

China's Economic and Financial Outlook

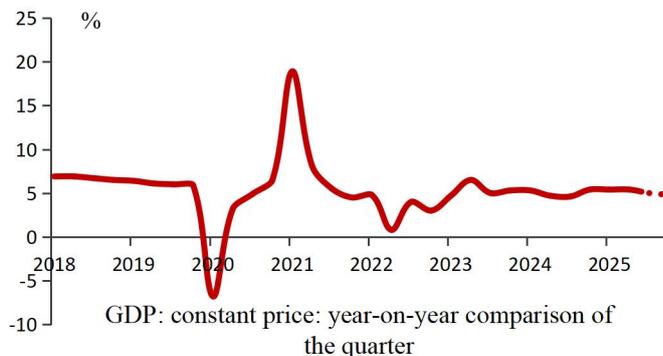
2025Q3 (Issue 63)

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Highlights

- In the first half of 2025, amid the drastic changes in the external environment, China stepped up the implementation of more proactive and effective counter-cyclical adjustment policies. As a result, domestic demand was generally stable, exports performed exceeded expectation, industrial production grew fast, and the economy remained generally stable, with the GDP growth projected at around 5.4% in the first half of the year. However, due to external shocks and renewed weakening of the real estate market, economic activity moderated to some extent in 2025Q2, with GDP growth expected to be around 5.3%, down by about 0.1 percentage point from 2025Q1.
- In the second half of the year, China's economy will still face multiple uncertainties and destabilizing factors, particularly the highly uncertain US tariff policies that will weigh on export growth. It's expected that the economic growth in the second of the year will be lower than that in the first half of the year, with GDP growing by around 5% in 2025Q3, and around 5% in the full year.
- The necessity of intensifying and improving macro policies in the future is increasing. With the focus on the demand side, efforts should be made to accelerate the implementation of existing policies, while proactively planning incremental policies. Fiscal policies should play a bigger role in maintaining steady economic growth. Supply and demand should work in concert to unlock consumption potential and unleash the momentum of domestic demand. External risks and challenges should be guarded against, and promote cooperation and development through high-level opening-up. Stronger and more resolute steps should be taken to restore and stabilize the real estate market. Industrial policies should be optimized to address prominent problems such as the mismatch between supply and demand and the cutthroat competition.

China's GDP Growth and Forecasts



Source: BOC Research Institute

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China's Economy Runs Steadily amid Intensified Macro Policies

-- China's Economic and Financial Outlook (2025Q3)

In the first half of 2025, amid the drastic changes in the external environment, China stepped up the implementation of more proactive and effective counter-cyclical adjustment policies. As a result, domestic demand was generally stable level, exports performed exceeded expectation, industrial production grew fast, and the economy remained generally stable, with the GDP growth projected at around 5.4% in the first half of the year. In the second half of the year, China's economy will still face multiple uncertainties and destabilizing factors, particularly the highly uncertain US tariff policies that will weigh on export growth. It's expected that the GDP growth will be around 5% in 2025Q3, and around 5% in the full year, with domestic demand contributing greater to economic growth. Going forward, it will be increasingly necessary to enhance the intensity and effectiveness of macro policies. With the focus on the demand side, efforts should be made to accelerate the implementation of existing policies, while proactively planning incremental policies, to drive the recovery of domestic demand, stabilize the real estate market, and tackle various external uncertainties through growing internal certainties, thereby laying a solid foundation for the steady economic growth in the full year and for a good start of the 15th Five-Year Plan period.

I. 2025H1 Economic Review and H2 Outlook

I.1 2025H1 Economic Review

1. Exports exhibited strong resilience and performed better than expected

In the first five months of 2025, China's exports (denominated in the US dollar, the same below) increased by 6% year-on-year to USD1.48 trillion, 3.3 percentage

points higher than the same period of last year. **First, China's exports to the US dropped significantly.** In April, the US imposed heavy tariffs on imports from China. Although China and US agreed to reduce tariffs in early May, the effect of the tariff suspension period was yet to be fully unleashed and some export demand was released in advance. China's exports to the US continued to slow down, decreasing by 7.4% year-on-year in the first five months of 2025. **Second, China's exports to emerging economies and EU grew relatively fast, partially offsetting the impacts of the tariff policy.** In response to heavy tariffs, some Chinese exporters transported raw materials and finished goods to the factories or warehouses in Vietnam and other ASEAN countries, significantly expediting entrepot trade. China's exports to ASEAN countries expanded by 12.2% year-on-year. Driven by the deepening of the Belt and Road cooperation and Africa's growing demand for its economic development, China's exports to Africa increased by 18.9% year-on-year. Boosted by the economic recovery across Europe and the improved economic and trade relations between China and Europe, China's exports to EU grew by 6.4% year-on-year. **Third, less affected by the tariff policy, some electromechanical products functioned as a major force driving export growth.** Mobile phones, computers and ships, among other products made in China, are somewhat irreplaceable in the global industrial chain, showing stronger resilience against heavy tariffs. Meanwhile, the Trump administration exempted some electronic products and components from "reciprocal tariffs". In the first five months of 2025, China's exports of electromechanical products increased by 8.1% year-on-year.

2. Policies to spur domestic demand have produced notable results, but the effects of real estate policies have diminished

First, the consumer goods trade-in policy has significantly boosted consumption, but divergence has emerged across segmented consumer markets. In the first five months of 2025, total retail sales of consumer goods grew by 5% year-on-year, 0.9 percentage point higher than the same period of last year. In terms of commodity

consumption, the consumer goods trade-in policy drove rapid growth in the consumption of home appliances and communication equipment, with their retail sales growth reaching as high as 30.2% and 27.1%, respectively. Upgraded consumption maintained fast growth, with the retail sales of gold, silver and jewelry and sports & entertainment supplies surging by 12.3% and 25.7%, respectively. **In terms of service consumption**, in the first five months of 2025, the retail sales of services grew by 5.2% year-on-year, outpacing the growth of commodity retail sales by 0.1 percentage point in the same period of the year, as residents' enthusiasm for travel remained quite strong. **Divergence has emerged across different consumer markets.** First, there was a divergence between traditional consumption and emerging consumption. A growing number of consumers (particularly young people) were shifting from “status-driven consumption” to “self-pleasing consumption”, as reflected in the weakening consumption of traditional high-end categories such as Chinese liquor and luxury bags alongside the thriving consumption of emerging categories such as milk tea and anime/game goods. Second, there was a divergence between higher-tier cities and lower-tier cities, with consumption growth in first-tier cities like Shanghai and Beijing being moderate while consumption in second-, third- and fourth-tier cities has grown relatively faster.

Second, the policies of large-scale equipment renewals and consumer goods trade-ins drove fast growth in manufacturing investment, leading to a higher level of contribution to overall investment growth. In the first five months of 2025, manufacturing investment grew by 8.5% year-on-year, contributing to 56.5% of the overall investment growth, 4.1 percentage points higher from 2025Q1. **On one hand, large-scale equipment renewals and supporting policies were further intensified, driving fast growth of investment in relevant industries.** In the first five months of 2025, investment to purchase equipment and tools increased by 17.3%, contributing 2.3 percentage points to overall investment growth. **On the other hand, the policy of consumer goods trade-ins helped unlock end-user demand, driving**

the fast growth of investment in downstream consumer goods manufacturing. In the first five months of 2025, investment in consumer goods manufacturing expanded by 13.2% year-on-year.

Third, funds raised through special-purpose bonds and others expanded in size at a faster pace, laying a sound foundation for the accelerated growth of infrastructure investment. In the first five months of 2025, investment in infrastructure (excluding power) grew by 5.6% year-on-year. This was partly due to the faster expansion of funds raised through special-purpose bonds, and partly to the continued progress in resolving local government debt, which eased the burden on local governments and enhanced their capacity to expand investment.

Fourth, the real estate market weakened again, with divergence intensified across the market. In 2025Q1, major real estate indicators, including land, sales and prices, improved to some extent. However, since 2025Q2, due to diminishing policy effects and weakening public confidence, the real estate market showed signs of losing momentum. In the first five months of 2025, real estate development investment and commodity housing sales fell by 10.7% and 3.8% year-on-year, respectively, a decline of 0.8 percentage point and 1.7 percentage points respectively from 2025Q1. Core areas in core cities delivered relatively stable performance, but non-core cities and the non-core areas in core cities were under significant pressure with difficulty in real estate destocking.

3. Industrial production generally maintained fast growth, but divergence remained evident

In the first five months of 2025, the added value of industrial enterprises above the designated size increased by 6.3% year-on-year. Amid varying demands and the replacement of old growth drivers with new ones, evident divergence has emerged among industrial segments. **First, the policies of large-scale equipment renewals and consumer goods trade-ins continued to drive the fast growth of midstream**

equipment manufacturing related industries. In the first five months of 2025, the added value of industries such as general equipment manufacturing, auto manufacturing, electrical machinery and apparatus manufacturing grew by 8.4%, 11.2% and 12.31% year-on-year, respectively. **Second, under the tariff pressure, the pre-emptive export surge provided a temporary support for industrial production.** In the first five months of 2025, the export delivery value of Chinese industrial enterprises grew by 4.1% year-on-year, 1.1 percentage points higher than the same period of the previous year. **Third, downstream discretionary consumer goods manufacturing and midstream real estate related manufacturing showed sluggish performance.** In the first five months of 2025, the added value of alcohol/beverage and refined tea manufacturing and the textile industry grew by 5% and 4.4% year-on-year, respectively, 0.8 and 0.9 percentage point lower than the same period of the previous year. Overall, the real estate market was still at a bottoming-out and adjustment stage. The added value of non-metallic mineral products manufacturing increased by -0.6% year-on-year, 0.8 percentage point lower than the same period of the previous year. **Fourth, with strong support from new drivers of growth, midstream material manufacturing related to new quality productive forces delivered stable performance.** In the first five months of 2025, the added value of high-tech manufacturing grew by 9.5% year-on-year, 0.8 percentage point and 0.6 percentage point higher than the same period of the previous year and the end of the previous year, respectively. Boosted by the accelerated development of new energy vehicles, AI and other emerging industries, the added value of metallic products manufacturing and non-ferrous metal smelting, rolling and processing industry grew by 9.3% and 7.1% year-on-year, respectively.

4. Price levels remained low, diverging significantly from the volume of consumption

In the first five months of 2025, CPI and PPI declined by 0.1% and 2.6% year-on-year, respectively, with a notable divergence between volume and price in

economic operations. **First, residential consumption related price index diverged from residential consumption trends. Residential consumption of commodities increased in volume but decreased in prices.** In the first five months of 2025, CPI fell by 0.4% year-on-year, but the retail sales of commodities in China expanded by 5.1% in the same period. This was partly due to the structural factors such as declines in pork and other food price and international crude oil prices, and partly to the shift of consumption preference for cost-effectiveness and the cut-throat competition among some merchants that led to lower prices. **Residential consumption of services increased in volume and remained unchanged in prices.** In the first five months of 2025, service CPI rose by 0.4% year-on-year, while the retail sales of services in the same period in China grew by 5.2% year-on-year. **Second, the growth of main industrial product prices diverged from the growth of industrial production.** China's industrial production showed a steady recovery, but the prices of main industrial products continued to decline. From a short-term perspective, the divergence was attributed partly to the large-scale equipment renewal policy that shifted the focus of fixed asset investment from construction and installation to the purchase of equipment and tools, which put pressure on the prices of traditional construction related industrial goods, and partly to the tariff policy that put pressure on the prices of products in midstream manufacturing sectors heavily reliant on export. From a medium and long-term perspective, the continued decline in industrial goods prices is related to the low production capacity caused by insufficient domestic demand and volatile external demand.

I.2 2025H2 Economic Outlook

In the second half of 2025, China's economy will still face multiple uncertainties and destabilizing factors. However, it's also noteworthy that China is becoming more capable of tackling internal and external risks and challenges to its economy. Answering the following four questions will be crucial to the analysis of the trends of China's economy in the second half of the year.

Question 1: Can the trend of accelerated consumption growth be sustained?

In the second half of the year, consumption growth will be primarily supported by the growing effects of policy stimulus and the release of service consumption potential, and is expected to be flat with the first half of the year. First, with special action plans released in several cities to boost consumption, intensifying and implementing the pro-consumption policies will be a major force driving the recovery of consumption. The *Special Action Plan to Boost Consumption* launched in March specified a series of intensive and wide-reaching measures to improve consumption capacity, unleash consumption willingness, refine the consumption environment and remove consumption bottlenecks. Since 2025Q2, Beijing, Shanghai, Chengdu, among other cities, have successively released special action plans to boost consumption, with the aim to improve consumption in quantity, quality and efficiency. **Second, the potential of service consumption is expected to be further unleashed.** As the living standards of Chinese residents improve, service consumption ushers into a stage of fast growth. Amid the trend of population aging, demands for elderly service and healthcare expand significantly. Young consumers' enthusiasm for new consumption scenarios like cycling, camping, and skiing grows ever stronger, which will become the new engine driving growth in service consumption. Against this background, intensified policies are likely to eliminate the bottlenecks in service consumption and further unleash the potential of services.

Question 2: Can the decline in real estate investment be narrowed?

The State Council executive meeting held on June 13 stressed the need to “conduct a comprehensive survey of all supplied land and ongoing real estate projects nationwide, further optimize existing policies, make policy implementation more systematic and effective, take a combination of measures to stabilize expectation, spur demand, refine supply and resolve risks, and make greater efforts to stabilize and recover the real estate market”. More incremental policies to support the real estate are expected to be rolled out in the second half of the year. **However, the**

recovery of real estate investment still faces multiple restrictive factors. Given declining sales, inventories remain persistently high, and real estate enterprises will still adopt the “sales-driven investment” approach, which may hinder the stabilization of real estate development investment in the second half of the year. Meanwhile, real estate enterprises will remain under heavy pressure of repaying debts in the second half of the year. On the whole, the supply-demand relations in the real estate market are unlikely to undergo fundamental changes and real estate enterprises will have limited willingness and capacity to expand investment. Therefore, it’s expected that narrowing the decline in real estate investment will still be difficult. **To hedge against the downward pressure on the real estate market and external shocks, future policies focus on accelerating infrastructure projects. Consequently, growth in infrastructure investment is likely to accelerate, and play a bigger role in stabilizing economic growth.** In the second half of the year, governments at all levels are expected to speed up the disbursement of various funds such as those raised through special-purpose bonds and ultra-long special treasury bonds, to advance relevant projects, thus large projects will continue to drive investment. **Meanwhile, manufacturing investment will maintain fast growth.** The effects of the large-scale equipment renewal policy will further unfold, with investment in the purchase of equipment and tools, special equipment, general equipment and others expected to maintain fast growth. Additionally, driven by factors such as the continued implementation of the consumer goods trade-in policy and the steady growth of domestic demand, investment in downstream consumer goods manufacturing and midstream manufacturing sectors will maintain fast growth.

Question 3: Can the better-than-expected growth of exports be sustained?

In the second half of the year, emerging economies will maintain relatively fast growth, with their growing demands providing support for China’s exports. In addition, consumer electronics, lithium batteries and other products made in China

occupy an important position in global industrial and supply chains. China's technology-intensive and capital-intensive products such as electromechanical products, vehicles and their parts, and ships are highly competitive in the world, so the exports of these products will maintain rapid growth. **However, China's exports will still face multiple challenges in the second half of the year, with the growth likely to moderate. First, the momentum of global economic and trade growth will moderate.** In the second half of the year, the US tariffs and other policies will remain highly uncertain, while the tensions in global trade and investment may persist, jointly adding to the downward pressure on economic growth. **Second, the US tariffs on China's exports will remain at a relatively high level.** The Trump administration's "America First" concept and its goal of reshaping global industrial, economic and trade landscapes will remain unchanged. The US will continue to adopt trade protectionism measures of varying degrees, and the global trend of prolonged high tariffs will be difficult to change. All these mean that the risk of trade fragmentation still exist. The uncertainty surrounding high tariffs and trade policies will make US importers re-evaluate procurement strategies and supply chains, leading to continued weakness in China's exports to the US. **Third, the evolution of the "reciprocal tariff" game may exert spillover effects on China's exports.** Currently, there is uncertainty surrounding the US' negotiation with its major trade partners on tariffs. The tariff game among major economies is evolving and will continue to have spillover effects. **Fourth, prices and the base effect will be a drag on export growth.**

Question 4: Can the price level recover?

In terms of CPI, first, the year-on-year rise of core CPI excluding food and energy will still be at a low level. In the second half of the year, due to the slowing growth of residential consumption of services and commodity discount promotions under the consumer goods trade-in policy, the year-on-year rise of core CPI will be limited. **Second, food and energy prices may trend downward simultaneously.**

On the food side, China's pork supply and demand relations is basically balanced with relatively stable prices at present. However, due to the higher base in 2024Q3, pork prices may shift from year-on-year growth to decline. On the energy side, global crude oil generally will see slowing demand due to increased supply. International oil prices may continue a volatile downward trend in the second half of the year, driving down residential energy prices in China. **In terms of PPI**, traditional sectors such as real estate will still have weak demands for major industrial products like iron & steel and cement, and the price wars in automobiles and other fields will continue to drag down the prices of relevant products.

In summary, China will still face great external challenges in the second half of the year, but the intensified pro-consumption policies and the unleash of service consumption potential will underpin the steady growth of consumption. Meanwhile, strengthening investment in infrastructure will hedge against the downward pressure on real estate investment. It's expected that China's GDP growth will be around 5% in 2025Q3, and around 5% in the full year, with domestic demand contributing greater to economic growth.

II. 2025H1 Financial Review and H2 Outlook

In the first half of 2025, despite the disturbance of the US "reciprocal tariffs" to financial operations, driven by positive factors including economic growth, intensified policies, enhanced confidence and inflows of foreign capital, China's financial market exhibited strong resilience and vitality, as evidenced by the continued recovery of the financing demands of real economy enterprises, steady growth of money supply and aggregate financing, interest rates that trend downward, the stabilization and rebound of China's stock market, steady growth of bond issuances, accelerated issuance of innovative products such as sci-tech innovation bonds, and eased pressure on RMB depreciation. In the second half of the year, given the release of reform dividends, notably strengthened confidence in development, and inflow of foreign capital against the backdrop of de-dollarization,

the financial market will sustain the trend of steady recovery amid volatility. However, the emerging effects of “reciprocal tariffs”, weaker-than-expected recovery of domestic demand, among other risks and challenges, will still deserve attention.

II.1 Intensified policies will boost funding demand, and major financial data is expected to recover steadily

In the first half of 2025, driven by economic recovery and growth, major financial data steadily improved. In the first five months of 2025, aggregate financing to the real economy increased by RMB18.63 trillion, RMB3.83 trillion more than the same period last year. Three characteristics were exhibited: **First, new credit issuance increased year-on-year.** In the first five months of 2025, new RMB loans totaled RMB10.38 trillion, RMB112.3 billion more than the same period last year. Driven by continued economic recovery and growth, real economy entities showed growing funding demands. Meanwhile, PBOC launched ten measures under three categories in early May, encouraging financial institutions to support the development of the real economy through the coordinated instruments of quantity and price, thus driving the steady expansion of the credit size. **Second, government bond financing increased by a much larger margin.** In the first five months of 2025, net government bond financing totaled RMB6.31 trillion, RMB3.81 trillion more than the same period last year. The surge in government bond issuance was primarily driven by the issuance of local government bonds. In the first five months of 2025, the issuance of local government bonds was about RMB4.3 trillion, providing a strong financial support for infrastructure investment, urban renewal and resolution of debt risks. Data shows, in the first five months of 2025, more than RMB1.6 trillion of swap bonds were issued, completing more than 80% of the year’s quota for existing local government implicit debts. **Third, equity financing increased year-on-year.** In the first five months of 2025, equity financing increased by RMB150.4 billion, RMB44.4 billion more than the same period last year. Supported

by steady economic recovery and favorable policies, equity financing was active. **Fourth, credit to green development and related fields maintained medium-to-high growth, while the growth of loans to real estate reversed the falling trend and rebounded.** As of the end of 2025Q1, outstanding credit to green, inclusive and agriculture-related areas maintained a medium-to-high growth of 20.25%, 12.2% and 8.4%, respectively, higher than the growth of all loans (7.4%). The year-on-year growth of real estate loans recovered to 0.04%, up by 0.24 percentage point from the end of the previous year. The policies supporting the real estate market played a positive role in stabilizing expectation and boosting demand, driving the gradual stabilization of credit demand.

In the second half of 2025, as policies continue to intensify, major financial data are expected to sustain steady growth. **First, aggregate financing to the real economy will expand steadily.** The package of measures rolled out by regulatory authorities since May will be implemented faster to deliver tangible results. Policies concerning lowering the reserve requirement ratio and interest rates will enhance the capabilities of financial institutions to grant credit while effectively boosting the financing demands of the real economy. Investment in key areas such as infrastructure will maintain steady growth, and the growth of private sector investment is expected to steadily rise. All these will drive the steady growth of aggregate financing. **Second, outstanding credit in key areas and weak links of the economy will maintain medium-to-high growth.** Based on the expansion of multiple central bank lending quotas, tools such as the “central bank lending for service consumption and elderly care” will be launched. Driven by structural tools, the growth of credit to sci-tech innovation, green, inclusive, pension, consumption, among other key areas and weak links of the economy, is expected to keep at a high level, and continue to be higher than that of all loans. **Third, government bond issuance will continue to gather pace.** Boosted by factors including counter-cyclical fiscal policies and accelerated resolution of debts by local governments, government bond issuance is expected to

keep at a high level and even hit a historical high in the second half of the year.

II.2 With another cut in policy rates, liquidity is expected to remain ample in 2025Q3.

First, policy rates were lowered, significantly easing the tight balance of liquidity. In 2025Q1, the liquidity in the money market tended to be tighter. Since 2025Q2, PBOC has increased liquidity injection. Notably, in early May, it implemented the first interest rate and reserve requirement ratio cuts since September 2024. The 7-day reverse repo policy rate was cut by 10 bps to 1.4%, driving down the weighted average interest rates for interbank RMB lending and bond pledged repos to 1.55% and 1.56%, respectively, a decrease of 31 and 60 bps respectively from January 2025. The 7-day yield rate of WeChat LiCaiTong (reflecting the short-term interest rates in the financial market) and the 6-month rediscount rate of state-owned banks bills (reflecting medium-term interest rates in the financial market) declined accordingly. **Second, the interest rates of special structural monetary policy instruments were cut for the first time.** The annual interest rates of multiple special structural monetary policy instruments were originally kept at 1.75%, which was less attractive amid the declining market rates. In May, PBOC lowered the interest rates of all types of special structural monetary policy instruments by 25 bps to 1.5% for the first time. **Third, the housing loan rates in some cities did not decrease following the declining Loan Prime Rate (LPR).** Although the LPR was lowered by 10 bps in May, financial institutions in some cities such as Guangzhou, Foshan and Hangzhou adjusted the LPR minus spread pricing formula for housing loan rates, resulting in no decline in the actual housing loan rates. Currently, housing loan rates are already at a historical low. In some areas, the reduction of housing loan rates has been slowed down to maintain banks' net interest margins in some regions, and the dependence of housing sales on interest rate cuts has also decreased.

In the second half of the year, the interest rates may steadily decline, and liquidity will be kept reasonably ample. **It is required by the CPC Central Committee to make full use of the moderately accommodative monetary policy.** The Political Bureau of the CPC Central Committee meeting held in April called for efforts to step up the implementation of more proactive and effective macro policies, making good use of the more proactive fiscal policies and moderately accommodative monetary policies. In May, a package of financial policies including interest rate and reserve requirement ratio cuts were subsequently introduced. At present, the foundation for China's sustained economic recovery and growth still needs to be further consolidated, and external impacts could further intensify. It is expected that the monetary policy stance will remain unchanged in the second half of the year. **Meanwhile, phenomena such as bond market speculation and exchange rate depreciation have been somewhat curbed, creating favorable conditions for the orderly reduction of interest rates.** Since December 2024, some financial institutions increased the allocations in bond assets with expectations of interest rate cuts, leading to an excessively fast decline in bond market yields to maturity and an excessive rise in bond prices. In response, PBOC suspended CGB purchase in the open market in 2025Q1, and moderately tightened liquidity injection. After adjustments, the current bond market interest rates have gradually recovered to a reasonable level, and speculative activities have eased. These developments, combined with the notably eased pressure on RMB depreciation, have laid a foundation for the orderly downward movement of interest rates.

II.3 Trade frictions will disturb A-shares and several reforms will help accumulate the momentum of growth

Since the start of 2025, affected by factors such as the drastic changes in “reciprocal tariffs”, the A-share market has risen, dipped and climbed again. As of June 25, the SSE Composite Index closed at 3,455.97 points, up by 5.9% from the beginning of the year. **Trading activities have been active and the investment and financing**

functions have been enhanced. In the first half of the year, the total turnover of the main boards of the Shanghai and Shenzhen stock exchanges reached RMB98.66 trillion, a year-on-year increase of 44%. **Meanwhile, technology and growth sectors have gained popularity.** In the first half of the year, communication services, healthcare, and materials performed exceptionally, rising by 9.04%, 8.25% and 9.24%, respectively. However, the real estate sector remained sluggish, falling by 6.86% year-on-year. **Bearish factors included** geopolitical risks. In early April, the Trump administration hiked the “reciprocal tariffs” on China for three consecutive rounds, with the tax rate on goods exported to the US once soaring to 145%, which was almost equivalent to cutting off China-US trade relations. This had significant impacts on sectors strongly related to trade such as electrical appliances, automobiles, machinery, and chemicals, dragging down the broad market trend. **Bullish factors included: First, the profits of listed companies are growing.** In 2025Q1, the net profit attributable to shareholders of all A-share listed companies rose by 3.66% year-on-year. Among them, non-financial and non-petroleum enterprises performed exceptionally, with the net profit attributable to shareholders of the parent company rising by 5.52% year-on-year, reversing the continuous downward trend since 2023. The excellent profitability supported the performance of A-shares. **Second, global assets are revaluating China.** Given the growing uncertainty of USD-denominated assets, the global demand for non-USD-denominated assets has increased. In particular, RMB exhibits strong resilience in the global trade war, effectively boosting foreign investors’ confidence in increasing holdings of Chinese stocks.

In the second half of the year, the A-share market will maintain an upward trend amid volatility. **First, phased progress made in tariff negotiations will ease the pressure on listed companies in terms of operating income.** China and the US reached multiple agreements on reducing or suspending tariffs at the Economic and Trade Meeting in Geneva, which will help Chinese enterprises adjust their production and sales plans as soon as possible, get fully prepared for changes in the

future international economic and trade landscape, mitigate the potential impacts of higher tariffs on profits, and support their stock performance. **Second, the optimization of the mutual fund assessment mechanism will reduce market volatility.** On May 7, the CSRC issued the *Action Plan for Promoting the High-Quality Development of Mutual Funds* (the “Action Plan”), which aims to drive industrial transformation in multiple dimensions such as the assessment mechanism, fees model, product structure, and compliance management, and is expected to reshape the mutual fund ecosystem and inject long-term momentum into the A-share market. For example, the Action Plan requires fund companies to implement a long-term assessment of more than 3 years for fund managers, with the weight of medium and long-term performance assessment not less than 80%. This will reduce the frequent position adjustments by fund managers due to the pressure from short-term rankings. **Third, the M&A and restructuring market will be more active, with relevant sectors expected to deliver impressive performance.** On May 16, the CSRC released the revised *Administrative Measures for Material Asset Restructuring of Listed Companies*, which required efforts to simplify the review procedures, introduce innovative trading tools, and enhance regulatory tolerance. The further implementation of various policies will effectively guide listed companies to strengthen the integration across industrial chains through M&A and restructuring. Since the start of the year, listed companies have disclosed more than 600 asset restructuring plans, 1.4 times that of the same period of the previous year. Military, power, and technology industries are hot areas for M&A and restructuring, with related sectors expected to perform well in the future.

II.4 Bond yields will fluctuate downward, while issuance volume will steadily grow

Since the start of 2025, the bond market has exhibited the following characteristics: **First, bond yields have been continuously fluctuating.** Due to disturbances caused by tariff policies, bond market fluctuated during the turn of the first and second

quarters. In May, with the introduction of reserve requirement ratio and interest rate cuts policies, short-term and long-term bonds varied in performance. As of June 25, the 10-year CGB yield was 1.65%, a decrease of 3 bps from the end of the previous year; the 1-year CGB yield was 1.36%, an increase of 27 bps from the end of the previous year. **Second, bond issuance increased significantly.** As fiscal policies were implemented ahead of schedule, the issuance of interest rate bonds increased substantially. As of June 25, total bond issuances reached RMB44.33 trillion, a year-on-year growth of 16.58%. Among them, issuances of CGBs, local government bonds, interbank negotiable certificates of deposit, financial bonds, and corporate bonds increased by 35.58%, 58.16%, 6.95%, 18.99%, and 15.48% year-on-year, respectively. **Third, the issuances of innovative products such as sci-tech innovation bonds and asset-backed commercial notes gathered pace.** According to data from the National Association of Financial Market Institutional Investors, in April, the custody scale of sci-tech innovation notes and asset-backed commercial notes both increased by more than 10% from the end of the previous year. Since the new policy was implemented in May, over 100 sci-tech innovation bonds have been issued and highly recognized by the market.

It is expected that in the second half of the year, bond yields will fluctuate downward, while the issuance volume will grow, with innovative products such as sci-tech innovation bonds expected to increase at a faster pace. First, bond yields will move downward amid fluctuations. With the gradual implementation of the package of financial policies to stabilize the market and expectations, fund supply will be relatively ample. The incremental funds released through reserve requirement ratio and interest rate cuts will gradually flow into the bond market through the “bank to non-bank” transmission channel, and bond yields are expected to fluctuate downward. **Second, bond issuances will keep growing.** Issuances of CGBs and general local government bonds may slow down, but to consolidate the momentum of economic recovery and growth, the quota for special-purpose local

government bonds may be raised. Meanwhile, as joint-stock banks and city commercial banks issued capital bonds to replenish capital, private enterprises faced an improved financing environment, and the policies in support of bonds such as green bonds and sci-tech innovation bonds produced results, the issuances of financial bonds, corporate bonds and other credit bonds will increase significantly. **Third, innovative products such as sci-tech innovation bonds will maintain a sound momentum of growth.** For example, the ongoing policy support will create a favorable environment for the development of sci-tech innovation bonds. With the expansion of market scale and improvement of liquidity, the issuance of sci-tech innovation bonds will continue to grow with increasing trading activity.

II.5 With the depreciation pressure substantially eased, the RMB exchange rate will remain basically stable at a reasonable and balanced level

In the first half of the year, the RMB once came under significant pressure due to factors such as the US “reciprocal tariff” policy, it appreciated after initially weakening as China and the US reached an important consensus through economic and trade negotiations. **First, the onshore exchange rate appreciated, with the deviation from the central parity rate narrowing significantly.** Before mid-April, the onshore exchange rate remained more than 1.0 percentage point higher than the central parity rate. The deviation gradually narrowed and the two tended to converge after the end of May. **Second, the offshore exchange rate appreciated significantly.** Due to the growing market expectations for a stronger performance of RMB, the deviation of the offshore exchange rate from the onshore exchange rate and the central parity rate was quickly corrected, and the offshore USD/RMB spot exchange rate was even once lower than the onshore exchange rate. As of June 25, the central parity rate, onshore spot exchange rate, and offshore spot exchange rate had converged to around 7.17. **Third, the pressure on banks’ foreign exchange settlement and sales was notably relieved.** In January, the difference between banks’ foreign exchange settlement and sales conducted on behalf of customers was

USD-39.243 billion, the biggest gap since last August. In May 2025, the difference turned from negative to positive, standing at USD17.364 billion, reflecting a significant increase of market confidence in the stability and even appreciation of the RMB exchange rate.

In the second half of the year, it is expected that the RMB exchange rate will remain basically stable at a reasonable and balanced level. **First, global tariff risks have temporarily eased.** Since May, global tariff risks have subsided. In addition, with the growing concern over USD-denominated assets as safe-haven assets due to the disturbance brought by Trump's radical policies, traditional safe-haven assets such as US bonds and the USD experienced sell-offs to varying degrees, and the US dollar index fell back from high levels, which will ease the depreciation pressure on RMB. **Second, China has developed different effective policy tools to stabilize the RMB exchange rate.** In addition to previous measures such as issuing central bank notes in the offshore market and raising the macro-prudential parameters for cross-border financing, to maintain exchange rate stability, China also adopt other measures as appropriate, such as adjusting the reserve requirement ratio for foreign exchange deposits, the risk reserve requirement ratio for forward foreign exchange sales and the macro-prudential coefficient for overseas lending by domestic enterprises, and explicitly announcing the restart of counter-cyclical factors. **Third, the recovery of the capital market has accelerated the inflow of foreign capital.** Since October last year, the trading volume of Northbound Stock Connect has been significantly higher than the previous level. This trend is ongoing, and foreign capital inflows are expected to provide support for maintaining the balance of international payment and exchange rate stability. However, the stability of the RMB exchange rate may be undermined again if any new uncertainties arise from the trade war.

Table 2: 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	5.3	5.0	4.6	5.0
Added value of industrial enterprises above designated size	3.6	4.6	5.8	6.5	5.8	5.5	5.0	5.7
Service industry added value	3.5	6.3	5.0	5.3	5.4	5.0	4.6	5.1
Fixed asset investments (cumulative)	5.1	3.0	3.2	4.2	3.7	3.8	4.0	4.0
Investment in real estate development (cumulative)	-10.0	-9.6	-10.6	-9.9	-11.2	-11.0	-10.8	-10.8
Total retail sales of consumer goods	-0.2	7.2	3.5	4.6	5.5	5.5	4.7	5.0
Exports	5.6	-4.7	5.9	5.8	5.2	-2.0	-4.0	1.0
Imports	0.7	-5.5	1.0	-7.0	-2.2	-2.0	-1.0	-2.5
Consumer price index (CPI)	2.0	0.2	0.2	-0.1	-0.1	-0.2	0.8	0.1
Producer price index (PPI)	4.1	-3.0	-2.2	-2.3	-3.0	-2.5	-2.0	-2.4
Broad money supply (M2, ending balance)	11.8	9.7	7.3	7.0	7.8	7.4	7.5	7.5
Aggregate financing to the real economy (stock, ending balance)	9.6	9.5	8.0	8.4	8.8	8.7	8.5	8.5
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	7.18	7.1	7.1	7.1

Source: BOC Research Institute

III. Macroeconomic Policy Orientations

In the second half of the year, macro policies need to be intensified to produce greater results, with a focus on the demand side. Efforts should be made to accelerate the implementation of existing policies and give full play to the combined effects of policy measures, but also actively plan incremental policies to promote the recovery of domestic demand, so as to address various external uncertainties with assured internal growth.

III.1 Fiscal policies should be more forward-looking and play a bigger role in maintaining stable economic growth

First, give better play to the role of fiscal policies in cushioning external impacts.

Incremental policies should be proactively planned to hedge against external uncertainties. Investment should be made as a major means to fend off external impacts, and a new round of investment expansion plans should be prepared with the focus on regions with population inflows, people's livelihood-related areas such as healthcare, elderly care and education, as well as areas related to new quality productive forces, such as new infrastructure and emerging industries. Furthermore, efforts should be made to better leverage the role of fiscal policies in cushioning tariff impacts as a means of emergency response, establish an industrial export relief fund, introduce temporary industrial relief policies such as tax reduction and subsidies, and adopt supporting policies such as unemployment insurance refunds for enterprises that work consistently to stabilize jobs and employment. **Second, highlighting the orientation of investment for the people, and scaling up investment in areas related to people's livelihood and consumption.** It is necessary to increase financial input in elderly care, childcare, healthcare and other fields. Models such as public-private partnership (PPP), franchising, and REITs should be vigorously promoted to encourage private-sector investment in the development, investment and operation of projects in the areas related to people's livelihood and consumption.

III.2 Financial policies should be coordinated to drive further economic recovery and growth

First, flexibly adjusting the pace of policy operations to meet the financing needs of the real economy. Operations such as reverse repos, CGB trading and MLF should be combined to keep liquidity at a reasonable and ample level. In conjunction with the issuance of CGBs and local government bonds, financial

institutions should be guided to increase credit supply and promote the sustained recovery and growth of the economy. **Second, giving full play to the effectiveness of structural monetary policy tools to support the development of key areas.** Efforts should be made to raise the quota of structural tools and lower interest rates, strengthen tool innovation, and guide financial institutions to continuously increase support for key areas and weak links. **Third, strengthening policy coordination to drive a steady recovery of price levels.** In the future, it is important to further align financial policies with various other policies. In addition to the expansion of domestic demand, the quality of supply should be further enhanced, to promote the balance between supply and demand, and drive the steady recovery of price levels.

III.3 Supply and demand should be aligned to release consumption potential and unleash the momentum of domestic demand

First, optimizing the consumer goods trade-in policy. The allocation and disbursement of subsidy funds should be accelerated to avoid any funding gap that may dampen consumer expectations. The scope of subsidized commodities should be further expanded. For example, home textiles, elderly-oriented products, and baby and maternal products can be subsidized at the provincial level, and the service year requirements for used vehicles eligible for subsidies under the trade-in program can be relaxed appropriately. **Second, improving the supply of goods and services.** Investment in infrastructures directly related to consumption and capable of meeting future consumer needs, including elderly care homes and childcare centers, should be increased. It's also important to enhance the quality of goods and services, encourage and guide enterprises to create innovative products, give full play to the role of industrial associations, and formulate stricter standards and specifications. Differentiated and personalized tourist products and services should be delivered, and local areas should supported in hosting concerts, music performances, cultural shows, sports events, and other activities.

III.4 External risks should be proactively prevented, cooperation and development should be promoted through high-quality opening up

First, adopting temporary facilitation measures and stepping up financial support to stabilize foreign trade. It is recommended to introduce localized facilitation measures in customs supervision, export tax refund, and cross-border settlement to simplify procedures, lower enterprises' export costs, shorten their fund turnover cycles, and enable them to flexibly adjust export strategies. Policy-based financial tools such as preferential export credit insurance and interest subsidy policies can be used to provide credit support for foreign trade enterprises operating in high-risk markets. **Second, expanding the domestic market for foreign trade enterprises through diverse channels to promote the coordinated development of domestic and foreign trade.** Efforts should be made to monitor the operation of foreign trade enterprises, strengthen assistance to them, and focus on helping them cope with difficulties through measures such as “domestic sales of export-oriented goods”. Foreign trade enterprises should be guided to differentiate their products from those of domestic market-oriented sellers, to mitigate the crowding-out effect of the export-oriented goods in domestic market. **Third, enhancing opening-up and cooperation to draw worldwide favorable resources to China.** The ongoing reshaping of the global economic and trade landscape presents both challenges and opportunities. It is important to strengthen economic and trade ties with participating countries of the Belt and Road Initiative, Global South countries, and emerging markets. Proactive steps should be taken to further open up and unilaterally open the door to the least developed countries, and reach visa-free agreements with more countries and regions, to attract more foreign tourists to China for travel and consumption. Chinese schools of higher learning should step up efforts in recruiting high-caliber talent from around the world, attract them to study and work in China through preferential policies, and consolidate the reserve of international talent.

III.5 Incremental policies should be rolled out in time and help the real estate market stabilize and recover with greater resolve and efforts

First, promoting the restoration of market confidence and the release of market demand. The confidence in the efforts to “ensure the completion and delivery of overdue housing project” should be bolstered by expanding the scale of special loans or funds for this purpose. The approval and disbursement process should be refined to ensure funds are injected into suspended projects quickly and accurately. Restrictions on real estate sales should be lifted as soon as possible, policy support for home purchases should be intensified, and core cities should be allowed to appropriately increase the supply of quality land plots as needed to boost market sentiment. **Second, optimizing land and housing purchase and storage policies to promote the balance between market supply and demand.** The quota of special purpose bonds for land and commercial housing purchase and storage should be clarified, and the financial support of special purpose bonds for such work should be enhanced. Clear, specific and operable purchase and storage standards should be formulated based on local conditions, to ensure the work to be advanced in a standardized and transparent manner. **Third, further increasing support for real estate enterprises.** Policies for government-subsidized housing, urban village renovation and urban renewal should be enhanced in both intensity and scope, to create new and sustainable business growth points for more real estate enterprises.

III.6 Industrial policies should be refined to address prominent issues such as supply-demand mismatch

First, high-quality supply should be expanded with the aim to create effective demand. The endeavor to “increase varieties, improve quality and build brands” across the manufacturing sector should be further advanced, and the green and intelligent upgrading of big-ticket durable consumer goods such as automobiles, home appliances, and home decoration should be moved forward. The establishment

of a unified quality standard and certification system covering all industrial categories should be accelerated, and the full lifecycle quality tracing system should be implemented through smart supervision platforms. **Second, it's important to optimize the production capacity layout on the supply side and promote the differentiated development and healthy competition within industries.** Market access and exit mechanisms should be established and improved. Reasonable market access thresholds such as production capacity, technical level, and equipment energy consumption should be set based on industrial production trends, the exit costs should be lowered and exit procedures should be simplified for enterprises. Enterprises should be guided to adopt a long-term sustainable business philosophy, and be encouraged to increase input in new processes, new equipment, and key technologies through fiscal policies and industrial funds, thereby improving production quality and industrial added value.

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