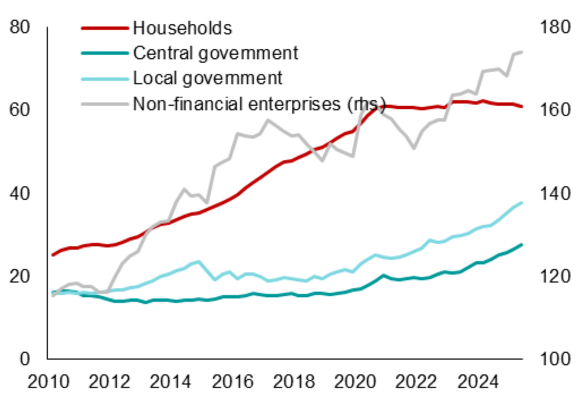
2. At the core of this uneven recovery is a prolonged deleveraging process to unwind the debt accumulated since the global financial crisis (GFC). After the GFC, China increasingly relied on property and infrastructure investment to sustain growth, leading to an investment- and credit-heavy growth model. This was accompanied by rapid debt accumulation across both the household sector and local governments, as well as notable misallocation of resources. From the end of 2009 to the end of 2020, China's aggregate debt rose from 169.6 percent to 265.3 percent of GDP, with household debt increasing sharply from 23.1 percent to 61.1 percent of GDP (Figure 2). The COVID-19 shock, coupled with declining property prices driven by widespread oversupply, weakened household balance sheets. Households ceased leveraging up in 2021 and began to deleverage from 2024. Meanwhile, the property downturn has eroded local government revenues, reducing their capacity to invest, and prompting fiscal tightening that further deepened the economic slowdown. With both households and local governments in a deleveraging phase, consumption has struggled to take over as the main growth driver. As a result, the recovery has been uneven, and a shift to consumption-led growth has proven challenging to achieve.

Figure 1. New Economy vs Old Economy



Source: NBS; CEIC
*New economy includes new industries, new business formats and new business models

Figure 2. Leverage Ratio by Sector (% of GDP)



Source: NBS; CEIC

3. Although new-economy sectors are expanding, they remain relatively small, and their limited scale and long lead time make the transition more difficult as traditional engines lose steam. Moreover, the rise of new-economy sectors has brought its own set of challenges. Rapid capacity expansion in sectors such as clean energy and electric vehicles has raised concerns over intensifying price competition and inefficient capital allocation. The high export dependence of these new sectors has also heightened China's exposure to global demand shocks and rising protectionist pressures. In addition, oversupply in certain sectors appears to be contributing to downward price pressures in the broader economy.

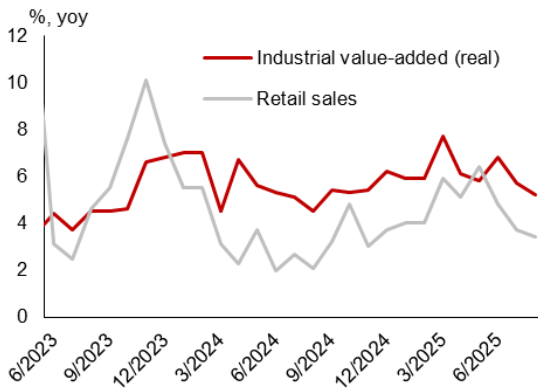
A.2 Recovery in 2025: Policy Tailwinds Confront Structural and External Headwinds

4. Amid the ongoing economic transition, China's growth rebounded in Q4 2024 following a mid-year slowdown, and the momentum continued into the first half of 2025. Dragged down by weak consumption and a continued correction in the property sector, GDP growth decelerated from 5.3 percent year-on-year (yoy) in Q1 2024 to 4.7 percent in Q2 and 4.6 percent in Q3. The September 2024 Politburo meeting marked a significant policy shift from a risk-control stance to a pro-growth support, ushering in broad-based stimulus measures spanning monetary easing, fiscal expansion, and targeted property market support. Growth subsequently rebounded to 5.4 percent in both Q4 2024 and Q1 2025, before moderating slightly to 5.2 percent in Q2. Supported by fiscal subsidies, private consumption contributed more than half of real GDP growth in H1 2025. Export strength, partly driven by frontloaded shipments ahead of anticipated U.S. tariff hikes, also supported the recovery. Meanwhile, a suite of policy measures has improved capital-market performance, bolstering near-term wealth effects and facilitating financing for "new-quality productive forces."

5. Fiscal stimulus lifted retail sales and infrastructure investment, but consumer spending remained cautious amid weak income growth and property market pressures. Consumer goods trade-in subsidies, which increased from RMB 150 billion in 2024 to RMB 300 billion in 2025, helped boost retail sales growth from 3.5 percent in 2024 to 4.6 percent in the first eight months of 2025 (Figure 3). While sales of durable goods eligible for subsidies recorded double-digit growth, household spending on other goods and services remained subdued, reflecting lingering caution among consumers. Certain structural headwinds, including declining home prices and weak income and employment growth, continued to weigh on consumer confidence. The accelerated pace of local government special bond issuance in 2025, coupled with policy incentives for equipment upgrades and strong capital spending in strategic emerging sectors, has supported the expansion of infrastructure and manufacturing investment in H1 2025. However, investment growth experienced a sharp, broad-based deceleration in July and August 2025, likely reflecting the impact of temporary factors such as adverse weather conditions.

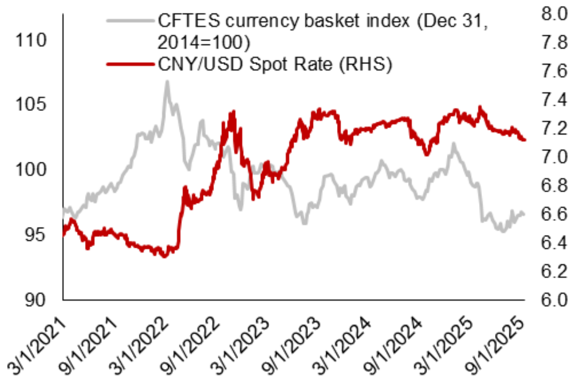
6. Exports remained resilient due to strong emerging market demand, while imports declined amid weak domestic demand. Merchandise exports in value term grew by 5.9 percent yoy in January-August 2025. Strong shipments to emerging markets such as ASEAN and Africa partly offset the decline in exports to the U.S. In contrast, goods imports contracted by 2.2 percent in the same period, reflecting ongoing weakness in domestic demand. The renminbi depreciated by 5.0 percent in effective terms over the first half of the year (Figure 4).

Figure 3. Retail Sales and Industrial Production



Source: NBS; CEIC

Figure 4. Renminbi Exchange Rate



Source: NBS; CEIC

7. Inflation stayed subdued. Headline CPI contracted by 0.1 percent yoy in the first eight months of 2025, primarily due to declines in energy and food prices. Core CPI rose by 0.5 percent over the same period, with August core CPI inflation edging up to 0.9 percent. The consumer goods trade-in program helped support recent price gains in items like home appliances. The fall in producer prices accelerated as global commodity prices declined. PPI dropped by 2.9 percent in January-August 2025, led by upstream sectors such as steel and coal. The People's Bank of China (PBC) maintained a modestly accommodative stance, cutting policy rates by 10 basis points and the reserve requirement ratio by 50 basis points in May. Total social financing growth accelerated to 8.8 percent yoy in August 2025, driven by a surge in government bond issuance, while bank loan growth moderated to 6.6 percent amid weak private credit demand. China's stock market has been buoyant since the September 2024 policy shift, with the CSI 300 index up around 15 percent year-to-date and more than 40 percent above its September 2024 trough. The rally has been driven in part by targeted policy support [1] and investor optimism toward technology and AI-related sectors.

A.3 Rebalancing for Resilience: Laying the Foundations for High-Quality Growth

8. China's ability to sustain its recovery and achieve its medium- to long-term growth targets will depend on a successful transformation of its growth model. While the need to shift away from investment- and export-led growth has long been acknowledged and emphasized by the authorities, progress remains limited. The current challenges—including subdued domestic demand, a protracted property downturn, and mounting external headwinds—underscore that the old model may have reached its limits. The path forward calls for a decisive and multidimensional pivot. On the demand side, this means shifting from reliance on investment and exports toward stronger household consumption. On the supply side, it involves moving from technology adoption and catch-up to homegrown innovation. In terms of industrial structure, the focus should also shift from property and infrastructure to services and high-end manufacturing. Taken

[1] The September 2024 policy package included PBC liquidity facilities specifically aimed at supporting the stock market, notably through swap facilities for brokers and funds and refinancing facilities for corporate buybacks.

together, these shifts underpin the broader transition from high-speed to high-quality, sustainable growth.

9. A comprehensive, forward-looking rebalancing strategy is essential to support this transition. First, priority should be given to addressing legacy vulnerabilities—particularly in the property sector and local government finance—to enable an orderly deleveraging. Second, continued macroeconomic policy accommodation remains necessary to avoid a cycle of low growth and subdued inflation, but pro-growth measures should shift away from credit- and investment-driven stimulus. Instead, a people-centered fiscal framework should be prioritized, focusing on public services, social protection, and human capital. Strengthening direct transfers to households, unemployment insurance, and basic pensions would enhance automatic stabilizers and promote inclusive growth. Finally, new growth engines can be fostered by developing "new quality productive forces" in advanced manufacturing and high-value services, complemented by broad service sector deregulation and a new phase of human-centered urbanization [2] to improve access to public services, labor mobility, and innovation.

B. Deep Dive: Disentangling the Weaknesses

B.1 Structural Shift and Slumping Property Sector: A Drag on China's Recovery

10. China's property sector continues to contract. In the past, China achieved rapid expansion through large-scale investment in construction, positioning real estate as a key engine of growth. However, in recent years this growth engine has stalled, and the sector has entered a prolonged adjustment. This trend reflects the recognition that a debt-fueled property market boom since the early 2000s has become increasingly unsustainable. To replace the construction and property sector as the main growth engine, Chinese authorities have repeatedly emphasized the need for an economic transformation led by advanced industries. [3] As a result, the real estate sector's share of the economy has steadily declined. From 2015 to 2021, the combined portion of construction and real estate in GDP remained around 15 percent, but as of the first half of 2025, it has fallen to 12.2 percent (Figure 5). This trajectory aligns with a well-established pattern observed in advanced economies, where the real estate sector shrinks as the economy matures, giving way to higher-value services and technological industries. [4]

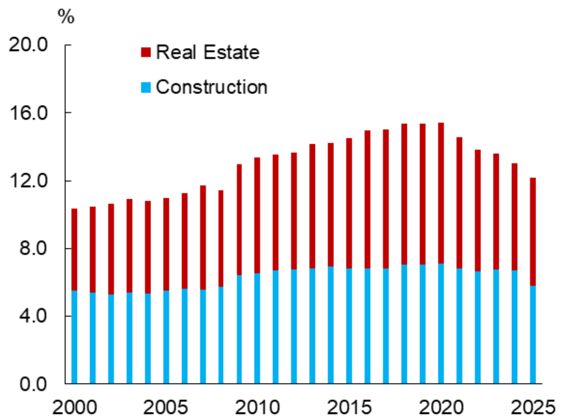
11. China's real estate market adjustment has continued since 2022, as weak demand, oversupply, and declining confidence in developers continue to weigh

[2] China's so-called "human-centered urbanization" policy focuses on building cities that put people first. Rather than expanding rapidly, development now prioritizes fair access for migrants, improved public services, sustainable growth, and livability—ensuring everyone shares in the urban benefits.
[3] President Xi Jinping emphasized that high-quality development means shifting away from the outdated model of growth at any cost and instead focusing on efficiency, innovation, environmental protection, and equitable benefits for all people (Central Economic Work Conference, January 2018). People's Bank of China Governor Pan Gongsheng noted that transitioning toward new growth drivers through economic transformation may be a prolonged and challenging process, but remains essential (Bloomberg, November 2023).

[4] In advanced economies, as growth matures, resources tend to shift away from real estate toward sectors with greater innovation and productivity—namely, services and technology ("Credit, Land Speculation, and Long-Run Economic Growth", Joseph E. Stiglitz, Federico Sturzenegger, NBER Working Paper No. 32479, 2024)

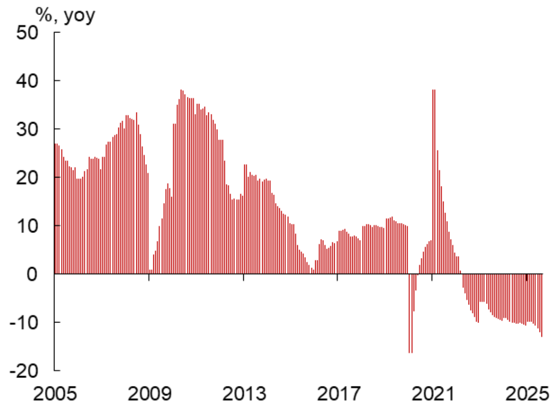
on investment and sales. Real estate investment experienced robust growth during the decade following 2000, supported by rapid urbanization and rising household incomes. However, this momentum began to wane in the mid-2010s and entered a pronounced downturn in 2022 (Figure 6). In addition to subdued investment, residential property prices have continued to decline, with the correction particularly severe in lower-tier cities.[5] An analysis of China's real estate market cycle, based on housing prices and sales volumes, indicates that the market has yet to enter the stage of recovery as of June 2025. At the same time, declining confidence in property developers has discouraged buyers from purchasing new units.

Figure 5. Portion of Construction and Real Estate in GDP



Source: NBS; CEIC

Figure 6. Real Estate Investment



Source: NBS; CEIC

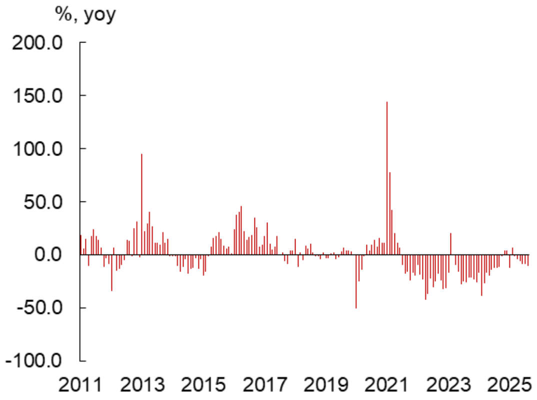
12. The foundation for the stabilization of the property market is still not solid in 2025, despite a rebound in late 2024. After the effects of the property easing measures introduced in 2024, including relaxed home purchase restrictions and mortgage rate cuts, became apparent, the growth in new home sales turning modest positive in late 2024 and early 2025 and the pace of price declines narrowing through early 2025 (Figure 7 and 8). However, housing sales and prices resumed their decline after March 2025. Real estate investment remained in contraction during the first eight months of 2025, while new housing starts stayed subdued across most city tiers. Consequently, developers' cash flows continued to be constrained by weak sales and strict escrow account requirements.

13. A full recovery of the real estate market will take time, continuing to weigh on growth and sentiment. In response to the prolonged downturn in the real estate market, Chinese authorities have implemented a series of stabilization measures. These include lowering down payment requirements for residential property purchases, reducing mortgage rates, expanding credit access for financially viable projects, and enabling local governments to purchase unsold housing stock for conversion into affordable housing

[5] As of August 2025, the average of existing residential property price across China's 70 major cities has declined by 18.8 percent from its previous peak. First-tier cities have recorded a 14.3 percent drop, while prices in second- and third-tier cities have fallen by 16.3 percent and 20.6 percent, respectively (Data is based on CEIC).

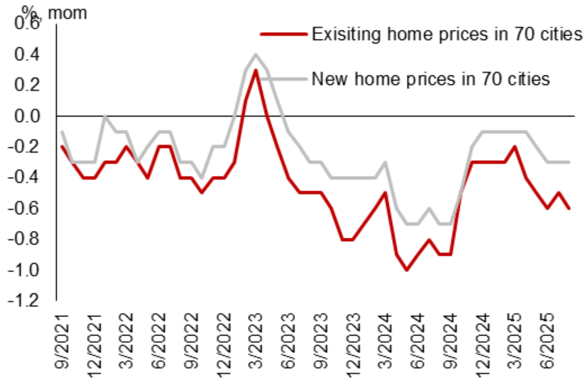
units. These policies have led to a modest rebound in residential property sales, indicating initial signs of market stabilization. Nevertheless, concerns persist over inventory levels. In the first half of 2025, the stock of completed but unsold residential units increased by 6.5 percent (yoy).

Figure 7. Housing Sales



Source: NBS; Haver

Figure 8. Housing Prices



Source: NBS; CEIC

14. Notwithstanding the headwinds, China's real estate sector also has longer-term prospects for gradual normalization, underpinned by ongoing urbanization. As of 2023, China's urbanization rate stood at about 66 percent, up from around 36 percent in 2000, reflecting a sustained migration of population from rural to urban areas. Official targets indicate that this figure could rise to about 75–80 percent by 2035, implying the addition of several hundred million urban residents. This demographic shift is expected to continue supporting underlying demand for housing, infrastructure, and urban services.

B.2 Property Downturn and Local Fiscal Stress

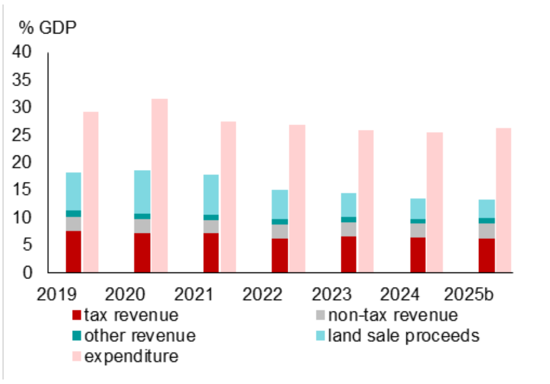
15. The property downturn has highlighted potential vulnerabilities in local government finances. Since the mid-2000s, land sales have served as an important source of financing for local governments (LGs). This land-based fiscal model played a key role in supporting infrastructure investment and local economic development during years of real estate-driven growth. However, the inherent procyclicality of this model has increasingly emerged as a source of fiscal pressure. The continued decline in the property market has reduced land sale proceeds, placing strains on LGs' fiscal capacity (Figure 9) at a time when countercyclical support is most needed, thereby amplifying the impact of the real estate shock.

16. In 2024, local government finances came under increased strain despite stronger central government support. Transfers from the central government (CG) to LGs through the general public and government fund budgets continued to rise (Figure 10), including a carryover of RMB 500 billion from the national treasury bond issuance of RMB 1 trillion in 2023 and an additional RMB 875.3 billion allocated to LGs from the

2024 issuance of RMB 1 trillion ultra-long special national treasury bonds.[6] However, LGs' revenue remained subdued, as declines in land sale proceeds and tax revenue were partly offset by non-tax revenue, primarily from the revitalization of state-owned assets.[7] LGs also faced substantial off-budget debt repayment obligations, as local government financing vehicles (LGFVs) have taken on a certain scale of LG implicit debt in the past. In response, the CG introduced additional measures to support debt restructuring in late-2024 to replace eligible existing implicit debt with LGs bonds.[8]

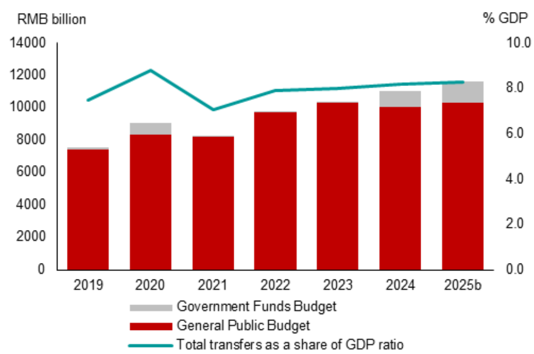
17. China's fiscal stance in 2025 is assessed to be expansionary. The expansion is largely driven by a 0.7 percent of GDP widening in the general public budget deficit, reflecting weaker tax revenues amid continued disinflationary pressures and subdued domestic demand, while expenditures remain broadly unchanged. The government funds budget is also set to expand (Figure 11), supported by CG stimulus under the expanded 'Two Major and Two New'[9] program and a higher new special bond issuance quota for LGs. However, LGs continue to face fiscal strains, with revenue growth and land sale proceeds remaining weak. As a result, while CG fiscal support provides a notable boost to demand, the constrained position of LGs moderates the overall fiscal impulse (Figure 12).

Figure 9. Local Government Fiscal Resources



Source: Ministry of Finance via CEIC; AMRO staff calculations.
Note: Revenue and non-tax revenue are from general public budget. Other revenue refers to non-land income from government funds and revenue from SOE capital management budget. Expenditure is the sum of expenditure from general public, state-owned capital management and government funds budget. Social insurance budget is excluded.

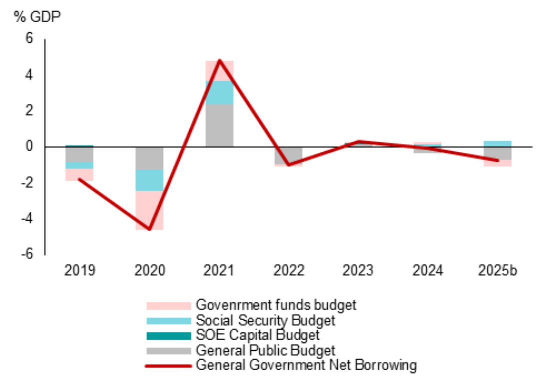
Figure 10. Central Government Transfers



Source: Ministry of Finance via CEIC; AMRO staff calculations.

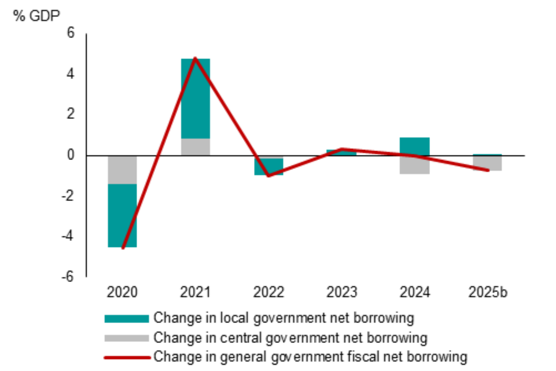
[6] The CG issued an additional RMB 1 trillion in national treasury bonds in 2023, of which RMB 0.5 trillion was utilized in 2023 and the remainder carried over to 2024 for use by LG. In 2024, the CG issued an additional RMB 1 trillion in ultra-long special national treasury bonds, of which RMB 875.3 billion was allocated for fiscal transfers. The key distinction between the two issuances lies in the authorities' budgetary treatment: the 2023 issuance was recorded under the general public budget and thus impacted the headline deficit reported by the authorities, while the 2024 issuance was earmarked under the government fund budget and did not affect the reported headline deficit.
[7] The revitalization of state-owned assets typically involves the transfer or sale of concession rights—such as mining, or extractive resource rights—though the precise mechanism and implementation vary across local governments.
[8] The multi-year debt swap program, with an overall envelope of RMB 12 trillion, comprises RMB 2 trillion in additional refinancing bond quotas annually from 2024 to 2026 and RMB 0.8 trillion per year in new bond issuance quotas over 2024–28 designated for swapping hidden debt. In addition, RMB 2 trillion of hidden debt linked to shantytown redevelopment projects maturing in 2029 and beyond will continue to be repaid as per the original contracts. The authorities also disclosed a hidden debt stock of RMB 14.3 trillion (as of Dec 2023), equivalent to roughly one-fifth of the total outstanding LGFV debt liabilities estimated in market database (Wind).
[9] "Two Major" refers to investment in strategic emerging sectors and new infrastructure, while the "Two New" refers to the consumer trade-in program and industrial upgrading.

Figure 11. Change of General Government Fiscal Balance, by budget



Source: Ministry of Finance via CEIC; AMRO staff calculations.
Note: Negative means an expansion while positive means a contraction compared to previous year's fiscal balance, adjusted based on the IMF GFS (2014) standards.

Figure 12. Change of General Government Fiscal Balance, by government



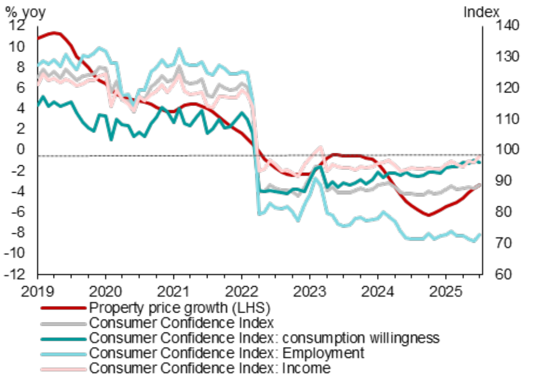
Source: Ministry of Finance via CEIC; AMRO staff calculations.
Note: Negative means an expansion while positive means a contraction compared to previous year's fiscal balance, adjusted based on the IMF GFS (2014) standards.

18. Despite the risks posed by the property sector and LGFVs, China's banking system remains largely sound. Aggregate real estate exposure in the banking sector declined to 19.9% of total loans in Q2 2024, down from 29.0% in late 2019, with development loans accounting for just 5.1% of total loans. Although some real estate developers have encountered default risks, overall asset quality in the banking sector remains stable. Targeted measures—including loan extensions, debt restructuring, and differentiated credit support—have helped prevent disorderly defaults. In the LGFV space, the debt-swap program has eased immediate rollover pressures. Recent government initiatives to recapitalize large state-owned banks and resolve more than 200 high-risk small rural banks have strengthened the system's resilience. Strong capital buffers at major banks, together with the authorities' capacity for timely intervention, continue to provide important backstops against systemic stress.

B.3 Muted Demand, Ample Supply, Low Inflation

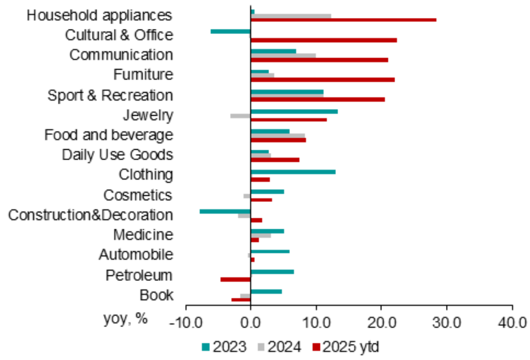
19. Consumer confidence remains subdued amid economic uncertainties, weak income prospects, and property-related wealth losses. Consumer confidence surveys suggest subdued sentiment and continued caution in spending (Figure 13). Job and income insecurities—amid ongoing headwinds such as trade tensions and weakening business profitability—continue to dampen household sentiment. While the surveyed urban unemployment rate has hovered around 5 percent, youth unemployment remains elevated at 17.7 percent as of September 2025. At the same time, wage growth has decelerated—or even been cut—in segments such as finance and parts of the public sector following regulatory tightening. Meanwhile, the protracted downturn in the property market—where second-hand home prices have declined by 18.8 percent from their peak in 2021—combined with delays in some project deliveries, has left households facing negative wealth effects and heightened uncertainty.

Figure 13. Consumer confidence



Source: China NBS via CEIC; AMRO staff calculations.
Note: Consumer Confidence Index readings above 100 indicate that consumers are optimistic while readings below 100 suggest that consumers are pessimistic. Property price growth is the average of new residential housing in 70 cities.

Figure 14. Retail Sales by Category



Source: China NBS via CEIC; AMRO staff calculations.
Note: 2025 ytd is January to August.

20. With still-weak underlying demand, the uptick in household consumption observed so far in 2025 has largely been driven by temporary policy support. Average household consumption per capita rose by 5.3 percent yoy in H1 2025, broadly in line with the pace of disposable income growth, suggesting some resilience in spending. Services consumption grew solidly at 5.1 percent yoy in Jan-Aug of 2025 after a strong 6.2 percent growth in 2024, partly underpinned by service-sector support measures, including local tourism and dining vouchers. Meanwhile, nationwide trade-in programs for consumer goods helped lift retail sales growth to 4.6 percent yoy in Jan-Aug 2025. Many durable goods recorded double-digit growth over the same period: in particular, home appliances and electronic products surged by 28.4 percent, while communication equipment rose by 21.1 percent (Figure 14). Similarly, NEV sales surged by 36.7 percent in the first eight months of 2025. However, as these trade-in programs front-load demand for durable goods, they are unlikely to provide a lasting boost to overall household consumption. [10]

21. Persistent oversupply continues to exert downward price pressures. Industrial production and capacity expansions—particularly in EVs and consumer electronics—continue to outpace retail sales, resulting in intense competition and aggressive price cuts. As excess supply conditions persist, downward pressure on consumer goods prices is likely to continue. Moreover, such downward price pressures may weigh on spending. Policy efforts—such as the "anti-involution" campaign to curb disorderly competition, consolidation of fragmented markets, and targeted capacity rationalisation—may gradually alleviate downward price pressure on the supply side, but their timing and urgency remain critical to pre-empt the rise in real debt burdens.

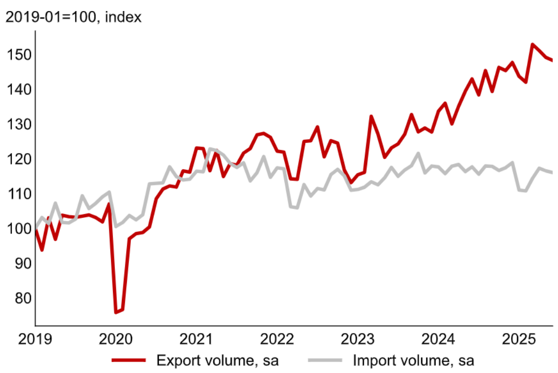
[10] The growth stimulus effects of the consumer goods trade-in program are diminishing for several reasons. First, purchases of electronic devices, e-bikes, household appliances, and the like are typically "one-off" as these are durables. Second, the room for expanding the scope of the program is becoming more limited—e-bikes, for instance, were added to the program in the early part of this year. Third, the program is likely to have the effect of weakening demand (for these durable goods) two to five years out, with purchases having been brought forward. Ultimately, the most crucial priority is still to boost job creation and productivity gains, foster robust income growth, and lift confidence.

C. A Bright Spot: Continued External Sector Resilience

22. Despite escalating trade tensions and evolving U.S. tariffs, China's goods exports have remained resilient in early 2025. Export volumes continued to rise in the first eight months of 2025, underpinned by strong performance in electrical machinery, auto parts, and especially electric vehicles (EVs) (Figure 15). While some of the early-2025 strength may be attributed to front-loading ahead of anticipated tariff escalation and rising uncertainty, the sustained growth in non-US markets has been critical in cushioning the fall in exports to the US, which contracted sharply in Q2. Meanwhile, sluggish and volatile imports have helped widen China's goods trade surplus to record highs, highlighting the continued drag from weak domestic demand and commodity volatility. That said, softer U.S. demand amid a weakening global economic outlook has weighed on China's recent exports and is likely to exert further pressure going forward.

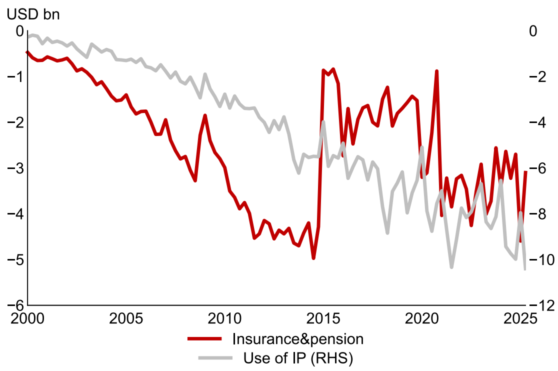
23. China's services trade deficit has widened back to pre-COVID levels, driven by a rebound in outbound tourism and rising intellectual property rights and insurance services payments. After narrowing sharply during the pandemic years, China's services trade deficit had nearly returned to pre-COVID norms by late 2024. A robust rebound in outbound tourism saw spending levels return close to 2019 benchmarks, while inbound travel—driven by visa facilitation and pent-up global demand—exceeded the pre-pandemic levels in 1H 2025. The recovery in transport receipts contributed to a narrowing of the transport services deficit. However, structural outflows continued to increase in other segments: payments for intellectual property rights rose steadily, while insurance and pension service payments expanded alongside increased overseas activity (Figure 16).

Figure 15. Trade Volume



Source: Netherlands Bureau for Economic Analysis via Haver; AMRO staff calculations.

Figure 16. Selected Items with Service Deficit



Source: Sate Administration of Foreign exchange; AMRO staff calculations.

24. FDI inflows into China remained resilient but became increasingly selective, concentrating in high-tech and policy-supported sectors. Positive net inflows persisted into H1 2025 but have moderated steadily since mid-2022, reflecting growing investor caution in the face of geopolitical frictions and post-COVID reassessments of China exposure. A drop in foreign holdings of Chinese debt and slower growth in equity liabilities suggest reduced global investor appetite for long-duration Chinese assets. At the same time, incoming FDI has concentrated on advanced manufacturing, clean energy, and automation—sectors aligned with Beijing's dual-circulation strategy and technological upgrading goals. This evolving pattern reflects a recalibration of investor interest toward resilient, policy-supported segments of the Chinese economy.

25. Rising financial outflows since 2022 have pushed China's overall balance of payments into deficit, marking a shift toward net capital exporter status. Since 2022, China's financial account has consistently recorded net outflows, with particularly large capital outflows in Q3 and Q4 of 2024. These outflows—spanning direct investment, portfolio holdings, and "other" investments such as loans and deposits—reflect both domestic diversification strategies and reduced foreign interest in Chinese assets. This dynamic has offset the substantial goods trade surplus, pushing the overall balance of payments into deficit from Q2 2024 onward. These trends underscore China's evolving role in global capital flows—shifting toward becoming a more prominent net capital exporter—with significant macroeconomic implications, including improved industrial capacity utilization and pressure on the exchange rate amid stronger capital outflows. China's net international investment position (NIIP) excluding reserve assets turned positive in Q1 2025 for the first time in history (Box A).

26. Sustained outbound investment activity from China has helped diversify risks and strengthen global economic linkages. Since 2021, Chinese outbound direct investment has expanded steadily, helping firms diversify production locations, access new markets, and hedge against geopolitical risks. Although investment values have softened in recent quarters, the overall trend remains intact as suggested by forward-looking approval data. Portfolio investments abroad—particularly in foreign debt and equity markets—have also surged, driven by both strategic allocation and private-sector searches for higher returns. Notably, overseas lending and deposits have increased, in part reflecting rising financial linkages with Belt and Road partners and beyond.

27. Despite the ongoing geopolitical strains, China's foreign reserves have remained relatively stable. As of July 2025, China's gross international reserves hovered around USD 3.6 trillion (including foreign exchange reserves USD 3.3 trillion), underscoring resilience despite pressures from the external sector. Contributing factors include continued current account surplus and targeted accumulation of strategic assets such as gold since late 2022. The broader reserve management strategy appears to emphasize diversification and buffering against shocks, even as the BOP deficit persists. These policies suggest a long-term pivot toward more resilient external buffers and reduced dependence on dollar-denominated assets.

Box A. China's External Balance Sheet: Emerging as a Systemic Capital Exporter [11]

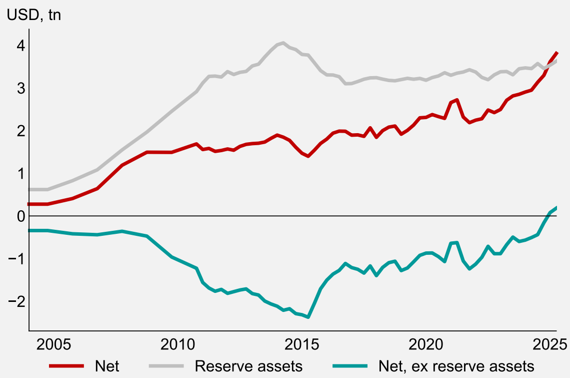
China's net international investment position (IIP) reached USD3.8 trillion, ranking the top globally in Q2 2025. Since Q3 2024, China's net IIP surplus surpassed USD 3 trillion, cementing China's role as a global net creditor (Figure A1). The rising trend has continued through 2025 and China's net IIP overtook Japan and Germany by Q2 2025. Meanwhile, the net IIP excluding reserves turned positive for the first time starting from Q1 2025, highlighting the external strength of China's corporations and banks. Though relative to GDP, it remains smaller at 20.0 percent, compared to 85.5 percent and 77.6 percent, for Japan and Germany, respectively. [12]

[11] Prepared by Xianguo Huang, Senior Economist.
[12] The US was in net liability of USD26.1 trillion by Q2 2025.

A key driver has been outward foreign direct investment (FDI), which has exceeded inward flows over the past decade. The narrowing of the net liability position reflects Chinese firms' global expansion in infrastructure, energy, and high-tech sectors (Figure A3). Outward FDI slowed briefly during the COVID-19 pandemic but has regained momentum as firms diversify markets and reconfigure supply chains. Meanwhile, inward FDI decelerated, shaped by China's shift toward services, U.S.–China tensions, and a maturing industrial base.

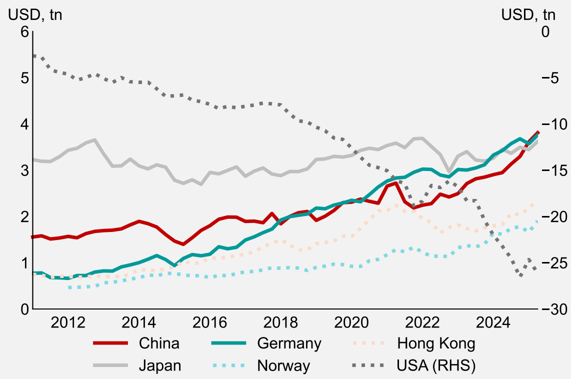
Portfolio flows have also played a significant role in reshaping the IIP (Figure A4). In the aftermath of the COVID-19 shock, outward portfolio asset accumulation accelerated, reflecting Chinese investors' growing appetite for global diversification amid rising domestic uncertainties and prolonged low interest rates. Inward portfolio liabilities—foreign holdings of Chinese equities and bonds—expanded rapidly from 2018-2019 and surged further through 2021, supported by favorable yield differentials, index inclusions, and expectations of RMB appreciation. Since 2022, however, outward investment has picked up more strongly, gradually narrowing the net liability position.

Figure A1. IIP: Asset and Liability



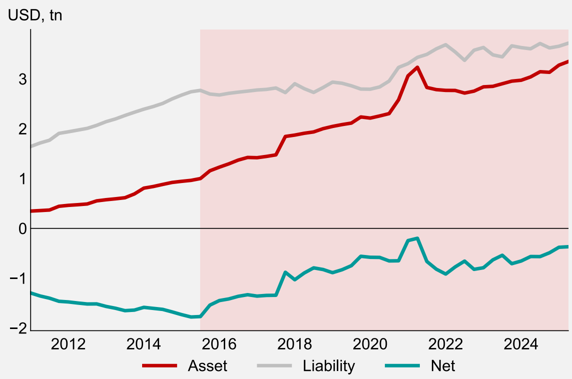
Source: National authorities via Haver; and AMRO staff calculations.

Figure A2. Net IIP across Country



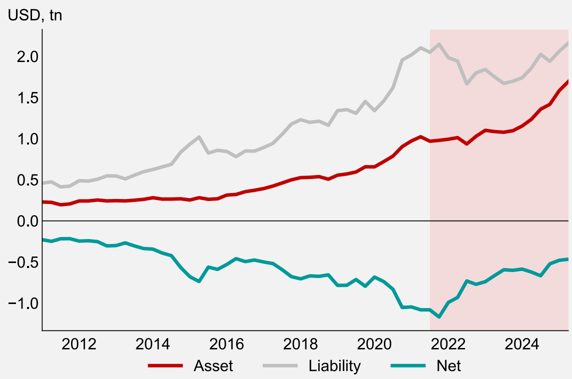
Source: National authorities via Haver; and AMRO staff calculations.

Figure A3. IIP: Direct Investment



Source: National authorities via Haver; and AMRO staff calculations.

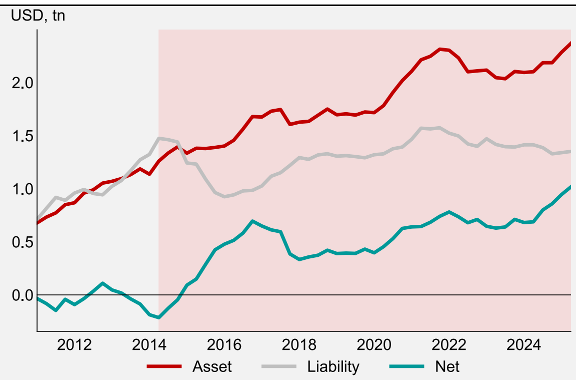
Figure A4. IIP: Portfolio Investment



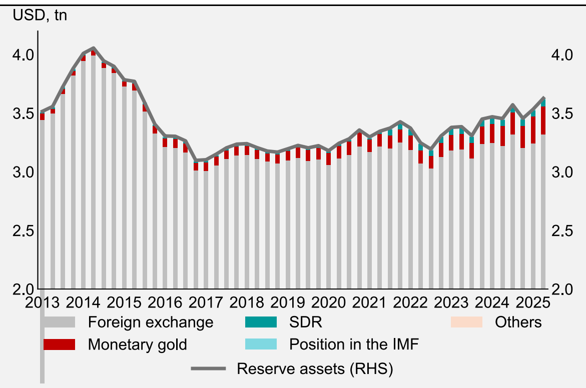
Source: National authorities via Haver; and AMRO staff calculations.

Figure A5. IIP: Other Investment

Figure A6. IIP: Reserve Assets



Source: National authorities via Haver; and AMRO staff calculations.



Source: National authorities via Haver; and AMRO staff calculations.

"Other Investment" has undergone a marked shift over the past decade, moving from near balance in the early 2010s to a substantial net asset position. As of Q1 2025, the position stood at nearly USD 1 trillion (Figure 5). This transformation reflects the structural expansion of China's overseas lending, trade credit, and deposit placements—particularly by banks, policy institutions, and corporates engaged in cross-border trade and project financing. The surge in external assets has been accompanied by China's global trade expansion, Belt and Road Initiative (BRI) lending, and increased use of offshore financial vehicles. "Other Investment" liabilities have grown only modestly since 2018, while China's trade surplus has fueled offshore deposits supplier credit abroad, reinforcing its role as a net creditor through trade-related financial channels.

Reserves remain stable but more diversified, underscoring China's shift toward becoming a capital exporter. Total reserves have remained stable, with a composition increasingly relying on gold along traditional foreign exchanges assets. Monetary gold holdings have more than tripled in value over the past decade, boosted by rising in gold prices and active accumulation. Overall, China's IIP now reflects a shift from passive reserve accumulation toward more market-based, global financial engagement, reinforcing its position as a potentially systemic capital exporter.

D. Outlook and Risks

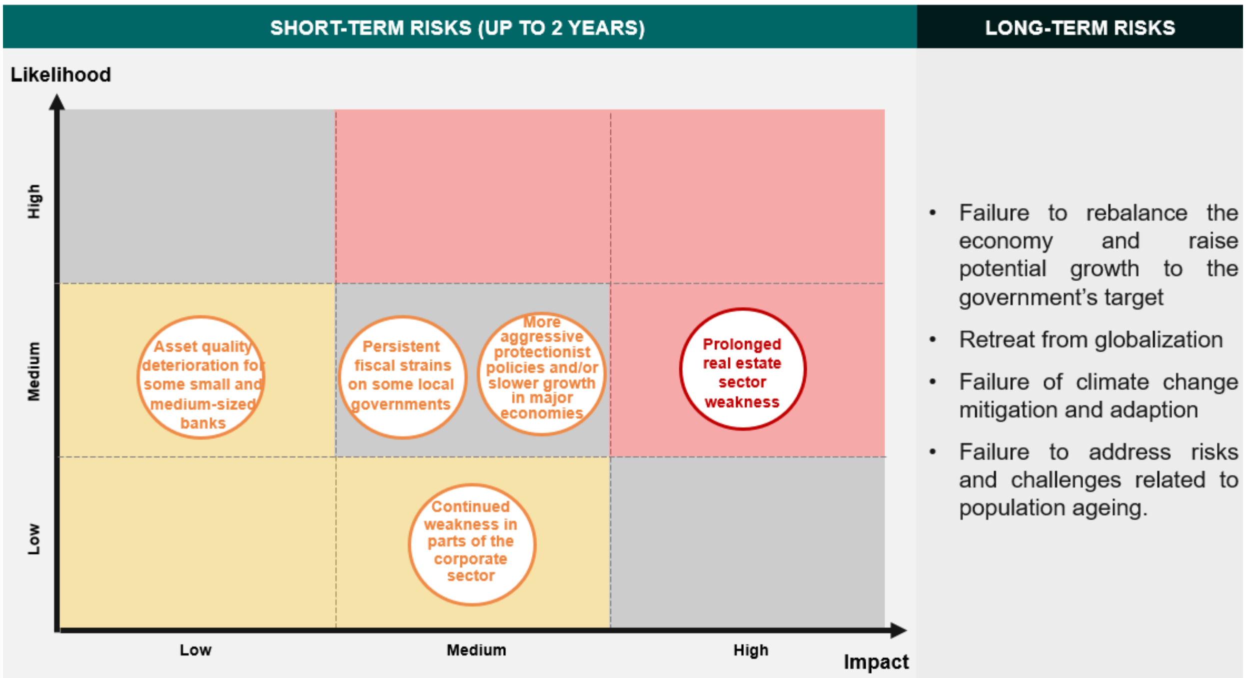
D.1 Near-term Outlook

28. **Economic growth is expected to moderate in the remainder of 2025 and into 2026.** With subdued household income growth and diminished property-related wealth effects, households are expected to remain cautious, constraining the recovery in domestic demand. At the same time, an uncertain global trade environment may weigh on export performance and dampen manufacturing investment. Export growth is projected to decelerate in the coming quarters as the frontloading of shipments fades. Recent trade-in schemes have temporarily supported retail sales but likely pulled forward demand, highlighting the fragility of consumption momentum heading into late 2025 and 2026. Infrastructure investment is expected to remain steady, supported by continued fiscal measures. The protracted downturn in the property sector remains a significant drag on growth, with real estate investment expected to stay subdued. Overall, GDP growth is forecast at 5.0 percent this year and 4.6 percent in 2026. Price pressures are expected to rise modestly over the coming quarters, with headline inflation projected at 0.0 percent in 2025 and 0.4 percent in 2026.

D.2 Risks, Vulnerabilities, and Challenges

29. Near-term risks to the economic outlook remain tilted to the downside. Domestically, China continues to grapple with cyclical and structural headwinds, including a delayed recovery in the real estate sector, rising financial strains on some local governments, persistent weakness in parts of the corporate sector, and deteriorating asset quality among some small and medium-sized banks. The property market is closely linked with household consumption, private investment, banking sector health, and local government finances. Prolonged weakness in the real estate sector could weigh heavily on China's broader economic recovery and exacerbate disinflationary pressures. Externally, rising geopolitical tensions and global trade conflicts could slow global economic growth and deepen geoeconomic fragmentation. On the upside, a faster-than-expected resolution of the property sector overhang and local government financing difficulties could provide a larger boost to economic activity.

Risk Map: China



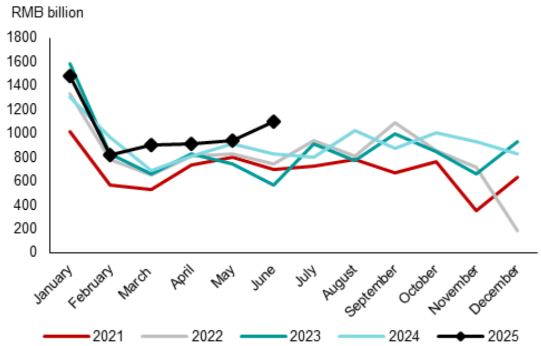
Source: AMRO staff

E. Short-Term Priorities: Supporting Growth and Stability Amid Economic Transition

E.1 From Stabilization to Stimulation: Rethinking the Fiscal Policy Approach

30. The authorities have expanded the consumer trade-in program, accelerated fiscal transfers, and introduced an interest subsidy for personal consumption loans to strengthen near-term demand. The trade-in program's coverage has been broadened to include more non-durable goods, with funding doubled to RMB 0.3 trillion (0.2 percent of GDP) in 2025—fully earmarked for transfers to LGs with minimal co-financing required. However, the program's focus on durable goods risks bringing forward future purchases, potentially dampening consumption growth in the medium-term. The CG has also stepped up the pace of fiscal transfers to support LG financing and cushion the impact of slowing economic activity and tariff shocks (Figure 17). In addition, the authorities have introduced an interest subsidy program for personal consumption loans to further bolster consumption.

Figure 17. Transfers to Local Government



Source: Ministry of Finance via CEIC; AMRO staff calculations.

31. Fiscal support has also been directed toward below-the-line measures [13] aimed at reducing refinancing risks and safeguarding financial stability. In late-2024, the CG announced (i) an additional one-off increase of RMB 6 trillion in LGs' net bond issuance quota, with RMB 2 trillion allocated annually from 2024 to 2026 and (ii) an annual allocation of RMB 800 billion from new LG special bond issuance quota over 2024-2028, both earmarked to support the implementation of the hidden debt swap program. At the central level, a RMB 500 billion recapitalization exercise for the four major state-owned banks was announced to strengthen capital buffers. Some LGs have also issued bonds to recapitalize local financial institutions [14], underscoring the broader use of fiscal measures to contain financial risks.

32. China retains moderate fiscal space to scale up countercyclical support, which could be used more directly to boost domestic demand. Efforts aimed at reducing financial risks stemming from LGFVs are timely and welcomed, but more emphasis should also be placed on measures that directly benefit firms and households.

[13] Below-the-line operations refer to transactions that affect financing rather than revenue or expenditure. See IMF's Government Finance Statistics (GFS 2014) for more discussions.
[14] Jilin provincial government has issued RMB 26 billion local government special bonds in mid-2025 to finance capital injection for Jilin Rural Commercial Bank.

Although the authorities have introduced relevant initiatives to spur demand, their scale could be expanded further given the available fiscal space (Box B). Targeted measures—such as consumption vouchers for services, subsidies for education, childcare, and cultural services, as well as spending-matching schemes for domestic travel—could be enhanced to help boost household spending. More importantly, fiscal policy should also focus on addressing the underlying sources of weak household confidence on growth and income prospects, including the prolonged downturn in the real estate sector.

33. Despite some relief from the debt swap program, there remains spillovers from LGFVs financial vulnerabilities to the broader economy. While the debt swap has eased short-term debt pressure, many LGFVs operate in regulated public services sectors such as urban transportation, utilities, sewage and heating supply, where pricing is tightly controlled by the local authorities and often below market levels. Pricing adjustments often require extensive consultation and a lengthy approval process, leaving LGFVs heavily reliant on fiscal subsidies from LGs that are themselves under strain to sustain operations. As a result, LGs have become the main counterparties of LGFVs receivables and in recent years, due to LGs' fiscal strains, this has led to delayed transfers and cascading late payments and arrears to subcontractors. The buildup of payment arrears has weakened firms' balance sheet, forcing operations to scale back. Smaller firms, which may not have access to bank credits, face heightened risks of defaults and bankruptcies, further dampening growth momentum.

34. Addressing LGFVs' payables should complement efforts to resolve hidden debt. While the hidden debt-swap program does not impose conditions on repayment sequencing, high-interest debt is usually prioritized, primarily bank loans and non-standard debts. As a result, non-interest-bearing liabilities such as arrears have not been adequately addressed, and their share has steadily increased over the years. With the debt-swap program easing near-term repayment pressures, part of the freed-up cash flow should be redirected toward clearing LGFV's arrears. LGs should accelerate payments and ensure timely settlement to support LGFVs liquidity, which would help reduce arrears, ease pressure on subcontractors' cash flow, and strengthen market confidence. Upper-level LGs should provide necessary liquidity support to lower-level LG facing acute cash shortfalls, including through advance transfer arrangements.

Box B. China's Fiscal Space [15]

Public debt has risen sharply in recent years. During the pandemic, the authorities deployed fiscal measures to cushion the impact of economic shocks and support households and firms. In the aftermath of the pandemic, proactive fiscal support has continued in response to an uneven recovery and the prolonged downturn in the real estate sector. The pace of public debt accumulation accelerated further in late 2024 with the introduction of the multi-year local government hidden debt–swap program. These developments have raised concerns over the extent of China's remaining fiscal space, that is how much additional discretionary fiscal policy can be undertaken without undermining debt sustainability and/or market access.

China is assessed to have moderate fiscal space. Both public debt and gross financing needs (GFN) exceed AMRO's indicative thresholds for emerging markets (Figure B1), but it is mitigated by China's favorable debt structure and strong financing conditions, characterized by low sovereign risk

[15] Prepared by Dek Joe SUM

premia, positive financial net worth, predominantly RMB-denominated liabilities, and a state-dominated institutional investor base. The authorities have cited the G20 average debt ratio as the reference point for assessing fiscal sustainability, noting that China's debt remains below this benchmark under both baseline and stress scenarios [16]. However, this benchmark should be interpreted with caution, as G20 economies are highly heterogeneous in terms of fiscal institutions, financial depth, and economic development.

The pace of debt accumulation and debt structure could pose risks. The literature broadly finds no single level of government debt beyond which medium-term growth is significantly compromised. However, China's projected debt buildup over the medium-term can be a source of concern and could weigh on medium-term growth [17]. Moreover, local government debt accounts for a larger and rising share of general government debt obligations relative to the central government, raising questions about repayment capacity, especially for local governments in less developed regions. This challenge is compounded by the prolonged reliance of local governments on land sales to finance expenditure and service debt - a key financing source that is shrinking as China reduces its dependence on real estate as a growth engine.

Existing fiscal space should be used to deliver timely and well-targeted stimulus, focusing on high-multiplier measures addressing household expectations of income and growth. Recent stimulus measures introduced and led by the central government, such as the 'Two Major Two New' initiatives, are welcomed. They provide much needed support to domestic demand without over-burdening local governments which are facing fiscal strains. Nonetheless, returns on traditional urban infrastructure investment have diminished over time, and public investment should be reoriented toward more sustainable areas with higher returns. Increased emphasis on people's livelihood-related investment and stronger measures to address the prolonged real estate sector woes would raise growth prospects and support a more balanced recovery. By targeting areas with high multipliers, fiscal space can effectively rebuild itself, as stronger growth lowers debt ratio and slows debt accumulation (Figure B3).

Once recovery is firmly established, fiscal adjustment will be needed to stabilize the debt ratio and improve the structure of public finances. While near-term financing risks remain contained, medium-term challenges are considerable. Impacted by an aging population, pension and healthcare spending are expected to increase. Without new revenue-mobilization measures or expenditure reforms, primary deficits are likely to remain elevated, leading to continued debt accumulation. A credible medium-term consolidation strategy anchored on broadening the tax base and reprioritizing spending toward growth-enhancing areas, will be critical to rebuilding fiscal buffers and safeguarding debt sustainability.

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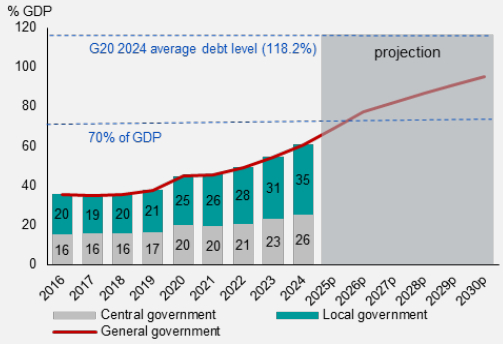
[16] The authorities reference the average G20 (118.2 percent of GDP) and G7 (123.2 percent of GDP) countries debt levels as benchmarks for assessing China's fiscal space (see **here**). This exceeds the 70 percent of GDP benchmark commonly applied in AMRO's DSA framework for emerging economies.

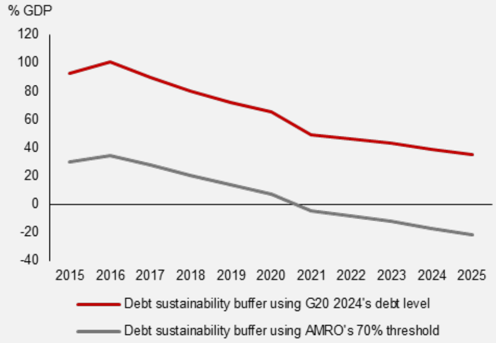
[17] Pescatori, Sandri and Simon (2014) find no evidence of any debt threshold above which medium-term growth prospects are dramatically compromised. However, the same study also finds that the debt trajectory can be as important as the debt level in understanding future growth prospects, since countries with high but declining debt appear to grow equally as fast as countries with lower debt and vice versa.

Figure B1. Public Debt (% GDP)



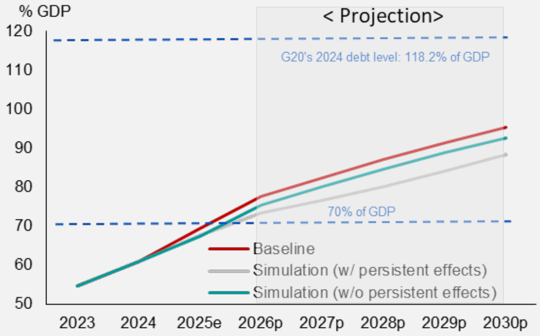
Source: Ministry of Finance via Wind, staff estimates
Note: See DSA for discussions on assumptions

Figure B2. Fiscal Space (% GDP)



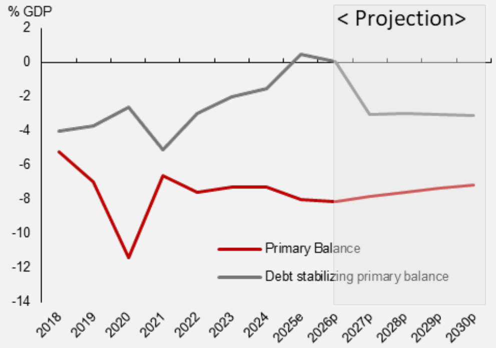
Source: Ministry of Finance via Wind, staff calculations

Figure B3. Fiscal Stimulus Effects (%GDP)



Source: Ministry of Finance via Wind, staff estimates
Note: A two-standard deviation primary balance shock is applied in 2025. For persistent effect sceniaro, a fiscal mulitplier of 0.6 in 2025; 0.72 in 2026, 0.5 in 2027, 0.30 in 2028 and 0.10 in 2029 is assumed. For the case of without persistent effects, a one-year fiscal mulitplier of 0.6 is applied in 2025.

Figure B4. Fiscal Adjustment (% GDP)



Source:Ministry of Finance via Wind, staff calculations
Note: Refer to the DSA note for detailed baseline assumption.

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Andrea Pescatori, Damiano Sandri, and John Simon. "Debt and Growth: Is There a Magic Threshold?", *IMF Working Papers* 2014, 034 (2014), accessed September 19, 2025, https://doi.org/10.5089/9781484306444.001

E.2 Calibrating Monetary Policy amid Weak Demand

35. Monetary policy is broadly accommodative. The authorities shifted from a "prudent" to a "modestly accommodative" stance in December 2024 to counter weak demand, low inflation, and subdued market confidence (Box C). Monetary policy was further eased through measured policy-rate and RRR cuts, as well as reductions in structural tool rates. The real policy rate remains below the estimated neutral rate, suggesting that monetary policy is indeed accommodative, albeit with the gap narrowing since late 2024 due to low inflation. Meanwhile, composite monetary and financial condition indicators also point to easier conditions in 2025.

36. Monetary policy transmission has improved, passing through prices, credit, and asset prices, but remains uneven across sectors. The benchmark lending rates, one- and five-year LPRs, have declined to historic lows of 3.0 and 3.5 percent, respectively. Average borrowing costs fell by roughly 44 bps for new corporate loans and 39 bps for mortgages year on year as of June 2025. Lower rates have eased debt-service burdens, including through reductions in rates on existing mortgages. Long-term government bond yields are near historic lows, helping to reduce sovereign funding costs and providing some relief to local government finances. Bank credit transmission remains mixed, with slower growth of new loans weighed down by weakness in the real estate sector and mortgage demand, but firmer lending growth in manufacturing and infrastructure sectors.

37. Accommodative monetary policy could be further calibrated for additional easing to boost demand. Monetary policy should remain accommodative, helping lower real borrowing costs, sustain ample credit supply, and anchor inflation expectations. The pace of additional easing should be carefully calibrated to avoid undue pressure on the renminbi and to safeguard bank profitability by preserving adequate interest margins that support intermediation and credit growth [18]. Stronger monetary-fiscal coordination will be critical—for instance, supporting fiscal expansion and government bond issuance with ample liquidity in the banking system, and complementing fiscal measures to boost consumption with lower retail borrowing costs.

Box C. The PBC's Recent Monetary Policy Measures to Support Growth [19]

Since late 2024, monetary policy has been eased to support activity amid low inflation, weak demand, and external headwinds. Monetary policy stance shifted to "modestly accommodative" in late 2024, signalling greater support for the real economy**.** The PBC has employed a mix of price, quantity, and targeted tools through countercyclical adjustments, aimed at lowering financing costs, stabilizing expectations, and supporting credit flows to priority sectors. In particular, monetary easing has been implemented through (i) adjustments to policy rates, (ii) maintaining ample liquidity via reserve requirement ratio (RRR) cuts and open-market operations (OMOs), and (iii) establishment and improvement of structural policy instruments for targeted support.

Key policy rates have been reduced to historic lows, effectively lowering borrowing costs across the economy. The PBC further reduced the 7-day OMO rate by 10bps to 1.4% in May 2025, following the 30bps cut in 2024 (Figure C1). Transmission to interbank rates has been effective to, with DR007 and SHIBOR rates closely tracking the policy rate (Figure C2). The loan prime rates (LPRs) were guided lower, with the one-year LPR reduced to 3.0% and the five-year LPR to 3.5%, both at record lows. Meanwhile, banks also cut deposit rates, alleviating pressures on profit margins and reinforcing pass-through to lending rates. Overall, these rate cuts have significantly lowered interest costs throughout the economy, consistent with the accommodative policy stance (Figure C3).

Ample liquidity has been maintained in the banking system through reserve-requirement cuts and enhanced open-market operations. The PBC cut the RRR by 50bps in May 2025, injecting around RMB 1 trillion liquidity to the banking system, on top of two 50bps cuts in 2024. At the same time, OMOs such as reverse repo and Medium-term Lending Facility (MLF) were actively conducted by the central bank to keep liquidity sufficient. Notably, a new outright reverse repo tool was launched in late 2024 to provide medium-term liquidity (tenor up to one year) to bridge the gap between the 7-day OMO and 1-year MLF during periods of funding strains, thereby complementing the existing toolkit and improving collateral circulation (Figure C4). In addition, the authorities addressed signs of overvaluation in long-term CGBs, driven by market expectations and risk appetite changes, by

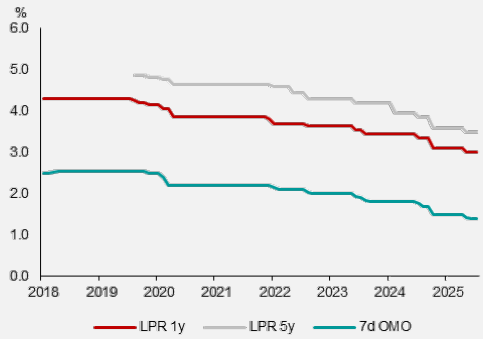
[18] Net interest margin of commercial banks in China has fallen to 1.42%, lower than an average of 2.43% between 2011-2019. To maintain a reasonable profitability and NIM, the authority has guided down deposit rate and provided lower-cost funding to banks alongside policy rate cuts.
[19] Prepared by Ji Ke.

adjusting operations in the CGB market. These actions helped mitigate overshooting risk arising from one-sided market movements.

Targeted structural instruments have been streamlined and expanded to channel credit to priority sectors and address specific weaknesses. Facility rates of structural tools were reduced by 25 bps in May 2025, while the toolkit was broadened to support property delivery and destocking, services consumption and equipment renewal. To help digest housing inventories, PBC launched a RMB 300billion relending facility to support local SOEs purchasing unsold residential housing units for conversion into affordable housing. In May 2025, PBC also increased the relending quota from RMB 500billion to RMB 800billion to support technological innovation and equipment upgrading. In addition, the authorities established new facilities to support the capital markets as well as services and elder-care sectors. These instruments complement interest rate and liquidity tools by providing targeted support to key areas of the economy.

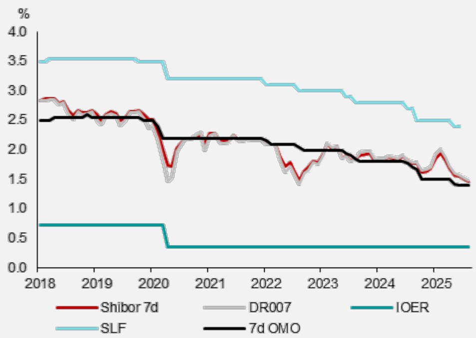
Monetary easing has lowered financing costs, but credit growth remains uneven, weighed down by the property market downturn and cautious sentiment. Lower interest rates have directly eased borrowing costs and debt service burden of firms and consumers, supporting investment and consumption at the margin. Credit growth has been firmer in manufacturing, infrastructure, and SME segments, while overall credit demand remains relatively weak reflecting subdued real estate development loan and mortgages. Lower rates and targeted structural tools have supported market functioning and equity market valuation. However, pass-through to property market demand and prices has been muted so far, suggesting monetary policy alone may not be able to produce a housing upturn. While accommodative measures have clearly cushioned the economy and improved financing conditions, monetary policy still has room to provide additional support to boost confidence and stimulate demand.

Figure C1. Key policy rates



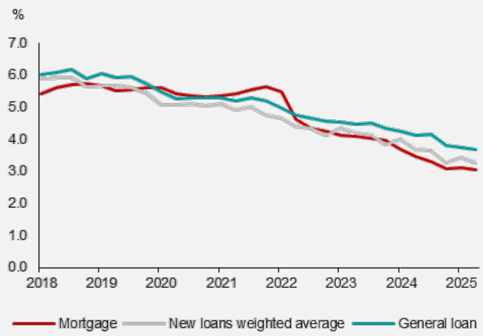
Source: PBC and AMRO staff calculations.

Figure C2. Policy and interbank rates



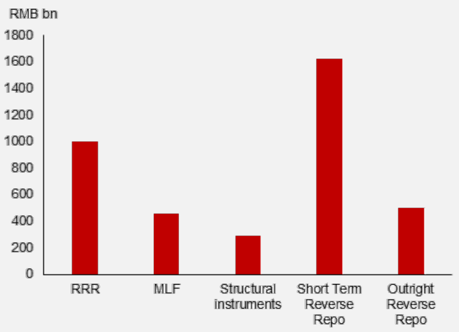
Source: PBC and AMRO staff calculations.

Figure C3. Bank lending rates



Source: PBC and AMRO staff calculations.

Figure C4. Liquidity injection Jan-August 2025



Source: PBC and AMRO staff calculations.

E.3 Real Estate Market Recovery Hinges on Confidence and Coordination

38. The real estate market is experiencing a gradual and uneven recovery, with high inventories in lower-tier cities underscoring the need for stronger policy coordination between central and local governments. Although existing policy measures—including interest rate and downpayment cuts as well as tax incentives [20]—have helped partially stabilize sentiment, the pace of supply-side implementation remains uneven and requires further reinforcement. The recent uptick in new housing sales across some first-tier cities suggests that these policies are starting to gain traction, even as housing prices continue to decline. However, elevated inventory levels persist, particularly in lower-tier cities, where price corrections remain pronounced. This divergence indicates that while demand-side measures—such as interest rate cuts and down payment relief—have begun to take effect, supply-side efforts to reduce inventory have yet to deliver meaningful results. Therefore, region-specific policies are warranted, prioritizing support for lower-tier cities with high inventories and weaker price developments, while higher-tier cities should focus on facilitating orderly market adjustment and rebalancing.

39. Restoring homebuyer confidence requires ensuring the timely delivery of pre-sold homes strengthening consumer protection. A key priority should be the timely delivery of undelivered pre-sold units. To this end, authorities should regularly assess the effectiveness of funding support for projects included in the designated "whitelist" and proactively prepare consumer protection measures in case of disruptions to housing delivery. Establishing a clear framework to safeguard homebuyers' interests in the event of project delays or failures will be critical to restoring market confidence and ensuring policy credibility. Mortgage rates could be guided lower to further support housing demand recovery. Targeted relending and "whitelist" facilities should be scaled up to facilitate project construction and timely home delivery. Taken together, these efforts would help restore confidence and improve housing affordability, while reducing excess inventory in a sustainable and regionally balanced manner.

F. Medium-Term Strategy: Advancing the Transition, Tackling Structural Challenges

F.1 Resolving Structural Legacies: Real Estate and Local Government Finances

40. A medium-term strategy that enables market-based mechanisms to support steady adjustments in housing sales, prices, inventories, and construction activity is essential. Key elements could include setting out medium- to long-term housing supply guidelines, implementing targeted demand support for first-time homebuyers, and facilitating the orderly exit of distressed developers. These actions would help stabilize the real estate market without reflating bubbles in the medium term. Fiscal resources should be used prudently to mitigate the impact of the real estate sector downturn on property developers' balance sheets, household wealth, and consumer spending.

[20] Chinese authorities have steadily announced a wide range of real estate stabilization measures since 2021, including lower mortgage rates and down payments, liquidity support for developers, and local government purchases of unsold real estate inventory.

41. Positive progress has been made in phasing out LGFVs, but compliance gaps and balance sheet weakness persist. While many firms have formally exited the official LGFV platform list, some exits occurred without fully meeting the market transformation criteria.[21] In some cases, LGs accelerated the exit process of their LGFVs to meet the official deadline, resulting in premature exits before these firms could achieve full commercial viability. Many remain highly leveraged with limited revenue diversification outside of government-backed projects. Their balance sheets are often tied up in illiquid assets, including land reserves which generate little cash flow, with much of their income derived from public service-related sectors, where prices are below cost-recovery level. Consequently, while formal LGFV exit reduces hidden debt, underlying financial vulnerabilities remain.

42. Addressing existing and post LGFVs' balance sheet vulnerabilities and compliance gaps requires a comprehensive set of targeted measures. Ongoing efforts to clarify the boundaries between the public and commercial functions of LGFVs should be continued. The hidden debt swap program is an important step in the right direction, providing a window of opportunity to accelerate the reform. For financially weak firms, balance-sheet restructuring, including divestment of non-viable projects, and disposal of idle assets, and closure—should be pursued. Additional options could include the consolidation of weaker entities, or acquisitions by financially stronger upper-level SOEs, which would help facilitate entry into the new sectors. Pricing in regulated sectors should also be gradually adjusted toward cost-recovery levels, accompanied by targeted subsidies to generate fiscal savings and safeguard vulnerable households. Clear accountability mechanisms and post-exit monitoring would help ensure a genuine market-oriented transformation and strengthen the operational sustainability of LGFVs during and after their transition.

43. China's general government debt remains moderate relative to peers, but medium-term vulnerabilities are rising. The 2024 general government debt-to-GDP ratio is at a manageable level of 60.9 percent. However, the recent rapid accumulation reflects persistent primary deficits and the ongoing integration of off-budget debt into the budget. Debt servicing risks remain contained, supported by low interest rates, a predominantly domestic investor base, and a local currency debt profile. Nonetheless, fiscal pressures are expected to intensify over the medium term due to structural revenue limitations, slowing long-term growth, and increasing expenditure related to population aging. Stress test results indicate that public debt is most vulnerable to primary balance shocks. Strengthening debt sustainability will require a credible medium-term fiscal consolidation anchored in enhanced budget transparency, improved risk disclosure, and tighter control over off-budget borrowing—an ongoing effort by the authorities.

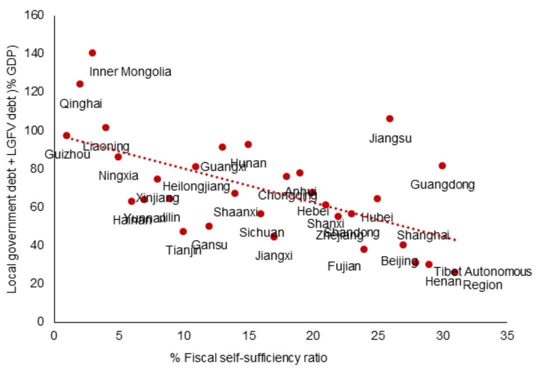
44. Public expenditure should be reprioritized to enhance efficiency and support high-quality growth as part of medium-term fiscal adjustment. With returns on traditional infrastructure investment diminishing and China transitioning away from investment led growth, fiscal resources would be better directed toward high-multiplier,

[21] The State Council has encouraged LGFVs to undertake market-oriented transformation as early as 2010, but the enforcement only began to tighten in 2023. Under this guidance, LGFVs are encouraged to diversify into commercially viable activities and phase out financing activities on behalf of the local governments. The central government has set a deadline for all LGFVs to graduate from being an 'LGFV' by 2027 June. Graduating from being a 'LGFV' requires to meet three conditions: (i) clearing all hidden debt, defined by debt incurred on behalf of local governments; (ii) obtaining the consent of at least two-thirds financial creditors for the withdrawal; and (iii) separating government financing functions and transforming the entity into a market-oriented operator that is independently managed and bears its own risks. According to the authorities, more than 60 percent of LGFVs have graduated from being an LGFV as of June 2025.

productivity-enhancing sectors, such as social security, health, and education, which would help improve livelihoods and strengthen human capital. A gradual phasing out of inefficient and broad-based fiscal subsidies at both the central and local government levels would create fiscal space, improve resource allocation, and reduce fiscal risks. Expenditure reprioritization, anchored in a clear medium-term fiscal framework, would support China's broader objective of achieving more balanced and people centered growth.

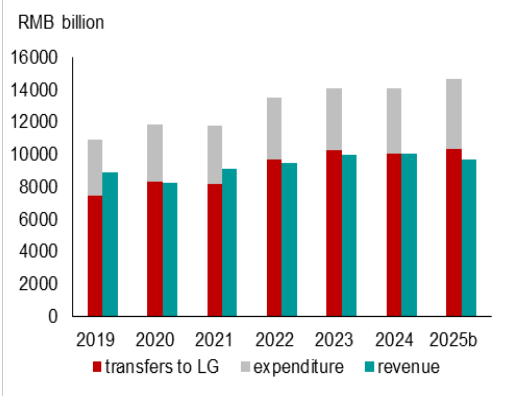
45. In the long run, realigning the intergovernmental fiscal framework will be essential. Land sales have been a primary source of financing for LG, but with revenues plummeting, fiscal constraints have intensified, limiting countercyclical fiscal support and reinforcing negative feedback loops between weak fiscal capacity, falling investment, and slower growth. Fiscal pressures are particularly acute at lower-level LGs, which shoulder more expenditure responsibilities but have far less revenue-raising capacity than upper-levels (Figure 18). Tighter off-budget borrowing rules in recent years have further constrained LG resources. While CG transfers have increased, they risk weakening LGs' revenue mobilization incentives and are not fiscally sustainable, with the size of transfers now exceeding the CG's own source of revenue (Figure 19). Addressing these structural challenges requires a set of fiscal reforms that focus on realigning revenue and expenditure responsibilities in a more equitable and sustainable manner, with the aim of improving local government autonomy, reducing reliance on off-budget borrowing, and ensuring stable and transparent funding for public services at all levels.

Figure 18. Local Government Fiscal Self Sufficiency Ratio and Debt



Source: Ministry of Finance via CEIC; AMRO staff calculations

Figure 19. Central Government General Public Budget Revenue and Expenditure



Source: Ministry of Finance via CEIC; AMRO staff calculations

F.2 Unlocking Domestic Demand: Lifting Confidence through Reforms

46. Strengthening high value-added services—such as healthcare, elder care, and digital support—can boost income growth, given their strong potential amid rising demand from an aging population. Expanding emerging, high-value service sectors that align with demographic and social trends, including healthcare, elder care, childcare, AI and digital services, wellness, and household maintenance, can further support job creation, raise productivity, and foster more inclusive, consumption-led growth. These sectors meet the evolving needs of an aging and urbanizing society and offer significant employment opportunities, particularly for women and younger workers. Enhancing vocational training, improving working conditions, and reducing regulatory barriers would help unlock their full potential and help make economic growth more resilient and balanced.

47. **Promoting inclusive urban development can strengthen the middle class by enhancing mobility and access to public services.** Policies to boost disposable incomes and reduce inequality in consumption and living standards across regions and social groups need to become more integrated. The reform of the Hukou system can be further deepened to enhance labor mobility and grant full urban residency rights to migrant workers and their families, including access to education and healthcare. Upward mobility and urban integration can be strengthened through the development of affordable middle-income neighborhoods with accessible transport and mixed-income housing.

F.3 Advancing Monetary and Financial Reform

48. **Continued efforts to strengthen the monetary policy framework should help enhance policy transmission.** The authorities have taken concrete measures to modernize their monetary policy framework and improve transparency, and clearer articulation of policy targets and communications would further strengthen transmission and anchor expectations. Further improvements to the policy interest rate framework should continue to formalize corridor parameters, strengthen policy-rate guidance, and enhance market-based rate formation. The communication strategy could be further strengthened to enhance transparency and timeliness, thereby supporting policy implementation and enhancing effectiveness. Streamlining structural tools, with regular reporting on uptake and outcomes, would improve policy traction and complement interest rate tools.

49. **Further reform of the financial sector will be critical to mitigate vulnerabilities and support China's economic transition.** Strengthening the resilience of small and medium-sized banks through enhanced governance and stricter prudential requirements remains a priority. The recent acceleration in resolving high-risk rural banks and reforming rural credit cooperatives represents welcome progress that should be sustained. Crisis management and resolution frameworks should be further strengthened to allow timely intervention and minimize fiscal costs in the event of institutional distress. Continued efforts to deepen and broaden capital markets are also needed to improve resource allocation and reduce reliance on bank-based intermediation. Streamlining the fragmented equity-market framework, broadening investor participation, and promoting a more market-oriented pricing and governance model are all important steps to foster more efficient and resilient capital markets. At the same time, regulatory capacity should be enhanced to address challenges arising from rapidly evolving technologies, including fintech innovations and crypto-assets, to safeguard financial stability while supporting innovation.

F.4 Shifting From Excess to Emergence – Industrial Rebalancing and Innovation-Driven Growth

50. **The underlying drivers of structural oversupply in the industrial sector must be addressed decisively.** The authorities are appropriately giving deeper consideration to the cyclical, structural, and policy drivers. While there are no easy solutions, policymaking should address several root causes, including: (i) strong incentives to invest heavily in emerging sectors that can boost GDP in the short term without sufficient

demand projections—particularly amid the ongoing trade conflicts; (ii) China's rapid technological advancements, which allows capacity expansion to outpace domestic and external demand growth; and (iii) industrial policies that may have placed greater emphasis on expanding production volumes rather than optimizing product quality or efficiency and/or not maximized the role that the capital markets can play in allocating resources to investments in productive but not overexpanded sectors of the economy.

51. Investment incentives for emerging sectors should be recalibrated. Local authorities are encouraged or even rewarded for attracting investments to their jurisdictions. However, care must be taken to avoid overinvestment. While China has made huge strides in climbing the innovation ladder and has become a world leader in many new technologies, capacity growth in sectors such as EVs, solar panels, and certain chemicals has outpaced sustainable demand. Reducing incentives for over-investment in a few concentrated sectors requires significant changes in the behavior of local governments and more effective corporate bankruptcy mechanisms. Redirecting resources toward higher-productivity areas by relying more on capital markets—such as advanced services, healthcare technology, and other frontier high-tech industries—would support the development of new productive forces and strengthen long-term growth. Complementary measures—including re-skilling programs for workers and policies to crowd in private investment—would smooth the transition and bolster the economy's resilience.

52. The Chinese authorities should be commended for their continued support of the multilateral trading system. China can deepen its engagement in comprehensive regional trade frameworks—such as the Regional Comprehensive Economic Partnership (RCEP) and, potentially, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). China can do even more to work with like-minded partner countries to broaden the scope of these agreements, boost cross-border investments and trade in services, and lead periodic reviews to upgrade these agreements. China should also continue to support developing economies through trade facilitation, digital capacity-building, and infrastructure connectivity under the Belt and Road Initiative (BRI) and other programs.

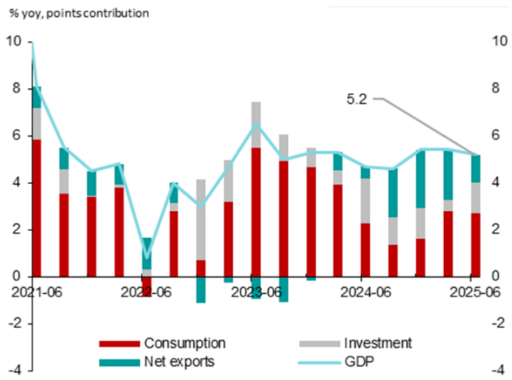
53. China can reposition outbound investment as a tool for mutual development by fostering joint ventures and supporting local growth in partner economies. Closer coordination between authorities and enterprises can help ensure that Chinese outbound investments deliver tangible benefits to host countries—through job creation, upskilling of domestic workers, technology transfer, and sustainable development practices. Leveraging development finance, policy dialogue, and corporate ESG standards can help align overseas projects with shared development goals and China's role as a responsible global investor.

Appendices

Appendix 1. Selected Figures for Major Economic Indicators

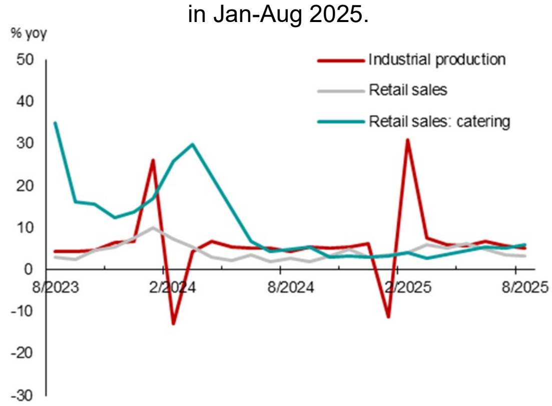
Figure 1.1. Real Sector

China's uneven recovery saw growth of 5.4 percent in Q1 2025, easing to 5.2 percent in Q2 2025.



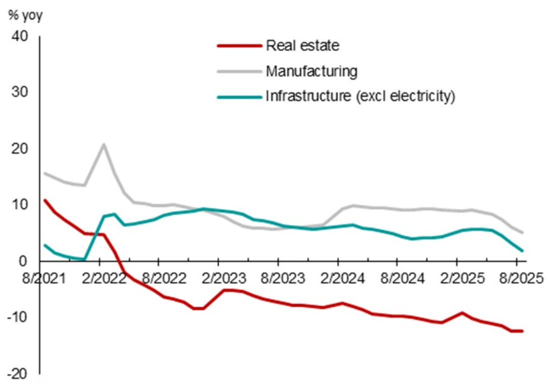
Source: China NBS; Wind

Industrial activities, retail sales, and services showed stop-start momentum in 2024 and were more stable in Jan-Aug 2025.



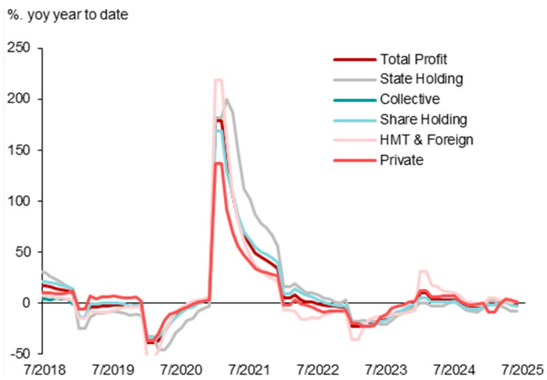
Source: China NBS; Wind

Investment growth was moderate in 2024 and Jan-Aug 2025, while real estate investment contracted sharply.



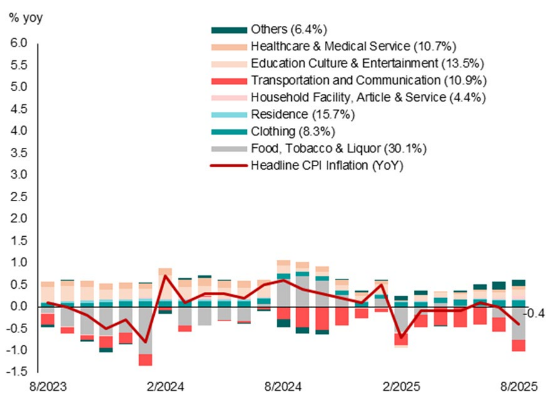
Source: China NBS; Wind

Industrial profits declined by 3.3 percent in 2024 and by a further 1.7 percent in Jan-Jul 2025.



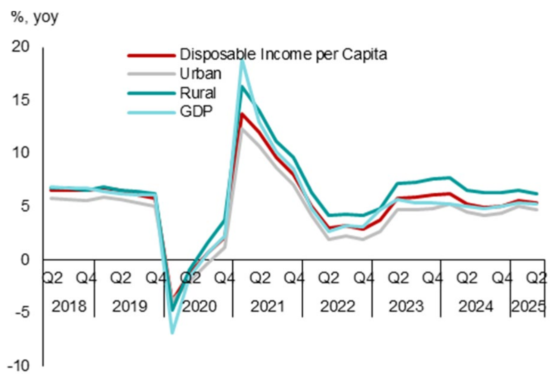
Source: China NBS; CEIC

CPI inflation was 0.2 percent in both 2023 and 2024 and -0.1 percent in the first eight months of 2025.



Source: China NBS; CEIC

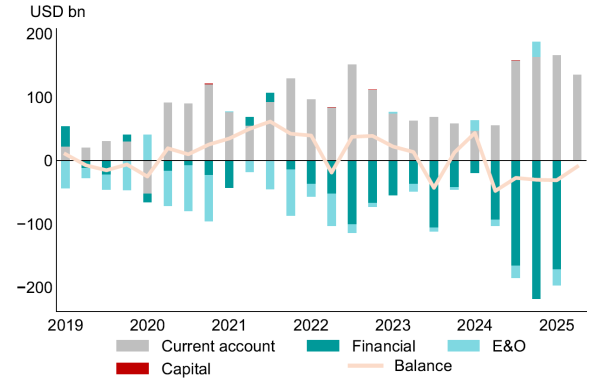
Labor market conditions were stable; the urban surveyed unemployment rate was 5.2 percent.



Source: China NBS; CEIC

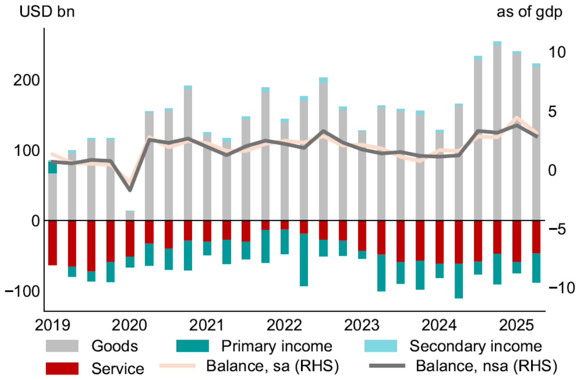
Figure 1.2. External Sector

The overall balance of payments has remained in deficit since Q2 2024,but narrowing in Q2 2025.



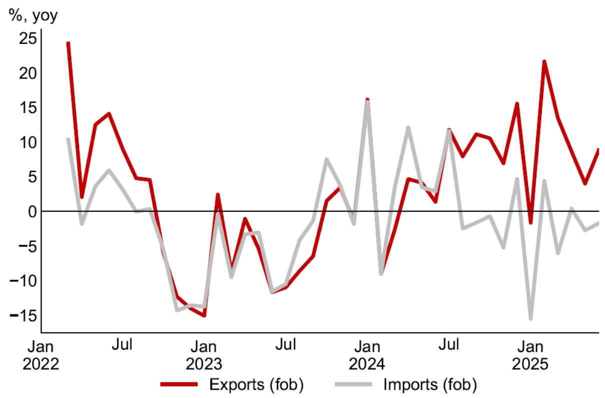
Source: China SAFE; CEIC

Net goods exports have risen significantly since Q3 2024, contributing to an enlarged current account surplus.



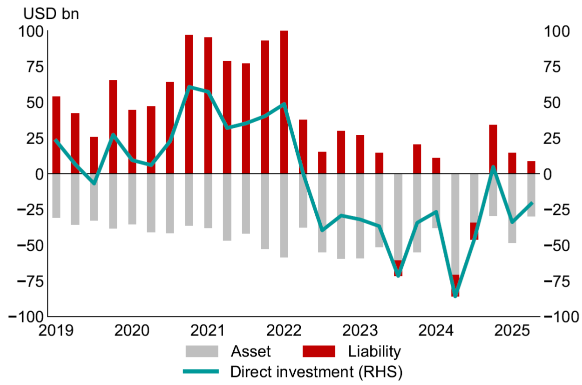
Source: China SAFE; CEIC

Exports held firm on emerging market demand, while imports fell on weak domestic demand.



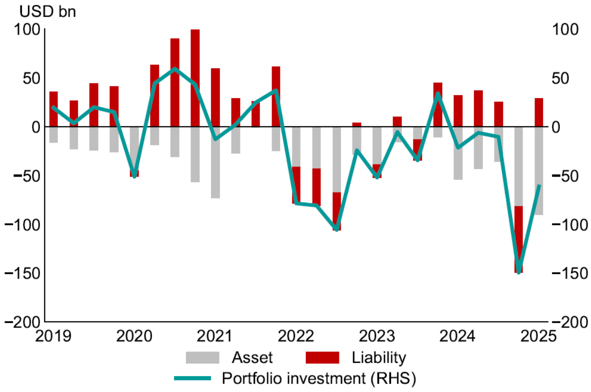
Source: China GAC; CEIC

Net direct investment has been volatile, with inward investment falling since mid-2022.



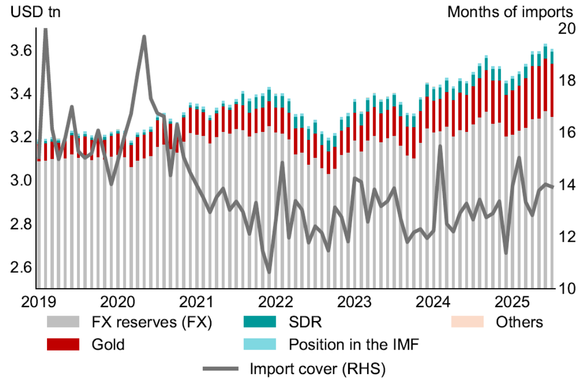
Source: China SAFE; CEIC

Portfolio inflows were mainly in debt securities, with foreign interest in equities rising recently.



Source: China SAFE; CEIC

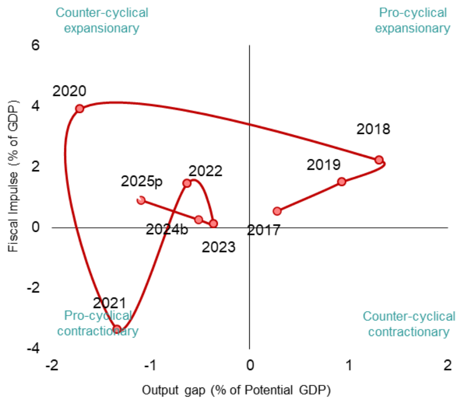
Gross international reserves rose recent months to USD3.6 trillion in July 2025.



Source: China SAFE; CEIC

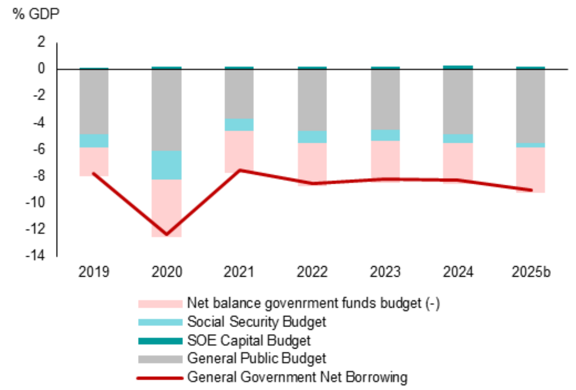
Figure 1.3. Fiscal Sector

China's 2025 fiscal stance is assessed as expansionary…



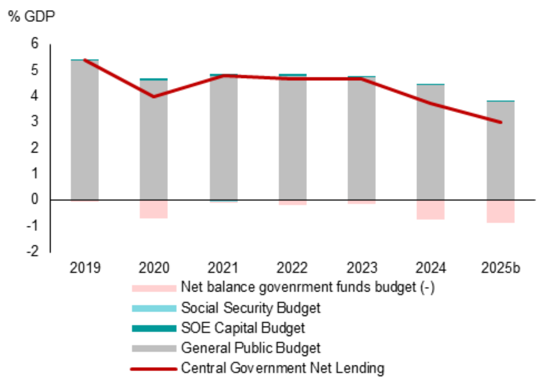
Source: Staff calculation, CMOF via CEIC

driven by a larger general public and government funds budget



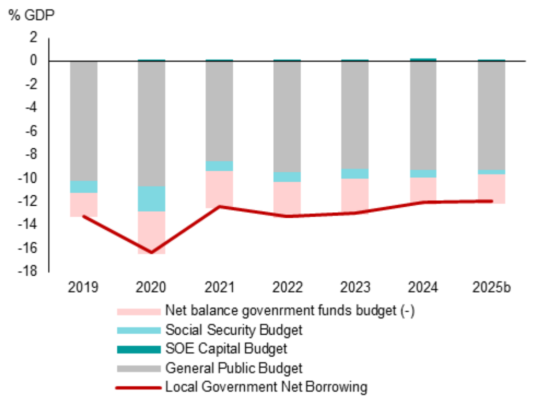
Source: Staff calculation, CMOF via CEIC

Central government has been leading the countercyclical support….



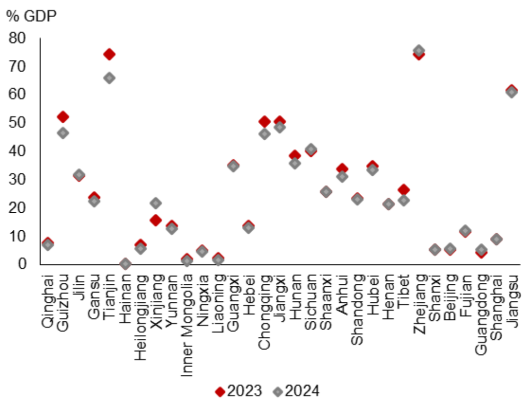
Source: Staff calculation, CMOF via CEIC

While local government maintains a cautious fiscal stance, due to limited fiscal resources and the deleveraging focus



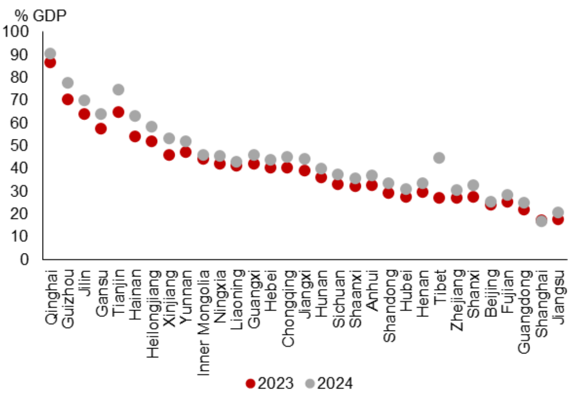
Source: Staff calculation, CMOF via CEIC

Most province LGFVs are seeing a decline in the outstanding debt stock as part of the authorities' efforts



Source: Staff calculation, CMOF via CEIC

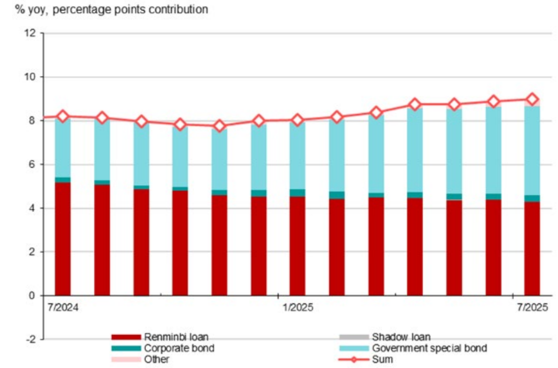
While all provinces recorded an increase in on-budget debt stock, reflecting a higher net borrowing and debt swap effort.



Source: CMOF via CEIC

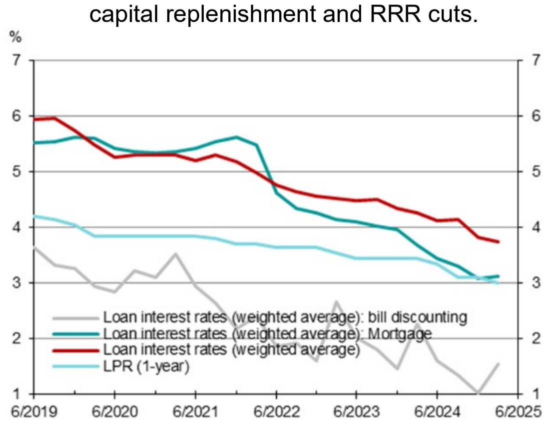
Figure 1.4. Monetary and Financial Sector

Total social financing grew 8.0 percent in 2024 and 8.98 percent y-o-y in the first seven months of 2025.



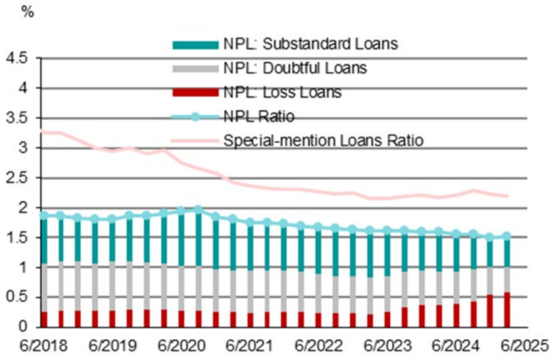
Source: PBC

Lending rates have been falling, helped by bank capital replenishment and RRR cuts.



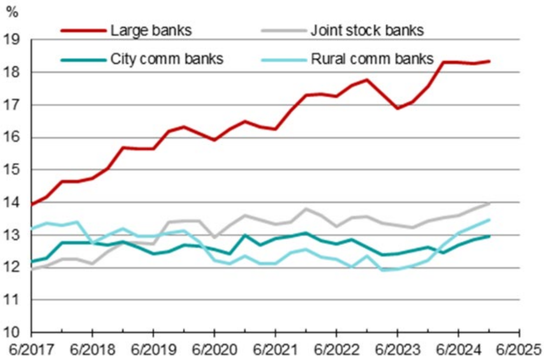
Source: PBC

Official data show banks' loan quality remains sound despite a bumpy recovery and real estate sector.



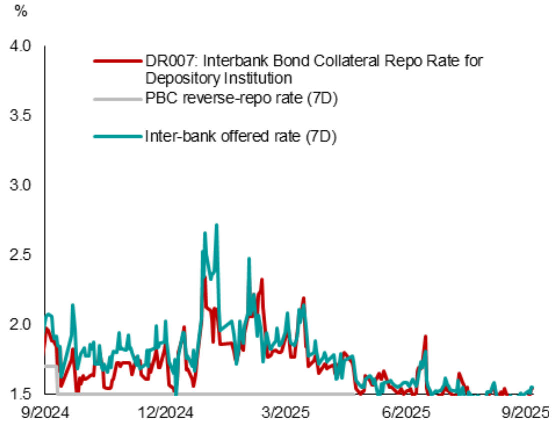
Source: PBC

Banks' capital ratios are increasing moderately, but smaller banks face greater pressure.



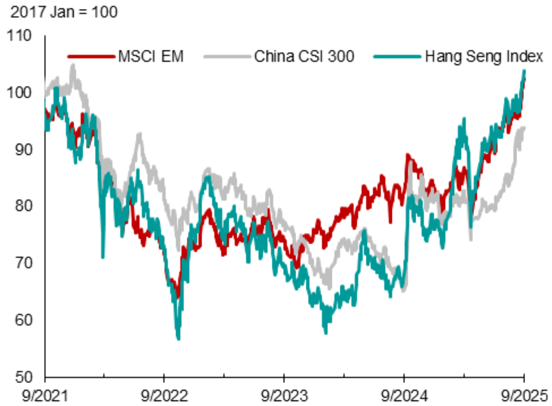
Source: PBC

Short-term market interest rates have generally been low.



Source: CEIC

China's stocks markets rallied after the September 2024 policy moves but turned cautious in H1 2025.



Source: Wind

Appendix 2. Selected Economic Indicators for China

	2021	2022	2023	2024	2025 p/	2026 p/
Real Sector	(In percentage change)					
Real GDP	8.6	3.1	5.4	5.0	5.0	4.6
Consumption	8.9	2.2	7.9	3.8	4.6	4.5
Gross Capital Formation	3.9	3.2	3.5	3.4	1.9	4.0
Consumption (contribution, %p)	5.2	1.5	4.6	2.2	2.6	2.5
Gross Capital Formation (contribution. %p)	1.7	1.2	1.4	1.3	0.8	1.6
Net Exports (contribution, %p)	1.7	0.4	-0.6	1.5	1.6	0.5
Nominal GDP (RMB trillion)	117.4	123.4	129.4	134.9	140.8	146.5
Nominal GDP (USD trillion)	18.2	18.3	18.4	18.9	19.7	20.5
GDP deflator	4.5	1.9	-0.5	-0.7	-0.6	-0.5
Labor Market						
Newly-hired Urban Workers (person mn)	12.7	12.1	12.4	12.6	12.1	12.1
Average Surveyed Unemployment Rate (%): Urban	5.1	5.6	5.2	5.1	5.2	5.2
Average Wage Growth of Workers Employed in Urban Non-Private Establishments (Percent) (Real)	8.6	6.7	5.5	2.8	4.5	4.2
External Sector						
Goods exports (% yoy, USD)	28.1	4.1	-5.0	7.2	5.5	3.5
Goods imports (% yoy, USD)	32.7	1.1	-3.6	2.2	0.0	1.0
Trade Balance (% of GDP, goods and services)	2.5	3.2	2.1	2.8	3.9	4.2
Current Account (% of GDP)	1.9	2.4	1.4	2.2	3.3	3.6
Financial and Capital Balance (% of GDP)	-1.2	-1.9	-1.3	-2.3	-2.5	-2.6
FDI (% of GDP)	1.9	1.0	0.3	0.1	0.3	0.3
ODI (% of GDP)	1.0	1.2	1.2	0.9	1.0	1.1
External Debt, Gross (% of GDP)	15.1	13.4	13.3	12.8	12.2	11.7
International Reserves (USD bn)	3426.9	3306.5	3449.7	3445.6	3576.6	3789.7
Exchange Rate (Against USD, Period Average)	6.45	6.76	7.06	7.12	7.15	7.15
Monetary Sector						
M2 (% yoy)	9.0	11.8	9.7	7.3	8.3	8.2
Total Social Financing (% yoy)	10.3	9.6	9.8	8.0	8.9	8.7
Total Loans (% yoy)	11.5	11.1	11.0	7.6	7.5	7.4
Lending Rate (1y, Period End, %) for 2018: 1y Loan Prime Rate (Period End, %)	3.80	3.65	3.45	3.10	2.90	2.80
CPI (Period Average, %, yoy)	0.9	2.0	0.2	0.2	0.0	0.4
Core CPI (Period Average, %, yoy)	0.8	0.7	0.6	0.4	0.5	0.6
Fiscal Sector, General Public Budget						
Revenue (% yoy)	2.1	6.9	2.4	4.8	-1.9	3.9
Expenditure (% yoy)	1.0	5.1	7.8	1.1	4.0	3.5
Revenue (% of GDP)	18.2	18.5	18.1	18.2	17.2	17.2
Expenditure (% of GDP)	21.2	21.2	21.8	21.2	21.2	21.2
Deficit (% of GDP) Official	-3.0	-2.7	-3.8	-3.0	-4.0	-4.0
General Government Debt (% of GDP)	45.8	49.4	54.7	60.8	69.3	73.9
Financial Sector and Property Markets						
Shanghai Stock Exchange Composite Index	3,640.0	3,089.3	2,974.9	3,351.8	3,444.4	3,968.84
Shanghai Interbank Offered Rate, Overnight (%)	2.1	2.4	1.7	1.5	1.4	1.9
10 Year Treasury Bond Yield (%)	2.9	2.9	2.7	1.8	1.7	1.5
Banking Capital Adequancy Ratio (%)	15.1	15.2	15.1	15.7	15.3	15.3
NPL Ratio (%)	1.7	1.6	1.6	1.5	1.5	1.6

Note: p/ denotes projections for 2025 and 2026.

*The perimeter of the general government debt encompasses all four budget accounts: the general public budget, the government funds budget, the state-owned capital operations budget, and the social security budget.

Source: NBS, IMF, Haver Analytics, CEIC, AMRO staff calculations and estimates

Appendix 3. Balance of Payments

	2020	2021	2022	2023	2024
Current account	1.7	1.9	2.4	1.4	2.2
Trade Balance	2.4	2.5	3.2	2.1	2.8
Goods	3.4	3.1	3.6	3.2	4.1
Exports	16.7	17.7	18.3	17.3	18.0
Imports	13.3	14.6	14.7	14.1	13.9
Services	-1.0	-0.6	-0.5	-1.1	-1.2
Exports	1.5	1.9	2.0	1.8	2.0
Imports	2.5	2.4	2.5	2.9	3.2
Primary income	-0.8	-0.7	-0.8	-0.7	-0.7
Credit	1.7	1.9	1.0	0.3	0.1
Debit	2.4	2.5	2.3	2.4	2.3
Secondary income	0.1	0.1	0.1	0.1	0.1
Capital and financial account	-0.6	-1.2	-1.9	-1.3	-2.3
Financial account	-0.4	-0.2	-1.4	-1.3	-2.6
Direct investment, net	0.7	0.9	-0.1	-1.0	-0.8
FDI	1.7	1.9	1.0	0.3	0.1
ODI	-1.0	-1.0	-1.2	-1.2	-0.9
Portfolio investment, net	0.6	0.3	-1.6	-0.3	-1.0
Liabilities	1.6	1.0	-0.6	0.1	0.1
Assets	-1.0	-0.7	-1.0	-0.4	-1.1
Other investment, net	-1.6	-1.4	0.4	0.0	-0.8
Liabilities	0.6	0.9	-0.5	-0.2	-0.3
Currency and deposits	0.6	0.4	-0.3	-0.1	-0.2
Loans	-0.1	0.1	-0.1	-0.1	-0.2
Trade credit	0.1	0.2	-0.2	-0.1	0.1
Assets	-2.2	-2.3	0.9	0.2	-0.5
Reserve assets	-0.2	-1.0	-0.5	0.0	0.3
Net errors and omissions	-1.1	-0.7	-0.5	-0.1	0.1
Overall balance of payments	1.3	1.8	1.0	0.1	-0.4
Memorandum items:					
Export growth (in USD, percentage change)	4.1	29.8	4.6	-5.7	8.1
Goods (contribution)	4.7	25.8	3.7	-4.5	6.6
Services (contribution)	-0.6	4.0	0.9	-1.2	1.6
Import growth (in USD, percentage change)	-4.8	30.0	1.6	-0.6	4.2
Goods (contribution)	0.2	27.5	0.9	-3.1	1.8
Services (contribution)	-5.0	2.5	0.6	2.5	2.4
External debt (percentage of GDP)	16.0	15.1	13.4	13.3	12.8
International reserves (in USD billion, end of period)	3356.5	3426.9	3306.5	3449.7	3445.6

Source: National authorities; AMRO staff estimates

Appendix 4. Statement of General Government Operations

	2019	2020	2021	2022	2023	2024	2025e
	RMB billion						
General Public Budget							
Total Revenue	21259	20922	21368	22839	23378	24511	24041
Revenue	19039	18291	20255	20365	21680	21970	21985
Carryover and Transfers	2220	2630	1112	2474	1699	2541	2056
Total Expenditure	24019	24682	24929	26194	27758	28571	29701
Expenditure	23886	24568	24567	26055	27462	28461	29701
Carryover and Transfers	133	114	361	139	296	110	0
Offical Fiscal Balance	-2760	-3760	-3561	-3355	-4380	-4060	-5660
Government Funds Budget							
Expenditure financed by land sales, bond proceeds and carryover	1799	5263	4596	4250	4316	3919	4647
of which: net expenditure financed by land sales	-369	793	882	245	189	-167	-154
e-Owned Capital Management Budget							
Revenue	397	477	517	570	674	678	633
Expenditure	230	256	262	340	335	313	282
Balance	168	222	255	230	340	365	350
Social insurance budget							
Revenue	8315	7636	9688	10245	11302	12013	12447
Expenditure	7474	7837	8669	9060	9910	10568	11338
Balance	841	-201	1018	1184	1392	1445	1110
General government debt	38114	46552	53740	60935	70770	82113	97271
Central government	16804	20891	23270	25869	30033	34572	41113
Local government	21310	25661	30470	35065	40737	47540	56157
	in percentage of GDP						
General Public Budget							
Total Revenue	21.1	20.2	18.2	18.5	18.1	18.2	17.1
Revenue	18.9	17.7	17.3	16.5	16.8	16.3	15.7
Carryover and Transfers	2.2	2.5	0.9	2.0	1.3	1.9	1.5
Total Expenditure	23.9	23.9	21.2	21.2	21.4	21.2	21.2
Expenditure	23.7	23.7	20.9	21.1	21.2	21.1	21.2
Carryover and Transfers	0.1	0.1	0.3	0.1	0.2	0.1	0.0
Offical Fiscal Balance	-2.7	-3.6	-3.0	-2.7	-3.4	-3.0	-4.0
Government Funds Budget							
Expenditure financed by land sales, bond proceeds and carryover	1.8	5.1	3.9	3.4	3.3	2.9	3.3
of which: net expenditure financed by land sales	-0.4	0.8	0.8	0.2	0.1	-0.1	-0.1
SOE capital management budget							
Revenue	0.4	0.5	0.4	0.5	0.5	0.5	0.5
Expenditure	0.2	0.2	0.2	0.3	0.3	0.2	0.2
Balance	0.2	0.2	0.2	0.2	0.3	0.3	0.2
Social insurance budget							
Revenue	8.3	7.4	8.3	8.3	8.7	8.9	8.9
Expenditure	7.4	7.6	7.4	7.3	7.7	7.8	8.1
Balance	0.8	-0.2	0.9	1.0	1.1	1.1	0.8
General government debt*	37.9	45.0	45.8	49.4	54.7	60.9	69.3
Central government	16.7	20.2	19.8	21.0	23.2	25.6	29.3
Local government	21.2	24.8	26.0	28.4	31.5	35.2	40.0

Sources: Ministry of Finance; AMRO staff calculations
Note: The perimeter of the general government debt encompasses all four budget accounts: the general public budget, the government funds budget, the state-owned capital operations budget, and the social security budget. General government debt for 2025 is based on AMRO's staff estimates.

Appendix 5. Monetary Sector

	2020	2021	2022	2023	2024
Money supply	(Annual percentage change, unless otherwise specified)				
Broad money (M2) (percent of GDP)	422.6	406.0	431.8	451.6	464.8
Broad money (M2)	10.1	9.0	11.8	9.7	7.3
M1	4.4	8.6	3.5	3.7	1.3
M0	5.4	9.2	7.7	15.3	8.3
Money multiplier (times)	6.6	7.2	7.4	7.5	8.5
Reserve requirement ratio (RRR) (percentage of deposit liabilities)					
Large banks	13.0	12.5	11.5	11.0	10.5
Small and medium-sized banks	11.0	9.5	8.5	8.0	7.5
Total social financing	(Annual percentage change, unless otherwise specified)				
Total social financing (percent of GDP)	275.2	267.6	278.9	292.1	302.7
Total social financing	13.3	10.3	9.6	9.8	8.0
Bank loans (contribution)	8.0	7.0	6.7	6.7	4.5
Shadow banking (contribution)	-0.5	-0.9	-0.2	0.0	0.0
Net corporate bond financing (contribution)	1.7	0.8	0.3	0.0	0.3
Net government bond (contribution)	3.3	2.5	2.3	2.8	3.0
Banks	(Annual percentage change)				
Deposits	10.2	9.3	11.3	10.0	6.3
Loans	12.8	11.5	11.1	11.0	7.6
Small and Micro Enterprise Loans	15.7	17.1	19.4	18.8	14.8
Real estate (RMB loan)	11.6	5.2	1.9	-1.0	0.3
Mortgage (RMB loan)	14.5	11.3	1.3	-1.6	-1.3
Manufacturing (all currency)	19.9	22.5	26.5	28.0	12.6
Banking sector soundness indicators	(In percentage, unless otherwise specified)				
Non-performing loan ratio	1.8	1.7	1.6	1.6	1.5
Special-mention loan ratio	2.6	2.3	2.2	2.2	2.2
Provision coverage ratio (provisions/NPLs)	184.5	196.9	205.8	205.1	211.2
Loan-to-deposit ratio	76.8	79.7	78.8	78.7	80.3
Liquidity coverage ratio	146.5	145.3	147.4	151.6	154.7
Net interest margin	2.1	2.1	1.9	1.7	1.5
Return on assets	0.8	0.8	0.8	0.7	0.6
Return on equity	9.5	9.6	9.3	8.9	8.1
Capital Adequacy Ratio	14.7	15.1	15.2	15.1	15.7
Tier 1 capital adequacy ratio	12.0	12.4	12.3	12.1	12.6
Core Tier 1 Capital Adequacy Ratio	10.7	10.8	10.7	10.5	11.0

Sources: National authorities; AMRO staff calculations

Appendix 6. Data Adequacy for Surveillance Purposes

Key Indicators for Surveillance	Data Availability(i)	Reporting Frequency/ Timeliness(ii)	Data Quality(iii)	Consistency(iv)	Others, if any(v)
National Accounts	Available	Quarterly GDP, monthly CPI and PPI, monthly industrial production, monthly fixed asset investment, monthly retail trade	China has implemented a new quarterly GDP accounting measure since 2015.	-	More data for expenditure side data for real GDP would be welcomed.
Labor Market	Available	Quarterly data for newly hired workers Monthly data for new jobs in urban areas	-	-	There is room to improve accuracy.
Balance of Payments (BOP) and External Position	Available	Quarterly BOP data released within 3 months after the quarter ends, monthly trade data within 3-4 weeks after the month ends.	Errors and omissions can sometimes be large.	-	Earlier release would be welcomed.
State Budget and Government/ External Debt	Available	Monthly fiscal data released within 3-4 weeks after the month ends. Quarterly foreign debt data released within 3 months after the quarter ends. Yearly government outstanding debt data released within 6 months after the year ends.	-	-	
Money Supply and Credit Growth	Available	Monthly data released within 2-4 weeks after the month ends	-	-	-
Financial Sector Soundness Indicators	Available	Quarterly data released within 3 months after the quarter ends.	-	-	Earlier release would be welcomed.
SOE Statistics	Some key data available	Monthly data released within 2 months after the month ends	-	-	More detailed data would be welcomed.

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