

March 2026

China Economic Outlook

Global Economic Outlook

Main messages

Global growth soft-landed in 2025, despite slowdown fears linked to geopolitical tensions, policy uncertainty, and US tariffs. The economy proved resilient thanks to easing inflation and interest rates, a weaker US dollar, fiscal stimulus, AI investment, and low energy prices.



The outbreak of war in Iran adds a new headwind for the global economy. A short-lived conflict with limited macro impact remains the baseline, but uncertainty has risen. A more prolonged war that keeps energy prices elevated could lift inflation while also weakening demand.



Growth in the G3 could exceed earlier forecasts, supported by stronger incoming data and a larger AI contribution, provided the war in Iran is brief. While inflation has recently surprised to the downside, several factors, especially in the US, could keep it more persistent than expected.

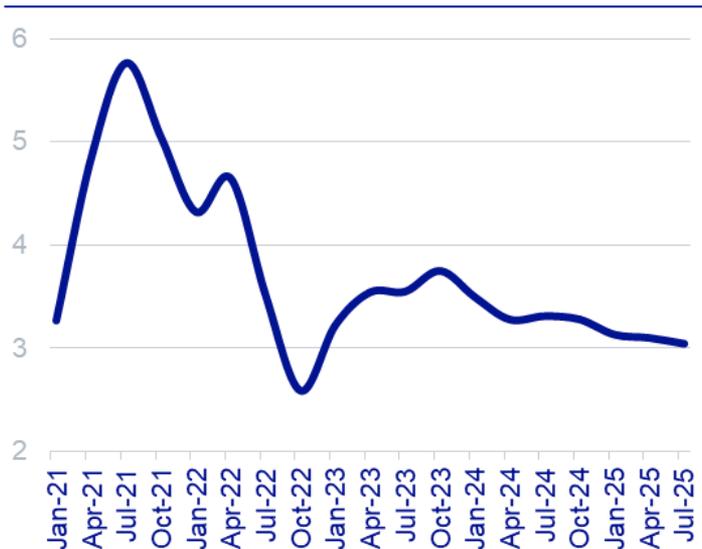


The Fed still looks set to cut rates after pausing in 1H26, which favors a weaker US dollar. The ECB is not expected to deliver further cuts. Still, if Middle East turmoil persists, central banks would again face the trade-off between higher energy prices and weaker demand.



Despite negative shocks, the world economy has showed resilience, backed by policy tailwinds and the AI boom

GLOBAL GDP GROWTH: QUARTERLY
(Y/Y %, SEASONALLY ADJUSTED, CONSTANT PRICES)



Source: BBVA Research based on data from the IMF

Global growth soft-landed in 2025 despite deceleration fears, underpinned by several factors:

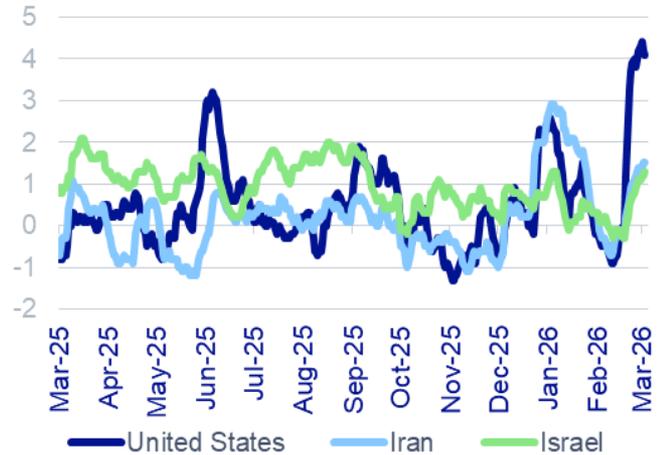
- limited impact of geopolitical tensions, protectionism and policy uncertainty, so far.
- fall in inflation and interest rates.
- weak USD.
- fiscal stimuli.
- AI spending.
- low energy prices.

Early-2026 macro data is broadly positive, but the **war in Iran** has increased uncertainty ahead.

The outbreak of conflict in Iran has lifted energy prices from their lows, reinforcing global uncertainty and risks

GEOPOLITICAL RISK INDEX

(HISTORICAL AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT PRICES

(USD PER BRENT BARREL)

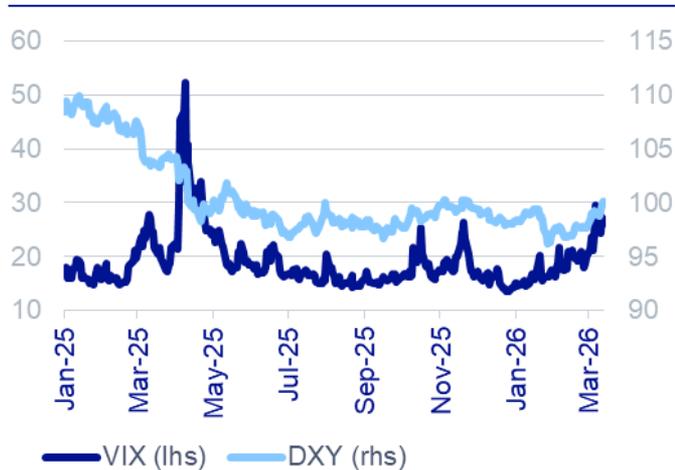


Source: BBVA Research based on data from Haver

US-Israel attacks on Iran, and the ensuing escalation of the conflict reignited geopolitical tensions in the Middle East; energy prices have jumped amid production and transportation disruptions across the region

Market impact from Middle East tensions has been strong but contained, consistent with a short-lived war view

VOLATILITY (VIX); US DOLLAR (DXY)
(INDEXES)



Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)

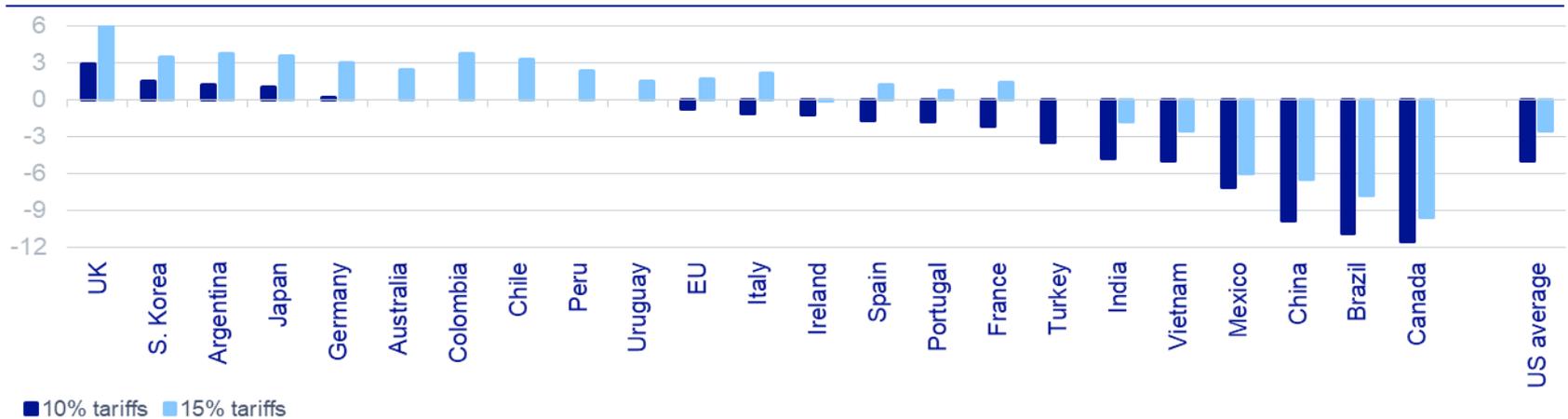


Source: BBVA Research based on data from Haver

Following initial attacks on Iran, volatility has increased, the USD has appreciated (while remaining relatively weak), and US yields rose as inflation fears outweigh safe haven demand; markets are now pricing in fewer US rate cuts this year and higher odds of an ECB rate hike

US tariffs continue at historically high levels despite the decline following the IEEPA-tariffs overruling

US STATUTORY TARIFFS: CHANGE DUE TO THE SHIFT FROM IEEPA TO SECTION 122 (*) (PP)



(*) These estimations are based on 2024 trade flows. They assume that previously announced trade deals do not remain in place.
Source: BBVA Research

Statutory US tariffs fell somewhat, from an overall level around 15%, following the announcement of new import duties, based on Section 122 of the Trade Act of 1974, to replace overruled reciprocal and fentanyl tariffs; these temporary duties could be eventually replaced by more permanent ones

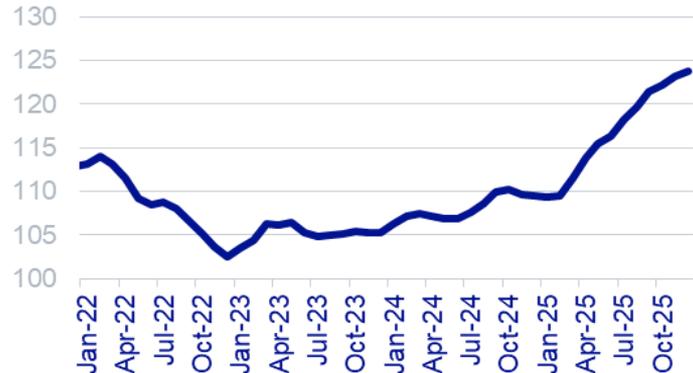
Tariff-related uncertainty persists but appears to be a diminishing source of concern; global trade remains solid

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



Source: BBVA Research

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



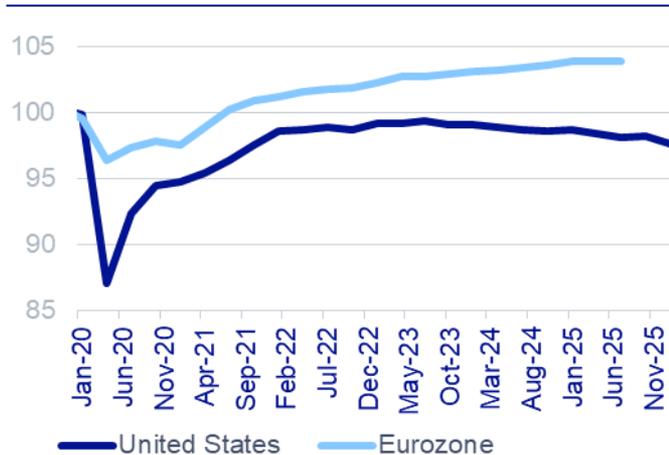
Source: BBVA Research based on data from Haver

Global trade remains resilient, particularly in China, but also in the US; the incipient impact of higher tariffs is being offset by factors such as import frontloading effects, effective tariffs below statutory levels, and the boom in AI-related imports

Lower immigration could be contributing to lower employment in the US; wages, however, continue to ease

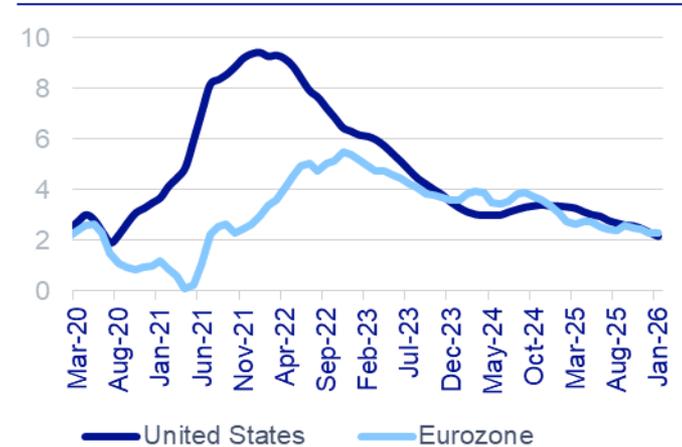
EMPLOYMENT-POPULATION RATIO (*)

(INDEX: 2019 AVERAGE = 100)



NOMINAL WAGES

(Y/Y %, 3-MONTH MOVING AVERAGE)



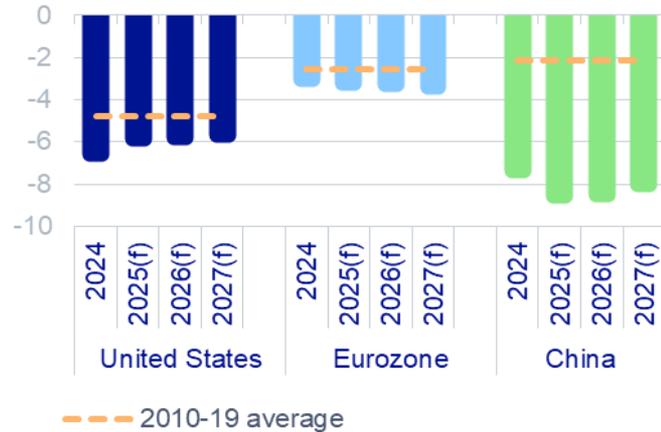
(*) US: 16 years and over; EZ: from 15 to 74 years.
Source: BBVA Research based on data from Fred and Eurostat

Source: BBVA Research based on data from Indeed

The US unemployment rate has fallen more recently (4.4% in Feb/26) easing labor deceleration concerns; in the Eurozone, it continues at low levels (6.2% in Dec/25) and real wages are growing at a positive rate

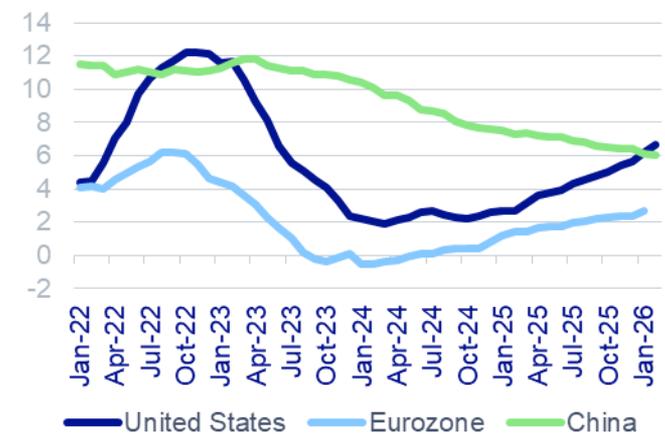
Economic policies are providing a significant cyclical support to economic activity

FISCAL BALANCE (*)
(% OF GDP)



(f): forecast
 (*) Forecasts by BBVA Research for the Eurozone, by the CBO for the US and by the IMF for China.
 Source: BBVA Research based on data from the IMF

BANKING CREDIT: STOCK
(Y/Y %)



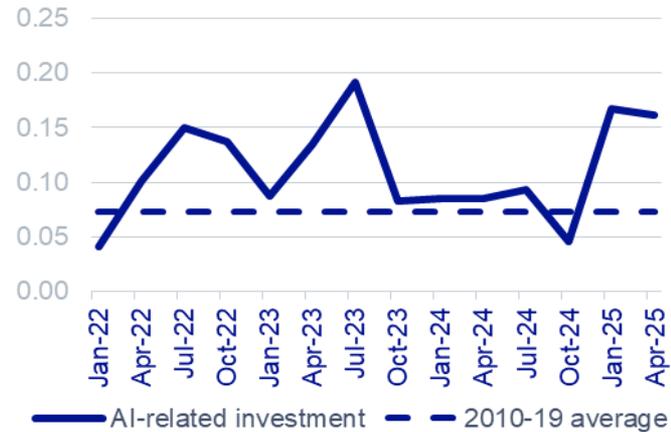
Source: BBVA Research based on data from FRED and Eurostat

Supportive fiscal policies remain in place, led by defense spending in the Eurozone and tax cuts (partially offset by tariff revenues) in the US; policy rates have fallen by 175 bps in the US and 200bps in the Eurozone since mid-2024, contributing to growth resilience

AI spending has been one of the main drivers of US growth

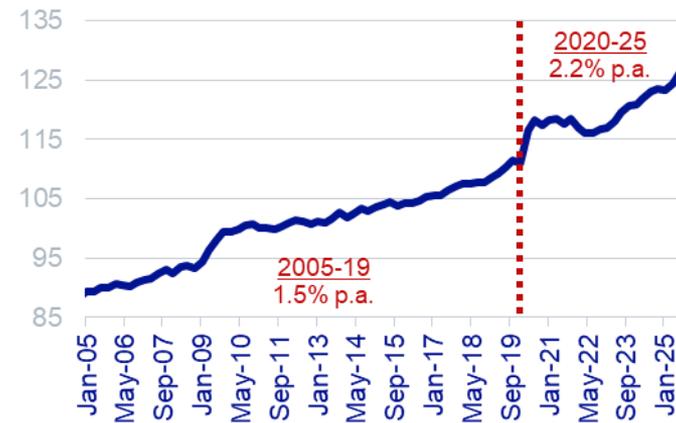
US: AI-RELATED INVESTMENT (*)

(CONTRIBUTION TO GDP GROWTH; 12-MONTHS MOVING AVERAGE: PP)



US: LABOR PRODUCTIVITY PER HOUR

(INDEX: 2005-2019 AVERAGE = 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

AI-adoption has been contributing to investment and private consumption (due to wealth effects from AI-equity gains); AI-related imports are also increasing

2025 growth was higher than expected; preliminary data suggest that dynamism persisted at the start of 2026

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH (*)

(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)

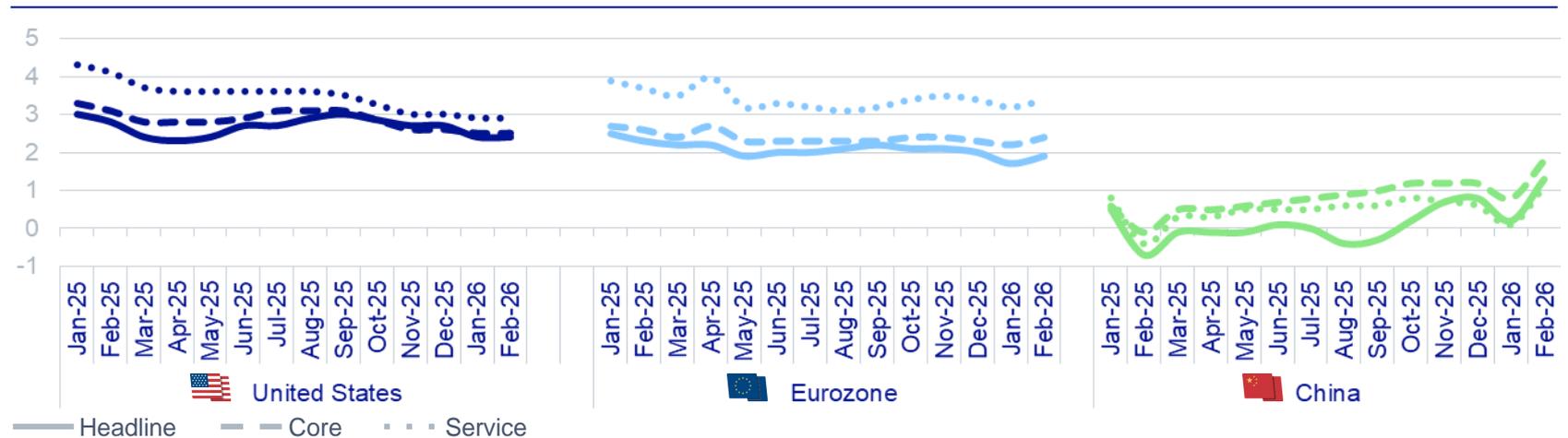


(*) 1Q26: BBVA Research forecasts
Source: BBVA Research based on data from Haver and China's NBS

Growth has been backed mostly by domestic demand and the service sector in the US and the Eurozone; external demand has been key to keep growth relatively stable in China

Inflation has in general moderated more than expected ahead of the recent surge in energy prices

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

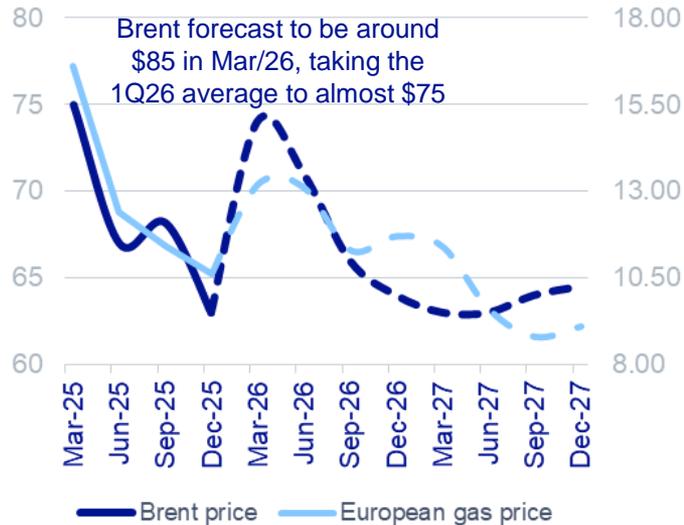


Source: BBVA Research based on data from Haver

Inflation moderation was driven by low energy prices ahead of the conflict in Iran, smaller pressure from service (mainly shelter) prices in the US, and controlled goods inflation in the Eurozone

Middle-East tensions: a temporary conflict, with limited macro impact, is likely, despite large uncertainty

ENERGY PRICES: BBVA RESEARCH FORECASTS (BRENT: USD/BARREL, GAS: USD/MMBtu; QUARTERLY AVERAGES)



Source: BBVA Research based on data from Haver

The war in Iran can affect the global economy through different channels: i) higher energy prices, ii) supply disruptions, iii) financial risk-off, and iv) weaker confidence.

Measures to reduce the transmission of global energy prices to domestic markets and support economic activity are likely.

A short war would allow energy prices, financial conditions and confidence to normalize soon, limiting negative effects on inflation and growth.

A more prolonged conflict would imply a sharp negative shock to the global economy, mainly for net energy importers (Europe, China) and riskier assets (particularly in emerging markets).

Beyond the evolution of the conflict in Iran, many other factors will shape the global economy moving ahead

Main drivers of macroeconomic dynamics

United States



- continued **fiscal stimulus**.
- potentially lower **Fed** rates.
- **AI** support to demand and eventually to productivity.
- structurally weaker **dollar**.
- robust **consumption**, led by top earners (wealth effects).
- **tariffs** to remain in place.
- large **uncertainty** on domestic policy-making.

Eurozone



- **fiscal impulse**, mainly through **defense spending**.
- stable **interest rates**.
- large exposure to higher **energy prices**.
- stronger **euro**.
- gradual **AI** adoption.
- challenging adaptation to **new global order**.

China



- **supply-demand imbalance**.
- strong **exports**, but likely to decelerate.
- still weak **yuan**.
- production **overcapacity**.
- “**anti-involution**” campaign.
- measured **policy stimulus**.
- subdued **confidence**.
- **housing market** correction.

Global growth is likely to remain dynamic, driven by policy tailwinds and AI, at least if the Iran war proves short-lived

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



(*) Global GDP is forecast to grow 3.2% in 2025, 3.2% in 2026 and 3.3% in 2027, respectively 0.0pp, 0.1pp and 0.1 higher than the previous forecasts.

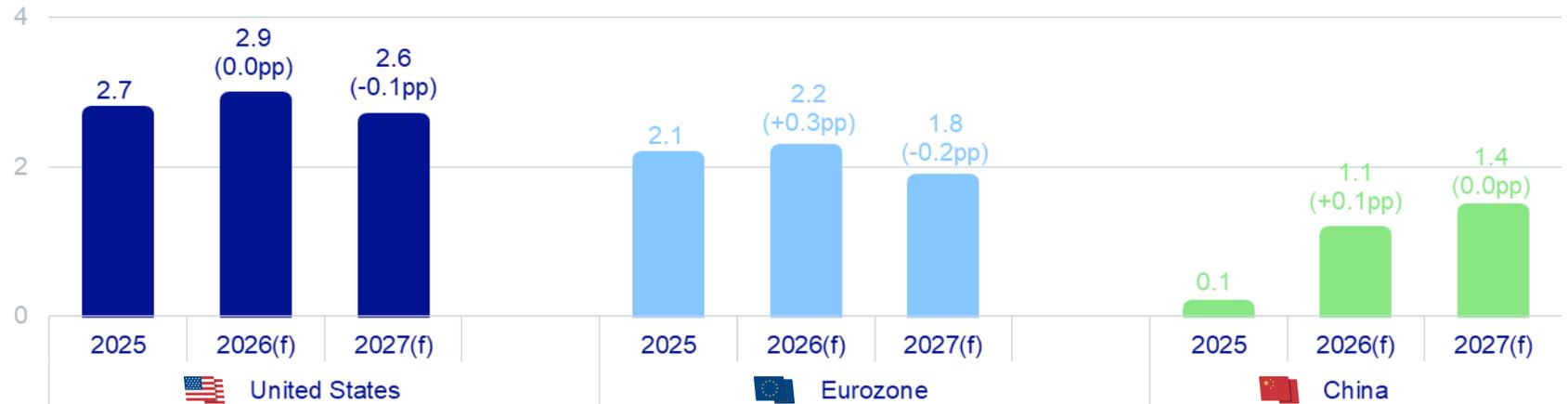
(f): forecast.

Source: BBVA Research

Incoming data and expectations of a larger AI-driven contribution support growth prospects, especially in the US, and offset the negative effects of a temporary rise in energy prices, which weighs more on the Eurozone than on the US or China

Inflation will remain relatively high in the US, and is likely to be slightly 2% in the Eurozone and to edge up in China

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



(f): forecast.
Source: BBVA Research

Energy prices, resilient demand, US tariff pass-through, sticky euro-area services inflation, and China's "anti-involution" drive, among other factors, are likely to keep global inflation under pressure

Higher energy prices could reduce the room for monetary easing, especially if they prove persistent

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

A more prolonged war in Iran would lift inflation and weaken demand, posing a dilemma for central banks, which would nonetheless be more likely to turn hawkish, especially the Fed, given greater inflation concerns in the US

Risks are mostly tilted to the downside

Main risks	Main potential impacts
Geopolitical tensions	<ul style="list-style-type: none">— Iran: prolonged high energy prices, supply disruptions, financial tensions, emigration flows.— Ukraine war, US-China rivalry, China-Japan, Venezuela.
AI	<ul style="list-style-type: none">— higher demand, GDP growth and inflation due to AI spending (short-term).— higher productivity and potential GDP (medium-term).— wealth effects on private consumption driven by AI equities.
US policies and institutions	<ul style="list-style-type: none">— monetary policy miscalibration: inflation persistence vs. recession risks.— erosion of Fed independence: lower policy rates, higher inflation, weaker USD, financial volatility.— impairment of checks and balances.
Debt and credit markets	<ul style="list-style-type: none">— large public debt: sovereign crises, fiscal dominance leading to higher inflation.— credit markets: commercial real estate, shadow banking, leveraged credit, Middle-East exposure.
Protectionism	<ul style="list-style-type: none">— higher costs and lower trade volumes: weaker global growth.— fragmentation, supply-chain re-routing: relative price shocks, productivity drag.
Labor supply	<ul style="list-style-type: none">— tighter labor supply on migration curbs and ageing: wage/inflation persistence.
China's slowdown	<ul style="list-style-type: none">— structural growth deceleration, housing market crisis, deflation.
Climate change	<ul style="list-style-type: none">— extreme events: price spikes, output disruptions.— transition investment, adjustment costs.

China Economic Outlook

Content

1

A number of domestic headwinds, namely housing market crash, sector overcapacity, weak consumption/sentiments have dragged on growth and led to a deflationary environment in 2025. Better-than-expected exports have somewhat tempered these headwinds, enabling the growth in 2025 to meet the authorities' preset 5% target at the cost of deteriorating economic imbalances.

2

Some green shoots of reflation emerged at the beginning of 2026 amid the rising global commodity prices due to the Middle-East war, despite that most of growth headwinds remain intact. The improvement inflation is due to both the authorities' beefed-up efforts to addressing overcapacities in "anti-revolution" campaign and escalating prices of global commodities. That means, the demand side still toils in its way to approach a new equilibrium.

3

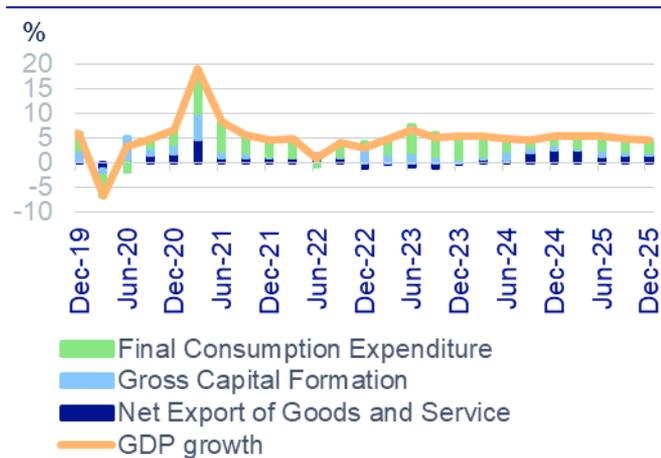
The 15th Five-Year Plan (2026-2030) authorized in March "two sessions" recently sketched the blueprint of the economic and social development of the next five years aiming to achieve "socialist modernization" in 2035; and the 2025 December Central Economic Work Conference confirmed the authorities' pro-growth stance but still emphasized the supply side such as high-end manufacturing and national security. We maintain our 2026 GDP forecast at 4.5% and 2027 at 4.2% as the authorities' 2026 growth target is 4.5-5%, suggesting they are more tolerant for a lower figure but more sustainable and high-quality growth.

4

The impact of the ongoing Middle-East war on China should be limited and we expect the risk scenario should only last for one-year horizon but not for the following years as Chinese economy is dominated by domestic factors, although we cannot exclude the imported inflation particularly on rising commodity prices. China-US confrontations have been eased, partially due to four rounds negotiations in 2025 and a series of planned Trump-Xi meetings in 2026, but not fully contained. Japan's strengthened anti-China stance and the US potential arm sales to Taiwan might re-escalate tensions between China and the US again.

2025 GDP reached 5% y/y, in line with the authorities' target

2025 GDP HAS BEEN SUPPORTED BY CONSUMPTION AND EXPORTS



Forecast	2026Q1	2026Q2	2026Q3	2026Q4
Y/Y%	3.9	5.3	4.3	4.5
Q/Q% (HAVER SA)	1.7	0.5	0.9	1.6

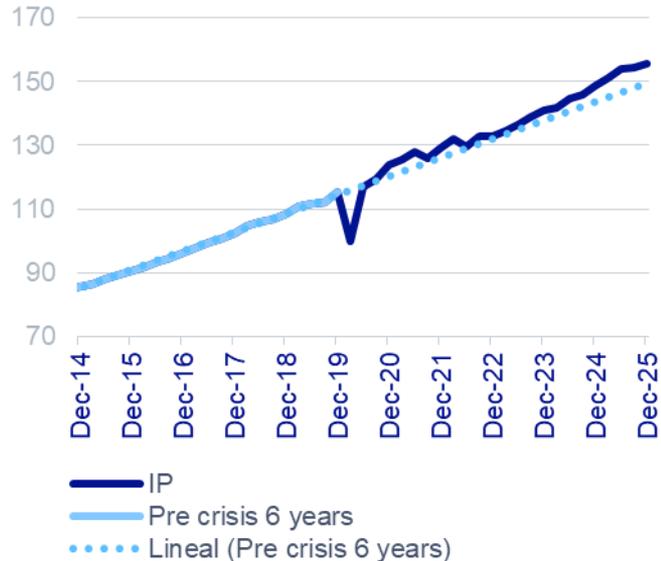
WE MAINTAIN OUR 2026 GDP FORECAST AT 4.5%, AND 2027 AT 4.2%; THE TARGET GROWTH IS 4.5-5%

%	Target growth figure	Actual growth
2020	No specific number	2.2
2021	6	8.1
2022	5.5	3
2023	5	5.2
2024	5	5
2025	5	5
2026	5	N/A

However, imbalance remains: strong supply, weak demand (1)

INDUSTRIAL PRODUCTION TREND IS HIGHER THAN PRE-PANDEMIC TREND...

IP SA 2020 Q1=100



Catching-up industries

1. AI;
2. Chipmaking;
3. Defense industry



Leading industries

1. High-end manufacturing;
2. EVs;
3. Renewable energy (wind, solar electricity generation);
4. Shipbuilding

Imbalance remains: strong supply, weak demand (2)

THE RECENT INVESTMENT TREND IS DECELERATING FAST...

FAI SA 2020 Q1=100



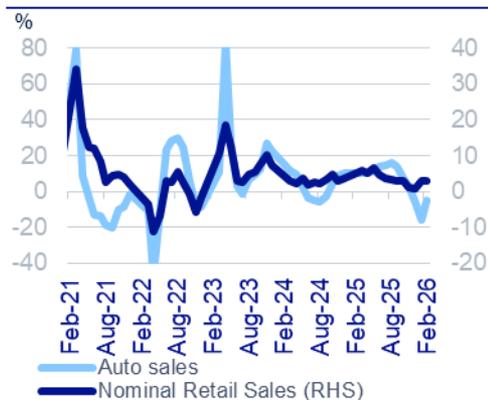
RETAIL SALES TREND IS SIGNIFICANTLY LOWER THAN PRE-PANDEMIC

Real retail sales SA 2020 Q1=100

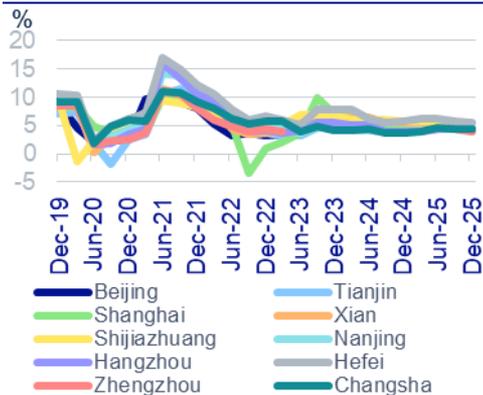


Retail sales weighed on by weak income expectation and high youth unemployment

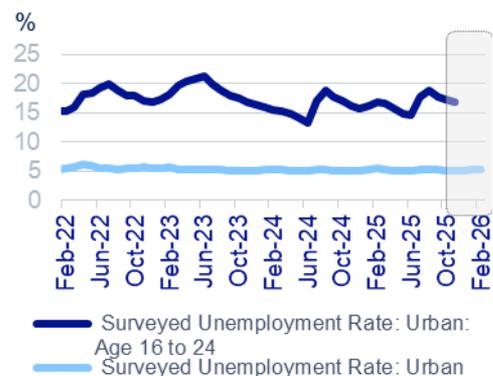
RETAIL SALES PICKED UP MILDLY IN JAN-FEB 2026



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



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

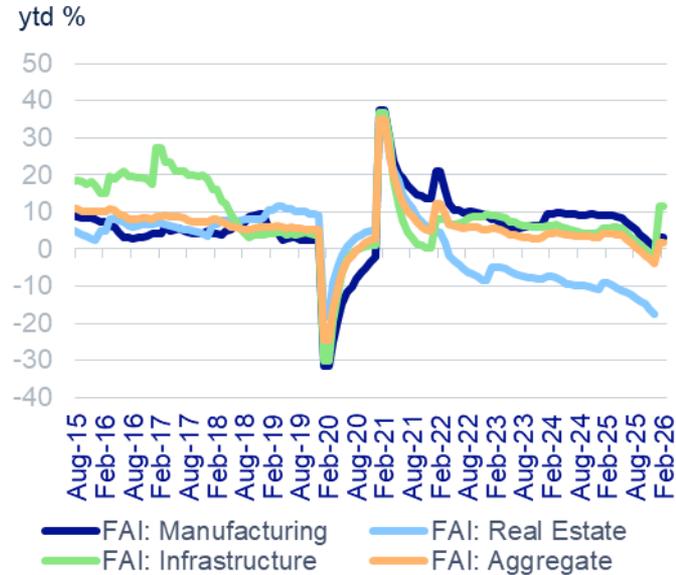


Source: BBVA Research and NBS

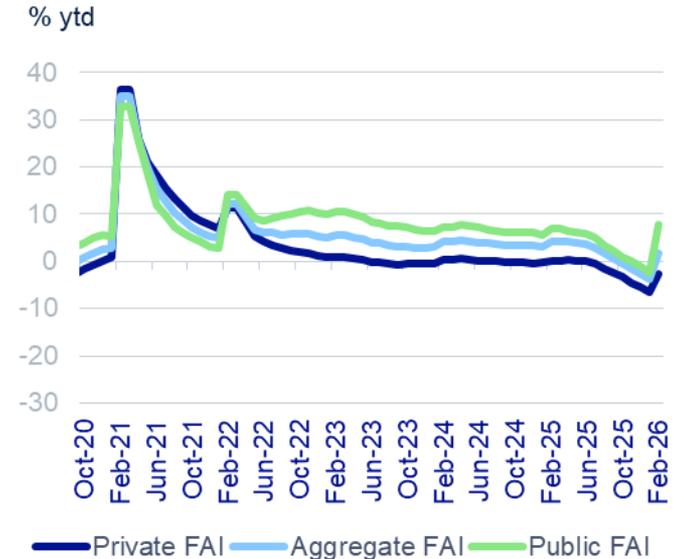
The authorities issued RMB 250 billion long-term government bond in 2026 (2025: RMB 300 bn) to support consumption by “large-scale equipment renewal and trade-in old consumer goods and “national subsidies” to stimulate retail sales. The effect may gradually fade as the program runs out.

Fixed asset investment improved in Jan-Feb

FAI IMPROVED AND TURNED TO POSITIVE GROWTH IN JAN-FEB DUE TO THE SUPPORTING EASING POLICY

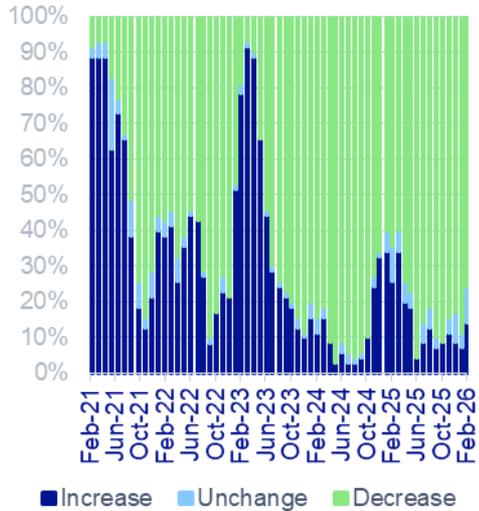


ALTHOUGH PUBLIC FAI STILL DOMINATES PRIVATE FAI



All housing indicators remained lackluster and dropped dramatically compared with 2021 “regulatory storm”

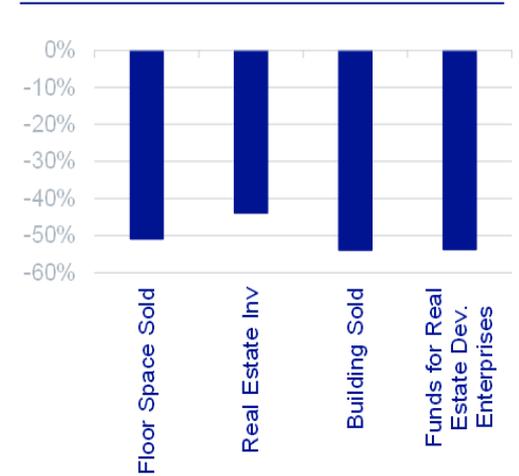
AROUND 90% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY



FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE

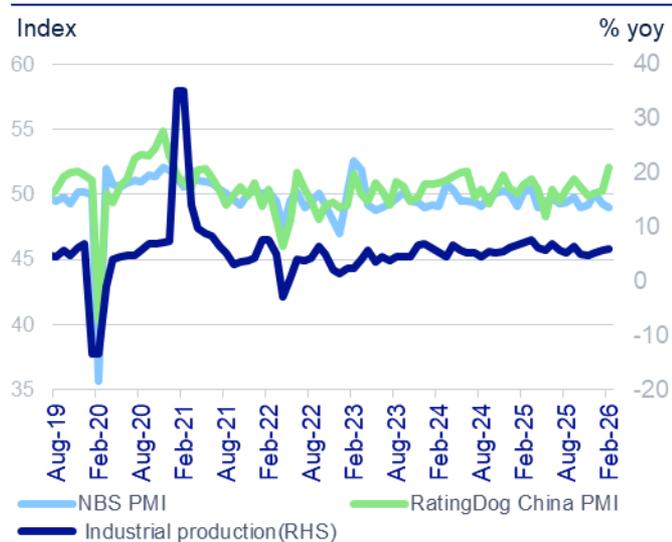


2025 HOUSING INDICATORS COMPARED WITH 2021 (% CHANGE)



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

FEB NBS PMI DECREASED TO 49 DUE TO LUNAR NEW YEAR; JAN-FEB INDUSTRIAL PRODUCTION ACCELERATED TO 6.3% FROM 5.2%

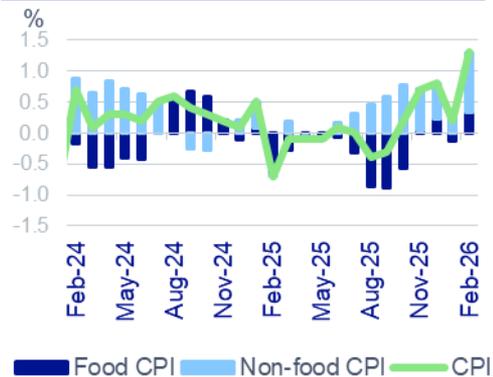


What is the “Anti-involution” campaign?

- 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. In January 2026, the authorities announced the **export tax refund** of photovoltaic products (249 items) will be reduced from 9% to 0%; refund of lithium battery will also be reduced from 9% to 6% (April-Dec 2026) and to 0% from 2027.
- iv. 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.

Reflation narratives have emerged amid the Middle-East war, with green shoots in PPI and CPI

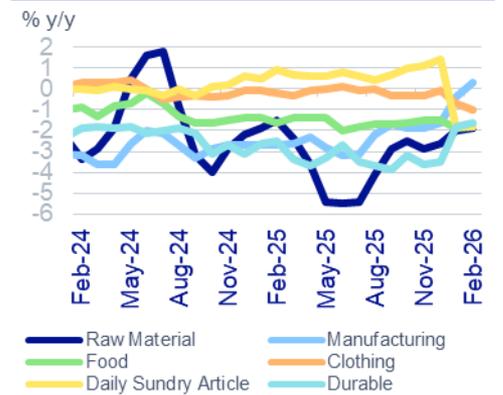
CPI IMPROVED TO 1.3% IN FEB FROM 0.2% IN THE PREVIOUS MONTH



PPI HAS SYNCHRONIZED WITH UPBEATING GLOBAL COMMODITY PRICE



SOME PPI SECTORS (CONSUMER GOODS) HAVE ALREADY PICKED UP OR SHRANK THEIR DECLINE

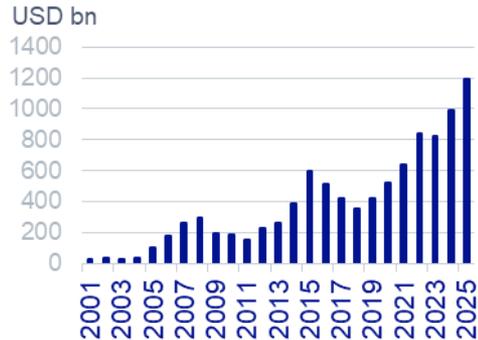


Source: BBVA Research and NBS

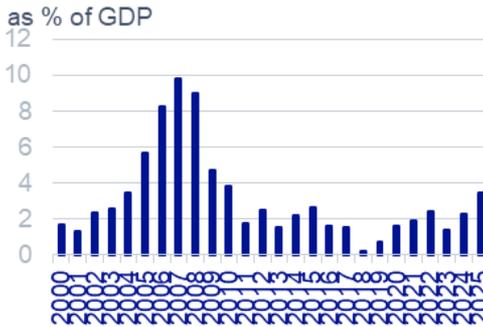
1. Green shoots in PPI is due to both “anti-involution campaign” for deleveraging and increasing global commodity prices.
2. The reflation could be more visible if global oil price rises.
3. Absent further demand stimulus, the pass-through from PPI to CPI might not be difficult and painful.
4. What’s the global impact of China reflation?

Understanding China's expanding trade surplus puzzle: (1) Why exports was so strong in 2025 amid tariff war with the US?

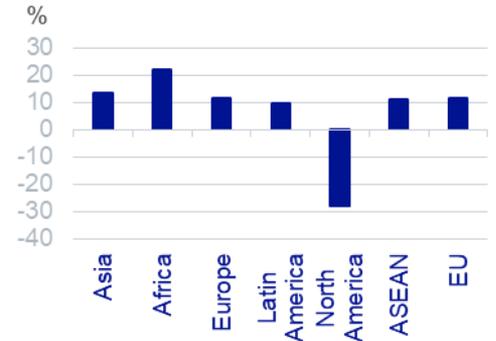
TRADE BALANCE HAS BEEN SURPRISINGLY HIGH IN 2025 AMID TARIFF WAR...



...SO DID THE CURRENT ACCOUNT TO GDP RATIO



CHINA'S EXPORTS TO THE NON-US REGIONS WERE MUCH STRONGER THAN TO THE US

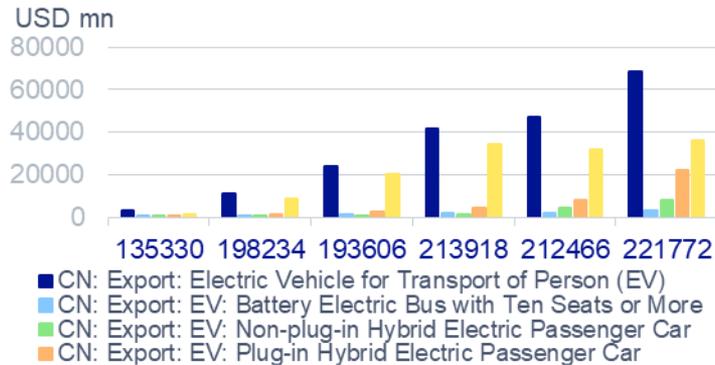


Source: NBS and BBVA Research.

- 1. Export country's substitution effect plays an important role to explain China's rising exports growth.**
- 2. Front-loading still played a role to support China's exports to the US during the trade war period, although we observed the whole-year exports to the US declined.**
- 3. China's overcapacity issue particularly in the green economy sector pushed these products to be exported to foreign countries as domestic market cannot consume all of them.**
- 4. Competitiveness of Made-in-China and the reconfiguration of global supply chains.**

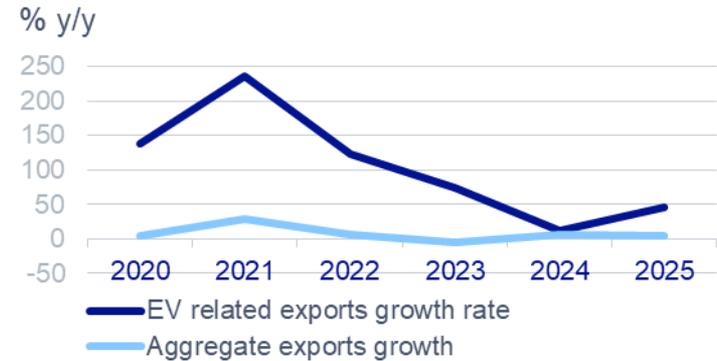
Understanding China's expanding trade surplus puzzle: (2) Why exports was so strong in 2025 amid tariff war with the US?

DUE TO OVERCAPACITY, EV AND RELATED BATTERY ELECTIC CAR EXPORTS HAVE REACHED HISTORICAL HIGH IN 2025



Source: NBS and BBVA Research.

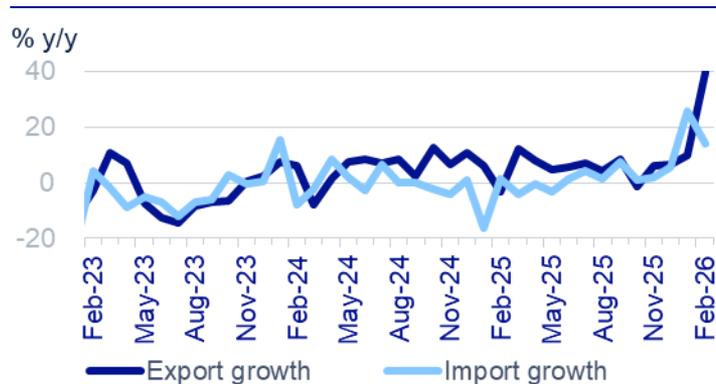
...EV RELATED GROWTH RATE HAS BEEN SIGNIFICANTLY HIGHER THAN THAT OF THE AGGREGATE EXPORT GROWTH



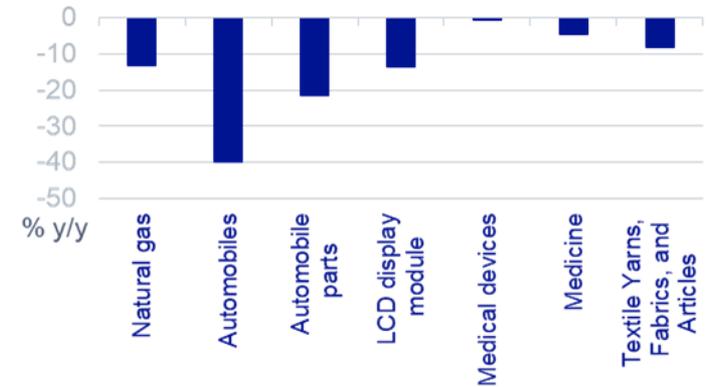
1. Export country's substitution effect plays an important role to explain China's rising exports growth.
2. front-loading still played a role to support China's exports to the US during the trade war period, although we observed the whole-year exports to the US declined.
3. China's overcapacity issue particularly in the green economy sector pushed these products to be exported to foreign countries as domestic market cannot consume all of them.
4. Competitiveness of Made-in-China and the reconfiguration of global supply chains.

Understanding China's expanding trade surplus puzzle: (3) Why imports was so weak in 2025?

IMPORTS GROWTH HAS BEEN SIGNIFICANTLY LOWER THAN EXPORTS



IMPORTS SUBSTITUTION EFFECT INDICATES CHINA STARTED TO PRODUCE TECH INTERMEDIATE GOODS DUE TO US SANCTIONS

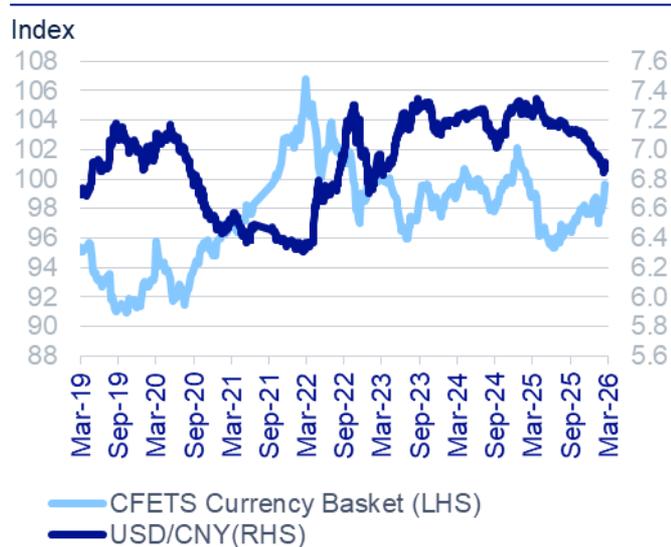


Source: NBS and BBVA Research.

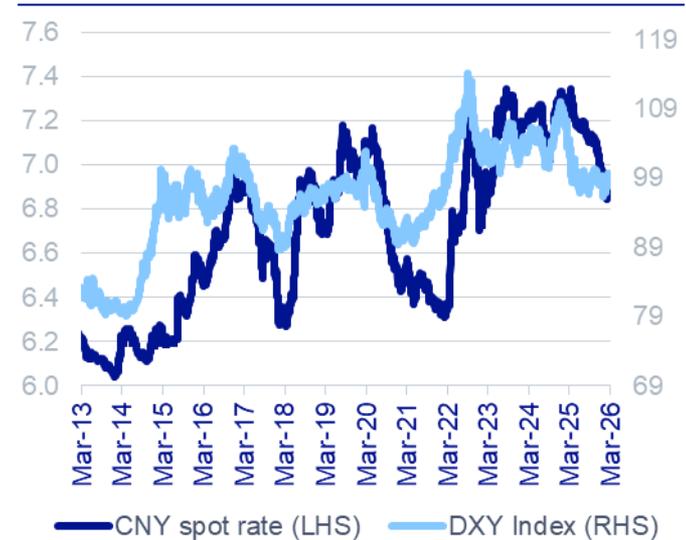
1. Weak domestic demand and sluggish market sentiments are the main reason for weak imports growth in 2025.
2. Imports substitution effect also plays an important role to explain weak imports

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

RMB APPRECIATED TO 6.87 NOW FROM 7.27 ON APRIL 2 (RECIPROCAL TARIFF)

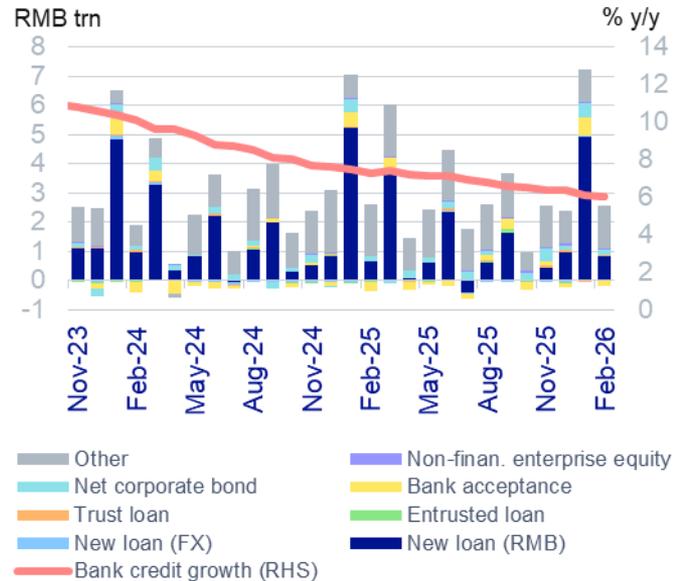


THE MIRROR EFFECT OF RMB EXCHANGE RATE AND USD DXY PERSISTS

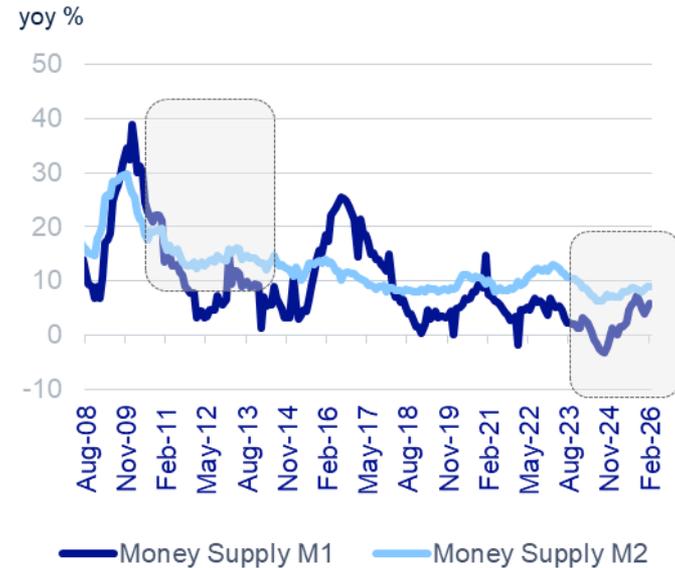


China's credit figures have slowed amid lackluster demand

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

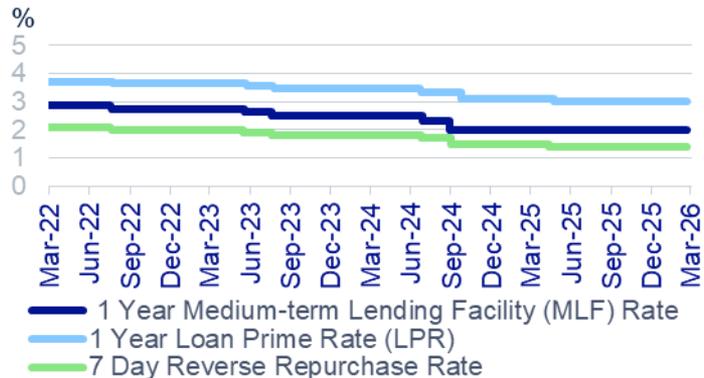


...SO DID THE M2 GROWTH DIPPING TO HISTORICAL LOW

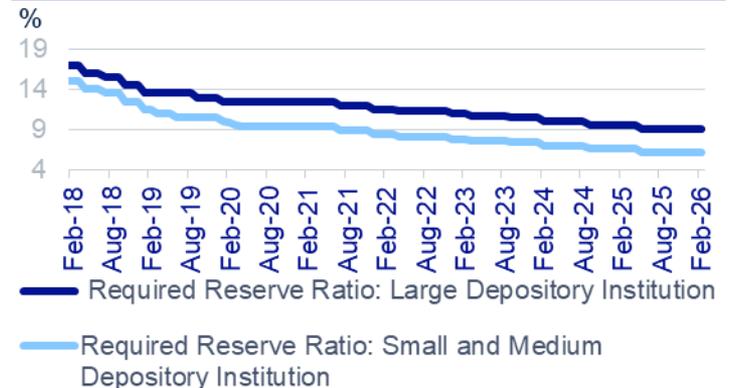


Monetary policy: lukewarm if not disappointing; only structural rate cut but not universal cut

THE PBOC HAS MADE THE POLICY RATE ON HOLD DURING FED'S RATE CUTS RECENTLY, AMID POSSIBLE RISING INFLATION



WE EXPECT 2 RRR CUTS IN 2026

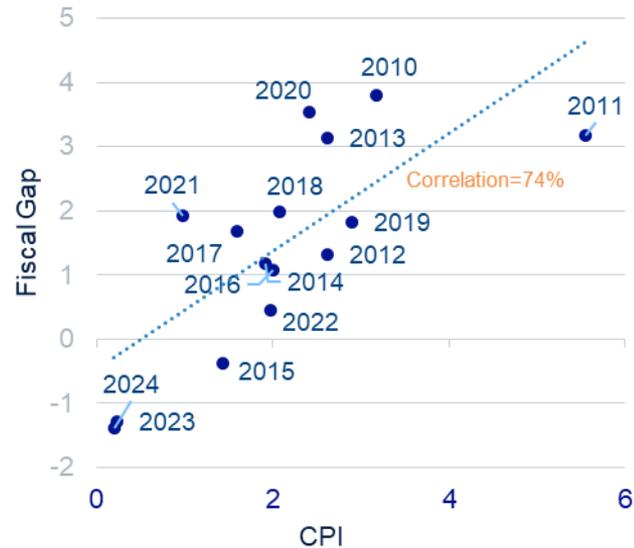


Source: BBVA Research and NBS

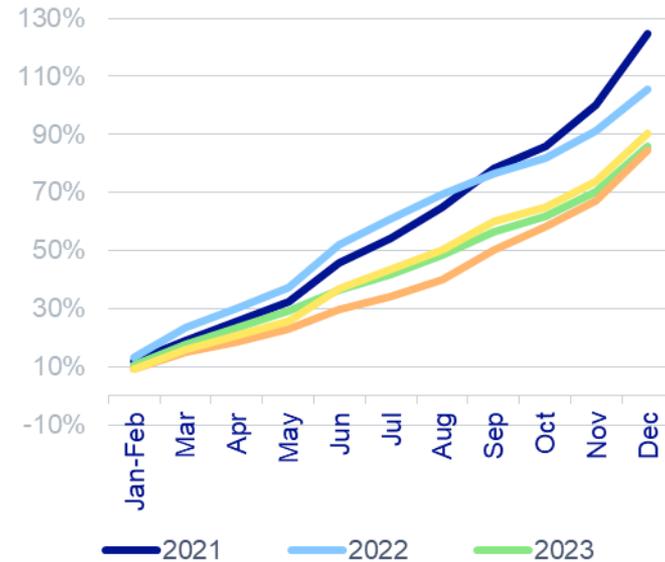
On Jan 15, the PBoC announced to cut 25 bps for re-lending and refinance rate (the central bank lends to commercial banks), so that when commercial banks get the cheaper money from the central bank, they should lend to sectors of SMEs, technology innovation, green transformation, etc.

Fiscal policy in 2025: falling short of expectations

THE HIGH CORRELATION BETWEEN GOVERNMENT FUND EXPENDITURE GAP AND CPI



THE PROGRESS ONLY COUNTS FOR 80-90% OF BUDGETED EXPENDITURE (12.5 TRN RMB) IN 2025



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

On 2025 October 20, the 4th plenum of 20th Chinese Communist Party's Central Committee outlined the 15th Five-Year Plan for 2026-2030. The final version will be released at National People's Congress in March 2026:



1. Chinese authorities continued to plan 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. 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 December Central Economic Work Conference

The recently held Central Economic Work Conference on December 10-11 2025 scratched the blueprint for 2026 economic policy. The conference emphasized 8 important perspectives of economic work in 2026, including:

1

To construct a large domestic market and insist on domestic demand-driven;

2

To promote new growth energy and innovation;

3

To insist structural reforms to promote high-quality growth;

4

To continue opening-up policy, and to promote international cooperations in various fields;

5

To promote urban-rural integration and regional collaboration;

6

To push forward a comprehensive green economy transformation;

7

To prioritize people's well-being and strive to do more practical things for the people;

8

To actively and steadily resolve risks in key areas, such as real estate, overcapacity sectors etc.

Policy: can a great script turn into a lousy movie?



The authorities seems to know the righth answers in response to currently economic downturns.

Strategic

- Expanding domestic market as primary goal (the 15th 5-year plan).
- More proactive macro policy (the 15th 5-year plan).

Tactical

- Stabilization of fiscal deficit, debt level as well as aggregate spending.
- Increasing Residents' Income.



Detailed Policy Initiatives

- Extending and Optimizing the existing stimulus policy (durable consumer goods trade-in program, birth subsidy, social welfare network).
- More Investment projects.
- Housing market policy ("Draghi moment"?).
- Anti-involution (cut in export rebate in overcapacity sector).
- Monetary Policy (more targeted easing for SMEs, green economy, agriculture, tech innovation).



Caveats:

- Setting of important fiscal indicators at "two sessions" in March.
- Execution is key to the success of a sensible plan.
- "Making a sensation" might help in changing deflationary expectations (although it could bear the risk of irrational exuberance).

The main takeaways for 2026 “two sessions”



	2025 Target	2025 Actual	2026 Target
GDP	Around 5%	5%	4.5-5%
CPI	2%	0.05%	2%
M2	In line w/ nominal GDP growth	8%	In line w/ nominal GDP growth
Total social financing	In line w/ nominal GDP growth	10.4%	In line w/ nominal GDP growth
Fiscal Deficit	-4%	-4%	-4%
Long-term Special Government Bond	RMB 1.3 trillion	RMB 1.3 trillion	RMB 1.3 trillion
Local Government Special Bond	RMB 4.4 trillion	RMB 6.5 trillion (till Oct.)	RMB 4.4 trillion
Survey unemployment rate	5.5%	5.2%	5.5%

The impact of Middle-East war on Chinese economy is limited

- i. We expect the impact on Chinese growth and inflation to be limited under the risk scenario: GDP might be 0.3% lower in 2026 while inflation is 0.2 - 0.3% higher. That means, under the risk scenario, GDP growth in 2026 will be revised down to 4.2% and inflation will be revised up to 1.2%. We don't think the impact will affect China's GDP growth and inflation beyond a one-year horizon, thus, we keep 2027 and the following years' figures unchanged.
- ii. The Middle-East conflict is expected to have a limited impact on China's domestic energy prices. Estimates suggest that the blockage of the Strait of Hormuz will affect 40–50% of China's oil imports, or around 10% of China's total energy consumption. However, China has a price adjustment mechanism for domestic petroleum prices, which only reacts to oil price fluctuations when it is between 40 USD/barrel and 130 USD/barrel. Moreover, China has crude oil reserves for the usage of longer than 100 days.
- iii. Regarding monetary policy under the risk scenario, since the US team forecasts that US FED will not cut rates in 2026, we also predict there will be no rate cut in 2026 and 2027. That means, the one-year LPR will remain at 3% in 2026 and afterwards, while the 7-day reverse repo which is the newly announced policy rate will maintain at 1.4%. We expect a weaker RMB to USD under the risk scenario to be 6.9 at end-2026, compared to our forecast 6.7 at end-2026 in the baseline scenario.

CHINA'S ENERGY CONSUMPTION: BY CATEGORY

Total Energy Consumption	48,477 TWH (2024)
Coal	52.81%
Crude Oil	18.50%
Gas	8.96%
Hydropower	6.81%
Wind	5.02%
Solar	4.22%
Nuclear	2.27%
Other	1.34%

Forecast:

China's main economic indicators: Baseline scenario

	Baseline scenario							
	2020	2021	2022	2023	2024	2025	2026 (F)	2027(F)
GDP (%)	2.3	8.1	3	5.2	5.0	5.0	4.5	4.2
CPI (%)	2.6	0.9	2	0.2	0.24	0.05	1.1 ↑	1.4 ↑
PPI (%)	-1.8	8.1	4.2	-3	-2.2	-2.7	-0.7	1
Interest rate (LPR, %)	3.85	3.8	3.6	3.45	3.1	3	2.75 ↑	2.75 ↑
7-day reverse repo	2.2	2.2	2	1.8	1.5	1.4	1.2 ↑	1.2 ↑
RMB/USD exchange rate	6.5	6.36	6.9	7.1	7.3	7	6.7 ↑	6.6 ↑

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