

CHINA 2026 OUTLOOK

Exploring New Growth Engines



- The Chinese economy has experienced significant changes in recent years. By late 2025, China's export market share in the United States and, domestically, its new property starts, had returned to levels seen in the early 2000s, erasing the gains made since joining the WTO in 2001 and China's housing reform in 1998. The main challenge for the Chinese economy remains finding new growth engines. Although Chinese exporters have successfully diversified into non-US markets, supporting our positive outlook for Chinese exports, building a consumption- and services-driven economy will take years, if not decades.
- We expect export volume (real terms) to grow by 5% in 2026, following approximately 8% real growth in 2025. Strong goods exports, muted imports due to ongoing import substitution, and policies to promote services exports support our forecast that China's current account surplus will widen from 3.6% of GDP in 2025 to 4.2% in 2026, well above consensus.
- The property market is likely to continue declining in 2026, but its drag on GDP should lessen, as the sector's share of the economy has decreased significantly. Labor market weakness is also expected to persist, driven by both structural factors such as AI- and tech-related job displacement, and cyclical challenges, like the prolonged property downturn.
- We anticipate slower household consumption growth in 2026, but expect government consumption to accelerate and offset private consumption weakness. Recent policy announcements suggest the government's consumer goods trade-in program will continue in 2026, helping to prevent a sharp drop in retail sales. However, we believe services consumption growth will outpace goods consumption, supported by government initiatives and underlying structural upside.
- Investment growth slowed in the second half of 2025 due to local government financing constraints and the "anti-involution" campaign targeting overcapacity in certain industries. With policymakers pledging to "stabilize investment" in 2026, we expect gross fixed capital formation growth to rebound from 1.5% in

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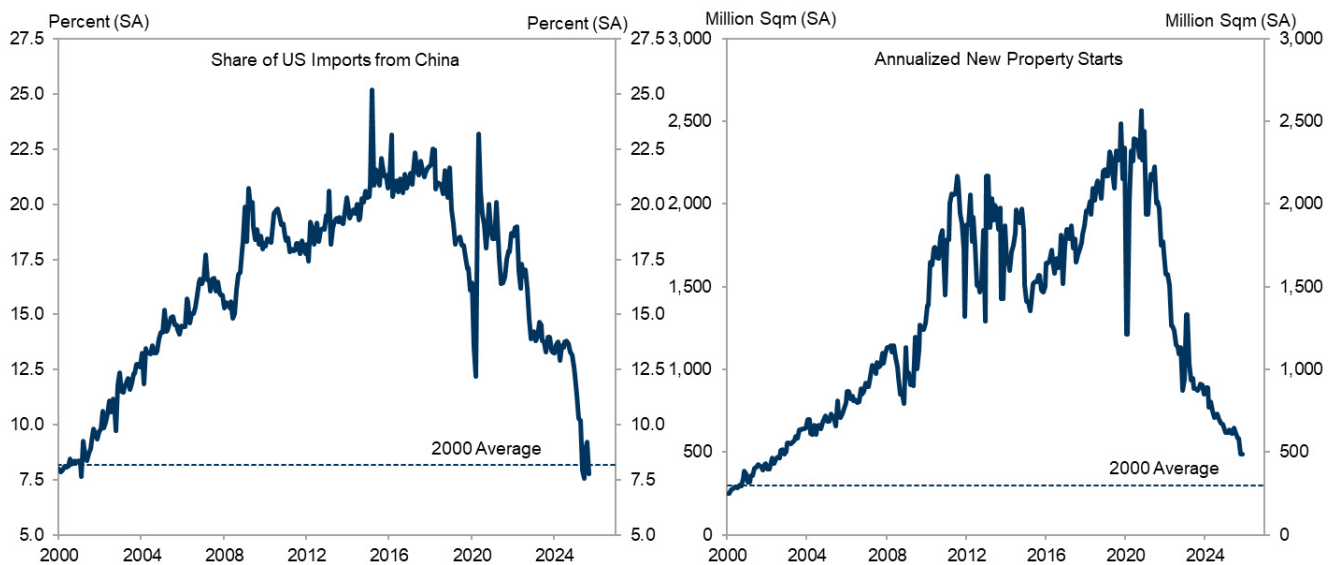
2025 to 3.5% in 2026. Overall, we project China's real GDP will grow by 4.8% in 2026, above the consensus forecast of 4.5%.

- China's reflation process will likely remain gradual, but year-over-year inflation should rise due to the government's "anti-involution" efforts and a low base. We expect CPI inflation to rise from 0% in 2025 to 0.6% in 2026 and PPI inflation to increase from -2.6% to -0.7%. Our PPI inflation forecast is modestly higher than the consensus estimate of -1.0%.
- Our above-consensus growth and inflation forecasts assume increased policy easing in 2026, including two 10bp rate cuts and a 1.2pp widening of our estimated augmented fiscal deficit, both slightly more dovish than market consensus. However, policymakers have shown little urgency in easing policy despite recent weak data. Consequently, risks to our 2026 outlook are skewed toward insufficient policy easing and weaker-than-expected domestic demand. If it were to materialize, weaker domestic demand would imply lower domestic prices and even stronger exports than we project.

Exploring New Growth Engines

Two major sectors of the Chinese economy have undergone significant changes in recent years. In trade, China’s share of total US imports has dropped sharply following two US-China trade wars, reaching levels last seen before China joined the WTO in 2001 (left panel of [Exhibit 1](#)). In the property market, new housing starts have fallen significantly since the government mandated property developers to deleverage in late 2020, reversing nearly all the gains made since the housing reform of 1998 (right panel of [Exhibit 1](#)). With exports to the US limited by tariffs and the property market now a much smaller part of the economy, policymakers face the challenge of finding new engines of growth in the coming years.

Exhibit 1: China’s share of US imports and China’s new property starts are back to early 2000s levels



Source: Haver Analytics, Goldman Sachs Global Investment Research

So far, Chinese exporters have successfully diversified their destinations away from the US and maintained overall export growth. Admittedly, some of the products destined for the US were rerouted through ASEAN after US tariff increases and reached the US indirectly. From a fundamental point of view, China’s strong manufacturing competitiveness, combined with an undervalued currency, has led to significant increases in China’s share of many other countries’ imports, especially among emerging markets. In addition to final products, exports of intermediate and capital goods have also risen notably as Chinese manufacturers expand globally and build factories abroad. We expect this trend to continue, with export volumes rising 5-6% per year over the next few years. As a result, exports to non-US countries are likely to remain a significant driver of China’s economic growth.

In contrast, the government’s effort to restructure the domestic economy from property and infrastructure-driven to consumption and services-driven is still in its early stages. In 2026, private consumption will continue to be weighed down by a weak labor market and falling house prices, making higher government consumption the only option to stabilize overall consumption growth ([Exhibit 2](#)). Investment growth was particularly sluggish in 2025, as the “anti-involution” campaign and local government financing

pressures dragged down manufacturing and infrastructure investment. If the government is committed to “stabilizing investment” in 2026, as announced during the Central Economic Work Conference (CEWC), fiscal spending should increase meaningfully. High-tech and strategic areas, urban renewal, and infrastructure related to people’s livelihood are likely target investment areas. Even with strong determination and sufficient resources, transforming China’s economy into one driven by consumption and services will take years. With a more reluctant, measured approach, it could take decades.

Signals from the 15th Five-Year Plan proposal approved at the 4th Plenum in late October support our view. With “building a modern industrial system” and “accelerating high-tech self-reliance” topping the priority list, Chinese exports and current account are likely to stay strong in the coming years. However, advancements in high-end manufacturing and frontier technology will not generate many jobs or lead to significantly higher incomes for average households, making only a limited contribution to private consumption. At the same time, the goal of per capita income reaching “moderately developed economy” levels by 2035 implies around 4.5% average annual real GDP growth over the next five years, requiring increased policy easing in 2026.

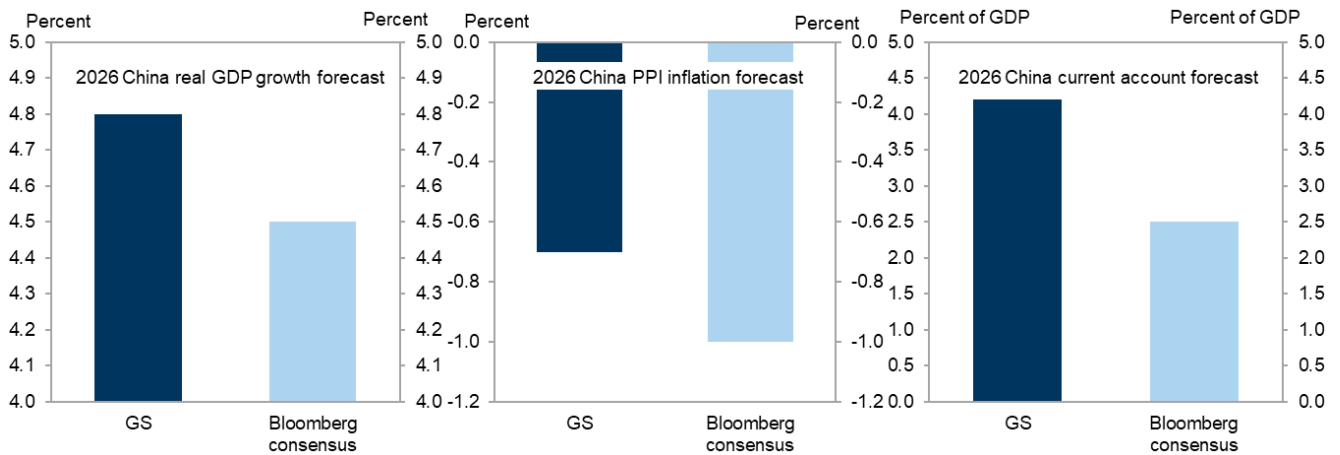
Exhibit 2: Our 2026 outlook features government consumption offsetting household consumption weakness and investment growth picking up

		2019	2020	2021	2022	2023	2024	2025F	2026F
GDP	% yoy	6.1	2.3	8.6	3.1	5.4	5.0	5.0	4.8
Domestic Demand	pp	5.4	1.7	6.9	2.5	6.0	3.5	3.6	4.2
Consumption	% yoy	6.3	-0.2	9.4	2.7	8.3	3.8	4.6	4.6
Household Consumption	% yoy	6.1	-1.9	12.1	1.7	8.8	5.1	4.8	4.5
Government Consumption	% yoy	6.9	3.8	3.5	5.2	7.2	0.8	4.0	5.0
Gross Fixed Capital Formation	% yoy	5.5	3.6	2.5	3.5	4.5	3.1	1.5	3.5
Net Exports	pp	0.7	0.7	1.7	0.5	-0.6	1.5	1.4	0.6
Exports of Goods (nominal USD)	% yoy	0.5	3.6	29.6	5.6	-4.7	5.8	5.5	5.6
Imports of Goods (nominal USD)	% yoy	-2.7	-1.0	30.6	0.7	-5.5	1.0	-0.7	0.9
Inflation									
CPI	% yoy	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.6
Core CPI	% yoy	1.6	0.8	0.8	0.9	0.7	0.5	0.7	1.0
PPI	% yoy	-0.3	-1.8	8.0	4.1	-3.0	-2.2	-2.6	-0.7
Other									
Current Account	% GDP	0.7	1.7	1.9	2.4	1.4	2.2	3.6	4.2
USDCNY (eop)	level	6.97	6.54	6.37	6.95	7.09	7.30	7.00	6.85
OMO 7-Day Repo Rate (eop)	%	2.50	2.20	2.20	2.00	1.80	1.50	1.40	1.20
TSF Stock Growth (eop)	%	10.7	13.3	10.3	9.6	9.5	8.0	8.5	8.8
Augmented Fiscal Deficit	% GDP	11.7	16.6	11.2	12.3	11.3	10.6	11.0	12.2

Source: Haver Analytics, CEIC, Wind, Goldman Sachs Global Investment Research

Where are we different? We project China’s real GDP will grow by 4.8% in 2026, above the consensus estimate of 4.5% (Exhibit 3). This forecast is consistent with an official real GDP growth target of either “around 5%” or “4.5-5%” (given recent statements by President Xi emphasizing “high-quality” growth, we suspect the latter is becoming more likely than before). In addition, our outlook includes slightly more policy easing than the market expects, such as two 10bp policy rate cuts and a 1.2pp widening in our estimate of the augmented fiscal deficit. Although China’s reflation will be gradual, our 2026 PPI inflation forecast of -0.7% is modestly higher than the consensus expectation of -1.0%. Notably, our most distinctive out-of-consensus view concerns China’s current account: we anticipate the surplus will rise from 3.6% of GDP in 2025 to 4.2% in 2026, while consensus expects a decline to 2.5% of GDP.

Exhibit 3: Our GDP growth, PPI inflation and current account forecasts are above consensus

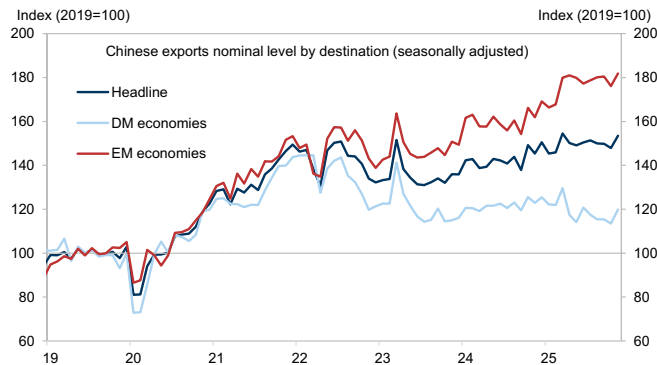


Source: Bloomberg, Goldman Sachs Global Investment Research

Exports: The structural upside

Despite higher US tariffs on Chinese goods, China’s export growth has been surprisingly strong in 2025. Full-year real export growth is on track to reach around 8%, with broad-based gains across many products. A key driver has been robust export growth to EM economies (Exhibit 4), while exports to the DM economies have been muted, with direct US-bound exports declining 28% yoy in November.¹ Meanwhile, export prices continue to fall, albeit at a slower rate, making Chinese products increasingly competitive.

Exhibit 4: Chinese exports to EM economies have outpaced those to DM economies since 2022



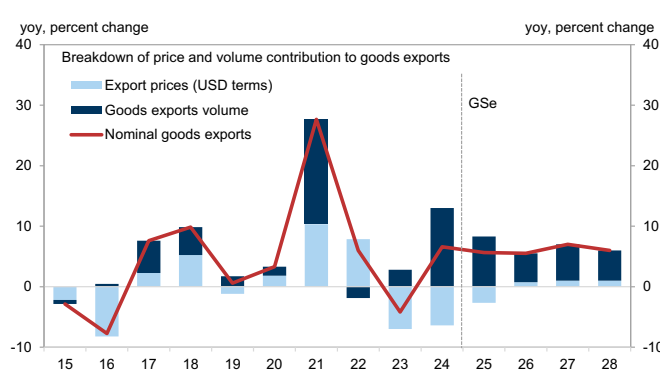
Source: CEIC, Goldman Sachs Global Investment Research

Looking ahead, we expect nominal export growth to remain solid at 5.6% in 2026 (vs. 5.5% in 2025) in USD terms (Exhibit 5). While China’s goods export volume growth in 2026 is likely to slow modestly, it should remain robust at about 5%. Our analysis shows that payback effects from temporary factors, such as front-loading and trade rerouting,

¹ Part of the decline in direct US-bound exports could be attributed to rerouting through EMs, most notably ASEAN economies. Therefore, on a value-added basis, total US imports from China did not drop as much as the bilateral trade value data suggest. Our estimates indicate that roughly 70% of the recent increase in exports to ASEAN, representing a \$47 billion year-over-year gain from January to October 2025 (compared to a \$76 billion year-over-year decline in direct Chinese exports to the US), may have reflected rerouting activities.

should only be modest in the coming quarters. The resilience of Chinese exports comes from three factors. First, the rapid expansion of Chinese exports to EM economies goes beyond trade rerouting, supported by significant competitiveness of Chinese products and demand generated through China's outward investment. Second, China's strong position in rare earths and other critical minerals will likely constrain how far other countries can impose significant trade barriers. Lastly, there is upside potential in high-tech export growth, backed by both policy push and the broad AI-related capex cycle. We expect export price inflation in US dollar terms to turn positive, rising from -2.7% in 2025 to +0.7% in 2026. This reflects both a gradual narrowing of PPI deflation in 2026 and a gradual appreciation of CNY against the USD.

Exhibit 5: We expect export growth to remain solid in the coming years



Source: Haver Analytics, Goldman Sachs Global Investment Research

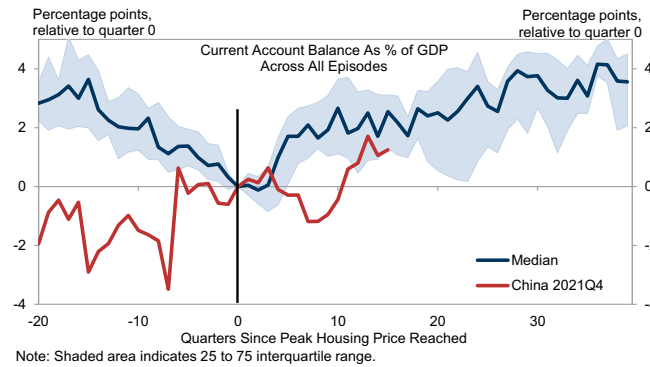
In contrast, we expect import growth to be very modest in 2026, with nominal import growth increasing from -0.7% in 2025 to +0.9% in USD terms. We expect goods import volume growth to accelerate from 1.2% in 2025 to 2.5% in 2026, partly reflecting stockpiling of oil for strategic reserves due to the government's emphasis on national security in key strategic areas. Given declining crude prices, we expect import price inflation to remain negative at -1.6% in 2026 (vs. -1.8% in 2025). Taken together, China's goods trade surplus (based on China Customs definition) is likely to increase to 6.6% of GDP in 2026 (vs. 6.2% in 2025).

The services trade deficit narrowed in 2025 as China's inbound tourism gathered pace, supported by relaxed visa policies and tax refund rules. The 15th Five-Year Plan (FYP, for 2026-30) also advocated expanding services exports including inbound tourism. We expect the services trade deficit as a share of GDP to narrow slightly to around 0.8% in 2026 from 1.0% expected in 2025. Combining the wider goods trade surplus and slightly narrower services trade deficit, we expect the overall current account surplus to rise to 4.2% of GDP in 2026 from 3.6% expected in 2025. In real terms, we expect net exports' contribution to GDP growth (which includes both goods and services trade) to decline from 1.4pp in 2025 to 0.6pp in 2026.

Driven by structural growth in high-tech manufacturing exports and the Chinese government's intensified pursuit of self-reliance amid increased geopolitical tensions, we expect China's current account surplus to further increase to 4.7% of GDP for 2027 and 2028. Historical international experience suggests a notable improvement in the current account during housing busts. Weakened domestic demand leads to lower

inflation, lower interest rates, and a weaker currency, which in turn supports export competitiveness. In addition, weakened domestic demand also leads to slower import growth. [Exhibit 6](#) illustrates the typical experience across 21 major housing busts internationally over the last 60 years.

Exhibit 6: Current account balance typically improves during housing busts



Source: Haver Analytics, Goldman Sachs Global Investment Research

While China’s current account surplus was strong in 2025, its financial account balance remained weak. The balance of payments (BOP) data suggests that China’s outward foreign direct investment (FDI) continued to outpace the inward FDI over the past few quarters. On portfolio investment, BOP showed larger outflows in 2025 compared with 2024 in part due to [strong Southbound Stock Connect flows](#). Combining a larger current account surplus, smaller total portfolio outflows, and continued large net FDI outflows, we expect China’s broad balance of payments (BBoP) to improve from 1.6% of GDP in 2025 to 2.6% of GDP in 2026, which is in line with [our view](#) of CNY’s gradual appreciation in 2026 ([Exhibit 7](#)).

Exhibit 7: We expect the broad balance of payments (BBoP) to increase in 2026

(USD bn)	2019	2020	2021	2022	2023	2024	2025F	2026F
CA balance	103	249	353	443	263	424	702	897
CA as % of GDP	0.7	1.7	1.9	2.4	1.4	2.2	3.6	4.2
Goods trade balance	393	511	563	665	594	768	1010	1190
Exports	2387	2510	3216	3347	3179	3409	3610	3812
Imports	1994	1999	2653	2682	2585	2641	2600	2622
Service trade balance	-261	-153	-101	-87	-208	-229	-196	-165
Exports	244	229	339	372	329	384	430	473
Imports	506	381	441	460	537	613	626	638
Primary/secondary income	-29	-110	-109	-134	-122	-115	-113	-128
Direct investment	50	99	165	-20	-174	-154	-100	-120
Inward	187	253	344	190	51	19	50	50
Outward	-137	-154	-179	-210	-226	-172	-150	-170
Portfolio investment	58	96	51	-289	-58	-188	-290	-230
Equity	16	-51	-2	-9	-44	-145	-140	-110
Bond	42	147	53	-280	-14	-43	-150	-120
BBoP	211	444	570	134	31	83	312	547
BBoP as % of GDP	1.4	2.9	3.1	0.7	0.2	0.4	1.6	2.6

Source: Haver Analytics, Goldman Sachs Global Investment Research

Property market: Not bottoming yet, but its growth drag may shrink

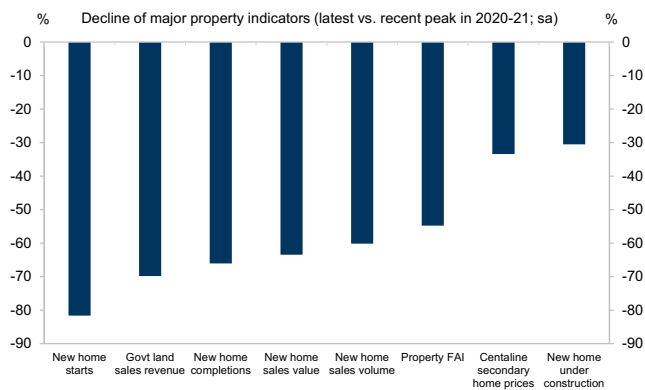
Despite policymakers’ [pledge](#) to stabilize the property market in both [September](#) and [December 2024](#) Politburo meetings, easing efforts appeared very measured in 2025.

The property sector is now in its fifth year of decline, with most property activity indicators – such as new home starts, sales, and property investment – down 50-80% from their 2020-21 peaks ([Exhibit 8](#)). Home prices have also fallen faster in recent quarters, in both primary and secondary markets. We expect continued housing easing in 2026, including further reductions to mortgage rates, further relaxation on home purchase restrictions in Tier-1 cities, and increased policy support for urban village renovation and local government purchases of housing inventories.

However, we see no sign of a near-term property sector bottoming out, as housing inventory remains elevated (especially in lower-tier cities), the pass-through from slumping home starts to property construction and investment continues, some large developers (e.g., Vanke) still face challenging funding conditions, and there appears to be no “quick fix” for the property sector. The growing financial losses of the unprecedented property downturn will have to be shared among households, developers, financial institutions and local governments. Should China follow the typical housing bust timeline implied by global experiences, there might be another 10% home price correction ahead and real prices may not bottom out nationwide until 2027, according to [our previous study](#).

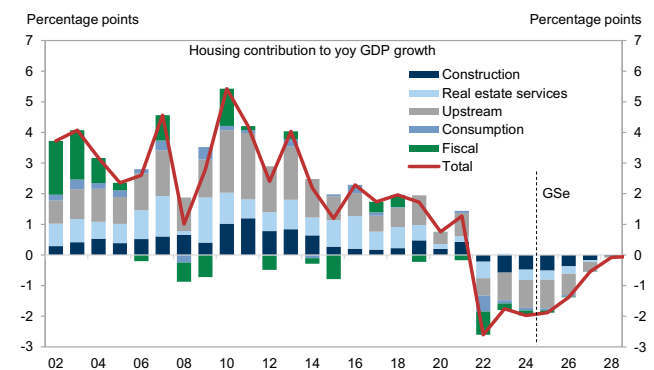
Taken together, we expect the property sector to remain a drag on the broader economy in the coming years, while the size of this drag should shrink gradually going forward. With new home starts 80% below the peak and property investment 55% lower, the property sector’s share of GDP has fallen significantly in recent years. Even if the rate of decline in property investment remains the same, its economic impact via the construction channel should become smaller. Based on our estimates, the drag from the property sector on annual real GDP growth was around 2pp per year during 2024-25, and is likely to narrow by 0.5pp per year over the next few years ([Exhibit 9](#)). Such narrowing of the property sector’s drag should be positive for overall economic growth.

Exhibit 8: Most property activity indicators have declined by 50-80% from their 2020-21 peaks



Source: Goldman Sachs Global Investment Research, Haver Analytics

Exhibit 9: The growth drag from continued declines in the property market should gradually dissipate in coming years



Source: Haver Analytics, Wind, Goldman Sachs Global Investment Research

Labor market: Both structural and cyclical challenges

The labor market has been weak over the past few years. Although the official unemployment rate has not changed much, a weighted average of the employment sub-indexes of various PMIs suggests that hiring has been the most depressed over the past decade outside of Covid lockdown periods ([Exhibit 10](#)). Our proprietary [wage](#)

tracker, which incorporates alternative wage measures such as fiscal expenditure on unemployment, suggests the year-over-year growth of urban nominal wages slowed to only 3.8% in Q3. The proposal for the 15th FYP calls for synchronizing household income growth with economic growth, and thus we anticipate incremental and targeted easing measures to help alleviate labor market pressures and support income growth in 2026. Potential policies include subsidizing services and offline businesses that are more labor-intensive, improving income distribution by raising the minimum wage, reducing social security contributions for low-wage workers and flexible workers (e.g., food deliverers and ride-hailing drivers), and reducing income volatility by expanding unemployment insurance coverage and benefits. That said, China's labor market weakness will be difficult to combat due to both structural headwinds (e.g., high-tech manufacturing is not labor-intensive and new technologies such as AI, drones, and autonomous driving can displace labor in the future) and cyclical challenges (e.g., the prolonged property downturn) in the absence of drastic policy responses.

Exhibit 10: The weighted average of employment sub-indices of various PMIs remained depressed in 2025

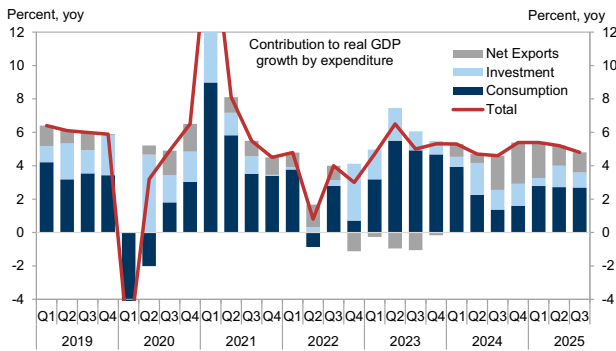


Source: NBS, Caixin, Haver Analytics, Data compiled by Goldman Sachs Global Investment Research

Consumption: Clear goals, long road ahead

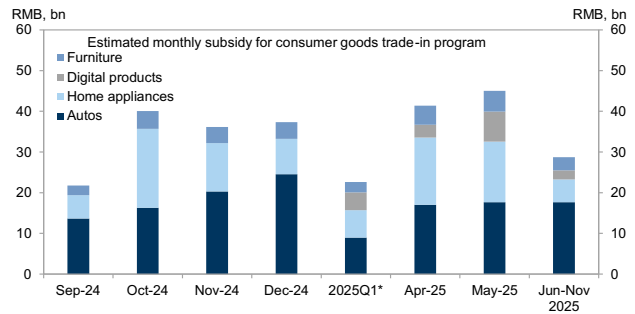
China's household consumption improved in 2025 compared to the mid-2024 trough, thanks in part to the government-subsidized consumer goods trade-in program. Final consumption expenditure contributed 54% to headline GDP growth in the first three quarters of 2025, up from 46% in 2024 but below the pre-Covid 59% in 2019 (Exhibit 11). However, since the government slowed the speed of subsidy disbursement and tightened the application approval process for the consumer goods trade-in program in June, monthly home appliance trade-in applications slowed notably in subsequent months (Exhibit 12). In November, nominal retail sales grew by only 1.3% year-over-year, marking the slowest growth rate since the economy reopened from Covid restrictions in early 2023.

Exhibit 11: The contribution of consumption to real GDP growth rose in 2025



Source: NBS

Exhibit 12: Monthly trade-in applications slowed notably in recent months



*Phones/tablets/smart watches added to eligible products in 2025.

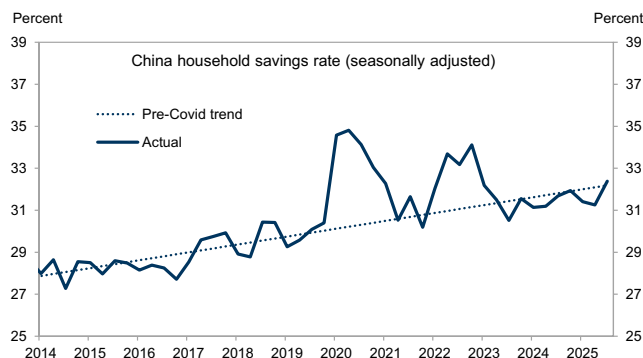
The subsidy amounts are estimated based on official data announced at ad hoc government press conferences.

Source: Ministry of Commerce, Government websites, Xinhua, Goldman Sachs Global Investment Research

We expect the year-over-year growth of household real consumption to moderate to 4.5% in 2026 from 4.8% in 2025. A weak labor market has constrained households’ ability to spend. Continued declines in house prices have negatively impacted consumer confidence. As a result, household “excess deposit”, defined as the extra household bank deposits above pre-Covid trend, continued to increase. That said, these deposits imply room for further funds reallocation, should macro and market conditions turn more favorable. China’s equity market rallied by around 20% in Q3 and there appeared to be some green shoots in the high-end retail market in recent months. PBOC data indicates that more households are interested in investing in the stock market, suggesting slightly improved risk appetite.

On the back of the RMB 10tn local government debt resolution plan launched in late 2024, growth in government consumption – which accounts for 30% of total consumption – accelerated from 0.8% in 2024 to 4.0% in 2025 by our estimates. Looking ahead, we expect government consumption growth to further increase to 5.0% in 2026, supported by further fiscal expansion as well as an increased policy emphasis on “investing in people” (投资于人, meaning education and healthcare) vs. “investing in things” (投资于物, meaning traditional infrastructure). Overall, the contribution of total consumption, comprising both household and government segments, to headline GDP growth is projected to remain flat at 2.6pp in 2026.

China’s household savings rate increased to 33.4% in the first three quarters of 2025 from 31.5% in 2024 after seasonal adjustments (Exhibit 13). Our analysis of global historical experience shows that few countries have managed to reduce household savings rates sustainably outside of periods of fiscal consolidation and economic downturns. These findings suggest that China’s household savings rate may stay elevated for many years to come, barring major economic or fiscal shocks. Therefore, to raise the consumption share of GDP, policymakers may need to raise government consumption notably.

Exhibit 13: The household savings rate increased in 2025

Source: NBS, Goldman Sachs Global Investment Research

Over the past year, policymakers have introduced several marginal easing measures to encourage spending, including raising the minimum wage, increasing pension and healthcare benefits, subsidizing childcare, offering temporary interest subsidies for consumer loans, and expanding the supply of certain services such as elderly care, childcare and tourism. While the intention to boost domestic consumption is clear, finding effective long-term solutions requires structural reforms and takes time. Policies such as consumer goods trade-in program may only provide short-term support by pulling forward some demand from the future.

To avoid sharp declines in retail sales, in late December, policymakers unveiled implementation details for the 2026 consumer goods trade-in program. Subsidy categories and levels were adjusted to maintain the program's impact and support policy-focused areas such as people's livelihood, security, elderly care, green products, and AI. The announced near-term funding implies full-year subsidies of approximately RMB 250 billion for the consumer goods portion of the trade-in program in 2026, slightly below the RMB 300 billion allocated in 2025. We expect full-year nominal retail sales growth to decelerate from 3.8% in 2025 to 2.7% in 2026 due to fewer overall subsidies and their fading impact.

We believe services consumption growth will continue to outperform goods consumption growth in 2026. In the latest data (2024), services made up 46% of household spending in China, compared to about 60% in developed economies like the US and Japan, suggesting there is plenty of room for expansion. From a policy perspective, boosting services consumption can trigger a virtuous cycle of more jobs, more income, and more consumption, as services industries tend to be more labor intensive than manufacturing industries. Recent policy communications pointed to increased priorities on services consumption, as policymakers called for removing regulatory barriers to the supply of certain services, increasing financial support to services businesses, and encouraging more vacation time and paid leave.

Investment: Expecting a rebound on policy support and a low base

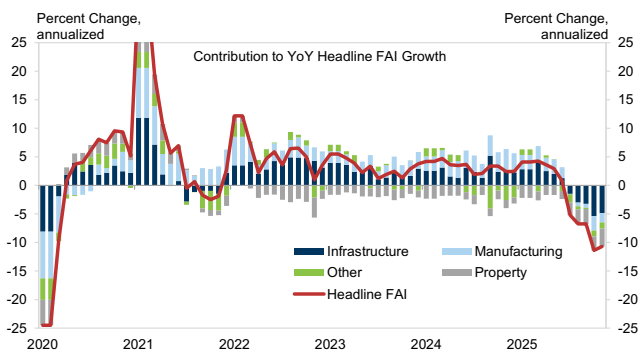
Headline fixed asset investment (FAI) fell 2.6% yoy during the first 11 months of 2025 (vs. +3.2% in full-year 2024), with the slowdown accelerating in H2 due to both fundamental and technical factors (Exhibit 14). 2025 would be the first full year with reported FAI contraction since 1992, when the data series became available. Within

2025, monthly FAI growth slumped from +4% yoy in January-February to -11% yoy in October-November, the lowest since January-February 2020 (during the initial Covid lockdown).

The ongoing property downturn and “anti-involution” policies (which aim to contain disorderly price competition and overcapacity in some industrial sectors) have weighed on property and manufacturing investment, respectively. Fiscal data and anecdotal evidence suggest that government spending has slowed in recent months, with more funds directed towards repaying corporate arrears rather than financing investment projects, resulting in weaker infrastructure investment. However, we would not over-interpret the steepness of the recent slump as our recent study suggests that the NBS statistical correction of previously over-reported data (likely during 2022-24) has played at least as large a role as the above-mentioned fundamental factors. While it’s clear that investment momentum has weakened recently, our analysis suggests the decrease in H2 is less abrupt than what headline FAI data shows, since our investment tracker estimates that China’s real investment growth slowed to around 2.2% yoy in Q4 from 3.7% yoy in H1.

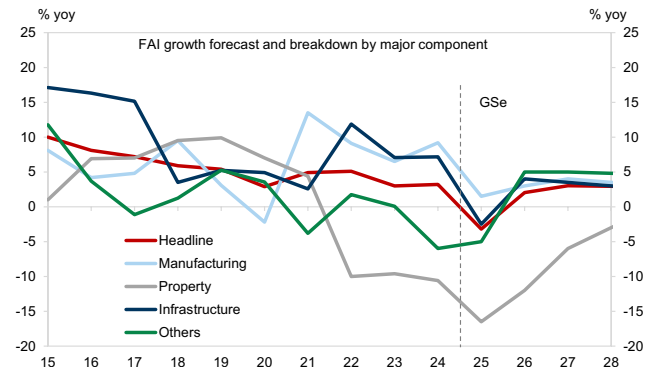
Given the ongoing policy easing and a low comparison base, we expect FAI growth to rebound to +2.0% in 2026 from an expected -3.2% in 2025 (Exhibit 15). Adjusting for price factors and other distortions, we expect growth in gross fixed capital formation (GFCF; a component of GDP breakdown by the expenditure approach) to rise to +3.5% in 2026 from +1.5% in 2025. Among major sectors and in nominal terms, we expect infrastructure and “other” (mostly services and agriculture-related sectors) investment growth to rebound to +4.0% and +5.0%, respectively, in 2026 from an expected -2.5% and -5.0% in 2025. Manufacturing investment growth may normalize somewhat to +3.0% in 2026 from an expected +1.5% in 2025, aided by capex in AI and other high-tech industries. That said, property investment may maintain its double-digit contraction in 2026 at -12.0% (vs. an expected -16.5% in 2025). We expect the significant divergence in FAI between coastal and inland regions to persist in 2026 and even beyond.

Exhibit 14: The sharp decline in FAI since July has been broad-based across sectors



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 15: We expect FAI growth to rebound modestly to +2.0% in 2026 from -3.2% in 2025



Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Inflation: A gradual reflation path

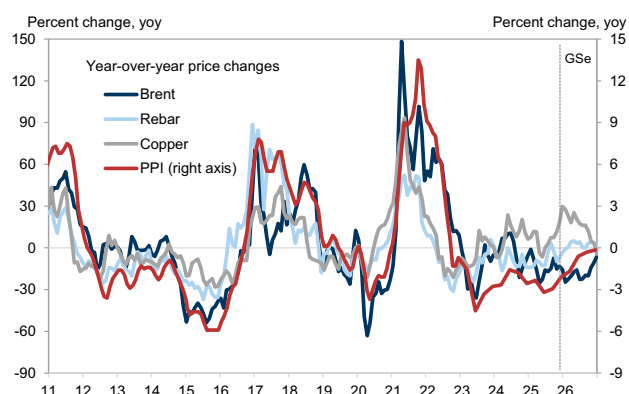
China has been experiencing deflation in producer prices and the GDP deflator for more

than two years. The rollout of “anti-involution” policies since July has drawn comparisons with the supply side reform in 2016–18, prompting market speculation over when PPI inflation and changes in GDP deflator might turn positive. These expectations have been reinforced by the acceleration in M1 growth, which historically tended to precede reflation by around 12 months. Meanwhile, the recent uptick in core CPI inflation has raised questions over whether headline CPI inflation could rebound to and stabilize above 1% yoy in the coming months. In our view, the reflation process is likely to remain gradual. We expect year-over-year PPI inflation to turn positive in early 2027, while headline CPI inflation should largely remain below 1% in 2026, despite temporary support to core inflation from the sharp rise in gold prices and the consumer trade-in program.

We forecast headline PPI inflation to rise to -0.7% in 2026 from -2.6% expected in 2025 (Exhibit 16). A narrower decline in raw materials prices, as projected by our China Basic Materials team, should lift PPI inflation gradually in 2026. More importantly, while the “anti-involution” policies are unlikely to replicate the aggressive capacity cuts seen in 2016–18, they appear to have been effective in raising upstream prices (e.g., coal, lithium, and polysilicon) and curbing price competition among manufacturers. In addition, as we expect further fiscal easing in 2026, this should help alleviate deflationary pressures stemming from manufacturing overcapacity. Taken together, these factors underpin our 2026 full-year PPI inflation forecast of -0.7%, which is above consensus expectation of -1.0%. We acknowledge that uncertainties are significant regarding the trajectory of China’s PPI inflation, as it depends on global commodity prices and the implementation of “anti-involution” policies domestically. In our client conversations, we have observed substantial variation in expectations of when PPI inflation may turn positive, with some optimistic investors pointing to the second half of 2026, whereas some pessimistic investors assume a much later date than we anticipate.

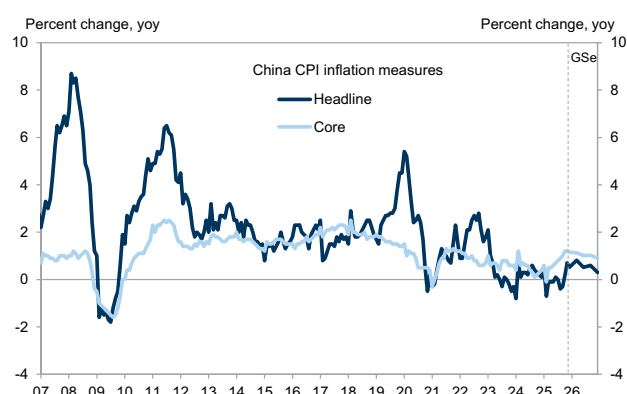
We expect core CPI inflation to rise to 1.0% in 2026 from 0.7% expected in 2025, while headline CPI inflation is projected to rise to 0.6% from 0% expected in 2025. The increase in core CPI inflation in 2025 was largely driven by higher gold prices and temporary boosts to durable goods prices from the consumer trade-in program (where retailers appeared to increase prices of government-subsidized items). Looking ahead, our commodity strategists expect gold prices to rise by around 15% in 2026 after a surge of over 60% in 2025, which should moderate core CPI inflation back toward 1% (vs. 1.2% yoy in November). For headline CPI, softer energy prices, as expected by our commodity strategists, are likely to weigh on inflation, while food inflation should increase further in 2026 on a low base and ongoing hog supply discipline (Exhibit 17).

Exhibit 16: We expect year-over-year PPI inflation to gradually rise towards zero in 2026



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 17: We expect headline CPI inflation to rise to 0.6% in 2026 from 0% in 2025



Source: Haver Analytics, Goldman Sachs Global Investment Research

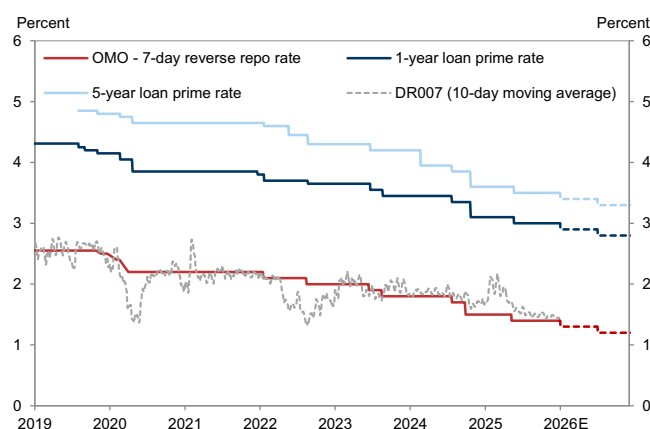
Monetary policy: A measured and flexible approach to easing

In response to US tariffs on Chinese products, the PBOC announced a package of easing measures in early May aimed at stabilizing market expectations, including a 10bp policy rate cut and a 50bp RRR cut. However, since then the central bank has repeatedly emphasized a cautious approach toward further monetary easing. Policy communication from the PBOC has reinforced a data-dependent framework, pointing to a reactive rather than proactive easing approach. Consistent with this, recent statements have shifted emphasis from near-term growth headwinds to medium-term economic dynamics, underscoring policymakers' preference for preserving policy room.

The cautious stance reflects the PBOC's balancing act between providing growth support and safeguarding financial stability. Banks' net interest margins continue to compress, limiting the scope for policy rate cuts, especially given rising concerns over the health of the banking system. Meanwhile, the PBOC retains a broad set of alternative tools to manage liquidity conditions, including OMOs, MLF loans, outright reverse repos, and CGB purchases. Fiscal subsidies to interest payments could also partially substitute for policy rate cuts. Taken together, these suggest that the PBOC is likely to remain cautious about conducting traditional, high-profile easing measures, such as policy rate or RRR cuts, and rely more on flexible liquidity operations. Therefore, we expect only a dual cut (a 50bp RRR cut and a 10bp policy rate cut) in Q1 and another 10bp policy rate cut in Q3, despite the still-weak domestic demand and potentially large government bond issuance in 2026 (Exhibit 18).

Loan growth slowed markedly in 2025, reflecting softening loan demand from the real economy. By contrast, total social financing (TSF) stock growth temporarily picked up to 9% yoy in July, driven by record-high government bond issuance. The PBOC has continued to downplay loan growth as a leading indicator of economic activity, while placing more emphasis on targeted credit policy support to technology, green economy, small businesses, elderly care, and digital economy. This suggests the PBOC is willing to tolerate further moderation in loan growth. Looking ahead, TSF stock growth is likely to continue to outperform loan growth in 2026. We expect TSF stock growth to rise modestly to 8.8% in 2026 from 8.5% expected in 2025, as continued fiscal expansion is likely to more than offset the drag from the still-weak loan demand.

Exhibit 18: Policy interest rates are likely to fall a bit further in 2026



Source: PBOC, Goldman Sachs Global Investment Research

Fiscal policy: Augmented deficit expansion to continue

Following the policy pivot in September 2024 and US tariff increases during February–April 2025, Chinese policymakers have significantly accelerated government bond issuance to secure adequate funding. However, stronger-than-expected exports in 2025 have led to measured government spending. Although our Augmented Fiscal Deficit (AFD) metric widened during Q1–Q3, it narrowed in recent months, and the outstanding fiscal deposit was RMB400bn higher than the year-ago level as of November. This indicates that some government spending planned for 2025 may have been reserved for 2026, given that the 2025 growth target is within reach.

December policy meetings indicate continued (albeit measured) fiscal expansion in 2026, and we believe fiscal policy will likely do most of the heavy lifting to stabilize growth. For the 2026 fiscal budget, we expect policymakers to maintain their official on-budget fiscal deficit target at 4.0% of GDP, raise the central government special bond (CGSB) issuance quota to RMB2.0tn from RMB1.8tn in 2025 (including RMB500bn for bank recapitalization in each year), and also increase local government special bond (LGSB) issuance quota to RMB4.8tn from RMB4.4tn in 2025 (Exhibit 19). The total amount of government bond net issuance quota would be RMB12.7tn in 2026, above the RMB11.9tn quota announced in the 2025 budget (though the 2025 outturn was slightly higher as policymakers approved an additional RMB500bn local government bond issuance quota in October).

Among off-budget financing channels, we expect policy bank support to increase in 2026, consistent with recent resumption of PBOC's pledged supplementary lending (PSL) expansion and steady policy bank bond issuance. However, land sales revenue and LGFV financing may remain weak due to the prolonged property downturn and increased policy priority on local government debt resolution, respectively. Overall, we expect AFD to widen by 1.2pp of GDP to 12.2% in 2026, following a 0.4pp widening in 2025 (Exhibit 20).

Policymakers have recognized the recent growth slowdown, reiterated their easing stance, and pledged to ensure a successful beginning of the 15th FYP. On December 16, while addressing questions regarding the CEWC, the Central Financial and Economic

Affairs Commission noted that “consumption and investment growth have slowed in recent months, requiring continued efforts to expand domestic demand.” They identified consumer infrastructure (such as parking lots, charging stations, and tourist roads), livelihood sectors (including elderly care, childcare, and healthcare), urban renewal, and major projects (e.g., railway and nuclear power plants) as key areas for potential investment. In recent weeks, Premier Li Qiang called for frontloading the implementation of policy easing and the construction of new infrastructure. The focus now is on whether effective measures will be introduced promptly to facilitate an acceleration in growth from Q4 to Q1.

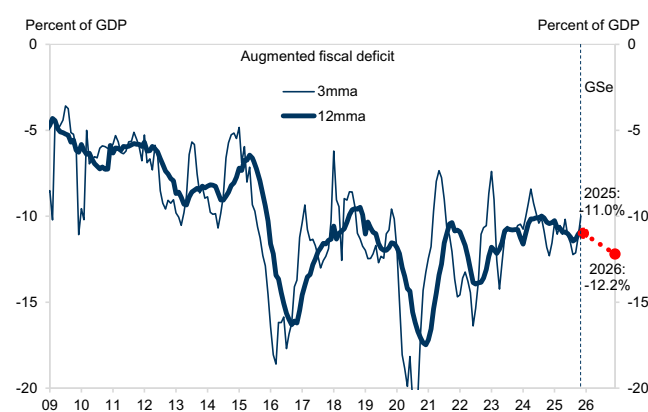
Exhibit 19: A summary of GS projection for 2026 economic targets and fiscal budget parameters

Major economic indicator	Unit	2026		2025	
		Target (GSe)	Target	Outturn (GSe)	Outturn (GSe)
GDP growth	%	~5 or 4.5-5.0	~5	5.0	
CPI inflation	%	~2	~2	0.0	
Fiscal deficit ratio*	% of GDP	4.0	4.0	4.0 (4.8)	
Local government special bond (LGSB) quota	RMB tn	4.8	4.4	4.6	
Central government special bond (CGSB) quota	RMB tn	2.0	1.8	1.8	
Implied total government bond net issuance quota	RMB tn	12.7	11.9	12.4	
	% of GDP	8.6	8.5	8.8	

*In the columns “Outturn” for fiscal deficit ratio, numbers outside and inside the bracket refer to the official and effective on-budget fiscal deficit ratios, respectively.

Source: Government websites, Wind, Goldman Sachs Global Investment Research

Exhibit 20: We expect our AFD metric to widen by 1.2pp of GDP to 12.2% in 2026



Source: Wind, CEIC, Goldman Sachs Global Investment Research

Risks to our 2026 growth outlook

Our 2026 GDP growth forecast (4.8%) is above market consensus (4.5%). We see risks to our 2026 growth forecast as slightly skewed to the downside, given weaker-than-expected growth momentum in recent months, while policymakers have not displayed any urgency to ease policies significantly. Potential downside risks include renewed US-China tensions, more trade barriers from other major trading partners against China, a deeper property sector contraction, rising financial stress in some inland local governments and banks, and disappointing policy implementation. That said, upside risks involve improved US-China relations, stronger exports, and more aggressive policy stimulus than our baseline ([Exhibit 21](#)). We also summarize key upcoming macro catalysts which may have implications for China’s growth and markets ([Exhibit 22](#)).

Exhibit 21: China's policy easing may continue in 2026 and even beyond

Type	Instrument	2025F	2026F
Monetary (eop)	RRR	Large banks: 7.5% Medium-sized banks: 5.5% Small banks: 5.0%	Large banks: 7.0% Medium-sized banks: 5.0% Small banks: 5.0%
	7-Day OMO	1.40%	1.20%
Fiscal (full year)	Effective on-budget deficit (% of GDP)	4.8%	5.1%
	Augmented fiscal deficit (% of GDP)	11.0%	12.2%
Credit (eop yoy)	TSF stock	8.5%	8.8%
Housing	Housing policy	Further reductions to mortgage rates; further relaxation on home purchase restrictions in Tier-1 cities; more bank lending for "whitelist" projects; cash-backed settlement of urban village renovation; continued policy support to destock existing housing inventories	Further reduction to mortgage rates (likely including interest rate subsidies for mortgages); further relaxation on home purchase restrictions in Tier-1 cities; cash-backed settlement of urban village renovation; government programs to help destock existing inventories
FX (eop)	USDCNY	7.00	6.85

Source: Goldman Sachs Global Investment Research, Wind, Haver Analytics, CEIC

Exhibit 22: Upcoming key macro catalysts for China markets

Date	Events
Jan-Feb 2026	2026 provincial-level "Two Sessions"
19 Jan 2026	Q4 2025 GDP release
From 4 Mar to mid-Mar 2026	2026 "Two Sessions" (to approve the 2026 government work report, the 2026 budget report, and the full report of the 15th Five-Year Plan, for 2026-30)
Apr 2026	US President Trump's planned visit to China
16 Apr 2026	Q1 2026 GDP release
Late Apr 2026	Politburo meeting on economic policies
15 Jul 2026	Q2 2026 GDP release
End-Jul 2026	Politburo meeting on economic policies
19 Oct 2026	Q3 2026 GDP release
Fall 2026 (likely)	The 5th Plenum of the 20th CCP Central Committee
Nov 2026	APEC 2026 China (in Shenzhen)
11 Nov 2026	Expiration of tariff/rare earth control pause agreed at Trump-Xi meeting in South Korea
Early to mid-Dec 2026	Politburo meeting on economic policies
Mid-Dec 2026	Central Economic Work Conference

Source: Government websites, Data compiled by Goldman Sachs Global Investment Research

Market implications: Higher equity, lower rates, stronger CNY

Overweight China equity into 2026: Our equity strategists stay Overweight both A- and H-shares in a regional context. They expect the bull run of Chinese equities will continue, but at a slower pace. Our strategists forecast an annual appreciation of 15-20% for Chinese equities in 2026E and 2027E, underpinned by 14% and 12% profit growth respectively, and ~10% valuation re-rating. Key drivers for potential re-acceleration of profit growth include AI adoption, “Going Global” trends, and “anti-involution” policies. Chinese equities currently trade at meaningful valuation discounts compared to their international peers. The strong diversification value of China for both international and domestic investors should encourage further capital migration into the markets.

Short-term rates to trend lower in 2026. We expect the PBOC to deliver two 10bp policy rate cuts in 2026, which would lower the 7-day OMO rate to around 1.2% by end-2026, from 1.4% at end-2025. To facilitate government bond issuance, the central bank is likely to keep interbank liquidity ample, which should bring short-term rates close to the policy rate. By contrast, long-end rates, such as 10y CGB yields, are likely to decline by less than short-term rates, leading to curve steepening. Regulatory changes, including adjustments to redemption fees for bond funds, may dampen demand for long-duration CGBs. Our forecasts for further fiscal easing also point to increased supply of long-term CGBs. The combination of increased supply and weaker demand poses upside risks to long-term CGB yields in absolute terms. That said, a further weakening in domestic demand would pose downside risks to long-term CGB yields over the medium term.

Gradual CNY appreciation supported by rising trade surplus and policy push. We expect USD/CNY to reach 6.95/6.90/6.85 in 3/6/12 months, underpinned by robust export growth, a reduced risk of renewed US-China trade tensions, and significant FX undervaluation. We project China’s goods trade surplus to rise to US\$1.2tn in 2025 and further to US\$1.4tn in 2026. Our FX strategists assess the CNY to be around 25% undervalued against the dollar. Policy signals are also broadly in line with our forecasts. The USD/CNY fixing has been trending gradually lower in recent months, alongside policymakers’ emphasis on RMB internationalization, signaling a preference for a stronger CNY. That said, recent communications also suggest that the central bank is keen to avoid too fast an appreciation. Against this backdrop, the CNY appreciation path in our baseline is only slightly faster than implied by FX forwards.

A gradual slowdown in long-term growth with shifting drivers

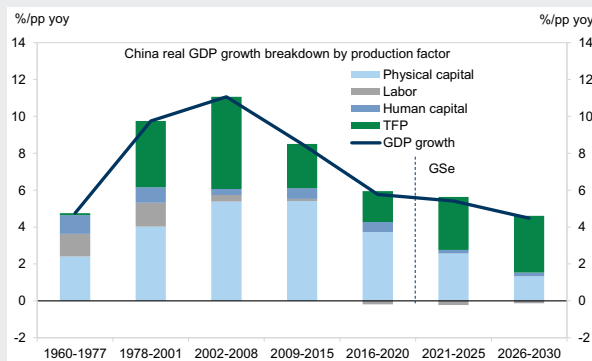
China’s GDP growth has decelerated meaningfully since the 2008 GFC, to around 5% per year in recent years from around 10% during the 2000s. To investigate the driving forces of the long-term growth slowdown, we decompose GDP growth into contributions from labor, human capital, physical capital and total factor productivity (TFP), based on the production function accounting framework ([Exhibit 23](#)).

Physical capital used to be the main driver of growth during 2009-2020, fueled by multiple large stimulus cycles, while its contribution started to moderate in recent years on the back of already elevated government debt levels and falling return on capital. Labor has started to slightly hold back growth since mid-2010s after working-age population peaked in China and is expected to decline in the coming decades, though human capital accumulation may provide a partial offset. TFP growth slowed meaningfully post the GFC as China prioritized infrastructure and property investments, but it has shown modest improvement in recent years thanks to the rapid growth of high-tech manufacturing sectors.

As China’s economy faces a shrinking working-age population and investment share of GDP has been consistently above 40% over the past two decades, the outlook for long-term GDP growth will largely depend on TFP. There could be two broad categories of factors that affect TFP: 1) technological advancement, and 2) efficiency of resource allocation. Academic research has focused on worsening capital misallocation in China after the GFC due to wasteful investment and financial frictions, and the structural trend of rising services’ share of the economy could be another factor behind falling TFP growth.

We believe the ongoing AI development and adoption, as well as the broader technology advancement from autonomous driving to biotech innovations, will drive labor cost savings and improve productivity, which is positive for TFP growth. However, measured labor productivity in China still falls considerably behind that of the US with current levels of exchange rates ([Exhibit 24](#)). We expect AI, when fully adopted, to raise labor productivity and boost potential GDP in China by a total of 8% cumulatively. While China’s 15th FYP focuses on technology, security, and people’s livelihood, policymakers have also pledged to further reforms aimed at building a “unified national market” (全国统一大市场) and enhancing resource allocation efficiency.

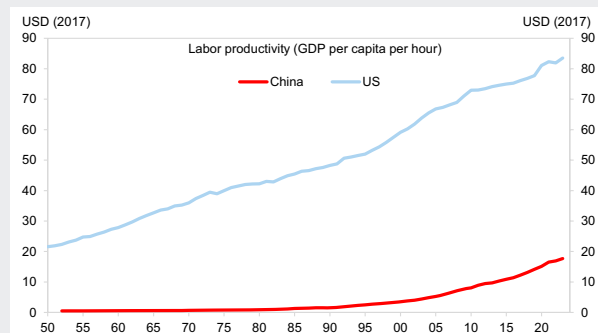
Exhibit 23: The outlook for long-term GDP growth will largely depend on TFP



2023 prints as the latest data available from PWT.

Source: PWT, Wind, Goldman Sachs Global Investment Research

Exhibit 24: The US-China gap in measured labor productivity at current exchange rate levels remains significant



2023 prints as the latest data available from PWT.

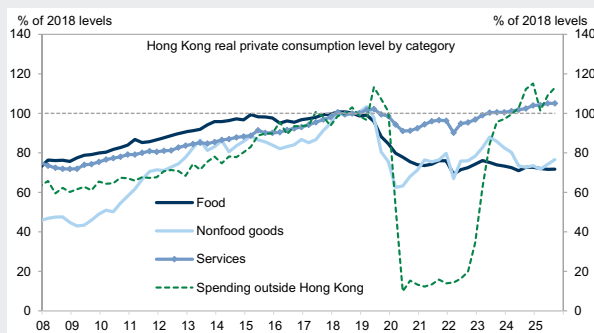
Source: PWT, Goldman Sachs Global Investment Research

Hong Kong: Domestic demand takes the lead

2025 has been a year of robust growth for the Hong Kong economy. The real GDP growth surprised to the upside over the first three quarters, driven primarily by stronger-than-expected net exports and a pickup in investment growth. The former reflects robust export performance from mainland China despite elevated US tariffs, while the latter likely stems from easing financial conditions – a combination of Fed rate cuts, domestic equity market rally, and the stabilization in the property market. We maintain our 2025 full-year real GDP growth forecast of 3.4%. We expect net exports to contribute +0.5pp to full-year growth in 2025, while investment is projected to contribute 1.8pp. Meanwhile, as non-food goods consumption picked up in 2025 and services consumption grew steadily, private consumption is expected to contribute 0.9pp to full-year growth in 2025 (vs. a 0.5pp drag in 2024; [Exhibit 25](#)).

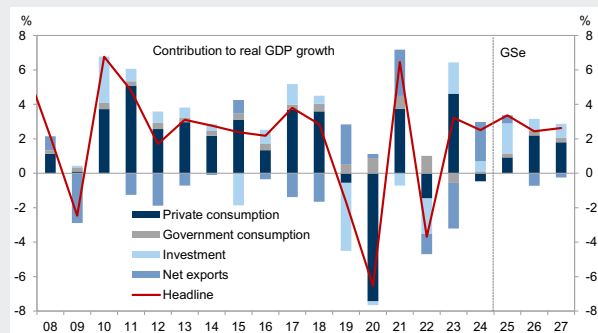
Looking ahead, we expect a further recovery in domestic demand – particularly private consumption – to underpin economic growth in 2026 ([Exhibit 26](#)). This is supported by a likely continued recovery in property prices, as projected by [our Hong Kong real estate team](#), and a further rally in the equity market expected by [our equity strategists](#). We expect private consumption to contribute 2.2pp to full-year growth in 2026. Continued rate cuts in the US should also lower interest rates in Hong Kong and support investment growth. That said, net exports are likely to turn into a drag in 2026, reflecting payback effects following the export front-loading seen in 2025. Taken together, we forecast Hong Kong’s economy to expand by 2.4% in 2026.

Exhibit 25: Non-food goods consumption picked up year-to-date and services consumption grew steadily



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 26: Private consumption may lead Hong Kong’s economic growth in 2026



Source: CEIC, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Hui Shan, Lisheng Wang, Xinquan Chen, Yuting Yang, Chelsea Song and Andrew Tilton, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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