

China's Economy in Transition: Trends, Policies and Outlook

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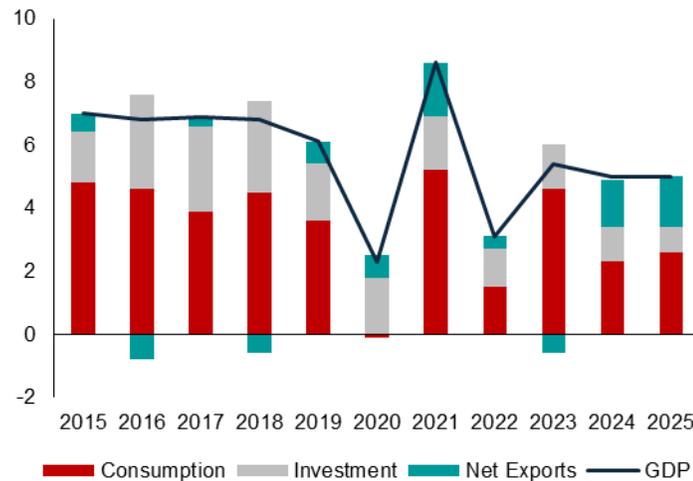
Presentation outline

- I. Big Picture Recap: Where the Economy Stands
- II. Going Deeper: Recent Dynamics and Mega Trends
- III. Challenges and Strengths: A Balanced View
- IV. Policy Direction and Outlook

I. Big Picture Recap: China's Economy in 2026 - Key Observations

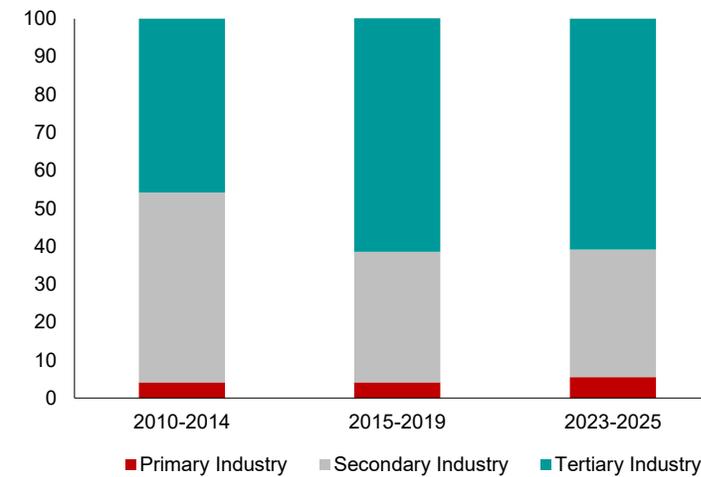
- Growth stabilized after a prolonged adjustment – conscious undertaking which started well before COVID.
- Transition from old drivers to new ones is underway – progress is rapid in many areas though not immediately obvious in some areas.

Contribution to GDP Growth
(percent y-o-y)



Sources: China National Bureau of Statistics (NBS), WIND

Share of GDP Growth (by Industry)
(percentage)



Sources: NBS, CEIC

I. Big Picture Recap: Key Economic Indicators

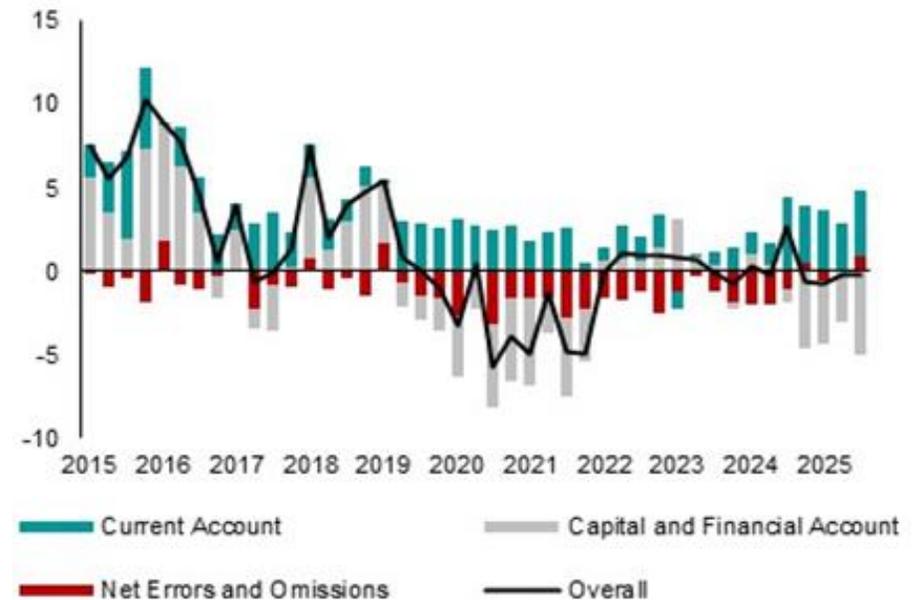
- Growth: moderate, policy-supported, below pre-pandemic trend.
- Inflation: low, reflecting weak demand rather than overheating.
- Employment: broadly stable, but youth and private-sector pressures remain; >12m jobs created every year.
- External balance: exports resilient – with frontloading a significant factor; imports markedly softer.

CPI Inflation (percent y-o-y)



Sources: NBS, WIND

Balance of Payments (percent of GDP)

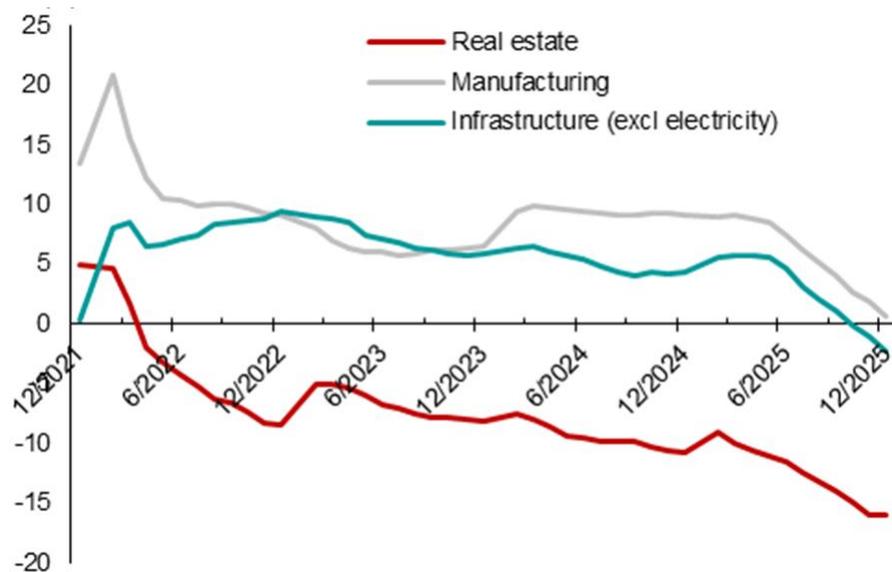


Source: CEIC

II. Going Deeper: Investment - From Property Drag to Industrial Support

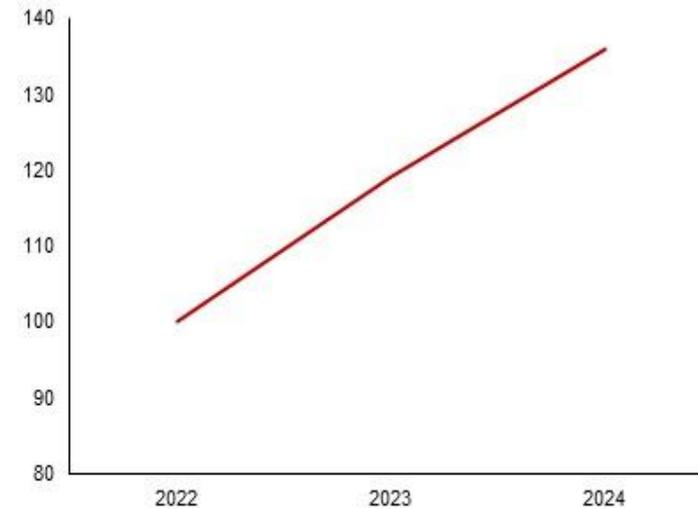
- Property investment remains a structural drag – but this too will “wash out” more and more over time.
- Infrastructure and manufacturing investment provide solid offset, especially high-tech manufacturing.
- Capital increasingly guided towards advanced manufacturing and green sectors – new growth drivers.

Fixed Asset Investment (percent y-o-y)



Sources: NBS, WIND

New Growth Drivers Index

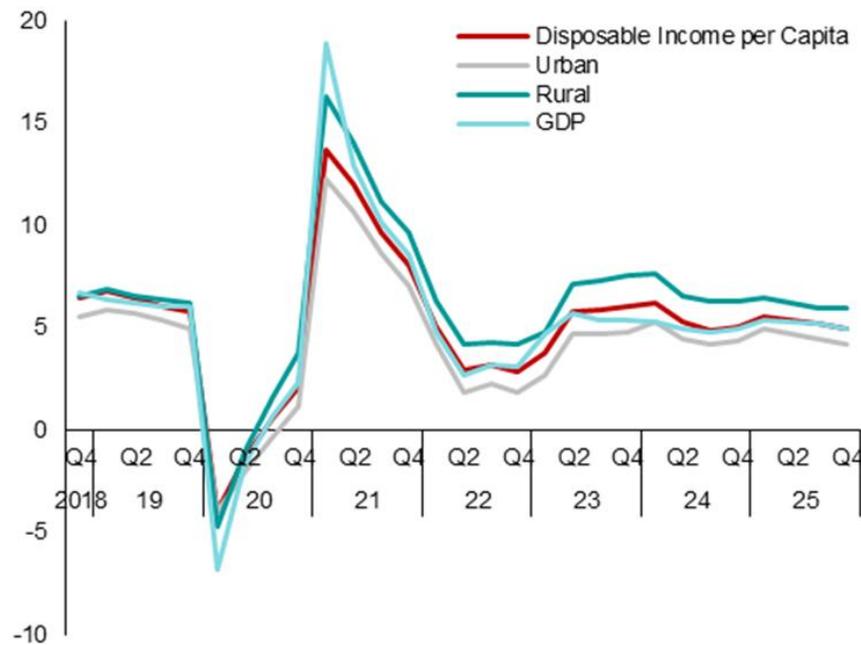


Note: To dynamically monitor the changes in new drivers of China's economic development, the Institute of Statistical Sciences of the National Bureau of Statistics of China calculated the new economic growth drivers index for 2024, by employing the fixed-base index method, according to the Statistical Monitoring System for New Industries, New Formats and New Business Models. The results showed that China's new economic growth drivers index in 2024 (taking 2022 as 100) was 136.0, an increase of 14.2 percent over the previous year. In 2024, all sub-indexes increased compared to the previous year, among which network economy index and the innovation driven index contributed the most to the growth of the total index.

II. Going Deeper: Consumption - The Confidence Gap

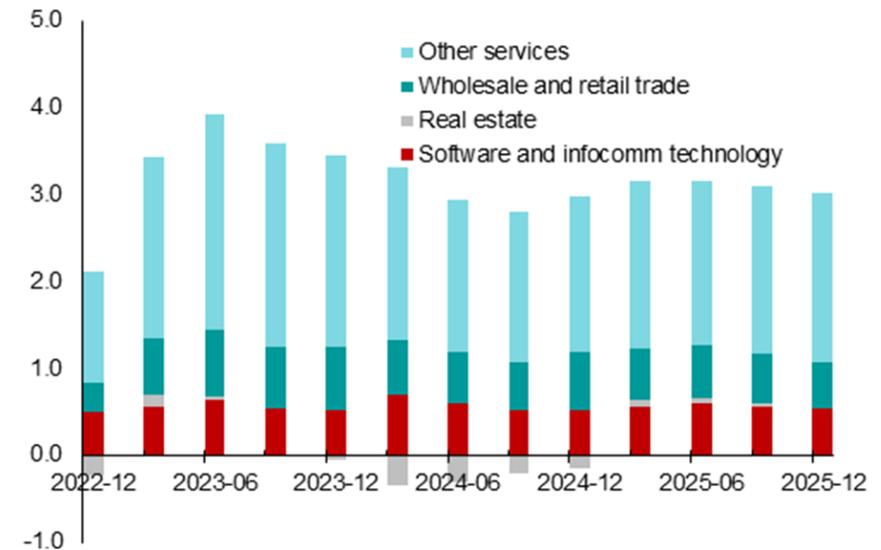
- Consumption recovery uneven across income groups and regions – this is entirely within expectations.
- High household savings reflect precaution, not lack of income – official data suggests firm income growth.
- Services consumption stronger than big-ticket goods – partly a structural change in spending patterns.

Disposable Income Growth
(percent y-o-y)



Source: Wind

Services' Contribution to GDP Growth
(percent y-o-y)

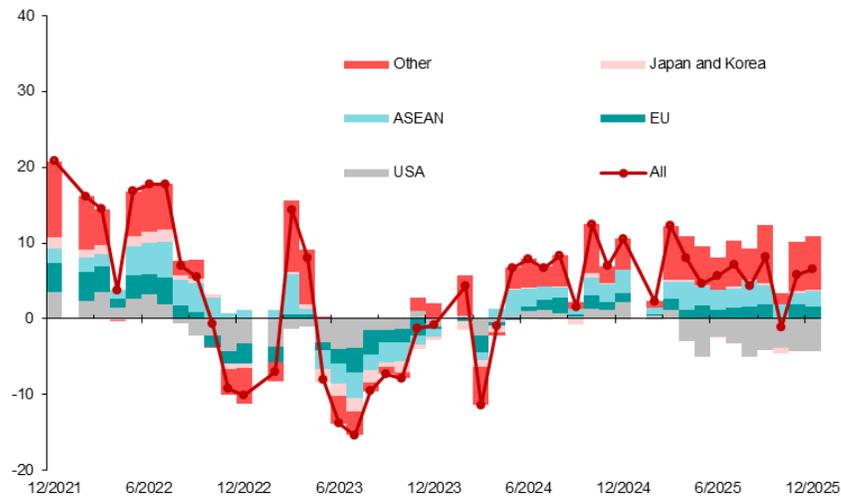


Source: Wind

II. Going Deeper: Trade and Exports - Resilient but More Contested

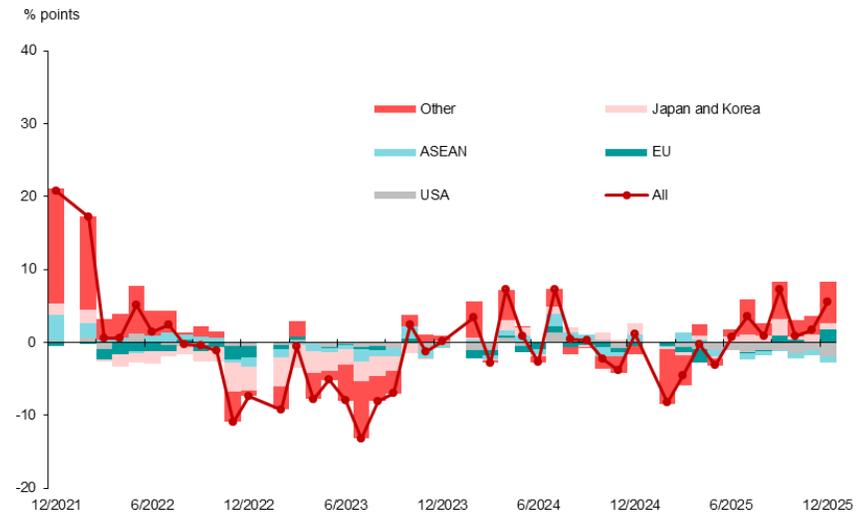
- Export remains a key growth stabilizer – drive investment, jobs creation, wage growth, and consumption.
- Several structural trends stood out: trade diversification, export composition, private enterprises role.

Export Growth by Destination
(percent y-o-y)



Source: CEIC

Import Growth by Source Country
(percent y-o-y)

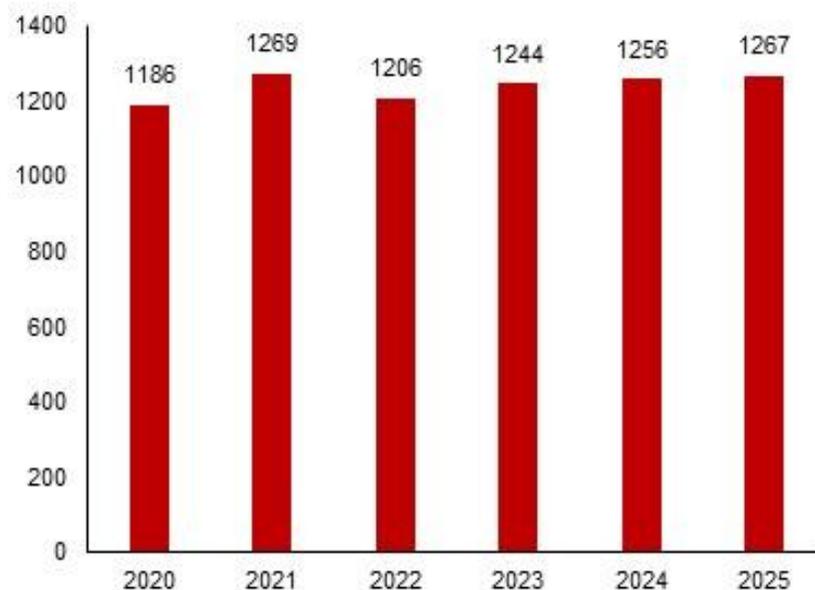


Source: CEIC

II. Going Deeper: Jobs and Prices - Stability with Underlying Pressure

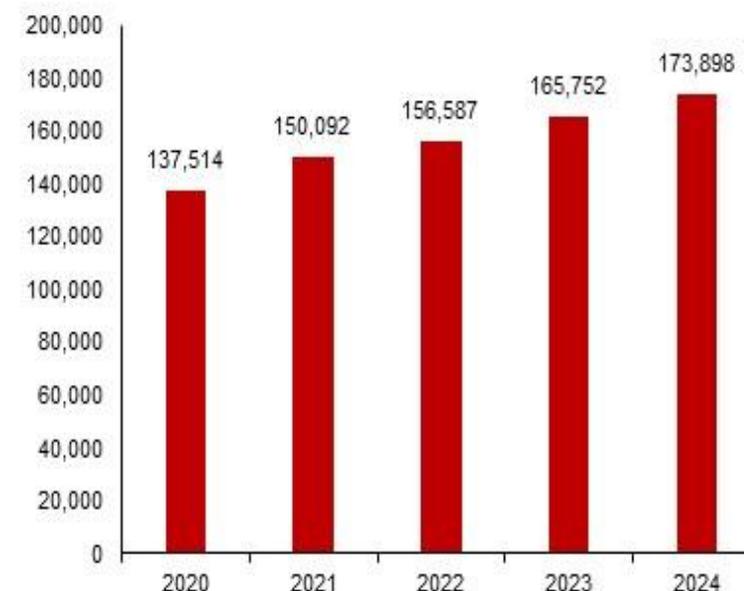
- Overall employment stable, but private-sector hiring cautious.
- Youth employment remains a key policy focus – need to be cautious about long-term effects.
- Labor productivity growth has been brisk, reflecting decades of human capital deepening.
- Low inflation reflects insufficient demand and cautious expectations, but also positive supply-side changes.

Urban Job Creation (ten thousand, annual)



Source: Ministry of Human Resources and Social Security (MHRSS)

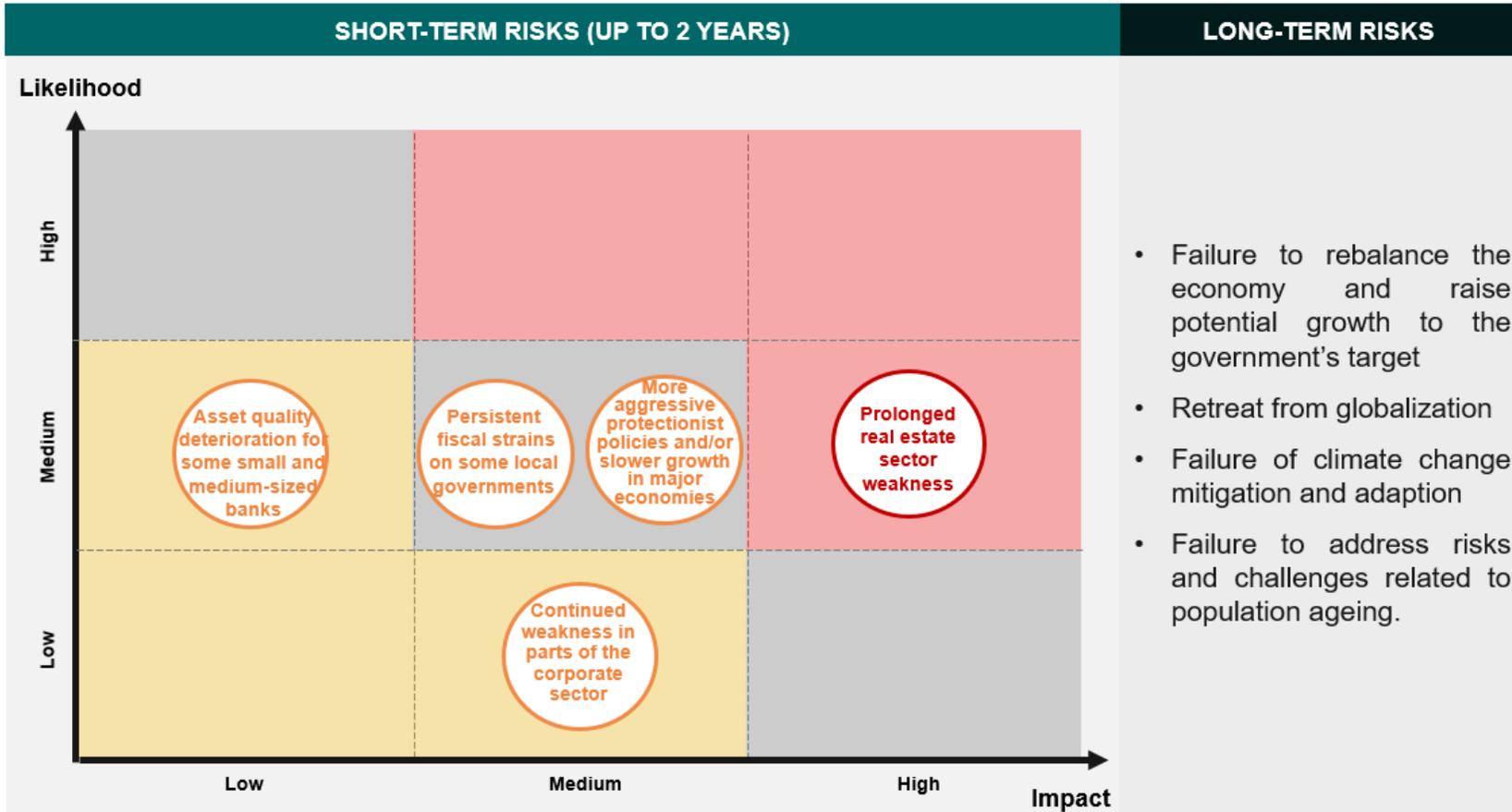
Labor Productivity (RMB per person)



Source: NBS

III. Challenges and Strengths: Key Risks Facing the China Economy

Risks are gradual and structural, not systemic – no high likelihood-high impact risks on the radar, reflecting sound macro fundamentals.



- Prolonged property and balance-sheet adjustment.
- Local government fiscal constraints.
- External shocks: tariffs, technology controls, geopolitics.
- Risk of entrenched low-inflation psychology.

Source: AMRO staff

III. Challenges and Strengths: Key Strengths and Structural Advantages

China's challenge is rebalancing, not resilience.



Strong industrial base and complete supply chains

- these are key factors for strong production capacity.



Large domestic market with long-term consumption potential

- possibly still “scratching the surface”.



Policy coordination capacity and financial stability focus

- policymaking extraordinarily challenging.
- more policy tools.
- reasonable policy space.

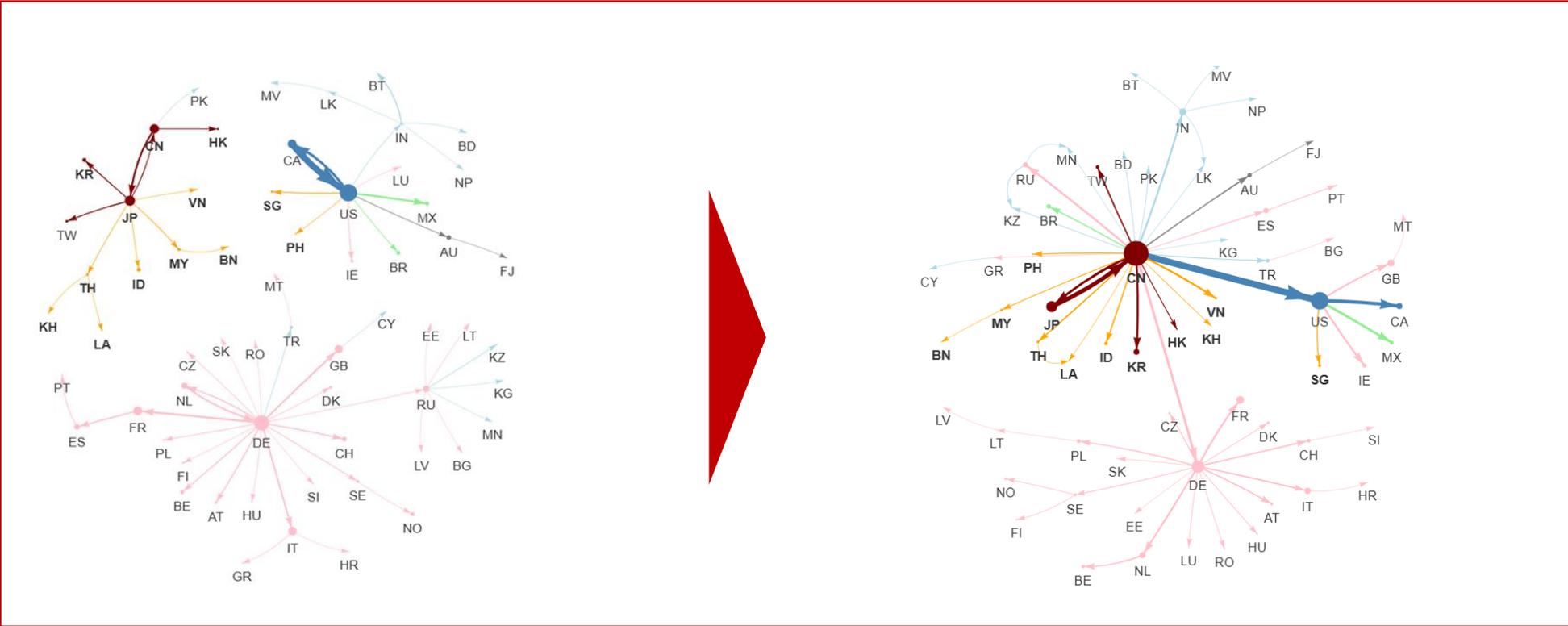


Leadership in green and advanced manufacturing

- dominant global market shares in several sectors.
- driving industrial profits and large-scale investments.
- with knock-on impact on wages and consumption.

III. Challenges and Strengths: Key Strengths and Structural Advantages

Global Supply Hubs: 2000 and 2024 Snapshots



Amid its economic rebalancing, China has emerged as the key global supply hub with ASEAN deeply embedded in the Asian cluster centered on China.

Sources: ADB Multi-Regional Input-Output Table, AMRO staff calculations

IV. Policy Direction and Outlook: Signals from the 15th Five-Year Plan

A strategic blueprint for navigating slower growth, technological rivalry, demographic pressure, and global uncertainty.

“Grow bigger” → to “Grow stronger, safer, and smarter,” that is, high quality development.

Pillar	Core Goal	Supporting Policies
Innovation	Tech self-reliance	AI, chips, advanced manufacturing
Industrial Upgrade	Move up value chain	New energy, robotics, digital economy
Green Transition	Sustainable growth	Renewables, EVs, energy reform
Stability & Security	Risk control & social stability	Debt control, welfare, supply chains

Source: State Council of China

IV. Fiscal Policy Direction: Recent Fiscal Policy Measures

China has maintained a proactive fiscal policy in recent years through a multipronged policy package, cushioning downside risks without reviving old imbalances.

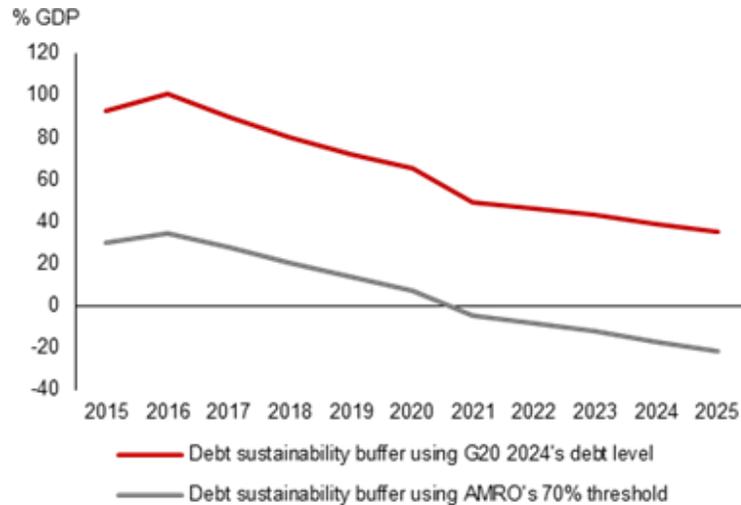
Major fiscal policy measures (2024-2026)	Year	Growth Stabilisation	Support Consumption	Support Investment	Improve People's Livelihoods	Green Transition	Technology & Innovation	Industrial Upgrading	Risk Prevention
Interest subsidies on personal consumption loan (with refinement)	2026	✓	✓		✓				
Interest subsidies for service-sector operators' loans (with refinement)	2026	✓	✓	✓				✓	
Interest subsidies on equipment-upgrade loan (with refinement)	2026	✓		✓		✓	✓	✓	
Interest-subsidy on new SME program (new)	2026	✓		✓				✓	
State guarantee for private investment (new)	2026	✓		✓				✓	
Risk-sharing mechanism for private firms' bond issuance (new)	2026	✓		✓				✓	
VAT export tax rebates removal for photovoltaic, phosphates and lithium battery (new)	2026					✓		✓	
Capital replenishing for large state-owned banks	2025	✓		✓				✓	✓
Lowering unemployment and work injury contribution rate	2025	✓	✓		✓				
Raising pension benefits and public healthcare subsidies.	2025		✓		✓				
Making preschool education free; introduce childcare subsidy	2025		✓		✓				
Debt swap program, increase special bond issuance quota and fiscal transfers	2024	✓							✓
Two Major' and 'Two New' programs	2024	✓	✓			✓	✓	✓	
Consumer goods trade-in program	2024	✓	✓		✓	✓		✓	
Introducing deed tax incentives for real estate	2024	✓	✓						✓
Lower land value-added tax pre-collection rate.	2024	✓							✓
Allowing local governments special bonds to purchase	2024	✓	✓		✓				✓

Source: China Ministry of Finance (2026)

IV. Fiscal Policy Direction: China retains fiscal space for stimulus

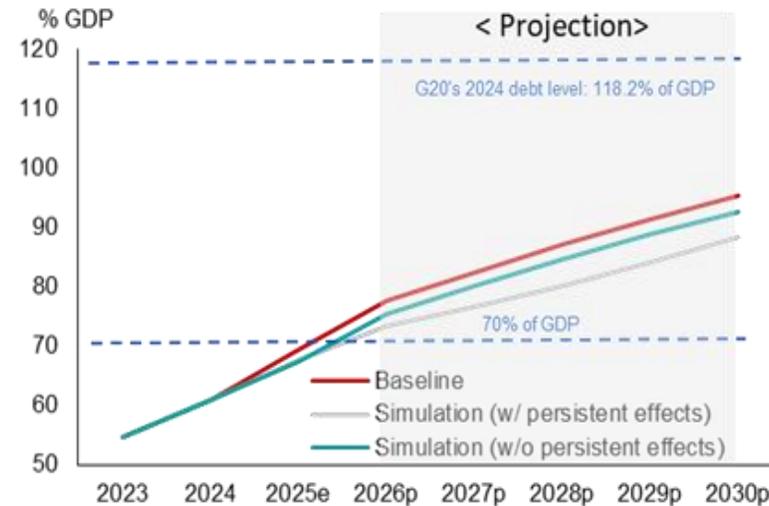
- China still retains moderate fiscal space for stimulus if necessary.
- AMRO's projections show that a stimulus, with sufficiently higher fiscal multiplier effect, could bring down debt relative to baseline.
- Local government fiscal strains are undermining the effectiveness of public expenditure amid an increased transfers from central government. This calls for greater alignment of intergovernmental fiscal responsibility over the medium / long term.

Fiscal Space
(Percent of GDP)



Source: AMRO ACR 2025

Fiscal Stimulus Effects
(Percent of GDP)

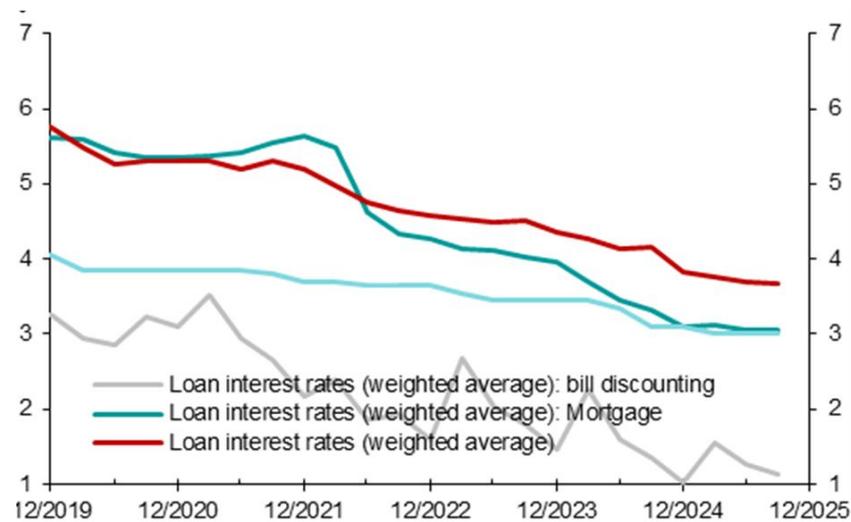


Source: AMRO ACR 2025

IV. Monetary Policy Direction: Targeted Support, Not Broad Stimulus

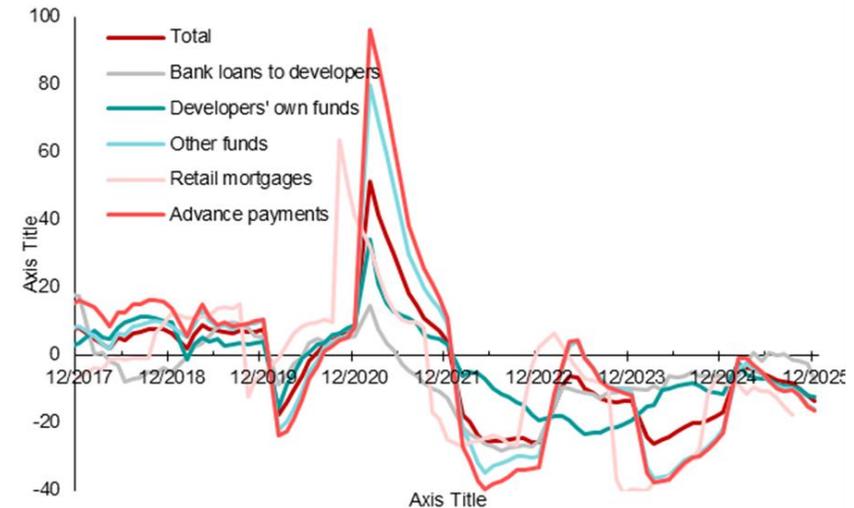
- Supportive liquidity conditions to sustain growth – but credit demand itself is a constraining factor.
- Emphasis on financial stability and risk containment – no “shock and awe” monetary easing.
- Credit guidance towards priority sectors – dovetailing with measured industrial policies.
- Avoidance of aggressive easing that could fuel asset bubbles – monetary policy not just about CPI target.
- Policy position on RMB exchange rate is clear and consistent – aim is to help anchor external balance.

Bank Lending Rates



Sources: People's Bank of China (PBC), CEIC

Funding for Real Estate Development



Source: Wind

IV. China Growth Outlook: Converging Expectations

- 2026–2027 growth outlook: major IOs’ and AMRO’s view are positive.
- Consensus outlook: lower than the past, stable going forward.

Economy	Gross Domestic Product (Percent year-on-year)						Consumer Price Index (Percent year-on-year)					
	AREO 2026 (February 2026)		Consensus Economics (January 2026)		Consensus Economics (February 2026)		AREO 2026 (February 2026)		Consensus Economics (January 2026)		Consensus Economics (February 2026)	
	2026f	2027f	2026f	2027f	2026f	2027f	2026f	2027f	2026f	2027f	2026f	2027f
ASEAN+3	4.1	4.0	—	—	—	—	1.2	1.5	—	—	—	—
Plus-3	3.9	3.8	3.8	3.8	3.9	3.8	0.8	1.2	0.9	1.2	0.9	1.1
China	4.6	4.5	4.5	4.5	4.6	4.5	0.4	1.0	0.6	1.0	0.6	0.9
Hong Kong	2.7	2.5	2.5	2.5	2.6	2.4	1.7	1.5	1.6	1.8	1.6	1.8
Japan	0.8	0.8	0.9	0.9	0.9	1.0	2.2	2.0	1.8	2.0	1.8	2.0
Korea	1.9	1.9	2.0	1.9	2.0	1.9	1.9	2.0	2.0	1.9	2.0	1.9
ASEAN	4.8	4.9	—	—	—	—	2.7	2.7	—	—	—	—
Brunei	1.6	1.8	—	—	—	—	0.5	0.7	—	—	—	—
Cambodia	5.1	5.3	—	—	—	—	2.3	2.5	—	—	—	—
Indonesia	5.2	5.3	5.0	5.1	5.1	5.2	2.5	2.7	2.7	2.6	2.8	2.6
Lao PDR	4.6	4.5	—	—	—	—	6.8	5.0	—	—	—	—
Malaysia	4.6	4.7	4.4	4.4	4.5	4.4	2.0	2.0	1.8	2.0	1.8	2.0
Myanmar	2.5	2.5	1.8	2.1	1.8	2.2	22.0	16.0	20.9	15.1	20.9	15.1
Philippines	5.3	5.8	5.3	5.7	5.1	5.8	3.2	3.4	2.6	3.0	2.6	3.0
Singapore	3.8	3.4	2.5	2.4	2.9	2.4	1.4	1.5	1.4	1.7	1.5	1.6
Thailand	1.7	2.3	1.7	2.2	1.6	2.2	0.3	0.9	0.4	0.9	0.4	1.0
Vietnam	7.6	7.5	7.0	6.5	7.4	6.7	3.0	3.0	3.5	3.5	3.5	3.5

Legend: Lower than previous update Higher than previous update

Thank you!



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