EM Strategy

China: Economic transition at play

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At its September meeting, the Politburo scheduled the Fourth Plenary Session of the 20th CPC Central Committee for October, focusing on key issues related to the 15th Five-Year Plan. We expect the upcoming session to reaffirm China's economic strategy set out earlier in the year. Fiscal policy will remain expansionary, with the deficit projected to widen to -4.4% from -3% in 2024 (exceeding our previous expectation of -4.0%). Measures to address local government debt and stabilise the property sector will continue, supporting the housing destocking process, while consumption stimulus is likely to strengthen moderately in 2026. Overall, GDP growth is expected to meet the government's target this year. Given this outlook, we maintain a slightly constructive strategic stance: while policy remains supportive and confidence-building efforts continue, underlying economic momentum still lacks clear signs of meaningful acceleration, suggesting a steady but unspectacular recovery trajectory for the Chinese economy in 2025-2026.

China set to reaffirm supportive economic strategy at October Politburo

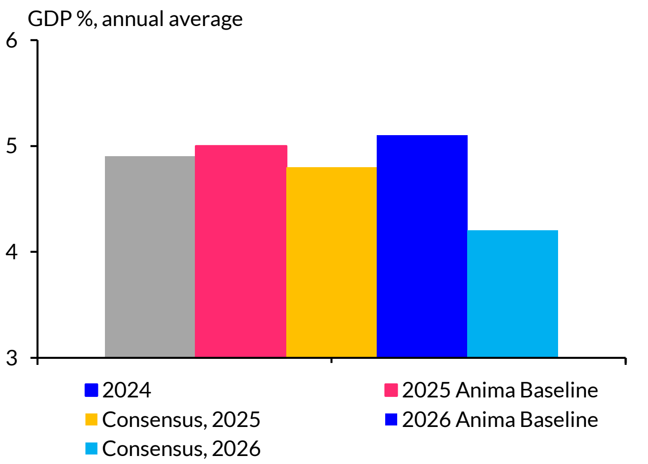
Despite slightly stronger than expected exports driven by non-US demand, China's domestic activity is likely to have weakened for a second consecutive month in September. Retail sales are expected to have softened following the expiration of trade-in subsidies, while consumer confidence remains low. Industrial production slowed in August, and fixed asset investment fell, reflecting the effects of anti-involution policies, spillovers from weaker sectors, limited infrastructure financing, and ongoing housing market weakness. Consequently, we expect the October Politburo meeting to reaffirm the broadly dovish stance established in April and to signal further cyclical fiscal support through 2025-2026. We do not expect any major stimulus measures, as the growth target appears achievable. A statement is expected in the afternoon of 23 October, providing strategic policy direction rather than detailed numerical targets. Likely focal areas will include:

- **GDP and inflation targets: We expect policymakers to maintain their 2025-26 real GDP growth target at "around 5%," unchanged from April, while keeping the 2025-26 CPI inflation target at around 2%** (down from around 3% in 2024). The growth target remains broadly consistent with our forecast owing to policy stimulus, while we consider the authorities' inflation outlook optimistic, as we anticipate supply-demand imbalances will keep inflation subdued (at 1.0%) next year (**Figures 1-3**).
- **Bond quotas and fiscal targets: We expect fiscal support to expand moderately, with the fiscal deficit projected to widen to 4.4% of GDP in 2025, up from 3% in 2024 and 4.0% previously expected (in March).** The Central Government Special Bond (CGSB) net issuance quota is likely to remain unchanged at RMB 1.8 trillion for 2025, compared with RMB 1.0 trillion in 2024 (**Figure 4**). Of this, RMB 300 billion has been earmarked for the consumer goods trade-in program (up from RMB 150 billion in 2024) and RMB 500 billion for bank recapitalisation (versus none in 2024), leaving approximately RMB 1 trillion to support equipment upgrades and strategic investments. Meanwhile, the NDRC1 has officially unveiled a new RMB 500 billion policy bank facility. Initially proposed at the April Politburo meeting, details of the instrument have yet to be released. The fund is intended to serve as seed capital to stimulate investment, likely targeting infrastructure projects and emerging industries with limited overcapacity.
- **Local Government Debt Resolution: We expect the strategy to remain align with the commitments outlined during the October 2024 policy pivot and the April Politburo meeting.** Policymakers are likely to maintain the RMB 2.8 trillion allocation for local government debt resolution in 2025, unchanged from the previous year. This includes RMB 800 billion from the new Local Government Special Bond (LGSB) issuance quota and RMB 2 trillion from local government refinancing bonds.

[1] *National Development and Reform Commission.*

Figure 1

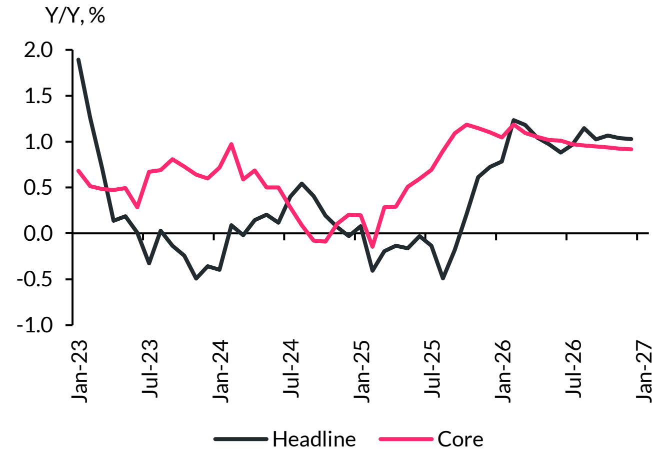
We expect growth to plateau at around 5% in 2025-26



Source: Haver Analytics, ANIMA Research.

Figure 2

Base effects are expected to lift headline inflation to around 1% in 2026

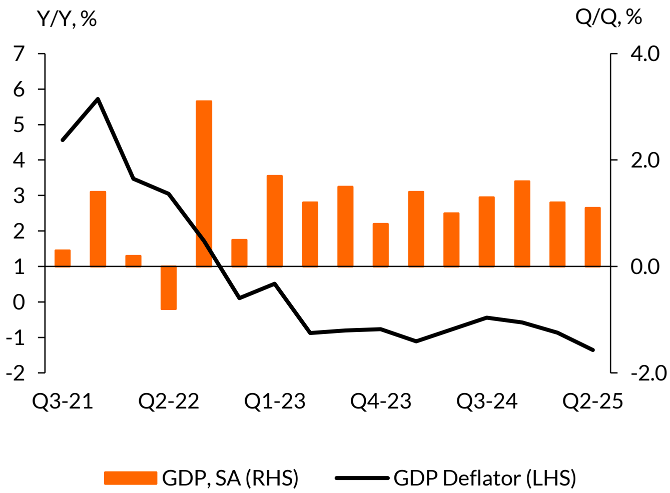


Source: Haver Analytics, ANIMA Research.

- **Property sector: We expect policymakers to reaffirm the RMB 4.4 trillion allocation announced in April for housing destocking.** We believe the Politburo will proceed with measures to mitigate property developer debt risks, accelerate urban village renovation projects, enhance municipal governments' flexibility in acquiring existing housing stock, and expand public housing relending support.

Figure 3

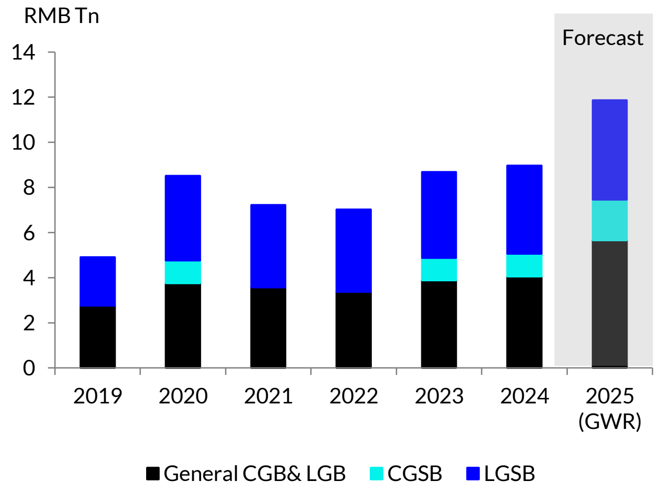
GDP Deflator turned negative in 2024



Source: Haver Analytics, ANIMA Research.

Figure 4

CGSB net issuance quota should be kept unchanged at RMB 1.8 trillion



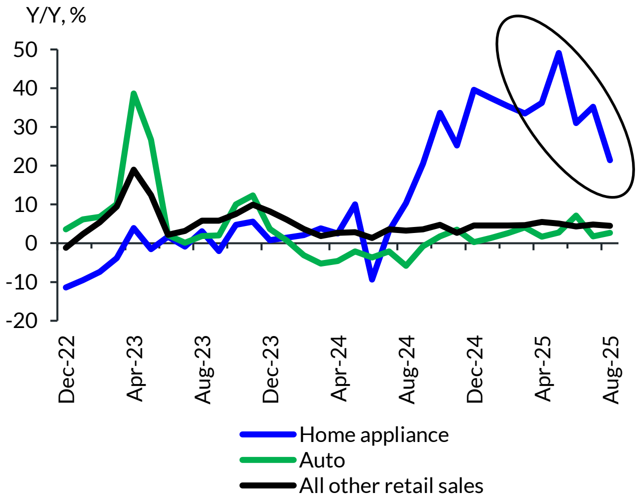
Source: Haver Analytics, ANIMA Research.

- **Bank recapitalization: We expect policymakers to maintain the planned RMB 500bn in special treasury bonds for SOE bank Tier-1 capital.** Given the lower urgency of recapitalisation, policymakers are likely to prioritise measures with a more immediate impact on growth.

- **Domestic consumption stimulus: We expect authorities to maintain the "consumer goods trade-in programme" as the scheme has so far provided some support to household spending.** In April, policymakers allocated an additional RMB 300bn to the program, which subsidises the replacement of old, energy-intensive vehicles, household appliances, and certain digital devices. While the programme offers limited support to spending (**Figures 5-6**), it is unlikely to become a major driver of household consumption in 2025. We believe policymakers may marginally extend the program in 2026.

Figure 5

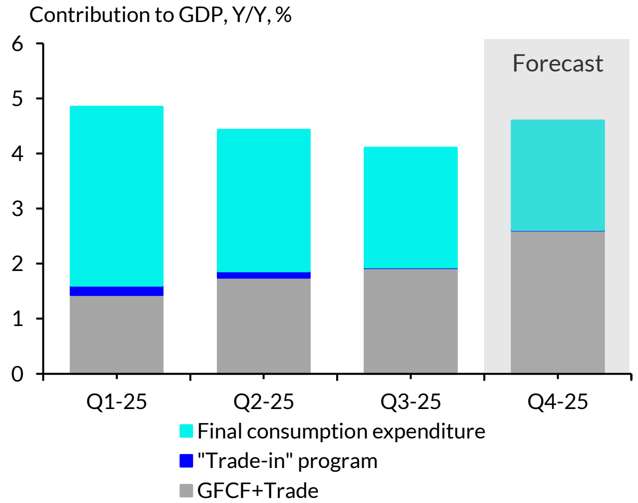
The "trade-in" programme has peaked



Source: Haver Analytics, ANIMA Research.

Figure 6

The "trade-in" programme's contribution to GDP is marginal



Source: Haver Analytics, ANIMA Research.

- **PBoC: We expect a continued but cautious approach to policy easing, as the central bank aligns itself with the Politburo's political message.** We expect the October Politburo meeting to restate its broadly dovish stance. Thus, the PBoC is likely to remain committed to lowering the reserve requirement ratio (RRR) and policy rates "when appropriate" (by year-end, in our view), ensuring adequate liquidity, guiding financing costs lower, and maintaining RMB stability.

Bottom line: We expect the October Politburo meeting to reinforce China's 2025 economic strategy, widening the fiscal deficit to -4.4%, continuing local government debt resolution and housing destocking measures, and modestly boosting consumption. GDP is expected to meet the 5.0% target, supporting a neutral policy stance, as policy remains accommodative but growth momentum subdued.

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