

June 2026

China Economic Outlook

Global Economic Outlook

Main messages

Global economic activity remains resilient



despite higher inflation and some (limited) financial tightening stemming from the conflict in Iran, which has been lasting more than initially anticipated. The ongoing AI boom and other tailwinds continue to sustain global growth.

Growth will be weaker than previously forecast, particularly in Europe.



However, a sharp slowdown will likely be avoided, assuming energy prices moderate from 2H26 and severe energy supply disruptions do not trigger non-linear effects.

Inflation will be higher than expected, above 3% in both the US and Europe in 2H26.



Still, absent second-round effects, it should moderate in 2027. The Fed is likely to keep rates unchanged until at least mid-2027, while the ECB is expected to adjust rates slightly upward going forward

Risks are large and tilted to the downside.

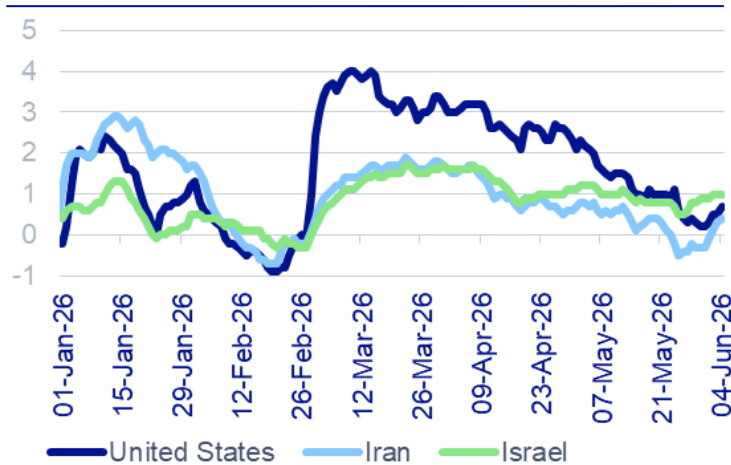


Oil reserve withdrawals have so far cushioned demand, but this buffer is temporary and vulnerabilities will increase if the conflict persists. Beyond geopolitics, potential risks also stem from AI, US policies, and sovereign debt markets, among others.

The US-Iran conflict keeps energy prices high and volatile, despite post-ceasefire easing and hopes for a deal

GEOPOLITICAL RISK INDEX

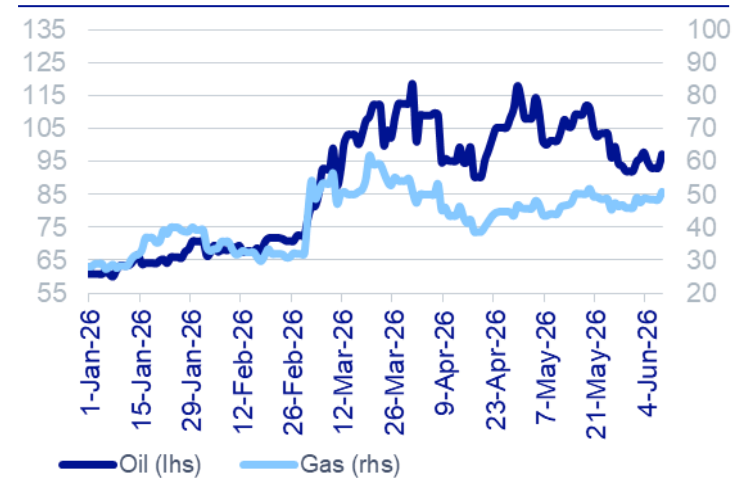
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT AND EUROPEAN GAS PRICES

(USD PER BRENT BARREL; EUROS PER MWh)

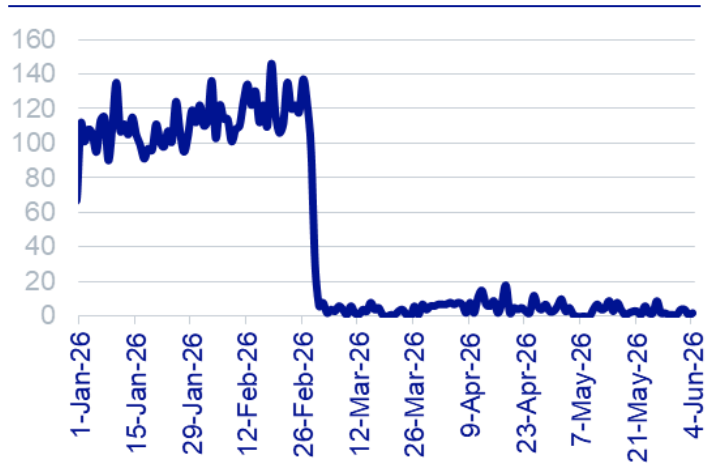


Source: BBVA Research based on data from Haver

While a deal to end the US–Iran conflict may be within reach, the situation remains highly complex and uncertain, with non-negligible risks of more persistent tensions

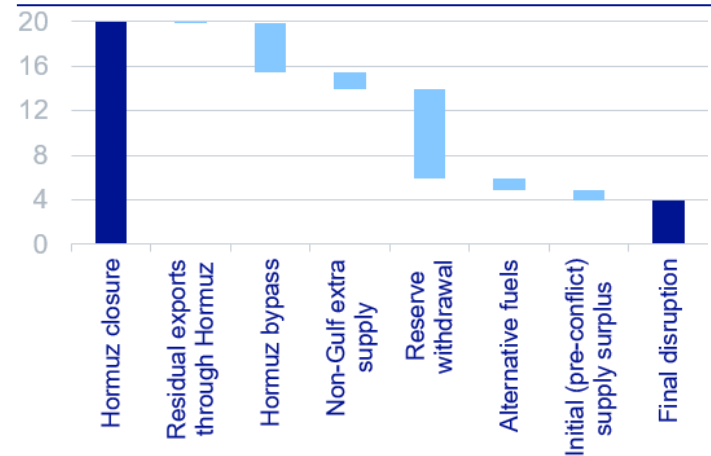
Factors offsetting oil disruptions are insufficient and temporary; a prolonged war poses large, non-linear risks

TRANSIT THROUGH STRAIT OF HORMUZ
(NUMBER OF VESSELS)



Source: BBVA Research based on data from Haver

SHORT-TERM OIL MARKET BALANCE
UNDER A STRAIT OF HORMUZ CLOSURE
(MILLION BARRELS A DAY)



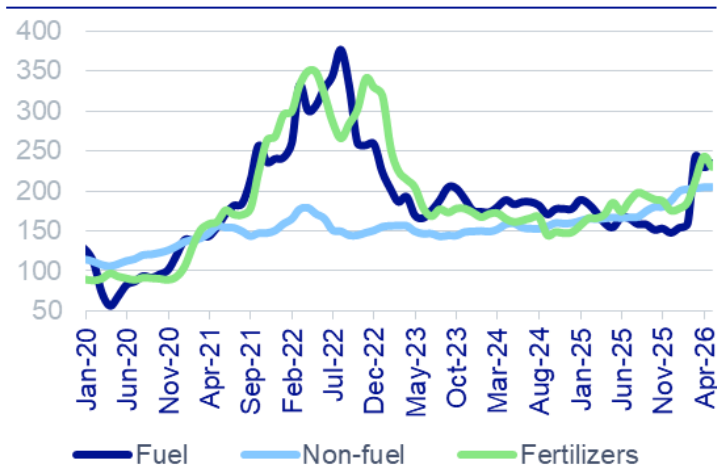
Source: BBVA Research

With the Strait of Hormuz practically closed, countries have been relying on reserve withdrawals to avoid sharper demand adjustments, but concerns are that inventories may be depleted over the next few months

Beyond oil and gas prices, the Iran conflict is affecting some non-energy inputs and stressing supply chains

COMMODITY PRICES

(SPOT PRICES, INDEXES: 2016=100)



Source: BBVA Research based on data from IMF

GLOBAL SUPPLY CHAIN PRESSURE INDEX

(STANDARD DEVIATIONS FROM AVERAGE VALUE)



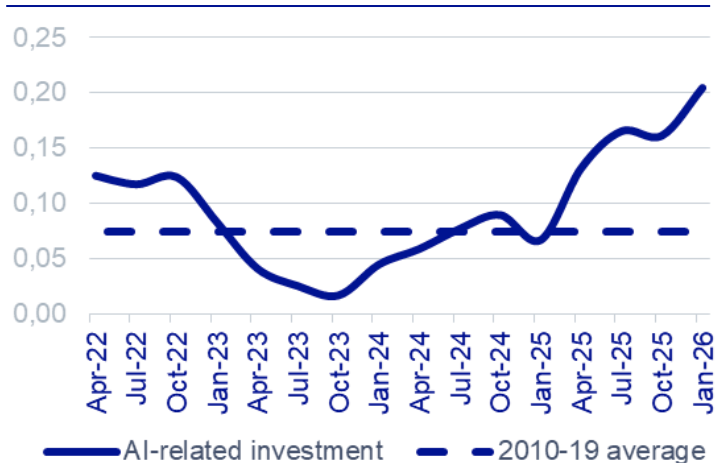
Source: BBVA Research based on data from the NY Fed

Fuel and fertilizer prices have risen more than after Russia's invasion of Ukraine in 2022, adding pressure on other input prices and disrupting supply chains; however, commodity prices and bottleneck pressures remain generally below levels seen four years ago; lower oil-use intensity helps mitigate the shock impact

Despite the Iran conflict, growth and market sentiment are being sustained by the AI boom and other tailwinds

US: AI-RELATED INVESTMENT (*)

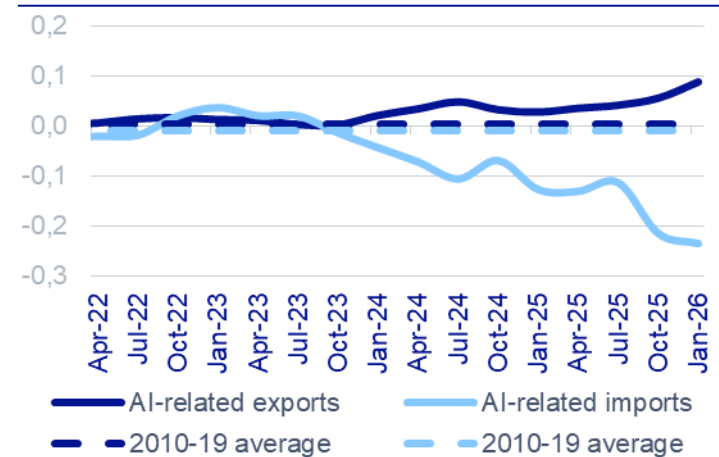
(CONTRIBUTION TO QUARTERLY GDP GROWTH;
FOUR-QUARTERS MOVING AVERAGE: PP)



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

US: AI-RELATED EXPORTS AND IMPORTS (*)

(CONTRIBUTION TO QUARTERLY GDP GROWTH;
FOUR-QUARTERS MOVING AVERAGE: PP)

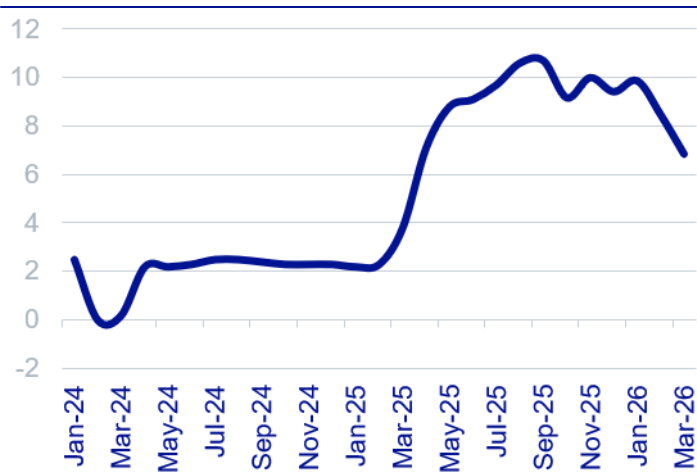


(*) AI-related exports (imports) defined as exports (imports) of computer, peripherals and parts and of telecommunications, computer, and information services.
Source: BBVA Research based on data from US Census Bureau

AI is boosting economic activity through investment, trade and consumption (due to wealth effects), mainly in the US; other tailwinds include fiscal stimuli (reinforced by recent mitigatory measures), defense spending, robust labor markets, sound private balance sheets, and demand for green products

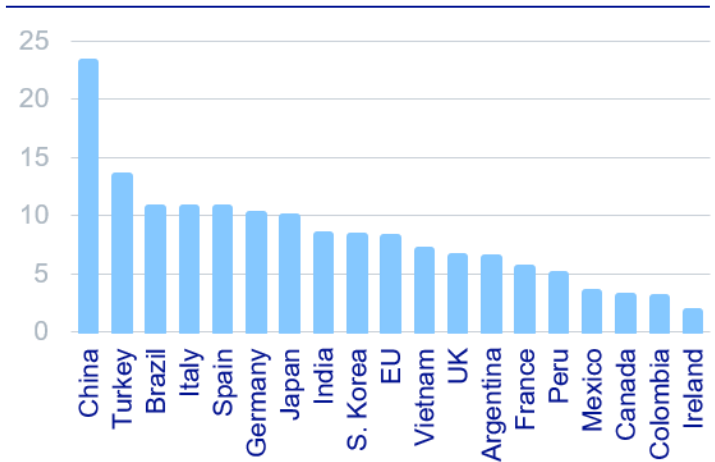
US tariffs have been declining, but recent developments indicate new protectionism measures are likely ahead

US EFFECTIVE TARIFF (PP)



Source: BBVA Research based on data from the USITC

US EFFECTIVE TARIFF: MARCH, 2026 (PP)



Source: BBVA Research based on data from the USITC

The US government has signaled it may raise tariffs on EU automobiles by 10pp to 25% and has indicated that new tariffs of at least 10%, under Section 301 of the Trade Act of 1974, could replace the temporary 10% universal levies announced after the legal suspension of reciprocal and fentanyl tariffs

Growth was weaker than expected in 1Q26, with stagnation in the Eurozone and more resilience in the US and China

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

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

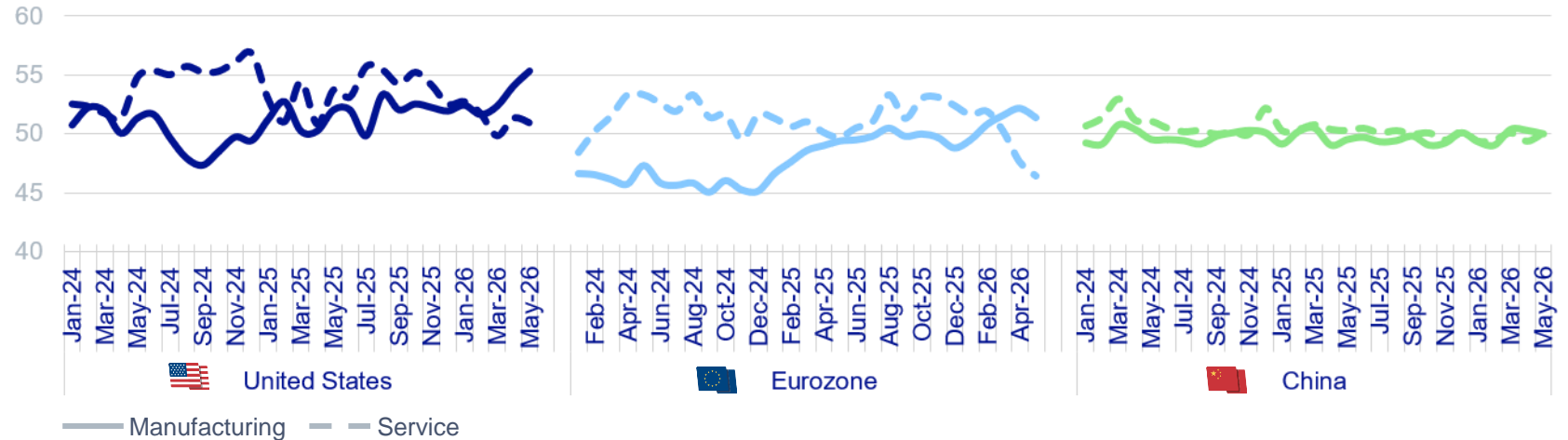


Source: BBVA Research based on data from Haver

Consumption moderation and weak net exports weighed on US and Eurozone growth in 1Q26, with AI-driven investment providing support in the former; in China, domestic demand remains constrained by the housing market adjustment, although exports continue to provide support

High-frequency data point to an impact of Iran tensions on activity, particularly in services and in Europe

PMI INDICATORS (HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)

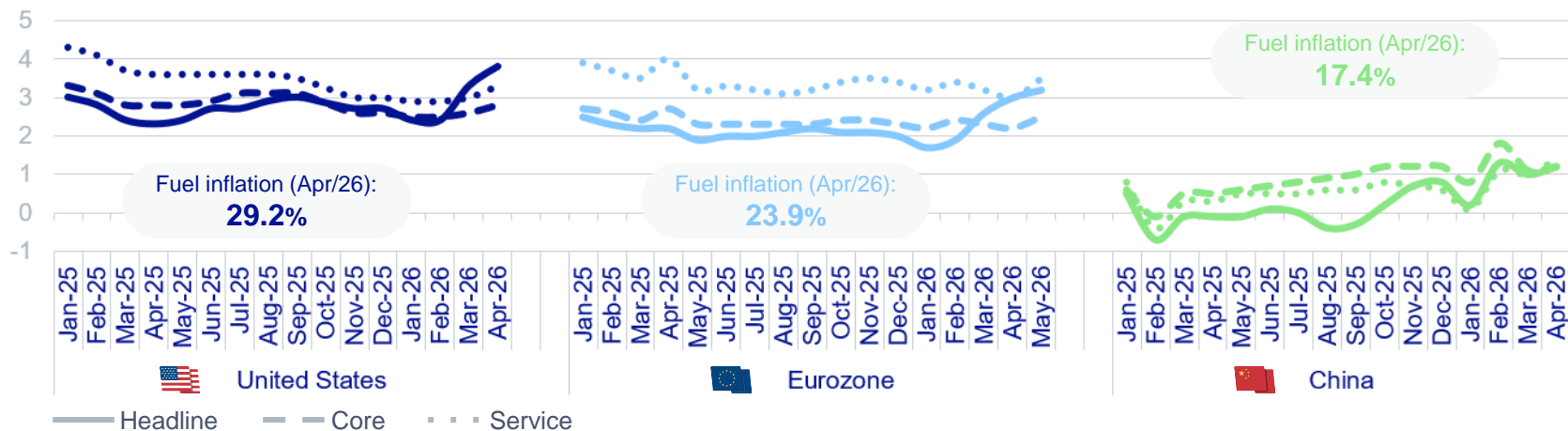


Source: BBVA Research based on data from Haver

Manufacturing continues to improve, possibly reflecting the AI adoption boom; labor market data point to resilience, and even some improvement in the US, while soft indicators are increasingly concerning in Europe

Inflation has accelerated after the recent surge in energy prices, with no clear second-round effects, so far

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

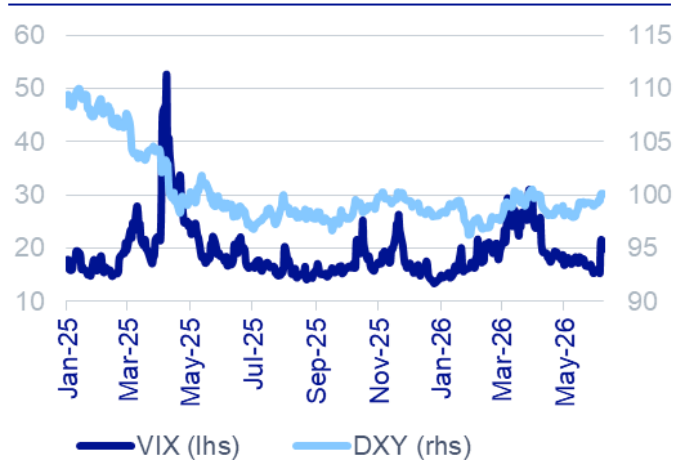


Source: BBVA Research based on data from Haver

Core inflation has increased slightly since tensions in Iran began; wages continue to grow significantly less than in previous years, despite some persistence; short-term inflation expectations have risen lately, but long-term expectations remain broadly anchored

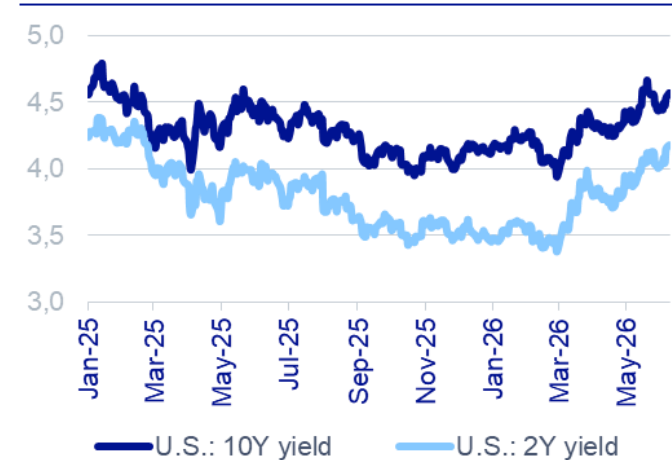
Market sentiment remains benign, but sovereign yields continue to trend up on inflation and fiscal concerns

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



Source: BBVA Research based on data from Haver

US SOVEREIGN YIELDS
(%)

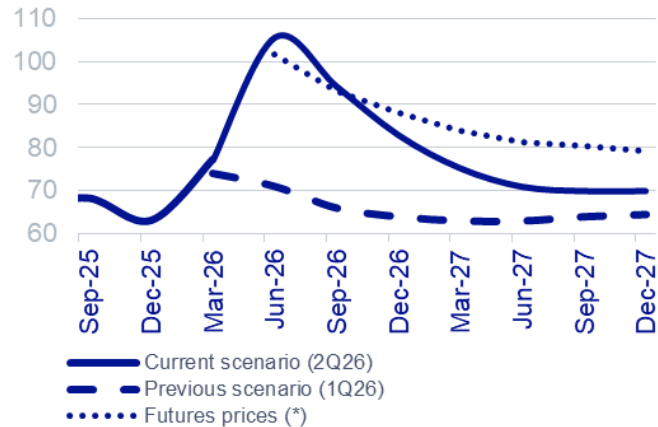


Source: BBVA Research based on data from Haver

Markets are now pricing in a 25bp rate hike by the Fed and two additional rate hikes by the ECB this year

The baseline assumes a more adverse and prolonged but non-disruptive shock, with risks skewed to the downside

BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)



	2026 average	2027 average
2Q26 Baseline scenario	90	72
1Q26 Baseline scenario	69	64

- **More prolonged tensions than anticipated**, consistent with Hormuz reopening around mid-year.
- **Slow normalization of energy prices:**
 - geopolitical risk premium to remain in place.
 - affected production infrastructure.
 - slow logistical normalization.
 - strategic reserves rebuilding.
- **Some factors could favor low energy prices:**
 - UAE exit from OPEC risks spurring price war.
 - potential lifting of sanctions on Iran.
- **Higher prices of non-energy inputs and supply bottlenecks** add to the energy shock.

(*) As of the beginning of June 2026.
Source: BBVA Research based on data from Haver

Commodity prices are expected to remain higher than previously anticipated and above 2025 levels over 2026-27

COMMODITY PRICE FORECASTS, COMPARED TO PREVIOUS FORECASTS AND 2025 LEVELS
(%, ANNUAL AVERAGES)



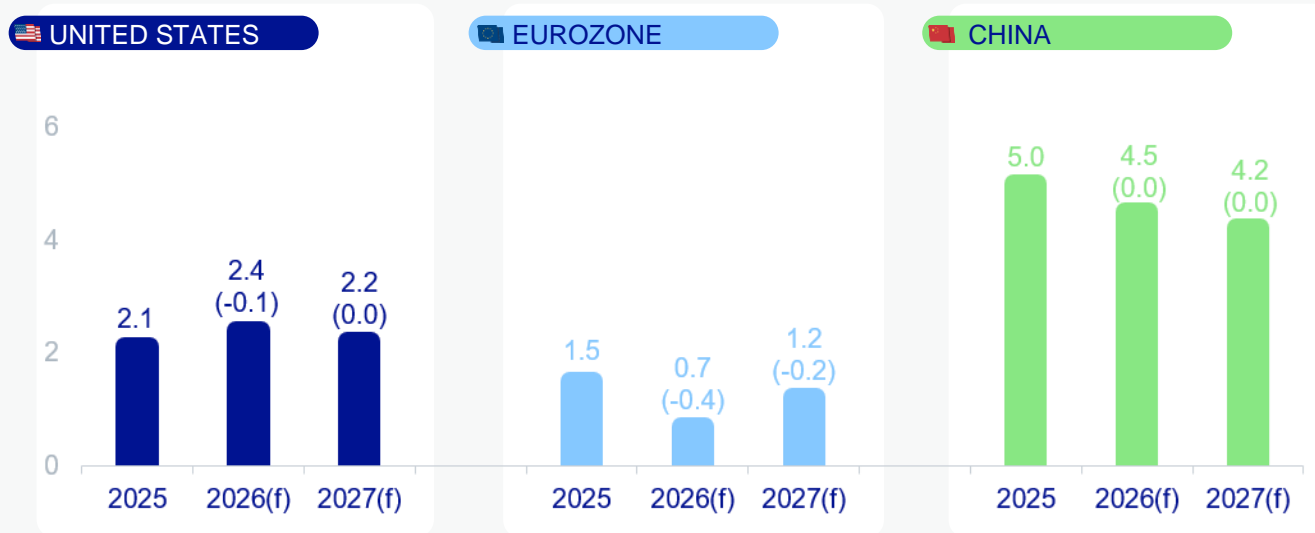
Source: BBVA Research

Higher energy prices tend to raise other commodity prices through higher production costs and demand for biofuels; in addition, the Hormuz closure also directly disrupts the global supply of fertilizers, sulfur, helium, and other critical inputs, further increasing food and metal prices

Growth will stay firm in the US and China but weaker in the EZ; a sharp slowdown will be avoided if the war does not drag on

GDP GROWTH (*)

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



Weaker-than-expected 1Q26 data and a prolonged conflict lead to a slight downgrade of US growth and a larger cut to the Eurozone forecast; China's slowdown outlook remains unchanged despite strong exports and resilient activity

(*) After expanding by 3.5% in 2025, global GDP is forecast to grow by 3.1% in 2026 (0.1pp lower than the previous forecast) and by 3.3% in 2027 (unchanged from the previous forecast).

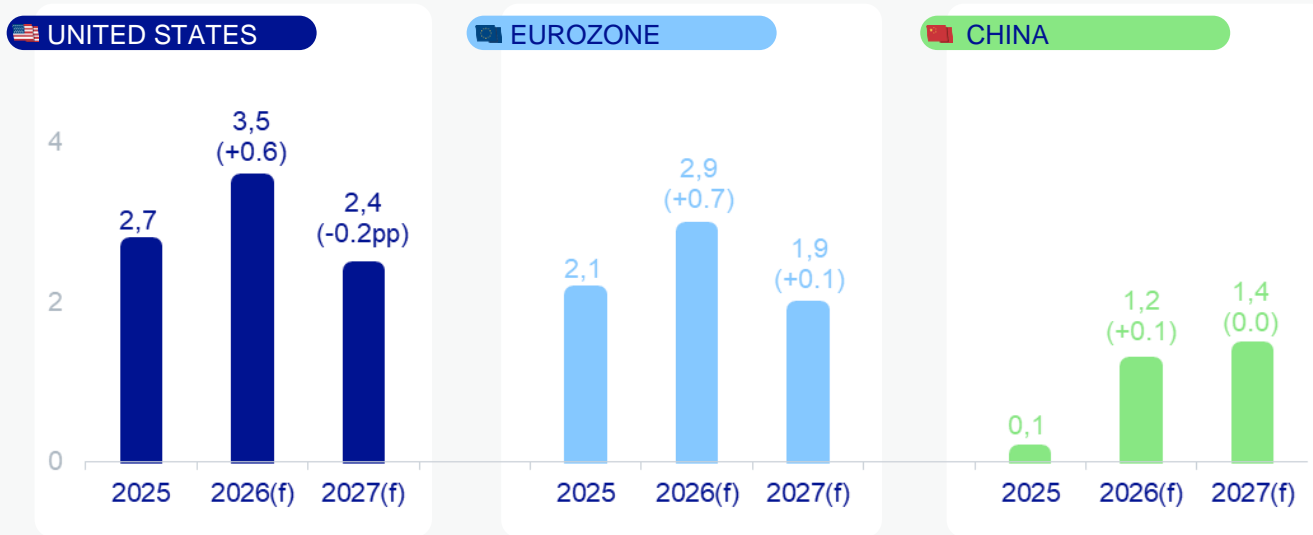
(f): forecast.

Source: BBVA Research

The 2026 inflation outlook has worsened sharply, but inflation should ease in 2027 absent widespread second-round effects

HEADLINE CPI INFLATION

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



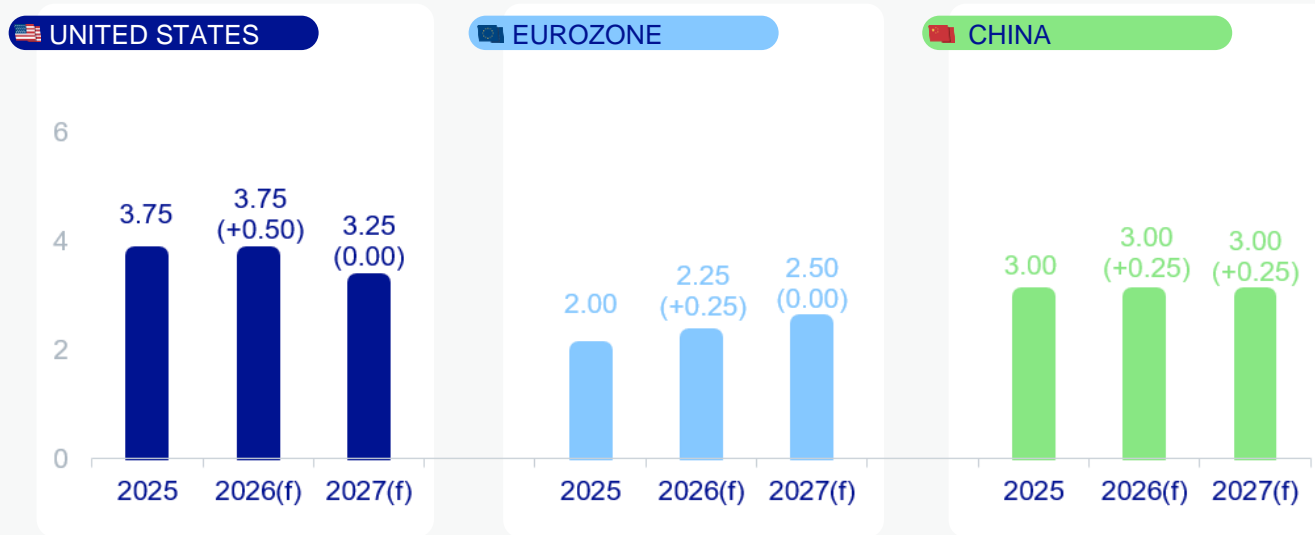
Inflation forecasts have been revised upwards in response to adverse incoming data and expectations of higher energy and food prices; with limited second-round effects, core inflation will be within 2% and 3% in the US and the EZ; upside risks if the Strait of Hormuz remains closed for an extended period

(f): forecast.
Source: BBVA Research

Inflation pressures make central banks more cautious, leading to higher-than-expected rates, mostly in 2026

POLICY INTEREST RATES (*)

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



Policy rates are now expected to remain unchanged until mid-2027 in the US and longer in China; the ECB, facing a sharper growth-inflation trade-off, is expected to bring forward a rate hike

(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research

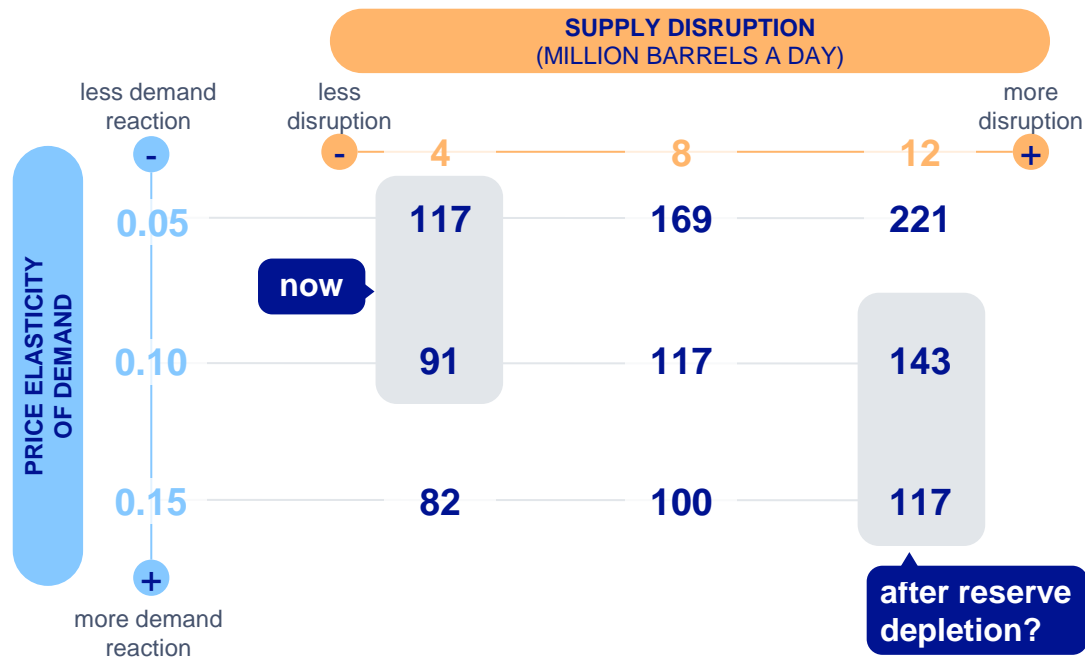
Risks

If the conflict persists, inventory depletion could push oil prices sharply higher and trigger non-linear effects

Risks go beyond geopolitics:

1. AI: two-sided,
2. US policies and institutions: Fed, tariffs, mid-term elections,
3. Financial stability: sovereign debt markets, private credit, equity correction, shadow banking;
4. China: structural slowdown, housing market, deflation;
5. Others: climate change, demographics

OIL PRICES WITH DIFFERENT COMBINATIONS OF SUPPLY DISRUPTIONS AND DEMAND PRICE ELASTICITY (*) (US DOLLARS PER BARREL)



(*) Based on an equilibrium oil price of \$65.
Source: BBVA Research

China Economic Outlook

Content

1

Chinese economy is domestic driven and Iran war' impact on China's economic growth and inflation has been limited compared with other Asian economies, although its influence started to emerge in April. (1) Economic activities during 2026 Q1 displayed strong resilience and inflation has been contained. (2) China has oil price cap mechanism based on fiscal subsidies and China's main energy consumption remains coal with rising share of new energy. (3) RMB is the only appreciation currency among all Asian currencies, which also helps to contain inflation.

2

Economic wise, "strong supply and weak demand" continue. From supply side, China is transferring from manufacturing factory to manufacturing power, and at the same time pushing forward "anti-involution" campaign to deleverage overcapacity sectors in new energy and real estate. From demand side, sluggish retail sales particularly car sales is due to fading effect of national subsidies, while weak FAI is mainly due to housing market crash and deleveraging campaign.

3

We maintain our 2026 GDP forecast at 4.5% which is in line with the authorities' 4.5-5% growth target announced in March "two sessions" and we also maintain 2027 GDP forecast at 4.2%. We raise our CPI forecast to 1.2% and PPI to 1.4% for 2026. We predict there will be no rate cut or RRR cut in the rest of the year amid the PBoC's "wait-and-see" attitude, similar to other main central banks.

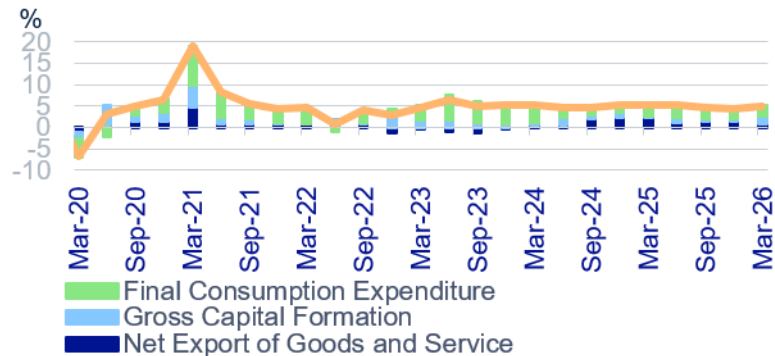
4

Geopolitical risks have eased, partially due to Trump's China visit. The main takeaways from Trump's visit include: (i) The two nations agreed to build a "constructive, strategic and stable" bilateral relationship as the guidance to lead the future relation; (ii) On Taiwan issue, the US agreed to maintain "One China" principle and does not support Taiwan independence; (iii) On bilateral trade and economic cooperation, the two nations agreed to establish China-US trade council and investment council and to promote bilateral trade under the framework of reducing bilateral tariffs; (iv) On Iran war and Russia-Ukraine war, China urged to cease fire as soon as possible and actively promote peace talks.

2026 Q1 economy shows resilience, but in April it drops;

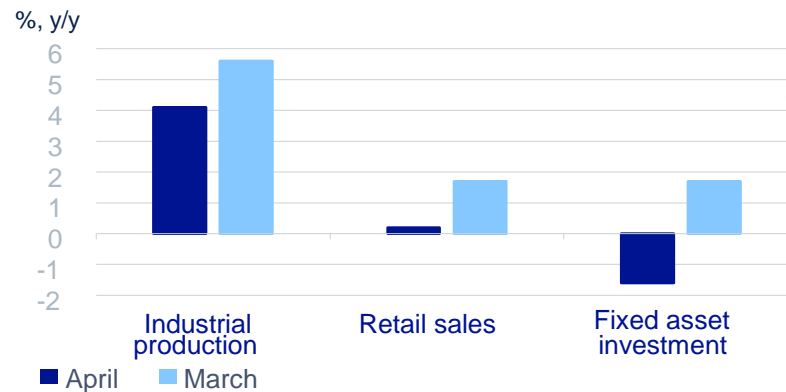
Chinese economy is domestic driven while Iran war's impact on China is limited compared with other Asian economies

2026Q1 GDP WAS SUPPORTED BY STRONG EXPORTS AND CONSUMPTION



Forecast	2026Q1	2026Q2	2026Q3	2026Q4
Y/Y%	5	4.9	4.0	4.2
Q/Q% (HAVER SA)	1.65	0.1	1	1.6

APRIL ECONOMIC INDICATORS DROPS SIGNIFICANTLY FROM Q1, GOING BACK TO END-2025 SITUATION



Source: NBS and BBVA Research.

China's Q1 GDP reached 5%, higher than the previous reading 4.5% and the market consensus 4.8%. We need more months' data to confirm the pattern this year as the past four months' data were volatile.

Iran war's impact on China is limited (1): understanding China's energy structure and price mechanism

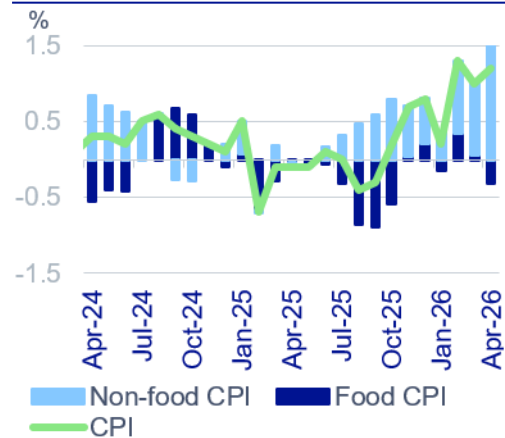
- **Coal still accounts for the dominant share** of consumed energy at 52%. Renewable energy—including Hydropower, Wind, Solar and Nuclear—jointly accounts for 18.3% and this ratio will rise to 25% by 2030 in which China promised to achieve carbon emissions peak.
- 76% of the crude oil China consumes is imported from other countries. Estimates suggest that Strait of Hormuz blockage will **affect 40–50% of China's oil imports**. If the war spills over to other Middle Eastern countries and disrupts their oil production, 62.5% of China's crude oil imports will be affected.
- China claims it has a deep **oil reserve** that could last 100 days.
- China has a **price adjustment mechanism** for domestic petroleum prices which has a floor of 40 USD/barrel and cap 130. Now even the price is below 130, China already started the price subsidies.
- China announced **to re-start the export of petroleum** starting from May 1 after the temporary pause after the war, proving China has sufficient petroleum and is not in an urgent situation as many Asian countries are.
- **Oil demand declines. China has a large market of EV and hybrid vehicles**, people are transferring from petrol car to EV when they see oil price going up, leading oil demand declining.
- **China has full supply chain domestically**. The supply chain disruption in Hormuz has limited impact on China's industrial supply chain.

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%

Iran war's impact on China is limited (2): rising inflation only in commodities, the pass-through effect is restricted

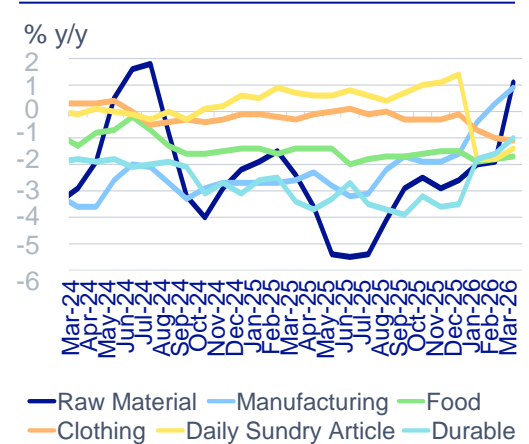
CPI PICKED UP TO 1.2% BUT MAINLY DUE TO NON-FOOD CPI



PPI INCREASED TO 2.8% SYNCHRONIZED WITH GLOBAL COMMODITY PRICE



PPI BY SECTORS: MANUFACTURING AND RAW MATERIALS TURNED POSITIVE



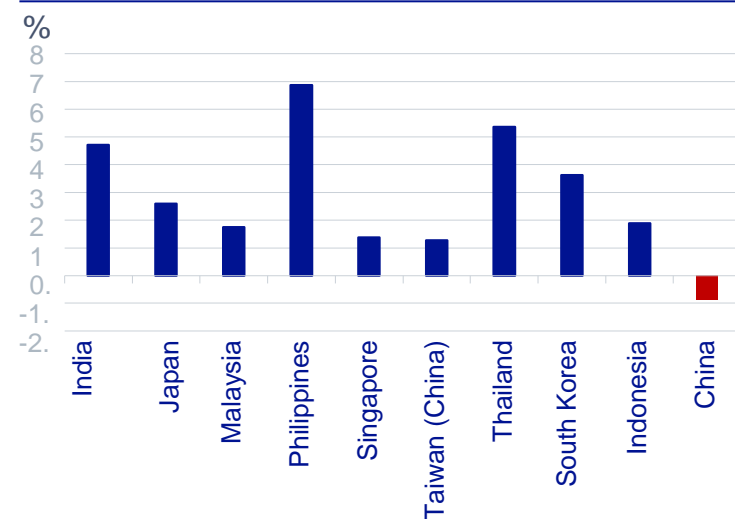
Source: BBVA Research and NBS

- Rising PPI is due to both “anti-involution campaign” for deleveraging over-capacity sectors and increasing global commodity prices.
- The pass-through from PPI to CPI might be limited due to China’s supply-demand mismatch and weak consumption sentiments domestically.

Iran war's impact on China is limited (3): RMB is the only appreciation currency in Asia; RMB appreciation also curbs inflation

- RMB is the only currency among all Asian currencies that **displayed appreciation** since the outbreak of Iran war.
- Since the US team forecasts that US FED will not cut rates in 2026, we predict there will be no rate cut in 2026 and 2027 in China.
- 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%.
- Under this circumstance, we predict end-2026 RMB/USD will reach 6.7 and end-2027 will be 6.6.

SINCE THE OUTBREAK OF THE WAR, ONLY RMB APPRECIATED AMONG ALL ASIAN CURRENCIES



Source: BBVA Research and NBS

Imbalance remains: strong supply, weak demand

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

IP SA 2020 Q1=100



THE RECENT INVESTMENT TREND IS DECELERATING FAST...

FAI SA 2020 Q1=100



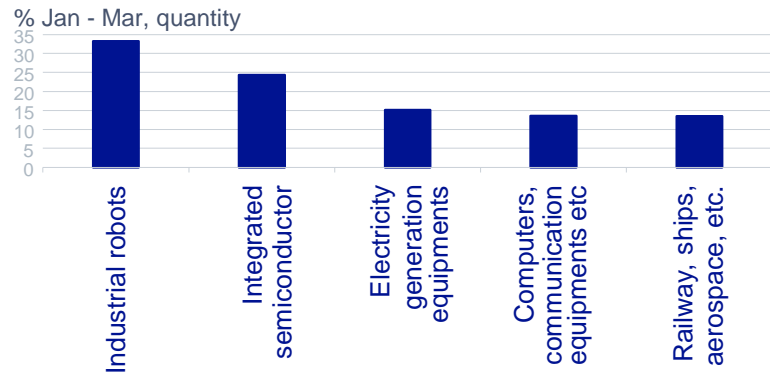
RETAIL SALES TREND IS SIGNIFICANTLY LOWER THAN PRE-PANDEMIC

Real retail sales SA 2020 Q1=100

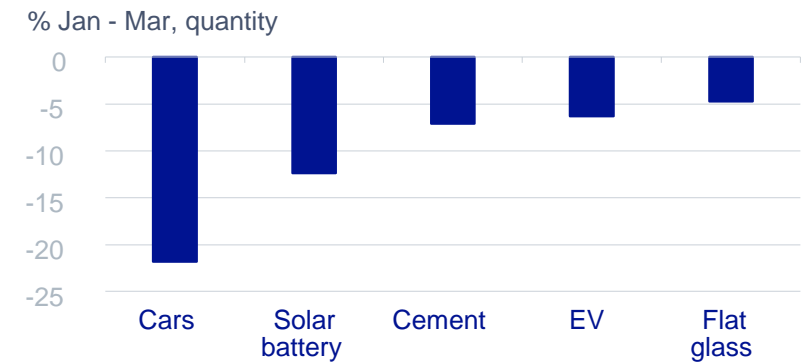


Supply side has been bolstered by rising demand for AI supply chains...

TOP 5 GROWTH OF INDUSTRIAL PRODUCTION: BY SECTOR



THE LEAST GROWTH OF INDUSTRIAL PRODUCTION: BY SECTOR



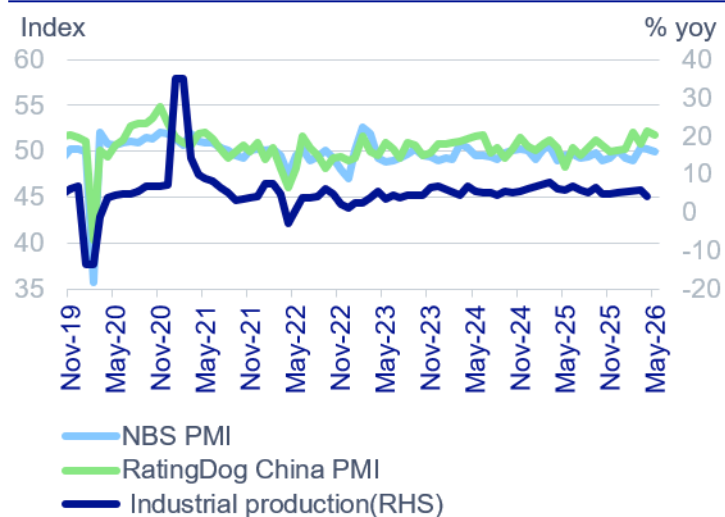
Source: NBS and BBVA Research.

AI related sectors such as industrial robots, integrated semiconductor, electricity generation equipment, computers etc. show large growth.

New energy related sectors-EV, solar battery and lithium show significant slowdown due to deleveraging campaign; housing related sectors such as cement and glass also decelerated due to housing market crash.

...while the “Anti-involution” campaign facilitates the deleveraging of overcapacity sectors

APRIL NBS PMI 50.3, ABOVE WATERSHED LEVEL OF 50; APRIL INDUSTRIAL PRODUCTION DECLINED TO 4.1% FROM 5.7%



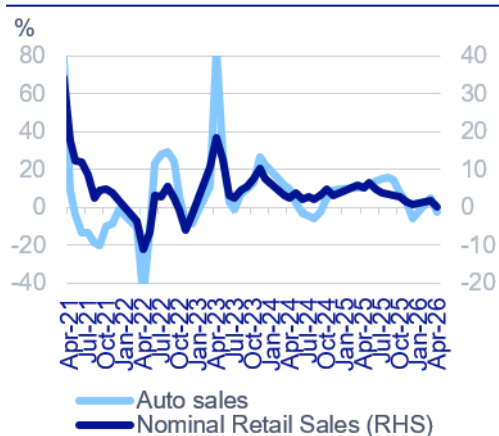
What is the “Anti-involution” campaign?

- "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.**
- Which **industries** have overcapacity issue? (1) Solar battery electric vehicles (EV), lithium batteries; (2) Housing related: steel, cement, etc.(3) food delivery.
- 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.

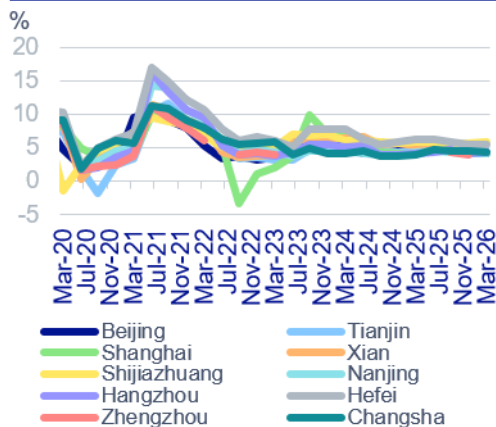
Demand side (1):

Retail sales weighed on by weak income expectation, high youth unemployment and fading effect of the national subsidies

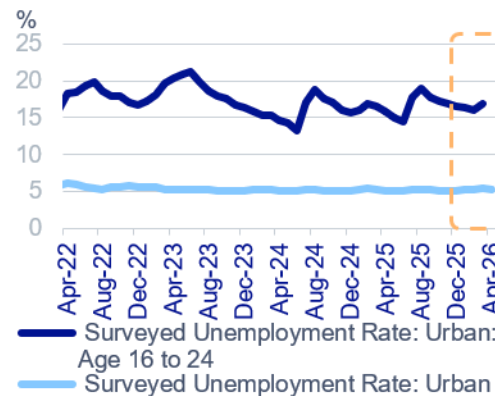
RETAIL SALES DIPPED TO 0.2% IN APRIL FROM 1.7%



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



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



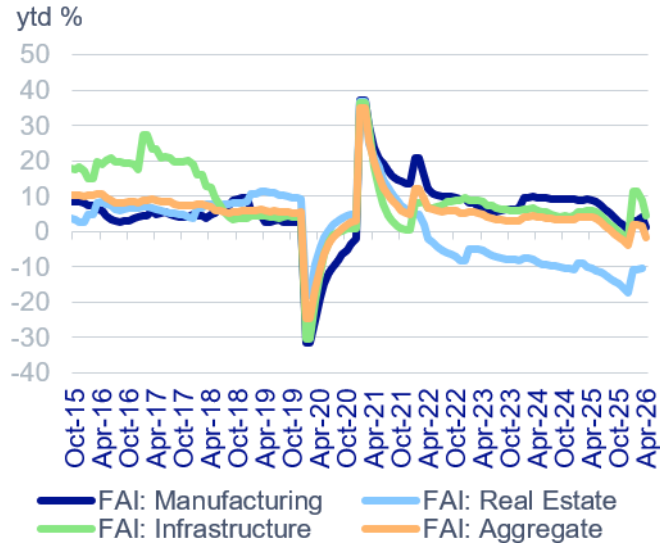
Source: NBS and BBVA Research.

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. **But the effect may gradually fade as the program runs out, particularly in the car sales.**

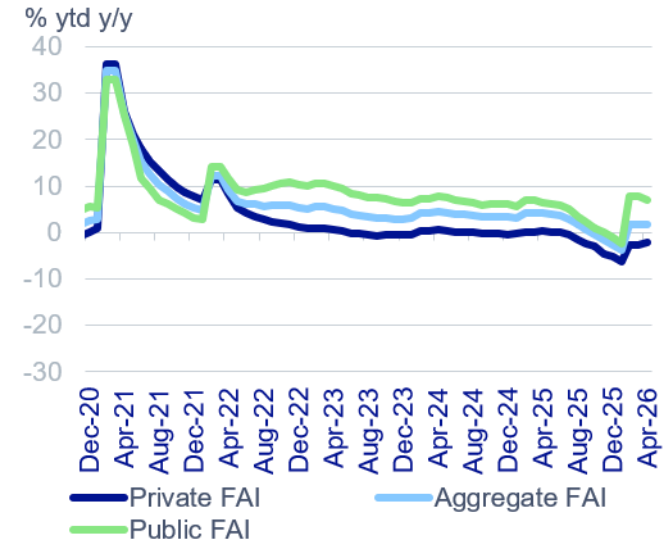
Demand side (2):

Fixed asset investment bounced back in Q1 2026 but dropped in April; housing investment expanded its decline

FAI MARGINALLY EDGED DOWN TO -1.6% YTD Y/Y FROM 1.7% YTD Y/Y

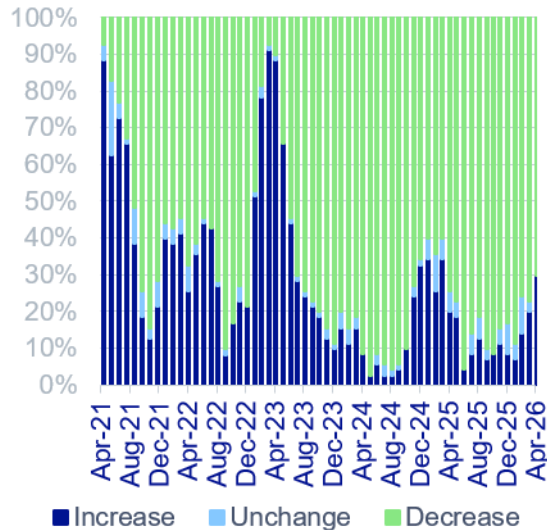


THE MULTIPLIER EFFECT FROM PUBLIC TO PRIVATE FAI REMAINS WEAK



Housing indicators remained lackluster; large cities announced new round of easing measures recently

MORE THAN 80% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY



FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE

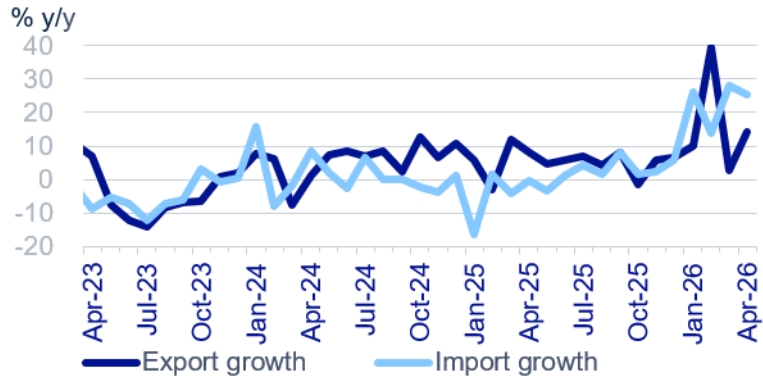


New easing policies by Shenzhen, Guangzhou, Wuhan, Tianjin etc.

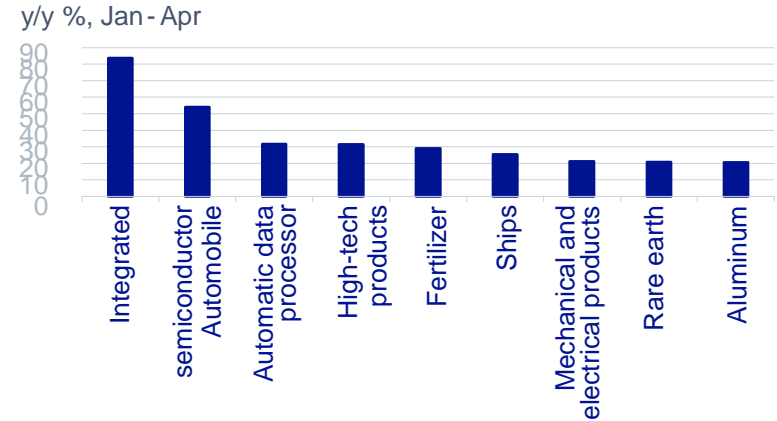
- (i) Allow local households to hold at most 3 properties in core regions;
- (ii) Increase the mortgage ratio.
- (iii) Allow non-local residents to purchase the houses in core areas.
- (iv) To subsidize housing upgrading demands.
- (v) Encourage SOEs to buy existing housing stocks to build as affordable housing, employee apartments etc.

Understanding trade data: why exports so strong in Jan-Mar 2026?

VERY STRONG EXPORTS GROWTH IN Q1, BUT IN APRIL, EXPORTS DECLINED FROM 39.6% TO 2.5%



WHICH SECTORS SUPPORT STRONG JAN-APR EXPORT GROWTH?

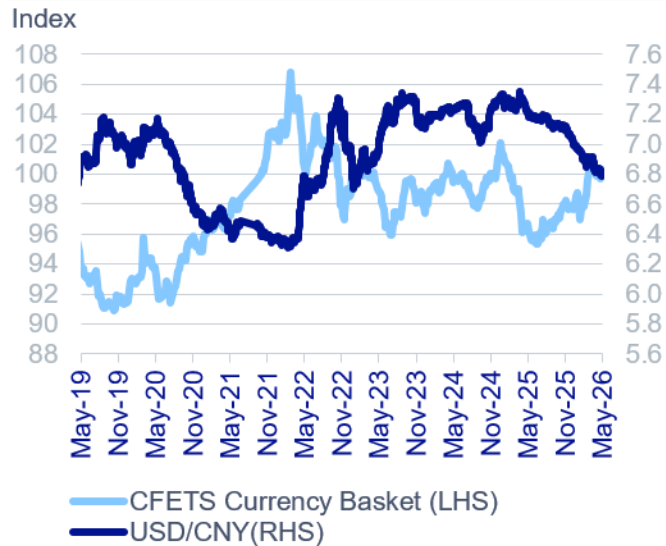


Source: NBS and BBVA Research.

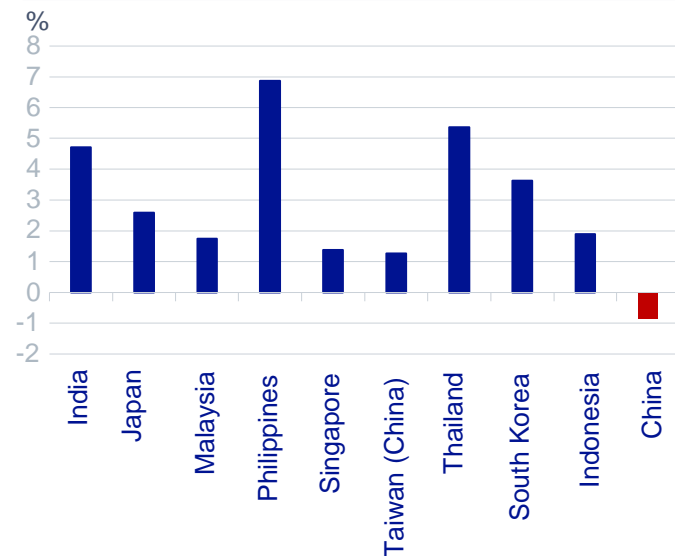
Strong export data in Jan-Mar was supported by strong supply in high-end manufacturing, high-tech products, ships, and raw materials.

RMB to USD Exchange rate appreciated recently, indicating a limited impact from Iran war

RMB IS THE ONLY CURRENCY IN ASIA THAT DISPLAYED APPRECIATION TREND SINCE THE IRAN WAR

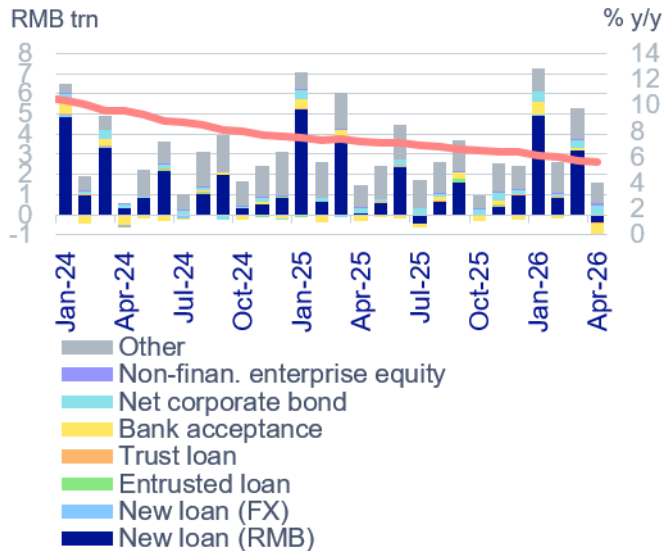


SINCE THE OUTBREAK OF THE WAR, ONLY RMB APPRECIATED AMONG ALL ASIAN CURRENCIES

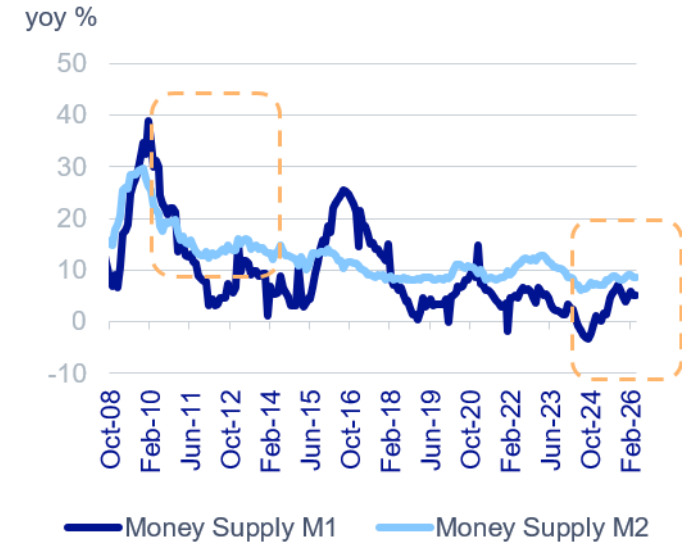


China's credit figures have slowed amid sluggish demand, deleveraging campaign, and housing market crash

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



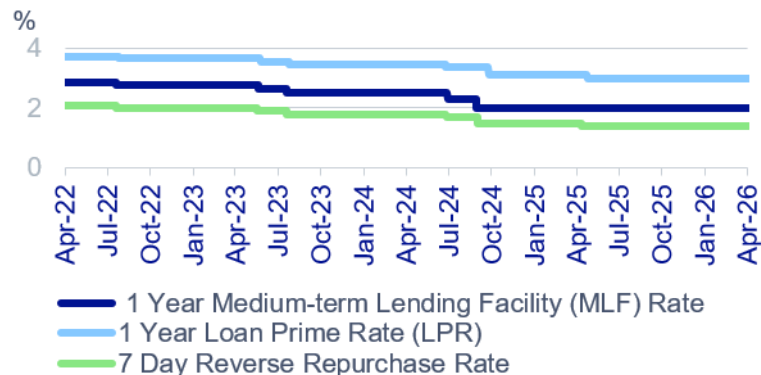
...SO DID THE M2 GROWTH DIPPING TO HISTORICAL LOW



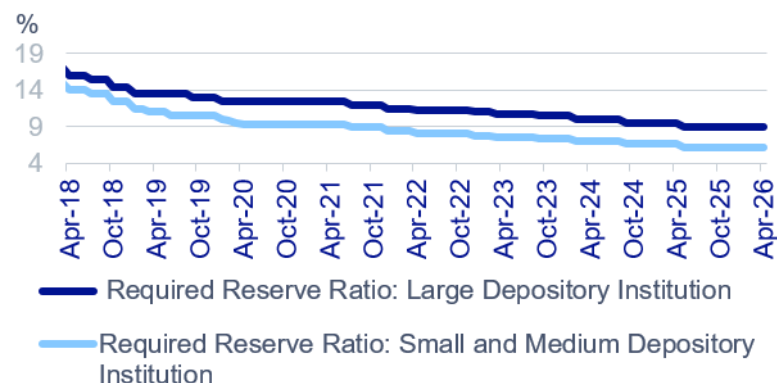
Monetary policy:

The PBoC takes a wait-and-see attitude amid the Iran war and rising inflation; no rate cut or RRR cut in 2026

THE PBOC HAS MADE THE POLICY RATE ON HOLD TO TAKE A WAIT-AND-SEE ATTITUDE



WE EXPECT NO 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.

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	1.2 	1 
PPI (%)	-1.8	8.1	4.2	-3	-2.2	-2.7	1.4 	0.6 
Interest rate (LPR, %)	3.85	3.8	3.6	3.45	3.1	3	3 	2.75
7-day reverse repo	2.2	2.2	2	1.8	1.5	1.4	1.4 	1.4 
RMB/USD exchange rate	6.5	6.36	6.9	7.1	7.3	7	6.7 	6.6 

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