

China's Economic and Financial Outlook

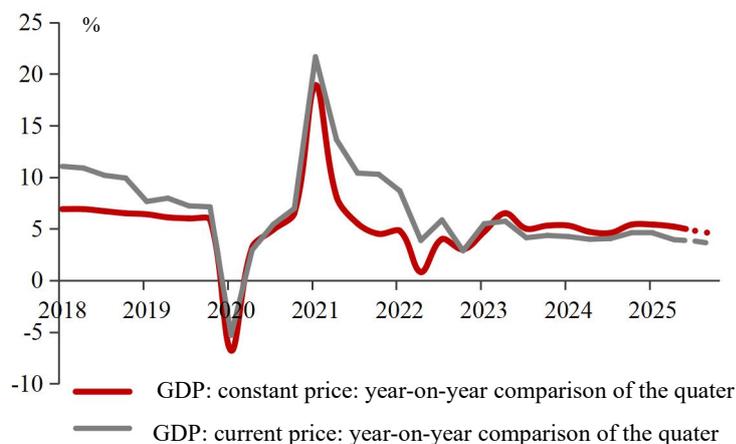
2025Q4 (Issue 64)

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Highlights

- Since the third quarter of 2025, China's economic growth momentum has moderated. External demand has exceeded expectations, while domestic demand has continued to soften amid the ongoing transition between old and new growth drivers. Preliminary estimates suggest that GDP expanded by around 4.8% in the third quarter, representing a deceleration of approximately 0.5 percentage points compared with the first half of the year.
- In the fourth quarter, the external environment remains fraught with uncertainties. Under the disruption of the U.S. reciprocal tariff policies, China's export growth is expected to moderate. With the diminishing effects of earlier policy stimulus and insufficient endogenous momentum, consumption growth is likely to ease slightly. The drag from the property sector is expected to deepen further. Overall, GDP is projected to expand by around 4.5% in the fourth quarter, bringing full-year growth to approximately 5%.
- China is likely to achieve annual growth target set at the beginning of 2025, although downward pressures on the economy have intensified markedly in the second half of the year. Going forward, macroeconomic policy should place greater emphasis on positive incentives and the role of expectation management and stabilization. More attention should be given to the driving effect of demand—particularly consumption demand—on growth, as well as to the marginal effectiveness of macro policies. A well-coordinated policy mix, or “policy toolkit,” should be fully leveraged to mitigate future uncertainties and sustain economic stability.

China's GDP Growth and Forecasts



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Strengthening Policy to Address Future Uncertainties

-- China's Economic and Financial Outlook (2025Q4)

In the first three quarters of 2025, China's economy remained generally stable, though growth momentum showed signs of moderation in the third quarter. Preliminary estimates suggest that GDP expanded by around 4.8% in Q3, representing a slowdown of approximately 0.5 percentage points compared with the first half of the year. Looking ahead to the fourth quarter, the external environment remains subject to multiple uncertainties. Under the influence of U.S. tariff policies, China's exports are expected to moderate. With the waning impact of previous policy measures and insufficient endogenous momentum, consumption growth is likely to edge down slightly, while the drag from the property sector continues to deepen. GDP is projected to grow by around 4.5% in Q4, bringing full-year growth to approximately 5%, broadly in line with the target set at the beginning of the year. Going forward, macroeconomic policy should place greater emphasis on positive incentives and the role of expectation management and stabilization. More attention should be given to the demand side—particularly consumption—as a key driver of growth, as well as to changes in the marginal effectiveness of macro policies. A well-coordinated policy mix should be fully utilized to navigate rising uncertainties. Fiscal policy should be strengthened to ensure the annual growth target is achieved. Additional incremental measures should be introduced to stabilize the property market and prevent further decline. Consumption policies should focus on optimizing existing measures and introducing new initiatives. China should also actively explore multidimensional cooperation and expand its diversified trade and economic networks. Meanwhile, efforts should be accelerated to remove structural bottlenecks and unleash new drivers of industrial growth.

I. 2025Q3 Economic Review and Q4 Outlook

I.1 2025Q3 Economic Review

In the first three quarters of 2025, the international political and economic landscape underwent profound restructuring, with global growth momentum weakening amid mounting geopolitical frictions. The United States' adjustments to its reciprocal tariff policies, along with intensified strategic competition, have posed significant challenges to global trade and economic development. Against this backdrop, China's economy remained broadly stable, though growth momentum moderated in the third quarter. The growth rates of key indicators—including consumption, investment, and industrial output—declined compared with the first half of the year. Overall, GDP growth in the third quarter is preliminarily estimated at around 4.8%, roughly 0.5 percentage points lower than in the first half.

1. Diversified market structure mitigates U.S. tariff impact, supporting solid export growth

Since the third quarter, China's exports have maintained robust growth despite a wider decline in shipments to the U.S. and a high base effect. In August, export growth moderated slightly month-on-month, but performance in non-U.S. markets remained strong. The recovery in EU economic sentiment accelerated exports to Europe, while shipments to Belt and Road economies provided notable support. In 2025, the RMB appreciated against the U.S. dollar but depreciated against most other major currencies, which partly boosted exports to non-U.S. markets. From January to August, total exports reached USD 2.45 trillion, up 5.9% year-on-year, an acceleration of 1.2 percentage points from a year earlier.

Outbound direct investment (ODI) growth has slowed overall, though investment momentum in emerging markets remains resilient. To mitigate geopolitical and security risks in the U.S. and Europe, China's ODI has increasingly shifted toward Asia, the Middle East, and Latin America. Meanwhile, new overseas

engineering contracts with Belt and Road economies have continued to expand, driving exports of intermediate and capital goods. From January to July, China's non-financial ODI in Belt and Road partner countries and regions reached USD 22.4 billion, up 23.5% year-on-year, with its share of total non-financial ODI rising from 23.4% at the end of last year to 26.5%.

2. Domestic demand growth moderates as policy impact wanes and household consumption remains constrained in endogenous momentum

First, consumption growth moderated as the impact of the “trade-in” policy softened and household spending showed limited endogenous momentum. The slowdown in sales of trade-in related goods and a moderation in catering consumption weighed on overall retail growth. From January to August, total retail sales of consumer goods rose 4.6% year-on-year, down 0.4 percentage points from the first half. Notably, many local governments have promoted large-scale sports and cultural events to expand consumption scenarios and extend value chains, leading to stronger service consumption relative to goods consumption—now a key driver of overall spending.

Second, fixed-asset investment growth decelerated significantly, reflecting property market weakness, local fiscal strain, subdued demand, and persistent deflationary pressures. **The combined effect of fading policy support and weak demand dampened both external and internal drivers of manufacturing investment.** The impact of large-scale equipment upgrades, implemented for about a year, has gradually diminished, while firms' efforts to reduce inventories further constrained investment expansion. **Infrastructure investment also slowed amid local governments' tighter fiscal conditions and limited approval authority.** The supportive effect of special-purpose bonds has weakened, as rising debt levels, limited debt-repayment funds, and restricted financing channels for local government financing vehicles have prompted some localities to divert funds toward debt repayment rather than new projects. In addition, the recent centralization of

infrastructure approval authority in some provinces has slowed project approvals and heightened caution nationwide, resulting in a broader deceleration in project execution.

3. Industrial output eases amid temporary disruptions, while services gain greater growth contribution

In the third quarter, industrial production experienced mild moderation amid short-term disturbances. First, soft demand exerted a modest drag on output. On the external side, slower exports affected midstream equipment manufacturing, with firms still focusing on inventory adjustments rather than new production. On the domestic side, subdued consumption and continued real estate adjustment weighed on sectors such as textiles and food processing. **Second, extreme weather events—including heavy rainfall, heatwaves, and typhoons—had an obvious impact on production stability,** particularly in upstream raw material industries, where value-added growth moderated slightly compared with the first half. **Third, ongoing efforts to regulate low-price, disorderly competition have led to structural adjustments in certain industries.** From January to August, the value-added growth of the chemical, electrical machinery, nonmetallic mineral, and automobile (including new energy vehicles) sectors declined by 0.2, 0.6, 0.7, and 0.8 percentage points, respectively, from the first-half pace.

The service sector continued to strengthen its contribution to economic growth, supported by policy initiatives and structural upgrading. The Ministry of Commerce launched the 2025 “Service Consumption Season” in late June, which, together with strong summer travel demand, kept business activity indices for rail and air transport above 60%, indicating high expansion levels. Meanwhile, the “AI+” initiative boosted demand for industrial upgrading, and ample market liquidity supported a rebound in capital markets, fostering the steady expansion of modern services.

4. Prices remain at low levels, while core CPI improves and PPI decline narrows amid sectoral supply–demand optimization

Consumer prices continued to run at low levels, with core CPI showing sustained improvement. Food prices remained a drag: in August, food CPI fell 4.3% year-on-year, widening the decline by 2.7 percentage points from July, reflecting the high base last year and moderation in the catering sector, and contributing to the overall CPI growth of -0.4%. Supportive policies to expand domestic demand and promote consumption helped lift core CPI, with the year-on-year increase (excluding food and energy) expanding for four consecutive months to 0.9% in August. **On the producer side, intensified measures to regulate low-price, disorderly competition and ongoing sectoral supply–demand adjustments contributed to a narrower PPI decline in Q3.** In industries such as coal mining and washing, photovoltaic equipment and components, and new energy vehicle manufacturing, capacity adjustments and improved competitive order stabilized and slightly lifted prices. While these supply-side adjustments provide some upward support for upstream input prices, demand-side support for PPI remains limited, with PPI for general daily-use and durable consumer goods declining, diverging from trends in mid- and upstream industrial sectors.

I.2 2025Q4 Economic Outlook

In the fourth quarter, the external environment is expected to remain relatively uncertain, with a new round of U.S.–China tariff negotiations likely to weigh on exports. The impact of the “trade-in” policy is expected to ease, and household consumption momentum may remain moderate, leading to a slight slowdown in consumption growth. The drag from the property sector is likely to persist, with real estate investment declines potentially widening. Coupled with a high base from the same period last year, Q4 GDP is preliminarily estimated at around 4.5%, with full-year growth near 5%.

1. Exports expected to moderate under tariff policy, with emerging markets providing key support

Amid rising downward pressure on the U.S. economy, China's exports to the U.S. are likely to face further year-on-year moderation, and the support from re-exports via ASEAN and Latin American countries may also ease. In addition, the surge in orders at the end of last year lifted the Q4 growth base, posing some pressure on export growth this quarter. Nevertheless, **exports to emerging markets will remain an important buffer against trade uncertainties. First, China's exports to Belt and Road partner countries and regions, including Africa, etc., still have considerable growth potential.** China's scale-driven cost advantages align well with the price sensitivity of African markets. Moreover, following the U.S. removal of duty-free treatment for over 30 African countries, China plans to eliminate import tariffs for all African countries with diplomatic relations, further expanding bilateral trade opportunities. **Second, regional trade agreement benefits will continue to materialize.** The ASEAN– China Free Trade Area (ACFTA) 3.0 negotiations have been fully concluded, with an upgraded agreement expected to be signed within the year. Joint efforts to develop digital infrastructure will support ASEAN industrial transformation, providing sustained export demand for China. Overall, Q4 exports are projected to grow around 1% year-on-year, with full-year export growth near 4.5%.

2. Consumption growth may moderate slightly, with services outperforming goods

In the fourth quarter, overall consumption is expected to remain stable with limited upward momentum, and growth may ease modestly. **First, the impact of the “trade-in” stimulus policy is likely to moderate.** Fiscal support for consumer goods replacement programs has been reduced in the second half of 2025, while last year's policy-driven surge lifted the comparison base for related goods. As a result, consumption growth in trade-in-related categories may soften on a year-on-year

basis. **Second, household consumption momentum remains subdued.** The ongoing property market adjustment and pressure on income and employment continue to weigh on spending sentiment. Although stronger capital markets may gradually boost household wealth and consumption willingness, the economy is still in the early stage of this transmission chain—from market recovery to income gains to improved consumption. **Third, service consumption continues to show stronger resilience and potential.** China's consumption structure is shifting from goods-driven to service-led, supported by targeted policy measures that encourage tourism, leisure, and cultural spending. Overall, total retail sales of consumer goods are projected to rise about 3.6% year-on-year in Q4 and approximately 4.3% for the full year.

3. Industrial and service sectors continue to strengthen foundations for high-quality growth, maintaining stability amid fluctuations

Looking ahead to Q4, the industrial sector is expected to maintain steady expansion through structural optimization and incremental capacity enhancement. **On the policy side, new stabilization measures for ten key industries**—including nonferrous metals, petrochemicals, and building materials—are set to be introduced, while integration between artificial intelligence and the real economy will accelerate. **Meanwhile, capacity rationalization in major industries is progressing, supporting a gradual recovery in profitability.** Together with ongoing demand-side initiatives to improve livelihoods and boost consumption, industrial profits are expected to continue rising. Considering a potential moderation in “old-for-new” policy effects and softer export growth, industrial value-added is projected to increase around 5% year-on-year in Q4, and about 5.7% for the full year.

The service sector is expected to moderate amid structural divergence. On one hand, consumption services such as retail and catering may experience slower growth due to softer demand, intensified competition, and evolving e-commerce

dynamics, prompting a shift from scale expansion toward structural optimization. **On the other hand, modern services will remain a key growth driver.** The cultivation of new quality productive forces will strengthen demand for producer services, while green and digital transitions will accelerate transformation in sectors such as transportation and finance. In addition, demographic shifts are expected to fuel demand in health management, elderly care, and smart home services. Overall, service sector output is expected to grow around 4.9% year-on-year in Q4 and about 5.2% for the full year.

4. Inflation likely to bottom out and gradually rebound

CPI is expected to edge up moderately from a low level. First, the decline in pork prices is stabilizing, and food prices may see a slight recovery. With stronger policy-based regulation of hog supply, oversupply pressures are likely to ease in Q4. Seasonal factors such as holiday consumption and year-end restocking may further support pork prices, leading to a narrower decline. **Second, continued improvement in consumer goods and service prices is expected to drive a steady rebound in core CPI.** Demand-supportive policies and a more orderly domestic market environment will facilitate a mild recovery in industrial consumer goods prices, while travel and leisure demand during the holiday season may sustain the upward momentum in service prices. However, given still-weak household consumption momentum, the overall rebound in inflation will remain moderate. CPI is projected to rise about 0.4% year-on-year in Q4, remaining roughly unchanged for the full year. **The PPI contraction is expected to narrow further, though a return to positive growth within the year remains unlikely.** The impact of capacity restructuring in key upstream industries on producer prices will take time to materialize, while midstream and downstream sectors remain constrained by soft terminal demand. Additionally, external factors continue to weigh on PPI recovery—notably, higher OPEC+ output and slower global growth are driving down international crude oil and metal prices, exerting downward pressure on

related domestic products. Overall, PPI is expected to decline around 1.4% year-on-year in Q4 and about 2.4% for the full year.

II. 2025Q3 Financial Review and Q4 Outlook

In the third quarter of 2025, PBOC continued to implement countercyclical adjustments to support the recovery of the real economy, maintaining an overall moderately loose monetary environment. Aggregate financing to the real economy expanded at a reasonable pace, money market rates remained low, stock market trading was active and hit a ten-year high, bond issuance continued to grow, and the RMB exchange rate fluctuated upward. Financial support for the real economy kept strengthening. However, due to weak household borrowing willingness, ongoing downturn in the real estate market, and concentrated repayments of outstanding medium-to-long-term loans by local municipal financing vehicles, household sector leverage remained subdued, corporate medium-to-long-term loans grew less than expected, and corporate bond issuance declined year-on-year.

Looking ahead to the fourth quarter, as policies continue to take effect, key financial indicators such as M2 and aggregate financing to the real economy are expected to rebound. Nevertheless, funding demand will remain divergent across different entities and industries. Money market interest rates may decline further, while the stock market is expected to trade at elevated levels. Bond yields will fluctuate at low levels, and the RMB exchange rate will continue to appreciate steadily.

II.1 Funding demand from the real economy declines, and financial data will show divergent performance

In the third quarter of 2025, China's economic sentiment showed signs of weakening, and the demand for funds from the real economy declined. In the first eight months of 2025, aggregate financing to the real economy increased by RMB26.56 trillion, RMB4.66 trillion more than the same period last year. Four characteristics were

exhibited: **First, new credit issuance slowed year-on-year.** New RMB loans totaled RMB12.93 trillion in the first eight months of 2025, RMB485.1 billion less than the same period last year. This decline stemmed partly from reduced funding demand among economic entities amid the economic slowdown since the third quarter. Additionally, as local government debt swaps continued to advance, local government financing vehicles concentrated on repaying existing medium-to-long-term loans, resulting in a decline in new medium-to-long-term lending. **Second, bond financing maintained strong growth.** In the first eight months, net financing from government bonds reached RMB10.27 trillion, RMB4.63 trillion more than the same period last year, while net financing from corporate bonds totaled RMB1.56 trillion, RMB221.4 billion less than the same period last year. Driven by accelerated debt swaps, pilot programs for self-issuance of special bonds, and increased local investment demand, the issuance of local government bond continued to grow at a high rate. Although the year-on-year growth rate of net financing from corporate bonds decreased, the accelerated issuance of “sci-tech innovation bonds” since May has boosted overall corporate bond issuance. **Third, stock financing increased year-on-year.** In the first eight months of 2025, stock financing increased by RMB266.9 billion, RMB109.3 billion more than the same period last year. Since 2025, the A-share market has performed well, with the Shanghai Composite Index reaching a nearly 10-year high in August, driving up the scale of stock financing. **Fourth, credit growth in key sectors and weak links remained relatively fast growth.** By the end of the second quarter of 2025, outstanding loans to the industrial, manufacturing, green finance, inclusive finance, and agriculture-related sectors grew by 10.7%, 8.7%, 14.4%, 12.3%, and 7.4%, respectively—all higher than the overall loan growth rate of 7.1%.

In the fourth quarter of 2025, major financial data are expected to rebound as policies continue to take effect, though divergence is likely to persist. **First, aggregate financing to the real economy will expand steadily.** The fourth quarter

is crucial for achieving annual and 14th Five-Year Plan economic targets, and with the 15th Five-Year Plan on the horizon, incremental policies are expected to launch simultaneously. Key sectors such as infrastructure and real estate are expected to receive further support, driving stable growth in total financing. **Second, outstanding credit in key areas and weak links of the economy will maintain medium-to-high growth.** Driven by structural monetary policy tools, financial institutions will continue to increase support for areas like sci-tech innovation, green, and pension. Credit in these sectors is expected to sustain medium-to-high growth. **Third, government bond issuance will remain at elevated levels.** Counter-cyclical fiscal policies and accelerated local investment demand are expected to boost government bond issuance to stay a high level in the fourth quarter.

II.2 Interest rates will remain stable downward trending, and liquidity is expected to remain ample

First, policy rates remained stable while money market rates continued to decline. The 7-day reverse repo policy rate stayed at 1.4% throughout the third quarter of 2025. The PBOC primarily utilized open market operations to manage liquidity, guiding the money market from the tight balance of the first half year to a reasonably ample state. The monthly weighted average interest rates for interbank RMB lending and bond pledged repos both operated within the 1.4%-1.5% range. **Second, deposit rates continued to decline, easing the funding cost pressures of banks.** Several small and medium-sized banks announced reductions in RMB deposit rates, with cuts ranging from 10 to 20 bps. **Third, corporate lending rates continued to decline, with technology loans seeing particularly significant reductions.** By the end of June 2025, the weighted average interest rate of corporate loans dropped to 3.22%, down 41 bps from the same period last year. Technology loans showed especially pronounced decreases, with the weighted average interest rate for new technology loans issued in June reaching 2.90%—21 bps lower than the beginning of the year and 44 bps lower than the same period last year.

In the fourth quarter of 2025, interest rates are expected to continue a steady downward trend. **First, money market rates will stay at low levels.** As the foundation of economic recovery still needs consolidation and external uncertainties persist, the July Politburo meeting called for “implementing more proactive fiscal policy and appropriately loose monetary policy”. Money market rates are projected to remain low in the fourth quarter, providing a favorable monetary environment for the financing needs of the real economy. **Second, consumer loan rates are expected to operate within the low range around 3%.** The fiscal interest subsidy policy for personal consumer loans officially took effect on September 1. Many banks have launched dedicated subsidy sections and introduced additional preferential programs. In addition to the 1% fiscal interest subsidy mandated by the policy, some financial institutions have introduced differentiated discounts. In the fourth quarter of 2025, the combined effect of “national subsidies + bank subsidies” is expected to permeate the entire consumer loan sector, driving further declines in lending rates. **Third, deposit rates are likely to be further reduced, continuing to ease banks’ funding cost.** More banks may lower deposit rates in the fourth quarter, particularly lowering relatively higher medium- and long-term deposit rates. Regulatory authorities may continue to correct practices such as “deposit termization” and “manual interest top-ups”, so as to enhance the transmission efficiency of monetary policy and guide banks to further reduce funding costs.

II.3 With major indices hit 10-year high, stock market may trend upward amid volatility

Since the third quarter of 2025, China’s A-share market shifted from the “volatile upward trend” seen in the second quarter to a new phase characterized by simultaneous increases in both trading volume and prices. In late August, the Shanghai Composite Index broke through the 3,800-point mark, reaching its highest level in nearly a decade. As of September 18, the index had risen 11.2% since the end of the second quarter and 14.3% since the beginning of the year. Market activity

has surged significantly, with trading volumes on the Shanghai and Shenzhen exchanges exceeding RMB2 trillion for 16 consecutive trading days in late August. Structurally, the technology sector showed strong performance driven by industrial policies, rising orders, and technological breakthroughs. As of September 18, the CSI Communications Equipment Index and the Computing Power Theme Index rose by 82.3% and 76.4%, respectively, during the third quarter.

Several factors are driving the current bull market in China's A-shares. **First, incremental capital—particularly institutional funds—continues to flow into the market.** Insurance companies increased their allocations to equity assets, private equity funds issuances surged, and the amount of retail investors account increased. **Second, positive expectations for both technology and cyclical industries converged, with improving business conditions fueling a valuation recovery.** In the first half of 2025, the top three sectors by earnings growth were information technology, materials, and communication services. Among these, steel, non-metallic materials, computer, non-ferrous metals, and semiconductor sectors led the growth, with net profit growth rates all exceeding 30%.

In the fourth quarter of 2025, A-shares are likely to remain strong at high levels, though volatility risks should not be ignored. **First, there remains room for incremental capital inflows.** The U.S. Fed's new rate-cutting cycle beginning in September, coupled with the strong performance of the RMB exchange rate, may encourage further international capital inflows into China's equity market. Domestic interest rates are trending downward, enhancing the relative attractiveness of equity investments. Policymakers continue to promote the participation of long-term capital in the stock market. **Second, the fundamentals of listed companies are expected to structurally improve, with opportunities in technology and cyclical sectors.** On one hand, the ongoing initiatives for the 15th Five-Year Plan and industrial policies are expected to accelerate earnings realization among technology manufacturing firms, particularly those focused on artificial intelligence. On the

other hand, with policies addressing disorderly low-price competition gradually taking effect, the Producer Price Index (PPI) is anticipated to stabilize. However, caution is warranted given the previous rapid price increases and heightened uncertainties. As of September 18, the overall dynamic P/E ratio of A-shares had risen to the 89th percentile of its five-year historical range, potentially prompting profit-taking by some investors. Risk factors such as global ripple effects from U.S. trade policy uncertainties, limited aggregate demand stimulus, and insufficient endogenous economic momentum may also amplify volatility pressures on A-shares.

II.4 Bond yields will remain low, while issuance volume will steadily grow

Since the third quarter of 2025, the bond market has exhibited the following characteristics: **First, bond yields fluctuated upward.** Risk preference increased due to the implementation of growth-stabilizing policies, which in turn strengthened the equity market and triggered a seesaw effect between stocks and bonds, with long-end yields of the bond market experiencing significant upward fluctuations. As of September 18, the 10-year and 1-year CGB yields were 1.85% and 1.39% respectively, an increase of nearly 20 bps and 5 bps from the end of June. **Second, bond issuance increased significantly.** As fiscal policies remained proactive, the issuance of interest rate bonds and sci-tech innovation bonds increased substantially. As of September 18, total bond issuances reached RMB19.21 trillion, a year-on-year growth of 14.12%. Among them, issuances of CGBs, local government bonds, interbank negotiable certificates of deposit, financial bonds, and corporate bonds increased by 1.09%, 19.88%, 18.12%, 36.21%, and 13.67% year-on-year, respectively. Sci-tech innovation bonds gathered pace due to policy support. As of September 18, 934 sci-tech innovation bonds have been issued since the new policy implemented in May, totaling over RMB1 trillion. **Third, the offshore RMB bond market continued to expand.** As of September 18, the outstanding balances of Panda bonds and Dim Sum bonds reached new highs, which stood at RMB390.15 billion and RMB1.69 trillion, respectively, representing year-on-year increases of

28.2% and 12.0%.

In the fourth quarter of 2025, bond market is expected to maintain range-bound yields, with steady growth in issuance and continued development of innovative products such as sci-tech innovation bonds. First, bond yields are likely to remain within a range. Although the manufacturing PMI showed a slower pace of contraction in August, it remained below the expansion threshold, indicating the economy is still in weak recovery which suppress interest rate increases. However, policies addressing disorderly low-price competition have improved corporate profitability, driving up the prices of production factors such as wages and land. These cost pressures may translate into higher demand and, consequently, upward movement in bond yields. Overall, the bond market is expected to stay range-bound, but if the equity market rally slows or reverses, bonds may strengthen temporarily. **Second, bond issuances will keep growing.** The Ministry of Finance has pre-allocated part of next year's local government debt quota, enabling issuances ahead of schedule. The RMB100 billion special government bond designated for capital replenishment to financial institutions is scheduled to be issued before the end of the year. Additional special government bonds may be issued to further enhance counter-cyclical support. Meanwhile, with market expansion and liquidity improvement, sci-tech innovation bonds issuances are expected to keep growing steadily. **Third, the offshore RMB bond market will continue its expansion trend.** As of September 18, the 10-year CGB yield was 2.26 percentage points lower than U.S. 10-year Treasury yield. While the Fed is beginning a gradual rate-cut cycle, U.S. policy rates will likely remain high in the short term. This persistent yield spread between China and the U.S. will continue to support the issuance of RMB-denominated international bonds.

II.5 The RMB exchange rate appreciates amid volatility and is expected to maintain a steady upward trend

In the third quarter of 2025, the RMB appreciated against the U.S. dollar amid fluctuations. Particularly since late August, driven by market optimism and foreign capital inflows, the RMB has appreciated rapidly against the dollar, reaching a new high for the year. As of September 18, the onshore RMB spot exchange rate stood at 7.1079, appreciating about 2.6% from the beginning of the year. Meanwhile, the central parity rate rose to around 7.1, signaling a procyclical push for RMB appreciation. The recent rapid appreciation of the RMB was driven by both domestic and international factors. **First, the U.S. dollar index weakened.** Since 2025, the U.S. dollar has lost market confidence due to the Trump administration's erratic tariff policies, the "One Big Beautiful Bill", and Trump's frequent criticism of the Fed's policy. The U.S. Dollar Index has fallen by more than 10% this year. **Second, the Federal Reserve entered into a rate-cutting cycle.** On September 17, the Fed cut the federal funds rate by 25 bps, further narrowing the China–U.S. interest rate spread. **Third, capital inflows increased.** The strong performance of China's A-share market has attracted foreign capital, boosting short-term demand for foreign exchange settlement and driving the RMB higher. By the end of June, foreign investors held RMB3.07 trillion in A-shares, an 8% increase from RMB2.31 trillion at the end of last year.

In the fourth quarter of 2025, the RMB exchange rate is expected to remain basically stable with a continued upward trend. **First, the U.S. dollar remain under downward pressure.** The Fed is expected to cut rates consecutively in October and December, which would potentially push the U.S. Dollar Index below 96-point. Meanwhile, U.S. Treasury yields are likely to decline further, leading to a narrower China–U.S. interest rate spread, thereby enhancing the attractiveness of RMB-denominated assets. **Second, foreign exchange settlement demand will support RMB exchange rate.** The scale of net foreign exchange inflows from trade

has been expanding steadily, and the fourth quarter typically marks a peak for exporters' settlements, ensuring stable foreign capital inflows. **Third, stable domestic economic fundamentals support the RMB appreciation.** China's GDP grew by 5.3% year-on-year in the first half of 2025, maintaining a leading position among major global economies. As the economy continues to operate smoothly, it will provide robust support for the balance of payments and capital markets. Meanwhile, improving sentiment in the domestic capital market has encouraged foreign capital inflows, reinforcing market confidence and further boosting settlement demand. **Nevertheless, several risk factors warrant attention.** The Russia–Ukraine conflict remains complex, while the uncertainty Trump's tariff uncertainty continues to unsettle market sentiment. In addition, as the U.S. federal government debt surpassed USD37 trillion in August, the heavy interest burden and

Table 1: China's Main Economic & Financial Indicators and Forecasts in 2025 (%)

Indicator	2022 (R)	2023 (R)	2024 (R)	2025 (F)				
				Q1 (R)	Q2 (E)	Q3 (F)	Q4 (F)	Full year (F)
GDP	3.1	5.4	5.0	5.4	5.2	4.8	4.5	5.0
Added value of industrial enterprises above designated size	3.6	4.6	5.8	6.5	6.2	5.3	5.0	5.7
Service industry added value	3.5	6.3	5.0	5.3	5.7	5.1	4.9	5.2
Fixed asset investments (cumulative)	5.1	3.0	3.2	4.2	2.8	0.0	-1.0	-1.0
Investment in real estate Development (cumulative)	-10.0	-9.6	-10.6	-9.9	-11.2	-14.0	-16.0	-16.0
Total retail sales of consumer goods	-0.2	7.2	3.5	4.6	5.4	3.7	3.6	4.3
Exports	5.6	-4.7	5.8	5.6	6.2	6.0	1.0	4.5
Imports	0.7	-5.5	1.0	-6.9	-0.9	1.3	1.2	-1.3
Consumer price index (CPI)	2.0	0.2	0.2	-0.1	-0.0	-0.3	0.4	0.0
Producer price index (PPI)	4.1	-3.0	-2.2	-2.3	-3.2	-2.8	-1.4	-2.4
Broad money supply (M2, ending balance)	11.8	9.7	7.3	7.0	8.3	8.4	8.5	8.5
Aggregate financing to the real economy (stock, ending balance)	9.6	9.5	8.0	8.4	8.9	8.7	8.6	8.6
1-year LPR	3.65	3.45	3.1	3.1	3.0	2.9	2.9	2.9
RMB/USD spot exchange rate (end-of-period)	6.95	7.09	7.19	7.25	7.17	7.05	7.0	7.0

Source: BOC Research Institute

III. Macro-Policy Recommendations

China is on track to meet 2025 growth target, though downside pressures are expected to intensify in the second half of the year. In this context, timely and coordinated macro policy adjustments will be essential to prevent excessive economic deceleration, stabilize domestic demand, and leverage the certainty of internal growth to offset external uncertainties. Strengthening policy momentum will help ensure a smooth conclusion to the 14th Five-Year Plan and lay a solid foundation for the 15th Five-Year Plan.

1. Fiscal policy to strengthen countercyclical support and ensure annual growth targets are met

Enhance fiscal support for livelihood-related consumption and lay the foundation for sustained demand expansion. The government can introduce new “dual guarantees” policies, increasing central fiscal investment in elderly care, childcare, and healthcare sectors. At the same time, personal income tax reforms can be further optimized, with higher special deduction limits for childcare, eldercare, and education expenses, and pilot programs for household-based tax filing. **To strengthen fiscal effectiveness, spending structure and efficiency should be further optimized.** This includes reassessing expenditure priorities, closely monitoring local debt resolution progress, and—when necessary—pre-allocating funds to manage debt risks. Oversight of special bonds and sovereign bond utilization should be reinforced to ensure that funds effectively support infrastructure investment rather than being diverted to debt repayment. Looking ahead, early planning and implementation of major projects under the 15th Five-Year Plan can help sustain investment growth and provide continued policy support for economic stability.

2. Financial policies will coordinate to ensure the fulfillment of economic goals

Enhance liquidity supply to provide strong financial support for the real economy. The authorities are expected to release long-term liquidity through targeted reserve requirement ratio (RRR) cuts at appropriate times, guiding financial institutions to expand credit allocation in coordination with infrastructure, consumption, and real estate policies. **Structural monetary policy tools will continue to play a guiding role in directing funds toward key sectors.** While continuing to increase the quotas for structural monetary policy tools, further reductions in the interest rates of these tools can be implemented to encourage financial institutions to increase support for key areas such as technological

innovation, green development, inclusive and small businesses, elderly care, and consumption. **Strengthen policy coordination to promote moderate price increases.** Financial policies should continue to closely coordinate with fiscal policies while providing enterprises with long-term, low-cost funding and advisory services. This will guide enterprises toward rational competition and healthy development, stimulate market demand through high-quality supply, foster dynamic equilibrium between supply and demand, and support a moderate recovery in price levels.

3. Consumption policy should focus on refining existing measures and introducing incremental initiatives

The trade-in program can be further optimized by extending subsidies through 2026–2027, expanding eligible product categories, and considering a home renovation subsidy scheme as a follow-up policy to sustain consumption momentum. **Efforts should also target unlocking potential in services and emerging consumption sectors.** As China transitions toward a service-driven economy, it is essential to enhance both goods and service supply, strengthen the role of industry associations, establish higher quality standards, and encourage product and service innovation. In addition, infrastructure investment should prioritize projects that directly support consumption, such as elderly care facilities and childcare centers. The government can also stimulate cultural and recreational spending by developing diversified and personalized tourism offerings and supporting local events including concerts, performances, and sports competitions.

4. Expanding diversified trade networks through multi-dimensional cooperation

Refine export and outbound investment strategies in response to the evolving development needs of emerging economies. Amid rising U.S. protectionism and

geopolitical frictions, China needs to broaden its market diversification, deepen trade and investment ties with Belt and Road partner economies and Global South countries, and enhance regional economic resilience. **Expand currency swap scale with trading partners and explore cross-border applications for the Digital Yuan (e-CNY).** Broaden the network of strategic currency swap partners and prioritize the signing of “Resource-Yuan Swap Agreements” with major exporters of energy, minerals, and bulk commodities. Implement tariff reductions and prioritize export credit insurance quotas for import and export enterprises utilizing RMB for settlement. Investigate cross-border application scenarios for the Digital Yuan in areas such as energy trade and e-commerce consumption, and conduct bilateral cooperation on experimental cross-border applications of the Digital Yuan. **Strengthen collaborative construction of overseas logistics and warehousing infrastructure.** This includes jointly developing port, aviation, and railway facilities, supporting enterprises in building overseas warehouses and localized distribution networks, and setting up regional distribution centers in Southeast Asia and the Middle East to reduce cross-border logistics costs and enhance supply chain efficiency.

5. Introducing stronger incremental policies to stabilize the real estate market

Policy efforts should focus on optimizing both supply- and demand-side mechanisms to facilitate a balanced and steady recovery in the housing market. Restrictions on home purchases should be gradually and comprehensively relaxed, while support for residential demand is enhanced through targeted financial incentives. Real estate intermediary services should be further standardized, with tiered commission structures that align service fees with transaction values. Consider establishing a Real Estate Stabilization Fund, funded initially by the central government and jointly participated by financial institutions and private investors, to help smooth cyclical fluctuations. The pace of new housing supply should be managed to mitigate pressure on the secondary market. **Policies such as**

“old-for-new” programs in existing housing and phased urban renewal projects can expand market activity and stimulate construction demand. Government subsidies, combined with homeowner participation and incentives—such as additional area rewards or preferential parking options—can encourage active participation in renewal projects. Publicly led “Housing Renewal Platforms” should be developed to channel fiscal and financial support toward secondary housing upgrades. **To ease financing pressures, authorities should accelerate property debt restructuring,** offering tax and fee exemptions during the process and, where necessary, recapitalizing major and local AMCs. Financial institutions should be encouraged to establish risk-sharing and due diligence protection mechanisms, supported by special relending facilities for property restructuring. Meanwhile, regulatory frameworks for financial innovation, including asset tokenization, should be refined to foster a stable and transparent environment for market-oriented recovery.

6. Accelerating the removal of structural bottlenecks to unlock new industrial growth drivers

Enhance scenario-based applications to boost the integration of AI and manufacturing. Support should cover AI deployment across the full product lifecycle—R&D, design, production, sales, and services—while improving the quality and accessibility of large-sample industry databases. Scenario-driven innovation will help accelerate iterative upgrades of technology systems. **Industrial policies should be tailored to local conditions.** Leveraging regional advantages and resource endowments, areas with supply chain gaps should attract key upstream and downstream players, and regions lacking supporting industries should develop complementary facilities, using targeted investment promotion to foster regional specialty industrial chains and clusters. Support for SMEs through tax incentives and low-interest loans will help them navigate the transformation phase smoothly and contribute to the emergence of new industrial growth momentum.

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