BBVA Research

December 2025

China Economic Outlook

BBVA Research

Global Economic Outlook

Main messages

The global economy remains unstable but is faring better than expected. The AI boom is boosting aggregate demand, adding to other tailwinds like fiscal stimulus, lower interest rates, financial wealth effects, and low energy prices. Together, they are offsetting the negative—but so far milder than expected—effects of protectionism, migration curbs, and uncertainty.

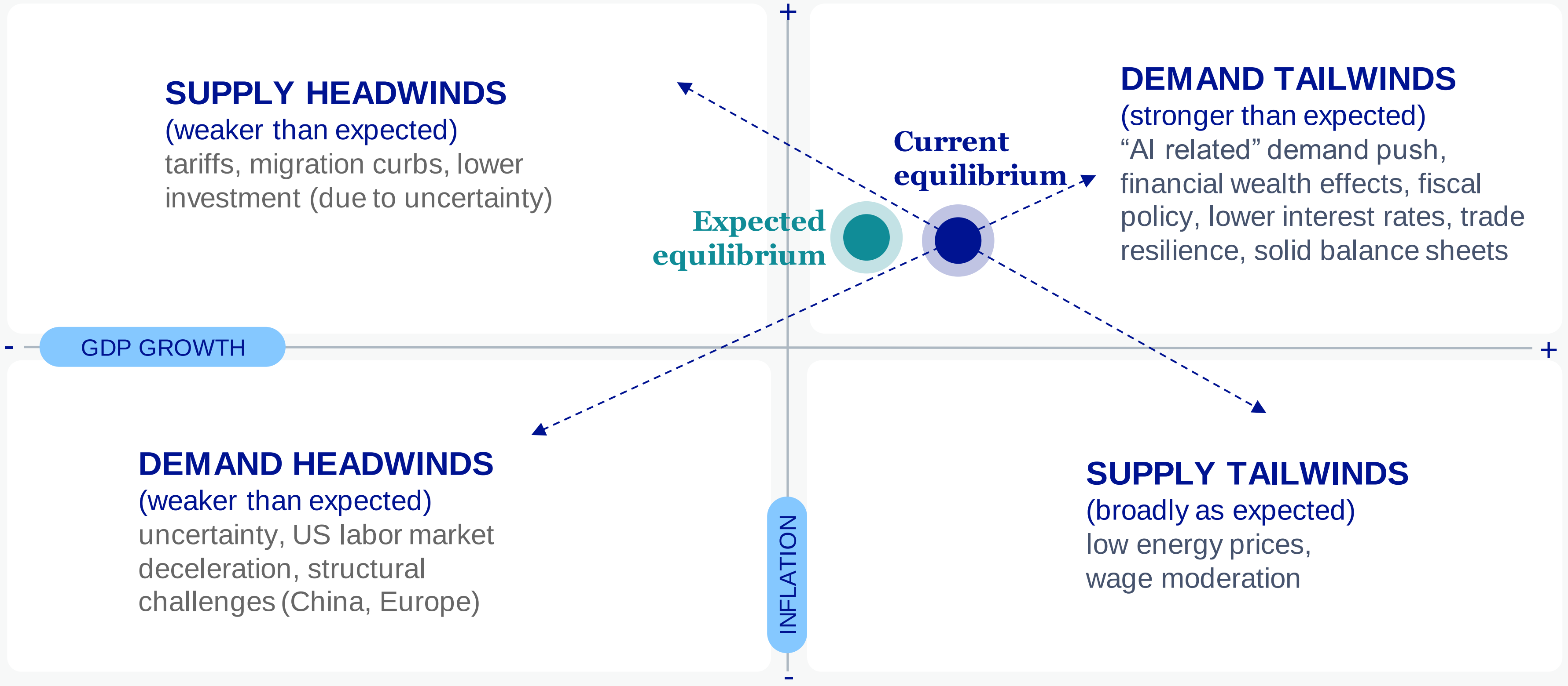
Global growth will likely be around 3.2% between 2025 and 2027—higher than previously anticipated, but slightly below the two-decade average. Growth is projected to stay near 2% in the US, slightly above 1% in the Eurozone, and to slow in China from 5% in 2025 to 4% in 2027. Short-term forecasts have been revised slightly upwards, mainly due to positive incoming data.

Inflation prospects remain broadly unchanged. In the US, tariffs and other shocks will likely keep inflation near 3%, limiting the Fed's room to further cut rates. In the Eurozone, inflation is expected to stay around 2%, with no further monetary easing anticipated. In China, deflation concerns may prompt some (limited) rate cuts.

Risks are now somewhat more balanced. Tariffs, migration policies, US policy uncertainty, and geopolitical tensions remain key concerns. However, upside risks linked to AI are growing. Beyond boosting demand, AI could eventually lift productivity. A stock market correction, however, remains a distinct possibility.

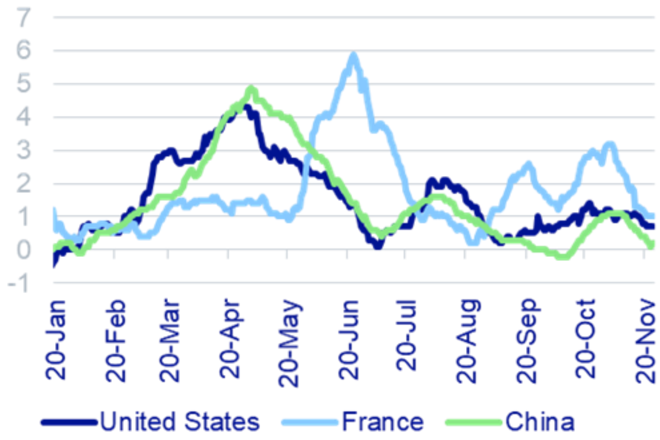
The global economy remains unstable, but is faring better than expected

GLOBAL ECONOMY: KEY DRIVERS OF THE CURRENT EQUILIBRIUM



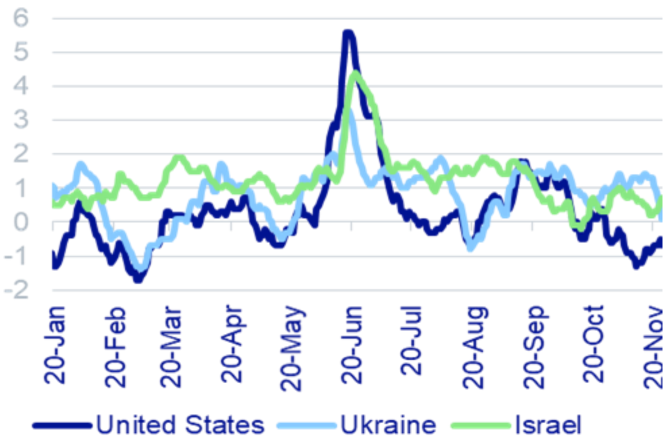
Supply and demand headwinds: uncertainty remains in place, despite recent signs of easing

ECONOMIC POLICY UNCERTAINTY INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

GEOPOLITICAL RISK INDEX: 2025 (HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)

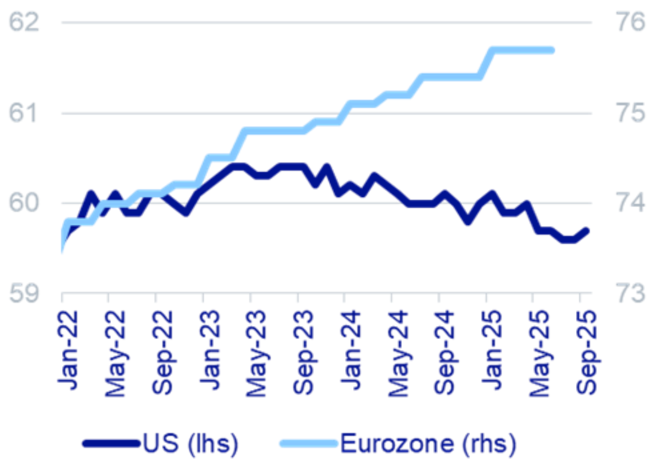


Source: BBVA Research

The US-China trade deal, US tariff cuts (mostly on some agricultural goods), the Gaza ceasefire, talks about a peace deal in Ukraine, among other factors, have contributed to reduce concerns on economic policies and geopolitics in the last few months

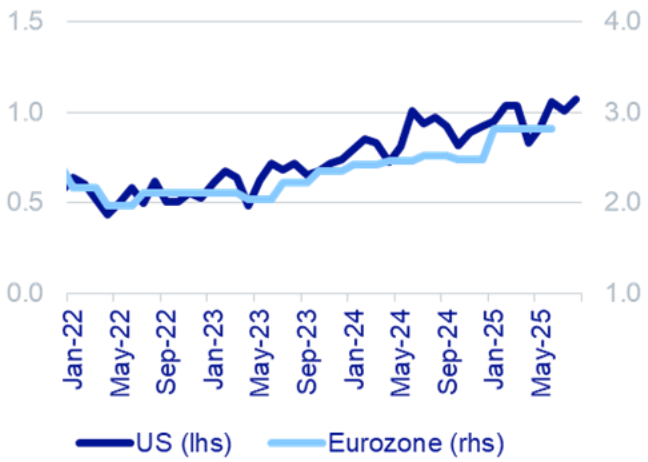
Demand headwinds: labor markets are losing steam, mainly in the US

EMPLOYMENT-POPULATION RATIO
(%)



Source: BBVA Research based on data from Fred and Eurostat

UNEMPLOYED PERSONS PER JOB VACANCY (NUMBER OF PERSONS)

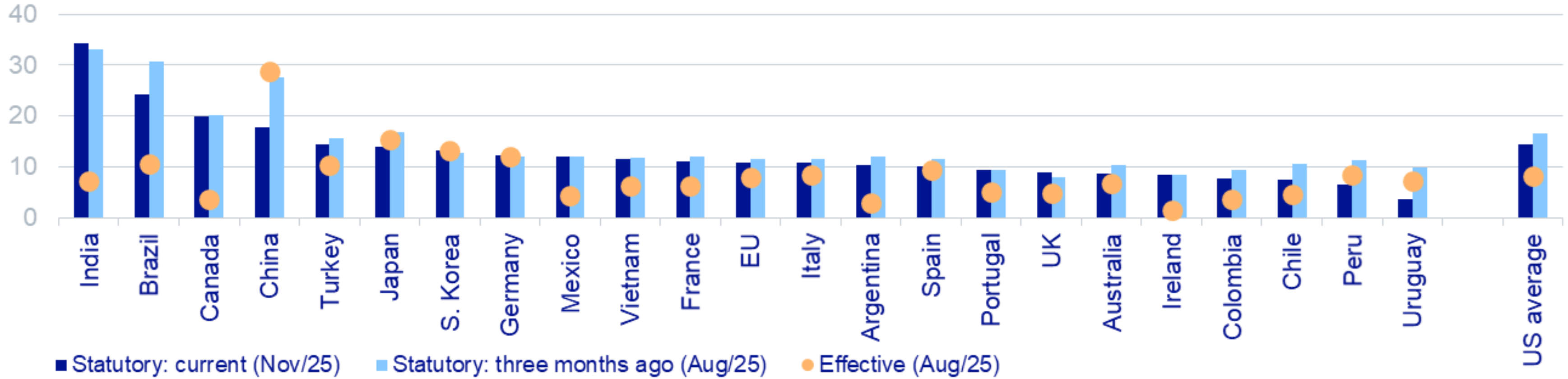


Source: BBVA Research based on data from Fred and Eurostat

The unemployment rate has reached 4.4% in Sep/25 in the US, 1pp higher than the post-pandemic low, but still relatively low; in the Eurozone, it remains close to historical lows (6.3% in Sep/25)

Supply headwinds: US tariffs have recently declined, with effective rates in general below statutory levels

US STATUTORY AND EFFECTIVE TARIFFS: ESTIMATED INCREASE SINCE THE BEGINNING OF 2025 (*) (PP)



(*) Statutory tariffs: BBVA Research calculation following recent trade deals and US announcements. Based on general tariffs set for each country (reciprocal and/or fentanyl), specific tariffs on some sectors (steel, aluminum, automobiles, autoparts, pharma...) and exempted goods (selected electronics, oil...). Considering measures announced untill November 26. Sectoral weights are calculated according to 2024 trade flows. Effective tariffs: BBVA Research calculations (total US tariff revenues divided by total US imports, by country) based on data from the USITC.
Source: BBVA Research

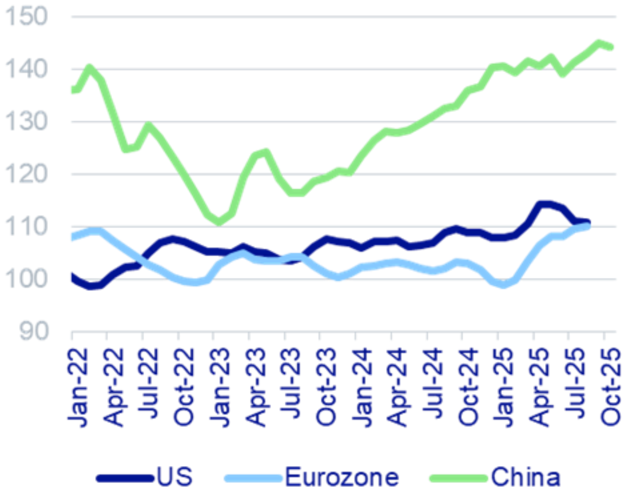
US trade deals -including with China- and exemptions for some goods (mainly agricultural) imply lower tariff levels; yet uncertainty persists, mainly due to possible legal overruling of reciprocal and fentanyl tariffs

Demand tailwinds: global trade has surged ahead of tariffs; and it remains resilient despite moderation signs

EXPORTS OF GOODS (VOLUME): WORLD
(4Q19=100; THREE-MONTH MOVING AVERAGE)

Source: BBVA Research based on data from Haver

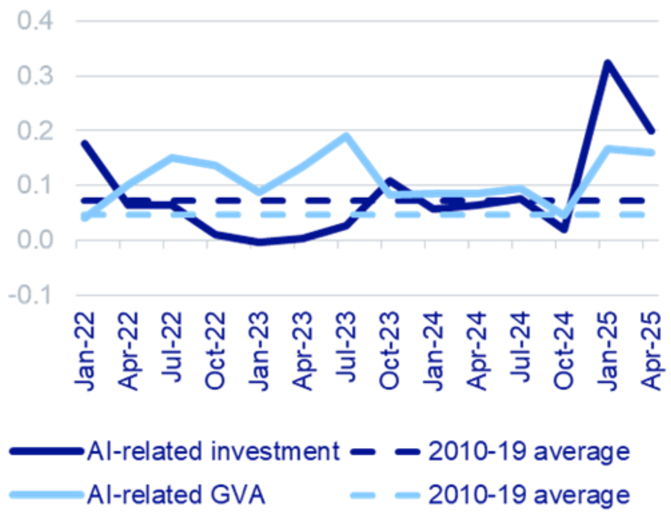
EXPORTS OF GOODS (VOLUME): US, CHINA AND EUROZONE
(4Q19=100; THREE-MONTH MOVING AVERAGE)



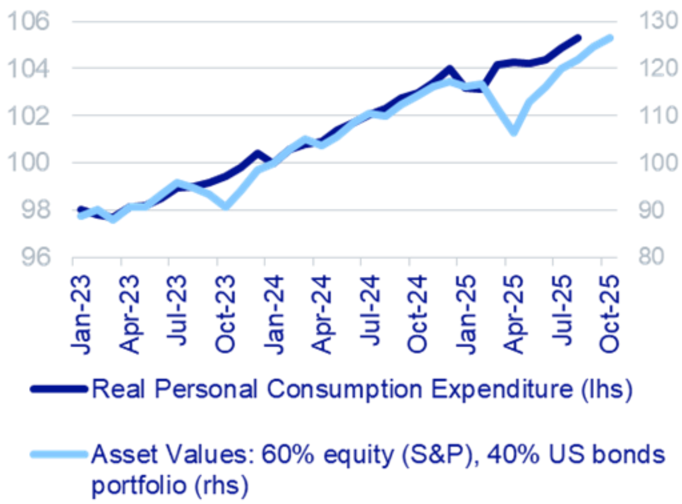
Source: BBVA Research based on data from Haver

Demand tailwinds: the AI boom is supporting US demand

US: AI-RELATED INVESTMENT AND GROSS VALUE ADDED (GVA) (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH: PP)



US: PERSONAL CONSUMPTION AND ASSET VALUES: IN REAL TERMS (*)
(INDEX: JAN/24=100)

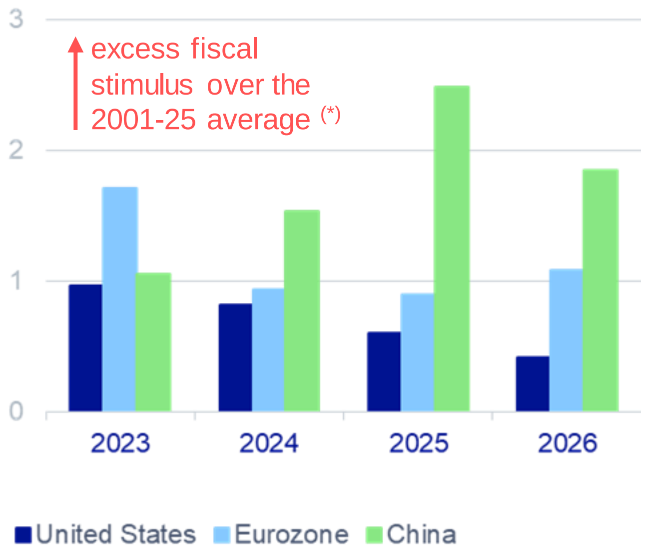


(*) AI-related investment defined as investment in information processing and investment in softwares.
Source: BBVA Research based on data from FRED and US Census Bureau

Source: BBVA Research based on data from FRED and Haver

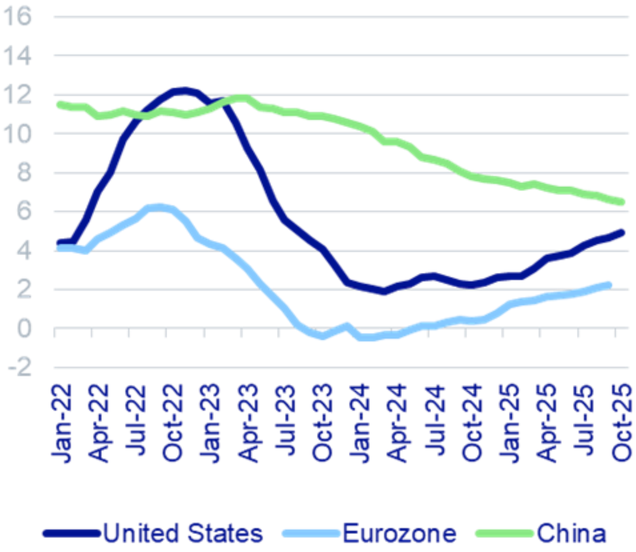
Demand tailwinds: fiscal policy remains supportive, and lower interest rates are now feeding through the economy

CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE GAP (*) (% OF GDP)



(*) Deviation of the cyclically-adjusted primary balance (CAPB) from its estimated equilibrium (average relationship between the CAPB and GDP growth over 2001–2025). 2025 and 2026 estimates are based on GDP and fiscal forecasts by the IMF.
Source: BBVA Research based on data from the IMF

BANKING CREDIT: STOCK
(Y/Y %)



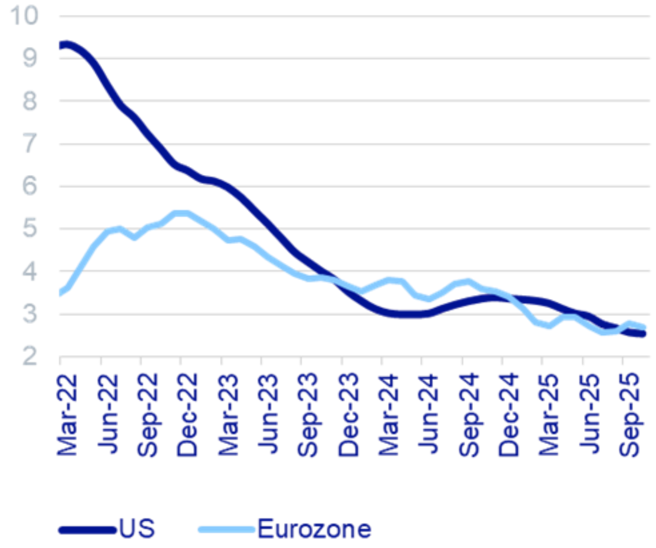
Source: BBVA Research based on data from FRED and Eurostat

Supply tailwinds: energy prices remain at low levels, while wages continue to slow

BRENT PRICES
(USD PER BRENT BARREL)

Source: BBVA Research based on data from Haver

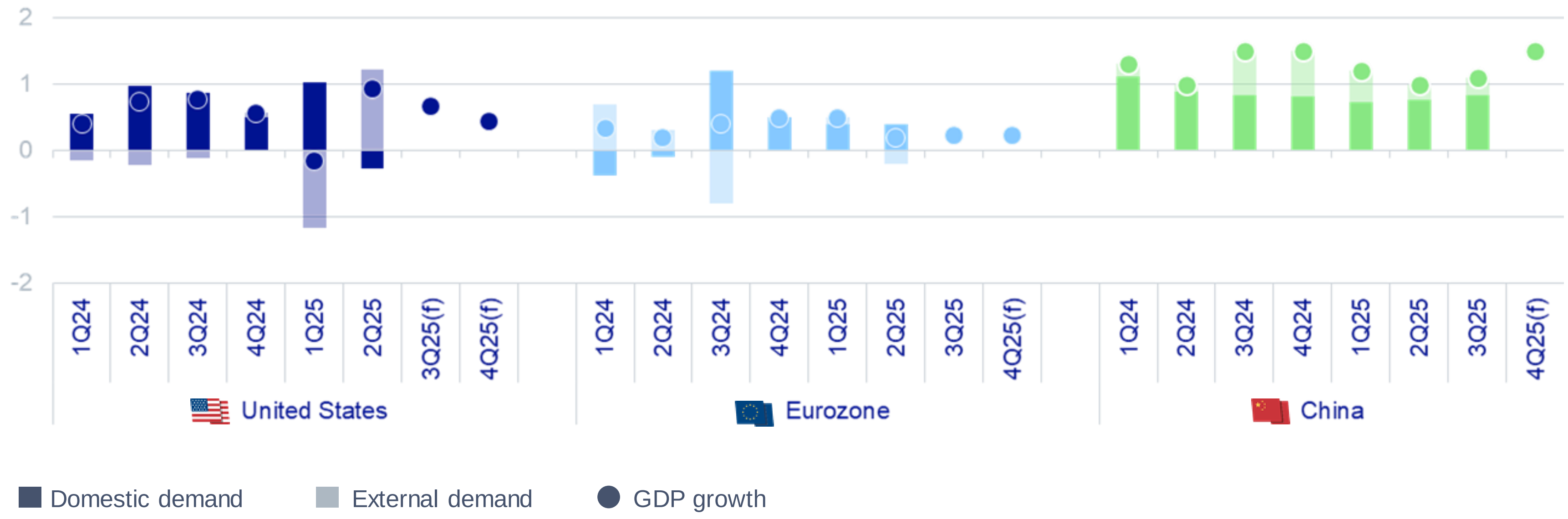
NOMINAL WAGES: INDEED WAGE TRACKER
(Y/Y %, 3-MONTH MOVING AVERAGE)



Source: BBVA Research based on data from Indeed

Activity: GDP growth has remained broadly resilient, in general beating expectations

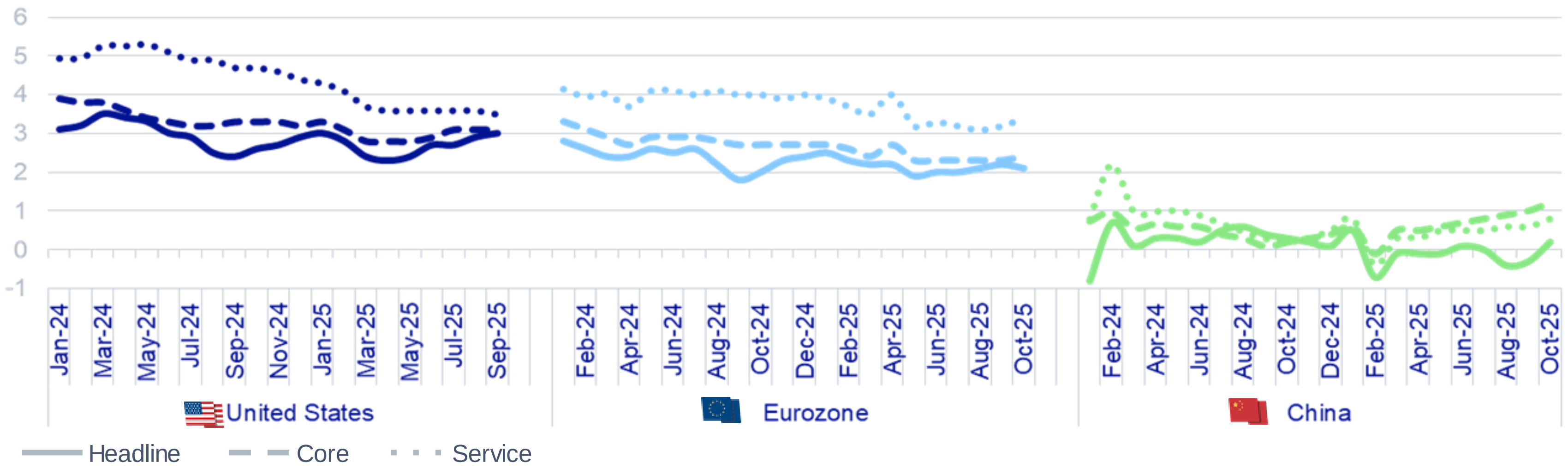
GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (*)
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



(*) BBVA Research forecast for 3Q25 in the US, and for the 4Q25 in the US, Eurozone and China
Source: BBVA Research based on data from Haver and China's NBS

Inflation: increasing due to tariff effects in the US, stable around 2% in the Eurozone, and still very low in China

CPI INFLATION: HEADLINE, CORE AND SERVICE (Y/Y %)

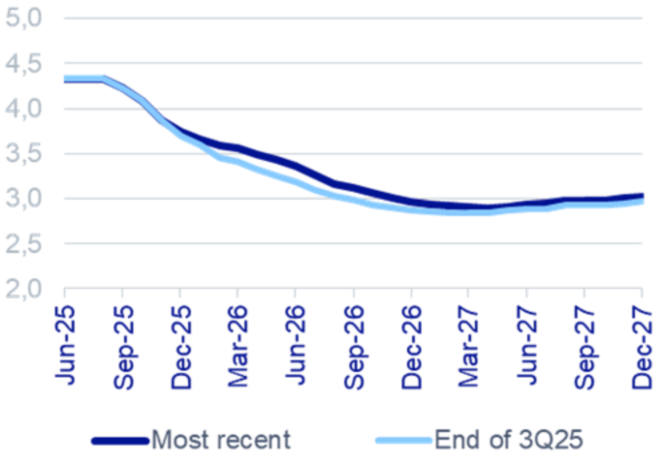


Source: BBVA Research based on data from Haver

In the US, goods inflation is rising amid high tariffs, offsetting the deceleration in services, led by a moderation in shelter prices; in contrast, industrial prices are under control and service prices are increasing at a faster pace in the Eurozone, and to some extent also in China

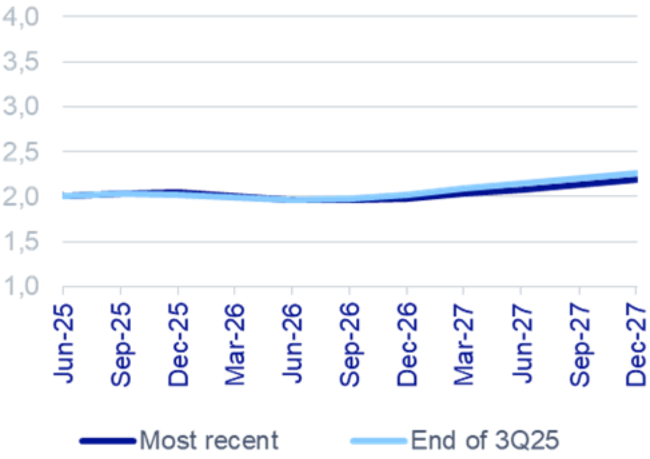
Rate expectations: a more gradual easing and a higher terminal rate for the Fed and stability for the ECB

US: IMPLICIT RATE IN FED FUND FUTURES
(%)



Source: BBVA Research based on data from Haver

EZ: IMPLICIT RATE IN EURIBOR FUTURES
(%)

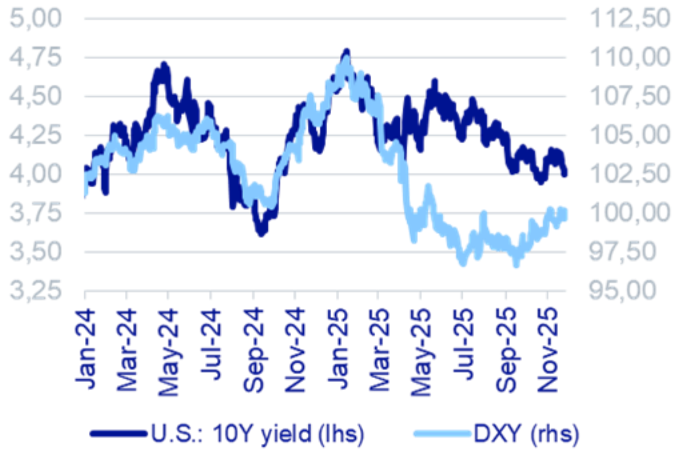


Source: BBVA Research based on data from Haver

The Fed has cut rates by 25 bps in each of its last two meetings to reduce risks of labor market deceleration, but has recently sounded more hawkish de to rising inflation; the ECB has kept rates unchanged at 2% lately and suggested risks are now more balanced

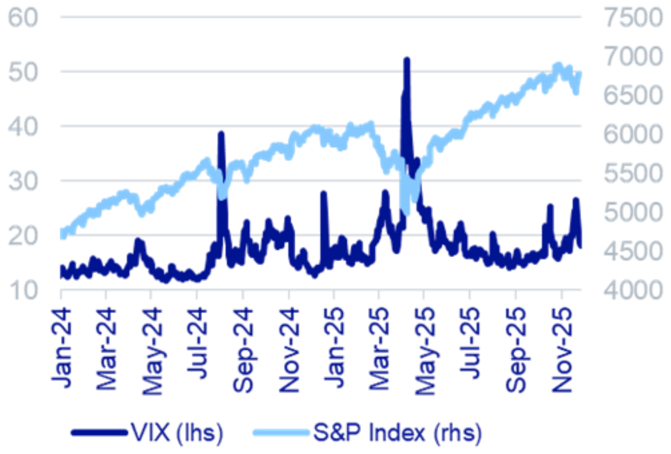
Markets: prospects of higher US rates have driven yields up, backed the USD, and helped triggering an equity correction

US SOVEREIGN YIELDS; US DOLLAR (DXY)
(%)



Source: BBVA Research based on data from Haver

VOLATILITY (VIX); US EQUITY (S&P)
(INDEXES)

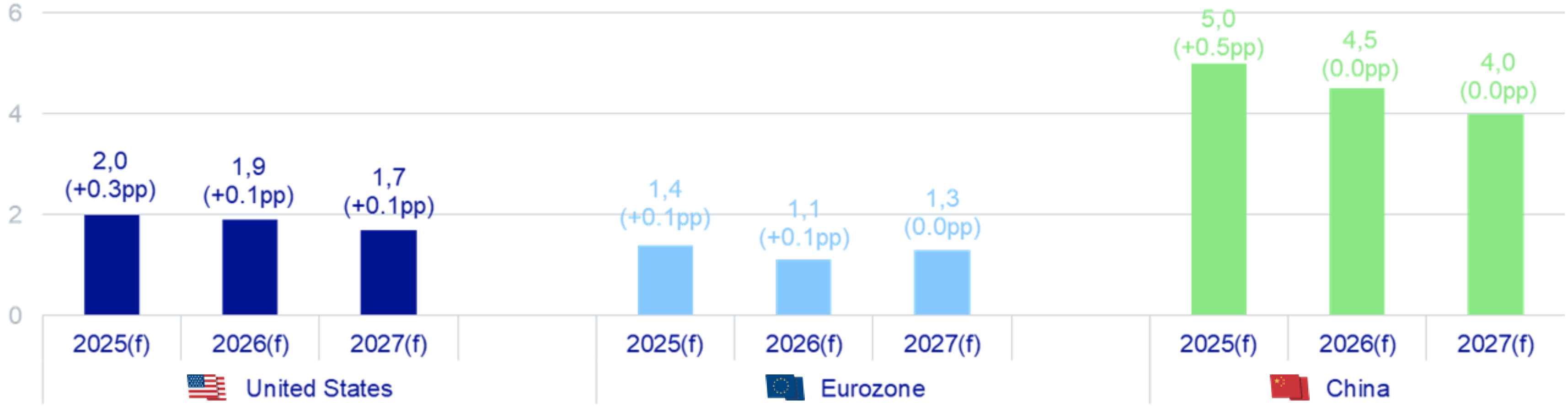


Source: BBVA Research based on data from Haver

Following a rally in US equity markets, driven by AI-related stocks, concerns have recently emerged over excessive valuations, with subsequent market corrections and increased volatility

Growth forecasts have been revised slightly to the upside, mostly on incoming data

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

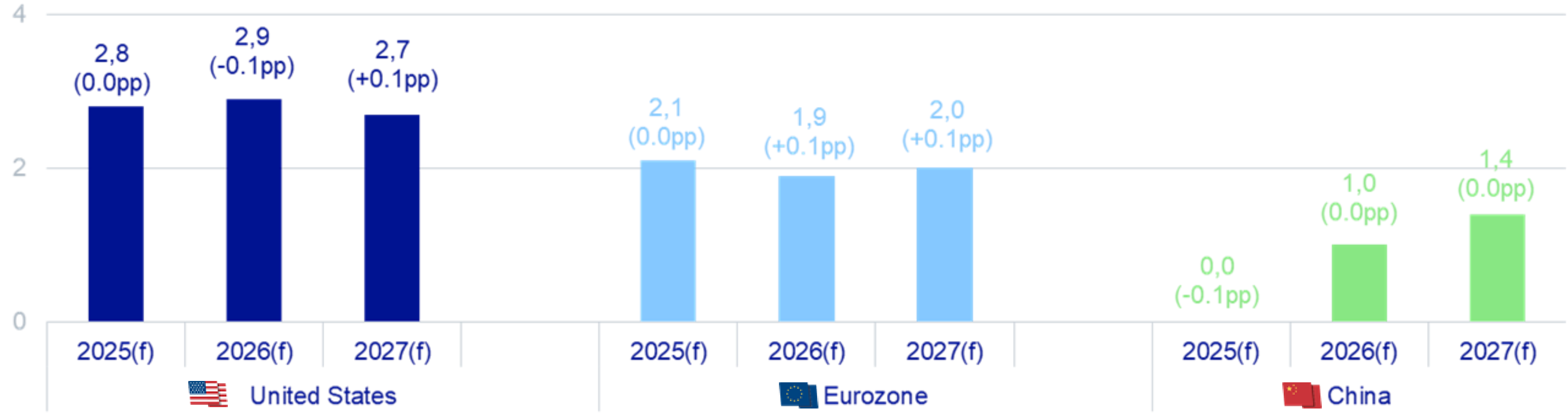


(*) Global GDP is forecast to grow 3.2% in 2025, 3.1% in 2026 and 3.2% in 2027, respectively 0.2pp, 0.0pp and 0.0 higher than the previous forecasts.
(f): forecast.
Source: BBVA Research

The negative impact of tariffs and other supply shocks is expected to be broadly offset by AI demand (mainly in the US) and fiscal spending (mainly in the Eurozone); higher AI-driven productivity is an upward risk in the medium term; a structural slowdown is still expected in China

Inflation prospects remain broadly unchanged, with smaller downside risks in Europe and upward risks in the US

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

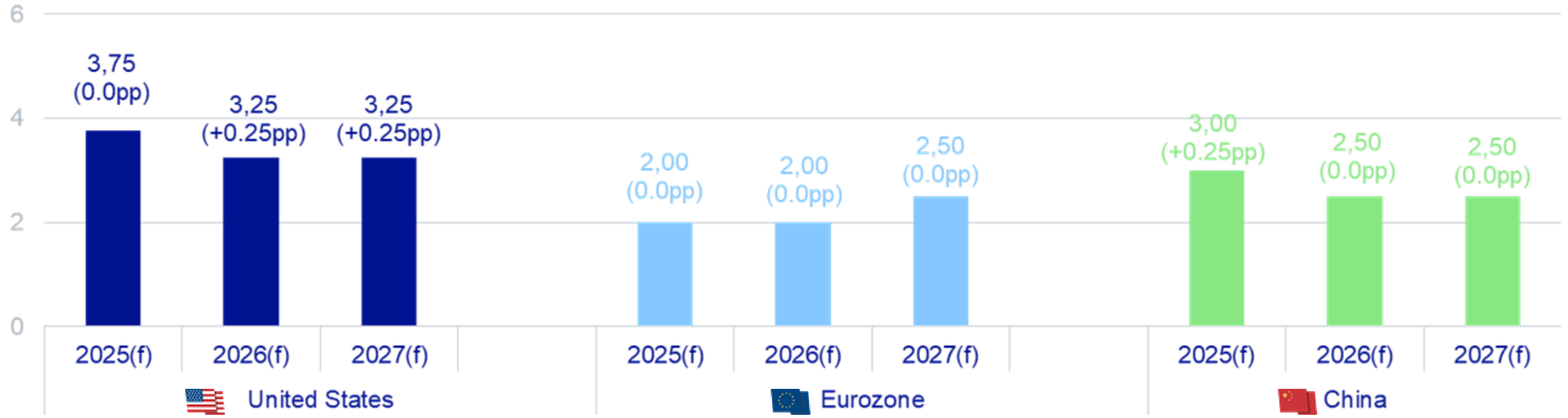


(f): forecast.
Source: BBVA Research

Inflation is still expected to hover around 3% in the US, driven by tariffs, and near 2% in the Eurozone; in China, while further government measures are anticipated to address deflation concerns, risks remain tilted to the downside

Growth resilience and inflation pressures will limit the Fed easing; no additional cuts by the ECB are expected

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

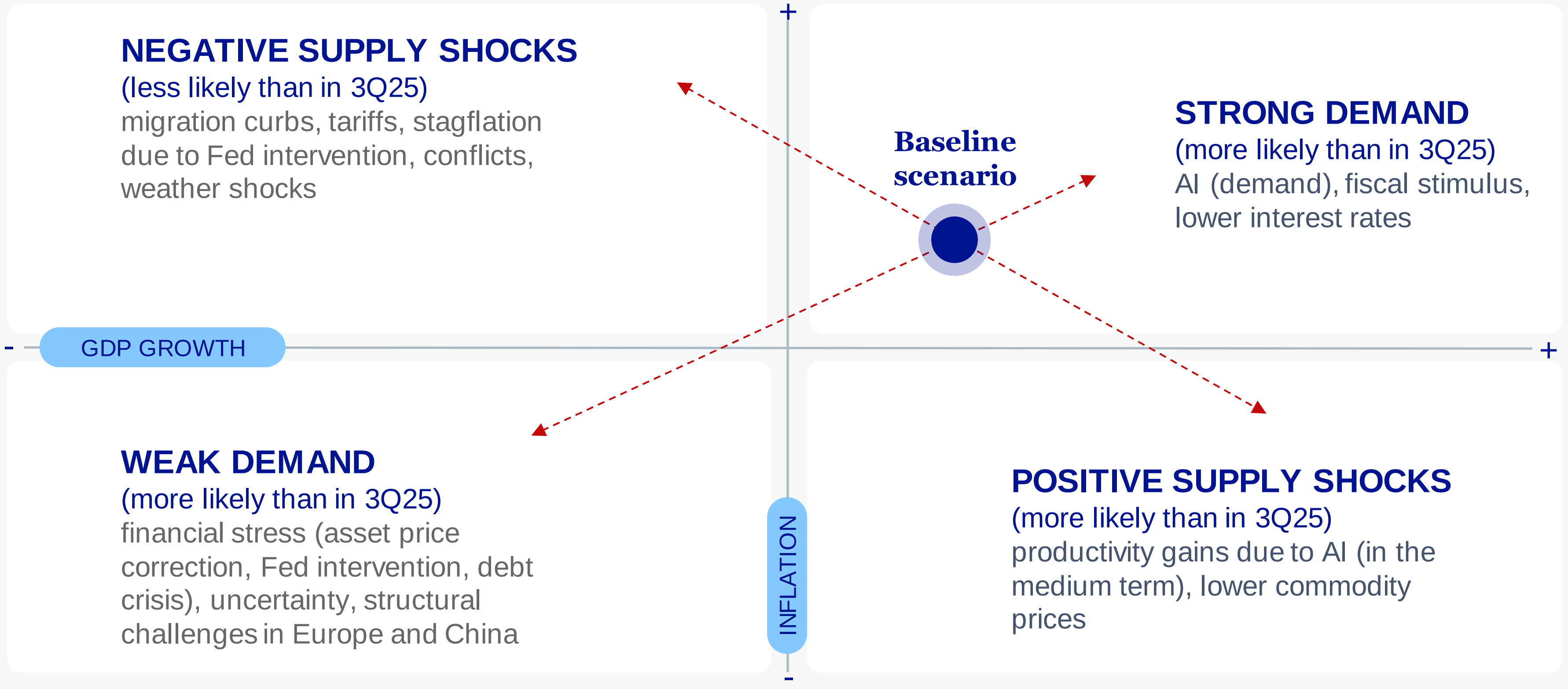


(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research.

US rates are now closer to neutral levels and the convergence to the (higher-than-expected) terminal rate could be more gradual, but there is uncertainty related to the upcoming changes in the Fed board; in the Eurozone, there is room for rates to get closer to the estimated neutral rate in the medium run

More balanced risks: rising odds of medium-term AI productivity gains amid persistent supply concerns

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO



BBVA Research

China Economic Outlook

Content

1

After the four rounds China-US negotiations and the Xi-Trump South Korea meeting, the two countries achieved the four Agreements in Geneva, London, Sweden and Madrid. The Agreements announced a significant reduction of tariffs as well as other important issues such as rare earth export restriction, semiconductors, fentanyl, Tit Tok etc. That means, the China-US trade war could be viewed as almost settled. China-US relationship enters into the best time since Trump's second Administration. However, we do not exclude the turnaround in the following months.

2

After the tariff war shock stabilized, a number of the recent weaker-than-expected activity readings surprised the market to the downside, chief among them is historical low housing investment (-13.8% ytd y/y) and retail sales (3%) in Sept. Domestic headwinds including housing market crash, overcapacity, weak consumption/sentiments take place of tariff war to be the dominant factors for China's growth slowdown.

Supply-demand mismatch continues, which means, industrial production still remains momentum and deflation continues.

3

We raise our 2025 GDP forecast to 5% from 4.8% previously, which is in line with the authorities' target, while maintaining 2026 GDP at 4.5%. As 1H 2025 already reached 5.3%, and Q3 GDP reached 4.8%, making 5% growth target easy to achieve.

The authorities are expected to unveil more simulative measures to reverse the market sentiments in Q4 amid the fading trade war shock and rising domestic risks.

4

The 15th Five-Year Plan (2026-2030) was recently approved in the 4th plenum of 20th Chinese Communist Party's Central Committee, which sketches the blueprint of the economic and social development of the next five years aiming for achieving "socialist modernization" in 2035. We summarize it in several perspectives.

The Plan is still emphasizing supply side, (self-sufficient tech, national security and industrial modernization) and less on demand side although it is comprehensive covering every perspective of economy.

The timeline of the China-US trade war: focusing on the recent three Agreements (2025): implementation is the key

- 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.
- Mar 4 — **US announces an additional 10% tariff on Chinese imports.**
- Mar 12 — China applies new tariffs to US in retaliation by additional 10%.
- 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%, altogether it is 145% tariff rate.**
- Apr 11 — China announced to impose 125% tariffs on US imports from 84% previously.
- Apr 15 — The US announced that China may face at most **245% tariffs.**
- May 12 — **Geneva Agreement**: 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%.
- June 7 — **London Agreement**: (i) agreed "in principle" to a framework on how to implement the consensus by Geneva Agreement; (ii) The US will allow Chinese college students to attend universities after "aggressively revoke" students visas. (iii) China's restrictions on exports of rare earth minerals to the US will be resolved as a "fundamental" part.
- July 28 — **Sweden Agreement**: China will continue to suspend its earlier tariff hike for 90 days, so will the US.
- Sep 17 — **Madrid Agreement**: (i) The potential deal on the popular social media app TikTok was a rare breakthrough; (ii) Reducing investment barriers and promoting economic and trade cooperation.
- Oct 30 — **Xi-Trump Korea Busan meeting**: (i) China agreed to postpone export restrictions on rare earths; (ii) reached agreements on American tariffs related to fentanyl reduced from 20% to 10%, and reduced tit-for-tat levies on each other's shipping industries; (iii) Further extend the tariff exemption for another year bilaterally; (iv) discussed semiconductors that Nvidia would talk to China about exporting chips; (v) Trump will visit China in April and Xi will visit US afterwards.

Source: BBVA Research.

China's 15th Five-Year Plan(2026-2030): comprehensive long-term plan but still focusing on supply side

Starting on October 20, the 4th plenum of 20th Chinese Communist Party's Central Committee was held in Beijing, in which the outline of the 15th Five-Year Plan for 2026-2030 has been reviewed and approved. The final version will be released at National People's Congress in March 2026:

1. **Chinese authorities continued to outline to develop China's economy in the long-term in "two steps":** In the first step, during 2020-2035, to achieve "socialist modernization" (GDP or GDP per capita doubles to catch up with mid-level developed countries); In the second step, during 2035-2050, to accomplish China as a "great modern socialist country". To achieve "GDP doubled" target by 2035, we calculated that the average annual GDP growth has to reach at least 4.7% during 2020-2035.

2. **Supply: Technology self-sufficiency, national security and industrial modernization :** China must maintain a high-end level of manufacturing; China's goal to accelerate development in five areas: manufacturing, AI, aerospace, transportation, and internet: fusing AI-driven industry and ambitions to become a "spacefaring nation". The "digital China" concept was emphasized. (Doubled down the "industrial policy").

3. **Demand: Stimulating domestic demand:** China should build a robust domestic market and work faster to foster a new growth engine which is domestic demand driven. It emphasizes improving people's livelihoods, dealing with supply-demand mismatch, solving the deflation and overcapacity issue, boosting consumption, and improving macroeconomic governance, etc.

4. **Institutional: Fresh breakthroughs in further deepening reform comprehensively:** to advance China's reform agenda, with market forces expected to continue playing a decisive role in resource allocation, and the government ensuring fair competition, equal market access and property rights protection.

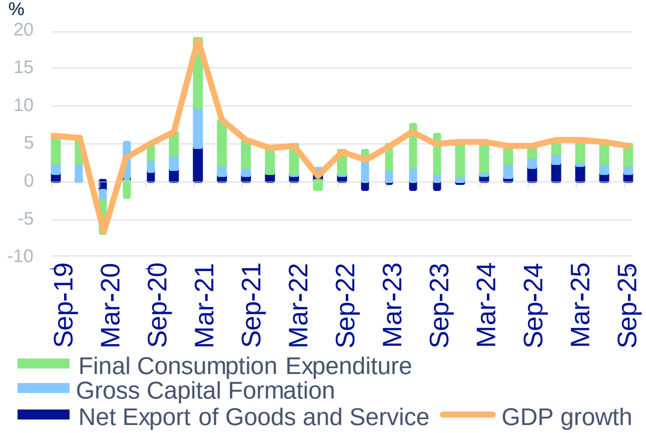
5. **Environmental protection and Green economy:** to peak carbon emissions before 2030 and achieve carbon neutrality before 2060, with interim goals for 2035, including a 7-10% reduction in greenhouse gas emissions from the peak and the non-fossil fuel energy share exceeding 30%. Investments in wind, solar and hydropower, new energy vehicles, and related infrastructure will continue, reinforcing China's leadership in renewable energy.

6. **China's new growth model and economic transformation.** We summarize "three pillars" of China's new growth model which include common prosperity, self-sufficient technology and carbon neutrality. China's new growth model emphasizes not only the headline growth figures but also a more balanced and high quality growth.

2025 Q3 GDP reached 4.8% y/y;

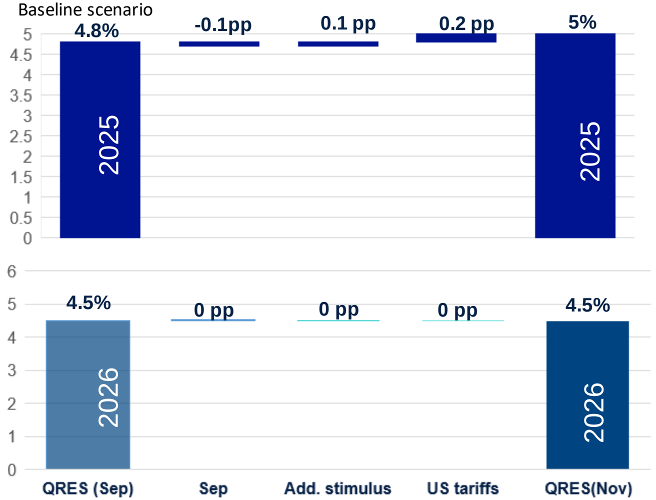
together with 5.3% in 1H2025, we raised our 2025 GDP from 4.8% to 5% (the authorities' target)

2025 Q3 GDP REACHED 4.8% y/y, SUPPORTED BY CONSUMPTION AND EXPORTS



Forecast	2025Q1	2025Q2	2025Q3	2025Q4 F
Y/Y%	5.4	5.2	4.8	4.5
Q/Q% (HAVER SA)	1.4	1.1	0.9	1.5

WE RAISE OUR 2025 GDP FORECAST FROM 4.8% TO 5%, MAINTAINING 2026 GDP AT 4.5%

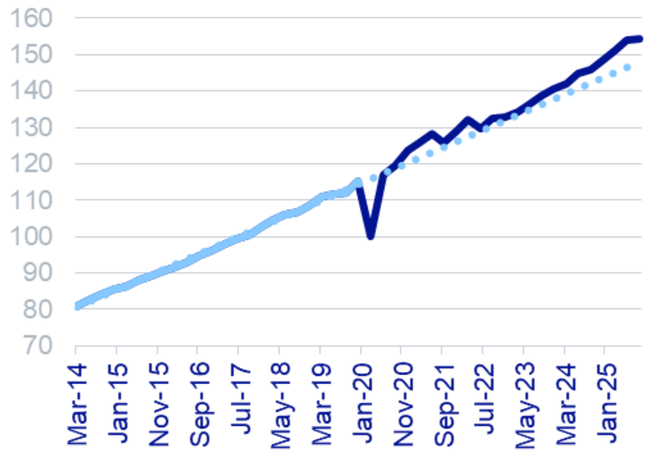


Source: NBS and BBVA Research.

Revisit unbalanced economic structure (1)：supply>>demand; external demand>>domestic demand

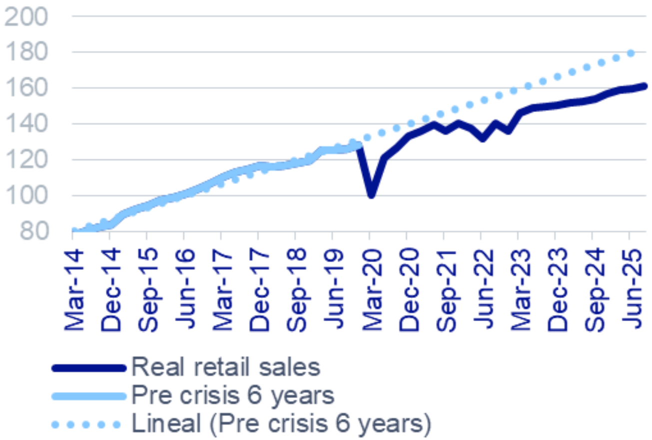
INDUSTRIAL PRODUCTION TREND IS HIGHER THAN PRE-PANDEMIC TREND…

IP SA 2020 Q1=100



…BUT RETAIL SALES TREND IS SIGNIFICANTLY LOWER THAN PRE-PANDEMIC

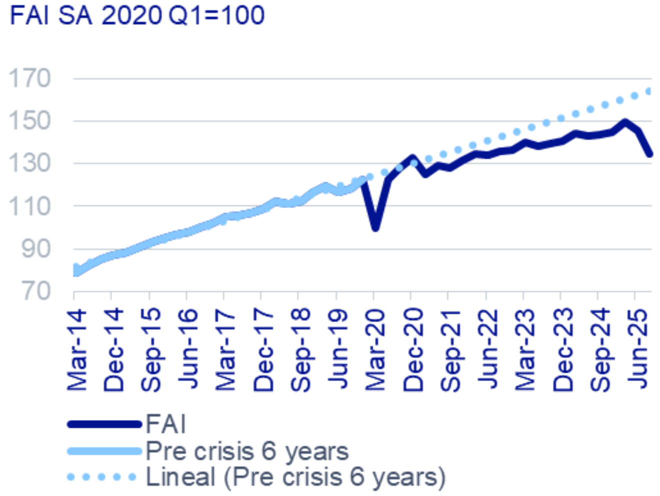
Real retail sales SA 2020 Q1=100



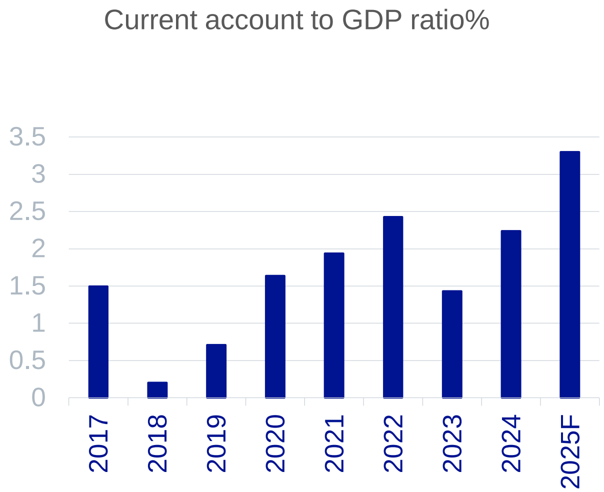
Source: BBVA Research and NBS.

Revisit unbalanced economic structure (2)：supply>>demand; external demand>>domestic demand

THE RECENT INVESTMENT TREND IS DECELERATING FAST…



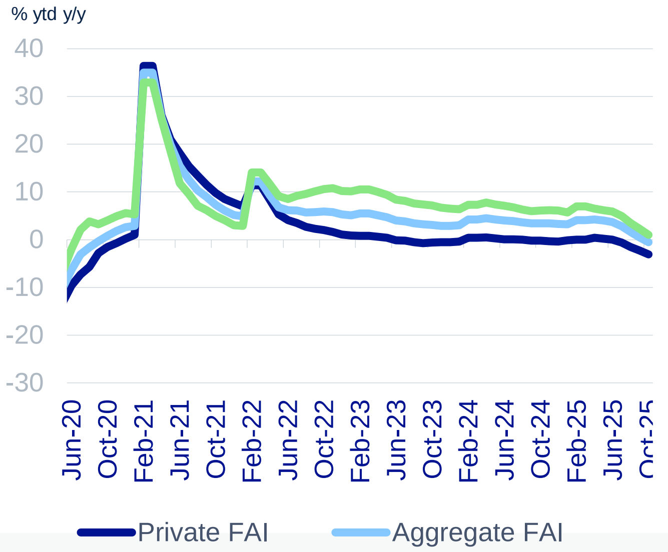
CURRENT ACCOUNT TO GDP RATIO HAS BEEN INCREASING DUE TO FRONT-LOADING



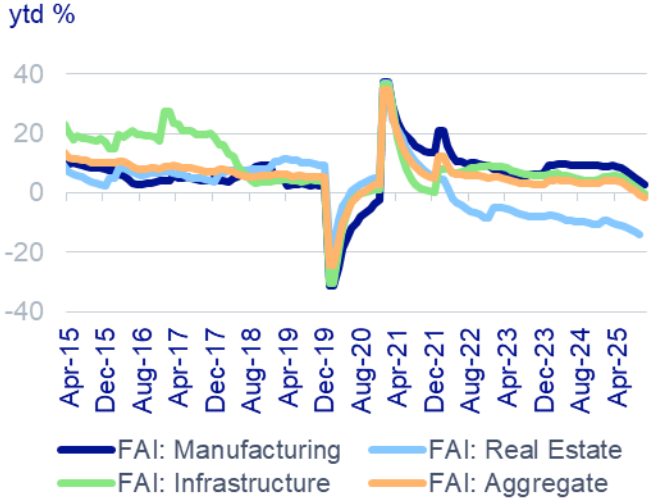
Source: BBVA Research and NBS.

Investment is also under-performing in post-pandemic era, significantly dragged by housing investment

PRIVATE FAI IS SIGNIFICANTLY LOWER THAN THE PUBLIC FAI



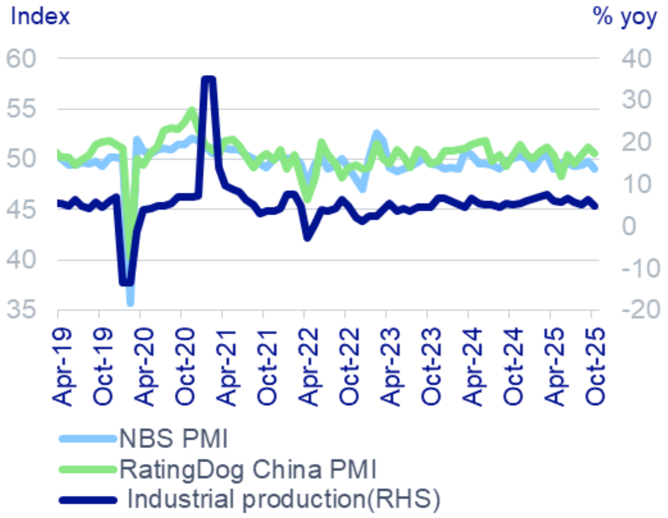
…REAL ESTATE INVESTMENT HAS REMAINED NEGATIVE SINCE FEB 2022 AND NOW DIPPING TO HISTORICAL LOW AT -14.7% ytd y/y



Source: BBVA Research and NBS.

From supply side, “Anti-involution” campaign is aiming at deleveraging and curbing “price war” to cure deflation

OCT NBS PMI DECREASED TO 49 FROM 49.8; INDUSTRIAL PRODUCTION DECELERATED TO 4.9% FROM 6.5%



What is the “Anti-involution” campaign?

i. "Anti-involution" refers to government-backed efforts to combat "involution”, which describes **excessive, unproductive competition among firms** leading to **diminishing returns, worker exhaustion, price wars and accelerating deflation.**

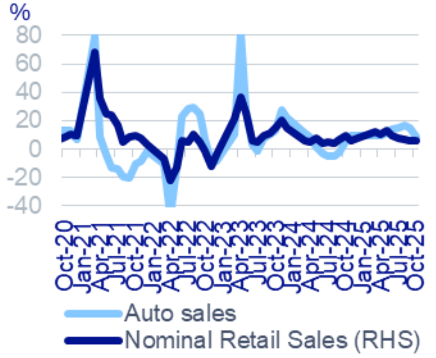
ii. Which **industries** have overcapacity issue? Solar and electric vehicles, lithium batteries, steel, cement, food delivery, etc.

iii. However**, there are still challenges ahead**. Compared with China’s supply-side reform back to 2015-2017 in which China deleveraged the state-owned overcapacity sectors, the majority of this round of “anti-involution” are in the private sector. Another big challenge is the possibility of job losses.

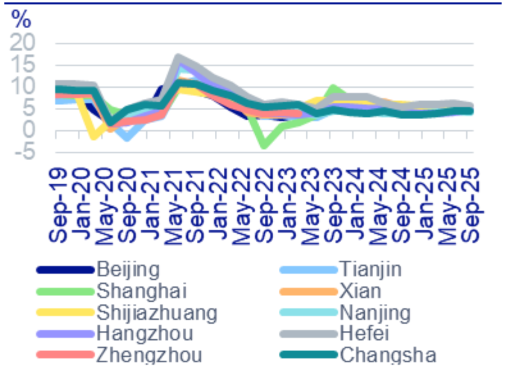
Source: BBVA Research and NBS.

Retail sales decelerated to historical low at 2.9%, despite the consumption stimulus measures: China’s income distribution policy is the key reason

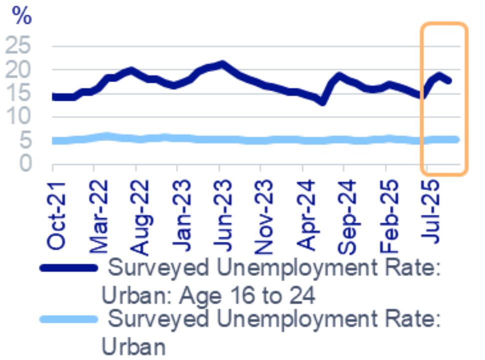
RETAIL SALES DIPPED TO 2.9% FROM 3% IN OCTOBER



SLUGGISH CONSUMPTION IS DUE TO WEAK INCOME GROWTH AND INCOME EXPECTATION…



…AND HIGH YOUNG AGE UNEMPLOYMENT RATE WHICH IS AROUND 18%



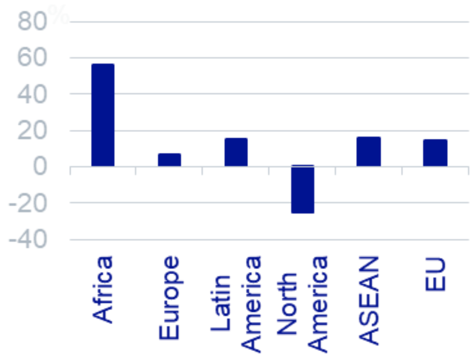
The authorities issued RMB 300 billion long-term government bond in 2025 (2024: RMB 150 bn) to support consumption by “large-scale equipment renewal and trade-in old consumer goods and “national subsidies” to stimulate retail sales. The effect may gradually fade as the program runs out.

Source: BBVA Research and NBS.

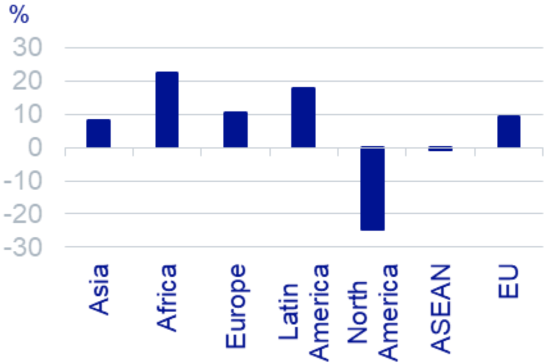
Trade data have been performing strongly due to "front-loading" exports amid uncertainties during negotiations and diversification of the markets, but decelerated recently

EXPORTS DECELERATED FROM 8.3% TO -1.1%; IMPORTS FROM 7.4% TO 1%

EXPORTS TO THE US (Y/Y%) DECLINED FOR APR TO SEP 2025



IMPORTS FROM AMERICA DECLINED SIGNIFICANTLY DUE TO TARIFF, BUT INCREASE IN ASIA, EU AND LATAM

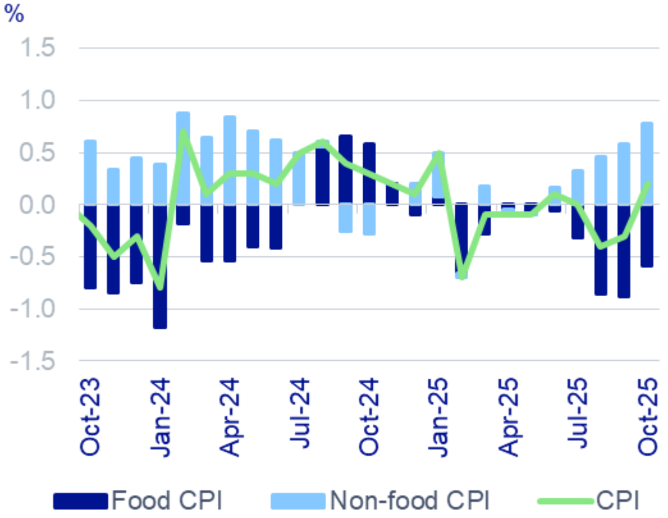


Source: NBS and BBVA Research.

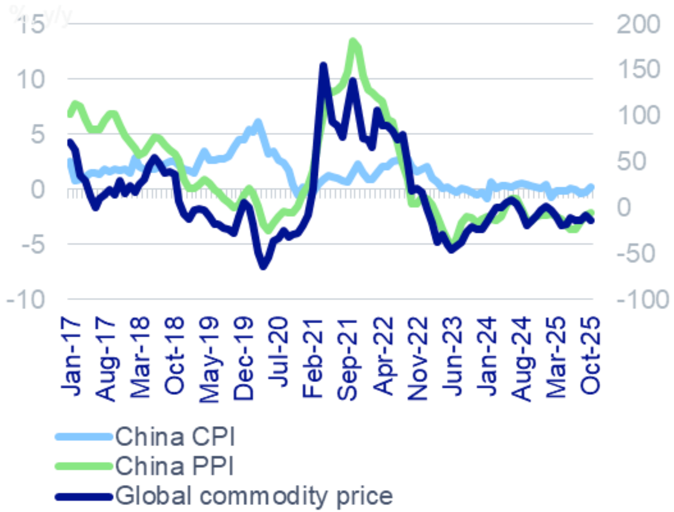
We expect exports growth in 2H 2025 will significantly decelerate to 2% (1H 2025: 5.9%) due to the fading effect of "front-loading", leading the whole year exports to 4%; thus, net export contributes to only around 0.8% of 2025 GDP growth, compared with contribution of investment 1.3% and consumption 1.8%.

Deflationary Environment Remained and difficult to change, amid unbalanced economic structure and weak market sentiments

CPI RECORDED 0.2%, COMPARED WITH –0.3% IN PREVIOUS MONTH, DRAGGED BY FOOD CPI



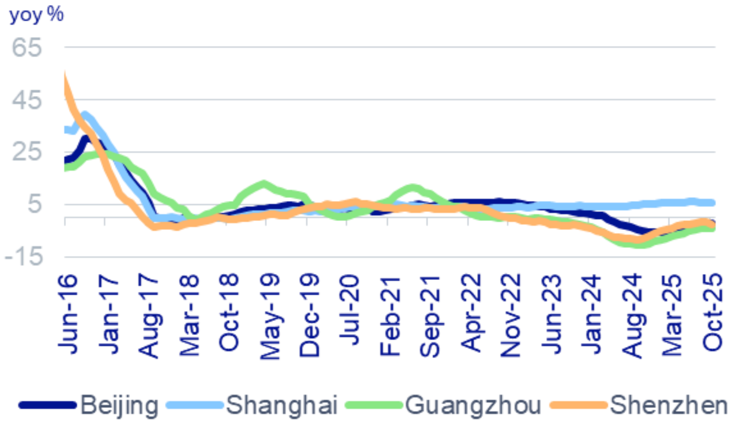
PPI REMAINED NEGATIVE AT -2.1% SYNCHRONIZED WITH GLOBAL COMMODITY PRICE



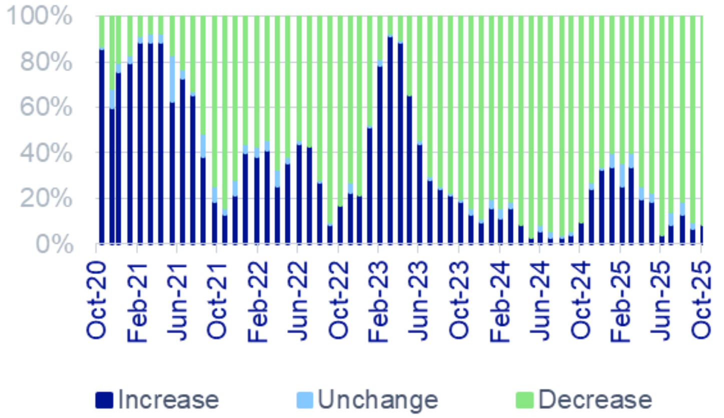
Source: BBVA Research and NBS.

Real estate has not seen bottomed out signals so far; it is still a long haul for housing market stabilization

IN TIER-1 CITIES, EXCEPT SHANGHAI, HOUSING PRICE REMAINED NEGATIVE GROWTH



90% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY



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

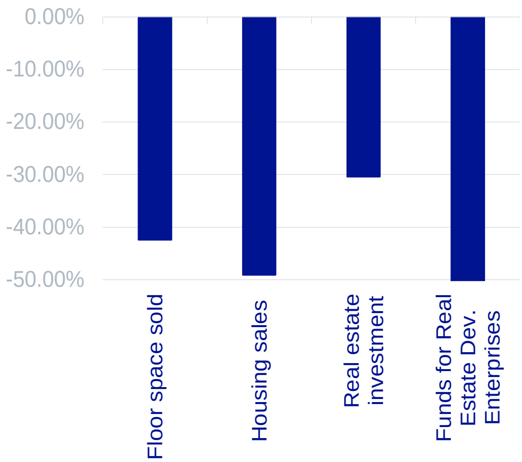
All housing indicators remained lackluster and dropped dramatically compared with 2021

BUILDING SOLD REMAINS NEGATIVE BUT SHRANK ITS DECLINE

FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE

2025 1H HOUSING INDICATORS COMPARED WITH 2021

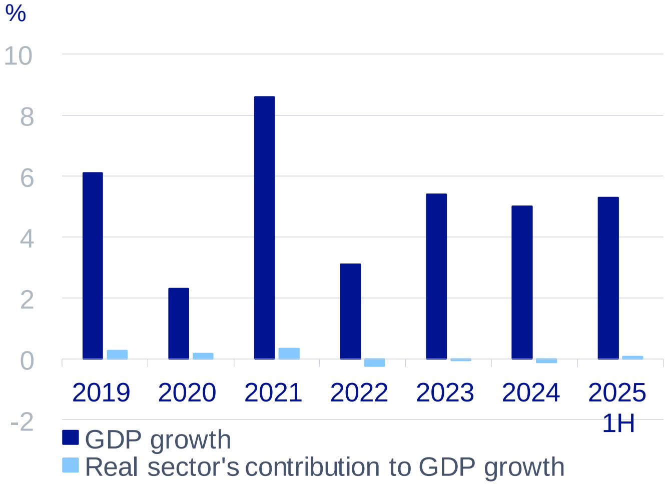
(% CHANGE)



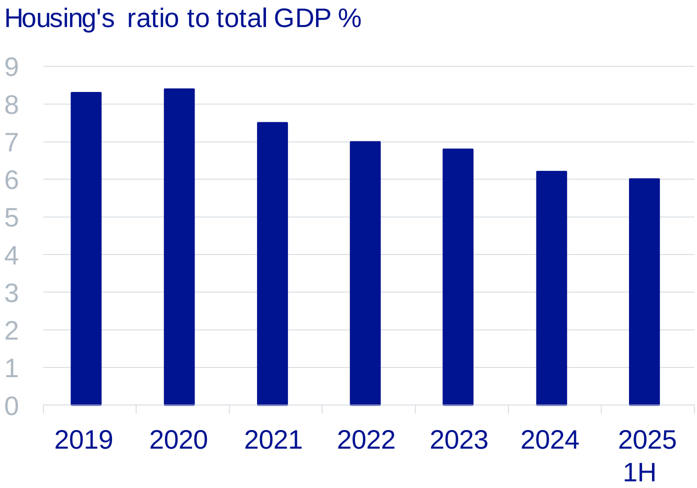
Source: BBVA Research and NBS.

Is housing sector still important to China's GDP?

HOUSING SECTOR'S CONTRIBUTION TO GDP GROWTH IS ALMOST IGNORABLE IN RECENT YEARS



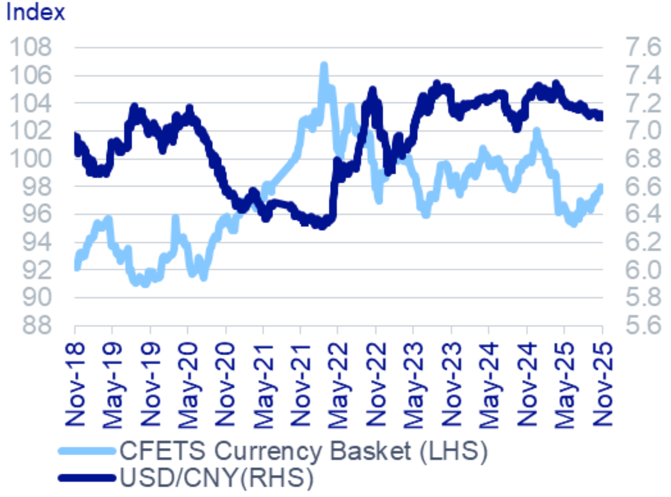
REAL ESTATE'S VALUE ADDED TO TOTAL GDP IS AROUND 6% CURRENTLY; BUT TOGETHER WITH UPSTREAM AND DOWNSTREAM STILL AROUND 20%



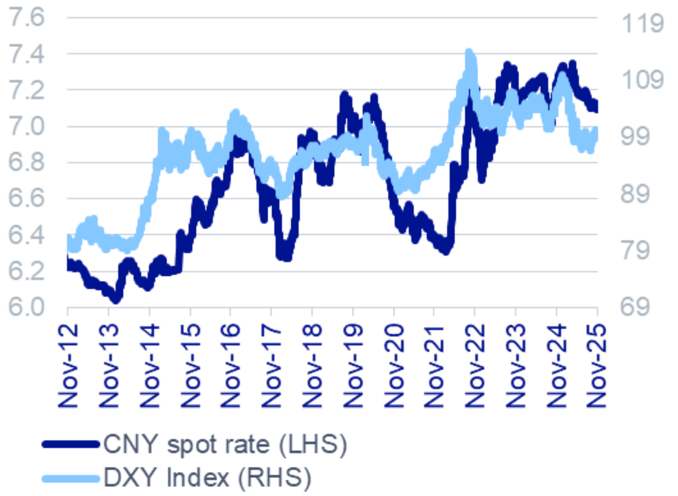
Source: BBVA Research and NBS.

RMB to USD Exchange rate appreciated recently due to US rate cut and the achievements of China-US negotiations

RMB APPRECIATED TO 7.1 NOW FROM 7.27 ON APRIL 2 (RECIPROCAL TARIFF) AMID USD DXY DROP AND TARIFF WAR RISK REMOVED



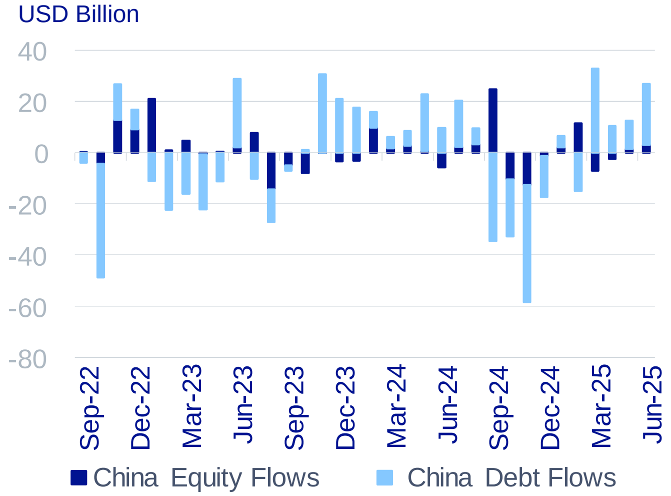
THE MIRROR EFFECT OF RMB EXCHANGE RATE AND USD DXY PERSISTS



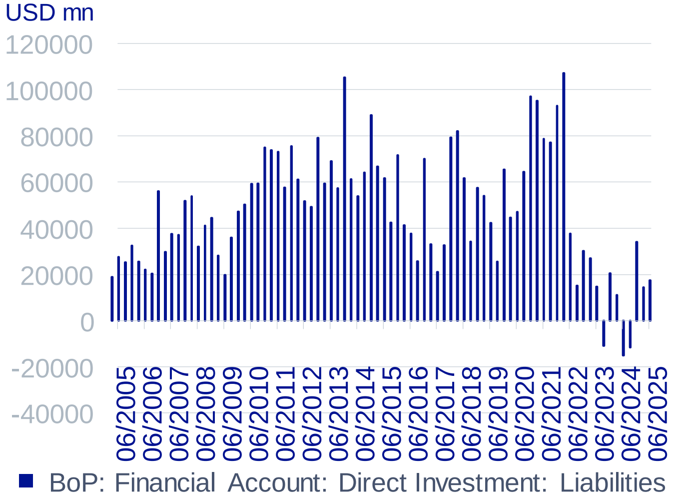
Source: BBVA Research and NBS.

Both portfolio flows and FDI flows coming back to China

CAPITAL FLOWING BACK TO CHINA AMID US CUT EXPECTATIONS, PUSHING UP CHINESE STOCK AND BOND MARKET



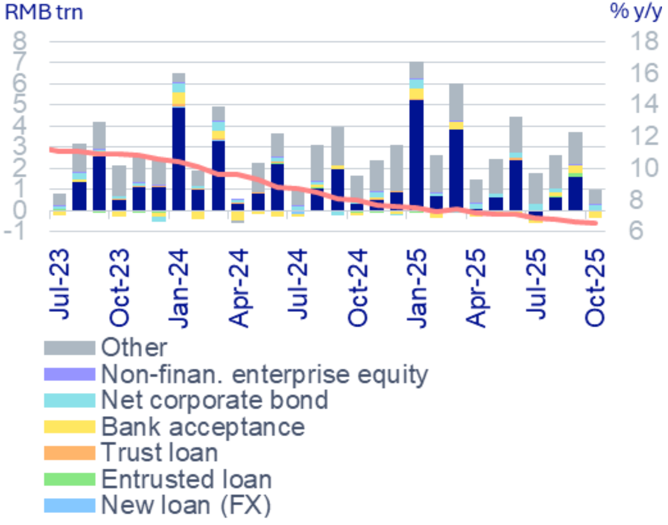
…SO DID FDI INFLOWS WHICH ASO TURNED TO POSITIVE



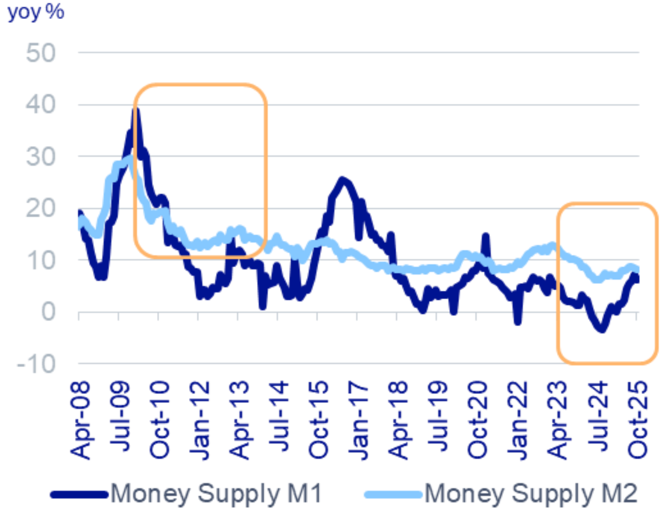
Source: BBVA Research and NBS.

China’s credit figures have slowed amid lackluster demand

TOTAL SOCIAL FINANCING, NEW RMB LOANS ACCELERATED, BUT OUTSTANDING LOAN GROWTH DECLINED



…SO DID THE M2 GROWTH DROPPED



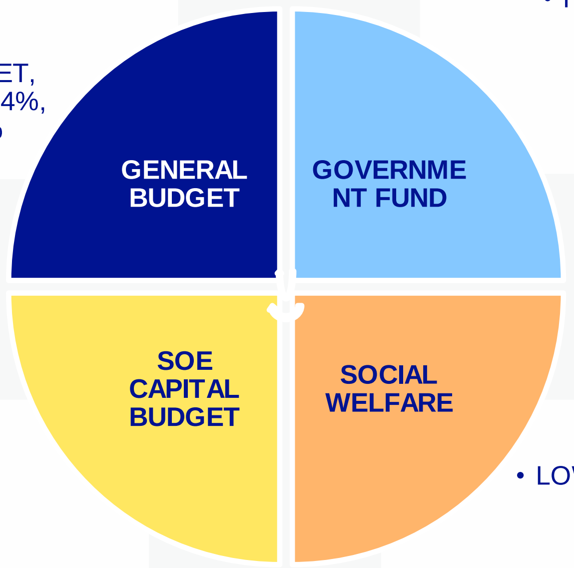
Source: BBVA Research and NBS.

We believe fiscal stimulus is not strong enough to support growth

FISCAL STRUCTURE

- HIGH IMPAC （THROUGH FISCAL BUDGET, THIS YEAR IS 4%, BREAKING 3% REDLINE）

- HIGH IMPACT



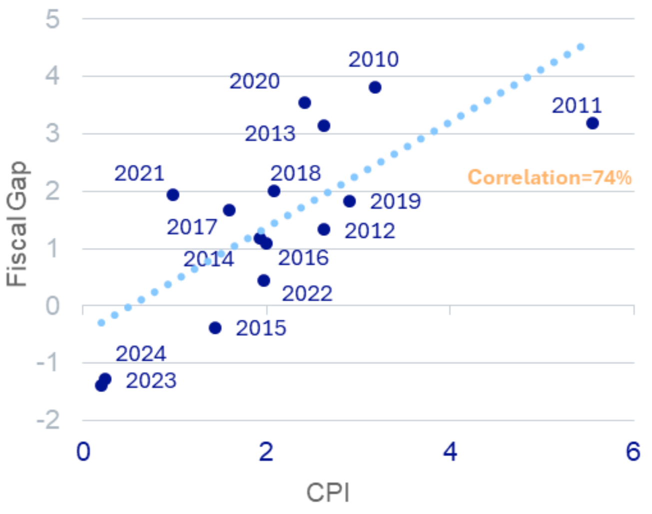
- LOW IMPACT

- LOW IMPACT

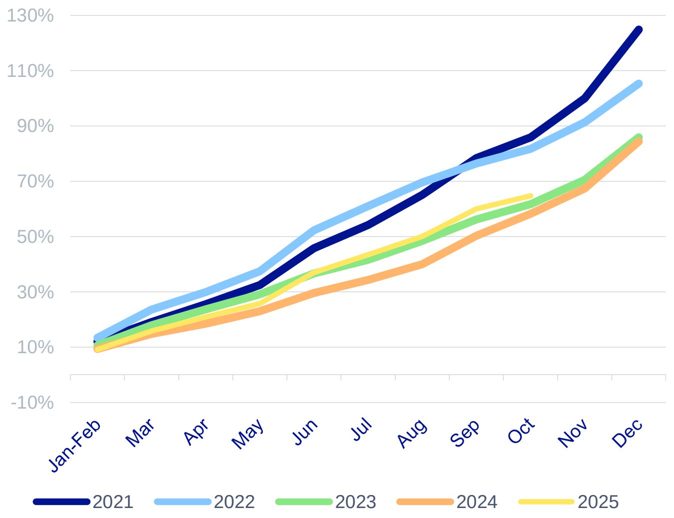
Source: NBS and BBVA Research.

The government fund expenditure gap (budgeted expenditure-actual expenditure) may reach RMB 1.5-2.5 trillion

THE HIGH CORRELATION BETWEEN GOVERNMENT FUND EXPENDITURE GAP AND CPI



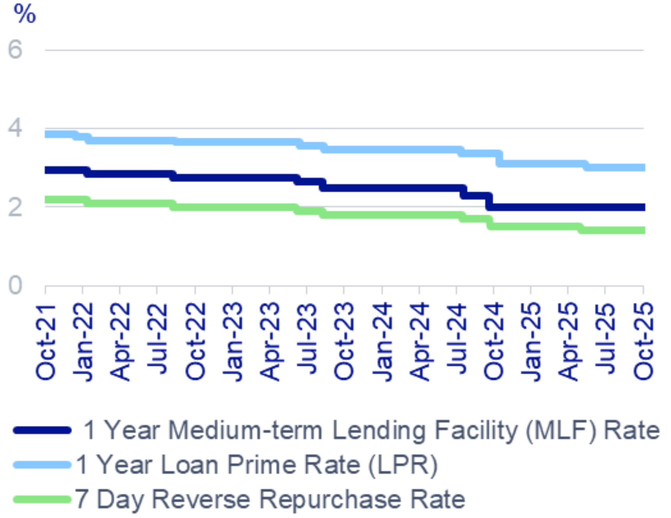
THE CURRENT PROGRESS ONLY COUNTS FOR 80-90% OF BUDGETED EXPENDITURE (12.5 TRN RMB)



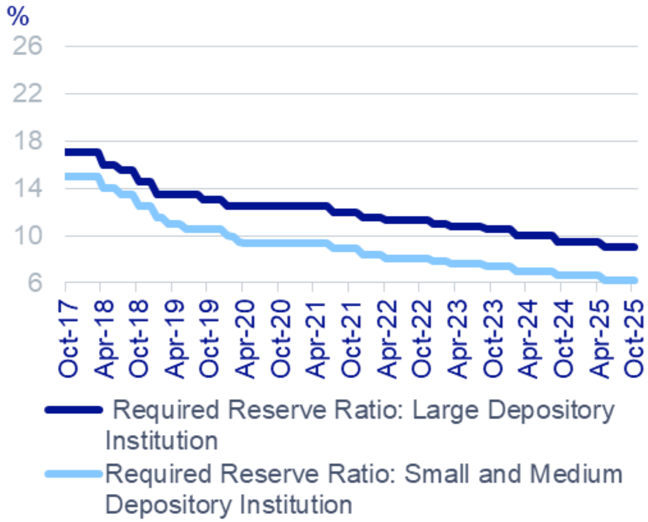
Source: BBVA Research and NBS.

The US FED start of the rate cut cycle provides policy room for the PBoC's further cuts

WE EXPECT AT MOST ONE MORE RATE CUT THIS YEAR BY 10 BPS



THE PBOC CUT 50 BPS RRR IN 3ND ROUND STIMULUS…WE EXPECT 1 MORE RRR CUT IN REST OF YEAR



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	5.0 ↑	4.5	4
CPI (%)	2.6	0.9	2	0.2	0.24	0.1	1	1.3
PPI (%)	-1.8	8.1	4.2	-3	-2.2	-2.6	-0.7	1
Interest rate (LPR, %)	3.85	3.8	3.6	3.45	3.1	3 ↑	2.5	2.5
7-day reverse repo	2.2	2.2	2	1.8	1.5	1.4	1.1	1.1
RMB/USD exchange rate	6.5	6.36	6.9	7.1	7.3	7.1	6.95 ↓	6.8 ↓

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