BBVA Research

JUNE 2025

China Economic Outlook

BBVA Research

Global Economic Outlook

Main messages

Economic uncertainty

US tariffs have risen sharply. Although levies on China are now around 30%, lower than the expected 60% and well below the post-“Liberation Day” peak of 145%, they remain high and the uncertainty about where they will eventually settle is a persistent source of risk. In this context, and given prospects of large fiscal deficits, the US premium risk has risen. Growth remains resilient and inflation has eased, despite early signs of tariff-related deterioration.

Growth outlook

Protectionism and uncertainty will weigh on economic activity. Growth will likely slow more than previously anticipated in the US, but not necessarily in China and the Eurozone. In the former, lower-than-expected US tariffs back an upward revision of growth forecasts. In the latter, the impact of expected US tariffs will likely be mitigated by fiscal spending, mainly in defense.

Inflation and rates outlook

Tariffs are likely to push US inflation higher, prompting the Fed to keep rates unchanged for longer. Monetary easing could resume by the end of 2025 if price pressures prove transitory. The rate-cutting cycle could be over, or at least near to the end, in the Eurozone, and remains underway in China.

Risks

Lingering policy uncertainty and rising US risk premium are important sources of concern. Tariff risks have augmented, but now appear more balanced.

Global economy under pressure by US policies

High US tariffs; although lower on China, they are larger than assumed on others, and a greater source of uncertainty

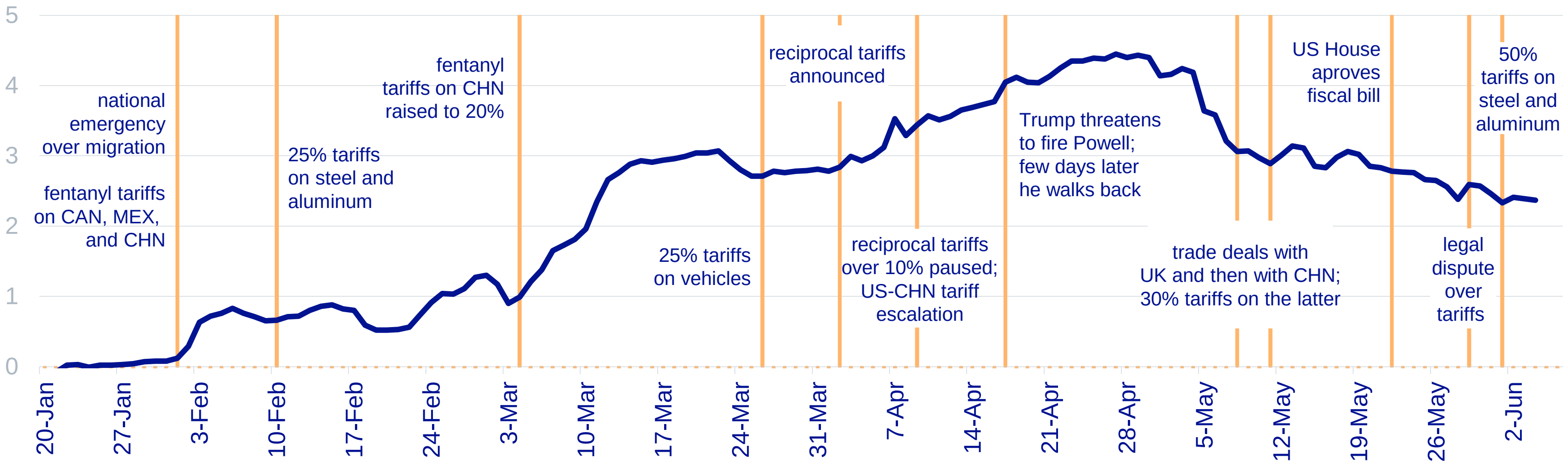
Resilient growth; confidence deteriorated, but impact of tariffs on activity and inflation is limited, so far

Larger US risk amid increasing concerns on fiscal accounts and uncertainty on US policies

Weaker USD, higher long term yields, and a cautious Fed; policy rates fell further in China and Europe

Uncertainty remains in place

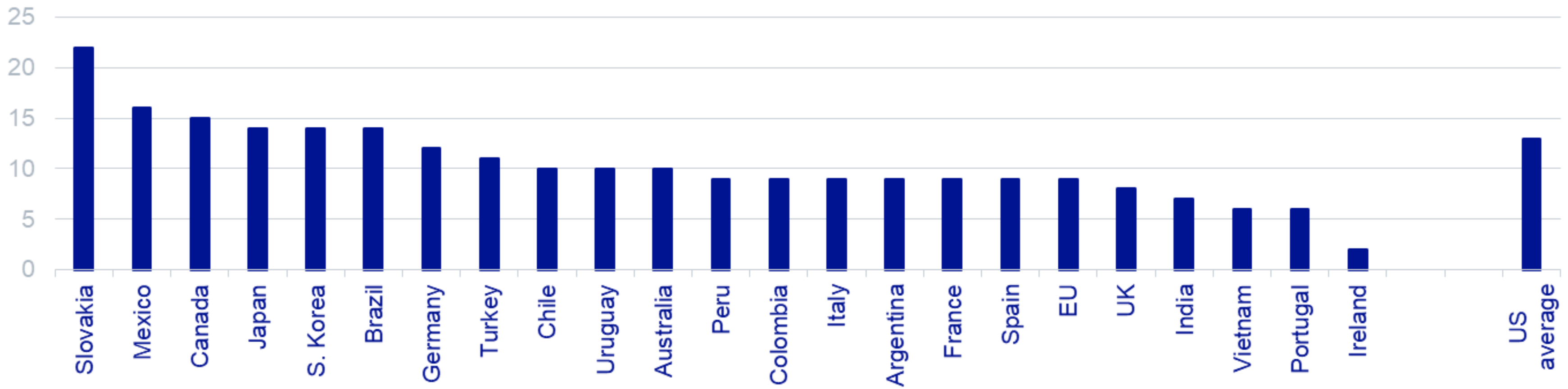
BBVA RESEARCH ECONOMIC POLICY UNCERTAINTY INDEX (*)
(28-DAY MOVING AVERAGE, AVERAGE SINCE 2017 EQUALS TO ZERO)



(*) Last available data: June 4, 2025
Source: BBVA Research.

US tariffs have risen sharply and erratically

US TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 UNTIL JUNE 9, 2025 (*)
(PP)

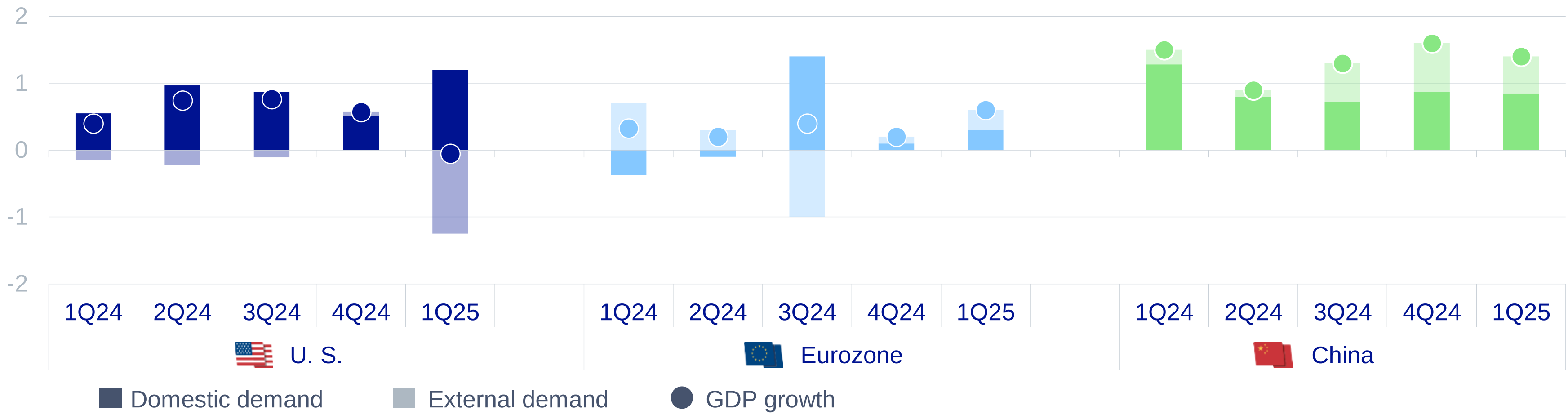


(*) Based on i) 25% tariffs on vehicles and vehicles parts and 50% tariffs o aluminum and steel (lower rates for the UK, Mexico and Canada), ii) 0% tariffs on pharmaceutical goods, oil, copper and selected electronic goods, iii) fentanyl tariffs on China, Mexico and Canada, and iv) 10% reciprocal tariffs.
Source: BBVA Research.

After some de-escalation, US tariffs rose again in late May/25, with levies on steel and aluminum reaching 50%; trade negotiations continue, and disputes over the legal validity of the tariffs remain unresolved

GDP stagnated in the US and grew by more than expected in the EZ and China in 1Q25 amid preemptive trade flows

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)

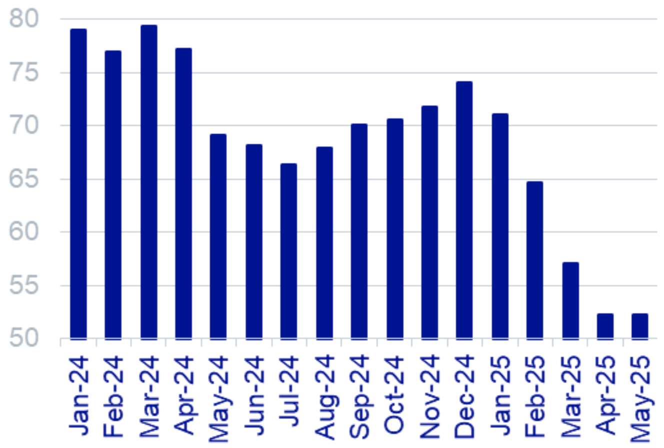


Source: BBVA Research based on data from Haver and China's NBS.

Ahead of tariffs, imports and inventories increased sharply and private consumption weakened somewhat in the US; exports performance helped to sustain growth in China and the Eurozone

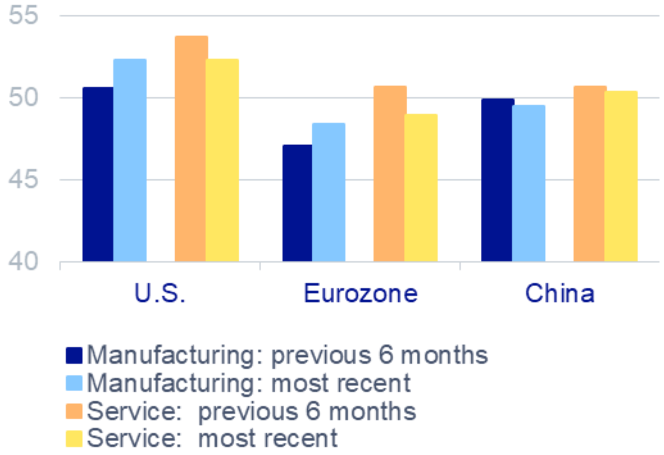
Growth remains relatively resilient, but there are incipient signs of tariff effects on activity

US CONSUMER SENTIMENT
(INDEX)



Source: BBVA Research based on data from Survey of Consumers, University of Michigan

PMI INDICATORS: 2H24 AVERAGE AND MOST RECENT DATA (*) (MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



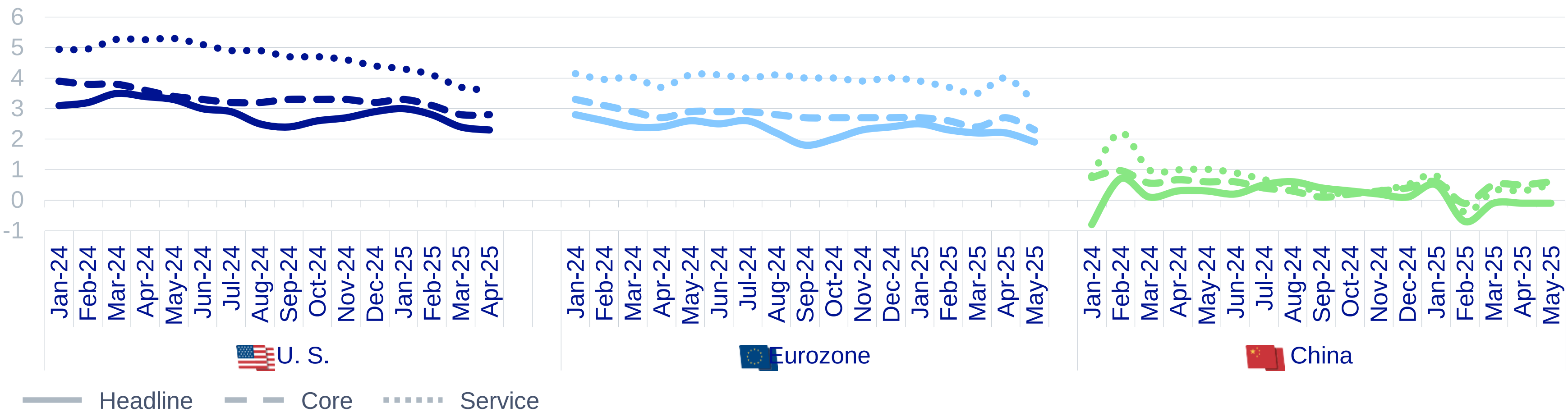
(*) Most recent data: May 2025.
Source: BBVA Research based on data from Haver.

Confidence has deteriorated and services have weakened, while manufacturing has benefited from lower interest rates and pre-tariffs trade surge; labor markets are losing some of their steam, but remain strong

Inflation has eased more than expected lately; limited effects of tariffs so far

CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)

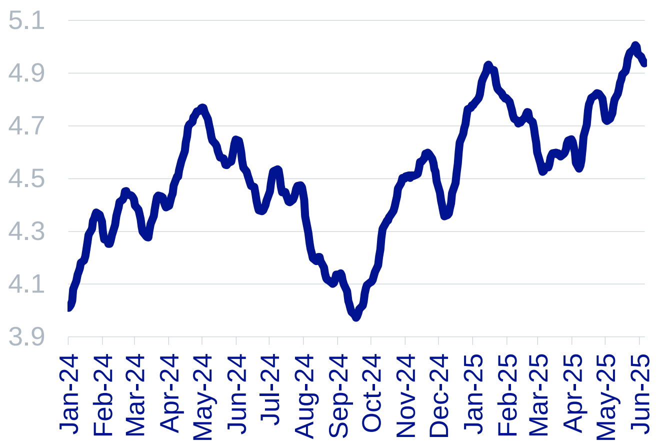


Source: BBVA Research based on data from Haver.

Contained demand pressures and lower energy prices have contributed to a moderation in inflation, which remains over 2% in the US (but not in the Eurozone anymore), to some extent due to still pressured service prices

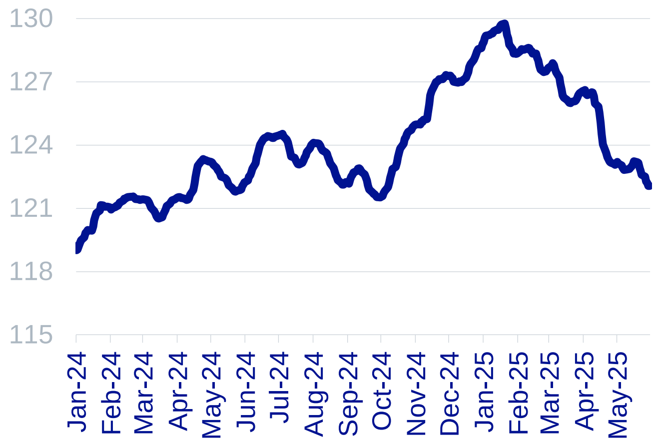
The US risk premium has edged higher, weighing on long-term yields and the dollar

YIELDS ON US 30-YEAR SOVEREIGN BONDS (*) (%, 7-DAY MOVING AVERAGE)



(*) Last available data: June 5, 2025
Source: BBVA Research based on data from the Fed

NOMINAL BROAD US DOLLAR INDEX (*)
(INDEX: JAN/06=100; 7-DAY MOVING AVERAGE)

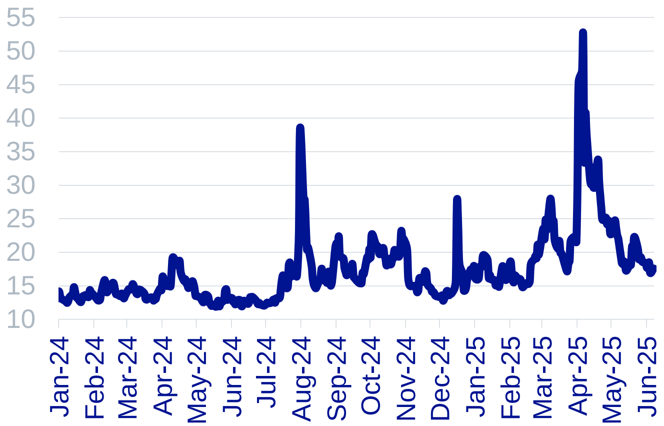


(*) A weighted average of the foreign exchange value of the U.S. dollar against currencies of a broad group of major U.S. trading partners. Last available data: May 30, 2025
Source: BBVA Research based on data from the Fed

Policy uncertainty, prospects of larger fiscal deficits, threats to the Fed independence, talks about a dollar devaluation, a potential tax on foreign investors, among other factors, have pushed US risk up

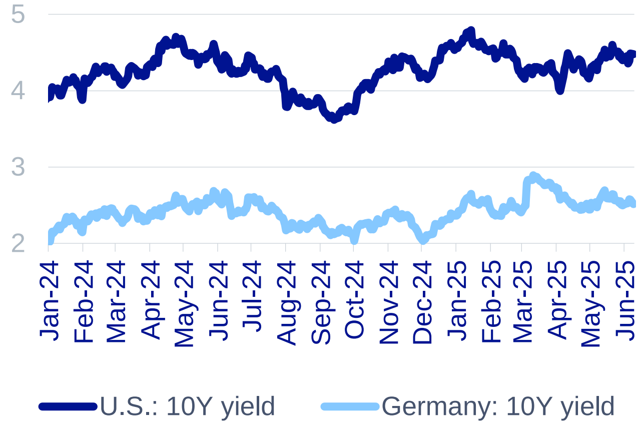
Financial volatility has eased more recently, after having surged in April, but remains elevated

EQUITY VOLATILITY: VIX (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

SOVEREIGN YIELDS (*)
(%)

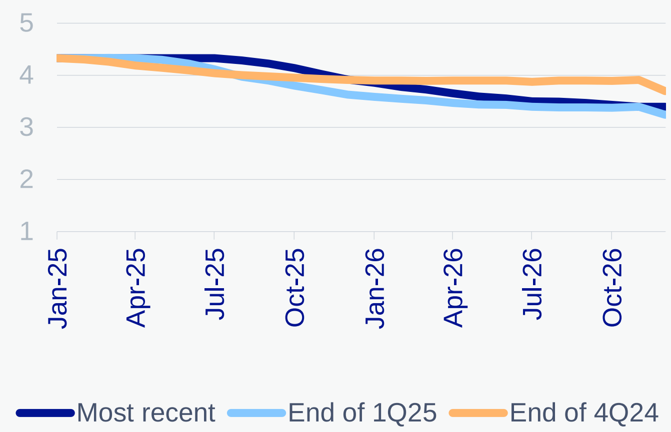


(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

Upward pressure on 10-year sovereign yields due to rising risk premium in the US and fiscal spedning prospects in the EZ, to some extent offset by growth concerns, mainly in the Eurozone

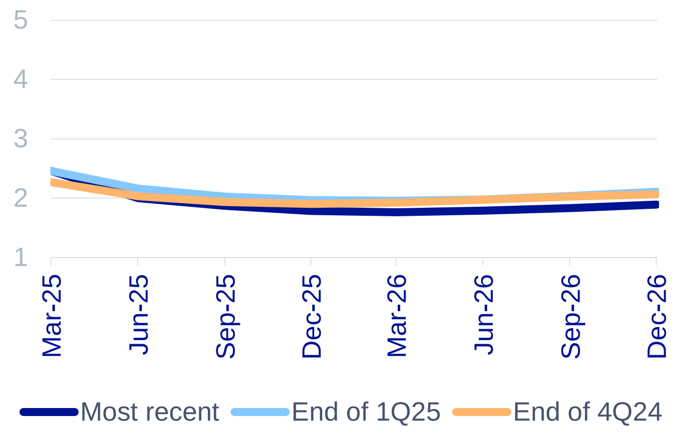
Despite lower inflation, the Fed remains cautious and markets see limited room for extra easing in the short run

US: IMPLICIT RATE IN FED FUND FUTURES (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES (*)
(%)



(*) Last available data: June 9, 2025
Source: BBVA Research based on data from Haver

The likely impact of tariffs on inflation has backed the Fed's decision to keep rates unchanged lately; The ECB cut rates to 2% in Jun/25 and suggested that, despite large uncertainty, the easing cycle is nearly over

Base scenario: protectionism and uncertainty will hit the global economy; stimulus will support China and Eurozone

Growth will moderate, faster than forecast in the US although tariffs may be lower than expected; policy stimulus will support China and Europe

Inflation is set to rebound in the US, at least in the short-term, thanks to higher tariffs, but will be around 2% in Eurozone and low in China

A cautious Fed will keep rates on hold through year-end; ECB's easing cycle is likely over, but extra cuts are dependent on tariffs

Market volatility will likely persist amid lasting uncertainty and rising US risk, potentially hitting the dollar

Prospects for US policies: baseline scenario assumptions

BBVA Research baseline scenario on main US policies

Tariffs

Higher for longer uncertainty, although lower levies on China would imply smaller US average tariffs than anticipated. Working assumption: around 30% on China, 10% on Mexico/Canada, average of current (as of end of May) and reciprocal (as of “Liberation day”) tariffs for others, implying a 13pp increase in the overall US tariffs (vs. 60% on China and 10% on others, which implied a 17pp increase in US tariffs, assumed in 1Q25).

Fiscal Policy

Potentially larger fiscal deficits, driven by significant tax cuts and limited offsetting revenue, will likely weigh on US yields and the dollar.

Monetary and FX Policy

Higher-than-expected noise will help keep market volatility and US assets under pressure. Still, the Fed is expected to maintain its independence, and the dollar should remain the dominant global reserve currency.

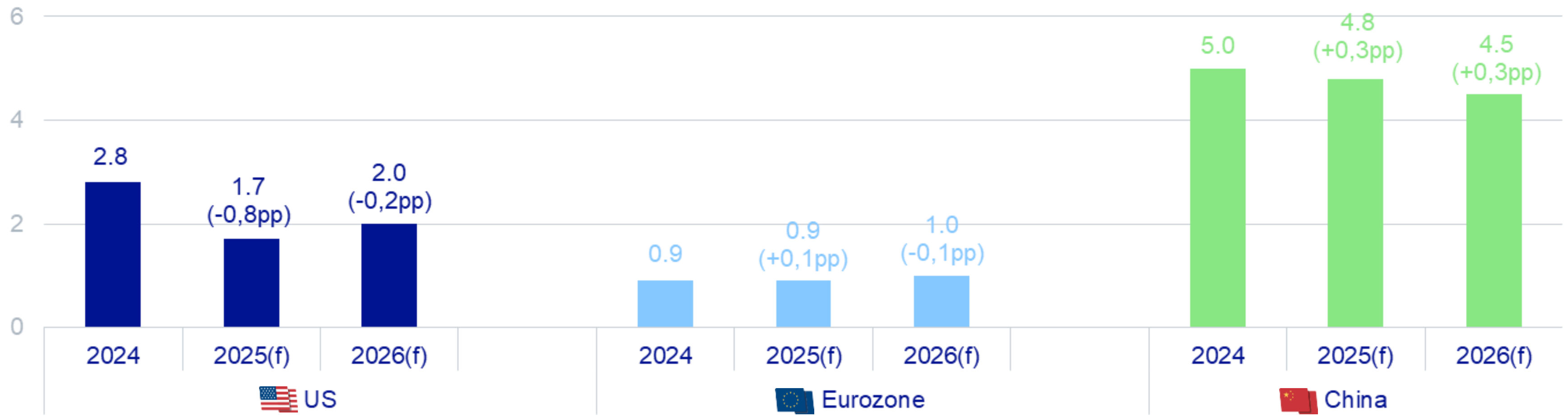
Other policies

Migration policies will not have a significant impact on labor markets in the forecast horizon. No shocks related to foreign and regulatory policies are being assumed.

Growth prospects have deteriorated in the US, but not in China or the Eurozone

GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

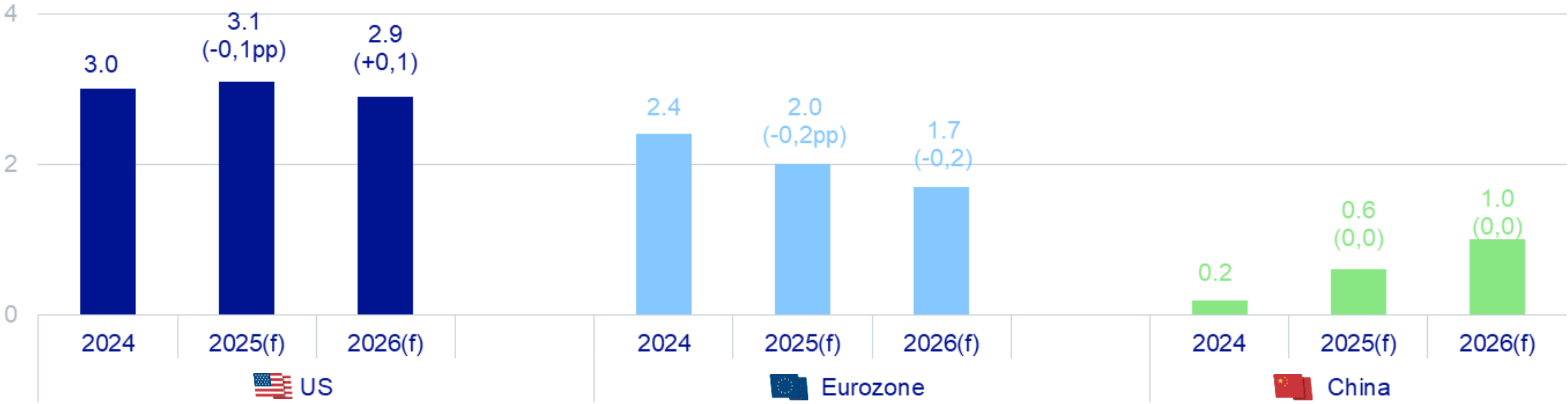


(*) Global GDP grew by 3.4% in 2024 and is forecast to expand by 3.0% in 2025 and 3.1% in 2026, respectively three and two decimal points below the expected in 1Q25.
(f): forecast.
Source: BBVA Research

Weaker US growth on higher uncertainty, weaker 1Q25 data (to be partially offset by a 2Q25 rebound); growth will be backed by lower US tariffs and economic stimuli in China, and by defense and infrastructure spending as well as by lower inflation and interest rates in the Eurozone

Inflation is still likely to rebound in the US following tariff hikes, and to remain contained in the Eurozone and China

HEADLINE CPI INFLATION
(Y/Y %, AVERAGE OF THE PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

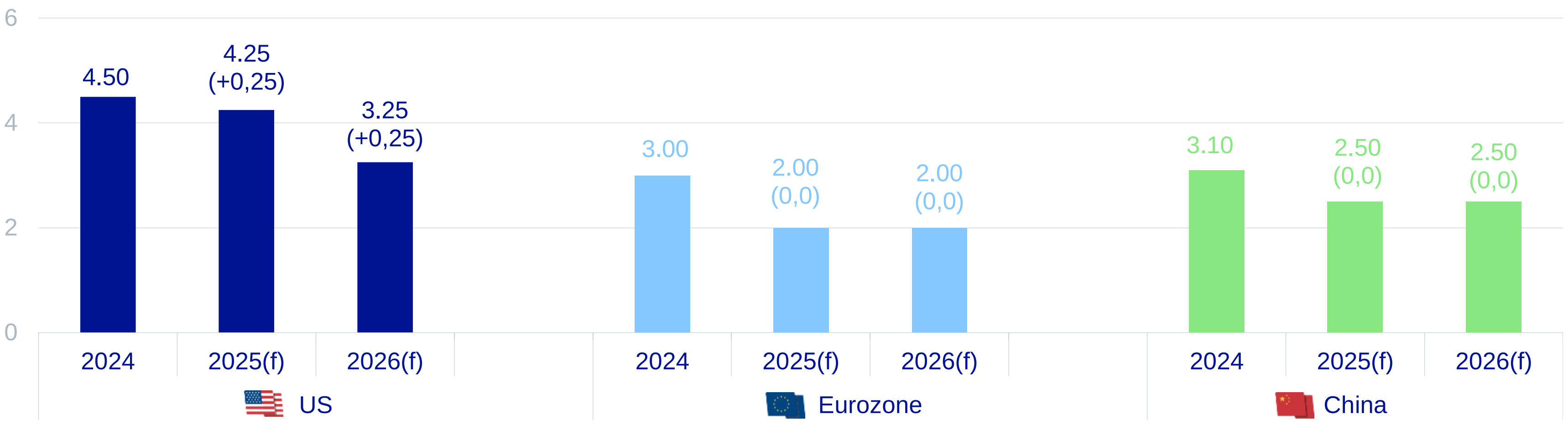


(f): forecast.
Source: BBVA Research

Lower energy prices and weak demand pressures support controlled inflation, except in the US, where tariffs are likely to raise production costs—at least in the short term; a stronger euro is also likely to keep price pressures limited in Europe

The Fed will keep rates unchanged for longer given tariff uncertainty; ECB monetary tightening is (likely) over

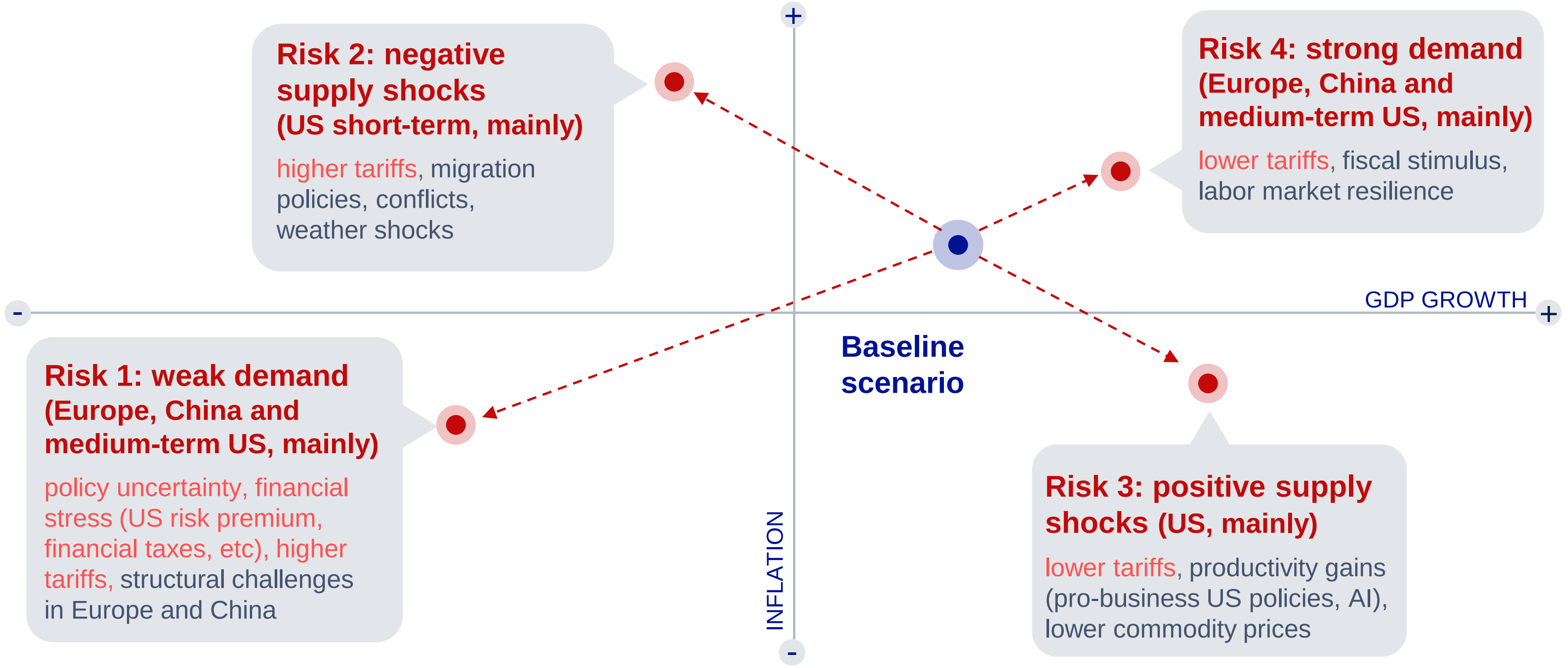
POLICY INTEREST RATES (*)
(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

The Fed is forecast to cut rates once this year (in 4Q25), but the easing cycle would continue in 2026, at least if inflation rebound on tariffs proves to be temporary; in the Eurozone, rates are forecast to remain at 2%, but growth concerns and controlled inflation could pave the way for extra cuts

Risks: mainly on greater uncertainty and rising US risk premium; tariff risks are also higher, but more balanced



China Economic Outlook: Content

1

The timeline review of China-US trade war and China's future reactions

2

Recent China-US Geneva Agreement and the 3nd round stimulus made us raise GDP forecasts

3

Economic analysis of the recent Chinese economy

The timeline review of the China-US trade war

Feb 1 — **US announces 25% tariffs on Canada, Mexico and 10% China.** Canada announces two rounds of retaliatory tariffs.

Feb 4 — Tariffs on China take effect
China applies new tariffs to US in retaliation

Feb 5 — US temporarily reinstates duty-free shipments from China

Feb 10 — **US announces 25% tariffs on steel and aluminum** expected to take effect on Mar 12

Mar 4 — **US announces an additional 10% tariff on Chinese imports**
Delayed 25% tariffs on Mexico and Canada take effect

Mar 12 — Tariffs on China take effect
China applies new tariffs to US in retaliation by additional 10%.

Mar 26 — US announces tariffs of **25% on foreign-made auto imports**

Apr 2 — **Trump announces "reciprocal" tariffs of 10%-50% on 185 countries; (China 34%)**

Apr 4 — **US imposes additional 50% tariffs on China**

Apr 8 — **Trump announces 90-day moratorium on reciprocal tariffs to countries that have not retaliated but excluded China**
China announces tariff hike on US by 84%

Apr 9 — **Trump announced to increase China's tariffs from 104% to 125%**

Apr 11 — China announced to impose 125% tariffs on US imports from 84% previously

Apr 15 — The US announced that China will face at most **245% tariffs.**

Apr 23 — Trump displayed some kind of concession that he will decrease China's tariffs to 50% but not to 0.

May 12 — China's vice-premier He and US Finance Minister Bessent, Chief Trade Representative Greer held a bilateral meeting in Geneva and reached first-stage trade deal that **the US will reduce the tariffs to China from 145% to 30%**, and **China will also reduce the tariffs to the US from 125% to 10%.**

Source: BBVA Research Geopolitics Monitor

China-US first-stage negotiation achievements on May 12: Geneva Agreement (1)

Key Provisions of the Geneva Agreement:

i. **Tariff Reductions**: Effective from May 14, 2025, the U.S. will reduce tariffs on Chinese goods from 145% to 30%, while China will reduce tariffs on U.S. imports from 125% to 10%.

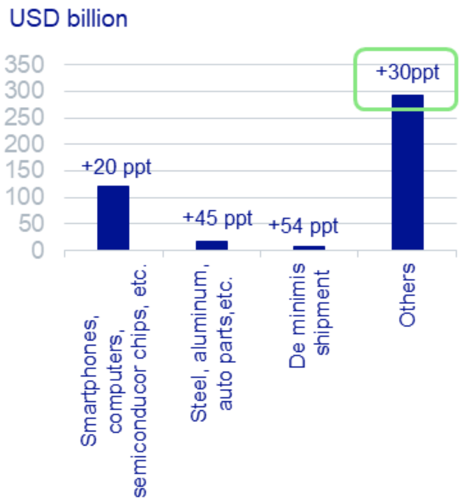
ii. **Non-Tariff Measures**: China agreed to suspend or cancel non-tariff measures previously imposed on the U.S., including export bans on certain rare earth elements and blacklist some US firms.

iii. **Fentanyl Precursors**: Both acknowledged the importance of addressing the flow of fentanyl precursors from China to the U.S., with discussions set to continue.

iv. **Future Negotiations**: A mechanism has been established for ongoing dialogues, with the next meeting anticipated in June 2025.

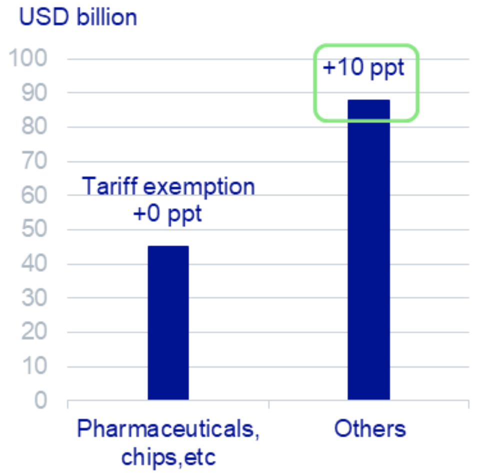
TARIFFS:

CHINA EXPORTS TO THE US



Source: XXXXX

US EXPORTS TO CHINA



Source: XXXXX

China-US first-stage negotiation achievements on May 12: Geneva Agreement (2)

Our comments on the Geneva agreement:

i. **Selective de-escalation: tariffs lowered significantly in but still elevated**: (1) effective tariff rates remain higher compared with those applied to other US trading partners and than before Trump's residency ; (2) tariff structure strategically unbalanced: Strategic sectors such as steel, aluminum, and auto parts remain high tariffs because they are seen as vital to US national security and industrial independence. Also, the elevated tariff on de minimis shipments. In contrast, tariffs on computers, semiconductors, and related electronics remain relatively low (e.g., +20 ppt).

ii. **China's response: measured but strategic:** High-value categories such as pharmaceuticals and semiconductors enjoy full exemptions (0%), and broader product categories saw reductions from 125ppt to 10ppt.

iii. **Implications of the temporary tariff war truce:**
It signifies a mutual willingness to de-escalate trade tensions. However, the temporary nature of the tariff reductions and unresolved structural issues underscore the need for continued negotiations. The upcoming meetings will be critical in determining whether both can translate the initial achievement into a lasting comprehensive agreement.

In the short term, the 90-day tariff reduction gives firms a time window to speed up shipments in both countries for inventory buildup.

In the long run, structural tensions remain unresolved. China and the U.S. continue to diverge on fundamental trade issues over intellectual property rights, forced technology transfers, and state-led industrial policies as well as geopolitics issues.

iv. **Risks become two sided: it is possible to reduce bilateral tariffs further, but it is also possible that Trump tears up the agreement and escalate it again.**

How will China respond to Trump's tariff war?

1. More domestic stimulus

Chinese authorities are conducting easing fiscal policy and monetary policy to stimulate growth, together with countercyclical policy adjustment.
Domestic stimulus should escalate in response to US additional tariffs

2. Deepen cooperation with other countries

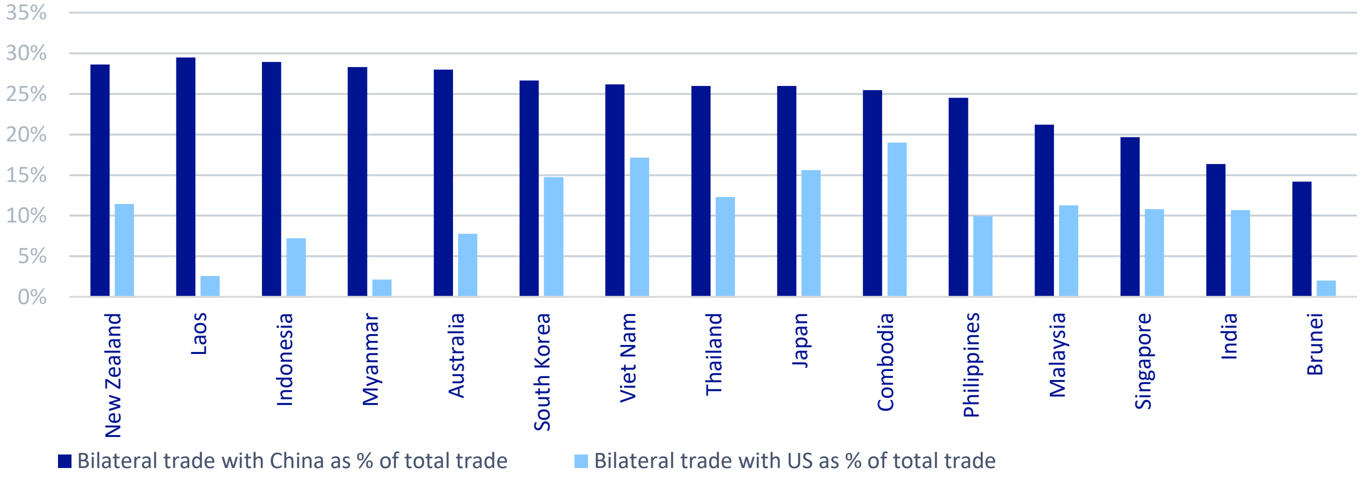
China should seek to cooperate with other trade partners, and to deepen more free trade agreements (RCEP, CPTPP, China-Europe trade agreement etc.) while addressing partners' concerns of overcapacity and SOE subsidies etc.
China should promote RMB internationalization, and explore other currency settlements (Euro, wholesale digital currency etc.)

3. Keep the door open for negotiation

To keep the door open for high-level bilateral communication, China should refrain from escalating tariff war to large-scale finance war.
China needs to ensure that other trade partners' rapprochement with the US won't damage China's interest.

Asian Trade Partners between a rock and a hard place (1)

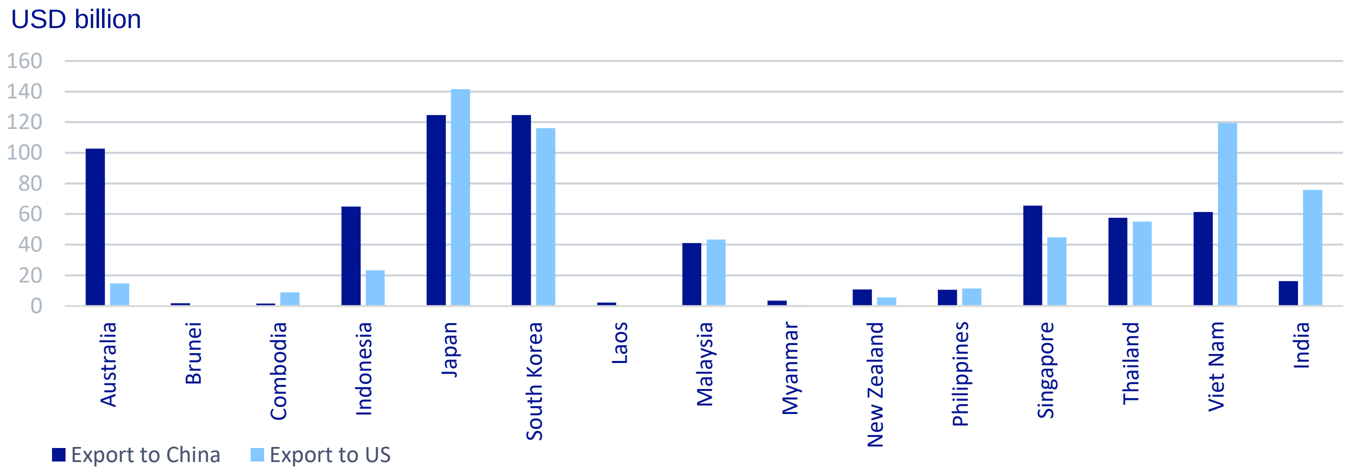
BILATERAL TRADE (EXPORTS+IMPORTS) WITH CHINA AND THE US
(YEAR 2023)



Source: UNCTAD and BBVA Research

Asian Trade Partners between a rock and a hard place (2)

TRADE PATERNERS' EXPORTS TO CHINA AND THE US
(YEAR 2023)



Source: UNCTAD and BBVA Research

Economic outlook in 2025 hinges on two key factors: domestic stimulus and Trump tariffs

Stimulus package

+

Trump's tariff war

→

2025 Economy

Source: NBS and BBVA Research

Three rounds of stimulus package: 2024-2025

The 1st round stimulus （Sep.24)

- Interest **rate cut and RRR cut**
- Housing stimulus (Cut the rate for the existed residential mortgage by 50 bps. Lower down payment ratio for second house purchase to 15% from 25%.)
- Local government **debt swap** program
- Consumption stimulus programs (”Large-scale equipment renewal and consumer goods trade-in”)

The 2nd round stimulus (in March “two sessions”)

- 2025 growth target “around 5%”
- Inflation target at 2% instead of previous 3% cap
- Fiscal deficit budget in 2025 surpassed the 3% red line to be set at 4%.
- “Modestly loose” monetary policy to support growth

The 3nd round stimulus (May 7):

i. Cut RRR by 0.5%, releasing 1 trillion RMB in long-term liquidity.

ii. The RRR for auto finance and financial leasing companies was reduced from 5% to 0%

iii. The 7-day reverse repo rate was reduced from 1.5% to 1.4%, lowering the Loan Prime Rate (LPR) by 0.1%.

iv. The personal housing provident fund loan rate was reduced by 0.25% to 2.6%.

v. Re-lending facility supports technology, industrial upgrading, service consumption, agriculture and SMEs.

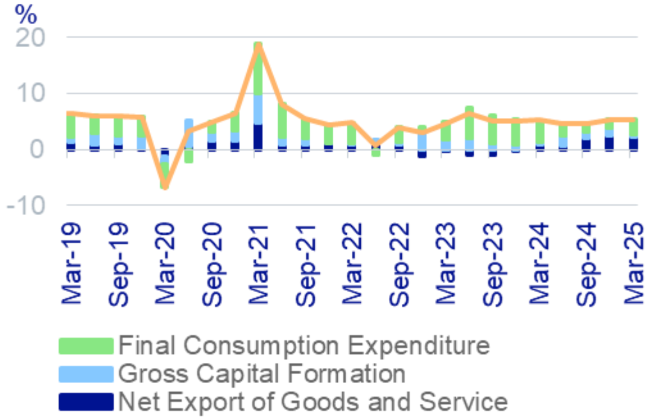
vi. Capital market support.

Source: NBS and BBVA Research

2025 Q1 GDP reached 5.4% y/y, same as the previous quarter and higher than the expectation

We expect a V-shape recovery after China-US Geneva Agreement

2025 Q1 GDP REACHED 5.4%, SAME AS Q4 2024, WE RAISED 2025 GDP FORECAST TO 4.8% AFTER CHINA-US DEAL %



Forecast	2025Q1	2025Q2	2025Q3	2025Q4
Y/Y%	5.4	5.1	4.5	4.4
Q/Q% (HAVER SA)	1.4	-0.1	1.7	1.6

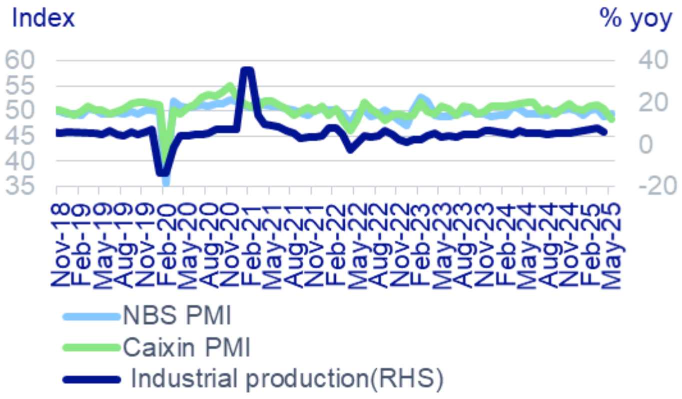
WE RAISE 2025 GDP FROM 4.5% TO 4.8%, ALSO 2026 GDP FROM 4.2% TO 4.5%

Source: NBS and BBVA Research

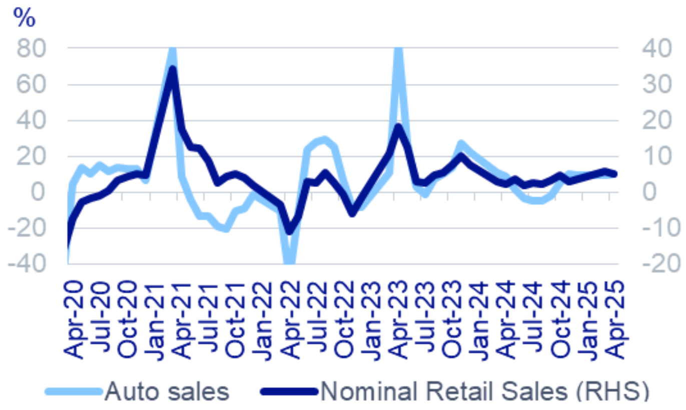
April PMI and industrial production should be the trough of the year; Retail sales dipped too, but still supported by stimulus:

consumption coupon, “large-scale equipment renewal and trade-in old consumer goods” program

APRIL NBS PMI DECREASED TO 49 FROM 50.5; INDUSTRIAL PRODUCTION DECELERATED TO 6.1% FROM 7.7%



RETAIL SALES DIPPED TO 5.1% IN APRIL FROM 5.9%, BUT WE EXPECT TO BOUNCE BACK AFTER CHINA-US DEAL



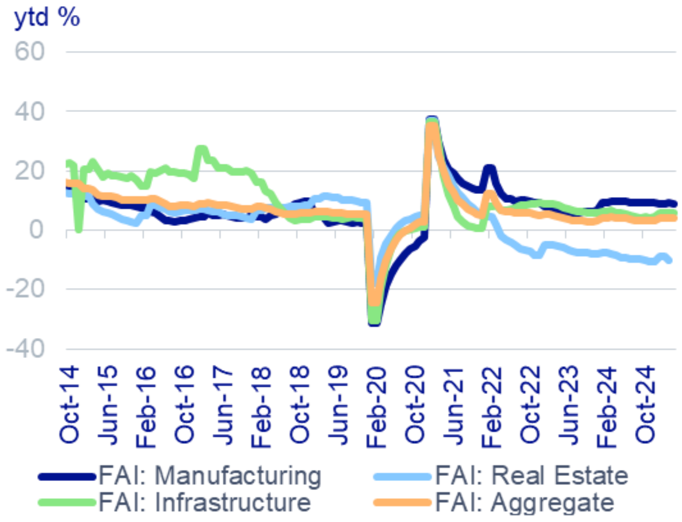
Source: BBVA Research and NBS

1.The authorities issued RMB 300 billion long-term government bond this year to support consumption by “large-scale equipment renewal and trade-in old consumer goods and “consumption coupon” to stimulate retail sales. 2. A dipping stock and housing price deteriorated households’ wealth effect.

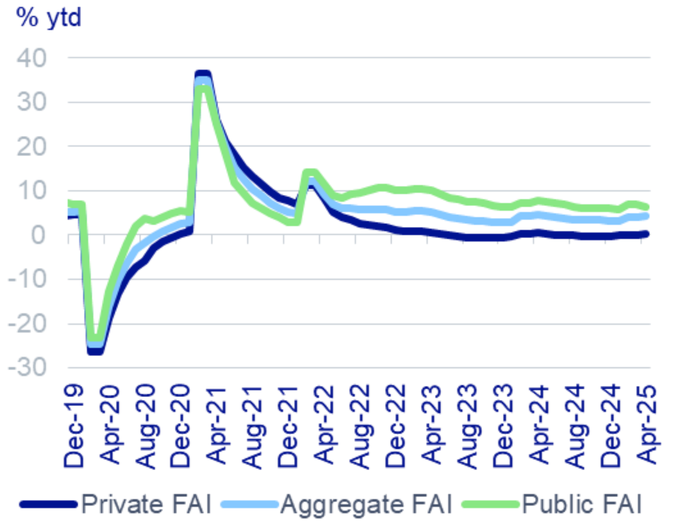
Investment declined to 4% ytd y/y from 4.2% with diverging pattern:

Housing FAI remains the main lag (-9.6%); manufacturing FAI decelerated due to rising tariffs but remained the lead (8.8%), surpassing infrastructure FAI (5.8%)

HOUSING INVESTMENT REMAINED THE LARGEST DRAG ON INVESTMENT



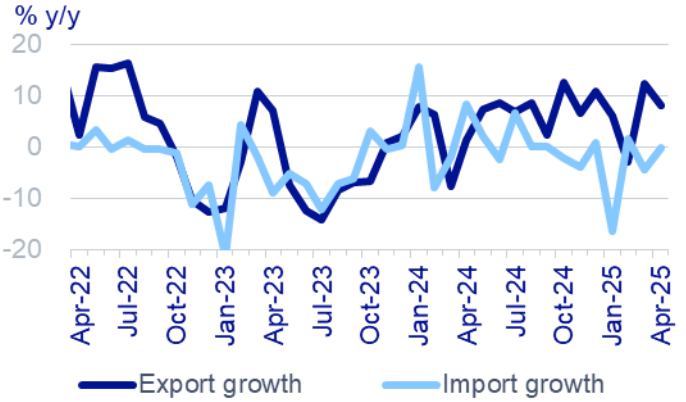
THE MULTIPLIER EFFECT OF PUBLIC FAI TO PRIVATE FAI REMAINS WEAK



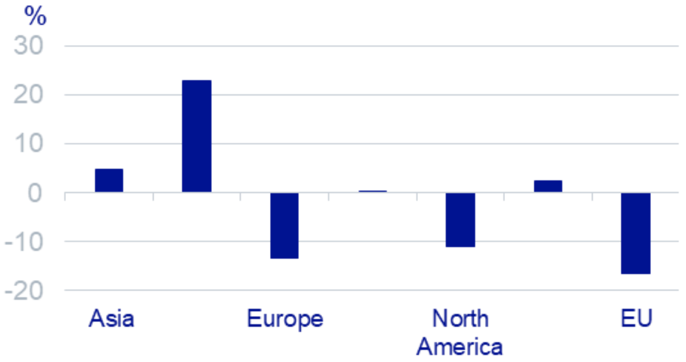
Source: BBVA Research and NBS

Roller-coaster trade data have been disturbed by China-US tariff war progress

APRIL EXPORTS DECELERATED FROM 12.4% TO 8.1%; IMPORTS FROM -4.3% TO -0.2%



US IMPORTERS DECELERATED THEIR IMPORTS FROM CHINA AS 145% TARIFF IMPLEMENTED PREVIOUSLY



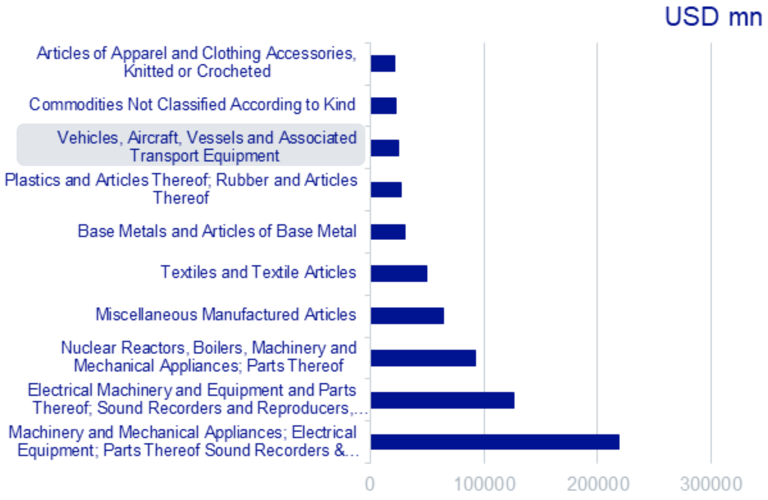
Source: NBS and BBVA Research.

During the 90-day truce of 145% tariff, we expect a surge of Chinese exports in May and June, as US importers accelerated their orders from China to build up their inventory .

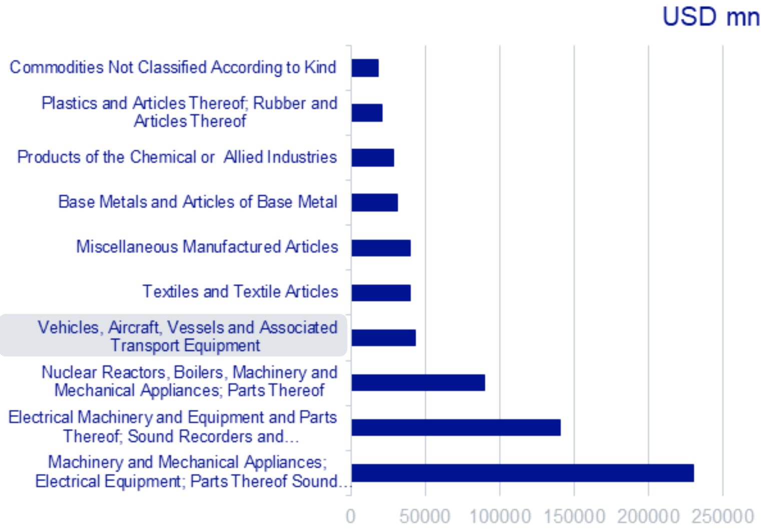
Will China dump goods to EU amid China-US trade war?

The comparison of China's export structure to US and the EU is the answer.

TOP EXPORT SECTORS: CHINA TO THE US



TOP EXPORT SECTORS: CHINA TO EU

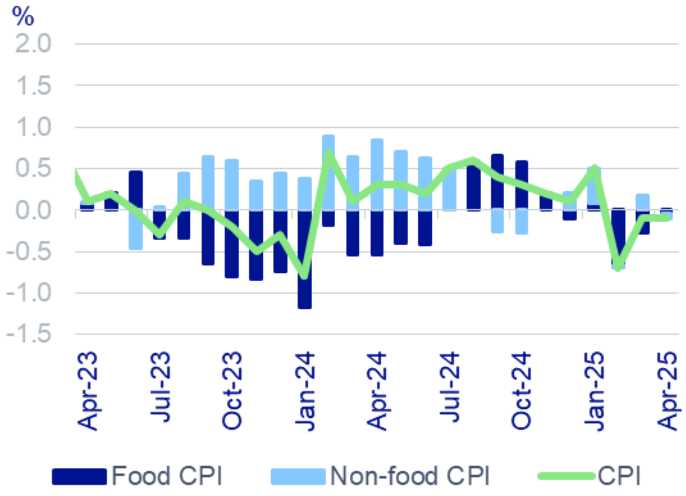


Source: BBVA Research and NBS

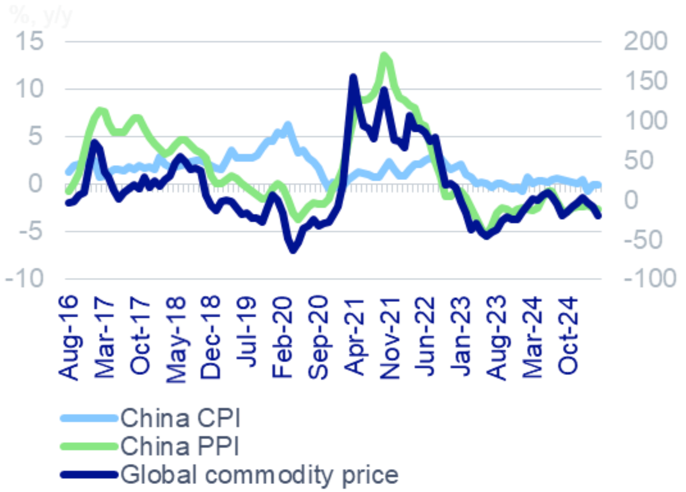
Deflationary Environment Remained,

amid unbalanced economic structure and weak market sentiments amid the tariff war

CPI REMAINED NEGATIVE AT -0.1% IN APRIL



PPI ALSO DECELERATED TO -2.7% FROM -2.5% PREVIOUALY AND SYNCHRONIZED WITH GLOBAL COMMODITY PRICE

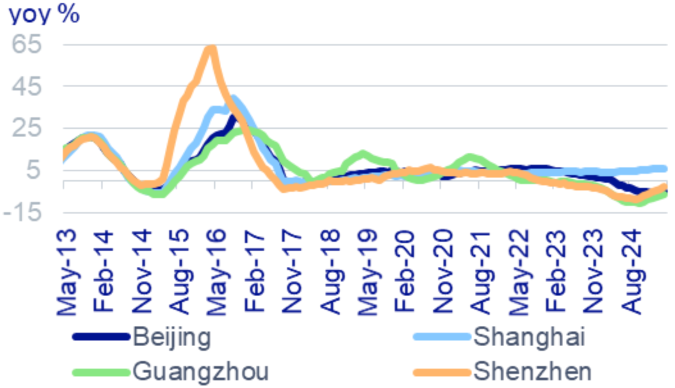


Source: BBVA Research and NBS

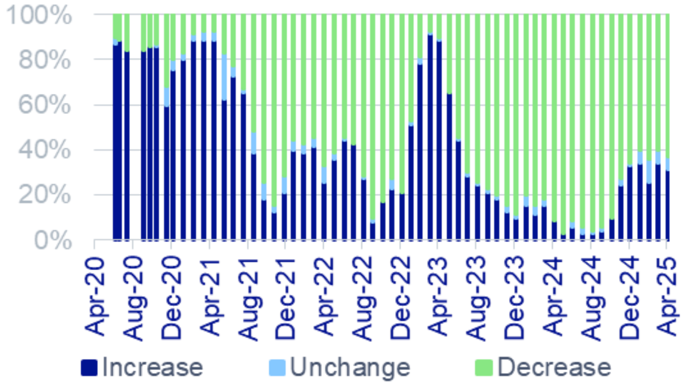
Real estate stabilization is important amid external demand decline (1):

Housing price started to bounce back as the leading indicator…

IN TIER-1 CITIES, ALL CITIES RECORDED HOUSING PRICE REBOUND



MORE AND MORE CITIES REPORTED HOUSING PRICE INCREASE IN 70-CITY SURVEY THAN BEFORE



Source: NBS and BBVA Research.

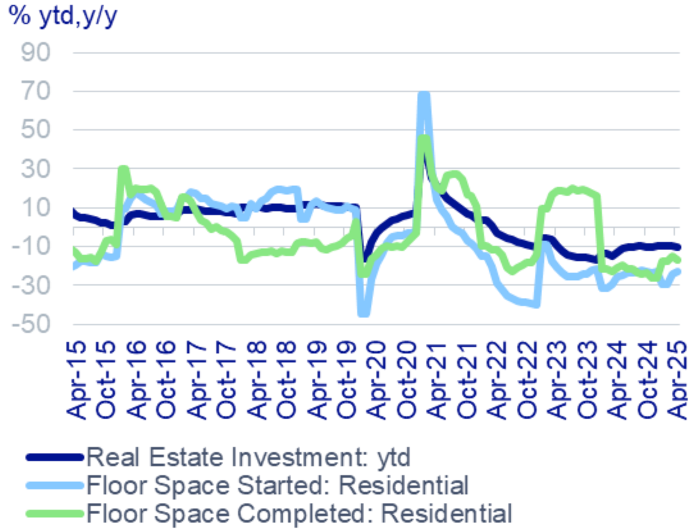
The recent housing stimulus: (i) Lower the first and second house purchase's down payment ratio to 15% (ii) To move the lower bound of mortgage rate for home buyers. (iii) The PBoC set RMB 300 billion re-lending pool to encourage local SOEs and government to purchase unsold houses as low-income housing. (iv) The four large cities continuously promulgated easing measures for home purchase. (v) Government could get back the land that sold to real estate developers to increase the cash flows to those developers

Real estate stabilization is important amid external demand decline (2):

… other housing indicators also started to rebound or shrank their decline, but still lackluster

BUILDING SOLD REMAINS NEGATIVE GROWTH

FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE

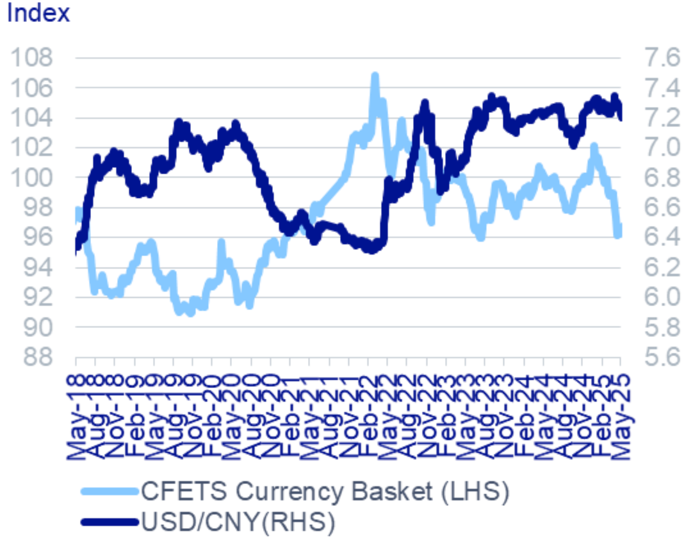


Source: BBVA Research and NBS

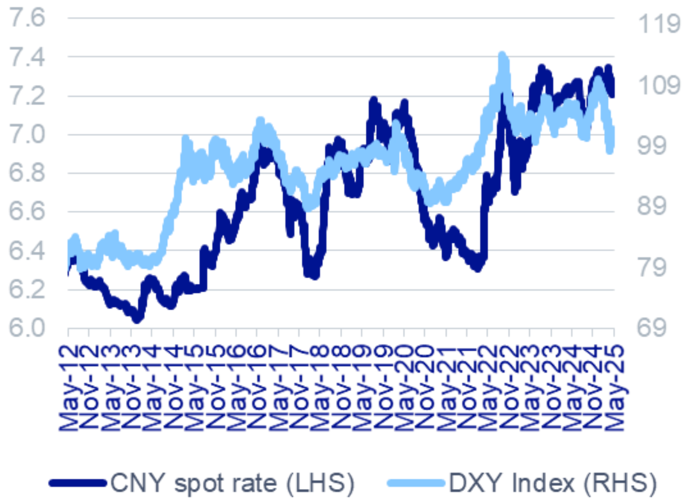
Several forces decide the path of RMB to USD Exchange rate:

USD DXY trend, trade war and the effectiveness of the stimulus package

RMB APPRECIATED TO 7.2 FROM 7.31 AS USD DXY DECLINED



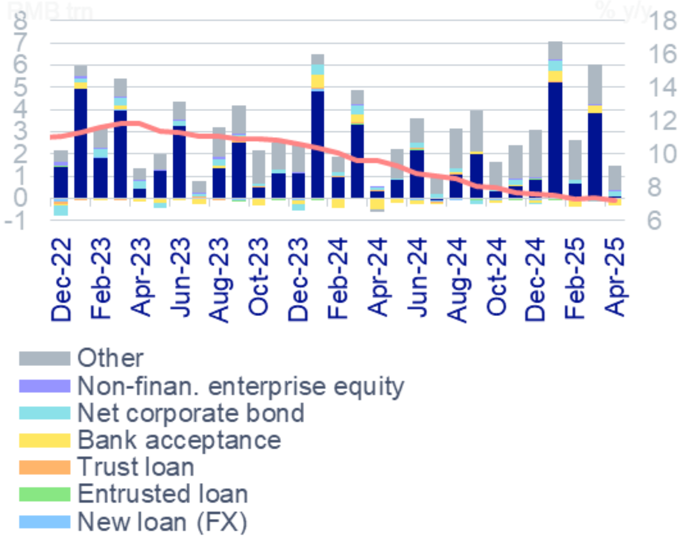
THE MIRROR EFFECT OF RMB EXCHANGE RATE AND USD DXY PERSISTS



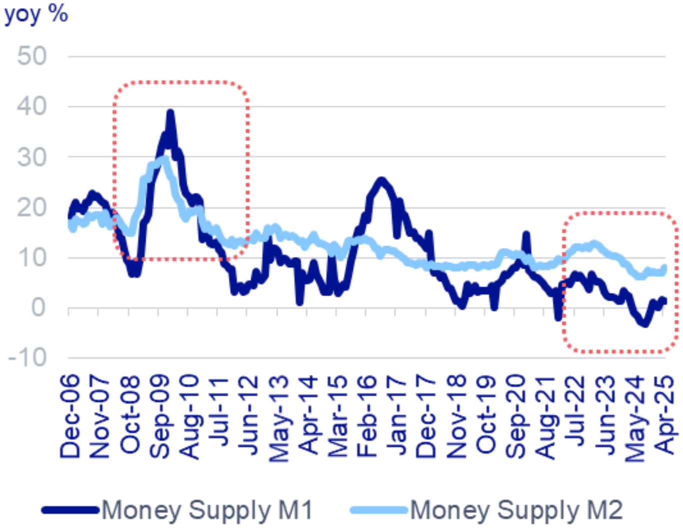
Source: BBVA Research and NBS

China's total credit growth significantly slowed amid lackluster demand

TOTAL SOCIAL FINANCING AND NEW RMB LOANS DECELERATED AMID WEAK DEMAND



M2 GROWTH ALSO REMAINED AT LOW LEVEL

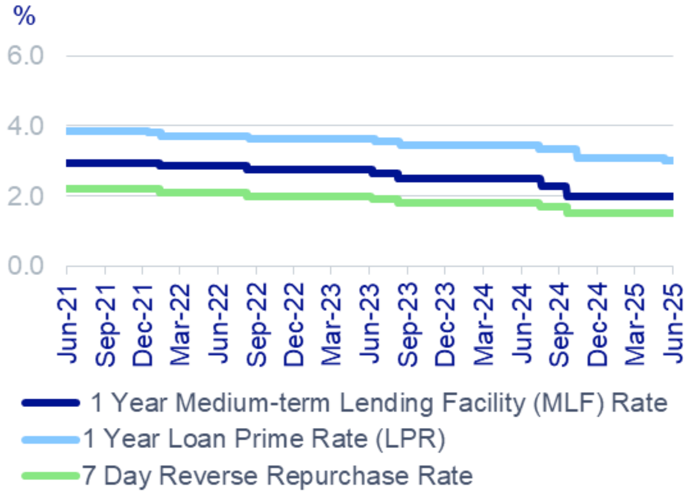


Source: BBVA Research and NBS

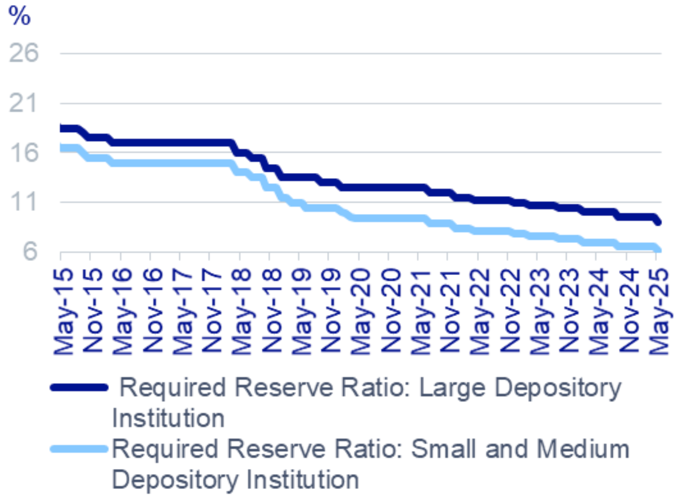
The recent rate cut further expanded China-US rate reversion,

but future rate cut will be cautious as FED moderated its rate cut pace, considering financial stability and RMB exchange rate

ON TOP OF RECENT 10 BPS CUT, WE EXPECT TWO MORE RATE CUT THIS YEAR EACH BY 25 BPS…



THE PBOC RECENTLY CUT 50 BPS RRR…WE EXPECT 2 MORE RRR CUTS



Source: BBVA Research and NBS

Forecast:
China’s main economic indicators: Baseline scenario

	Baseline scenario							
	2020	2021	2022	2023	2024	2025(F)	2026 (F)	2027(F)
GDP (%)	2.3	8.1	3	5.2	5.0	4.8	4.5	4
CPI (%)	2.6	0.9	2	0.2	0.24	0.6	1	1.3
PPI (%)	-1.8	8.1	4.2	-3	-2.2	-1	1	1
Interest rate (LPR, %)	3.85	3.8	3.6	3.45	3.1	2.5	2.5	2.5
RMB/USD exchange rate	6.5	6.36	6.9	7.1	7.3	7.2	7.2	7.2

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