



PEOPLE'S REPUBLIC OF CHINA

February 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE PEOPLE'S REPUBLIC OF CHINA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the People's Republic of China, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 13, 2026, consideration of the staff report that concluded the Article IV consultation with the People's Republic of China.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 13, 2026, following discussions that ended on December 10, 2025, with the officials of the People's Republic of China on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 28, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the People's Republic of China.

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IMF Executive Board Concludes 2025 Article IV Consultation with China

FOR IMMEDIATE RELEASE

Washington, DC – February 18, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation¹ with the People's Republic of China on February 13, 2026. The authorities have consented to the publication of the Staff Report prepared for this consultation.

The Chinese economy has remained remarkably resilient despite facing multiple shocks in recent years. Real GDP grew by 5 percent in 2025, meeting the authorities' target, supported by robust exports and policy stimulus. However, private domestic demand remained lackluster, and while core inflation has picked up modestly, headline inflation continues to be muted, averaging 0 percent in 2025, and the GDP deflator continued to decline. Low inflation relative to trading partners has also led to real exchange rate depreciation, contributing to strong exports and an increase in the current account balance to an estimated 3.3 percent of GDP in 2025.

GDP growth is projected to slow to 4.5 percent in 2026, reflecting the prolonged effects of tariffs and trade policy uncertainty. Deflationary pressures are expected to persist, with inflation projected to rise only gradually amid continued economic slack. Over the medium term, growth is projected to continue decelerating due to a declining labor force, decreasing returns to investment, and slower productivity growth.

Risks around the outlook remain tilted to the downside. The main domestic risk is a deeper-than-expected contraction in the property sector, which, combined with high debt levels, could contribute to greater domestic demand weakness, entrenched deflation, and continued reliance on exports. Renewed escalation of trade tensions is the key external downside risk. Additional policy stimulus or cooperative resolution of trade tensions pose upside risks.

Executive Board Assessment²

Executive Directors commended China's economic resilience despite multiple shocks in recent years. At the same time, Directors noted that China's growth model faces mounting challenges from domestic and external imbalances. Prolonged weak domestic demand risks entrenching deflationary pressures, while exports may be less able to drive growth going

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

forward. Moreover, Directors highlighted that potential growth is expected to slow over the medium term amid aging and subdued productivity.

Directors underscored that transitioning to a consumption-led growth model should be the overarching priority and welcomed the focus of the 15th Five-Year Plan on boosting consumption. They acknowledged that reorienting China's growth model requires significant cultural and economic policy transformation and called for a comprehensive and more forceful response that combines increased macroeconomic policy support with structural reforms.

Directors emphasized that addressing domestic imbalances and reflating the economy will require more expansionary macroeconomic policies, with a focus on fiscal stimulus. They welcomed the fiscal expansion in 2025 and noted that an expansionary stance should be maintained until deflationary pressures subside durably. The composition of spending should shift towards greater support for consumption and the property sector and away from inefficient investment. The policy mix should include further monetary easing and greater exchange rate flexibility.

Directors also called for complementary structural reforms that rebalance the economy toward consumption. They highlighted that facilitating the property sector adjustment, including with central government financing for tackling pre-sold unfinished housing, would rebuild consumer confidence, while strengthening the social protection system would lower precautionary savings.

Directors welcomed the authorities' efforts to tackle "involution", or excessive price competition, but noted that the "anti-involution" strategy should be clarified further and be accompanied by stronger incentives to reduce overinvestment by local governments. They also underscored the need to scale back unwarranted industrial policy to lower domestic factor misallocation, reduce fiscal costs, and mitigate international spillovers.

Directors highlighted China's important role in promoting open trade amid rising fragmentation pressures. Many Directors welcomed the authorities' commitment to the multilateral trading system, and a few Directors also highlighted their constructive engagement on debt and climate issues. Directors encouraged China to work constructively with partners to resolve trade disputes and use national security justifications for restricting trade or investment judiciously.

Directors agreed that ensuring debt sustainability will necessitate significant fiscal consolidation over the long term but should only start once the economy has reflated durably. The consolidation should be based on a reduction of off-budget investment and unwarranted industrial policy support, as well as tax and social security reforms. Directors also concurred with the need to restructure the debt of unsustainable local government financing vehicles (LGFVs) through insolvency frameworks, though they cautioned that financial sector spillovers should be carefully addressed and fiscal frameworks should be upgraded to prevent future debt buildup.

Directors underscored that financial sector policies should tackle elevated financial stability risks. They noted the importance of promoting timely and transparent loss recognition, transitioning to market-based pricing, and preparing a comprehensive strategy to address vulnerabilities, particularly legacy assets such as LGFV debt. Further, they noted that bolstering financial sector resilience requires improving systemic risk analysis, enhancing financial sector oversight and upgrading crisis management and bank resolution frameworks.

Directors emphasized the need for structural reforms to prevent a significant decline in medium-term growth. They saw market-oriented corporate sector reforms as a key priority, including opening up the services sector and fostering competitive neutrality across firms. Directors positively noted China's advancements in artificial intelligence and called for policies to harness its potential while mitigating risks. While welcoming the announced increase in retirement age, Directors also noted the scope for further increases to mitigate pressures from aging.

Directors agreed that improving data quality and transparency can enhance policymaking and surveillance.

China: Selected Economic Indicators 2020-2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
	Est.						Projections					
	(Annual percentage change, unless otherwise indicated)											
NATIONAL ACCOUNTS												
Real GDP	2.3	8.6	3.1	5.4	5.0	5.0	4.5	4.0	3.9	3.7	3.4	
Total domestic demand	1.7	7.0	2.8	6.3	3.6	3.5	4.0	4.1	4.1	3.7	3.4	
Consumption	-0.2	9.4	2.8	8.4	3.9	4.6	4.1	4.1	3.7	3.6	3.4	
Fixed investment	3.5	2.4	3.3	4.5	3.0	1.0	2.0	5.5	4.7	3.9	3.7	
Net exports (contribution)	0.7	1.7	0.4	-0.6	1.5	1.6	0.8	0.2	0.1	0.2	0.2	
Total capital formation (percent of GDP)	42.3	42.7	42.4	41.1	40.6	38.8	38.4	38.4	38.7	39.0	39.1	
Gross national saving (percent of GDP) 1/	43.9	44.6	44.8	42.6	42.9	42.1	41.5	41.2	41.2	41.3	41.3	
Output gap estimate	-4.0	-1.1	-2.8	-2.1	-1.6	-1.0	-0.8	-0.5	-0.2	0.0	0.0	
LABOR MARKET												
Urban unemployment rate (annual average) 2/	5.6	5.1	5.6	5.2	5.1	...	...	...	...	...	...
PRICES												
Consumer prices (average)	2.5	0.9	2.0	0.2	0.2	0.0	0.9	1.5	1.8	1.9	2.0	
Consumer prices (end of period)	0.3	1.5	1.8	-0.2	0.0	0.9	0.9	1.7	1.8	1.9	2.0	
GDP Deflator	1.2	3.7	2.0	-0.4	-0.7	-1.0	-0.7	0.9	1.5	1.9	2.0	
FINANCIAL												
7-day repo rate (percent)	2.2	2.3	1.9	2.2	2.0	1.7	...	...	...	...	...
10 year government bond rate (percent)	3.0	3.1	2.8	2.8	2.2	1.8	...	...	...	...	...
MACRO-FINANCIAL												
Total social financing	13.3	10.3	9.6	9.8	8.0	8.3	8.2	7.7	7.3	7.0	7.0	
In percent of GDP	273	268	279	292	303	315	329	337	343	347	352	
Total nonfinancial sector debt 3/	12.6	9.8	9.2	9.7	8.3	8.6	7.2	7.7	7.3	7.0	7.0	
In percent of GDP	272	265	276	288	299	313	323	332	338	342	347	
Domestic credit to the private sector	10.2	7.5	8.3	8.5	7.7	6.2	4.8	6.3	6.1	5.9	6.3	
In percent of GDP	169	161	166	172	178	181	183	186	187	187	189	
Household debt (percent of GDP)	60.6	60.6	60.8	61.9	61.4	59.4	59.0	59.7	60.2	60.7	61.3	
Non-financial corporate domestic debt (percent of GDP)	108	101	106	110	116	122	124	126	126	126	127	
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)												
Net lending/borrowing 4/	-9.6	-5.9	-7.3	-6.7	-7.4	-8.7	-8.7	-8.5	-8.2	-8.1	-8.0	
Revenue	25.3	26.0	25.3	26.0	25.6	25.0	25.2	25.4	25.6	25.7	25.7	
Additional financing from land sales	2.4	2.2	1.1	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
Expenditure	34.8	31.9	32.6	32.7	33.0	33.7	33.9	33.9	33.8	33.7	33.8	
Debt	44.7	45.8	49.4	54.7	60.9	68.4	75.1	78.9	81.8	84.4	86.9	
Structural balance	-8.5	-5.6	-6.6	-6.1	-7.0	-8.5	-8.5	-8.3	-8.2	-8.1	-8.0	
BALANCE OF PAYMENTS (Percent of GDP)												
Current account balance	1.6	1.9	2.4	1.4	2.3	3.3	3.1	2.8	2.5	2.3	2.2	
Goods balance	3.4	3.1	3.6	3.3	4.1	5.2	4.9	4.7	4.5	4.4	4.4	
Services balance	-1.0	-0.6	-0.5	-1.1	-1.2	-1.2	-1.3	-1.3	-1.5	-1.6	-1.8	
Net international investment position	15.1	12.0	13.2	15.6	17.6	20.2	22.1	23.7	24.9	25.8	26.5	
Gross official reserves (billions of U.S. dollars)	3,357	3,427	3,307	3,450	3,456	3,703	3,990	4,277	4,562	4,862	5,170	
MEMORANDUM ITEMS												
Nominal GDP (billions of RMB) 5/	104,224	117,311	123,341	129,427	134,921	140,188	145,473	152,734	161,131	170,185	179,372	
Augmented debt (percent of GDP) 6/	97.5	98.7	104.2	111.3	117.0	126.6	135.3	141.5	146.2	150.0	153.7	
Augmented net lending/borrowing (percent of GDP) 6/	-16.2	-12.1	-13.5	-12.8	-13.2	-14.3	-14.2	-13.7	-13.2	-12.8	-12.5	
Change in Augmented Cyclically-Adjusted Primary Balance 7/	-2.6	2.8	-0.8	0.4	-0.6	-0.9	0.3	0.8	0.6	0.6	0.4	

Sources: Bloomberg; CEIC Data Company Limited; Wind; IMF International Financial Statistics database; and IMF staff estimates and projections.

1/ 2024 GDP will be revised to match official revisions, once full official data are released.

2/ Surveyed unemployment rate.

3/ Includes government funds.

4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

5/ Expenditure side nominal GDP.

6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

7/ In percent of potential GDP.



PEOPLE'S REPUBLIC OF CHINA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 28, 2026

KEY ISSUES

Context. Despite being buffeted by multiple shocks, the Chinese economy has shown remarkable resilience and continues to be a significant driver of global growth. China's growth model, which has historically delivered impressive gains, now faces challenges. The protracted adjustment in the property sector and spillovers to local government (LG) finances, amid a debt overhang, have led to continued weakness in domestic demand and deflationary pressures. The deficiency in domestic demand has been mitigated by strong export growth, in part supported by real exchange rate depreciation reflecting weaker inflation in China relative to trading partners. Higher net exports have also resulted in the emergence of external imbalances, with adverse spillovers to trading partners. China's large economic size and heightened global trade tensions make reliance on exports less viable for sustaining robust growth going forward. Furthermore, state-led and debt-financed investment and unwarranted industrial policy support have resulted in weakening productivity, build-up of financial vulnerabilities, and excess supply in some tradable sectors. Other structural challenges, including an aging population, will also weigh on the economy over the medium term. Recognizing these challenges, the authorities have implemented various welcome policy measures and appropriately highlighted the importance of boosting domestic demand, especially consumption. Nevertheless, the policy measures implemented thus far remain modest relative to the scale of the challenges.

Outlook and risks. GDP growth is expected to slow to 4.5 percent in 2026 due to the prolonged effects of tariffs and trade policy uncertainty. Deflationary pressures are expected to persist, with core inflation projected to rise only gradually amid continued economic slack. The main domestic risk is a deeper-than-expected contraction in the property sector, which, combined with high debt levels, could contribute to greater domestic demand weakness, entrenched deflation, and continued reliance on exports. Renewed escalation of trade tensions is the key external downside risk. Additional policy stimulus or cooperative resolution of trade tensions pose upside risks.

The key policy priority for China is to transition to a consumption-led growth model, away from overreliance on exports and investment. To support this transition, staff recommends urgent implementation of a comprehensive and forceful policy package to address the key challenges. Such a policy package will tackle China's internal imbalances while also reducing external imbalances.

- **Tackling imbalances and transitioning to consumption-led growth:**
 - *Implementing expansionary macro policies:* Maintaining an expansionary fiscal stance until deflationary pressures ease is key for restoring domestic balance. Fiscal stimulus should be focused on durably boosting consumption by investing in people and facilitating a more efficient property sector adjustment, while scaling back inefficient investment and unwarranted industrial policy support. To facilitate

reflation and ease debt-related stresses, the policy mix should include further monetary easing. Such a policy package would close the output gap and reflate the economy, while also resulting in real exchange rate appreciation and a narrower current account surplus, restoring external balance. Financial policies should mitigate elevated financial stability risks and reinforce efforts to boost demand.

- *Facilitating property sector transition:* Ensuring a more efficient and less costly transition of the sector to a new equilibrium remains a priority. Accelerating the exit of unviable developers, while providing targeted central government (CG) support of 5 percent of GDP to protect homebuyers, can help restore confidence and boost consumption. Greater housing price flexibility would support housing demand and the clearing of the inventory overhang.
- *Increasing household consumption:* Raising social spending, especially in rural areas, and accelerating Hukou reforms in urban areas can lower domestic savings and boost consumption by up to 3 percent of GDP in the medium term. Tax reforms that improve progressivity can also help.
- *Scaling back industrial policies (IPs):* Scaling back unwarranted IP (i.e. measures not well targeted to address market failures) can help rebalance the composition of fiscal support away from firms and towards households, reduce fiscal costs, and boost productivity and growth by reducing resource misallocation. Doing so as well as improving transparency around IP can mitigate international spillovers.
- *Facilitating trade openness:* In the current environment of heightened trade tensions and uncertainty, China should work constructively with partners to resolve disputes, continue to support a stable global trading system, and pursue high-standard regional and plurilateral agreements.
- **Reforms to tackle debt vulnerabilities and repair balance sheets:**
 - *Ensuring fiscal sustainability:* Once deflation pressures ease durably, sustained general government (GG) fiscal consolidation over the long term will be needed to stabilize debt. The consolidation should be based on a reduction of off-budget investment and unwarranted industrial policy support, accompanied by wide-ranging tax and social security reforms. Restructuring the debt of unsustainable local government financing vehicles (LGFVs) through greater use of insolvency frameworks will reduce LG fiscal strains. LGFV restructuring should be accompanied by a comprehensive plan to tackle financial sector spillovers and upgrades to the fiscal frameworks to prevent further debt buildup.
 - *Bolstering financial sector resilience:* As highlighted in the FSAP, loss recognition and balance sheet clean up are key to reducing systemic risks. Reform priorities include enhancing balance sheet transparency and systemic risk analysis, improving financial sector oversight, upgrading the crisis management and bank resolution frameworks, and improving corporate restructuring frameworks.
- **Boosting medium-term growth:** Advancing market-oriented reforms, including opening up the service sector, and fostering competitive neutrality across firms can boost productivity. Reforms to promote business dynamism, maximize the gains from AI (including faster diffusion), and increase the efficiency of R&D spending will also help. Building on recent efforts, further pension reforms can alleviate aging pressures.

Approved By
**Thomas Helbling and
 Mark Flanagan**

Discussions took place in Beijing and Shanghai December 1-10, 2025. The team comprised S. Jain-Chandra (head), S. Kothari (deputy head), C. Alonso, D. Garcia-Macia, C. Redl, Y. Xu (all APD), Y. Cao (FAD), Y. Chen, N. Novikova, C. Verkoren (MCM), D. Plotnikov, E. Van Heuvelen (SPR), and M. Mills and F. Zhang (Resident Representatives). K. Srinivasan and T. Helbling (both APD) joined key meetings. MD K. Georgieva and FDMD D. Katz held high-level meetings. Z. Zhang and H. Wang (both OED) joined the official meetings. T. Yan (COM) coordinated media activities. E. Liu and J. Ishikawa provided inputs for the report. A. Balestieri and J. Han supported the mission.

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CONTEXT

1. Despite multiple shocks, China's economy has remained resilient and continues to be a significant driver of global growth. Over the past five years, a multitude of shocks, including the pandemic, the housing market crisis, and trade tensions, have posed significant challenges for the economy. Notwithstanding these headwinds, growth has remained robust and financial spillovers have been contained. In fact, in the last three years China contributed around 30 percent of global growth.

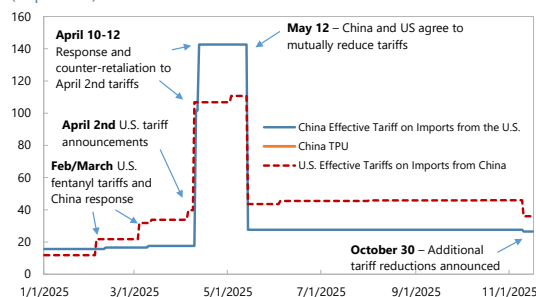
2. However, China's historic growth model, which relies heavily on investment and state direction, faces mounting challenges, as reflected in prolonged domestic demand weakness and deflationary pressures, elevated vulnerabilities, as well as rising reliance on external demand recently. On the domestic front, the protracted property sector contraction, spillovers to LG finances amid a debt overhang, and subdued consumer and business confidence have led to persistent weakness in domestic demand and intensifying deflationary pressures. Strong export growth has picked up some of the slack, in part supported by real depreciation of the RMB reflecting weaker inflation in China relative to trading partners. Higher net exports have resulted in the emergence of a large current account surplus, with adverse spillovers to trading partners. Furthermore, while the growth model based on state-led investment and industrial policy support has led to technological advances and gains in international market share, it has also resulted in low aggregate returns, excess supply in some tradable sectors, and the build-up of debt and financial vulnerabilities. Looking forward, the ability of exports to support growth may be constrained, including due to trade tensions, while elevated corporate and public debt levels suggest continued risk of more widespread debt deleveraging exacerbating deflationary pressures.

3. Recognizing these challenges, the authorities have implemented coordinated policy measures, though a comprehensive and more forceful policy response is urgently needed. Recent high-level policy documents, including the recommendations for the 15th Five-Year Plan (FYP), have emphasized promoting innovation and technological self-sufficiency and appropriately highlighted the importance of boosting domestic demand, with a focus on consumption. The authorities have also emphasized the need to tackle "involution" (i.e., "excessive" price competition), including by phasing out "outdated capacity" and LG subsidies in some sectors and implementing retirement age reforms to mitigate pressures from aging. And while various agencies have introduced some coordinated policies to achieve these goals, the policy steps remain insufficient relative to the scale of the challenges. A comprehensive policy response, focused on more forceful expansionary macroeconomic policies and stepped-up structural reforms to boost consumption, as also outlined in recent Article IV Consultations, is recommended (Annex I).

RECENT DEVELOPMENTS

4. Trade tensions between China and its trading partners remain elevated, with high tariff levels and significant trade policy uncertainty. A series of trade actions led to US tariffs on Chinese imports peaking at over 100 percent in April (see text chart), with China in turn imposing high tariffs on US imports. Bilateral negotiations led to a temporary truce in May that lowered bilateral tariffs and eased US restrictions on semiconductor sales to China and Chinese export controls on rare earth minerals. After another escalation of trade tensions in September, the US and China agreed to a one-year truce in October, which delayed new Chinese export control measures on strategic minerals and rare earth equipment and technologies (including extraterritorial licensing requirements), further lowered bilateral tariffs, and included Chinese purchase commitments for US agricultural products (see text table). As of December 2025, effective tariffs on Chinese exports to the US have increased by about 23 percentage points relative to 2024 levels, while US goods entering China have seen effective tariffs increase by about 11 percentage points over the same period. There have also been some trade actions between China and other trading partners, notably tariffs on Chinese electric vehicle (EV) exports to Canada and the EU, with China also imposing tariffs on certain imports from them. Furthermore, trade policy uncertainty remains elevated. Trade flows have been impacted significantly (I15, 10 and SIP), which could be compounded by US actions to strengthen anti-transshipment enforcement.¹

China - U.S. Effective Tariff Rates
(In percent)



Source: WTO-IMF Tariff Tracker.
Note: Data acquired as of November 12, 2025. Chart plots the weighted average effective tariff, including exemptions granted for certain products.

Text Table 1. US-China Deal on Economic and Trade Relations

On October 30, 2025, Presidents Trump and Xi announced a series of measures that form the basis of a one-year truce. Key elements include:

Measure	US Commitment	China Commitment
Tariffs	Reduce fentanyl-related tariffs by 10 percentage points for one year, extend certain tariff exclusions and suspension of 'reciprocal tariffs' above 10% until November 2026, and not implement for one year additional 100% tariffs as threatened on October 10.	Suspend retaliatory tariffs on certain U.S. agricultural products and extend suspension of the 24% additional tariff on U.S. imports for one year, retaining the additional 10% rate.
Export Controls	Suspend for one year U.S. 'affiliates' rule that expanded restrictions related to its entity list.	Suspend for one year the implementation of export control measures on rare earths, including extraterritorial provisions. Suspend measures taken in March and April that added certain U.S. companies to the 'Unreliable Entities List.'
Maritime	Suspend port fees targeting respective maritime, logistics, and shipbuilding industries.	
Other		Some purchase commitments related to agriculture and energy.

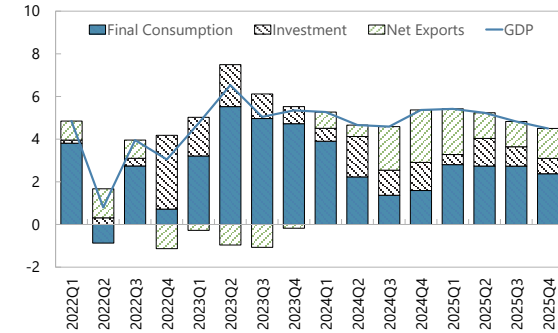
¹ A July 31 [US Executive Order](#) strengthens anti-transshipment enforcement by calling for a 40 percent tariff on goods determined to have been transshipped to evade duties.

5. Despite the multitude of shocks, growth has been resilient overall, supported by strong net exports amid lackluster private domestic demand.

Real GDP growth moderated to 4.5 percent y/y in Q4 from 5.2 percent in the first three quarters of 2025. Net exports contributed 1.6 percentage points to annual growth in 2025 (above the average of 0.4 percentage points over 2022–24), driven in part by improved competitiveness amid real exchange rate depreciation, potential export frontloading in the beginning of the year, and stagnant imports. In contrast, domestic demand has been lackluster since 2024, despite a modest uptick in 2025H1 on the back of fiscal expansion, including a larger trade-in program for specific durable consumer goods. The protracted property sector downturn and subdued consumer confidence continue to weigh on consumption, with the household savings rate remaining elevated and above pre-pandemic levels. The slowdown in growth in 2025H2 was driven by weaker investment, with shrinking real estate investment, contracting manufacturing investment after strong growth in previous quarters, potentially restrained by the “anti-involution” campaign, and softening public investment.

Contribution to GDP

(In percent, year-on-year)



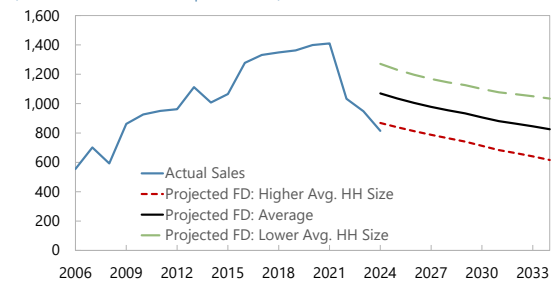
Sources: National Bureau of Statistics of China, and IMF staff calculations.

6. The property sector contraction, now in its fourth year, remains a key drag on growth.

Policy support since mid-2024 initially helped stabilize demand in higher-tier cities, but its impact has faded. Since 2025Q1, new home sales and prices have declined further across market segments, with sharper falls in oversupplied lower-tier cities, leaving nation-wide sales below estimated fundamental demand (see 2023 Selected Issues Paper). By contrast, secondary market sales have been more resilient, given larger price declines and continued uncertainty over developers’ ability to deliver new homes. On the supply side, construction activity, including housing starts and real estate investment, remains in deep contraction. Housing investment has fallen from a peak of 12.3 percent of GDP in 2020 to 6.1 percent in 2025, while completions are nearly 40 percent below 2021 level, despite some progress under the White-List program to deliver pre-sold homes. The inventory overhang remains elevated at 30 months of sales, while government initiatives for inventory purchases have shown limited traction (¶45). Financial distress among private developers remains widespread, with over half still in distress. However, developer exits have been exceedingly limited and restructuring efforts have been impeded as falling asset values undermine earlier restructuring agreements and necessitate protracted renegotiations between developers and creditors.

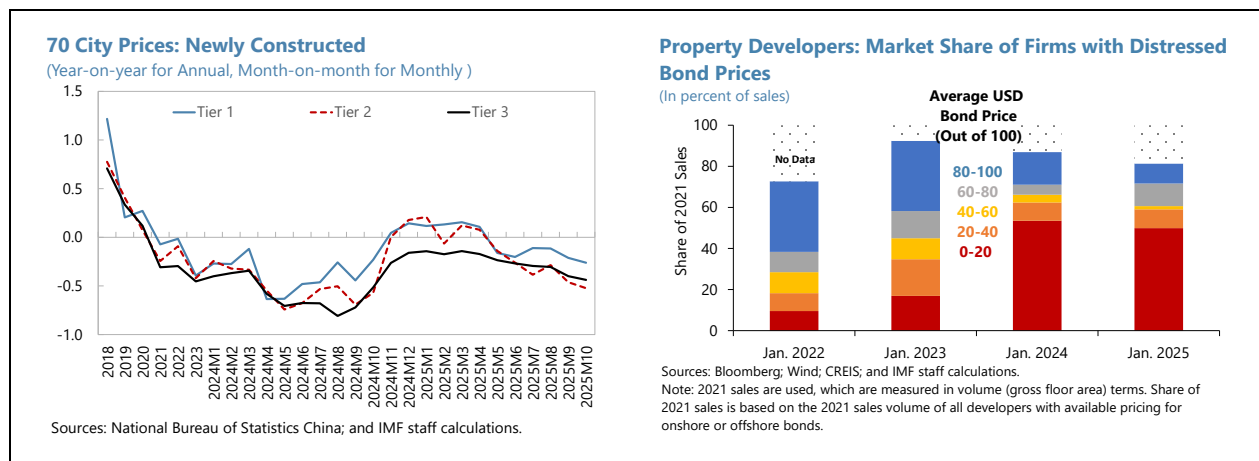
Residential Real Estate Sales and Projected Fundamental Demand

(Floor area: in millions of square meters)

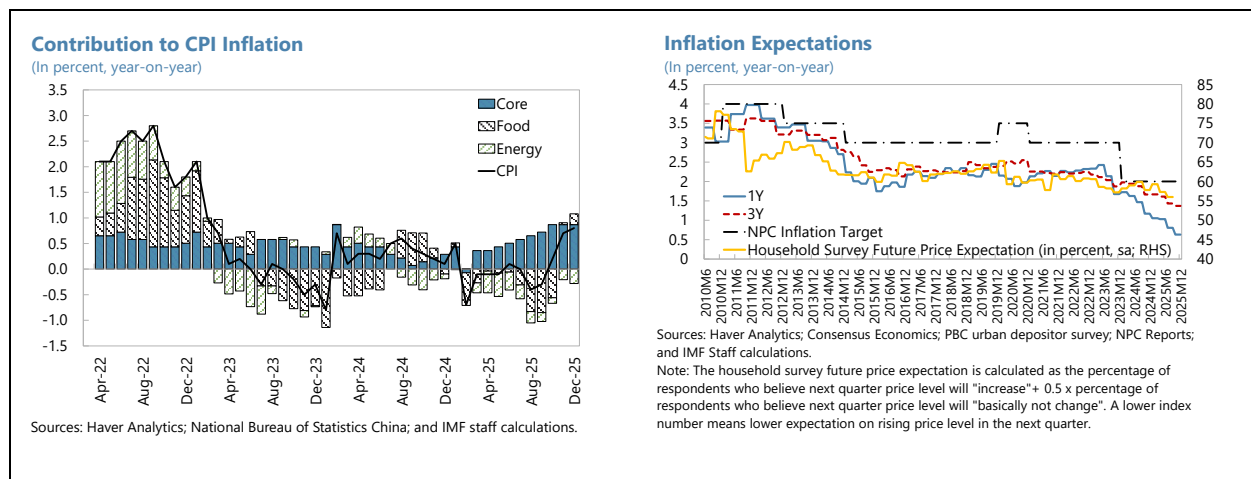


Sources: CEIC Data Company Limited; and IMF staff calculations.

Note: Sales for 2023 estimated. FD=Fundamental Demand; HH=Household.

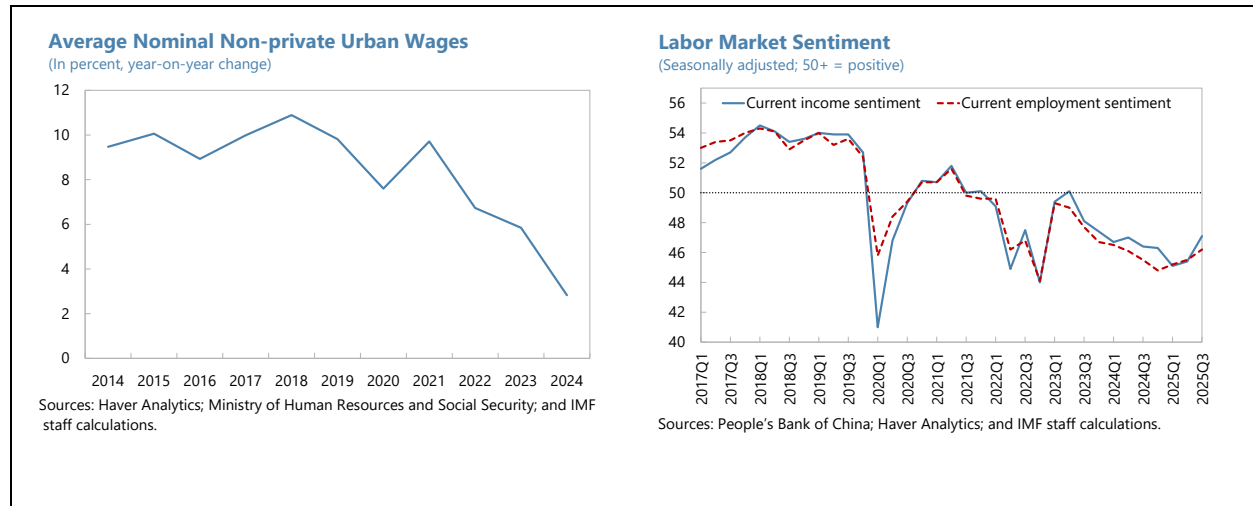


7. China continues to face deflationary pressures with the economy operating below potential. The output gap remains negative and is estimated at -1 percent in 2025. As a result, core inflation has been low, averaging only 0.5 percent y/y in 2024 and inching up to 1.2 percent y/y as of December 2025, in part due to a sharp rise in jewelry prices. Food and energy prices declined for most of 2025, further weighing on headline inflation, which, after hovering around zero for several months, ticked up to 0.8 percent y/y in December following a recovery in food prices. Near-term inflation expectations have declined sharply since the second half of 2024, and the three-year ahead analyst inflation expectations have also trended down, suggesting that persistently low inflation is feeding through to expectations. In addition, producer prices have been falling for more than three years, partly on the back of falling global commodity prices, and GDP deflator growth has been negative for the last 10 quarters. Empirical evidence suggests that deflationary pressures are in part related to the demand slump, including from the protracted property sector correction and the LG debt overhang that limits the indebted LGs’ ability to counter the negative demand shock (Box 1), as well as potential oversupply in some sectors in recent months (Box 2).



8. The overall unemployment rate has stayed low at around 5 percent, but other labor market indicators show signs of economic slack. Nominal non-private wage growth has decelerated markedly in recent years, reaching 2.8 percent in 2024, while higher-frequency data on

real wage income from the household income and expenditure survey also suggest a deceleration since the beginning of the year. Employment PMIs remain in contractionary territory, with slack concentrated in the construction and service sectors. Growth in migrant worker flows into urban areas has progressively fallen from a peak of 2.7 percent in 2023 to less than 1 percent y/y in 2025 and youth unemployment remains elevated, at 16.5 percent in December 2025.

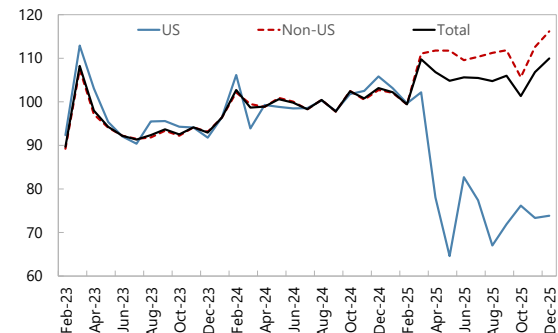


9. The current account (CA) surplus increased in 2024, and the real exchange rate continued to depreciate amid low inflation. The CA balance rose from 1.4 percent of GDP in 2023 to 2.3 percent of GDP in 2024, as exports surged, driven by improved competitiveness and strong external demand, while imports stagnated amid weak domestic demand. Sustained net capital outflows resulted in persistent RMB depreciation pressures in 2024 despite the large CA surplus. Low inflation contributed to the continued depreciation of the real exchange rate, with the REER depreciating by about 14 percent since 2021.

10. The CA surplus has strengthened further in 2025, while depreciation pressures abated after the tariff pause.

- *The CA surplus continued to rise in 2025, primarily driven by a strengthening trade balance.* Through October, goods exports increased by 7 percent in 2025 (value terms) despite lower USD export prices, with export volumes rising strongly by 14.5 percent y/y in 2025Q1—partly in anticipation of the US tariffs on China and the rest of the world—and again in June-July following the trade deal with the

China Exports to the US and Elsewhere
(Index, 2024=100; value-based; seasonally adjusted)



US.² Despite tariffs reducing US-China bilateral trade, exports to other partners—particularly ASEAN—largely offset the decline. Meanwhile, imports remained mostly flat in value terms due to subdued domestic demand and REER depreciation (see below).

- *Financial outflows remain sizable despite some moderation after the May tariff pause with the US.* Large capital outflows have occurred since mid-2024 amid concerns about the growth outlook, trade tensions, and a widening interest differential with advanced economies with temporary moderation in 2025Q2

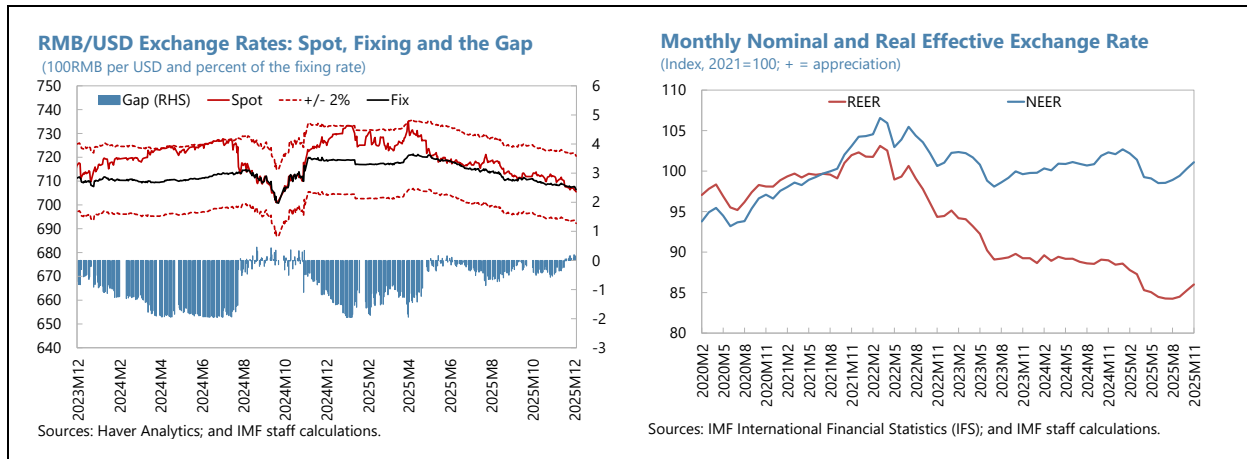
	Annual			Quarterly						
	2022	2023	2024	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Current account balance	2.4	1.5	2.2	1.1	1.2	3.3	3.2	3.8	2.7	4.0
Goods balance	3.6	3.3	4.0	2.9	3.6	4.8	4.8	5.4	4.6	5.4
Services balance	-0.5	-1.1	-1.2	-1.4	-1.4	-1.2	-0.9	-1.4	-1.0	-1.0
Income balance	-0.9	-0.7	-0.7	-0.5	-1.1	-0.4	-0.8	-0.4	-1.0	-0.6
Current transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 1/	-1.3	-1.3	-2.5	-0.5	-1.9	-3.9	-3.7	-4.5	-2.9	-4.2
Net foreign direct investment, net	-0.1	-1.0	-0.8	-0.6	-1.9	-1.0	0.1	-0.8	-0.3	-0.7
Portfolio investment, net 1/	-1.6	-0.4	-0.9	-0.5	-0.1	-0.2	-2.9	-1.4	-1.2	-3.9
Other investment, net 1/	0.4	0.0	-0.7	0.6	0.1	-2.3	-1.4	-1.6	-1.4	-0.5
Errors and omissions 1/	-0.5	-0.1	0.1	0.4	-0.2	-0.4	0.5	-0.6	0.2	0.8
Reserve assets (-=increase)	-0.5	0.0	0.3	-1.0	1.1	0.6	0.6	0.7	0.2	0.2

Sources: Haver Analytics; and IMF staff calculations.
1/ Positive numbers correspond to inflows (as in BPM5).

after the trade agreement with the US. The authorities have eased two capital flow management (CFM) measures. First, in January 2025 they raised the macro-prudential parameter for cross-border financing for corporates and financial institutions from 1.5 to 1.75 in January, effectively relaxing an inflow CFM and encouraging additional inflows. Second, in June they increased the Qualified Domestic Institutional Investor (QDII) quota, thereby easing an outflow CFM after outflows had subsided.

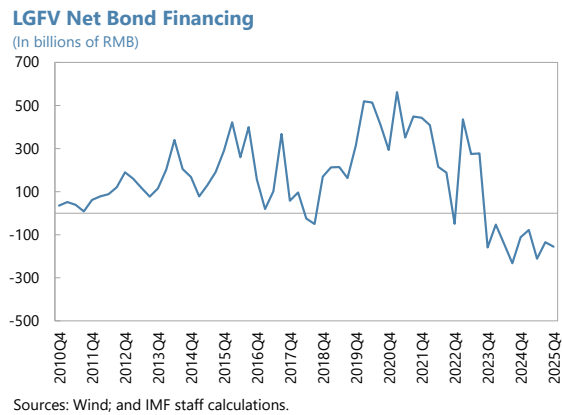
- *The REER depreciated further in 2025, reflecting low domestic inflation.* Between November 2024 and May 2025, the CNY came under sizable depreciation pressures, as indicated by the large gap between the fix and the CNY/USD spot rate. Following US-China trade talks in May, depreciation pressures have eased, and the CNY has appreciated moderately against the dollar. However, on a nominal effective basis, it has depreciated by 1.0 percent through October relative to the 2024 average, reflecting dollar movements. The REER depreciated by 3.7 percent over the same period, reflecting lower inflation than trading partners. Since the end of 2024, gross reserves increased by about US\$270 billion, reaching US\$3.7 trillion in November.
- On a preliminary basis, the 2025 external position is assessed to be stronger than implied by fundamentals and desired policies (Annex II). Reflecting the still negative output gap, the projected cyclically adjusted CA of 3.2 percent of GDP is 2.3 percent of GDP above the estimated CA norm of 0.9 percent of GDP.

² Threat of US port strikes may have also contributed to the exports increase at the end of 2024 and beginning of 2025.



11. The fiscal deficit increased by 0.4 percentage points of GDP in 2024, as lower revenues and improved budget execution in Q4 offset LGFV financing constraints.

Revenues declined by 0.4 percent of GDP, as lower land sales and tax revenues (stemming partly from VAT exemptions and weak property-related taxes) were only partially offset by a 25.4 percent increase in general-public-budget non-tax revenues, reflecting greater efforts by LGs to collect fines, fees, and revenue from state-owned resources. Stricter borrowing constraints imposed by the CG resulted in net negative LGFV bond financing, constraining off-budget spending in 2024.³



12. The 2025 fiscal stance has been expansionary, with increased official general budget deficit and expanded bond quotas. The official headline deficit widened to 4 percent of GDP in 2025 (from 3 percent in 2024), largely reflecting a decline in non-tax revenue collections from elevated levels in 2024. Land sales continued contracting while tax revenues stabilized, largely due to stronger income tax and VAT collections. Combined with higher new CG and LG special bond issuance quotas (including an additional 0.4 percent of GDP announced in October), the augmented cyclically adjusted primary balance (CAPB) is expected to decline by 0.9 percentage points relative to 2024. The budget includes several modest initiatives to support consumption, including an expansion in the appliance trade-in-program (0.1 percent of GDP) and minimum urban-rural resident pensions and health insurance schemes (less than 0.1 percent of GDP), the new nationwide subsidy for children under three years (less than 0.1 percent of GDP), and a one-year subsidy on interest payments for select consumer loans (estimated to be less than 0.1 percent of GDP). The authorities continued industrial policy support for priority sectors, including through a newly

³ Hidden debt swaps and the transformation of some LGFVs—which may have led to their removal from the Wind LGFV list in 2024 (see 166)—could also have contributed to the negative net bond financing.

established national venture capital guidance fund, which will mobilize social capital up to RMB 1 trillion (0.8 percent of GDP).

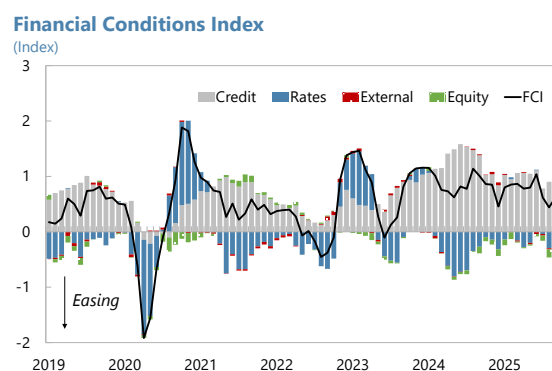
13. The authorities have also announced policy measures to address structural fiscal challenges. The Ministry of Finance announced a multiyear plan to swap local government hidden debt for official LG debt (see ¶66-69). Over the next 15 years, the retirement age will be increased by three years for men and women in white-collar jobs and five years for women in blue-collar jobs. Additionally, the authorities increased minimum contribution periods and introduced measures to make early retirement more flexible.

14. The authorities have eased monetary policy modestly. The PBC has cut the 7-day reverse repo rate by 40 basis points (bps) and the required reserve ratio by 100 bps since July 2024. Other benchmark rates and rates on existing mortgages have also declined. However, amid a negative output gap and deflationary pressure, the cumulative reduction in the 7-day reverse repo rate since 2023 remains modest at 60 bps.

15. The PBC has also made changes to their operational framework to support liquidity management and modestly pared back structural policy tools. The authorities introduced a government bond borrowing and trading program with the aim of limiting volatility in long-term government bond yields and improving liquidity management, and two new repo facilities for more targeted liquidity management. Following two years of expansion, balances on structural monetary policy relending facilities have generally declined since 2023, apart from those supporting rural development and Micro and Small Businesses (MSBs) and an announced increase in the Pledged Supplementary Lending (PSL) facility which will partially finance, via policy banks, RMB500bn (0.4 percent of GDP) in new investment projects in strategic sectors during 2025Q4 and 2026. Annual average Medium-term Lending Facility (MLF) balances also declined 25 percent y/y (RMB 1.7 trillion) as of November 2025, which was partly offset by greater liquidity injection through the new repo facilities and net purchases under the bond trading programs.

16. Despite some recent easing, financial conditions remain tight overall amid high real interest rates, and credit growth to the private sector has continued to decline.

- Financial conditions eased modestly since the beginning of 2025. Equity valuations improved on the back of strong demand by domestic investors, while corporate and government bond yields have hovered around multi-year low levels (Figure 5). Onshore interbank market liquidity remained relatively ample with the PBC preemptively injecting liquidity during periods of potentially high demand. Nonetheless financial conditions remain tight overall, with

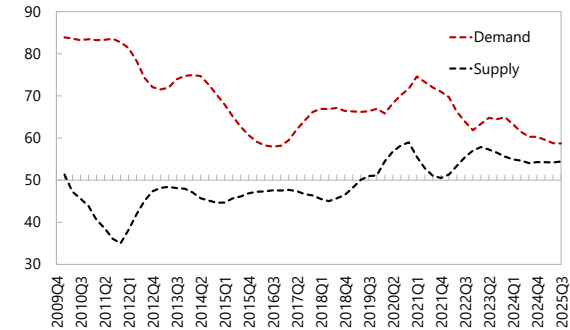


Sources: Bloomberg; Haver Analytics; and IMF staff calculations.
Note: Data as of October 2025.

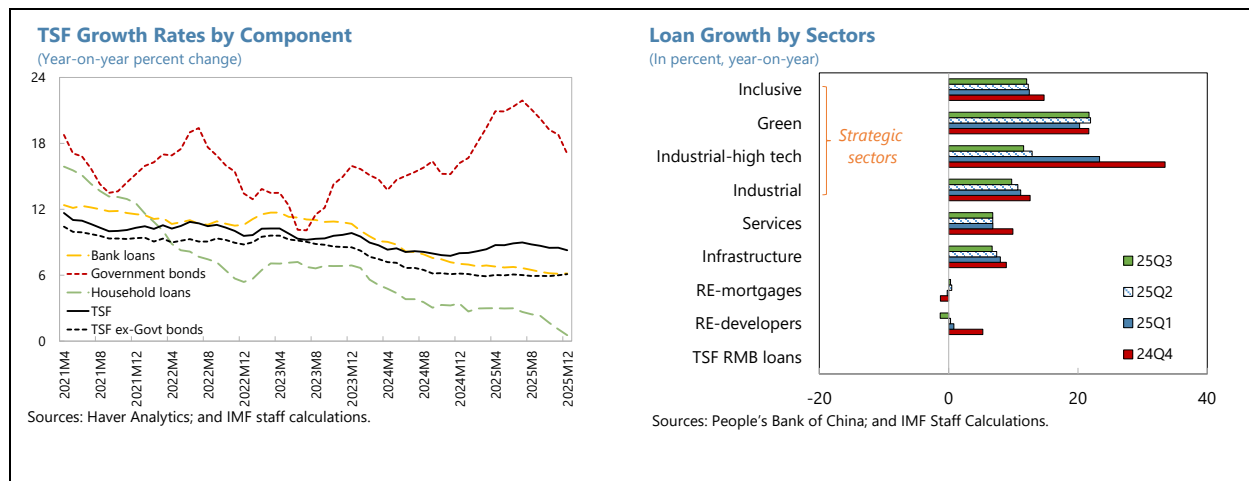
high and rising real interest rates, contributing to the continued slowdown in private sector credit.

- **Headline Total Social Financing (TSF) growth** increased in 2025, driven by strong government bond issuance. Private sector credit growth has continued decelerating amid weakening credit demand and more recently some modest tightening in lending standards, with TSF excluding government bond issuance declining from an average of 9 percent at the end of 2023 to 6 percent in November 2025. Growth of bank loans to households fell precipitously from 6.7 percent in January 2024 to 1.1 percent in November 2025 amid still weak mortgage demand. Corporate loan growth remains uneven, with credit growth to inclusive and strategic sectors remaining robust though declining from high levels in 2024. Credit to real estate developers decelerated again after earlier increases that were aided by various funding support schemes such as the white-list program. Non-bank credit growth has slowed marginally since 2024 and remains at low levels.

BOBC Bankers' Survey: Index for Loan Demand and Approvals
(Diffusion index, 50+ = stronger demand/easier lending standards, 4-quarter moving average)



Sources: People's Bank of China; Haver Analytics; and IMF staff calculations.



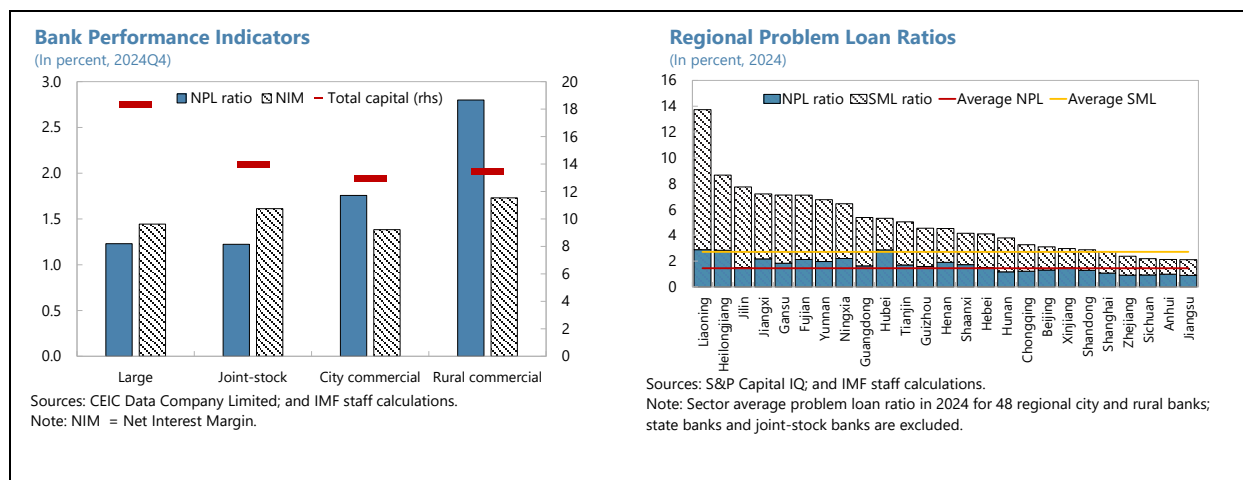
17. The banking sector faces profitability and asset quality pressures.

- **System-wide capital ratios appear adequate.** As of 2025Q3, the aggregate Tier 1 ratio and total capital adequacy ratio (CAR) stood at 12.4 and 15.4 percent, with a modest decline during the year. CAR declined the most for joint stock banks, while city commercial banks, who reported the lowest CAR, also saw a decline. Four state-owned banks received capital injections in June.⁴

⁴ In September 2024, the Chinese authorities presented plans to increase the core capital in six state-owned banks, aiming to strengthen banks' balance sheets and enhance their lending capacity. In 2025Q2, four banks have received (continued)

Capital buffers in rural commercial banks improved by 1 percentage point since 2023, albeit from low levels, supported by ongoing consolidation and capital raising including through local governments (Figure 7).

- Profitability remains under pressure.** Net interest margins (NIM) and return on assets continued to weaken. While funding costs declined reflecting some reduction in deposit rates, lending rates saw a deeper reduction. Profitability pressures are more pronounced for regional banks that tend to have more concentrated business models and face stronger competition for both deposits and loans, as well as pressures from asset disposals. Facing weak credit demand and low profitability, financial institutions have increased fixed-income investments, with leveraged trades by some institutions raising supervisory scrutiny.
- Asset quality remains stable in aggregate but with signs of rising vulnerabilities in some segments.** Non-performing loans (NPL) and special mention loans ratios remained stable at 1.5 percent and 2.2 percent as of 2025Q3; bad asset disposal helped to offset new NPL inflows. The NPL ratio for manufacturing loans declined to 1.3 percent in September 2025, with no immediate signs of asset quality deterioration due to trade tensions.⁵ Meanwhile the share of loss loans (i.e. principal and interest cannot be recovered) increased to about 40 percent of NPLs. Some banks reported worsening performance in retail, credit cards, and micro- and small enterprises (SME) loans. Overall, expanded forbearance measures (covering property, LGFVs, medium-sized enterprises and retail borrowers) may veil underlying asset quality and/or delay loss recognition.



capital injections from the Ministry of Finance and state-owned enterprises (SOEs) totaling RMB 520billion, which boosted their capital ratios by 90 bps on average q/q.

⁵ The spillover to the financial sector from higher tariffs will likely be contained, though some regional banks in provinces with higher reliance on exports may be more exposed (see text chart and SIP).

18. Financial stability risks remain elevated. The 2025 China Financial Sector Assessment Program (FSAP) concluded that bank capital and liquidity levels appear adequate overall, with the top segment of the banking system resilient to severe macro-financial shocks,⁶ and that corporate and household balance sheets appear broadly healthy. Furthermore, policy measures taken by the authorities, including the LG debt swap, have helped mitigate some financial risks. Nonetheless, the FSAP analysis found significant vulnerabilities related to the ongoing correction in the property sector and the LGFV debt overhang and weak debt servicing capacity.⁷ In addition, bank loans to SMEs, some of which are classified as retail loans, have risen steeply in recent years. The resulting increase in the credit risk profile of banks' lending books may present significant risk under stress conditions. Mid-sized and smaller banks have greater credit quality concerns than the large state-owned banks, less diversified funding profiles, and weaker profitability. Risks in the non-bank financial institutions (NBFIs) sector as a whole have declined markedly in recent years. However, vulnerabilities remain, notably in the fast-growing asset management industry, which faces material credit (including due to exposures to the property sector) and liquidity risks (redemption pressures during market shifts). These risks are further amplified by rising interconnectedness between NBFIs and the banking sector through ownership, common asset holdings and exposure (including but not limited to LGFVs), and substantial funding linkages.

19. An “anti-involution” campaign has been launched to tackle “excessive” price competition in certain sectors. The authorities have identified “involution” in several traditional (e.g., iron and steel, glass) and emerging manufacturing sectors (e.g., solar panels, electric vehicles, batteries, chemicals), stemming from a combination of overinvestment and weak demand. To tackle involution, they plan to ban new local industrial policy subsidies not consistent with national priorities, encourage industry-level coordination to raise prices and reduce capacity, and enforce higher product standards.

OUTLOOK, RISKS, AND SPILLOVERS

20. Growth is expected to slow modestly in 2026 with inflation rising only gradually.

- After expanding by 5 percent in 2025, GDP growth is expected to slow to 4.5 percent in 2026, with the contribution of net exports falling given prolonged effects of tariffs and trade policy uncertainty. Meanwhile, consumption and public investment growth are also expected to weaken moderately amid fiscal consolidation in the baseline. Private investment would

⁶ The FSAP solvency stress tests included 55 banks, and the liquidity stress tests covered 111 banks. For more details, including the stress test results and the discussion of data limitations, see [IMF Country Report 25/100](#).

⁷ The FSAP analysis showed that putting the burden of LGFV debt relief on banks even to sustain debt repayment over a short-term horizon would result in a sizable negative effect on their capital and income, calling for a more sustainable solution. A comprehensive solution to the debt overhang will have to consider the impact on banks and asset management products which are also heavily exposed to LGFV debt.

contribute slightly more to growth relative to 2025, driven by a rebound in inventory accumulation after a drawdown in 2024-25 and a smaller drag from real estate investment.

- Headline inflation is expected to remain low, rising from an average of 0 percent in 2025 to 0.9 percent in 2026. The slow inflation recovery reflects weak food and energy prices as well as persistent economic slack, with the output gap narrowing only partially from -1.0 in 2025 to -0.8 percent in 2026 amid the slowdown in growth. Producer price declines are expected to continue, and GDP deflator growth is expected to remain negative at -0.7 percent in 2026, aggravating adverse debt dynamics. Headline inflation is projected to approach 2 percent over the medium term as the output gap closes.
- In the absence of concerted reforms, medium-term growth is projected to progressively decelerate to about 3½ percent by 2030 due to a declining labor force, decreasing returns to investment, and slower productivity growth as China converges to the global technological frontier. The planned increase in the retirement age is expected to mitigate the decline in the labor force, contributing an estimated 0.2 percentage points to annual growth between 2025 and 2030 (see ¶78). Staff estimate the increase in tariffs (see ¶14) would lower the level of GDP by about 1 percent over the medium term.

Text Table 3. Selected Economic Indicators

	2025	2026	2027	2028	2029	2030
Real GDP Growth (%)	5.0	4.5	4.0	3.9	3.7	3.4
Output Gap (%)	-1.0	-0.8	-0.5	-0.2	0.0	0.0
Inflation (% average)	0.0	0.9	1.5	1.8	1.9	2.0
Core Inflation (% average)	0.8	1.1	1.5	1.8	1.9	2.0
Current Account (% of GDP)	3.3	3.1	2.8	2.5	2.3	2.2
Augmented Debt (% of GDP) 1/	126.6	135.3	141.5	146.2	150.0	153.7

Sources: Authorities; Haver Analytics; CEIC Data Company Limited; and IMF staff estimates and projections.
1/ Augmented Debt includes debt of LGFVs and other off-budget government funds.

21. The current account surplus is expected to decline only modestly over the medium term. The prolonged effects of higher tariffs and trade policy uncertainty are expected to weigh on exports. Coupled with a narrowing output gap that will support import growth, the trade surplus is projected to contract, with the current account surplus declining from a projected 3.3 percent of GDP in 2025 to 2.8 percent of GDP by 2027. Over the medium term, the current account surplus is projected to gradually decline to around 2 percent of GDP. This reflects the continued closing of the output gap and some shift toward private consumption, supported by a recovery of outbound tourism. These factors will be only partly offset by fiscal consolidation under the baseline.

22. Risks around the outlook remain tilted to the downside (see Annex III).

- Domestic risks:** The key risk remains a more prolonged adjustment in the property sector and reemergence of financing constraints for LGs amid continued reliance on land revenues, leading to further weakening of consumer confidence and domestic demand as well as lower employment. This, coupled with elevated corporate and public debt levels, heightens the risk of adverse macro-financial feedback loops leading to widespread deleveraging and deepening deflation. Prolonged deflation may raise real debt burdens, depress collateral values, and amplify bank and NBFIs balance-sheet stress. Staff estimates suggest that a severe negative shock—comparable to those observed during the Global Financial Crisis—could trigger a prolonged period of deflation, reducing the level of GDP by 5.4 percent relative to the baseline over 5 years (see [2024 Article IV Consultation Report](#), Box 2). Furthermore, persistent debt overhang and continued misallocation of capital, including by LGFVs, could further depress potential output. Thus, an inadequate policy response to address the challenges risks continued build up of debt and financial vulnerabilities, with the eventual adjustment leading to larger and compounding costs in terms of growth and employment in the future. On the upside, additional policy stimulus in 2026 could boost domestic demand while concerted reforms, notably with a view to maximize gains from AI and R&D investment, can lift growth in the medium term.
- External risks:** Renewed escalation of trade tensions is the key external downside risk. While trade tensions between the US and China eased following the agreement reached in October 2025, deterioration in the form of higher US tariffs on China's exports, including through "connector" countries, and additional technology and investment restrictions would weigh on exports and investment. Higher tariffs and non-tariff barriers from other trading partners, potentially in response to rising exports from China, could also dampen growth prospects. Trade tensions could trigger intensified capital outflows, while banks could face deterioration of asset quality in export-related exposures. On the upside, cooperative resolution of trade tensions can mitigate the drag from tariffs and trade policy uncertainty.

23. Amid elevated trade tensions and uncertainty, China's outlook and policy choices can have significant outward spillovers, and potential spillbacks into China. Given China's importance in the global economy, international spillovers can be significant, with model and empirical estimates suggesting that a 1 percentage point decrease in Chinese growth can lower growth in key trading partners by 0.2 to 0.3 percentage points, depending on the extent of trade linkages ([IMF 2022](#), Box 1.1; [Copestake and others, 2023](#); April WEO 2024 Chapter 4). Weaker inflation in China on account of anemic domestic demand can also have spillovers, with staff estimates suggesting that for every percentage point decline in Chinese export price inflation, Asian trading partners' domestic core inflation falls by 0.1 percentage points six months after the shock ([IMF 2024](#), Box 2), thus easing consumption costs abroad. At the same time, if deflationary pressures lead to further real exchange rate depreciation, it can reinforce export competitiveness and exacerbate external imbalances. Coupled with the potential international spillovers from extensive

Chinese industrial policies (¶156), such developments may lead to continued trade tensions with trading partners and eventually jeopardize market access for Chinese exporters.

Authorities' Views

24. The authorities broadly agreed with staff on the near-term outlook but viewed the main downside risk as emanating from the external environment. They expect the economy to grow by about 5 percent in 2025, meeting the growth target, before slowing moderately in 2026. They envisage further boosting consumption through policy measures, including the implementation of consumer goods trade-in programs, interest subsidies for personal consumption loans and loans to service-sector firms, and initiatives to support services consumption. In line with staff projections, the authorities expect a gradual pickup in inflation. They acknowledged downward price pressures due to weak aggregate demand and "involution" in some sectors, but do not expect deflationary pressures to persist. They emphasized growing protectionism overseas as the key downside risk. While more optimistic than staff on prospects for the property sector under the baseline, they acknowledged some downside risks from the real estate market. Unlike staff, they did not see significant risks of debt deflation. The authorities acknowledged the potential for significant outward spillovers given China's large size but emphasized that their policies have been cognizant of concerns of spillovers and have not aimed to gain export competitiveness at the expense of trading partners.

25. The authorities expressed concerns regarding the external sector assessment, noting that the estimated current account gap appeared excessively large. They emphasized that the EBA model is unable to capture the complex external environment faced by China in 2025, including trade restrictions which have temporarily impacted Chinese exports (as foreign firms build up inventory) and imports (due to import restrictions by China's trading partners). In their view, the EBA model does not sufficiently account for cross-country differences in underlying fundamentals, particularly in light of the significant structural changes in China's economy in recent years. Furthermore, the authorities emphasized that China's strong export competitiveness is driven by economies of scale, an integrated supply chain, nimble regulation, and a large and well-educated pool of labor, with REER depreciation and industrial policy support playing a secondary role. They noted recent RMB appreciation and, in line with staff projections, anticipate a near-term decline in the CA surplus driven by a moderation in exports as temporary factors unwind and demand-boosting measures which will facilitate a recovery in imports.

26. The authorities envision faster growth than staff over the medium term. They noted that average growth of 4.2 percent through 2035 would deliver their target of becoming a "mid-level developed economy." While they agree that population aging constitutes a major headwind to growth, they expect stronger human capital accumulation to offset the declining size of the labor force. Given their focus on "new quality productive forces", they expect innovation and technology to drive faster productivity growth going forward.

27. The authorities highlighted that China's financial sector remains sound despite external shocks. They noted that recent policy measures, including bank capital injections and the debt swap, have reduced financial sector risks. They, however, agreed with staff that some areas warrant monitoring including pressures on profitability of financial institutions due to the low-rate environment, unresolved risks in some small and medium-sized institutions, and weakening asset quality of small and retail loans.

TACKLING IMBALANCES AND TRANSITIONING TO CONSUMPTION-LED GROWTH

28. Reflating the economy and mitigating imbalances are the key policy challenges facing the Chinese economy. Should the combination of weak domestic demand, protracted adjustment in the property sector, the LG debt overhang, and low confidence persist, deflation could become entrenched. As noted earlier, this heightens the risk of adverse macro-financial feedback loops and worsening debt dynamics, posing a drag on growth. Moreover, the contribution of exports to growth may moderate going forward given heightened global trade tensions and China's large economic size. And to the extent that it does not, rising external imbalances would create spillovers that are likely to heighten trade tensions.

29. The authorities have implemented a number of welcome policy measures to boost domestic demand and tackle challenges from the property and LGFV sectors (see Annex IV). Several policy steps have supported domestic demand, including (i) the adoption of a more expansionary fiscal stance; (ii) policy rate and RRR (reserve requirement ratio) cuts; (iii) numerous measures aimed at stabilizing the property sector; and (iv) a greater focus on promoting consumption, including in the 15th FYP, with a number of modest measures implemented recently. The authorities have also taken steps to address "involution" in some sectors. Furthermore, the increase in retirement age aims to mitigate the decline in labor supply, while the debt swap aims to tackle LGFV debt risks.

30. The policy support, however, remains insufficient and has had mixed success. Support for consumption and upgrades to the social safety net have been modest, and the approach to tackling the property sector correction and LGFV debt overhang have been incremental. The scale of monetary easing remains insufficient with real rates rising amid declining inflation expectations. At the same time, the authorities continue to use industrial policies to support priority sectors, which risks perpetuating a new cycle of excess supply in some tradable sectors and adding to deflationary pressures.

31. Against this backdrop, macro policy support should be both bolstered and accompanied by stepped-up structural reforms to rebalance the economy towards consumption. Macroeconomic stimulus is likely to be more effective when combined with structural reforms that address high precautionary savings. Such an approach would restore domestic internal balance, reduce risks, and lower distortions, thereby providing first-order benefits to China. At the

same time, it would also organically lower external imbalances.⁸ A comprehensive policy package that delivers balanced growth would also lower the risk that expansionary fiscal policy could worsen longer-term fiscal sustainability (¶66-69), compared to an approach where restoring balance would rely on macroeconomic policy stimulus only.

- *Macro policies* (Section A): To restore domestic and external balance concurrently, the mix and calibration of macroeconomic policies will be critical. Maintaining an expansionary fiscal stance will be central for restoring domestic balance. The stimulus should, however, be focused on greater support for consumption (scaling up social spending) and the property sector (to finance completing pre-sold unfinished housing), which would boost confidence and better support domestic demand. To ensure reflation, further monetary easing can play a supportive role as part of a broader policy package that supports an appreciation of the real exchange rate.
- *Complementary reforms*: Removing uncertainties related to unfinished but presold housing and accelerating the exit of unviable developers would facilitate a more efficient property sector adjustment and restore consumer confidence (Section B). Concrete reforms that lower precautionary savings and promote consumption (Section C), scale back industrial policies (Section D), and rekindle domestic confidence would reinforce the boost to domestic demand from macroeconomic policy support and foster external rebalancing. Ensuring adequate levels of capital and liquidity within the financial system is crucial for safeguarding financial stability. Ensuring macro-financial stability and durably reducing debt-deflation risks will also require framework reforms and balance sheet cleanup (¶66-75).
- Simulations suggest that a scenario with the recommended composition of stimulus and structural policies could lift the level of GDP by 2.3 percent by 2030 and inflation by up to 0.8 percentage points in the near term, while also resulting in a real appreciation and a reduction in the current account surplus (Box 3).

A. Policies to Boost Domestic Demand and Mitigate Deflationary Pressures

Fiscal Policy

32. The on-budget fiscal expansion in 2025 has provided welcome but modest support to growth. The significant increase in non-tax revenues in 2024 imposed a higher effective burden on companies and may have also adversely affected the business climate by adding to uncertainty regarding LG revenue demands. As such, the budget's commitment to reverse ad-hoc non-tax revenue measures is appropriate. However, concrete measures to support consumption remain limited, with only a modest increase in the trade-in program and social security spending (¶12). Given the composition of government spending, staff assumes a relatively modest fiscal multiplier

⁸ An application of the Integrated Policy Framework (IPF) conceptual diagram to China explores how the policy mix can help tackle both domestic and external imbalances (see IPF SIP).

for 2025 and estimates that the decrease in the CAPB of about 0.9 percentage points of GDP boosted growth by about ½ percentage points and inflation by 0.1 percent.

33. Continued fiscal expansion in 2026, with a greater focus on durably boosting consumption and supporting the property sector, would help tackle deflationary pressures. To support domestic demand and reduce the risks of debt deflation, staff recommend a decrease in the CAPB of 0.5 percent of GDP in 2026, which is equivalent to a 0.8 percent of GDP additional fiscal expansion relative to the baseline. This will require continued on-budget expansion by the CG, along with increased transfers from the CG to LGs to prevent unintended LG fiscal tightening should financing constraints emerge. Such a package, as outlined in Text Table 4, could lift GDP by 0.6 percentage points and inflation by nearly 0.2 percentage points in the near term, which would be the appropriate amount of support given elevated deflation risks and the estimated output gap of about 1 percentage points of GDP.⁹ In particular, the fiscal package should focus on:

Text Table 4. Fiscal Stance

(annual change in the primary balance)	2025	2026
Baseline (cyclically adjusted)	-0.9	0.3
Recommended (cyclically adjusted)	-0.9	-0.5

Source: IMF staff calculations.

- *Boosting consumption:* Reorienting expenditure away from inefficient investment and towards investing in people would provide a strong near-term growth impetus and support rebalancing, while also enhancing long-term growth prospects. Key priorities include significantly and permanently expanding rural pensions, health spending, and other social safety net programs such as Dibao that target the vulnerable (see ¶152).
- *Supporting the property sector transition:* Despite high and rising debt levels, one-off CG financial support for the real estate sector (as part of a holistic property sector package—see below) is warranted. While such a targeted package would increase debt levels relative to the baseline in the short term, it will mitigate the risk of a larger and more protracted contraction in real estate investment and will help to rebuild confidence, reduce debt deflation risks and boost consumption, thereby increasing growth and fiscal revenues in the medium term. The recommended CG fiscal support for the property sector is about 5 percent of GDP (2.7 percent of GDP above the line) spread over three years, with up to 0.9 percent of GDP allocated to 2026 (see ¶146).
- *Scaling back industrial policy (IP):* IP should only be targeted at sectors where clearly identified market failures exist. Scaling back unwarranted IP measures, including subsidies and tax benefits for firms, by about 2 percent of GDP in the medium term would reduce factor misallocation, increase productivity and reduce fiscal costs (¶154-58).

⁹ The estimated 0.6 percentage point impact reflects current economic slack, more targeted and permanent social spending increases and reforms that reduce precautionary savings, which are assumed to have higher fiscal multipliers than inefficient investment (see [SIP 2023](#)).

Text Table 5. Recommended Additional Fiscal Support in 2026

Category	Measure Details	Impact on CAPB (percent of GDP)
Expenditures		
Public Investment	Reduce off-budget investment	0.8
Pensions	Increase Resident Pension Plan replacement rate	-0.4
Medical Insurance	Increase expense coverage	-0.1
Unemployment Insurance	Improve adequacy	-0.1
	Improve coverage	
Social Assistance	Increase adequacy of Dibao program	-0.1
	Increase national child assistance	
Industrial Policy	Scale back subsidies	0.4
Tax Revenues		
Social Security Contributions	Reduce social security contributions	-0.3
Real Estate Package		
Real Estate	Resolve unfinished pre-sold housing	-0.9
Total CAPB impact		-0.8

Sources: 2023 SIP; 2021 SIP; and IMF staff calculations.

Notes: The number represents cyclically-adjusted primary balance (CAPB) adjustment. The CAPB impact of measures is approximate and based on international comparisons.

34. Looking beyond 2026, fiscal policy should remain expansionary until the economy reflates durably. Given uncertainty around the level of economic slack and risks of entrenched deflation, fiscal expansion should be maintained until incoming data suggests that the economy is reflating durably. Over the medium term, ensuring fiscal sustainability will require strong policy effort, including significant fiscal consolidation, framework reforms, and a restructuring of LGFV debt to tackle the LG debt overhang (see ¶66–69). There is a risk that fiscal expansion will be ineffective in stimulating growth if economic agents expect consolidation in the future or if lack of confidence or continued uncertainty results in persistently high savings. In this context, appropriate composition of the near-term fiscal expansion and the eventual consolidation will be essential. As discussed above, the near-term stimulus should focus on high multiplier measures aimed at restoring confidence in the property sector and permanently boosting social safety nets and programs targeting constrained consumers, while the gradual medium-term consolidation should be based on wide ranging tax reforms that improve progressivity of the tax system and scaling back inefficient investment and unwarranted industrial policy support which will have smaller multipliers.

Monetary and Exchange Rate Policies

35. Amid deflationary pressures and a negative output gap, monetary policy easing, particularly via interest rates, should support the fiscal expansion. Recent measures, while modest, align qualitatively with staff recommendations. However, real interest rates remain high and empirical estimates suggest that recent policy rate reductions have so far provided only limited support to growth and inflation (see Box 4). Despite the authorities' concerns about banks' net interest margins (NIMs) (¶17) and capital outflows, there remains policy space for further rate cuts (see Box 4), with an aim of reducing real rates. As such, given the risk of deflationary expectations becoming entrenched, further monetary accommodation equivalent to a half percentage point

policy rate cut is warranted. However, monetary loosening should be considered only as a part of a broader policy package that ensures a reduction in both the domestic and external imbalances and reflate the economy. Monetary easing in isolation could result in unwarranted further real exchange rate depreciation. Clearly communicating a medium-term inflation objective would also provide an anchor for monetary policy and strengthen the effectiveness of forward guidance, which is an important tool for managing expectations when inflation is persistently low. Sustaining the reform momentum in modernizing the monetary policy framework (see Box 5) will further enhance policy effectiveness.

36. Increasing exchange rate flexibility would help absorb external shocks and improve the effectiveness of monetary policy. Greater exchange rate flexibility will improve transmission of monetary policy. In the near term, exchange rate flexibility and the implied greater monetary policy space would need to be embedded in a strong and coordinated policy mix aimed at boosting domestic demand, particularly fiscal support geared towards supporting consumption (¶133 and 52) and the property sector (¶146). Such a policy mix would close the output gap and reflate the economy, while also resulting in a real appreciation and a narrower current account surplus. Greater exchange rate flexibility and more transparency around the FX regime will also encourage overall FX market development (given signs of occasional FX market shallowness, see IPF SIP), increase resilience to future shocks, mitigate one of the impediments to RMB internationalization (see Box 6) and relieve potential pressure on CFMs. The latter should not be used to substitute for warranted macroeconomic adjustment or greater exchange rate flexibility.

Financial Sector Policies

37. Financial sector policies should be geared towards mitigating elevated financial stability risks. Some of the immediate financial policy priorities include:

- **Promoting timely and transparent loss recognition, transitioning to market-based pricing, and laying the groundwork for a comprehensive strategy to address vulnerabilities, including legacy assets.** Forbearance measures, non-transparent asset disposals to AMCAs (Box 7), and reliance on implicit guarantees mask credit losses and contribute to the build-up of legacy assets. The debt overhang weakens credit demand while the mispricing of risk and guidance on directed lending can lead to the misallocation of credit. To tackle these challenges, the implementation of stricter risk classification requirements¹⁰ should come with rigorous enforcement of prudential policies and phasing out of forbearance measures. Recent steps to tackle legacy assets, notably the debt overhang in the LGFV sector using fiscal resources (¶166), should be accompanied by measures to increase banks' loss-absorbing capacity, strengthen the

¹⁰ Revised requirement for the risk classification of financial assets of commercial banks came into force on July 1, 2023. For the exposures outstanding before that date, the banks were given time until the end of 2025 to apply the new rules.

corporate insolvency framework, and fully align the bank resolution regime with international best practice (see ¶173).

- **Ensuring adequate capital and liquidity buffers.** Preemptive capital injections into the largest state-owned banks (¶17) are welcome and should be completed swiftly. Efforts to address weaknesses in other segments of the financial system are underway and should aim at addressing underlying vulnerabilities, including further scrutiny of business models and governance practices. Supervisory assessment of merger proposals should focus on the business model and financial soundness of the combined entities; institutions that are deemed non-viable should be swiftly resolved. Government-owned institutions should not be used as “buyers of last resort” and recapitalization of weaker banks using public funds should always follow loss allocation to shareholders and creditors.

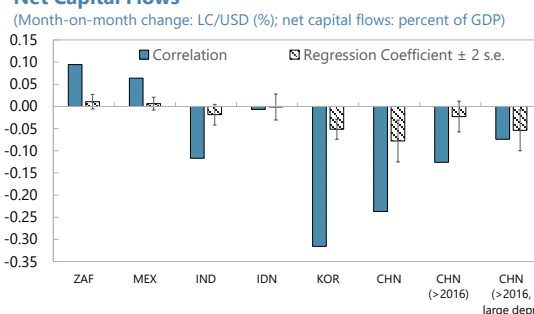
38. Care needs to be taken that efforts to dampen market volatility do not impede price formation. Interventions in the stock market should be avoided except to safeguard financial stability as such interventions could impede market functioning and induce herding behavior that exacerbates market volatility, outweighing any temporary boost to sentiment.

Policies in a Downside Scenario

39. If downside risks materialize, the macro policy support should be targeted to the size and nature of the shock.

- **Domestic shocks** such as a deeper property sector correction or tightening of financial conditions would require more expansionary fiscal and monetary policies to support domestic demand and decisive financial sector interventions in weak banks to ensure financial stability and effective financial intermediation. To prevent macrofinancial feedback loops in the event of contagion risks materializing, system-wide liquidity support should be considered. Stepped up contingency planning and efforts to ensure operational readiness of frameworks and tools related to crisis management and financial safety nets (¶173 and Appendix IV) would ensure that the authorities are well positioned to respond to any systemic distress.
- **External shocks** such as an increase in US tariffs on China to the April 2 level could lower short-term growth by 1 percent (October 2025 WEO, Box 1.2). In such a scenario, more accommodative macro policies would be warranted, including limited, time-bound, and targeted fiscal support for the most affected firms and workers, with further monetary easing playing a supportive role. The exchange rate should be allowed to adjust to absorb fundamental shocks, as part of a

Relationship between Exchange Rate Depreciation and Net Capital Flows



Sources: Haver Analytics; IIF Capital Flows Tracker; and IMF staff calculations.^{1/}
^{1/} Large depreciations are defined as larger than 2 percent m/m.

comprehensive macro policy response that leads to reflation, real exchange rate appreciation and a correction of already excessive external imbalances. An application of the Integrated Policy Framework (IPF) to China suggests that capital outflows pressures and confidence effects may arise from large exchange rate movements, consistent with potential shallowness of foreign exchange (FX) markets (see Selected Issues Paper on the IPF). In such cases, the IPF suggests that temporary FXI can play a role in the event of large non-fundamental shocks that threaten financial stability (for example, a risk-off shock). In such events, FXI can reduce the burden on monetary policy and help cushion the impact of the shock. However, these short-term benefits of FXI should be carefully weighed against long-term costs of frequent FXI use, such as stunting future FX market development.

Authorities' Views

40. The authorities expect to continue implementing more proactive fiscal policy in 2026.

They noted that fiscal measures in 2025 provided targeted support for key areas such as consumption (notably the trade-in program and subsidy on interest payments for select consumer loans) and social welfare. The authorities emphasized that fiscal policy in 2026 will continue to be more proactive and will deliver countercyclical support. They noted their intention to continue providing targeted support for consumption, including services, but emphasized that increases in social spending should depend on economic development and fiscal sustainability, and that improving employment and income prospects will be most effective for stimulating consumption. They saw the scope to cut illegal (defined as those not consistent with national priorities) industrial policy subsidies to fight involution, though IP support to new priority sectors would continue to be provided. They noted that additional policies for the real estate sector should be determined by market conditions

41. The authorities consider the monetary policy stance as appropriately accommodative and will continue to adjust interest rates and RRR in line with incoming data and financial conditions.

The current levels of the policy rate and broader financial conditions are perceived as supportive of domestic demand. The authorities acknowledged pressure on banks' NIMs but view recent deposit rate liberalization as supporting interest rate pass through to deposits, lessening pressure on NIMs from accommodative policy going forward. The authorities will adjust interest rates in line with changing conditions and continue to provide liquidity to strategic sectors. They noted that the outstanding balance on structural monetary policy tools declined in 2024.

42. The authorities expected the exchange rate to maintain two-way flexibility while implementing market-based measures to prevent the risk of overshooting.

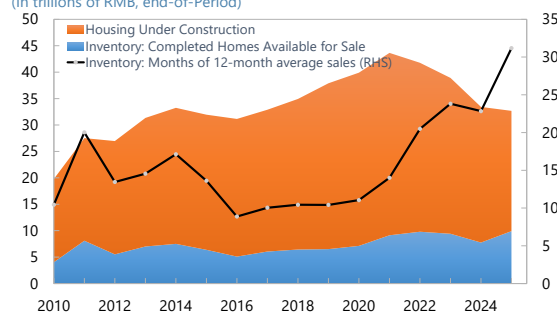
They emphasized that the exchange rate has acted as an automatic stabilizer, helping China navigate recent shocks, including trade frictions, and the monetary policy cycle in advanced economies. They noted that international use of the RMB has continued to expand alongside greater exchange rate flexibility, with RMB volatility against the US dollar broadly comparable to that of other major international currencies.

43. The authorities highlighted steps they have taken to improve banks’ asset quality and capital buffers, while ensuring smooth functioning and deepening of capital markets. The regulators emphasized the continued use of market-oriented and law-based principles to settle LGFV claims in line with regulations. They noted that capital injections in large banks and measures to enhance banks’ risk controls, governance, and efficiency alongside steps to reduce costs will help ensure adequate buffers in the banking system. They underscored that the reform of rural small and medium-size banks is advancing via mergers, acquisitions and market-oriented restructurings leading to significant reduction in vulnerabilities. The authorities also emphasized the opening-up initiatives and reforms being undertaken to deepen capital markets, including by facilitating access of foreign investors and promoting the entry of medium- and long-term funds.

B. Policies to Facilitate the Adjustment of the Property Sector

44. The government’s housing policies aim to restore market stability and facilitate a transition towards a more sustainable model. Key measures have focused on providing bank financing to complete pre-sold unfinished housing, expanding affordable housing, and accelerating urban village renovation. To restore confidence and stabilize market conditions, the authorities have also sought to support developer finances by purchasing completed inventories and idle land. Measures to boost demand have helped lower completed inventories, though they remain at elevated levels against sharper decline in sales, exacerbating the supply overhang (see 16). At the same time, policies aim to guide the sector toward a more sustainable model with greater focus on meeting upgrade demand with “safe, comfortable, eco-friendly, and smart” housing (2025 GWR).

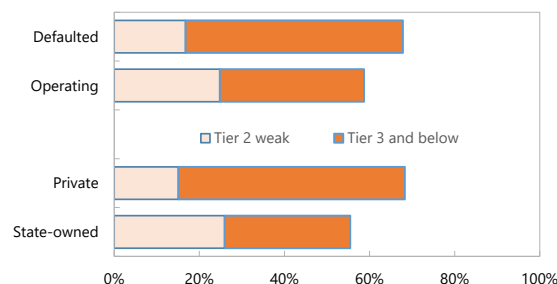
Housing Supply in Construction Costs: Primary Market 1/
(In trillions of RMB, end-of-Period)



Sources: National Bureau of Statistics China; CREIS; and IMF staff calculations. 1/ Construction costs are estimated using an assumed average of RMB 5,000 per square meter for home construction.

45. While near-term stabilization measures are warranted, some policies risk prolonging the adjustment and perpetuating resource misallocation. Broad financing support alongside continued forbearance measures risk sustaining nonviable developers and delaying needed market exits. This could exacerbate creditors’ risk aversion, tighten financing even for viable developers, and further delay home delivery—ultimately hindering the sector’s transition. These risks are especially acute for developers with large exposures to lower-tier cities which face limited recovery prospects and account for most recent defaults. Meanwhile, weak homebuyer confidence continues to weigh on demand amid concerns over developers’ home delivery capacity. The

Developers’ Undeveloped Land Inventory
(In percent of total)



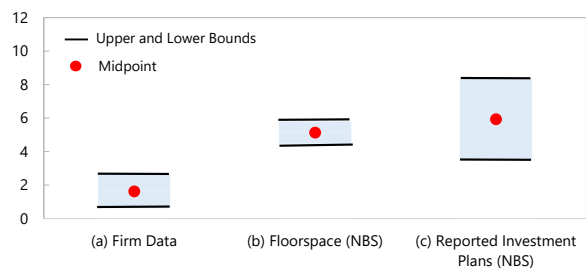
Sources: Bloomberg; developers’ financial statements; and IMF staff calculations. Note: Based on a sample of 30 large developers. Tier 2 weak includes Foshan, Ningbo, Changsha, Jinan, Dalian, Nanning, Qingdao, Changchun, Xian, Kunming.

government's inventory purchase programs have gained limited traction, as low rental yields discourage participation. Price adjustments also remain inadequate to restore supply-demand balance, particularly in lower-tier cities.

46. Accelerating loss recognition and the exit of unviable developers, while providing targeted CG support to protect homebuyers, is essential to avoiding an even more prolonged transition in the housing market.

- Recognize losses and facilitate market exits for unviable firms.** Cross-country experience (Box 8) shows that delaying loss recognition and sustaining zombie firms only prolongs the adjustment, leading to an extended transition period with weak growth and a build-up of financial stability risks. Removing forbearance measures and utilizing the insolvency framework could help facilitate faster exits of unviable developers and should be accompanied by appropriate steps to contain possible negative macro-financial spillovers (¶37, 71-74).
- Protect buyers of presold homes as unviable developers exit.** Homebuyers, a key creditor group to developers under the presale system, face significant losses from pre-sold unfinished units. While initiatives such as Bao Jiao Lou and 'white-list' have supported viable projects, the stock of presold unfinished housing remains large. For unviable projects, resolution should proceed through insolvency procedures. To protect homebuyers, CG resources should be allocated to either facilitate home delivery or compensate homebuyers, whichever is less costly. Staff calculations suggest that completing pre-sold projects from troubled developers could entail fiscal costs of around 5 percent of GDP over 3 years (or 2.7 percent of GDP for above the line support, see also 2022 SR Box 1). To limit moral hazard, CG support should be provided as a one-time measure and assets should be acquired at a sufficiently low cost.
- Support supply-demand realignment, including by allowing greater price flexibility.** Enabling greater price adjustments while containing potential macrofinancial spillovers can help stimulate demand and accelerate market clearing, especially in lower-tier cities where oversupply is likely to persist. Supply-side adjustment must also continue, including limiting new land supply in oversupplied areas and repurposing idle inventory. Additionally, government-led initiatives—affordable housing, urban village renovation, and emergency infrastructure—can further support demand, improve affordability and diversify developer revenues. Structural reforms to the pre-sale model are also critical to address underlying vulnerabilities.

Ranges of Estimates of Gross Completion Costs for Troubled Pre-Sold Housing Projects
(In percent of GDP, assumes no funding from additional home sales or restructuring-related recoveries)



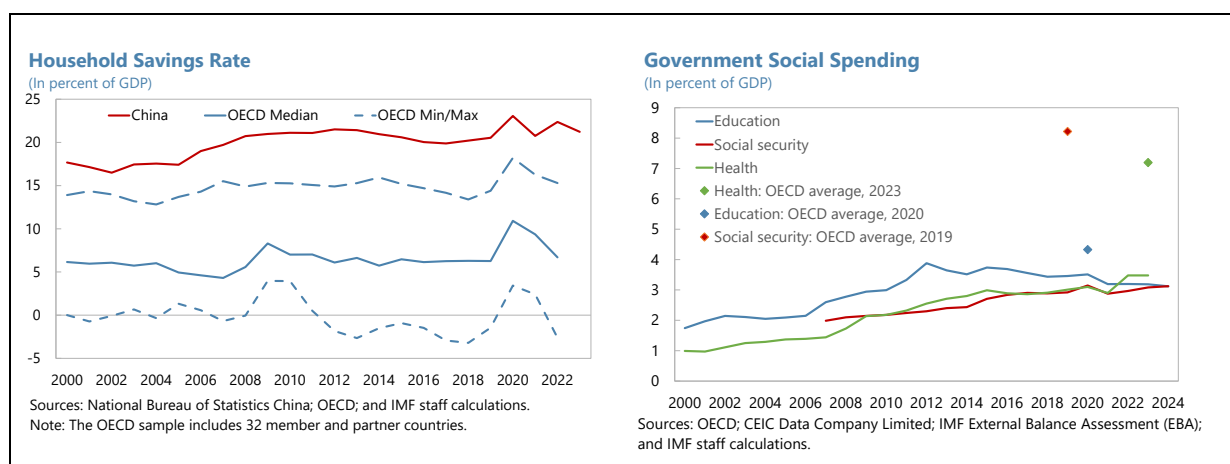
Sources: S&P Capital IQ; CEIC Data Company Limited; Wind; National Bureau of Statistics China; and IMF staff calculations.

Authorities' Views

47. The authorities outlined a more positive outlook for the property sector compared to staff. They assessed that the housing market was near its bottom, citing early signs of sales stabilization and valuation measures (such as price-to-rent ratio) approaching international levels. While acknowledging that unfinished pre-sold projects and impaired developer balance sheets had impacted confidence in the past, they emphasized that their financing support programs, such as the White-List to facilitate bank lending to developers, had been effective in improving home delivery. Going forward, the authorities expect to focus on improving housing access and optimizing inventory amid persistent oversupply in some segments of the market. They noted that developer restructuring was underway, including some bankruptcies, but do not expect significant spillovers to the financial system. In line with the Central Urban Work Conference directive, they expect a smaller and more balanced market for traditional real estate development in the new medium-term equilibrium, reflecting lower growth in fundamental demand as urbanization slows. However, sectors focused on operation of existing properties—such as housing rental and property management—are expected to see significant growth potential, keeping overall real estate sector investment at a reasonable level.

C. Reducing Household Savings and Boosting Consumption

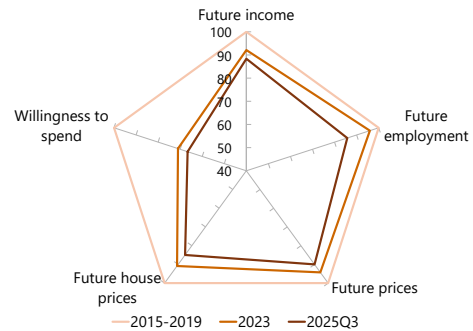
48. China's economy remains structurally over-reliant on investment (Table 6), facilitated by high household savings. The household savings-to-disposable income ratio in China is far above the level in peer countries. High savings reflect structural drivers including population aging, low social spending, and inadequate access to social benefits for migrant workers, which incentivize higher savings for retirement and precautionary savings to insure against shocks.



49. Flagging consumer confidence and the property market slump have fueled the recent pickup in savings. Household sentiment regarding income and employment prospects has progressively deteriorated since 2019 (text chart), lowering willingness to consume and raising savings. In addition, the protracted real estate market downturn and uncertainty about developer finances have led households to postpone house purchases and related consumption, and the decline in house prices has led to negative wealth effects further weighing on consumption (Xu and others, 2025).

Consumer Confidence

(Higher = More confidence; 2015-19 average = 100)



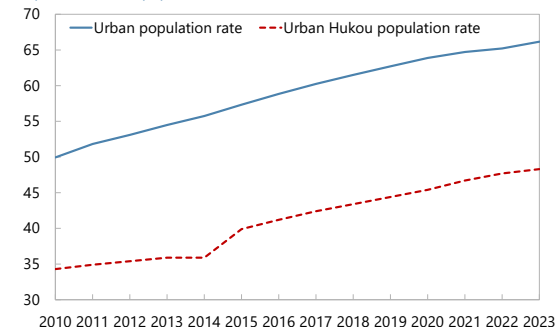
Sources: PBC urban depositors survey; and IMF staff calculations.

50. Reducing China's excessively high household savings can help reduce imbalances. Invigorating private consumption would help address domestic imbalances by absorbing economic slack and easing deflationary pressures, while also reducing China's elevated current account surplus, thereby mitigating external imbalances and the risk of further tensions with major trading partners. Moreover, given the decreasing returns to capital accumulation after decades of overinvestment, higher consumption would also enhance household welfare.

51. In this context, the authorities' recent focus on promoting consumption is welcome. Recent high-level policy documents, including the 15th FYP and the 2025 Central Economic Work Conference, signal a policy pivot towards enhancing the social safety net and promoting consumption more broadly.¹¹ Concrete measures already implemented include the introduction of childcare subsidies and subsidized loans for consumers and firms in consumer services. However, the fiscal envelope for such measures is modest, with the budget including only marginal increases in social spending (¥12). The nation-wide equipment trade-in program, while welcome from a cyclical perspective, is expected to mainly frontload future consumption, and does not tackle the structural factors holding back consumption. The Hukou reforms over the past 10 years have improved access to social benefits for low-income urban households, but a significant share of the urban population remains without an urban Hukou (text chart).

Urbanization Rates

(In percent of total population)

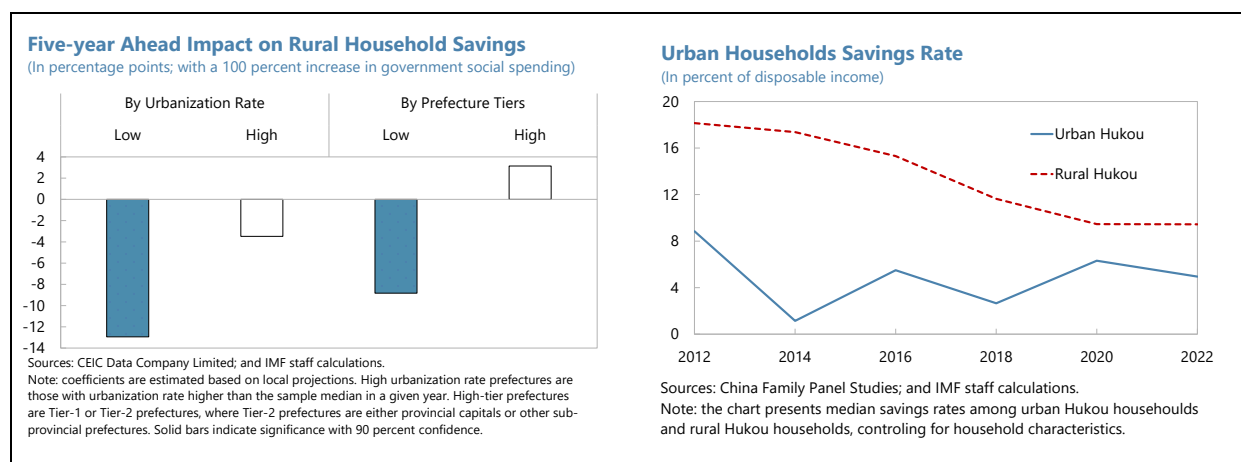


Sources: Haver Analytics; National Bureau of Statistics; and IMF staff calculations.

¹¹ The new VAT legislation, effective from 2026, is expected to support consumption among lower-income households. Further alignment of VAT policy with international best practices should be considered as part of broader efforts to enhance domestic demand and productivity.

52. Raising social spending, strengthening social safety nets, and improving tax progressivity can durably reduce household savings and boost domestic demand.

- Social spending in rural areas:* Higher government spending on healthcare, education, social services, and basic pensions in rural areas would reduce the need for savings significantly. Staff analysis shows that doubling social spending in regions with a higher concentration of rural population could boost China's medium-term private consumption-to-GDP ratio by 1.8 percentage points, with a modest annual fiscal cost of 1.0 percent of GDP (see text chart and [Xu and others, 2025](#)). Similarly, doubling rural pension benefits could reduce the rural household saving rate by 3.4 percentage points, while costing 0.6 percent of GDP annually (Bonthuis and others, 2026).
- Hukou reforms in urban areas:* In large cities (above 3 million), relaxing urban Hukou registration restrictions or enhancing rural Hukou households' social benefits can significantly lower saving rates (text chart). Staff calculations suggest that reforms that grant urban Hukou status to 100 million migrants (half of the migrant population) could lead to an additional 1.0 percentage point increase in China's consumption-to-GDP ratio. Combining Hukou reforms with stronger rural property rights would further remove barriers to labor mobility ([Chen and others, 2024](#)), thus boosting both consumption and potential growth.
- Tax reforms:* Creating a more progressive labor income tax system and strengthening capital taxation can reduce inequality and increase disposable income for lower-income higher-marginal-propensity-to-consume households, encouraging higher consumption (see Selected Issues Paper 2023).



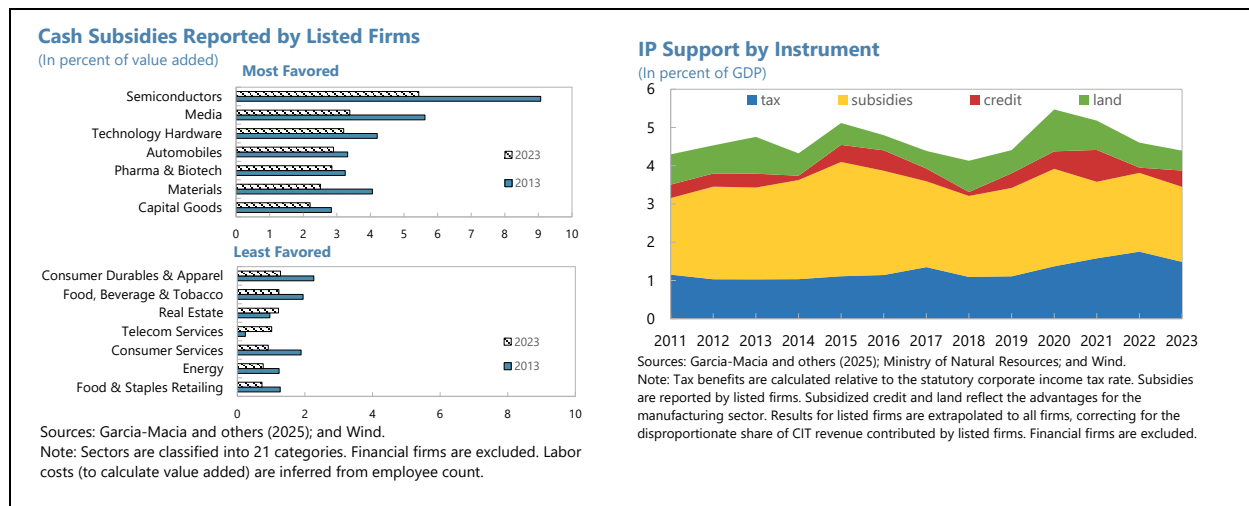
Authorities' Views

53. The authorities agreed on the importance of boosting consumption but emphasized that it will take time. They noted that the equipment trade-in program launched in 2024 had effectively increased demand for goods, while measures to support services consumption and recently-introduced childcare subsidies and elderly care service consumption subsidies are expected

to further unlock household consumption potential. They also emphasized the significant progress that has been made in improving social safety nets, including deepening Hukou reforms and strengthening the social security system, and noted that further Hukou reforms will be gradually introduced in the larger cities. However, they argued that other slow-moving factors (such as cultural factors, the stage of economic development, and demographic structure) are important drivers of the high savings rate, which suggests that any efforts to reduce household savings will yield results only gradually.

D. Scaling Back Industrial Policies

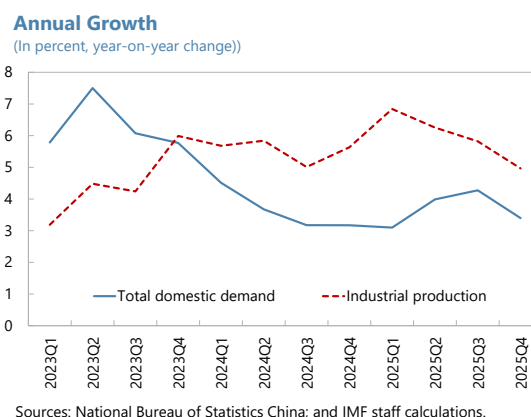
54. China continues to use industrial policy (IP) extensively, providing wide-ranging support to priority sectors. While there is little official information on the magnitude of IP, staff estimate that priority sectors, mostly in high-tech manufacturing, receive substantial subsidies in the form of government grants, tax benefits, cheaper credit, and subsidized land from the government ([Garcia-Macia and others, 2025](#)). The equivalent fiscal cost of these measures is estimated by staff to have amounted to about 4 percent of GDP as of 2023, and has been broadly stable over recent years, with a growing share of tax benefits and declines in cash and land subsidies (text chart).¹² While international comparison is difficult due to lack of harmonized data, according to the European Commission, state aid by EU countries amounted to about 1.5 percent of GDP in 2022. In addition to subsidies, other IP instruments such as trade and regulatory measures, and preferential access to private equity funding through government guided funds, are also used to favor priority sectors in China.



¹² This estimation uses an economic definition of IP based on identifying preferential policy support for some sectors relative to others. Such a definition may differ from legal interpretations (e.g., based on WTO law). Moreover, the estimation partly relies on extrapolating data for listed firms, which may overstate the size of IP to the extent that non-listed firms receive proportionally less support. On the other hand, the estimate excludes IP instruments for which sectoral data are not available, such as tax benefits beyond corporate income taxes or subsidized equity funding through Government Guided Funds, which would point to larger IP support. See [Garcia-Macia and others, 2025](#), for details.

55. Extensive use of IP comes with domestic costs, including by posing a drag on productivity via increased misallocation. IP, if well implemented, may have benefits such as increased innovation and self-reliance in strategic sectors. IP can also potentially correct externalities and help support infant industries with economies of scale. At the same time, IP carries large fiscal and efficiency costs. For example, subsidies may lead to excessive production and firm entry, while sectors protected by barriers to trade and competition may see higher prices and mark ups. Taken together, the continued extensive use of IP is leading to significant resource misallocation in China, with staff estimates suggesting that IP tools may be reducing the level of GDP in China by about 2 percent ([Garcia-Macia and others, 2025](#)).

56. Chinese IP have widened domestic imbalances and are giving rise to international spillovers and pressures. IP subsidies and other benefits have resulted in strong growth in industrial production in China, which combined with weak domestic demand has rendered China more reliant on manufacturing exports as a source of growth and pushed down export prices ([Rotunno and Ruta, 2024](#)). The resulting exports of competitive Chinese goods to trading partners have triggered overcapacity concerns, which ultimately can motivate trade actions from partners and put China's exports at risk. IP can also result in further trade tensions as the resulting overcapacity or dominance in particular sectors can exacerbate global supply chain vulnerabilities.



57. Scaling back China's IP and improving transparency around IP measures would lower domestic distortions and mitigate international spillovers. IP should be pursued cautiously and only to tackle well-defined market failures, while minimizing trade and investment distortions. While competition between LGs has been a key driver of innovation and growth, IP by LGs has also led to overinvestment, duplication of measures, and internal barriers to trade. IP targeting broad externalities—such as knowledge spillovers or carbon emissions—should be coordinated at least at the CG level, and ideally with other large economies. Furthermore, improving transparency around China's IP measures, including by LGs, is essential to better assess the costs and benefits of the policies and their potential international spillovers.

58. The authorities' "anti-involution" efforts are welcome and should be accompanied by stronger incentives to reduce overinvestment by LGs. The authorities should provide additional details on the overall strategy as well as concrete policy measures. Efforts should focus on scaling back unwarranted IP significantly and using insolvency frameworks to foster exit of firms that become unviable, which would help tackle excess capacity. Industry-level coordination mechanisms should be avoided as they could introduce other market distortions and perpetuate misallocation. Strengthening unemployment insurance and active labor market policies would help to mitigate labor dislocations associated with scaling back of IP and exit of unviable firms. On its own, the anti-

involution campaign is unlikely to mitigate deflationary pressures significantly, underscoring the urgency of concerted efforts to boost domestic demand (see Section A).

Authorities' Views

59. The authorities noted that some adjustments to IP are needed to fight “involution”.

They emphasized the important role of IP in tackling market failures and nurturing industries, with positive outward technological spillovers. They assess IP subsidies to be smaller than staff's estimate, noting that non-listed firms receive relatively less support compared to listed firms. They highlighted measures to increase transparency through publishing IP measures on government portals and stressed that their IP subsidies comply with WTO rules, including notification requirements, and are available to foreign firms. To tackle “involution” and promote structural balance between supply and demand, they plan to regulate LG IP measures that are not consistent with national priorities, while continuing to use IP to support new priority sectors. They argued that the anti-involution campaign is already yielding a recovery in producer prices and capacity utilization rates of targeted sectors.

E. Trade Policies Amid Rising Fragmentation Pressures

60. Global trade policy actions have significantly impacted trade patterns globally and in China.

While China's exports to the US have sharply declined since early 2025, overall exports have remained resilient, supported by rising Chinese exports to other destinations such as the ASEAN (see Selected Issues Paper). Despite a one-year trade truce between the US and China, uncertainty about future trade policies remain elevated, including potential trade actions between China and other trading partners.

61. In the face of major trade policy shifts, China's actions have important implications for the overall trading system and the global economy.

China should work constructively with partners to urgently resolve trade tensions and promote clear and transparent trade policies to stabilize expectations, avoid investment distortions, and reduce uncertainty. Engagement with major trading partners to address core issues, including concerns around subsidies, industrial policies, and supply chain fragilities, are more likely to provide durable solutions to existing tensions. While countries may need to take trade and investment measures for national security reasons, these should be used judiciously and applied as narrowly as possible to minimize negative spillovers at home and abroad, including to supply chains. This also applies to China's use of export restrictions, including on critical minerals. Similarly, retaliation in response to unilateral trade actions can escalate tensions, whereas deepened integration can increase welfare for the liberalizing country and the rest of the world (Rotunno and Ruta, 2025).

62. China has an important role to play in strengthening the multilateral trading system.

China's efforts to strengthen and reform the WTO are welcome. China should also continue to address longstanding concerns of other WTO members, including on transparency and enacting the recent announcement to no longer use ‘Special and Differential Treatment’ flexibilities in current and future WTO negotiations.

63. China should continue its efforts to pursue high-standard and comprehensive trade agreements, which can deepen economic integration and reduce trade policy uncertainty.

China has been actively expanding its network of free trade agreements in recent years as part of a broader strategy to enhance economic integration and boost trade. China has pursued this strategy through a combination of (1) expanding and upgrading its existing bilateral Free Trade Agreements (FTAs), (2) pursuing new FTAs with a diverse set of countries, and (3) pursuing complementary regional trade agreements, including the Digital Economy Partnership Agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).¹³ If comprehensive and high standard, such agreements can help boost trade and increase certainty around trade policies.

Authorities' Views

64. Against the backdrop of elevated global trade tensions, the authorities reiterated their commitment to the multilateral trading system and high-quality opening up.

They emphasized that recent trade restrictions globally have stressed the multilateral trading system and created significant trade policy uncertainty. In response, the authorities are supporting a successful 14th WTO Ministerial Conference, actively participating in WTO reform, and pursuing high quality bilateral and plurilateral agreements. They noted plans for greater market opening vis-à-vis developing and least developed countries, while also stabilizing foreign trade and investment, including through the use of free trade zones and further opening up to foreign investment. They reiterated that export controls on certain critical minerals are for dual-use items and that export controls on such items is a common international practice. They held the opinion that these restrictions not only safeguard national security but also relate to non-proliferation and other international obligations. Such measures do not constitute an outright ban but rather are to manage licensing of controlled items to ensure their lawful use, with the authorities emphasizing their commitment to provide approvals so long as the exports are for civilian use and the application meets necessary requirements.

REFORMS TO TACKLE DEBT VULNERABILITIES AND REPAIR BALANCE SHEETS

65. Ensuring macro-financial stability and durably reducing debt-deflation risks require framework reforms and balance sheet cleanup. Years of high investment have raised leverage, vulnerabilities, and risks, notably among property developers, LGs, and some financial institutions. Stronger domestic demand and reduced deflationary pressures, while helpful, will not on their own fully address the high and rising corporate and public debt levels and the associated vulnerabilities.

¹³ Since 2024, China has upgraded its FTA with Peru, Singapore, and ASEAN, and is pursuing an upgrade to its FTAs with various countries. In June 2025, China announced its willingness to implement zero-tariff treatment to 53 African countries.

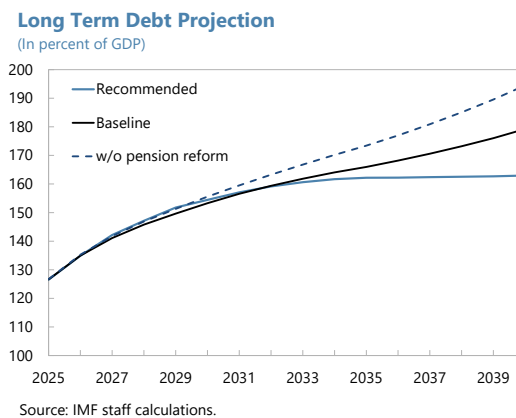
Durably reducing risks requires reforms to clean up balance sheets and institutional and policy frameworks that are “fit-for-purpose”.

A. Ensuring Government Debt Sustainability

66. The authorities have introduced several important fiscal measures, including the LG debt swap and retirement age reforms. The legislated retirement age increase is a positive step and is expected to boost long-term economic growth and reduce annual pension spending by 1.8 percentage points of GDP annually by 2040. The authorities have also taken several measures to tackle LGFV debt risks. They have conducted a stocktaking of LGFV debt, recognizing a subset of the total debt as “hidden debt” which is explicitly backed by local governments.¹⁴ They also announced a debt swap which would refinance RMB 10 trillion of the hidden debt over 5 years starting in 2024 using a combination of new and existing LG bond quotas. Finally, following the debt swap, the authorities are encouraging LGFVs to exit the LGFV list by transforming into market-based non-financial corporations based on broad rules.^{15,16} Based on the authorities’ criteria, over 71 percent of the approximately 18,000 LGFVs were reclassified as of 2025.

67. These measures are welcome, but they do not provide a comprehensive solution to the significant long-term fiscal challenges facing China.

- While retirement age reforms have improved government debt dynamics compared to the 2024 Article IV Consultation, the GG debt-to-GDP ratio is still projected to increase rapidly from 117 percent of GDP in 2024 to 163 percent of GDP in 2034, owing to continued large fiscal deficits. LGs face significant fiscal gaps, which have been exacerbated by the continued decline in land sale revenues. However, overall sovereign risk is assessed to be moderate as China still has some fiscal space and can finance GG debt at favorable rates due to ample domestic savings (Annex V).
- The publication of hidden debt data is welcome and has enhanced transparency. The debt swap will reduce debt service costs in the near term, lengthen maturities, create space for more



¹⁴ The estimate of hidden debt amounts to RMB 14.3 trillion or 10.6 percent of GDP as of the end of 2023, including LGFV debts and other borrowings (e.g., arrears).

¹⁵ The official LGFV list maintained by the authorities differs from the LGFVs included by staff in the augmented debt calculations (see Annex VIII for details on the latter).

¹⁶ The LGFV exit is based on three key criteria: hidden debt must be fully cleared, major creditors must agree, and financing on behalf of the LG must be completely removed in the future.

primary spending and will permit LGFVs and LGs to clear some arrears, thus providing a modest boost to the economy. However, the authorities' estimates of hidden debt continue to follow a legal definition based on explicit backing by local governments. As per IMF GFSM principles, which use an economic concept to define the perimeter of general government, staff estimates result in significantly higher general government debt, with LGFV debt about four times higher than the hidden debt estimate of the MoF. The debt swap also does not materially address the lack of commercial viability of LGFVs amid inadequate revenues to cover operational costs and the lack of debt servicing capacity. Furthermore, repeated bailouts of LGFVs risks exacerbating moral hazard in the future, while the reclassification of LGFVs could result in inadequate monitoring and continued quasi-fiscal activities, leading to a new cycle of excessive debt accumulation with potential financial stability implications.

68. Given these challenges, ensuring debt sustainability in the long term will require significant fiscal consolidation and fiscal framework reforms.

- *Fiscal consolidation:* Under baseline growth projections, stabilizing GG debt would require a cumulative reduction in the (augmented) GG cyclically adjusted primary balance of about 7 percentage points over the long term. The (augmented) GG debt would stabilize only at about 160 percent of GDP. However, the size and pace of the required fiscal consolidation will depend on the speed of the domestic demand recovery, as well as the implementation of growth-enhancing reforms. Fiscal consolidation should be based on a reduction of off-budget investment and wide-ranging social security and tax reforms, including implementing a more progressive personal income tax schedule, streamlining VAT rates and exemptions, increasing excise taxes, and expanding carbon permit revenues (see SIP 2024 for details).
- *Framework reforms:* Sustained fiscal consolidation will require reforms to enhance fiscal discipline and transparency while maintaining provision of local services. Key measures include strengthening CG monitoring of LG activities and debt and reducing vertical imbalances by aligning LG revenue with expenditure mandates. Establishing subnational fiscal rules can also help to control new debt. Effective enforcement mechanisms managed by the CG will be necessary to ensure compliance and credibility of these rules (see forthcoming Departmental Paper on China's LG debt overhang). By establishing a credible fiscal framework, such reforms will not just help ensure fiscal sustainability but can also help bolster business and consumer confidence.

69. Restructuring the stock of unsustainable LGFV debt will help improve LG balance sheets and avoid risks of even larger costs down the line. The PBoC and MoF should continue their efforts to monitor LGFVs. Any reclassification of LGFVs into non-financial market-based corporations should take place after establishing commercial viability based on GFSM principles, which would at least entail that revenues cover a large share of costs. Given the uncertainty around whether LGFVs have fundamentally changed their business models, close monitoring and regular viability analysis remains important for all entities, including those that the authorities consider as having exited the official LGFV list. LGFVs that continue to face financial strains should be

restructured, with transparent recognition of losses. The use of insolvency framework would be the most effective way to repair balance sheets and minimize long-term economic costs (see [2023 SIP](#)). Restructuring LGFVs would allow for burden sharing across creditors and facilitate LGFV asset sales. This would also improve local government balance sheets and reduce fiscal strains, while requiring investors to absorb losses and add new capital, which will reduce moral hazard and support debt control efforts. By contrast, large scale refinancing of LGFVs by LGs is likely to endanger the sustainability of official LG debt in some regions, with only temporary benefits for financial stability. Given a high degree of financial interconnectedness and the complexity of the operation, potential financial sector spillovers would need to be carefully analyzed and mitigated. Restructuring would have to be accompanied by further tangible enhancements of the financial sector safety net and corporate restructuring and insolvency frameworks (see ¶72-74).

Authorities' Views

70. The authorities emphasized that China's government debt ratio is reasonable and fiscal risks are manageable. They continued to hold an opposing view about the augmented debt definition used by staff, noting that operational debt of LGFVs and debt of GGFs and SCFs should not be counted as government debt and used in the DSA other than in stress tests. As per their definition, the debt-to-GDP ratio stood at 68.7 percent in 2024, significantly lower than the G20 and G7 averages. The authorities also highlighted significant progress made in reducing risks from LGFVs, with about RMB 4 trillion hidden debt having been swapped. They noted that local governments have been actively working to promote reforms with an aim to transform LGFVs. They noted plans to continue monitoring LGFVs and strictly curb illegal borrowing by these entities. Finally, the authorities viewed tax policy as a crucial instrument for stabilizing fiscal operations and supporting high-quality development. Their focus is on deepening tax system reforms, gradually increasing the tax-to-GDP ratio via improving tax collection, and streamlining incentives.

B. Bolstering Financial Sector Resilience

71. China has taken important steps to enhance its financial regulatory regime. A major institutional reform was undertaken in 2023 to support the heightened focus on risk resolution. Financial sector oversight has improved with a more risk-based approach to supervision and enhanced regulatory standards. As highlighted by the FSAP, efforts are also underway to strengthen the financial safety net and modernize the risk resolution framework, including growing reliance on legal tools to address corporate distress. These gains, achieved under tight resource constraints, mark meaningful progress towards a more resilient financial system.

72. However, there remains significant scope to improve financial sector oversight to better tackle elevated risks (see also Annex VI on FSAP recommendations).

- The practice of using forbearance measures to delay loss recognition in support of broader development goals should be discontinued. Addressing deficiencies in risk classification particularly for small enterprises, closing critical disclosure gaps, and improving oversight of

smaller and high-risk banks remain a priority. Capital requirements should be further tailored to individual bank risk profiles utilizing the Basel Pillar 2 framework, including by introducing capital add-ons to capture credit and funding concentration risks, business model risks, and other risks not fully captured under Pillar 1 such as governance weaknesses. Steps to enhance the independence of the supervisory agencies and increase their headcount remain priorities, with a significant boost in resources needed to enable more in-depth inspections and greater scrutiny of complex risk areas.

- Improving systemic risk monitoring capacity is essential amid rising interconnectedness and elevated uncertainties. This will require further efforts to transition to a more risk-based, forward-looking supervisory approach, as well as further investments in analytical capacity (including further enhancements of stress testing capabilities) and more granular data collection.

73. Further upgrades to resolution frameworks and other key reforms are urgently needed to safeguard financial stability and address the debt overhang in some sectors.

- A comprehensive resolution regime should be introduced, predicated on tailored enhancements of the draft Financial Stability Law to ensure full alignment with international best practices. A designated lead resolution authority with operational autonomy, clear mandates, and sufficient resources should be established. The resolution framework should have clear objectives and well-specified resolution triggers, with greater clarity on resolution funding mechanisms. Initiatives to boost loss-absorbing capacity in banks should be extended to all systemically important banks, and conditions for use of public resources tightened.
- Upgrading crisis management preparedness and response capacity remains a priority. Inter-agency coordination (via a dedicated operational committee) and staffing resources should be enhanced to match the sector's complexity. Extending the scope of resolution planning requirements to all domestic systemically important banks will support the effective use of resolution tools (notably, bail-in), without the need to rely on fiscal resources.
- Reforms should be backed by a significant strengthening of the financial safety net, including additional steps to strengthen the financial capacity of the Deposit Insurance Fund (DIF). Establishing an operational framework for emergency liquidity assistance in normal and stress times (including arrangements for providing liquidity to banks in resolution, as appropriate) and strengthening the Financial Stability Guarantee Fund (FSGF)'s governance will complement these efforts.

74. Improving the corporate restructuring and insolvency framework will facilitate market-based, timely, and orderly resolution. Expediting the resolution of distressed debt, particularly from the property and LGFV sectors, and timely loss recognition must be prioritized to enhance transparency, allowing for a more efficient allocation of resources and ultimately restoring market confidence. Key priorities include updating the Enterprise Bankruptcy Law (EBL) to enhance the insolvency regime, and increasing capacity and expertise of courts, as well as establishing

comprehensive regulation of insolvency administrators (see Annex VI). In addition, strengthening supervision and transparency of AMCs could enhance market confidence and discipline, while promoting competition in the primary market and deepening the secondary market would further facilitate resolution of distressed assets.

75. Strengthening Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework¹⁷ is a key step in protecting the soundness of the financial sector. The focus on risk-based supervision of the banking sector should continue, and AML/CFT supervisors should ensure that adequate focus is also given to non-bank financial institutions, in line with a risk-based approach. Greater centralization of AML/CFT supervisory activities, through the AMLB Head Office, would further support these efforts. Progress has been made in strengthening the legal framework through recently enacted amendments to the AML law; however, further reforms are required to adequately address risks related to domestic Politically Exposed Persons. Concrete steps are needed to fully operationalize an effective beneficial ownership system. Continued efforts are required to establish general legal requirements to implement targeted financial sanctions (TFS) and to prohibit legal persons and entities from making funds available to designated entities. While the use of crypto assets is prohibited in China, efforts to monitor and investigate their illicit cross-border use as well as efforts to prevent and detect illegal cross-border payment and remittance activities more broadly should be sustained.

Authorities' Views

76. The authorities agreed with staff's recommendation to continue enhancing risk monitoring and accelerating financial regulatory reforms. They stressed enhancements are being made to risk analysis with a focus on early warning signals. They noted that the introduction of new risk classification rules for the banking sector, which came into effect in 2023 with a transition period until December 2025, has been smooth, and asset quality transparency has improved significantly. They noted that deliberations on the second draft of the Financial Stability Law presented in June 2024 continue and that work is ongoing on amending the Enterprise Bankruptcy Law to ensure a fair, transparent, and predictable rule-of-law business environment.

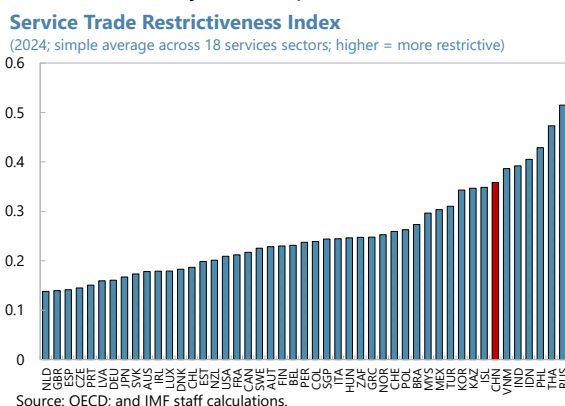
BOOSTING MEDIUM-TERM GROWTH PROSPECTS

77. Despite some recent reforms, China's growth is expected to slow considerably in the medium term. Traditional drivers of growth such as construction and goods exports are likely to face constraints over the medium term, while emerging sectors may not be able to fully replace them absent deep structural reforms. The increase in the retirement age starting in 2025 will only partially mitigate the expected decline in the labor force (see Bonthuis and others, 2026), with aging and decreasing returns to investment remaining significant headwinds to potential growth.

¹⁷ The next Financial Action Task Force (FATF) Mutual Evaluation for China is planned for 2027.

78. Implementing structural reforms can help mitigate the headwinds from slowing productivity, and an aging population. Scaling back unwarranted industrial policies (¶157) would contribute to lifting medium-term growth potential. In addition, other reform priorities include:

- Advancing corporate sector reforms and reigniting private sector confidence.* Regulatory crackdowns on certain sectors, domestic policy uncertainty, and LG pressures to increase revenue collections have dented business confidence in recent years. The authorities have recently passed a Private Economy Promotion Law that aims to strengthen private firms' property rights and access to government procurement. However, accompanying legislation will need to be developed to effectively ensure competitive neutrality. Other priorities include lowering barriers to internal and external trade—particularly in the services sector (text chart and [2024 SIP](#)), improving SOE efficiency and governance (by increasing private ownership shares, limiting public policy mandates, and enhancing transparency and market discipline), reducing regulatory uncertainty, and strengthening and utilizing insolvency frameworks to facilitate the resolution of unviable firms.



- Harnessing the potential of Artificial Intelligence (AI).* Building on its advanced digital infrastructure and successful domestic large language models, China is seeing rapid adoption of AI across economic sectors, including LGs ([SAS 2024](#)). The authorities have launched the AI Plus initiative to accelerate AI adoption, and analysts estimate that AI investment has risen sharply in 2025, led by the public sector. To maximize AI's growth potential and minimize its risks, the authorities should reduce barriers to entry and competition in the private sector to ensure broad adoption, build technical capacity at the government to integrate AI in government services, keep legislation up to speed with technological developments, and strengthen the social protection system to mitigate labor market displacement.
- Promoting R&D and innovation.* R&D spending as a share of GDP has increased rapidly in recent years and surpassed the levels in many advanced economies. The authorities should focus on improving the effectiveness of public support to innovation by making programs transparent and easily accessible to all firms. Innovation support through private equity and venture capital (e.g., Government Guided Funds) should be based on robust governance frameworks and subject to market discipline to ensure funding decisions are driven by innovation goals (as opposed to other government priorities) and maximize social value.
- Labor market reforms.* To reduce youth unemployment and skill mismatches, the authorities should scale up active labor market policies, including job search-and-matching assistance, retraining programs, and employment services for recent graduates. Education reform to make future workers more adaptable to evolving job market needs, particularly amid the AI transition,

would also help. Accelerating Hukou reform and improving public services provision for migrant workers would enhance labor mobility and flexibility.

- *Further pension reforms.* The authorities have already implemented a welcome gradual increase in the retirement age over the next 15 years. Further increasing the retirement age to 65 for both men and women over time would contain the decline in the labor force from aging and boost medium-term growth by 0.2 percent a year on average (see Bonthuis and others, 2026).

Authorities' Views

79. The authorities view innovation in strategic sectors and education as key for boosting medium-term growth. They intend to lift medium-term growth following the directions set by the 15th Five-Year Plan, with a focus on promoting innovation and technology self-sufficiency. They expect that the widespread application of AI will raise productivity growth significantly, with higher adoption expected in service sectors. They also argued that the anti-involution campaign will contribute by increasing firm profitability and encouraging technological upgrades over the medium term. Another key area they emphasized is strengthening education and vocational skills training. The authorities agreed with staff on the need for market-oriented corporate sector reforms, noting progress towards more equal treatment of private firms following the Private Economy Law, measures to curb local protectionism, and improved access of SOEs to private capital. To counter the decline in the labor force, they stressed the importance of the retirement age increase and fertility support measures.

IMPROVING ECONOMIC DATA

80. Improving data quality and transparency should be a priority and will enhance policymaking (see Annex VII and VIII). While broadly adequate for surveillance, data provided to the Fund has some shortcomings. Furthermore, given the economic significance of China, improving data quality can help facilitate Chinese and global surveillance. In this context, key areas of improvement include:

- *National accounts:* China does not publish a range of national accounts statistics at the level of granularity recommended internationally, most notably quarterly GDP by expenditure component (nominal, real, and seasonally adjusted). Additionally, the quarterly production-based GDP volume estimates are limited to broad sectoral aggregates instead of detailed activity-level breakdowns. While China regularly updates the base year for GDP, methodological improvements can be made as outlined in Annex VIII, including limiting the use of single deflation.
- *Fiscal data and augmented perimeter:* The authorities have made progress in compiling debt data for off-budget entities. However, the MoFs definition of hidden debt continues to follow a legal rather than an economic concept (¶67). As such, key data gaps remain, including comprehensive data on off-budget entities (including LGFVs) that meet the statistical criteria for inclusion within

the perimeter of the general government, and general government data with a breakdown of expenditure by economic type (current and capital expenditure).

- *External sector data:* While the trade data in the BOP is broadly adequate for surveillance, there remains scope to better explain the factors driving the gap between customs and BOP trade data. Also, China does not provide the institutional sector breakdown for the financial account, or the breakdown for investment income as required by the sixth edition of the Balance of Payments Manual, which hampers economic analysis. China's support for the Review of Data Provision to the Fund for Surveillance Purposes that includes provision of FXI data is welcome ([IMF, 2024](#)). Greater transparency on FXI would facilitate multilateral surveillance through more comprehensive monitoring of the international monetary system.

Authorities' Views

81. The authorities noted progress in strengthening statistics, including their commitment to publishing more detailed BOP data. On BOP data, they intend to publish a breakdown of FDI and non-FDI components under investment income, along with a sectoral breakdown of the financial account in March 2026. They stressed that they continuously strengthen BOP data quality by guiding reporting entities through detailed instructions, direct engagement, and comprehensive verification measures to ensure accuracy and completeness, but noted that further analysis on factoryless manufacturing requires data from MNC headquarters in other countries or regions. On national accounts, the authorities continued to argue that adequate data is provided for production-side GDP, which is the appropriate primary approach for measuring economic activity in China. They indicated no immediate plans to publish more detailed expenditure side data, but noted continued improvement to real sector statistics, including updating of the CPI and national accounts base years in 2026. On fiscal data, they highlighted improved data transparency after the stocktaking of hidden debt.

STAFF APPRAISAL

82. China's economy has remained remarkably resilient despite multiple shocks and continues to be a significant driver of global growth, but the growth model faces mounting challenges from domestic and external imbalances. The property sector adjustment has resulted in prolonged weak domestic demand and deflationary pressures, amid high and rising debt levels. Strong export growth has picked up some of the domestic slack, supported by real depreciation of the RMB due to weaker inflation relative to trading partners, but has also led to the emergence of external imbalances with global spillovers. Going forward, the ability of exports to support growth may be constrained, including due to China's size and trade tensions.

83. Growth is projected to slow going forward, with inflation rising only gradually. Growth is expected to moderate in 2026, with the contribution of net exports falling given prolonged effects of tariffs and trade policy uncertainty. Inflation is forecast to rise only modestly amid persistent slack.

Over the medium term, growth is projected to continue to decelerate due to a declining labor force, decreasing returns to investment, and slower productivity growth. On a preliminary basis, the external position in 2025 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies, largely due to improved export competitiveness, strong external demand, and weak domestic demand.

84. Risks around the outlook remain tilted to the downside. The key domestic risk remains a more prolonged property sector contraction and reemergence of LG financing strains, leading to even weaker domestic demand, entrenched deflation, and rising external imbalances. Amid high debt levels, significant deceleration of domestic demand heightens the risk of adverse macro-financial feedback loops. External risks are also elevated, given the potential for higher tariffs on China and additional technology and investment restrictions. On the upside, additional policy stimulus could boost domestic demand while concerted reforms, including those to maximize gains from AI and R&D investment, can lift potential growth.

85. Recognizing the challenges facing the economy, the authorities have implemented various welcome policy measures. The recommendations for the 15th Five-Year Plan have appropriately highlighted the importance of boosting domestic demand, with a focus on consumption. The authorities have also emphasized the need to tackle “involution”, including by phasing out LG subsidies in some sectors, and have implemented retirement age reforms to mitigate pressures from aging. While some coordinated policies to achieve these goals have been implemented, the policy steps remain modest relative to the scale of the challenges. A comprehensive and more forceful policy response that combines macro policy support with complementary structural reforms can help deliver on the authorities’ stated priorities.

86. Addressing domestic imbalances and reflating the economy will require urgently implementing more forceful macro policy support, with a focus on fiscal stimulus, which will also mitigate external imbalances. The fiscal expansion in 2025 was a welcome step forward. It will be critical that an expansionary fiscal policy stance be maintained until deflationary pressures subside durably. The composition of spending should shift towards even greater support for consumption (scaling up social spending, including rural pensions and social assistance programs) and the property sector, and away from inefficient investment and unwarranted IP. To support fiscal expansion and ensure reflation, the policy mix should include further monetary easing and greater exchange rate flexibility. Further interest rate cuts are recommended, but only as part of a broader policy package that supports an appreciation of the real exchange rate so as not to exacerbate external imbalances. Greater exchange flexibility, together with more transparency around the FX regime, can enhance monetary policy effectiveness and absorb shocks.

87. Complementary reforms that rebalance the economy toward consumption should be an overarching policy priority. Resolving the property sector adjustment expeditiously is essential to restore consumer confidence. Key priorities include deploying CG financing to complete pre-sold unfinished housing, accelerating the exit of unviable developers, and allowing greater housing price flexibility. The authorities have implemented a series of modest measures to boost consumption,

which are welcome. More forceful reforms that lower precautionary savings, such as raising social spending, especially in rural areas, accelerating Hukou reforms in urban areas, and making the tax system more progressive are also key to promoting consumption.

88. Scaling back unwarranted IP and improving transparency around IP measures would lower domestic factor misallocation and mitigate international spillovers. IP should be pursued cautiously and only to tackle well-defined market failures, while minimizing trade and investment distortions. The focus on “anti-involution” is welcome, but the strategy should be clarified and accompanied by stronger incentives to reduce overinvestment by LGs. Measures should focus on significantly scaling back the sizeable amount of IP support and using insolvency frameworks to foster exit of firms that become unviable. In addition to domestic benefits, scaling back of IP will mitigate global spillovers and allay concerns of trading partners, thus contributing to promoting open trade.

89. Amid rising fragmentation pressures, China has an important role to play in promoting open trade. China should work constructively with partners to resolve trade disputes, use national security justifications for restricting trade or investment judiciously to minimize spillovers to global supply chains, continue efforts to support the multilateral trading system, and continue to pursue high-standard and comprehensive regional and plurilateral agreements.

90. Ensuring debt sustainability will necessitate significant fiscal consolidation over the long term, fiscal framework reforms, and restructuring LGFV debt. Once the economy reflatens durably, sustained GG fiscal consolidation over the long term will be needed to stabilize debt. In order to minimize the drag on growth, the consolidation should be based on low-multiplier measures, including a reduction of off-budget investment and unwarranted industrial policy support, accompanied by wide-ranging tax and social security reforms. Restructuring the debt of unsustainable LGFVs through use of insolvency frameworks will reduce LG fiscal strains and avoid even larger costs down the line. Given the high degree of financial interconnectedness and the complexity of the operation, financial sector spillovers from LGFV restructuring will need to be carefully analyzed and mitigated, while upgrades to the fiscal frameworks will be key to prevent future debt buildup.

91. Financial sector policies should address elevated financial stability risks. Policy measures taken by the authorities, including the capital injection in large banks and the LG debt swap, have helped mitigate some financial risks. However, further steps are needed to tackle still elevated financial stability risks. Near-term priorities include ensuring adequate capital and liquidity buffers within the financial system, while also promoting timely and transparent loss recognition, transitioning to market-based pricing, and laying the groundwork for a comprehensive strategy to address vulnerabilities, including legacy assets such as LGFV debt. Bolstering financial sector resilience requires framework reforms, including enhancing systemic risk analysis, improving financial sector oversight, upgrading the crisis management and bank resolution frameworks, and improving the corporate restructuring and insolvency frameworks.

92. Structural reforms can help avoid a significant decline in medium-term growth.

Advancing corporate sector reforms is the main priority, including reducing regulatory uncertainty, lowering barriers to internal and external trade in the service sector, and fostering competitive neutrality across firms. China should also implement policies to harness the potential of AI while mitigating its risks, enhance active labor market policies to reduce youth unemployment and skill mismatches, and further increase the retirement age.

93. Improving data quality and transparency can enhance policymaking. While broadly adequate for surveillance, data provided to the Fund have some shortcomings. Key areas for improvement include national accounts, fiscal data—particularly on the augmented perimeter of government, and external sector data.

94. It is proposed that the next Article IV consultation with China take place on the standard 12-month cycle.

Box 1. China: Deflationary Pressures from China's Real Estate Market Correction¹

Evidence from cross-country comparisons and China's provincial-level data highlights a strong link between property downturns and disinflationary pressures. In addition to the direct impact of lower real estate investment on domestic demand, a key transmission channel appears to be via household wealth effects.

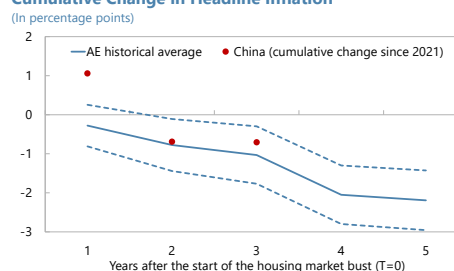
China, like many other countries, has seen a significant decline in inflation since the start of its real estate market correction. Cross-country evidence suggests that housing market downturns are often followed by sustained declines in CPI inflation. China's recent housing market correction is no exception, with headline inflation declining by around 0.7 percentage points since 2021.

Provincial-level data within China suggests a significant and persistent impact of the housing downturn on consumer price inflation. Analysis based on the local projection method suggests that provinces experiencing sharper housing downturns, proxied by larger house price declines, tend to exhibit a larger decline in CPI inflation. Notably, the impact is particularly pronounced in the lower tail of the inflation distribution, as captured by "inflation-at-risk" estimates (Novta and Xu, 2024). A 10 percent decline in house price is associated with a 0.7 percentage point drop in one-year-ahead CPI inflation at the left tail of the distribution, highlighting sizable downside risks to the inflation outlook following the property market correction.

The deflationary pressures arising from the property sector correction are more pronounced in provinces with higher levels of LG indebtedness. Provinces with elevated LG debt (both official and LGFV debt), which represent about 60 percent of the economy, experienced a larger cumulative decline in CPI inflation following the downturn in the housing market. This likely reflects weaker fiscal capacity to offset the negative demand shock from the property sector contraction directly, as well the impact on LG finances given the significant reliance of LGs on property related revenues.

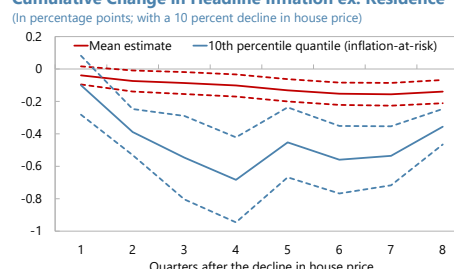
A key transmission channel between the real estate market and deflationary pressure is the household wealth effect. Evidence presented in Xu et al. (2025) shows that declines in homeowners' housing-related net worth could lead to increased household savings. On the other hand, the potential offsetting effect—where reduced downpayment requirements could lower aggregate savings among non-homeowners—has weakened since the recent housing market correction, likely due to postponement of house purchase decisions. China's provincial-level data also indicate that house price downturns are associated with weaker household consumption. Policies to engineer a less costly housing adjustment will help alleviate these pressures.

Cumulative Change in Headline Inflation



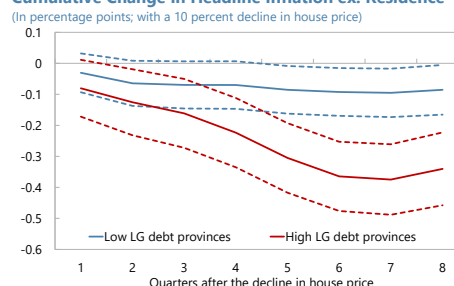
Sources: Haver Analytics; CEIC Data Company Limited; and IMF staff calculations. Note: The housing market busts are based on Agnello and Schuknecht (2011) and Hoyle (2024). Dashed lines indicate the 90 percent confidence interval.

Cumulative Change in Headline Inflation ex. Residence



Sources: CEIC Data Company Limited; and IMF staff calculations. Note: The inflation-at-risk measure is derived as the 10th percentile of the quantile local projection estimates. More details of this analysis can be found in Novta and Xu (2024).

Cumulative Change in Headline Inflation ex. Residence



Sources: CEIC Data Company Limited; Wind; IMF staff calculations. Note: Provincial LG debt includes both official debt and LGFV debt.

¹ Prepared by Yizhi Xu and Chris Redl.

Box 2. China: Producer Price Deflation in China¹

China's Producer Price Index (PPI) has seen deflation for more than 3 years. While several countries saw negative PPI inflation outturns in 2023 following the unwinding of global shocks, China has witnessed more persistent producer price deflation. A decomposition of China's PPI suggests a role for weak domestic demand as well as supply shocks in explaining PPI deflation since 2024.

After surging to a peak of over 10 percent in early 2021, China's PPI inflation rate fell significantly and has been below zero since October 2022. The 39

consecutive months of negative PPI inflation outturns as of December 2025 is the longest period of PPI deflation since 2016. While China has seen extended periods of PPI deflation in the past, this episode is also characterized by subdued CPI inflation which has resulted in the GDP deflator being in negative territory for 11 consecutive quarters.

While the initial upsurge and subsequent decline in producer prices was common in many countries, China has seen more persistent PPI deflation than global peers. From

2021, COVID-19 related lockdowns induced exceptional demand for goods (relative to services) which led to significant increases in producer prices globally. China, as the world's largest manufacturer also saw a large boom in exports as well as higher prices. Higher commodity prices following Russia's invasion of Ukraine in February 2022 added to the global rise in producer prices. The effects of these shocks unwound by the middle of 2023 and global PPI began to normalize but remained positive in 2024. However, China's PPI has diverged and remained in deflationary territory, with downstream sectors driving this divergence.

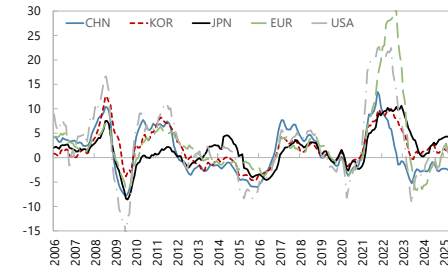
A decomposition of China's PPI into demand and supply components suggests that the ongoing producer prices deflation reflects shocks to both. We

decompose PPI following [Shapiro \(2022\)](#) based on matched industrial production and PPI data for 40 sectors. Demand (supply) shocks are assumed when unanticipated changes in prices and quantities are in the same (different) directions in the sector. The analysis suggests the following:

- The surge in PPI in 2021 and 2022 reflected both demand and supply factors, consistent with a role for COVID-related demand as well as the commodity price shock.
- During the ongoing deflation period, demand drag was most acute in 2023 but remained a persistent contributor to PPI deflation through 2025H1. This likely reflects the protracted downturn in the property sector and spillovers to LG finances (see Box 1), as well as weak consumer confidence which is still to recover after declining sharply during COVID lockdowns. Sectors where demand has been an important driver include those more closely associated with household spending (e.g. sports and recreation, culture and education)
- From 2024 there has been a non-trivial contribution from supply factors as well. This partly reflects lower global commodity prices, but also potentially oversupply in some sectors amid continued strong industrial production despite weak domestic demand. In particular, supply factors have been most relevant in general manufacturing categories as well as sectors relating to the production of energy-related products.

PPI: All Industries

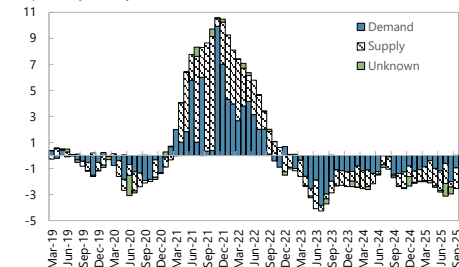
(In percent, year-on-year change)



Source: Haver Analytics; Redl (2023); and IMF Staff calculations.

Producer Price Index

(In percent, year-on-year)



Source: Haver Analytics; Redl (2023); and IMF staff calculations.

¹ Prepared by Chris Redl and Yizhi Xu.

Box 3. China: Recommended Reforms Scenario¹

The recommended policy package of fiscal expansion supported by monetary easing, combined with greater exchange rate flexibility and structural reforms to lift consumption and productivity, can tackle both internal and external imbalances while lifting the level of GDP by 2.3 percent after 5 years.

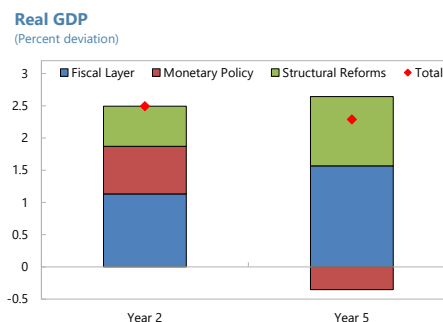
This box quantifies the macroeconomic impacts of key recommended policy reforms. Using the IMF's Global Integrated Monetary and Fiscal (GIMF) model, it simulates the impact of the following policy layers:

- *Fiscal*: a short-term expansion, including higher social spending and property sector support, followed by gradual consolidation; and retirement age reform (see detailed measures in Text Table 5).
- *Monetary*: a 50 bps short-term reduction in the policy rate and a flexible exchange rate.
- *Structural*: reforms to halve the size of industrial policy support and improve business dynamism.

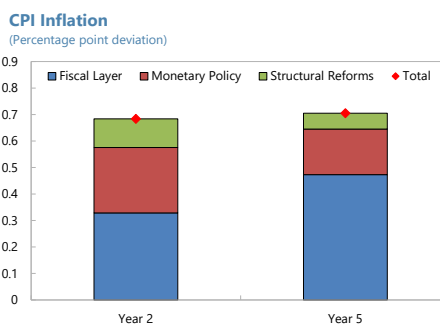
The recommended policies help to boost domestic demand and potential growth. Short-term expansionary policies raise domestic demand, thus narrowing the output gap, lifting inflation, and reducing the current account surplus. Moreover, the social security expansion is estimated to permanently lower the savings rate by 3 percentage points of GDP (Xu and others, 2025), further boosting demand. Despite the monetary easing, the fiscal expansion and reforms to boost consumption lead to a real appreciation of the RMB, which amplifies the decline in the current account. Meanwhile, medium-term output potential rises owing to the retirement age increase, which expands the labor force (Bonhuis and others, 2026), as well as the reforms to pare back industrial policy support and improve business dynamism, which improve factor allocation, lifting aggregate productivity (Cerdeiro and Ruane, 2024; Garcia-Macia and others, 2025).

Overall, the reform package goes a long way in correcting internal and external imbalances, while accelerating growth. Relative to the baseline, GDP growth increases by 0.5 percentage point per year on average during the next 5 years, while inflation rises by up to 0.8 percentage point, and the current account surplus is lowered by 1.2 percent of GDP.

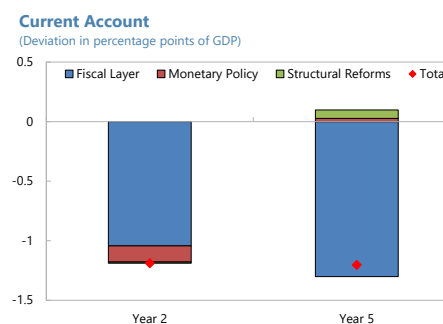
¹ Prepared by Daniel Garcia-Macia, Dirk Muir, and Yizhi Xu.



Source: IMF staff simulations.



Source: IMF staff simulations.



Source: IMF staff simulations.

Box 4. China: Monetary Policy: Effectiveness and Space¹

Empirical evidence shows that while monetary policy, especially via interest rates, transmits effectively to output and prices, it has provided only modest support to activity recently. Analysis of banks' net interest margins suggests that there is still policy space for further interest rate cuts.

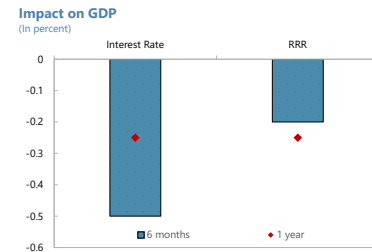
Empirical estimates show that interest rate policy is effective in stimulating output and prices.

The analysis² focuses on the transmission of changes to the 7-day repo rate and the RRR, which are the primary price and quantity tools used by the PBC. Interest rate shocks are marginally more effective than RRR shocks in affecting demand. A repo rate shock of 0.25 percent is associated with a 0.5 percent decline in GDP after 6 months and about a 0.25 percent decline after 1 year. A 25 bps shock to the RRR, on the other hand, has a smaller effect on the level of GDP of 0.2 percent on impact, though the impact after a year is similar to the interest rate shock. Inflation also declines more following an interest rate shock (0.4 percent) compared to an RRR shock (0.2 percent). The repo rate has only recently become the main policy rate in China, which may reduce the estimated impact of the interest rate policy relative to RRR given the latter has been actively used throughout the sample period.³

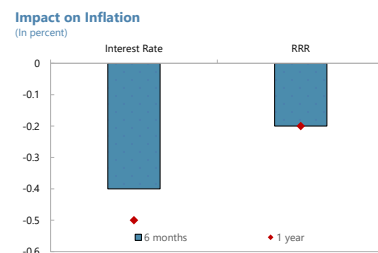
While monetary policy is effective in stimulating demand, it has played only a modest role in supporting economic activity in the last two years.

The SVAR model indicates that while monetary policy provided significant support to output in 2022, its role has been more limited in 2023–24 (though with some pick up at the end of 2024), potentially reflecting the fact that monetary easing has not kept pace with the decline in inflation, resulting in higher real rates.

China has space to lower rates further, with concerns related to declining NIMs and potential capital outflows being manageable. Domestic banks have seen their NIMs decline significantly, raising concerns about policy space for further rate cuts. However, analysis of the passthrough of policy rate changes into banks' NIM shows that the declines have been borne by banks with higher margins to begin with. Moreover, the NIMs of these tail banks are at or above those in developed markets (EU and advanced Asia) and their capital ratios have also been stable over this period. Concerns regarding risks of disorderly exchange rate movements as a factor constraining monetary easing can also be managed using other tools. As per the IPF, if non-fundamental shocks result in exchange rate instability due to market shallowness, temporary FXI can play a role in smoothing of risk premia (136).



Sources: Haver Analytics; Redl (2025); and IMF Staff Calculations.



Sources: Haver Analytics; Redl (2025); and IMF Staff Calculations.

¹ Prepared by Chris Redl.

² Shocks are identified using standard sign restrictions, requiring that a positive interest rate or RRR shock lowers GDP and prices the next quarter (but with no restrictions thereafter). In addition, daily changes in the 1-year swap rate for the 7-day repo rate are used to identify shocks to monetary policy around policy announcements (Das and Song, 2022). This information is incorporated in the SVAR by using narrative sign restrictions following [Antolin-Diaz and Rubio-Ramirez \(2018\)](#), whereby the SVAR shocks are required to have the same sign as the [Das and Song \(2022\)](#) measure. The model does not account for asymmetric effects of interest rate shocks, such as those in the literature showing weaker effects of interest rate cuts relative to those of an interest rate hike such as [Tenreiro and Thwaites \(2016\)](#).

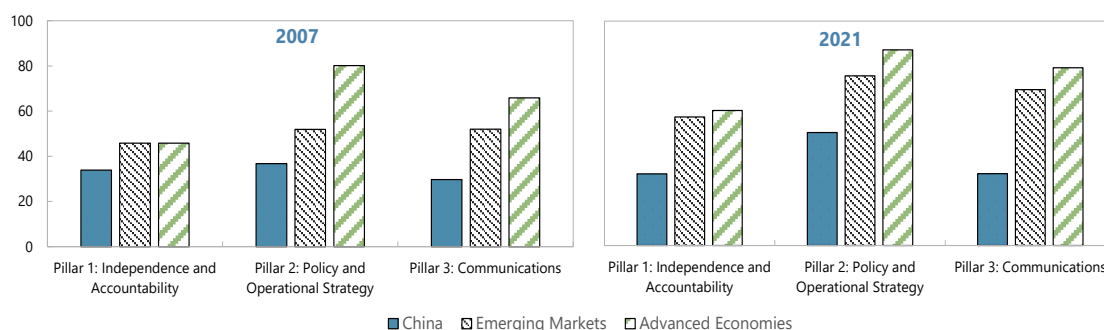
³ Previous IMF analysis has found similar conclusions regarding the relatively high effectiveness of interest rate based policies relative to quantity based policies to stimulate investment in more productive credit-constrained firms—see [Hoyle, Jeasakul, and Zhang \(2023\)](#).

Box 5. China: Monetary Policy Framework Reforms¹

China has made significant progress in modernizing its monetary policy framework. Over the past three decades, the framework has evolved from centralized credit planning, to targeting credit growth, and more recently towards a more conventional interest rate-based framework. Key recent reforms include (i) designating the 7-day reverse repo rate as the main policy rate and phasing out MLF rate in that role; (ii) improving liquidity management practices, which have reduced volatility in money market rates; (iii) scaling down structural monetary policy tools² in 2024.

However, a comparison to peers suggests significant scope for further reforms. Benchmarking using [Unsal and others \(2022\)](#), a multidimensional framework to evaluate monetary policy frameworks, suggests that China has made notable gains in policy and operational strategy, but lags peers in independence and communication. The People's Bank of China (PBoC) continues to pursue multiple and overlapping objectives using a broad set of instruments, and monetary policy decisions often reflect broader government objectives.

Monetary Policy Frameworks



Sources: Unsal and others (2022); and IMF staff calculations.

Further reforms are needed to enhance policy formulation and effectiveness. Key priorities include:

- *Clarify objectives and anchor expectations:* The current framework is predicated on multiple objectives and lacks a clearly communicated primary objective. The domestic price stability objective is not well defined, as the annual inflation goal set by the National People's Congress functions as a short-term inflation forecast or ceiling rather than a medium-term anchor. Clearly communicating a medium-term inflation objective would provide a nominal anchor and strengthen the effectiveness of forward guidance, a critical tool for managing expectations, especially during periods of persistently low inflation.
- *Simplify the operational framework, phase out administrative controls, and enhance communications:* The operational framework remains complex, with a wide range of interest rates, credit facilities and structural tools. Administrative guidance on deposit and lending rates, as well as credit targets should be phased out as they distort risk-based pricing, foster excessive competition for deposits, and impede the transmission of monetary policy. Funding-for-lending programs should continue to be wound down to mitigate the risk of credit misallocation. The design and communication of new programs, such as the CGB bond trading facility, should avoid undermining the pass-through of short-term policy rates to long-term yields. Financial stability concerns arising from lower interest rates on banks' profitability could be better addressed via microprudential measures.

¹ Prepared by Chris Redl and Yingyuan Chen.

² These are sector-specific funding-for-lending programs available for commercial banks.

Box 6. China: RMB Internationalization¹

The use of the Renminbi (RMB) in international trade and finance has risen but remains limited for transactions not involving Chinese entities. In 2024, the share of China's trade invoicing settled in RMB increased to above 27 percent for goods and to about 32 percent for services. Offshore RMB lending has also grown rapidly, with Hong Kong SAR reporting over 60 percent growth in RMB loans last year; the RMB has become an important currency of cross-border bank lending in emerging Asia (BIS); and panda bonds outstanding reached RMB 320 billion. The annual volume of transactions settled via Cross-Border Interbank Payment System (CIPS) more than tripled since 2020 reaching RMB 175 trillion in 2024. However, on a global scale, the share of RMB-denominated transactions remains modest. In 2025Q3, less than 3 percent of global trade and about 8 percent of trade finance were settled in RMB (SWIFT), and the share of RMB in foreign exchange reserves remained broadly stable at about 2 percent.

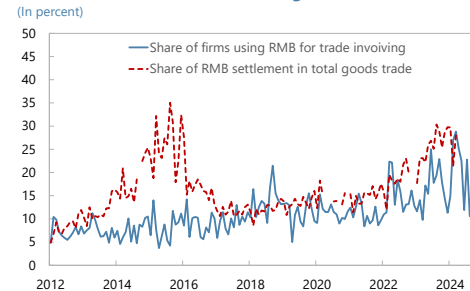
These shifts were driven by a combination of factors.

Development of cross-border payment infrastructure, including the establishment of the RMB clearing banks and the CIPS, facilitated the use of the RMB by Chinese firms looking to reduce FX risk and lower transaction costs. More recently, escalating trade tensions were also frequently cited by Chinese firms as a reason to use RMB in trade (2025 ESR). Meanwhile, the network of RMB swap arrangements with foreign central banks has expanded and restrictions on capital account flows are gradually being eased. Over the last decade, schemes to facilitate participation by qualified international investors in the Chinese mainland markets, as well as connect schemes for bonds, swaps, repos, equities, and wealth management were launched to facilitate both resident and foreign flows. Sovereign and other investors are also potentially attracted by the diversification benefits of RMB-denominated assets, while low Chinese interest rates have boosted foreign demand for RMB funding over the last few years.

The authorities are taking further steps to promote RMB internationalization, including by leveraging digital finance. Some CFM measures on inflows and outflows were eased further (¶10), Southbound Bond Connect was expanded to cover several types of mainland financial institutions as eligible investors (insurance companies, bank wealth management subsidiaries), and onshore repo market was opened to eligible foreign investors. Measures applied in Shanghai Pilot Free Trade Zone, including cross-border electronic payment applications, are expected to be replicated across the country. The PBC also announced the creation of an international operations center for the digital yuan, designed to support global transactions and interoperability with other digital currencies.

Impediments remain to the widespread adoption of the RMB. Foreign participation in domestic markets and residents' investments abroad remain subject to restrictions. Offshore RMB markets lack depth and liquidity, while shortage of globally accessible safe RMB assets hinder the RMB's function as a store of value. Given limited exchange rate flexibility, FX hedging market remains shallow, making it challenging to conduct large-scale operations.

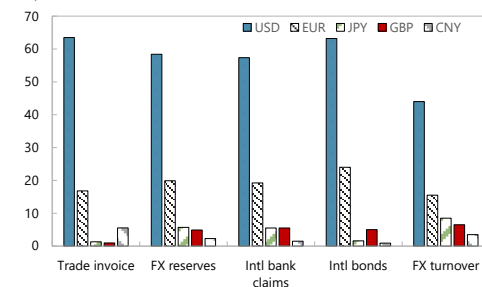
RMB Use in China's Trade Invoicing



Source: IMF 2025 External Sector Report (2025 ESR).

Currency Composition

(In percent, share of total flows/stocks)



Source: IMF 2025 External Sector Report (2025 ESR).

¹ Prepared by Natalia Novikova.

Box 7. China: China's AMCs—Growing Role, Rising Risks and Structural Gaps¹

State-owned asset management companies (AMCs) have become a central tool for managing distressed assets in China's financial system. The national AMCs, later joined by regional AMCs, have absorbed RMB 16 trillion (18 percent of GDP) of nonperforming assets (NPAs) between 2012 and 2024, mainly via direct transfers in the primary markets at potentially inflated prices with limited pricing visibility. Recent acquisitions have been concentrated in property, manufacturing, wholesale, and LGFV-related sectors. The underdeveloped secondary market has entrenched AMCs as the primary channel for distressed assets disposal. While the 2021 launch of the public exchange platform (CCARE) marked progress toward market-based NPA resolution, activity in the exchange remains limited with little participation beyond local AMCs (see [Oct 2024 GFSR](#)).

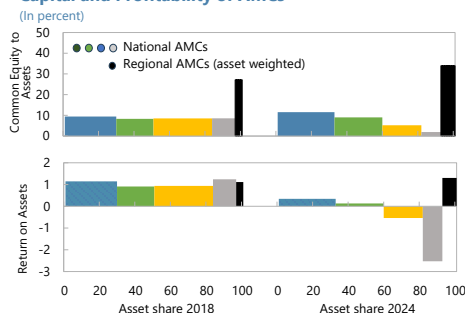
Transfers to AMCs have helped contain headline NPA ratios but raised systemic risks. National AMCs were initially created in the 1990s as temporary resolution vehicles with time-bound mandates, or “sunset” clauses, to absorb NPAs from state-owned banks. They have since evolved into complex financial conglomerates, engaging in activities beyond distressed asset management. Profitability has declined amid the pandemic and the property downturn, and capital buffers have weakened with some falling below regulatory requirement.² Interconnectedness with the financial system—via investments, lending, and bank and market financing—amplify vulnerabilities. The \$6.6 billion bailout of a national AMC in 2021 illustrates the potential for macro-financial spillovers.

International experience offers key principles for effective AMCs. AMCs should operate with commercially oriented objectives, with prudent asset selection focused on large, collateralized loans with predictable recovery value. To minimize fiscal risks, transfer prices should reflect fair economic value rather than book value. AMCs should be well capitalized and follow strict governance standards, with independent decision-making free from political pressures. For state-sponsored AMCs, the enforcement of “sunset” clauses is key to limiting moral hazard. Complementary legal and institutional reforms are also essential for long-term success (see [TNM/2024/04](#)).

China's AMCs fall short of these principles on several dimensions. AMC activities have been marked by risky asset acquisitions and insufficient pricing discipline, thus creating implicit public support for banks and creditors, and resulting in weak financial performance. Inefficiencies in corporate restructuring and insolvency frameworks further undermine asset recovery efforts. Competing public policy goals, such as support for the property sector and SMEs distort commercial objectives and weaken recovery incentives. Given lack of credible enforcement of sunset clauses for their public resolution function or viable disposal alternatives, AMCs risk becoming long-term warehouses for distressed assets, delaying loss recognition and shifting risks to the public sector. Despite some improvement in oversight, including issuance of centralized guidance by the NFRA, transparency remains limited, especially among regional AMCs.

Reforms are needed to enhance the AMCs' core objective of maximizing recovery values. Priorities include stricter asset purchase criteria and more conservative valuation practices, stronger governance and transparency, and curbing ancillary mandates. These measures should form part of a comprehensive distressed asset resolution strategy, supported by improvements in the legal, regulatory, and institutional framework for dealing with distressed borrowers. Without such reforms, AMCs may perpetuate credit misallocation and amplify fiscal risks.

Capital and Profitability of AMCs



Sources: S&P Capital IQ; and IMF staff calculations.

¹ Prepared by Yingyuan Chen.

Box 8. China: International Lessons for Housing Market Adjustment¹

While the scale of China's ongoing housing correction resembles past episodes in other countries, firm exits have lagged (text figure). New

construction has contracted sharply in China—by about 70 percent from its peak—matching the scale of adjustment seen in previous housing busts. In contrast to other countries where total firm bankruptcies typically tripled during the downturn (text figure), China has seen very limited firm exits similar to the experience in Japan where exits also remained low compared to other international peers.

International experience underscores the importance of timely firm exit, loss recognition, and fiscal support. Delayed exits often led to larger cumulative GDP losses (text figure), as nonviable firms stayed afloat, hindering loss recognition and resource reallocation, resulting in longer adjustment with sub-par GDP growth.² Historical episodes highlight the importance of strong policy backstop to facilitate an orderly adjustment – Finland and Sweden (1990s) and the US (2008) pledged fiscal resources to recapitalize banks and resolve distressed firms; Ireland and Spain (post-2008) used time-bound asset management vehicles to isolate bad assets and contain systemic stress. These interventions helped absorb losses, stabilize financial systems, and accelerate recovery.

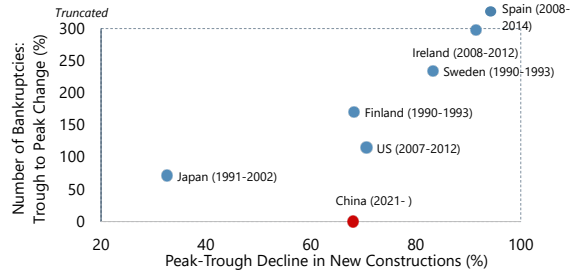
Despite its unique context, China can still draw valuable lessons from international experience.

While property activity has contracted sharply in China, growth remains resilient, NPLs are low, and developer exits have been limited. This is partly due to forbearance and China's distinct housing model, where non-bank creditors dominate developer financing (including households through pre-sales which is a major source of liquidity), complicating the use of typical bank-centered resolution and policy support tools. Nonetheless, a core principle still applies: **timely firm exits and loss absorption, with fiscal support where needed, is essential to restoring confidence and enabling a timely recovery.** Key priorities include: (i) facilitating swift firm exits through insolvency proceedings; (ii) protecting homebuyers—effectively unsecured creditors—to prevent systemic confidence erosion; (iii) closely monitoring financial sector spillovers and acting promptly to contain credit and liquidity strains; and (iv) providing time-bound, targeted support to otherwise viable firms facing liquidity pressures.

¹ Prepared by Estelle Liu.

² Elena Cefis, Cristina Bettinelli, Alexander Coad, Orietta Marsili (2022) "Understanding firm exit: a systematic literature review". *Small Business Economics* 59(4).

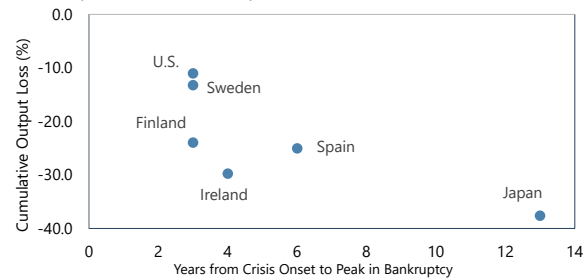
Cross-Country Housing Market Adjustments:
(Construction activity and firm exit)



Sources: Haver Analytics; OECD; and IMF staff calculations.
Note: Value for Spain exceeds the figure's axis limits (actual value: $y=773$, $x=96$). Brackets indicate the period from the onset of real GDP slowdown or contraction to the year before growth returns to its 5-year pre-crisis average. For Japan, the end year is defined as the year before real GDP growth turned consistently positive. Selection of past housing correction episodes is based on data availability and draws on boom-bust cycles referenced in Box 2 of the IMF's 2013 Ireland Staff Report.

Cumulative Output Losses and Firm Exits During Past Housing Market Adjustments

(Firm exit speed and cumulative output losses)



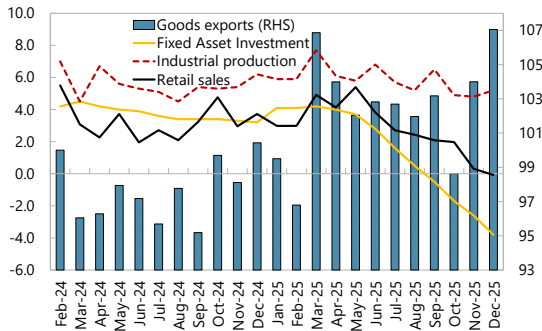
Sources: Haver Analytics; OECD; and IMF Staff calculations.
Note: Cumulative output losses are calculated as the gap between actual real GDP in the final year of the crisis and a counterfactual path assuming GDP had grown at its pre-crisis 5-year average throughout the crisis period. Cycle definition follows chart 1.

Figure 1. China: Recent Developments—Domestic Demand Weakness

Strong exports supported growth in 2025...

Activity Indicators

(In percent, year-on-year growth; RHS: index, Jan 2024 = 100)

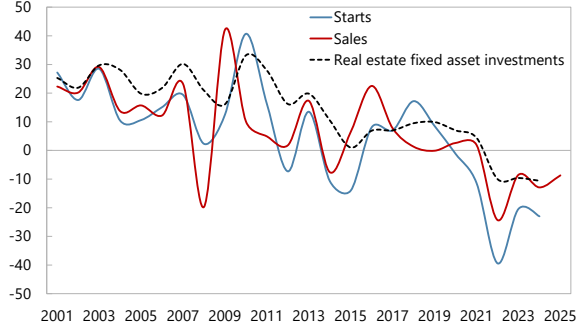


Sources: Haver Analytics; and IMF staff calculations.

...while the real estate contraction continued to weigh on domestic demand.

Property Sector Remains Weak

(In percent, year-on-year change)

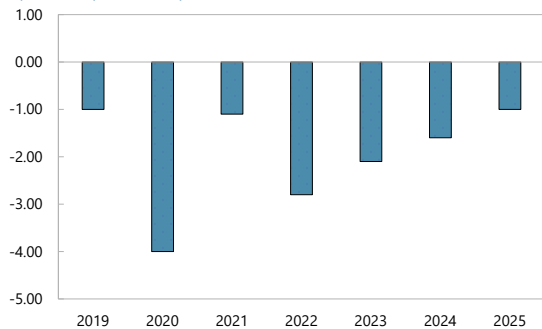


Sources: Haver Analytics; and IMF staff calculations.

Substantial economic slack remains...

Output Gap

(In percent of potential output)

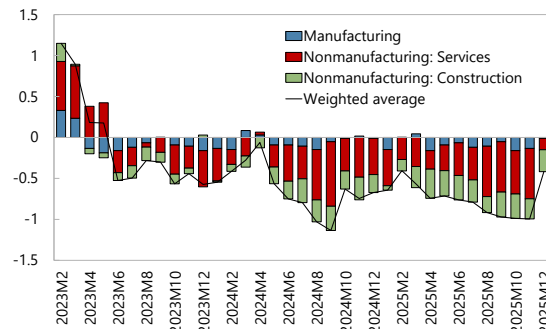


Source: IMF staff calculations and estimates.

...with weakness in employment concentrated in non-manufacturing sectors.

Employment PMIs by Sector

(Z-score, standard deviations)

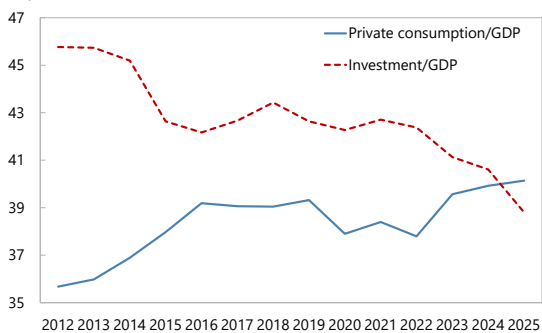


Sources: Haver Analytics; National Bureau of Statistics China; and IMF staff calculations.

The share of private consumption in GDP is low ...

Rebalancing Progress

(In percent)

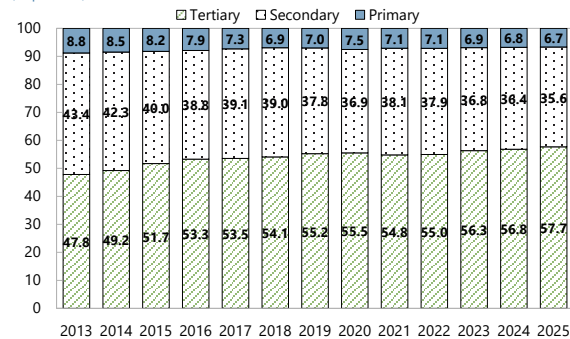


Sources: National Bureau of Statistics China; and IMF staff calculations.

... while the industrial sector remains outsized.

Sector GDP Share

(In percent)



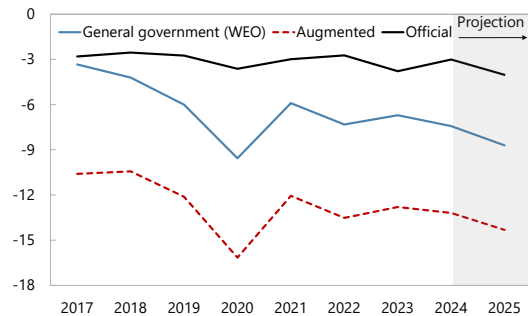
Sources: Haver Analytics; National Bureau of Statistics China; and IMF staff calculations.

Figure 2. China: Fiscal—Expansionary Stance

The augmented fiscal deficit remains high...

Government Balances

(In percent of GDP)



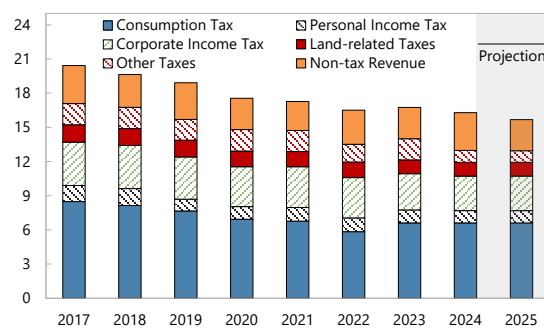
Sources: Authorities; and IMF staff calculations.

Note: See Table 2 in staff report for definitions of government balances.

...as subdued tax revenues in 2024 were partially offset by a surge in non-tax income.

Government Revenue

(In percent of GDP)

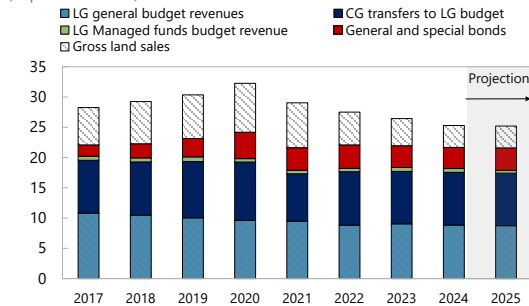


Sources: Authorities; CEIC Data Company Limited; and IMF staff calculations.

Local governments faced falling land sale revenues amid the ongoing real estate correction...

Local Government Budget Financing 1/

(In percent of GDP)

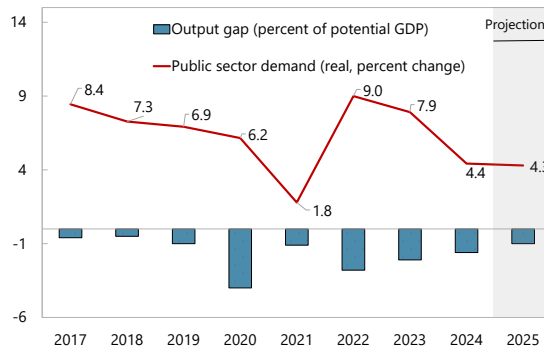


Sources: CEIC Data Company Limited; Ministry of Finance 2022 budget; and IMF staff calculations.

1/ Local government general budget and local government managed fund budget. Excludes off-budget financing.

...and real public spending growth was positive though modest.

Estimated Government Demand

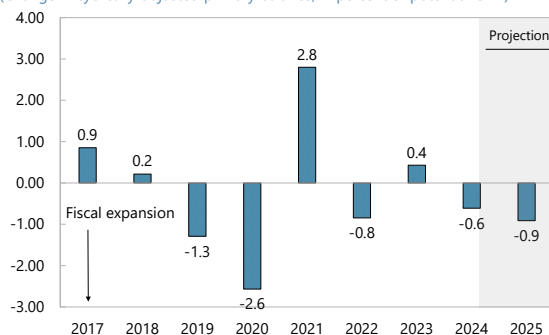


Sources: IMF World Economic Outlook; and IMF staff calculations.

The fiscal stance has been expansionary in 2025...

Fiscal Effort

(Change in cyclically-adjusted primary balance, in percent of potential GDP)

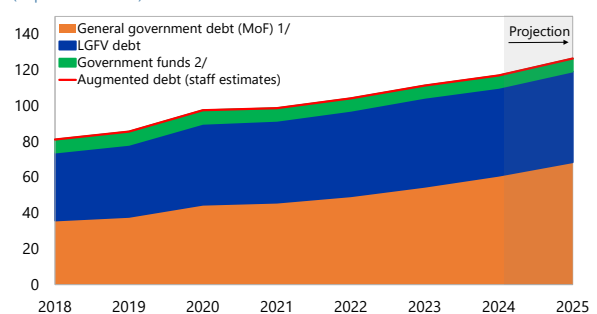


Sources: CEIC Data Company Limited; and IMF staff calculations.

...with looser fiscal policies pushing up the debt burden and the hidden debt swaps increasing official liabilities.

Augmented Debt

(In percent of GDP)



Sources: Ministry of Finance (MoF); and IMF staff calculations.

1/ Data through 2023, 2024 estimated, 2025 projection.

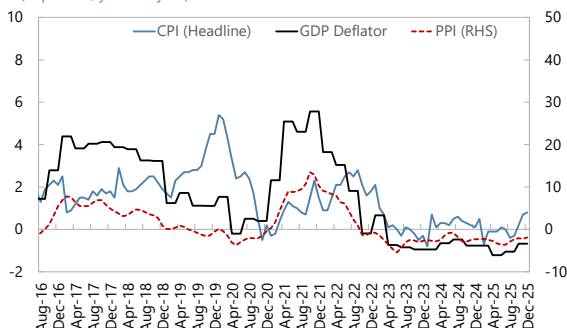
2/ Government guided funds and special construction funds (social capital portion only).

Figure 3. China: Monetary—Only Modest Easing Despite Low Inflation

The period after 2023 is the first time since the GFC that PPI, CPI and GDP based inflation have all been negative.

Consumer and Producer Prices

(In percent, year-on-year)

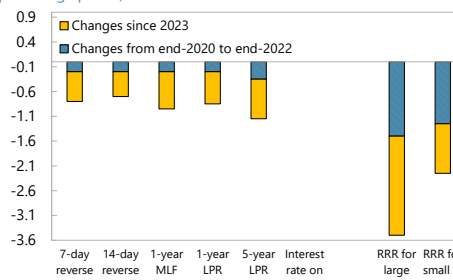


Source: Haver Analytics; National Bureau of Statistics China; and IMF Staff Calculations.

The authorities have responded with modest interest rate reductions and more sizable RRR cuts.

Policy Rate Changes Since COVID-19 Outbreak

(In percentage points)

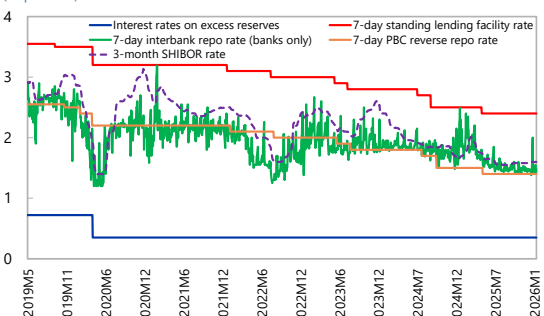


Sources: CEIC Data Company Limited; Haver Analytics; and IMF staff calculations. Notes: MLF = medium-term lending facility; LPR = loan prime rate; RRR = reserve requirement ratio. RRR changes for small and medium banks are an average.

Other than a few months in early 2025, short-term market rates have been broadly in line with the policy rate.

Interest Rate Corridor and Short-Term Market Rates

(In percent)

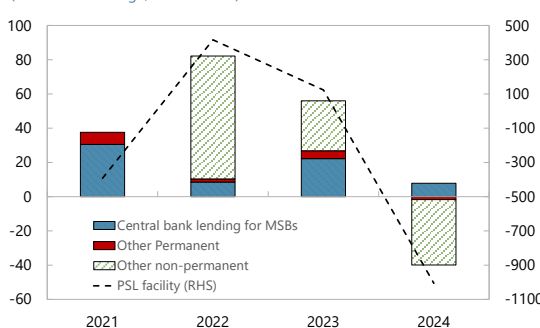


Sources: CEIC Data Company Limited; and IMF staff calculations. Notes: SHIBOR = Shanghai Interbank Offered Rate; PBC = People's Bank of China.

Structural facilities have declined in 2024 though support for Micro and Small Businesses (MSBs) has continued.

Structural Monetary Policy Instruments

(Cumulative Change, RMB Billions)

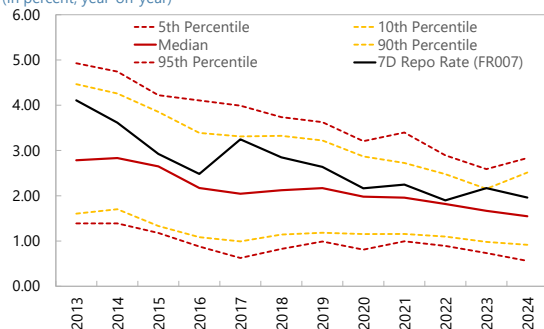


Sources: CEIC Data Company Limited; and IMF staff calculations.

Against the backdrop of weak domestic demand and monetary policy easing, banks' NIMs have fallen.

Banks' Net Interest Margins and the Interbank Repo Rate

(In percent, year-on-year)

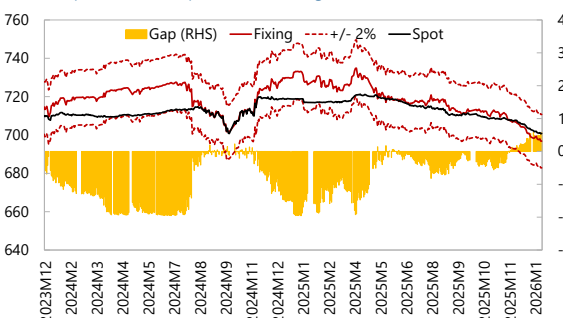


Sources: Haver Analytics; Fitch Ratings; and IMF Staff Calculations.

The PBC's fixing rate has been broadly stable since 2023, but there have been periods with large gaps with the spot.

RMB/USD Exchange Rates: Spot, Fixing and the Gap

(100RMB per USD; RHS: in percent of the fixing rate)

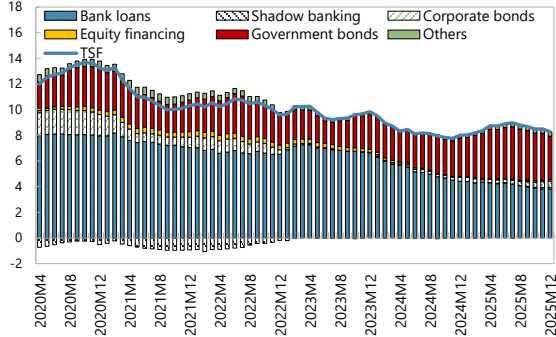


Sources: Haver Analytics; and IMF staff calculations. Note: Gap = spot minus fixing.

Figure 4. China: Credit—Slowing Private Sector Credit Growth

TSF growth recovered in 2025 supported by strong government bond issuance...

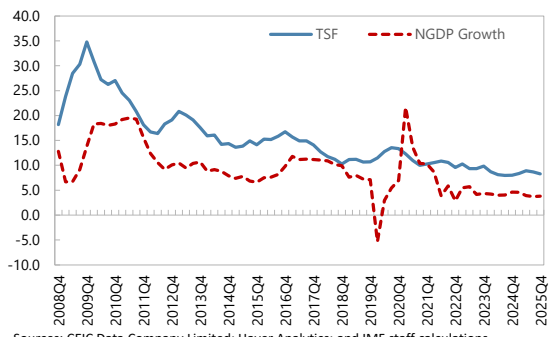
Contribution to TSF Stock Growth
(In percent, year-on-year growth)



Sources: Haver Analytics; and IMF staff calculations.
Note: Shadow banking includes entrusted loans, trust loans, and undiscounted bankers' acceptances.

...and credit growth remains above nominal GDP growth.

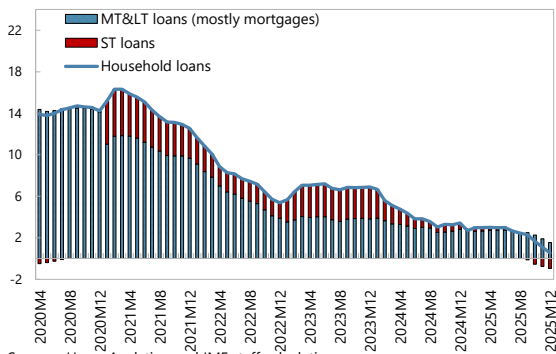
Credit Growth and Nominal GDP Growth
(In percent, year-on-year change)



Sources: CEIC Data Company Limited; Haver Analytics; and IMF staff calculations.

However, credit to the private sector has slowed, with household loan growth being weak...

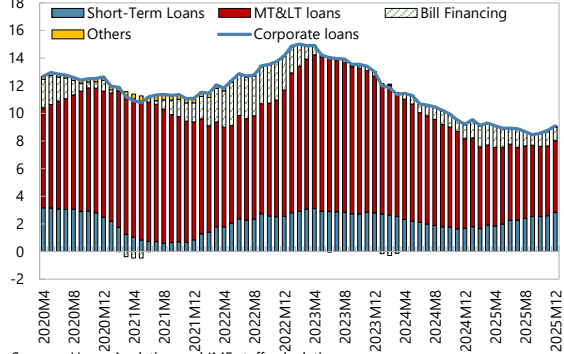
Contribution to Household Loan Growth
(In percent, year-on-year growth)



Sources: Haver Analytics; and IMF staff calculations.

... and corporate loan growth also declining.

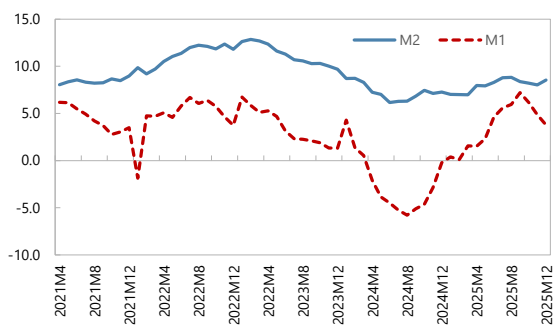
Contribution to Corporate Loan Growth
(In percent, year-on-year growth)



Sources: Haver Analytics; and IMF staff calculations.

Falling M1 growth reversed following data reclassification to include a broader range of demand deposits.

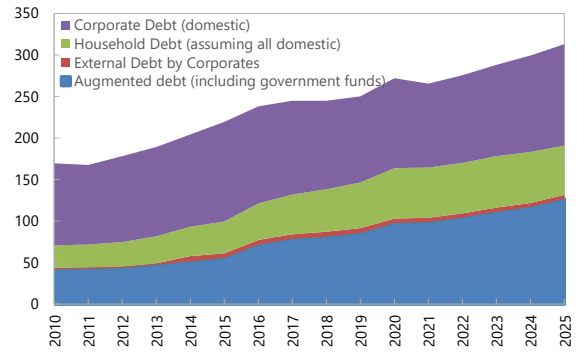
Money Growth
(In percent, year-on-year)



Sources: Haver Analytics; and IMF staff calculations.

Government sector debt has increasingly been the driver of higher non-financial sector debt.

Total Non-Financial Sector Debt by Sectors
(In percent of GDP)



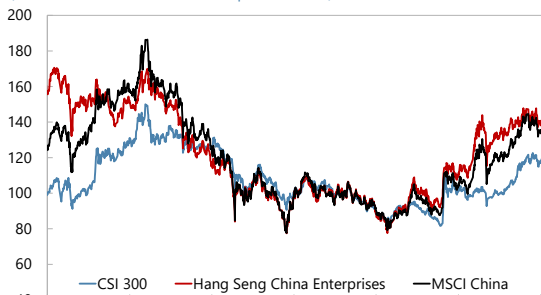
Sources: Haver Analytics; and IMF staff calculations.

Figure 5. China: Financial Markets—Strong Equity Performance and Lower Yields

Equity markets rallied in 2025, driven by domestic investors amid ample liquidity.

Equity Prices

(Index, end-2020 = 100; Based on prices in RMB)

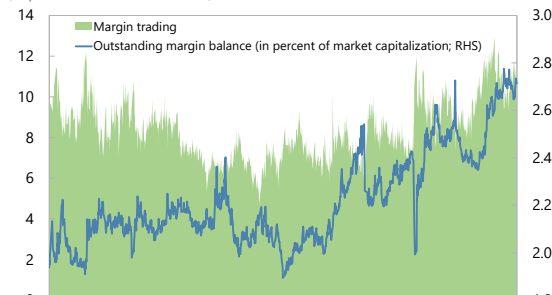


Sources: Bloomberg; and IMF staff calculations.

Margin trading increased, but remained below the peak levels from a decade ago

Margin Trading

(In percent of market turnover)

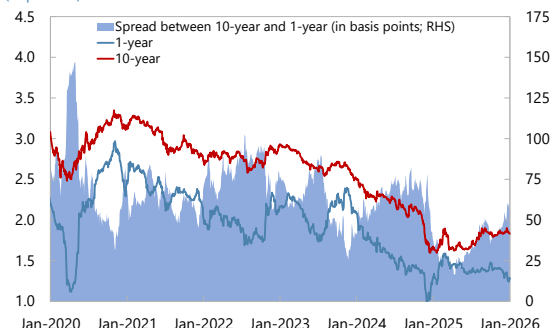


Sources: Bloomberg; and IMF staff calculations.

After declining in 2024, government bond yields ticked up in Q3 2025 amid large bond issuance

Central Government Bond (CGB) Yields

(In percent)

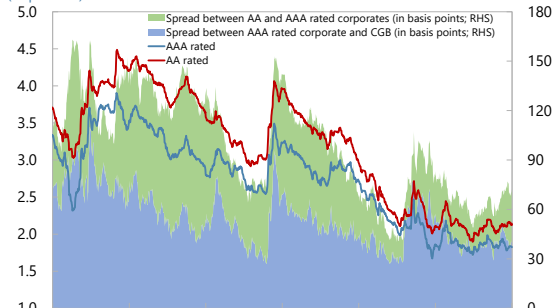


Sources: Bloomberg; and IMF staff calculations.

Corporate bond yields hover below historical levels

Corporate Bond Yields, 3-year

(In percent)

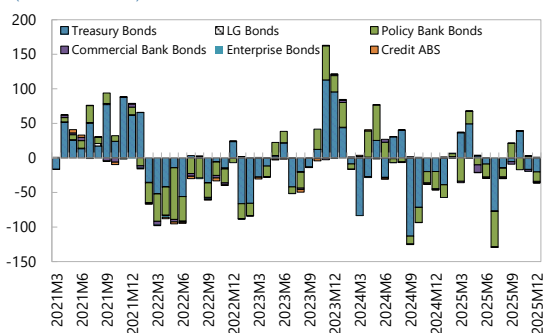


Sources: Bloomberg; and IMF staff calculations.

Foreign inflows into Chinese bond market remain tepid...

Foreign Flows by Bond Category

(in billions of RMB)

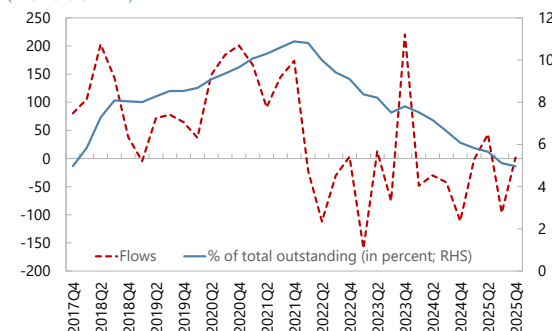


Sources: Haver Analytics; ChinaBond; and IMF staff calculations.

...and the share of foreign CGB holdings continued to decline.

Foreign holdings of Treasury Bonds

(In billions of RMB)



Sources: Haver Analytics; ChinaBond; and IMF staff calculations.

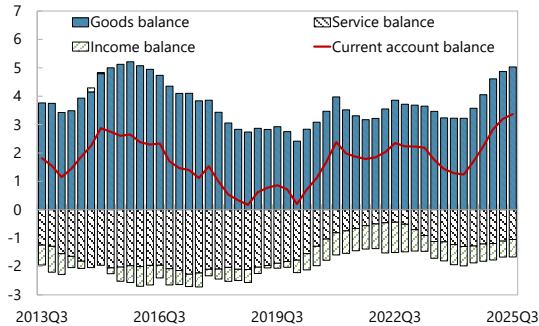
Figure 6. China: External Developments—Strong Current Account but Large Outflows

China's current account has strengthened on the back of a higher goods balance.

Exports have recovered strongly from mid-2023 lows, while imports have remained flat.

Current Account

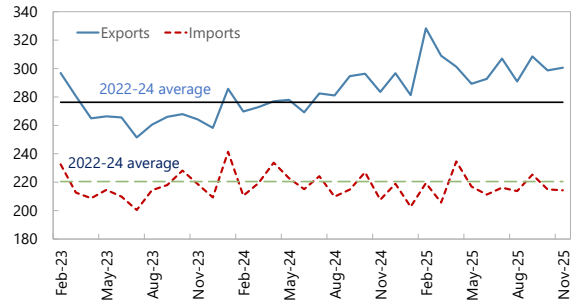
(In percent of GDP, 4Q moving average)



Sources: CEIC Data Company Limited; and IMF staff calculations.

Goods Trade Value

(BOP, In millions of USD; seasonally adjusted)



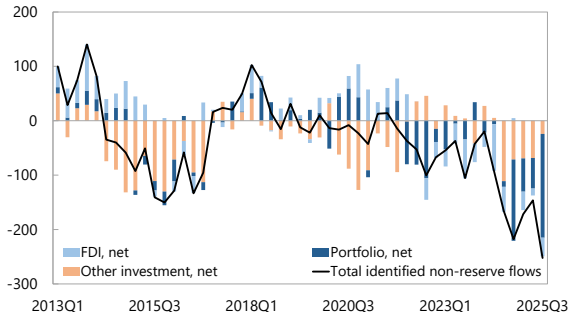
Sources: Haver Analytics; State Administration of Foreign Exchange; and IMF staff calculations.

After accelerating in 2024H2, net capital outflows eased in 2025Q2 after the trade truce with the US, though they remain large.

Inward FDI flows remain weak ...

Capital Flows

(In billions of USD)

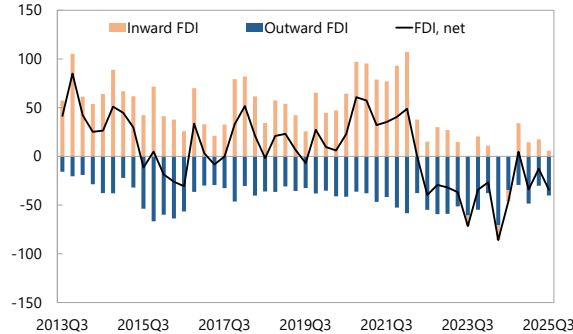


Sources: CEIC Data Company Limited; and IMF staff calculations.

Note: E&O = net errors and omissions.

Foreign Direct Investment

(In billions of USD)



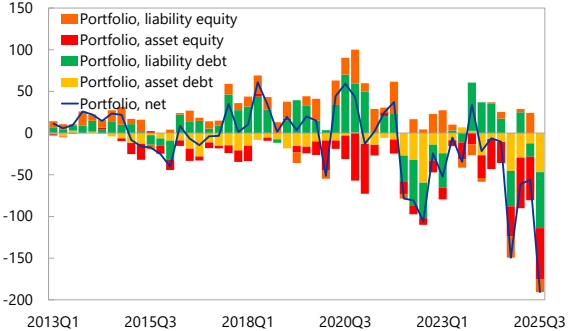
Sources: State Administration of Foreign Exchange; and CEIC Data Company Limited.

...and resident portfolio outflows are large, partially offset by nonresident debt inflows due to attractive currency-adjusted returns.

FX reserves recouped end-2024 losses in 2025.

Financial Account: Portfolio Investment

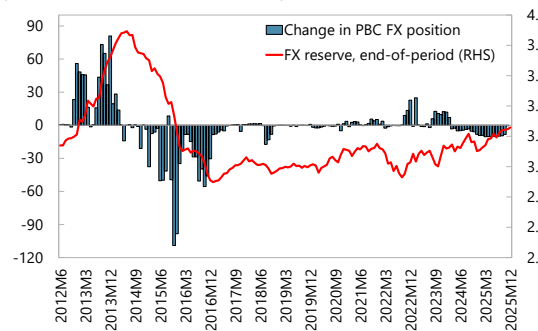
(In billions of USD)



Source: CEIC Data Company Limited.

Foreign Exchange Reserves

(In billions of USD; RHS: in trillions of USD)



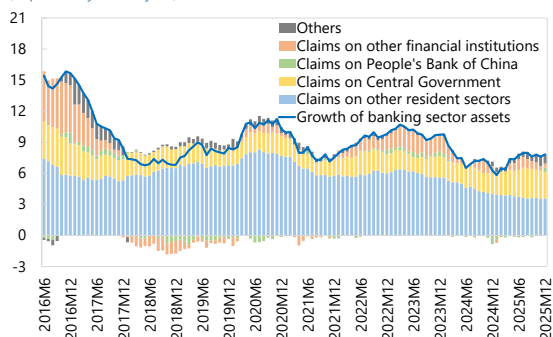
Sources: Haver Analytics; and IMF staff calculations.

Figure 7. China: Banks—Profitability Pressures Continue

Banking sector assets have expanded, largely driven by lending to the government sector.

Growth of Banking Sector Assets

(In percent, year-on-year)

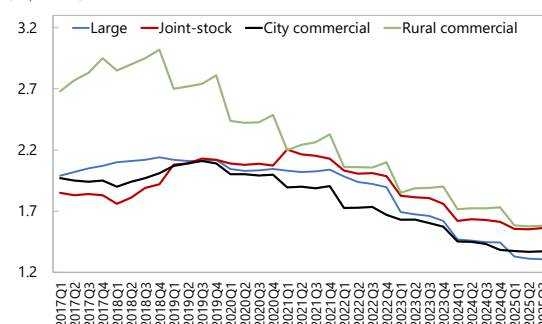


Sources: CEIC Data Company Limited; and IMF staff calculations.

Net interest margins have continued to decline.

Net Interest Margin

(In percent)

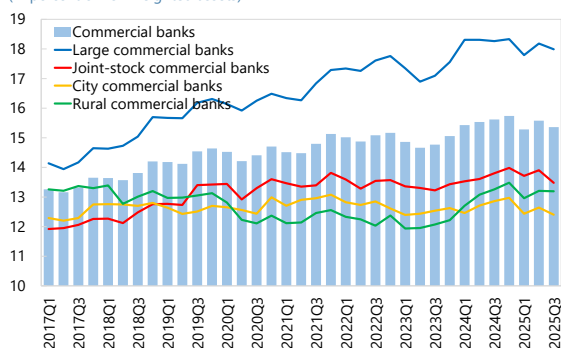


Sources: CEIC Data Company Limited; and IMF staff calculations.

System-wide capital ratios remain adequate.

Commercial Banks Total Capital

(In percent of risk-weighted assets)



Sources: CEIC Data Company Limited; and IMF staff calculations.

Four large state-owned banks received capital injections totaling RMB 520 billion.

Commercial Banks: Capital Injections

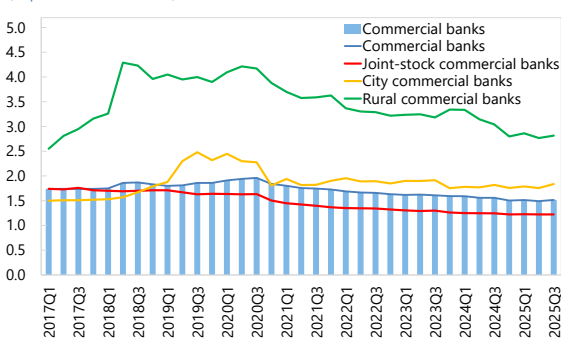
Bank	Capital injection, June 2025			CET1	
	A-shares Private Placement to	Issuance size (RMB bn)	As of 30 June 2025 (percent)	QoQ (bps)	YTD (bps)
BOC	MoF	165	12.57%	75	54
CCB	MoF	105	14.34%	36	-14
BoCom	MoF, China Tobacco, Shuangwei Investment	120	11.42%	117	118
PSBC	MoF, China Mobile, China State Shipping	130	10.52%	131	96

Sources: company reports; and IMF staff calculations.

NPL ratios remain largely stable in aggregate, partly due to extended forbearance measures.

Commercial Banks: Nonperforming Loans

(In percent of total loans)

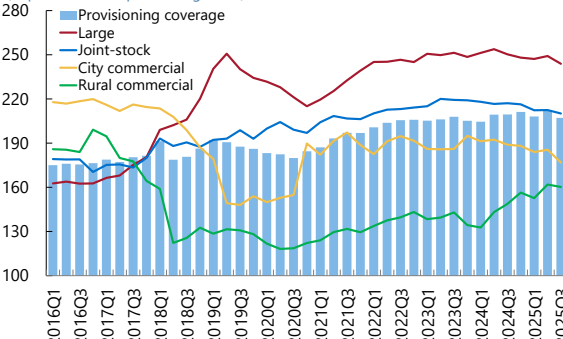


Sources: CEIC Data Company Limited; and IMF staff calculations.

Loan loss provision continued to increase in rural commercial banks facing higher NPL ratios

Commercial Banks: Loan Loss Provisions

(In percent of nonperforming loans)



Sources: CEIC Data Company Limited; and IMF staff calculations.

Table 1. China: Selected Economic Indicators

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Est.	Projections				
	(Annual percentage change, unless otherwise indicated)										
NATIONAL ACCOUNTS											
Real GDP	2.3	8.6	3.1	5.4	5.0	5.0	4.5	4.0	3.9	3.7	3.4
Total domestic demand	1.7	7.0	2.8	6.3	3.6	3.5	4.0	4.1	4.1	3.7	3.4
Consumption	-0.2	9.4	2.8	8.4	3.9	4.6	4.1	4.1	3.7	3.6	3.4
Fixed investment	3.5	2.4	3.3	4.5	3.0	1.0	2.0	5.5	4.7	3.9	3.7
Net exports (contribution)	0.7	1.7	0.4	-0.6	1.5	1.6	0.8	0.2	0.1	0.2	0.2
Total capital formation (percent of GDP)	42.3	42.7	42.4	41.1	40.6	38.8	38.4	38.4	38.7	39.0	39.1
Gross national saving (percent of GDP) 1/	43.9	44.6	44.8	42.6	42.9	42.1	41.5	41.2	41.2	41.3	41.3
Output gap estimate	-4.0	-1.1	-2.8	-2.1	-1.6	-1.0	-0.8	-0.5	-0.2	0.0	0.0
LABOR MARKET											
Urban unemployment rate (annual average) 2/	5.6	5.1	5.6	5.2	5.1	...	...	...	...	...	...
PRICES											
Consumer prices (average)	2.5	0.9	2.0	0.2	0.2	0.0	0.9	1.5	1.8	1.9	2.0
Consumer prices (end of period)	0.3	1.5	1.8	-0.2	0.0	0.9	0.9	1.7	1.8	1.9	2.0
GDP Deflator	1.2	3.7	2.0	-0.4	-0.7	-1.0	-0.7	0.9	1.5	1.9	2.0
FINANCIAL											
7-day repo rate (percent)	2.2	2.3	1.9	2.2	2.0	1.7	...	...	...	...	...
10 year government bond rate (percent)	3.0	3.1	2.8	2.8	2.2	1.8	...	...	...	...	...
MACRO-FINANCIAL											
Total social financing	13.3	10.3	9.6	9.8	8.0	8.3	8.2	7.7	7.3	7.0	7.0
In percent of GDP	273	268	279	292	303	315	329	337	343	347	352
Total nonfinancial sector debt 3/	12.6	9.8	9.2	9.7	8.3	8.6	7.2	7.7	7.3	7.0	7.0
In percent of GDP	272	265	276	288	299	313	323	332	338	342	347
Domestic credit to the private sector	10.2	7.5	8.3	8.5	7.7	6.2	4.8	6.3	6.1	5.9	6.3
In percent of GDP	169	161	166	172	178	181	183	186	187	187	189
Household debt (percent of GDP)	60.6	60.6	60.8	61.9	61.4	59.4	59.0	59.7	60.2	60.7	61.3
Non-financial corporate domestic debt (percent of GDP)	108	101	106	110	116	122	124	126	126	126	127
GENERAL BUDGETARY GOVERNMENT (Percent of GDP)											
Net lending/borrowing 4/	-9.6	-5.9	-7.3	-6.7	-7.4	-8.7	-8.7	-8.5	-8.2	-8.1	-8.0
Revenue	25.3	26.0	25.3	26.0	25.6	25.0	25.2	25.4	25.6	25.7	25.7
Additional financing from land sales	2.4	2.2	1.1	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure	34.8	31.9	32.6	32.7	33.0	33.7	33.9	33.9	33.8	33.7	33.8
Debt	44.7	45.8	49.4	54.7	60.9	68.4	75.1	78.9	81.8	84.4	86.9
Structural balance	-8.5	-5.6	-6.6	-6.1	-7.0	-8.5	-8.5	-8.3	-8.2	-8.1	-8.0
BALANCE OF PAYMENTS (Percent of GDP)											
Current account balance	1.6	1.9	2.4	1.4	2.3	3.3	3.1	2.8	2.5	2.3	2.2
Goods balance	3.4	3.1	3.6	3.3	4.1	5.2	4.9	4.7	4.5	4.4	4.4
Services balance	-1.0	-0.6	-0.5	-1.1	-1.2	-1.2	-1.3	-1.3	-1.5	-1.6	-1.8
Net international investment position	15.1	12.0	13.2	15.6	17.6	20.2	22.1	23.7	24.9	25.8	26.5
Gross official reserves (billions of U.S. dollars)	3,357	3,427	3,307	3,450	3,456	3,703	3,990	4,277	4,562	4,862	5,170
MEMORANDUM ITEMS											
Nominal GDP (billions of RMB) 5/	104,224	117,311	123,341	129,427	134,921	140,188	145,473	152,734	161,131	170,185	179,372
Augmented debt (percent of GDP) 6/	97.5	98.7	104.2	111.3	117.0	126.6	135.3	141.5	146.2	150.0	153.7
Augmented net lending/borrowing (percent of GDP) 6/	-16.2	-12.1	-13.5	-12.8	-13.2	-14.3	-14.2	-13.7	-13.2	-12.8	-12.5
Change in Augmented Cyclically-Adjusted Primary Balance 7/	-2.6	2.8	-0.8	0.4	-0.6	-0.9	0.3	0.8	0.6	0.6	0.4

Sources: Bloomberg; CEIC Data Company Limited; Wind; IMF International Financial Statistics database; and IMF staff estimates and projections.

1/ 2024 GDP will be revised to match official revisions, once full official data are released.

2/ Surveyed unemployment rate.

3/ Includes government funds.

4/ Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general budgetary government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

5/ Expenditure side nominal GDP.

6/ The augmented balance expands the perimeter of government to include government-guided funds and the activity of local government financing vehicles (LGFVs).

7/ In percent of potential GDP.

Table 2. China: General Government Fiscal Data

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
						Est.	Projections					
	(In RMB billions)											
Balance: General Budgetary (official)												
-1	Revenue (incl. adjustments) (1a)+(1b)	20905	21427	22819	23364	24511	24041	25169	26519	28015	29530	31076
(1a)	Headline revenue	18291	20255	20365	21680	21970	21985	23114	24568	26168	27789	29439
(1b)	Adjustments 1/	2613	1171	2454	1684	2541	2056	2056	1951	1846	1742	1637
-2	Expenditure (incl. adjustments) (2a)+(2b)	24682	24929	26194	28258	28571	29701	30870	32409	34188	36106	38052
(2a)	Headline expenditure	24568	24567	26055	27462	28571	29701	30820	32359	34138	36056	38002
(2b)	Adjustments 2/	114	361	139	796	110	50	50	50	50	50	50
-3	Fiscal balance (official) (1)-(2)	-3777	-3502	-3375	-4895	-4060	-5660	-5701	-5890	-6173	-6575	-6976
Balance: General Budgetary (Fund definition)												
-4	Revenue (1a)+(4a)+(4b)	26343	30512	31233	33684	34542	35070	36693	38824	41208	43674	46182
(1a)	General budget headline revenue	18291	20255	20365	21680	21970	21985	23114	24568	26168	27789	29439
(4a)	Social security revenue	7551	9694	10250	11321	11894	12447	12916	13561	14307	15110	15926
(4b)	SOE fund revenues 3/	500	563	618	683	678	638	662	695	734	775	817
-5	Expenditure (2a)+(5a)+(5b)+(5c)-(5d)	36310	37435	40260	42366	44569	47309	49346	51738	54488	57402	60555
(5a)	Social security expenses	7861	8673	9072	9930	10606	11338	12243	13280	14332	15307	16493
(5b)	SOE fund expenditures	261	277	344	339	313	282	293	307	324	343	361
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	6144	6529	6126	5795	6053	7001	7040	6895	6857	6925	6994
(5d)	of which: net expenditure financed by land sales	2524	2612	1337	1160	974	1012	1050	1103	1163	1229	1295
-6	Net borrowing/lending (Fund definition) (4)-(5)	-9967	-6923	-9027	-8682	-10026	-12239	-12653	-12914	-13280	-13729	-14373
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	6423	6820	7385	7596	7179	7117	7274	7178	7162	7131	7151
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	446	398	263	290	592	746	773	811	855	903	951
-8	Augmented net lending/borrowing (6)-(7a)-(7b) 5/	-16836	-14142	-16676	-16568	-17797	-20101	-20701	-20903	-21297	-21762	-22476
Debt: General government												
-9	General budgetary debt (official) (10)+(11)	46552	53740	60935	70770	82109	95913	109194	120447	131861	143654	155825
-10	Central government debt 6/	20891	23270	25869	30033	34572	41096	47807	54690	61834	68557	75658
-11	Explicit local government debt 7/	25661	30470	35065	40737	47537	54817	61387	65757	70027	75097	80167
-12	LGFV debt 8/	47187	53683	58966	64449	66282	71399	76673	83852	91014	98145	105296
-13	Additional debt tied to SCF and GGFs 9/	7923	8321	8584	8874	9465	10211	10985	11796	12651	13554	14505
-14	Augmented debt (9)+(12)+(13)	101662	115743	128484	144092	157857	177523	196852	216094	235526	255353	275625
Memorandum items:												
-15	Augmented excluding "possible to be recognized" 10/	73097	84617	95336	108828	121390	138607	155407	171447	187638	204188	221128
(In percent of GDP) 11/												
Balance: General Budgetary (official)												
-1	Revenue (incl. adjustments) (1a)+(1b)	20.1	18.3	18.5	18.1	18.2	17.1	17.3	17.4	17.4	17.4	17.3
(1a)	Headline revenue	17.5	17.3	16.5	16.8	16.3	15.7	15.9	16.1	16.2	16.3	16.4
(1b)	Adjustments 1/	2.5	1.0	2.0	1.3	1.9	1.5	1.4	1.3	1.1	1.0	0.9
-2	Expenditure (incl. adjustments) (2a)+(2b)	23.7	21.3	21.2	21.8	21.2	21.2	21.2	21.2	21.2	21.2	21.2
(2a)	Headline expenditure	23.6	20.9	21.1	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2
(2b)	Adjustments 2/	0.1	0.3	0.1	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
-3	Fiscal balance (official) (1)-(2)	-3.6	-3.0	-2.7	-3.8	-3.0	-4.0	-3.9	-3.9	-3.8	-3.9	-3.9
Balance: General Budgetary (fund definition)												
-4	Revenue (1a)+(4a)+(4b)	25.3	26.0	25.3	26.0	25.6	25.0	25.2	25.4	25.6	25.7	25.7
(4a)	Social security revenue	7.2	8.3	8.3	8.7	8.8	8.9	8.9	8.9	8.9	8.9	8.9
(4b)	SOE fund revenues 3/	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
-5	Expenditure (2a)+(5a)+(5b)+(5c)-(5d)	34.8	31.9	32.6	32.7	33.0	33.7	33.9	33.9	33.8	33.7	33.8
(5a)	Social security expenses	7.5	7.4	7.4	7.7	7.9	8.1	8.4	8.7	8.9	9.0	9.2
(5b)	SOE fund expenditures	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(5c)	Managed funds' expenditure financed by land sales, bond issuance or carryover 4/	5.9	5.6	5.0	4.5	4.5	5.0	4.8	4.5	4.3	4.1	3.9
(5d)	of which: net expenditure financed by land sales	2.4	2.2	1.1	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
-6	Net borrowing/lending (Fund definition) (4)-(5)	-9.6	-5.9	-7.3	-6.7	-7.4	-8.7	-8.7	-8.5	-8.2	-8.1	-8.0
Balance: Augmented (staff estimates of general government)												
(7a)	Additional infrastructure spending financed by LGFV debt	6.2	5.8	6.0	5.9	5.3	5.1	5.0	4.7	4.4	4.2	4.0
(7b)	Additional spending of special construction (SCF) and gov't guided funds (GGF)	0.4	0.3	0.2	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5
-8	Augmented net lending/borrowing (6)-(7a)-(7b) 5/	-16.2	-12.1	-13.5	-12.8	-13.2	-14.3	-14.2	-13.7	-13.2	-12.8	-12.5
Debt: General government												
-9	General budgetary debt (official) (10)+(11)	44.7	45.8	49.4	54.7	60.9	68.4	75.1	78.9	81.8	84.4	86.9
-10	Central government debt 6/	20.0	19.8	21.0	23.2	25.6	29.3	32.9	35.8	38.4	40.3	42.2
-11	Explicit local government debt 7/	24.6	26.0	28.4	31.5	35.2	39.1	42.2	43.1	43.5	44.1	44.7
-12	LGFV debt 8/	45.3	45.8	47.8	49.8	49.1	50.9	52.7	54.9	56.5	57.7	58.7
-13	Additional debt tied to SCF and GGFs 9/	7.6	7.1	7.0	6.9	7.0	7.3	7.6	7.7	7.9	8.0	8.1
-14	Augmented debt (9)+(12)+(13)	97.5	98.7	104.2	111.3	117.0	126.6	135.3	141.5	146.2	150.0	153.7
Memorandum items:												
-15	Augmented excluding "possible to be recognized" 10/	70.1	72.1	77.3	84.1	90.0	98.9	106.8	112.3	116.5	120.0	123.3

Sources: CEIC Data Company Limited; Wind; China Ministry of Finance; National Audit Office; and IMF staff estimates and projections.

1/ Includes central and local governments' transfers to general budget from stabilization funds, and central government transfers from government managed and SOE funds.

2/ Includes contributions to budget stabilization funds and carryover.

3/ Including operation revenue and carryover.

4/ Includes carry over counted as revenue, adjustments to local government spending, proceeding from issuing special purpose bonds, and net expenditure financed by land sales estimated by subtracting the acquisition cost, compensation to farmers, and land development from the gross land sale proceeds.

5/ The overall net lending/borrowing includes net land sale proceeds as a decrease in nonfinancial assets recorded above the line.

6/ Ministry of Finance debt only, excludes bonds issued for bank recapitalization and asset management companies.

7/ Includes local government bonds and explicit debt.

8/ Total interest-bearing debt of LGFVs with listed bonds.

9/ Total social capital contribution to SCF and GGFs.

10/ Includes only -2/3 of LGFV debt, being categorized as government explicit debt according to NAO report (2013), and excludes the remaining -1/3, being categorized as government guaranteed debt or "possible to be recognized" debt. It also excludes row (13).

11/ GDP in this table refers to expenditure side nominal GDP.

Table 3. China: Balance of Payments

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Est.	Projections				
	(In percent of GDP, unless otherwise indicated)										
BALANCE OF PAYMENTS											
Current account balance	1.6	1.9	2.4	1.4	2.3	3.3	3.1	2.8	2.5	2.3	2.2
Goods balance	3.4	3.1	3.6	3.3	4.1	5.2	4.9	4.7	4.5	4.4	4.4
Exports	16.6	17.7	18.3	17.4	18.2	18.4	18.0	17.6	17.1	16.8	16.5
Imports	13.2	14.6	14.6	14.1	14.1	13.3	13.1	12.9	12.7	12.4	12.2
Services balance	-1.0	-0.6	-0.5	-1.1	-1.2	-1.2	-1.3	-1.3	-1.5	-1.6	-1.8
Income balance	-0.8	-0.7	-0.8	-0.7	-0.7	-0.8	-0.7	-0.6	-0.6	-0.5	-0.5
Current transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital and financial account balance	-0.3	-0.2	-1.3	-1.3	-2.6	-2.0	-1.6	-1.4	-1.3	-1.1	-1.0
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.3	-0.2	-1.3	-1.3	-2.6	-2.0	-1.6	-1.4	-1.3	-1.1	-1.0
Net foreign direct investment	0.7	0.9	-0.1	-1.0	-0.8	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4
Foreign Direct investment	1.7	1.9	1.0	0.3	0.1	0.3	0.4	0.5	0.5	0.6	0.6
Overseas Direct Investment	-1.0	-1.0	-1.1	-1.2	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0
Portfolio investment	0.6	0.3	-1.6	-0.3	-1.0	-0.8	-0.6	-0.6	-0.6	-0.5	-0.5
Other investment	-1.6	-1.4	0.4	0.0	-0.8	-0.5	-0.5	-0.4	-0.3	-0.2	-0.1
Errors and omissions 1/	-1.1	-0.7	-0.5	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.2	1.0	0.5	0.0	-0.3	1.3	1.4	1.3	1.2	1.2	1.2
Reserve assets	-0.2	-1.0	-0.5	0.0	0.3	-1.3	-1.4	-1.3	-1.2	-1.2	-1.2
INTERNATIONAL INVESTMENT POSITION											
Asset	58.8	52.3	50.3	52.7	54.5	56.1	56.8	57.7	58.2	58.7	59.0
Direct investment	17.1	15.3	15.0	16.2	16.7	17.0	17.0	17.0	17.0	17.0	17.0
Securities investment	6.0	5.4	5.6	6.0	7.6	8.4	9.1	9.7	10.3	10.9	11.4
Other investment	13.4	12.7	11.5	11.5	11.7	11.7	11.5	11.3	11.1	10.9	10.6
Reserve assets	22.2	18.8	18.1	18.9	18.4	19.0	19.3	19.6	19.7	19.9	20.0
Liability	43.6	40.3	37.1	37.1	36.9	35.9	34.7	34.0	33.3	32.9	32.5
Direct investment	21.4	19.8	19.5	20.1	19.3	18.9	18.2	17.8	17.3	16.9	16.5
Securities investment	12.9	11.8	9.8	9.3	10.3	10.3	10.2	10.2	10.2	10.2	10.3
Other investment	9.2	8.7	7.6	7.6	7.1	6.8	6.3	6.0	5.8	5.7	5.7
Net international investment position	15.1	12.0	13.2	15.6	17.6	20.2	22.1	23.7	24.9	25.8	26.5
MEMORANDUM ITEMS											
Export growth (value terms, percentage change)	5.2	28.1	4.1	-5.0	7.2	5.4	3.7	2.9	3.2	3.8	4.3
Import growth (value terms, percentage change)	0.3	32.7	1.1	-3.6	2.2	-2.1	4.8	3.9	3.9	3.6	3.9
FDI (inward, billions of U.S. dollars)	253	344	190	51	19	56	89	107	123	141	147
External debt (billions of U.S. dollars)	2,401	2,747	2,453	2,448	2,420	2,471	2,525	2,602	2,703	2,827	2,975
As a percent of GDP	15.9	15.1	13.4	13.4	12.9	12.7	12.2	11.9	11.7	11.6	11.5
Short-term external debt (remaining maturity, billions of U.S. dollars)	1,316	1,446	1,338	1,363	1,364	1,393	1,423	1,466	1,523	1,592	1,675
Gross reserves (billions of U.S. dollars) 2/	3,357	3,427	3,307	3,450	3,456	3,703	3,990	4,277	4,562	4,862	5,170
As a percent of short-term debt by remaining maturity	255.0	237.0	247.1	253.1	253.3	265.9	280.4	291.7	299.6	305.4	308.7
Terms of trade (percentage change)	2.9	-3.3	-5.0	-2.3	-6.1	-1.7	-2.0	-0.8	0.1	0.1	0.2
Real effective exchange rate (2010 = 100)	124.0	127.9	127.1	117.1	114.3	...	...	...	...	...	...
Nominal GDP (billions of U.S. dollars)	15,103	18,191	18,308	18,270	18,745	19,498	20,672	21,813	23,113	24,457	25,903

Sources: CEIC Data Company Limited; IMF Information Notice System; and IMF staff estimates and projections.

1/ Includes counterpart transaction to valuation changes.

2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.

Table 4. China: Monetary and Credit Developments

	2021	2022	2023	2024	2025
MONETARY SURVEY					
	(Annual percentage change)				
Net foreign assets	5.0	2.2	1.3	4.5	5.4
Monetary authority (contribution)	2.6	0.4	1.8	-0.1	-2.0
Depository institutions (contribution)	2.4	1.7	-0.5	4.6	7.3
Domestic credit	9.6	10.3	10.5	8.4	7.6
Claims on government, net (contribution)	1.8	2.4	2.5	3.0	2.9
Claims on nonfinancial sectors (contribution)	7.5	7.7	7.1	5.1	4.4
Claims on other financial sectors (contribution)	0.2	0.2	0.8	0.4	0.3
Broad money (M2)	9.0	11.8	9.7	7.3	8.5
M1 (contribution)	1.6	1.7	0.5	-0.1	1.3
Quasi-money (contribution)	7.3	10.1	9.2	7.4	7.2
Reserve money	-0.3	9.6	7.8	-5.4	8.5
TOTAL SOCIAL FINANCING					
	(Annual percentage change)				
TSF	10.3	9.6	9.8	8.0	8.3
Bank loans (contribution)	7.0	6.5	6.6	4.4	3.8
Shadow banking (contribution)	-0.9	-0.2	0.0	0.0	0.1
Net corporate bond financing (contribution)	0.8	0.3	0.0	0.3	0.5
Non-financial enterprise equity (contribution)	0.4	0.4	0.2	0.1	0.1
Others (contribution)	0.0	0.0	0.0	0.0	0.0
Others (contribution) 1/	0.5	0.3	0.1	0.5	0.6
	(In percent of GDP)				
TSF	267.8	279.1	292.1	303.4	316.8
Bank loans	165.2	173.7	183.2	188.1	192.2
Shadow banking	15.5	14.3	13.6	13.1	13.0
Net corporate bond financing	25.5	25.1	24.0	23.9	24.4
Non-financial enterprise equity	8.1	8.6	8.8	8.7	8.7
Others 1/	8.2	8.5	8.5	8.7	9.4
MEMORANDUM ITEMS					
	(In percent)				
Non-performing loans (NPLs) ratio	1.7	1.6	1.6	1.5	...
Provision coverage ratio (provisions/NPLs)	196.9	205.9	205.1	211.2	...
Liquidity ratio (liquid assets/liquid liabilities)	60.3	62.9	67.9	76.7	...
Loan to deposit ratio	79.7	78.8	78.7	80.4	...
Return on assets	0.8	0.8	0.7	0.6	...
Return on equity	9.6	9.3	8.9	8.1	...
Capital adequacy ratio	15.1	15.2	15.1	15.7	...
Tier-1 capital adequacy ratio	12.4	12.3	12.1	12.6	...
Core tier-1 capital adequacy ratio	10.8	10.7	10.5	11.0	...
Net open FX position (in percent of capital)	1.6	1.3	1.4	1.3	...

Sources: Haver Analytics; and IMF staff estimates.

1/ Includes asset-backed securities, loan write-offs, and other components.

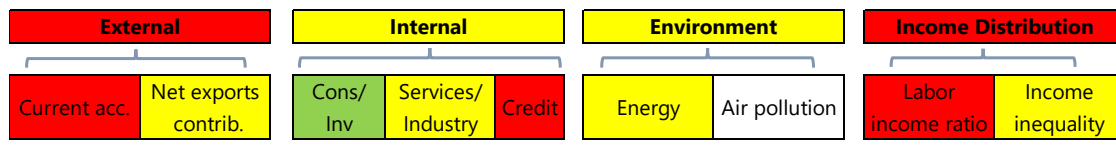
Table 5. China: Non-financial Sector Debt

	(In RMB trillions)						(In percent of GDP)						Coverage
	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024	2025	
Total non-financial sector debt	284	311	340	373	402	443	272	265	276	288	298	310	
Central government	21	23	26	30	35	38	20	20	21	23	26	29	Official Government Debt
Local government 1/	26	30	35	41	46	49	25	26	28	31	34	36	Staff Estimate of Government Debt ("Augmented")
Local government financing vehicles (LGFV)	47	54	59	64	66	72	45	46	48	50	49	51	
Government funds 2/	8	8	9	9	9	21	8	7	7	7	7	7	
Households	63	71	75	80	83	88	61	61	61	62	61	59	
Corporates (excluding LGFVs)	119	125	137	149	163	176	114	106	111	115	121	127	Private Sector Debt
Domestic	113	118	130	142	157	168	108	101	106	110	116	122	
External	6	6	6	6	7	8	6	5	5	5	5	5	
Memo items:													
Total domestic non-financial sector debt	278	305	334	367	395	435	267	260	270	283	293	305	
Corporates (including LGFVs)	166	178	196	213	230	247	159	152	159	165	170	178	
Households	63	71	75	80	83	88	61	61	61	62	61	59	
General government (Official definition)	47	54	61	71	80	88	45	46	49	55	59	66	
Government funds 2/	8	8	9	9	9	21	8	7	7	7	7	7	
Nominal GDP	104	117	123	129	135	141							

Sources: CEIC Data Company Limited; Bloomberg; Ministry of Finance; and IMF staff estimates.

1/ Including LGFV debt recognized as LG debt as of 2014 (by the 2014 audit).

2/ Government guided funds and special construction funds (social capital portion only).

Table 6. China: Rebalancing Scorecard

	Unit	2021	2022	2023	2024	2025
1. External rebalancing						
Contribution of net exports to GDP growth	%	1.7	0.4	-0.6	1.5	1.6
Current account balance	% of GDP	1.9	2.4	1.4	2.3	3.3
FX reserve coverage	months of imports	17.3	12.8	13.2	13.3	13.7
National saving rate	% of GDP	44.6	44.8	42.6	42.9	42.1
2. Internal rebalancing						
Demand side						
Growth contribution of consumption vs investment 1/	%	3.1	1.3	3.3	1.8	3.1
Share of private consumption (Nominal)	% of GDP	38.4	37.8	39.6	39.9	40.1
Share of investment (Nominal)	% of GDP	42.7	42.4	41.1	40.6	38.8
Supply side						
Growth contribution of Tertiary vs Secondary sector 1/	%	1.7	2.5	2.2	1.5	1.8
Share of Tertiary sector (Nominal) 1/	% of GDP	54.8	55.0	56.3	56.8	57.7
Share of Tertiary sector in total employment	%	48.0	47.1	48.1	48.8	...
Credit Side						
Private domestic credit 1/	% of GDP	161	166	172	178	181
Credit intensity		1.5	3.5	3.8	3.4	3.8
Return on asset: SOE - private 1/	%	-2.7	-1.7	-1.2	-1.2	-1.2
3. Environmental rebalancing						
Energy intensity of output 1/	per unit of output	82.4	82.9	84.0	85.4	85.3
PM 2.5 (Weighted by usual residence) 2/	mcg per cubic meter	31.5	30.7	30.3	...	...
4. Income distribution						
Gini	index number	0.466	0.467	0.465	0.465	...
Labor income 1/	% of GDP	58.5	59.1	58.9	58.6	58.3
Urban/rural income gap	income ratio	2.50	2.45	2.39	2.34	2.31
Per capita disposable income growth: Median - Mean	%	-0.29	-0.34	-1.02	-0.3	-0.6

Note: The color coding is based on the change in each indicator relative to the previous year. Color coding: red if the changes go in the opposite direction of rebalancing; yellow if some progress was observed; and green if there was substantial progress in rebalancing. For indicators that are ratios, changes are measured in simple differences and are considered substantial if larger than 0.5 percentage points. For indicators that are indices and for the credit indicators, changes are measured in annual percent change and are considered substantial if larger than 5 percent. See Zhang, L. (2016), "Rebalancing in China—Progress and Prospects," IMF Working Paper No. 16/183 for the framework.

1/ Reported values for 2025 are for 2025 YTD (through Q3), not full year projections.

2/ Data for 2023 is the most recent available.

Table 7. China: SOE Performance

Dimension	Indicator	2018	2019	2020	2021	2022	2023	2024	Trend
<i>(In percent unless otherwise indicated)</i>									
Profitability	Return on assets SOEs 1/	1.7	1.7	1.4	1.5	1.3	1.2	1.1	
	Return on assets industrial SOEs	4.2	3.4	3.1	4.4	4.2	3.7	3.3	
	Return on assets industrial private	7.5	6.8	6.5	7.4	5.8	5.4	4.5	
	Share of loss-making SOEs	37.5	36.6	37.7	37.5	39.0	37.3		
Efficiency	Cost per unit of income -SOE	97.1	97.4	97.1					
Leverage	SOE debt to GDP 1/	144.3	148.9	165.7	168.6	177.2	186.2	193.1	
	Debt to equity SOEs 1/	230	231	226	228	231	236	238	
	-Central	328	328	318.9	330.0	338.1	341.7	347.3	
	-Local	191	194	193.3	195.8	198.9	205.6	207.3	
	Debt to Equity -Industrial								
	Debt to equity industrial SOEs 1/	143	137	134	133	134	133	134	
	Debt to asset SOE 1/	64.2	64.0	63.9	64.2	64.4	64.8	64.8	
	-Central	67.7	67.2	66.5	67.0	67.3	67.4	67.7	
	-Local	62.0	62.2	62.4	62.8	63.0	63.6	63.6	
	Debt to asset - above designated size industrial	55.6	56.6	56.4	56.5	56.6	57.1	57.5	
	Debt to asset- industrial state holding enterprises	58.7	58.0	57.3	57.1	57.3	57.1	57.3	
Debt to asset - industrial private	53.7	55.6	57.4	57.7	58.4	59.7	59.0		
Number of zombies 2/	141	102							
Number of default SOE bonds	20	21	84	44	11	22	8		
Corporate governance	Central SOEs with board of directors	94	95	95	96	96	95	98	
	Number of Central SOEs 3/	96	97	97	98	98	97	100	
	Dividend payments to budget	7.8	8.8	9.6	8.3	9.1	8.8		
SOEs share in the economy	Employment	13.0	12.1	12.0	12.0	12.2	11.5		
	Above designated size industrial sales 4/	27.5	27.0	25.5	25.0	27.4	27.0	26.5	
	Asset (industrial state holding enterprises/total above designated size industrial)	39.6	38.9	36.5	35.3	35.3	35.3	35.2	
	Liability (industrial state holding enterprises/total above designated size industrial)	41.1	39.9	37.1	35.7	35.2	35.2	34.9	

Sources: CEIC, NBS, and Ministry of Finance.

1/ Since June 2019, the government no longer disclosed non-financial SOE assets and liabilities. The debt ratios in 2019 is calculated as of June 2019.

2/ Number of zombies refers to legal entities of central SOEs. Number of zombies in 2019 refers to data as of 2019 Q3. According to SASAC's 3-year plan, all zombie enterprises would be cleaned up by 2020.

3/ According to the SASAC website updated on July 31, 2025, following this latest reform, the total number of central SOEs under SASAC supervision now stands at 100. By the end of 2019, a total of 2,041 subsidiaries included in the 'addressing zombie enterprises and distressed firms' initiative had turned profitable, effectively completing the core tasks of the program.

4/ Since 2024, NBS no longer releases the revenue/asset/liability data of industrial state-owned enterprises, only publish those data of industrial state-holding enterprises. So we use the formula "industrial state holding enterprises/total above designated size industrial" to calculate and make retroactive adjustment of the results between 2018-2023.

Table 8. China: External Vulnerability Indicators

	2020	2021	2022	2023	2024
Monetary and financial					
General government debt (in percent of GDP, narrow definition)	44.7	45.8	49.4	54.7	60.9
Broad money (M2, annual percentage change)	10.1	9.0	11.8	9.7	7.3
Foreign currency deposits to broad money (percent)	2.7	2.7	2.2	1.9	2.0
Local currency loans to the economy (annual percentage change)	12.8	11.6	11.1	10.6	7.6
Foreign currency loans to bank domestic credit (in percent)	2.3	2.2	1.7	1.4	
Stock exchange index (end-of-period, December 19, 1990 = 100) 1/	3,640	3,814	3,238	3,119	3,513
Stock exchange capitalization (percent of GDP)	115.3	116.8	107.4	109.4	120.8
Number of listed companies (A-share)	3,925	4,226	4,404	4,530	4,540
Balance of payments					
Exports (annual percentage change, U.S. dollars)	5.2	28.1	4.1	-5.0	7.2
Imports (annual percentage change, U.S. dollars)	0.3	32.7	1.1	-3.6	2.2
Current account balance (percent of GDP)	1.6	1.9	2.4	1.4	2.3
Capital and financial account balance (percent of GDP)	-0.3	-0.2	-1.3	-1.3	-2.6
Of which: gross foreign direct investment inflows	1.7	1.9	1.0	0.3	0.1
Foreign Exchange Reserve					
In billions of U.S. dollars 2/	3,357	3,427	3,307	3,450	3,455.6
Coverage in terms of:					
Imports (in months)	16.1	17.3	12.8	13.2	13.3
Broad money (percent)	10.6	9.3	8.4	8.4	7.9
Short-term external debt by remaining maturity (percent)	255	237	247	253	253
Assessing Reserve Adequacy (range, in percent of ARA metrics) 3/	75-195	68-176	66-177	66-180	62-172
External debt and balance sheet indicators					
Total external debt (percent of GDP)	15.9	15.1	13.4	13.4	12.9
Total external debt (billions of U.S. dollars)	2,401	2,747	2,453	2,448	2,420
Short-term external debt by original maturity (billions of U.S. dollars)	1,316	1,446	1,338	1,363	1,364
Net foreign assets of banking sector (billions of U.S. dollars)	801	924	914	878	1,057
Total debt to exports of goods & services (percent)					
Total debt service to exports of goods & services (percent)	48.3	40.8	36.1	39.0	35.9
Of which: Interest payments to exports of goods & services (percent)	0.2	0.1	0.1	0.1	0.1
Foreign-currency long-term sovereign bond ratings (eop)					
Moody's	A1	A1	A1	A1	A1
Standard and Poor's	A+	A+	A+	A+	A+

Sources: CEIC Data Company Limited; Bloomberg; IMF, Information Notice System; and IMF staff estimates.

1/ Shanghai Stock Exchange, A-share.

2/ Includes foreign currency reserves and other reserve assets such as SDRs and gold.

3/ ARA short for assessing reserve adequacy. Range for the ARA metric under different assumptions of exchange rate regime and capital controls.

Table 9. China: Core Financial Soundness Indicators for Deposit Takers

	2019	2020	2021	2022	2023	2024	2025Q1	2025Q2	2025Q3
Capital Adequacy Ratio	14.6	14.7	15.1	15.2	15.1	15.7	15.3	15.6	15.4
Tier 1 Capital Adequacy Ratio	12.0	12.0	12.4	12.3	12.1	12.6	12.2	12.5	12.4
Core Tier 1 Capital Adequacy Ratio	10.9	10.7	10.8	10.7	10.5	11.0	10.7	10.9	10.9
Return on Assets	0.9	0.8	0.8	0.8	0.7	0.6	0.7	0.6	0.6
Return on Equity	11.0	9.5	9.6	9.3	8.9	8.1	8.8	8.2	8.2
Net Interest Margin	2.2	2.1	2.1	1.9	1.7	1.5	1.4	1.4	1.4
Nonperforming Loans Ratio	1.9	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.5
Substandard Loans Ratio	0.8	0.9	0.8	0.8	0.7	0.5	0.5	0.5	0.5
Doubtful Loans Ratio	0.8	0.7	0.7	0.6	0.6	0.5	0.4	0.4	0.4
Loss Loans Ratio	0.3	0.3	0.3	0.2	0.4	0.6	0.6	0.6	0.6
Provision Coverage Ratio	186.1	184.5	196.9	205.9	205.1	211.2	208.1	212.0	207.2
Liquidity Ratio	58.5	58.4	60.3	62.9	67.9	76.7	76.2	79.9	80.1
Loan to Deposit Ratio	75.4	76.8	79.7	78.8	78.7	80.4	80.0	80.3	80.5

Sources: Haver Analytics; and National Administration of Financial Regulation.

Note: Liquidity Ratio refers to Liquid Assets to Short-term Liabilities.

Appendix I. Implementation of Past Fund Advice

- 1. The take up of past Fund advice has been mixed.** The macro policy stance has been directionally consistent with staff advice. Some progress has been made in implementing property sector policies, and furthering fiscal and monetary framework reform, though challenges remain.
- 2. The authorities have implemented various measures to steer the property market transition, with mixed results.** Since September 2024, they have eased home purchase requirements, lowered the minimum downpayment requirement for second homes, expanded social housing and urban village redevelopment, broadened the scope of the 'white-list' financing mechanism, and directed state-owned enterprises and local governments to purchase idle land and completed housing stock. While these measures are broadly welcome, the impact has been modest and short-lived. Progress remains limited on key staff recommendations, including accelerating the exit of unviable developers and providing targeted CG support to protect homebuyers, including to complete pre-sold unfinished housing.
- 3. The near-term expansionary fiscal stance and the focus on consumption and LG debt issues is welcome, though tackling long-term fiscal challenges will require further policy effort.** The fiscal stance has been in line with staff advice, though a reorientation of expenditures away from inefficient investment and unwarranted industrial policy towards the property sector and people is warranted. The publication of hidden debt data and the LG debt swap has enhanced transparency and created some space for LGs to expand spending. However, the underlying weakness in LGFV finances persists and a comprehensive plan to implement the needed medium-term consolidation and resolve the LG debt overhang remains missing.
- 4. Recent monetary policy actions and framework reforms have aligned broadly with staff advice, though there remains scope to further enhance policy effectiveness.** The PBC has eased monetary policy, reduced the role of quantity-based tools (including industry-specific credit policies), and improved transmission to deposit and mortgage rates, in line with staff advice. There remains scope for further monetary policy easing, with a continued shift towards using interest-rate based tools. Greater exchange rate flexibility, specification of a medium-term inflation objective, and further simplification of the operating framework, including clearer communication around new tools, can help enhance policy effectiveness and transmission.
- 5. Tackling financial sector vulnerabilities is appropriately a key focus of the authorities.** The capital injections in four state-owned banks are welcome. Some progress has also been made in strengthening capital buffers in rural commercial banks. Decisive steps are needed to phase out forbearance measures and strictly apply prudential rules, accompanied by faster progress in closing data gaps. The review of the Enterprise Bankruptcy Law is ongoing. Upgrading crisis management, resolution frameworks, and financial safety nets are urgent priorities to ensure financial sector readiness to deal with vulnerabilities, including legacy assets.

6. Some progress has been made on structural policies, notably on retirement age reform, though the deep reforms needed to boost productivity remain elusive. The authorities have increased the retirement age, marginally improved social safety nets, and announced an expansion of the ETS to certain industrial sectors, all consistent with staff advice. They have also taken steps to limit capacity in certain sectors, liberalize service sectors, and strengthen private firms' rights. However, more progress is needed to strengthen the social safety net, advance pro-market reforms, and scale back unwarranted industrial policies.

Appendix II. External Sector Assessment

Overall Assessment: On a preliminary basis, the external position in 2025 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies.¹ The current account (CA) surplus is expected to strengthen to 3.3 percent of GDP in 2025, largely due to a higher trade balance. Exports surged, driven by improved competitiveness and strong external demand, with spikes around trade policy actions, while imports stagnated amid weak domestic demand. Net capital outflows remained sizable despite some moderation after the May trade deal with the US. The RMB has appreciated against the dollar since May but has continued to depreciate in real effective terms, largely due to low domestic inflation. There is considerable uncertainty around the economic outlook, including the level of tariffs that will prevail and therefore the impact on trade flows in the short term. Over the medium term, the CA surplus is expected to narrow modestly, supported by a recovery in domestic demand.

Potential Policy Responses: Strong and coordinated policy actions are needed to boost domestic demand to reflate the economy and bring the external position in line with fundamentals. More expansionary fiscal policy, with greater support for consumption (scaling up social spending) and the property sector (to finance completion of unfinished housing) should be a priority. Further monetary easing can support reflation and exchange rate flexibility can help absorb external shocks but, in the current conjuncture, need to be accompanied by a strong fiscal and structural package. Structural reforms that reduce household savings (e.g., Hukou reforms), boost investment in the services sector (e.g., lighten regulatory requirements) and scale back industrial policies would further reduce the CA surplus and address fragmentation pressures. Such a policy package that combines macro policies with complementary structural reforms would close the output gap and reflate the economy, while also resulting in a real appreciation and a narrower current account surplus. Efforts to resolve bilateral trade tensions through dialogue should continue, with trade policy aiming to promote clarity and transparency and deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing free trade agreements at the regional, plurilateral or multilateral level.

Foreign Asset and Liability Position and Trajectory	<p>Background. The NIIP is expected to reach 20.0 percent of GDP in 2025, rising steadily from 12.0 percent in 2021 but significantly below the peak of 29.9 percent in 2008. The increase largely reflects the CA surpluses.</p> <p>Assessment. The NIIP-to-GDP ratio is expected to remain positive and increase modestly over the medium term in line with the persistent though narrowing CA surplus. NIIP is not a major source of risk, as assets remain high—partly reflecting sizable foreign reserves (18.8 percent of GDP)—and liabilities are mostly related to FDI.</p>				
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2025 (% GDP)	NIIP: 20.0	Gross Assets: 55.6	Debt Assets: 16.2	Gross Liab.: 35.6	Debt Liab.: 12.6
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Current Account	<p>Background. The 2025 CA surplus is expected to increase to 3.3 percent of GDP from 2.3 percent of GDP in 2024. The higher CA is due to a stronger goods balance (5.2 percent of GDP, up from 4.1 percent of GDP in 2023), as goods exports are projected to rise by 5.4 percent despite lower export prices, reflecting improved competitiveness, in part because weak domestic demand and low inflation resulted in REER depreciation. Weakness in imports continues to reflect subdued domestic demand. The 2024 services deficit is projected to remain stable at 1.2 percent of GDP as outbound tourism recovery stalled. The income deficit is expected to remain unchanged at 0.7 percent of GDP, though the lack of data on income flows by investment type hampers analysis of trends. From a savings-investment perspective, the higher CA largely reflected higher private savings, resulting from weak consumer confidence, and subdued private investment amid the ongoing property sector adjustment, which were only partially offset by lower public savings. Over the medium term, the projected decline in the CA is driven by a gradual recovery in domestic demand, partially offset by fiscal consolidation.</p> <p>Assessment. Based on the EBA CA model, the CA gap ranges from 1.7 to 2.9 percent of GDP with a midpoint of 2.3 percent of GDP. There is uncertainty about the drivers of the export surge in 2025H1, including the potential contributions of frontloading. Once full-year data for China and its trading partners becomes available, the drivers of the export surge, and if there are any implications for the</p>				
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	assessment, will be revisited in the 2026 ESR. EBA-identified policy gaps are estimated at -0.2 percent of GDP, driven by looser fiscal policy and relatively favorable credit conditions in China.					
2025 (% GDP)	CA: 3.3	Cycl. Adj. CA: 3.2	EBA Norm: 0.9	EBA Gap: 2.3	Staff Adj: 0.0	Staff Gap: 2.3
Real Exchange Rate	<p>Background. As of October 2025, the REER had depreciated by 3.7 percent relative to the 2024 average, due to low inflation in China relative to trading partners, marking the fourth year of consecutive real depreciation (14 percent cumulatively since 2021).</p> <p>Assessment. The EBA REER index model estimates the 2025 REER gap to be -6.0 percent, and the EBA REER level model estimates the REER gap to be -5.9 percent. Consistent with the IMF staff CA gap, IMF staff assesses the REER to be undervalued in the range of -12.1 to -20.7 percent, with a midpoint of -16.4 percent (with an estimated elasticity of 0.14 applied).</p>					
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. In the first three quarters of 2025 the financial account deficit (excluding net errors and omissions) deteriorated to 3.9 percent of GDP (compared to 2.5 percent of GDP in 2024) due to large portfolio (both equities and bonds) and other investment asset purchases by residents, while inward FDI remained weak at 0.3 percent of GDP. The authorities raised the cross-border financing macroprudential adjustment parameter for financial institutions and enterprises from 1.5 to 1.75 (relaxation of an inflow CFM measure) in January 2025 to encourage inflows.²</p> <p>Assessment. Net outflows remained sizable (despite some moderation in 2025Q2), mirroring the large CA surplus. Concerns about China's growth outlook, the interest rate differential between China and advanced economies, and trade tensions with the US contributed to the large outflows. CFMs should not be used to actively manage the capital flow cycle or substitute for warranted macroeconomic adjustment and exchange rate flexibility. In the medium term, China should gradually phase out CFM measures in a sequence consistent with greater exchange rate flexibility and accompanying reforms.</p>					
FX Intervention and Reserves Level	<p>Background. Despite a small decline in reserves in the BOP in 2025, the PBC FX reserve position recovered from its end-2024 trough, increasing by about US\$270 billion to \$3.7 trillion by November 2025, mostly reflecting valuation effects.</p> <p>Assessment. The reserves are expected to result in a similar coverage as in 2024 — about 102 percent of the IMF composite metric adjusted for capital controls (103 percent in 2024). As such reserves are assessed to be adequate. Temporary FX intervention could be considered in the event of large capital outflows that pose significant risks to macroeconomic and financial stability, including if markets turn disorderly.</p>					
<p>¹ The final assessment for 2025 will be published in the 2026 External Sector Report (ESR).</p> <p>² In addition, the authorities have introduced a series of incremental capital-account-related measures in 2025–26 to expand market access for foreign and domestic investors, including broader Southbound Bond Connect eligibility, simplified FX procedures for FDI, expanded repo access for overseas institutions, and access to ETF options to qualified investors. As of the end of December 2025, the total Qualified Domestic Institutional Investor quota stood at \$170.9 billion. See 2023 IMF CFM Taxonomy for a list of China's existing CFMs and related policy advice.</p>						

Appendix III. Risk Assessment Matrix

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
Global Risks			
Escalating Trade Measures and Prolonged Uncertainty.	High	Medium. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	Implement more accommodative macro policies, including a shift of fiscal expenditure towards social spending supported by monetary easing through interest rate cuts. Let the exchange rate adjust more freely in response to terms of trade shocks and interest rate differentials. Limited, time-bound, and targeted support for affected firms can be considered. Ensure banks have sufficient capital and liquidity buffers. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks. Ensure the smooth functioning of credit markets, while addressing moral hazard.
Fiscal Vulnerabilities and Higher Long-Term Interest Rates.	High	Low. Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	Let the exchange rate adjust flexibly to changing interest rate differentials as part of a comprehensive macro policy response that leads to reflation. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks. Ensure the smooth functioning of credit markets, while addressing moral hazard.
Financial Market Volatility and Correction.	High	Medium. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate	Let the exchange rate adjust flexibly to changing interest rate differentials as part of a comprehensive macro policy response that leads to reflation. Ensure banks have sufficient capital and liquidity buffers. Protect against financial spillovers by accelerating the reforms needed to strengthen bank resolution frameworks. Ensure the smooth functioning of credit markets by ensuring adequate liquidity provision.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
		shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	
Geopolitical Tensions.	High	Medium. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	Let the exchange rate adjust to the change in the terms of trade as part of a comprehensive macro policy response that leads to reflation. Protect the vulnerable from high food and energy prices through targeted transfers, without resorting to significant price controls. Allow for more accommodative macro policies, including fiscal expansion supported by monetary easing through interest rate cuts, to offset headwinds from slower partner country growth.
Commodity price volatility.	High	Low. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	Let the exchange rate adjust to the change in the terms of trade as part of a comprehensive macro policy response that leads to reflation. Protect the vulnerable from high food and energy prices through targeted transfers, without resorting to significant price controls. Increase resilience to energy price shocks by accelerating greening of the power sector. Avoid introducing further export restrictions and seek constructive multilateral solutions.
New Trade Agreements.	Low (Upside risk)	Medium. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Consider frontloading fiscal consolidation to increase fiscal space for future shocks. Accelerate domestic structural reforms to aid rebalancing towards consumption.
Cyberthreats.	High	Medium. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	Put in place adequate firewalls and security measures. Enhance crisis preparedness for cyberattacks.
Climate change.	Medium	Medium. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Well-sequenced climate change mitigation strategies promise large environmental, health, fiscal, and economic benefits over the long term. Invest in climate change adaptation to increase resilience in vulnerable communities.
Rising Social Discontent.	Medium	Low. High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	Accelerate labor market reforms to reduce youth unemployment, promote measures to rebalance the economy towards consumption, including strengthening social safety nets and liberalizing the service sector, and introduce tax reforms to mitigate income inequality.
Domestic Risks			
Sharper-than-expected slowdown	High	High. Growth slowdown due to the direct impact on real estate investment,	Facilitate the efficient and orderly restructuring of distressed property developers, ensure the

Sources of Risk	Risk Likelihood	Expected Impact	Policy Response
in the property sector.		unexpected fiscal tightening due to local government financing stress and decline in investment and consumption due to low consumer and business confidence. Further pressures on bank asset quality.	completion of unfinished, pre-sold housing to protect homebuyers and boost confidence, and prepare to deal with spillovers to the financial system through stronger prudential policies. Allow for more accommodative macro policies, including fiscal expansion supported by monetary easing through interest rate cuts and additional fiscal expansion via transfers targeted to lower and middle-income households with higher propensity to consume. Fiscal support should be provided by the central government and on budget.
Protracted deflation.	Medium	High. Weak consumer and investor confidence, including due to deeper and more protracted property sector contraction, could depress aggregate demand which exerts sustained downward pressure on core inflation. Focus on supply-side policies in the goods sector, amid weak demand, further intensifies the downward pressure on prices, with potential negative feedback loops.	Macroeconomic policy should be more accommodative. Additional fiscal expansion would be needed, especially via transfers targeted to lower and middle-income households with higher propensity to consume. Fiscal support should be provided by the central government and on budget. Monetary easing can support the fiscal expansion and should focus on policy rate cuts, with credit policy restraint particularly in sectors with potential excess supply.
Balance Sheet Recession.	Low	High. High aggregate debt level leads to broad-based deleveraging, which could result in depressed domestic demand and further disinflationary pressures, with potential negative feedback loops and additional pressures on bank profitability.	Macroeconomic policy should be more accommodative. In the event of a large growth slowdown due to broad-based deleveraging, additional fiscal support would be needed but should be provided by the central government and on budget. Monetary easing should focus on policy rate cuts. Implement a high-quality comprehensive reform package based on market-oriented policies to reignite growth.
Further policy stimulus.	Medium (Upside risk)	High. Additional policy stimulus and faster AI adoption improve consumer and business confidence, leading to stronger than expected growth.	Use the favorable conjuncture to accelerate structural reforms.

Appendix IV. China's Recent Policy Measures

The main domestic policies introduced since the last Article IV Consultation qualitatively align with staff recommendations, providing a modest boost to sentiment, demand, and inflation. However, these measures remain insufficient to address key challenges, including elevated deflationary pressures, local government debt risks, low homebuyer confidence, pervasive factor misallocation, and financial stability risks.

1. The key domestic policies introduced by the government, and staff assessment of these policies, are summarized below.

- **Fiscal expansion:** The 2025 budget envisages an increase in the official headline deficit, with the augmented CAPB expected to decline by 0.9 percentage points relative to 2024. This largely reflects a decline in non-tax revenue collections, as well as higher CG and LG bond issuance quotas. The budget also has several, albeit modest, initiatives to support consumption, including an expansion in the trade-in-program, more generous minimum guarantee level for urban-rural resident pensions and higher fiscal subsidy for urban-rural resident health insurance schemes, a new nationwide subsidy for children under 3 years, and a one-year subsidy on interest payments for select consumer loans.

Staff views: The fiscal expansion is welcome and estimated to boost GDP growth by 0.4 percentage points in 2025. However, to better support domestic demand and eliminate deflationary pressures, greater efforts are needed to improve the composition of spending and redirect expenditure toward boosting domestic consumption and durably resolving the stress in the property sector, while reducing inefficient investment and unwarranted industrial policy support.

- **Retirement age reform:** the authorities introduced a gradual increase in the retirement age (by 3 years for men and women in white-collar jobs and 5 years for women in blue-collar jobs) starting in 2025 and phased in over 15 years, among other pension reforms.

Staff views: the retirement age increase is a positive step, expected to boost potential growth and to reduce annual pension spending by 3.4 percentage points of GDP annually by 2050. Further increasing the retirement age to 65 for both men and women over time would amplify these benefits.

- **LG off-budget debt refinancing:** The authorities aim to reduce "hidden debt", estimated by them at RMB 14.3 trillion (10.8 percent of GDP) as of 2023, primarily by swapping it into official LG debt financed by LG special bond issuance. The new policy effectively shifts a portion of LGFV debt to the official LG balance sheets without reducing the total size of augmented LG debt. The authorities are also encouraging LGFVs to exit the LGFV list by transforming into market-based non-financial corporations.

Staff views: The refinancing of off-budget debt will help to improve transparency, reduce immediate debt service strains, and permit LGFVs to clear arrears to suppliers. However,

announced policies are insufficient to fundamentally address LG debt risks given the limited debt servicing capacity of LGFVs. Furthermore, the authorities' estimates of hidden debt continue to follow a legal definition rather than an economic classification per GFS principles.

- Staff estimates a modest positive impact on real GDP growth of 0.1 and 0.2 percentage points in 2024 and 2025 respectively from the debt refinancing, primarily driven by the clearing of LG arrears to firms, which can somewhat lift investment and consumption, and a reduction in the total interest bill (0.5 percent of GDP over 3 years).
- However, the debt swap does not address the underlying flow problems (large deficits driven by LG fiscal gaps, lack of debt servicing capacity and unviability of LGFVs); it may intensify moral hazard among LGFVs, particularly in light of repeated bailouts; and does not address concerns about the sustainability of LG debt. A more comprehensive plan as outlined in the 2023 and 2024 Article IV reports, including LGFV debt restructuring and structural fiscal reforms, is needed to tackle LG debt vulnerabilities.
- Given the uncertainty around whether LGFVs have fundamentally changed their business models, close monitoring should continue for all LGFVs, including those that the authorities consider as having exited the official LGFV list.
- **Monetary policy stance.** The authorities have eased monetary policy, cutting the 7-day policy rate by 40 bps and the RRR by 100 bps since May 2024. The balances on structural monetary policy relending facilities have generally declined since 2023, apart from those supporting rural development and Micro and Small Businesses (MSBs) and an announced increase in the Pledged Supplementary Lending (PSL) facility which will partially finance via policy banks new investment projects in strategic sectors.

Staff views: The monetary easing qualitatively aligns with staff recommendations but its impact on growth and inflation may be limited, due to the small scale of the rate cuts against a background of weak private demand and confidence.

- **Monetary policy framework reforms:** The PBoC has continued to use the 7-day reverse repo rate as the primary policy interest rate. They have also improved transmission to deposit and mortgage rates, introduced new open market operation facilities, and added secondary market trading of central government bonds to its liquidity management toolkit.

Staff views: The greater emphasis on interest-rate based tools is welcome. The expanded liquidity management toolkit can potentially help strengthen implementation and transmission, but the purpose of new operational tools, when introduced, should be well communicated.

- **Financial sector policies:** The authorities have expanded forbearance measures, adjusted the mortgage repricing mechanism, announced and partially implemented injections in state-owned banks. A cap on insurance companies' equity investments was raised and the PBC introduced new lending facilities to support the stock market.

Staff views: Forbearance measures mask underlying asset quality, raising future asset quality risks. Lower interest rates on existing mortgages are estimated to create interest savings of

about 0.1 percent of GDP but have resulted in further reduction in banks' NIMs. The capital injections are welcome and should be completed swiftly. Measures to support stock market development by facilitating participation of diverse investor types are welcome, however, staff see little justification for direct intervention in the stock market, as such interventions could impede market functioning and induce herding behaviors that exacerbate market volatility, outweighing any temporary boost to market sentiment.

- **Property sector policies.** The authorities further eased home purchase requirements, lowered minimum downpayment requirements for second homes, expanded access to the housing provident fund, and reduced financing costs including mortgage rates and property transaction taxes. They introduced measures to address the inventory overhang and support developer finances, including expanding social housing and urban renewal projects, and encouraging SOEs and LGs to buy back land and completed housing stock. To support delivery of pre-sold housing, bank financing under the White-List program was expanded.

Staff views: The focus on stabilizing the property market is welcome, but the new demand-side measures provided only a modest and short-lived boost to sales. Inventory overhang remains elevated as government-led inventory purchases have gained limited traction. Developers' financial distress remains widespread, with minimal exits. Accelerating exits of non-viable firms, providing targeted CG support to protect homebuyers, and allowing greater price flexibility are essential to facilitate the real estate sector adjustment and restore confidence.

- **Corporate sector policies.** The authorities passed a new Private Economy Promotion Law that aims to strengthen private firms' property rights and access to government procurement, and liberalized certain service sectors by allowing private and foreign investment (e.g., telecommunications, healthcare, tourism, and finance). In addition, an "anti-involution" campaign was launched to curtail "excessive" price competition in several traditional (e.g., iron and steel, glass) and emerging manufacturing sectors (e.g., solar panels, electric vehicles, batteries, and chemicals).

Staff views: The measures to level the playing field for private firms and open up the service sector are welcome. However, legislation accompanying the Private Economy Promotion Law will need to be developed to effectively ensure competitive neutrality. The scope of the "anti-involution" campaign in addressing deflationary pressures appears limited. Efforts to scale back overinvestment, "excessive competition", and factor misallocation should involve a reduction of industrial policy subsidies and the use of insolvency frameworks, rather than industry-level coordination, which is less likely to reduce incentives for overinvestment and could introduce other market distortions. Furthermore, efforts on the supply side will need to be complemented by decisive demand boosting measures to avoid entrenched deflationary pressures.

Appendix V. Sovereign Risk and Debt Sustainability Framework

The Sovereign Risk and Debt Sustainability Assessment (SRDSA) assesses sovereign risk and government debt under staff's estimated general government "augmented" definition. "Augmented" debt and associated gross financing needs are high and on an upward trajectory. Once deflationary pressures subside durably, a gradual fiscal adjustment is needed to stabilize debt by 2036.

1. Staff assess sovereign risk based on the "augmented" debt definition. Augmented debt includes both official and off-budget debt:

Official debt includes central government debt and "on-budget" local government debt identified by the authorities.¹

Off-budget debt adds other types of local government borrowing, including Staff estimates of debt from LGFVs, government-guided funds, and special construction funds, whose activities are considered quasi-fiscal. The augmented deficit is the flow counterpart of augmented debt. Augmented data are staff's best estimate of general government data. Data limitations mean some nongovernment activity is likely included, and some LGFVs and funds may have substantial revenues. It is also possible that some general government activity takes place outside of staff's augmented definition (e.g., public-private partnerships).²

2. Under the baseline scenario, debt continues to rise over the medium and long term. Augmented debt rises to about 162.7 percent of GDP in 2034 from 117.0 percent of GDP in 2024.³ The main driver is large primary deficits that are projected to decline only slowly over time, as the reduction in off-budget investment is partly offset by rising pension spending due to aging despite the recent retirement age reforms.^{4,5} In the baseline, gross financing needs decrease in the medium term due to the recently announced hidden debt swap which improves the maturity structure of debt.^{6,7} Positive growth-interest differentials (owing to a financial system that channels ample domestic savings to finance GG debt at favorable rates) help contain the debt rise but are projected

¹ In 2014, 2/3 of existing LGFV debt was explicitly recognized as a government liability following a government audit.

² See Annex VII for a discussion on the sources for off-budget debt data, including recent changes.

³ The baseline is subject to large uncertainty. Bolder policies to restructure the real estate sector would add to government debt in the short term, while LGFV debt restructuring could reduce augmented debt, with the size of the reduction depending on the degree of burden sharing with the private sector and potential macro-fiscal and financial spillovers requiring further stabilization measures (see [2023 SIP](#)).

⁴ The baseline assumes a small reduction in the LGFV debt NPV through bank maturity extensions, interest rate reductions, and refinancing with official LG debt, in line with recent years. LGFV debt refinancing with official debt does not change augmented debt.

⁵ Additional pension spending due to aging is estimated using UN population projections (medium fertility scenario). The 2024 retirement age reform will help ease some of the long-term growth and fiscal sustainability pressures from aging, reducing pension spending by 3.4 percent of GDP in 2050 relative to a no-reform scenario (see Bonthuis and others, 2026).

⁶ In November 2024, the authorities approved a RMB 4 trillion over five years quota within existing limits and a new RMB 6 trillion increase in the local government debt limit to swap hidden debt over 2024–2028 by converting short-term, off-balance-sheet obligations into longer-term, on-budget local government debt.

⁷ The SRDSF assumes maturing debt is rolled over and asset-based financing declines gradually.

to slowly reverse in the long term as potential growth falls. Stabilizing GG debt would require a cumulative reduction in the (augmented) GG cyclically adjusted primary balance of about 7 percentage points over the long term. However, the size and pace of the required fiscal consolidation will depend on the speed of the domestic demand recovery, as well as the implementation of growth-enhancing reforms. Risks such as faster accumulation of general government debt or lower-than-projected potential growth would call for a more ambitious long-term consolidation path. In addition to increased pension spending due to aging incorporated in the baseline, investment needs to reach the 2060 climate goal could substantially increase the pace of debt accumulation if they were financed with government borrowing. However, China plans to rely on additional financing instruments such as expanding the coverage of the Emissions Trading System (ETS). A prolonged period of deflation would further raise the debt-to-GDP ratio. Increased health spending due to aging that is not already included in the baseline would have minor effects.

3. Several factors mitigate risks associated with China's high augmented debt level and large financing requirements. Most of China's debt is held by domestic residents and only a small portion is denominated in foreign currency, while the capital account is not fully open. The general government's positive net financial worth (estimated at 7 percent of GDP in 2019 by Lam and Moreno-Badia, 2023) further mitigates risks. The availability of liquid assets (government deposits in the banking system are a third of GDP), and the ability of domestic financial institutions to provide financing (the largely state-dominated commercial banking system claims on the government are only a quarter of the banking system's assets) offsets risks too. However, LGFV debt has shorter maturities (about 3 years on average compared with 7 years for official debt), is exposed to higher liquidity risks, and depends more on financing from nonbank financial institutions.

Appendix V. Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Staff's assessment of the overall risk of sovereign stress is moderate, with downside risks. While the mechanical signal suggests medium- and long-term risks are high, fiscal consolidation to stabilize debt is feasible, and the partially closed capital account mitigates risks. Moreover, large government assets could be used to meet financing needs, with the government financial net worth estimated to be positive and include sizeable cash deposits (Lam and Moreno-Badia, 2023). The debt swap helps lengthen maturities and lower interest rates. The 2024 retirement age reform is expected to help mitigate long-run debt sustainability risks.
Near term 1/			
Medium term	High	Moderate	Staff's assessment of the medium term risk of sovereign stress is moderate. The debt swap plan helps reduce liquidity risks for off-budget LGFVs, lengthens maturities, and lowers refinancing risks. The mechanical medium-term signals for the fan chart and GFN indicate "high" risk, largely driven by the non-stabilization of debt and annual gross financing needs.
Fanchart	High	...	
GFN	High	...	
Stress test	...	...
Long term	...	Moderate	Long-term risks are moderate given the effect of aging on pension and health spending, as well as large climate mitigation investment needs, and declining potential growth prospects. However, the 2024 retirement age reform is expected to reduce long-term pension expenditures by approximately 3.4 percent of GDP, significantly mitigating fiscal risks over time (Bonthuis and others, 2026). Additionally, the debt swap initiative is set to improve the maturity profile of public debt, supporting long-term fiscal sustainability.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: China has a moderate overall risk of sovereign stress. Debt is expected to rise over the medium and long term, but it can be stabilized with a gradual fiscal adjustment by 2036. Medium-term liquidity risks as analyzed by the GFN Financeability Module are high. However, China's partially closed capital account, the government's ample financial assets, and the hidden debt swap help mitigate liquidity risks. The retirement age reform also contributes to reducing long-term fiscal pressures. To contain debt risks, China should seek to reduce public investment, further pension reforms, and close its structural revenue gap through comprehensive tax reform.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Appendix V. Figure 2. Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments																	
	CG	GG	NFPS	CPS	Other																		
1a. If central government, are non-central government entities insignificant?						n.a.																	
2. Subsectors included in the chosen coverage in (1) above:																							
Subsectors captured in the baseline						Inclusion																	
<table border="1"> <tr><td>CPS</td><td></td><td></td><td></td></tr> <tr><td>NFPS</td><td></td><td></td><td></td></tr> <tr><td>GG: expected</td><td></td><td></td><td></td></tr> <tr><td>CG</td><td></td><td></td><td></td></tr> </table>	CPS				NFPS				GG: expected				CG				1	Budgetary central government				Yes	May not include all EBFs.
	CPS																						
	NFPS																						
	GG: expected																						
	CG																						
	2	Extra budgetary funds (EBFs)				Yes																	
	3	Social security funds (SSFs)				Yes																	
	4	State governments				Yes																	
5	Local governments				Yes																		
6	Public nonfinancial corporations				No																		
7	Central bank				No																		
8	Other public financial corporations				No																		
3. Instrument coverage:																							
	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/																		
4. Accounting principles:																							
Basis of recording			Valuation of debt stock																				
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/																			
5. Debt consolidation across sectors:																							
	Consolidated		Non-consolidated																				

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-Government Debt Holdings

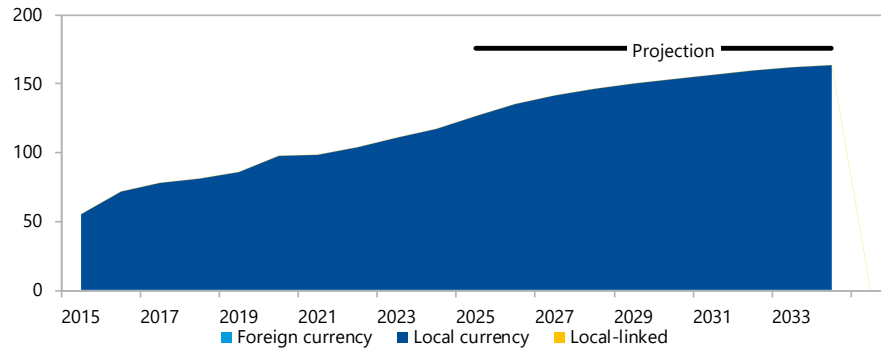
Issuer	Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total																
		<table border="1"> <tr><td>CPS</td><td></td><td></td><td></td></tr> <tr><td>NFPS</td><td></td><td></td><td></td></tr> <tr><td>GG: expected</td><td></td><td></td><td></td></tr> <tr><td>CG</td><td></td><td></td><td></td></tr> </table>	CPS				NFPS				GG: expected				CG				1	Budget. central govt						
CPS																										
NFPS																										
GG: expected																										
CG																										
2	Extra-budget. funds									0																
3	Social security funds									0																
4	State govt.									0																
5	Local govt.									0																
6	Nonfin pub. corp.									0																
7	Central bank									0																
8	Oth. pub. fin. corp									0																
Total		0	0	0	0	0	0	0	0	0																

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
 4/ Includes accrual recording, commitment basis, due for payment, etc.
 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The general government perimeter is based on the "augmented" definition. Non-consolidation refers to cross-holdings between intra-government subsectors not being netted out.

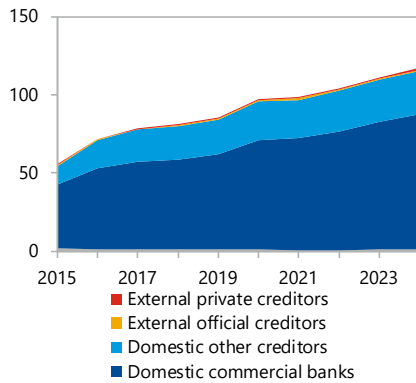
Appendix V. Figure 3. Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



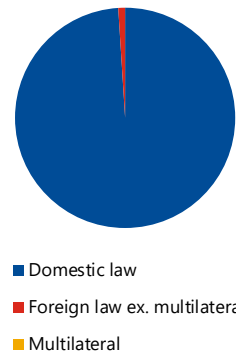
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



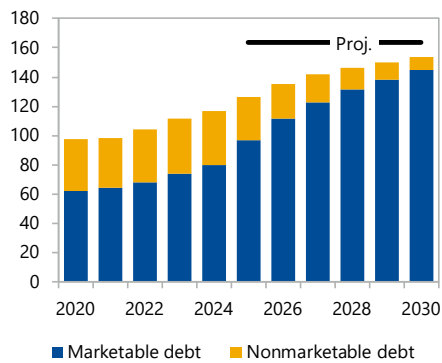
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



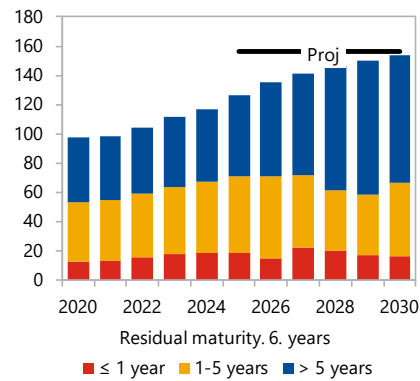
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

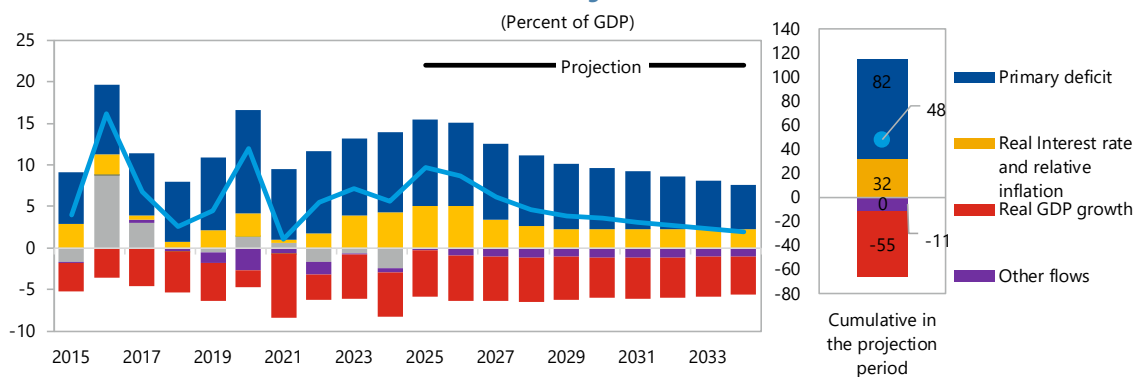
Commentary: Most debt is held by domestic residents and only a small portion is denominated in foreign currency, while the capital account is not fully open, both factors mitigating risks. However, LGFV debt has shorter maturities (about 3 years on average compared with 7 years for official debt), is exposed to higher liquidity risks, and depends more on financing from non-bank financial institutions.

Appendix V. Figure 4. Baseline Scenario

(Percent of GDP unless indicated otherwise)

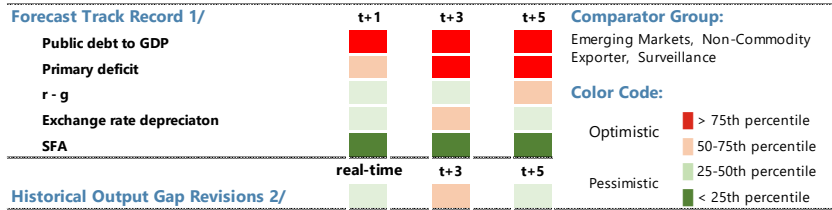
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	117.0	126.6	135.3	141.5	146.2	150.0	153.7	156.8	159.5	161.8	163.8
Change in public debt	5.7	9.6	8.7	6.2	4.7	3.9	3.6	3.1	2.7	2.3	2.0
Contribution of identified flows	8.1	9.6	8.7	6.2	4.7	3.9	3.6	3.1	2.7	2.3	2.0
Primary deficit	9.7	10.4	10.0	9.1	8.4	7.8	7.3	7.0	6.3	5.8	5.3
Noninterest revenues	25.6	25.0	25.2	25.4	25.6	25.7	25.7	25.7	25.7	25.7	25.7
Noninterest expenditures	35.3	35.4	35.2	34.6	34.0	33.5	33.1	32.8	32.1	31.6	31.1
Automatic debt dynamics	-1.0	-0.5	-0.3	-1.9	-2.6	-2.9	-2.6	-2.7	-2.6	-2.5	-2.3
Real interest rate and relative inflation	4.3	5.1	5.1	3.3	2.7	2.3	2.3	2.2	2.3	2.3	2.3
Real interest rate	4.3	5.1	5.1	3.4	2.7	2.3	2.3	2.2	2.3	2.3	2.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-5.3	-5.5	-5.4	-5.3	-5.3	-5.2	-4.9	-4.9	-4.8	-4.7	-4.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.5	-0.3	-0.9	-1.1	-1.1	-1.1	-1.1	-1.2	-1.1	-1.1	-1.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.5	-0.3	-0.9	-1.1	-1.1	-1.1	-1.1	-1.2	-1.1	-1.1	-1.0
Contribution of residual	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	31.5	33.1	32.5	27.8	34.4	31.0	29.2	28.5	27.6	26.9	24.2
of which: debt service	21.8	22.7	22.6	18.7	25.9	23.2	21.9	21.5	21.2	21.1	18.8
Local currency	21.8	22.6	22.5	18.7	25.9	23.2	21.9	21.5	21.2	21.0	18.8
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	5.0	5.0	4.5	4.0	3.9	3.7	3.4	3.3	3.2	3.1	2.9
Inflation (GDP deflator; percent)	-0.7	-1.0	-0.7	0.9	1.5	1.9	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	4.2	3.9	3.8	5.0	5.5	5.6	5.4	5.4	5.3	5.1	5.0
Effective interest rate (percent)	3.3	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.5	3.5	3.5

Contribution to Change in Public Debt



Staff commentary: Public debt rises over the projection period, as large deficits only decline slowly, with a reduction in infrastructure investment partly offset by growing pension spending. See Appendix VIII for the reasons behind the downward revision of debt in 2024. Other transactions refer to mainly the drawdown of social security funds to cover the gap between social security expenditures and revenues.

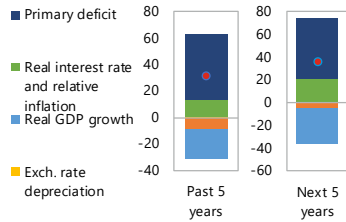
Appendix V. Figure 5. Realism of Baseline Assumptions



Historical Output Gap Revisions 2/

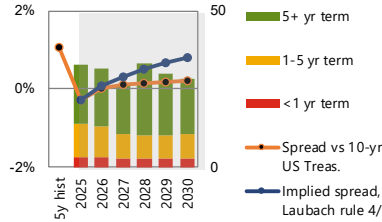
Public Debt Creating Flows

(Percent of GDP)



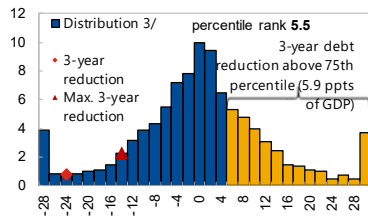
Bond Issuances

(Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



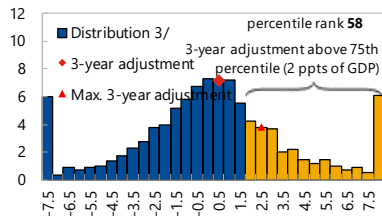
3-Year Debt Reduction

(Percent of GDP)



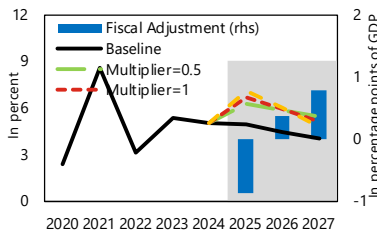
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (Percent of GDP)

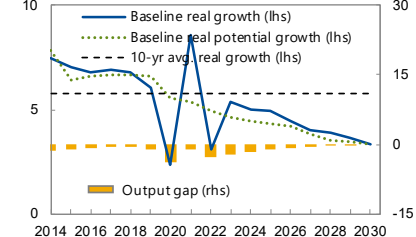


Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS) (In percent))



Real GDP Growth



Commentary: The baseline is based on a gradual fiscal consolidation by 2036. This is feasible as public investment is currently very large and the off-budget entities carrying a significant portion of such investment are expected to face progressively tighter financing constraints.

Source : IMF Staff.

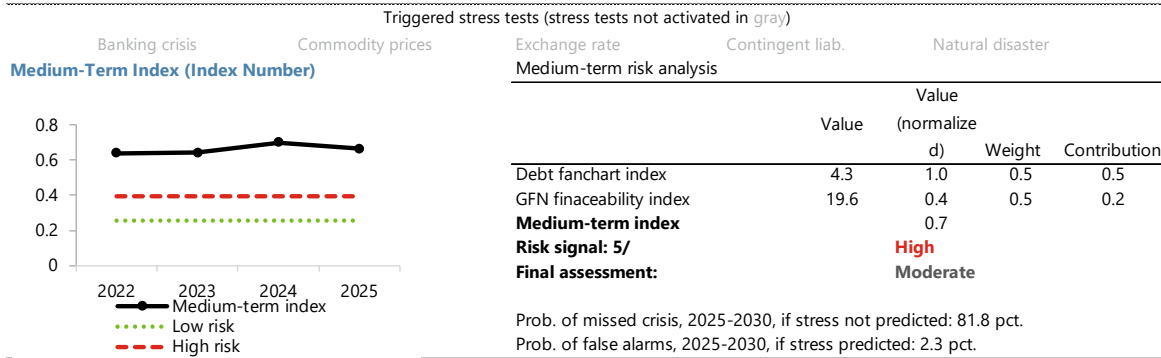
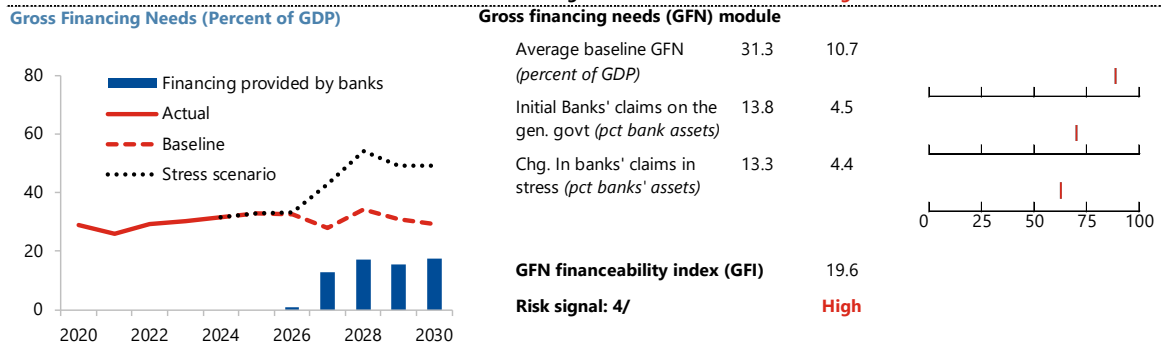
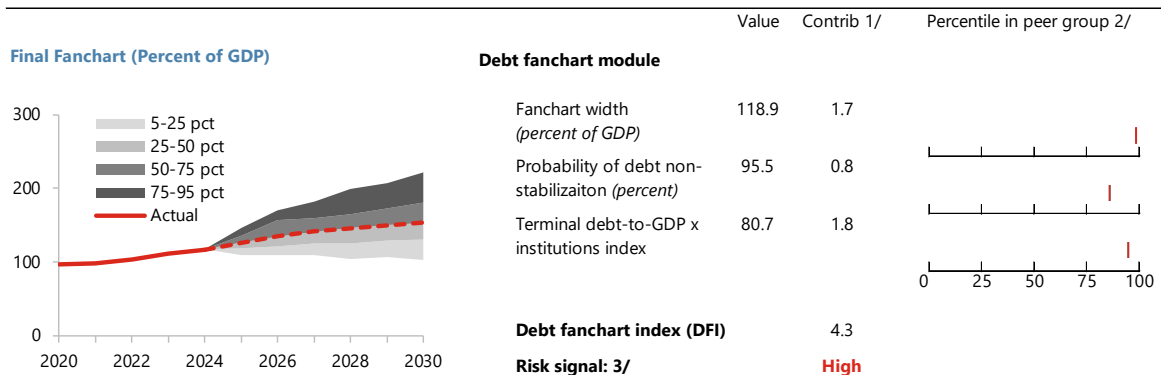
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Appendix V. Figure 6. Medium-Term Risk Assessment



Commentary: The Debt Fanchart and GFN Modules are pointing to high level of risk. However, medium-term liquidity risks are mitigated by China's partially closed capital account and ample financial assets. The debt swap plan helps reduce liquidity risks for off-budget LGFVs, lowers effective interest rates, lengthens maturities, and lowers refinancing risks.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Appendix V. Figure 7. Triggered Modules

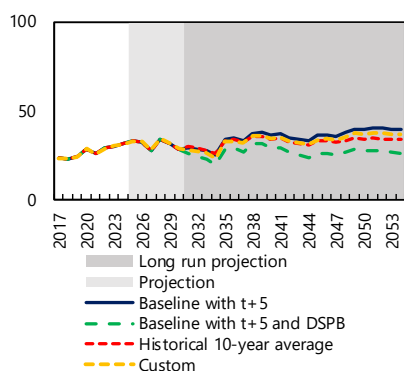
Large amortizations Pensions Climate change: Adaptation Natural Resources
 Health Climate change: Mitigation

Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

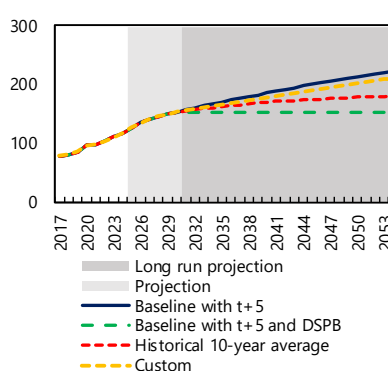
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	██████████
	Amortization-to-GDP ratio	██████████
	Amortization	██████████
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	██████████
	Amortization-to-GDP ratio	██████████
	Amortization	██████████
Historical average assumptions	GFN-to-GDP ratio	██████████
	Amortization-to-GDP ratio	██████████
	Amortization	██████████
Overall Risk Indication		██████████

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	3.4%	3.0%	3.2%
Primary Balance-to-GDP ratio	-7.3%	-5.9%	-6.4%
Real depreciation	-2.4%	-2.0%	-2.1%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio



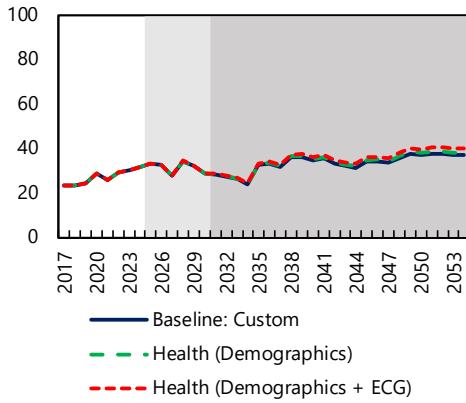
Total Public Debt-to-GDP Ratio



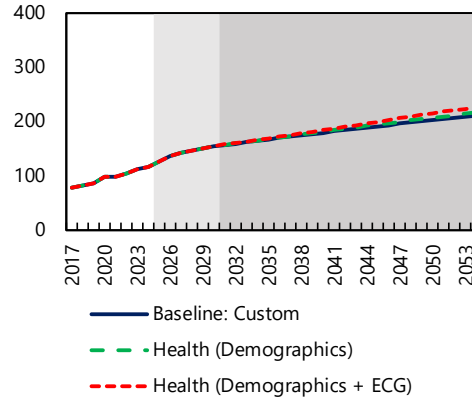
Commentary: The custom baseline assumes constant values for primary deficits, interest, and growth for the LT projection period (2030-2053), while charts in the main text are based on Staff's time-varying projections. Under the historical 10-year average scenario in which real GDP growth is at around 6 percent, debt-to-GDP grows significantly less than in the baseline, as the baseline incorporates declining growth in the absence of comprehensive structural reforms (IMF, 2022). The baseline projection already incorporates changes in pension spending due to aging population; therefore, the pension module is not included separately. The 2024 retirement age reform has had a positive impact on China's government debt dynamics. By increasing the retirement age, pension expenditures are projected to decline by 3.4 percent of GDP by 2050 (see Bonthuis and others, 2026). Additionally, the LGFV debt swap has improved the maturity profile of local government debt, reducing interest burdens as official debt carries lower interest rates.

Appendix V. Figure 8. Demographics: Health

GFN-to-GDP Ratio



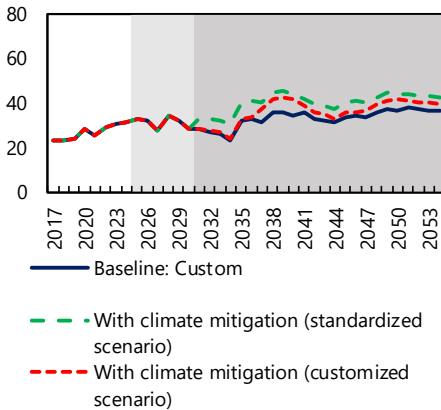
Total Public Debt-to-GDP Ratio



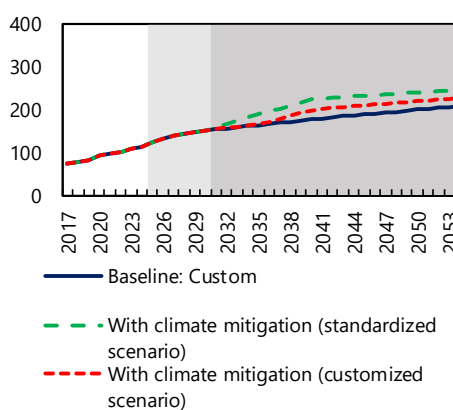
Commentary: The demographics health module shows a slightly steeper trajectory of public debt-to-GDP ratio when taking into account the effect of China's aging population on health expenditures over the long term. The increase in debt-to-GDP ratio is largest under the scenario with both demographics and excess cost of health (ECG), though the differences across the different scenarios are overall very small.

Appendix V. Figure 9. Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: China's investment needs to meet its net neutrality target in 2060 are sizeable, estimated at around 5 percent of GDP (Chateau, Chen, Jaumotte, Zhunussova, 2022). If these climate investments were funded with the same instruments that are used to finance the general government deficit, then debt could reach close to 250 percent of GDP by 2050. This indicates that other options, such as ETS reforms (to move closer to an optimal carbon pricing tool), as well as improved standards and regulations, and private sector investment would be preferable from the perspective of public debt-to-GDP.

Appendix VI. 2025 FSAP Recommendations

Topic	Agency ¹	Priority	Timing ²
Cross-cutting			
1. Design and implement a medium-term comprehensive plan to address financial stability risks associated with LGFV debt overhang.	Multiple	High	I
2. Take decisive steps to fully recognize expected losses on balance sheets of financial institutions and continue to move toward market-based pricing of financial assets.	Multiple	High	I
Systemic Risk Analysis			
3. Strengthen analytical and stress testing capacity, supported by more granular data and specialist staff, to comprehensively analyze bank specific and system-wide risks including those from concentrations of exposures including LGFV debt; ensure sufficient scrutiny of banks' internal risk models. (¶22, 50, 52)	NFRA, PBC	High	ST
4. Closely monitor the growth of exposures to non-viable entities in bank balance sheets; assess macrofinancial risks stemming from delayed loss recognition; and switch to a forward-looking approach in assessing systemic risks. (¶22, 49, 53)	NFRA, PBC	High	I
5. Enhance analytical capacity for comprehensive and granular analysis of climate-related risks in the financial system, aided by improved data collection and strengthened collaboration with climate-relevant government and research agencies. (¶47)	NFRA, PBC	Medium	MT
Macroprudential Policy Framework			
6. Further strengthen systemic risk monitoring by creating a stress event dataset, back-testing indicator properties and deriving data-based thresholds for policy actions and enhance coordination by establishing a Macroprudential Policy Committee to include key agencies. (¶50)	PBC	Medium	MT
Financial Sector Oversight			
<i>Cross-cutting Issues</i>			
7. Expand NFRA's autonomy over resources and strengthen staffing, particularly at head office—informed by a bottom-up analysis—to meet new challenges, accommodate increased responsibilities, and strengthen supervisory intensity. (¶52)	NFRA	High	ST
¹ Responsible agencies are added in alphabetical order. ² "I-Immediate" is within one year; "ST-short-term" is 1–3 years; and "MT-medium-term" is 3–5 years.			

Topic	Agency¹	Priority	Timing²
8. Clearly communicate and ensure the primacy of the NFRA's safety and soundness objective, as compared to developmental objectives. (¶152)	CSRC, NFRA	High	ST
9. Strengthen data validation and broaden the perimeter of horizontal risk analysis; continue developing technical skills to support supervisory risk assessments and centralize expertise through the establishment of dedicated risk teams. (¶152, 53)	NFRA	Medium	ST
<i>Banking</i>			
10. Enhance the effectiveness of the Supervisory Review Process to address institution-specific risks and risks not covered under Pillar 1; tailor bank capital requirements to individual risk profiles through more active use of Pillar 2. (¶151)	NFRA	Medium	ST
11. Enhance transparency by making granular information on banks' financial soundness—including prudential ratios, metrics on credit portfolio quality, profitability and liquidity metrics—publicly available. (¶154)	NFRA, PBC	High	MT
12. Intensify oversight of smaller and high-risk banks (¶155, 22)	NFRA	High	ST
13. Strengthen oversight of bank and banking group shareholders and reduce the limit on aggregate related-party exposures. (¶155)	NFRA	Medium	ST
<i>Securities and Derivatives Market</i>			
14. Ensure price-stabilization measures do not undermine the credibility of price formation, including by closely monitoring use of market-wide circuit breakers and enhancing communication on the rationale for any intervention in the equity market. (¶158)	CSRC	Medium	ST
<i>Insurance</i>			
15. Continue addressing transitional issues (e.g., C-ROSS-II); refine supervisory assessment methods and skills regarding corporate governance; provide guidance on insurer stress tests. (¶159)	NFRA	High	ST
<i>NBFI</i>			
16. Designate a lead authority to coordinate comprehensive risk assessments, aided by intensified market surveillance, while leaving the responsibilities and autonomy of the sectoral agencies intact. (¶161)	CFC, CSRC, NFRA, PBC	High	ST
<i>Big Tech</i>			
17. Strengthen rules addressing risks specific to systemically important payment service providers (PSPs), introduce tiered prudential requirements for PSPs, and a framework for monitoring Big Tech activities on a consolidated basis. (¶162, 63)	PBC	Medium	ST

Topic	Agency ¹	Priority	Timing ²
<i>Systemic Liquidity Management</i>			
18. Further optimize the reserve requirement framework by aligning its tenor with the OMOs and optimizing the penalty schedule for reserve shortfalls. (¶166)	PBC	Medium	MT
19. Strengthen the collateral framework by revising the eligibility criteria, introducing robust valuation methodologies, and applying conservative haircuts. (¶166)	PBC	High	ST
<i>AML/CFT</i>			
20. Finalize and enact amendments to the Anti-Money Laundering Law. (¶168)	PBC	Medium	ST
21. Continue to strengthen the beneficial ownership regime, including by fully operationalizing the register and publication of information. (¶170)	PBC	Medium	ST
<i>Financial Safety Nets, Crisis Management, and Corporate Insolvency</i>			
<i>Financial Safety Nets and Crisis Management</i>			
22. Further refine and enact the draft Financial Stability Law to introduce an effective resolution regime, duly aligned with international good practice. (¶172)	CDIC, NFRA, PBC	High	I
23. Designate and operationalize a dedicated lead resolution authority and clarify the role of the Central Financial Committee (CFC), with the aim to further centralize resolution functions. (¶173)	CDIC, NFRA, PBC	High	ST
24. Extend LAC requirements to, at least, all D-SIBs and reconsider (or at least cap) reliance on DIF resources as a discount on TLAC requirements. (¶175)	CDIC, NFRA, PBC	Medium	MT
25. Adopt regulations governing the FSGF, including funding target, governance, contributions, usage, and public backstops. (¶175)	CDIC, MOF, NFRA, PBC	Medium	ST
26. Limit the use of DIF resources to insured deposit payouts and contributions to transfer strategies on a 'least cost' basis; and increase industry contributions to the DIF. (¶176)	CDIC	High	I
27. Design and implement a dedicated framework for the provision of emergency liquidity assistance, duly aligned with international best practices. (¶166)	PBC	High	ST
<i>Corporate Insolvency</i>			
28. Increase capacity and expertise of courts and establish comprehensive regulation of insolvency administrators. (¶177)	NPC, SPC	Medium	MT
29. Update the Enterprise Bankruptcy Law, with amendments (among others) regulating the pre-reorganization procedure, amending reorganization provisions according to international	NPC	High	ST

Topic	Agency¹	Priority	Timing²
standards, and introducing provisions for group and cross-border insolvency. (¶179, 80)			
30. Strengthen the supervision and regulation of AMCs while increasing their transparency by publicly disclosing basic data such as sale prices and recovery rates. (¶181)	NFRA	High	MT
<i>Financial Sector Development</i>			
31. Revise the definition of “financial inclusion MSE” to be based on objective criteria and phase out policies based on lending targets and reduced credit spreads for MSME loans. (¶182)	MOF, NFRA, PBC	High	ST
32. Adhere to market-oriented and rule-based reforms to support long-term capital development objectives. (¶182)	CSRC, exchanges NFRA PBC	High	ST
33. Enhance climate risk disclosure standards and guidance; further harmonize national taxonomies. (¶182)	CSRC, MOF, MEE, NDRC, NFRA, PBC	High	MT

Appendix VII. Data Issues

Annex VII. Table 1. China: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts 3/	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	A	B		
Granularity 4/	C		C	C	B		
			A		B		
Consistency			C	B		B	
Frequency and Timeliness	A	A	C	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF Review of the Framework for Data Adequacy Assessment for Surveillance, January 2024, Appendix I).</p> <p>3/ The overall sectoral assessment for national accounts gives a higher weight to granularity given the significant data gaps in expenditure side GDP, resulting in a "C" rating versus the "mechanical" "B" rating assigning the same weight to each sub-category.</p> <p>4/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. China's statistics continue to have significant gaps. The main areas of concern relate to national accounts data and government finance statistics. For national accounts, lack of quarterly GDP by expenditure component (nominal, real, and seasonally adjusted) and lack of granularity on the production side are key shortcomings, reflected in a "C" rating for national accounts. China does not publish CPI weights and PPI weights, either on the website of the statistical office nor on the IMF CPI database. This makes it difficult to analyze the source of consumer price inflation by products, by regions etc. For fiscal data, long-standing data gaps include general government data with a breakdown of expenditure by economic type (current and capital expenditure) as well as the data on off-budget entities (including LGFVs) that meet the statistical criteria for inclusion within the perimeter of the general government. The authorities have made progress and published estimates of hidden debt as of end-2023, but they are based on a legal definition not aligned with GFS. While external sector data is broadly adequate, lack of institutional sector breakdown for the financial account and the type of investment income (e.g., FDI income, portfolio investment income, and other investment income) for the primary income account hampers analysis of financial and income flows. As China is one of the countries that play the most important role in global manufacturing arrangements (e.g., factoryless manufacturing), quantifying their impact in BOP statistics will improve transparency of China's external sector data.</p>							
<p>Changes since the last Article IV consultation. The authorities have published the estimates of hidden debt by end-2023, which is based on legal definition. The upgrade in rating for "frequency and timeliness" for MFS data reflects the improved timeliness of FSI submissions. The upgrade in the "granularity" rating for debt data reflects the availability of the breakdown of official government debt figures, covering both local and central governments.</p>							
<p>Corrective actions and capacity development priorities. The authorities reiterated their commitment to improve data quality, including through collaboration with the Fund.</p>							
<p>Use of data and/or estimates different from official statistics in the Article IV consultation. The fiscal data used in the Article IV consultation supplements the official GFS statistics with Staff estimates for deficits and debt for a broader definition of general government which includes data on off-budget entities (including LGFVs and GGFs) from WIND and Zero2IPO. Staff's augmented definition of the general government better reflects the fiscal stance and the government's role in the economy.</p>							
<p>Other data gaps. Data on aggregate economically active population is published, but only at an annual frequency and with long lags. Data on inflation expectations is also limited.</p>							

Annex VII. Table 2. China: Data Standards Initiatives

China subscribes to the Special Data Dissemination Standard (SDDS) since October 2015 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex VII. Table 3. China: Common Indicators Required for Surveillance

As of January 5th, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	China ⁸	Expected Timeliness ^{6,7}	China ⁸
Exchange Rates	January 2026	January 2026	D	D	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	November 2025	December 2025	M	M	M	M	1W	1W
Reserve/Base Money	November 2025	December 2025	M	M	M	M	2W	2W
Broad Money	November 2025	December 2025	M	M	M	M	1M	4W
Central Bank Balance Sheet	November 2025	December 2025	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	November 2025	December 2025	M	M	M	M	1M	4W
Interest Rates ²	January 2026	January 2026	D	D	D	D	...	D
Consumer Price Index	November 2025	December 2025	M	M	M	M	1M	13D
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2024	September 2025	A	A	A	A	2Q	NLT 7M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	November 2025	December 2025	M	M	M	M	1M	25D
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2025Q3	December 2025	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	2025Q3	December 2025	Q	A, Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	November 2025	December 2025	M	M	M	M	8W	13D
GDP/GNP	2025Q3	October 2025	A, Q	A, Q	Q	Q	1Q	15D
Gross External Debt	2025Q3	December 2025	A, Q	A, Q	Q	Q	1Q	1Q
International Investment Position	2025Q3	December 2025	A, Q	A, Q	Q	Q	1Q	1Q

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Appendix VIII. Data Annex

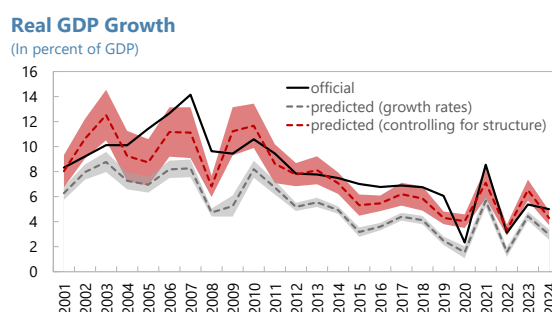
This annex provides an overview of various topics related to macroeconomic data in China. It covers issues around national accounts data, government finance statistics, and balance of payments data.

National Accounts Data

1. Over the years, several questions have been raised about the accuracy of Chinese national accounts data. Using alternative indicators of economic activity such as VAT revenue or night-time lights data, several studies have suggested that official real GDP growth may have been overstated during certain periods before the COVID pandemic ([Chen et al. 2019](#); [Hu and Yao 2022](#)). Employing a related approach based on rolling correlations between GDP and hard indicators, the 2016 China Article IV report concluded that official data provided moderate overstatement but a broadly reliable picture ([IMF 2016](#)). More recently, some private sector analysts have argued that actual growth since 2023 may have been significantly lower than official figures, based on select activity indicators (e.g., [Rhodium 2024](#)).

2. Staff analysis based on two alternative approaches (see below) and recent studies suggest that official GDP growth rates have been broadly aligned with other indicators of economic activity in the last few years.

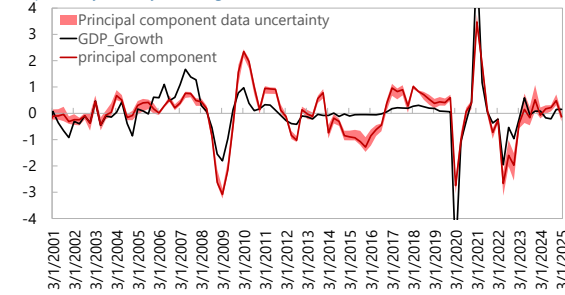
- Cross-country analysis:** A cross-country regression is used to estimate a measure of underlying GDP growth in China based on the relationship between official GDP and alternative indicators in other commodity-importer emerging markets economies, following [Subramanian \(2019\)](#). The indicators included are imports, exports, electricity consumption, domestic credit to the private sector, and tax revenue. While a simple specification based on growth rates of the indicators (grey dashed line in the chart) suggests significantly lower GDP growth than the official statistics (black line), the gap shrinks substantially in a specification that controls for economic structure by interacting growth rates with sectoral GDP shares (red dashed line), which provides a better fit to China. According to the latter specification, China's official GDP was only significantly higher than the regression prediction during specific periods (2005-08 and 2015-19), whereas no significant bias is apparent in the post-COVID period.



Sources: Ember Energy; National Bureau of Statistics China; World Bank World Development Indicators; IMF World Economic Outlook; and IMF Staff calculations.
Predicted values are based on the estimated relationship between real GDP growth and alternative activity indicators in 57 commodity-importer emerging market economies over 2001–23, excluding China, the Covid period (2020–22), and observations with regressors with absolute annual growth above 100 percent or absolute real GDP growth above 15 percent. Both specifications use a pooled OLS regression. Shaded

- Principal component analysis:** This approach complements the cross-country analysis by using a broader panel of alternative activity indicators within China. These indicators are used to construct a principal component index that captures common variation across metrics such as electricity consumption, property sector activity, consumer confidence, exports, and tax revenue. Analysis of deviations from underlying trend shows little difference between the principal component analysis and official GDP data in recent quarters. However, the model predictions during 2005-08 and 2013-16 suggest bigger deviations from trend than in official data (text chart), aligning with the periods identified in the cross-country analysis. In addition, extending the analysis further by estimating trends from the principal components suggests a somewhat slower recovery than the official data in the post-COVID period, driven by slower trend growth

De-trended GDP Growth and Principal Component Measure
(In percent, year-on-year change)



Sources: San Francisco Federal Reserve China Cyclical Activity Tracker (CCAT) Database; and IMF staff calculations.

Notes: Data uncertainty is represented by constructing the principal component but leaving out one alternative activity indicator in the panel and repeating for all indicators.

- Analysis by other institutions:** An alternative GDP indicator constructed by the Federal Reserve Board suggests that recent official GDP growth figures align closely with broader Chinese indicators and do not appear to be overstated ([Barcelona et al., 2025](#)). Similarly, the Bank of Finland reports that China's recent official growth rates fall within the range of their own [alternative indicators](#).

3. However, scope remains to significantly improve data transparency and the methodology for producing GDP data. The published GDP data lacks granularity along various dimensions. The level of quarterly GDP by expenditure (nominal, real, and seasonally adjusted) and the various components of expenditure side GDP are not published. On the production side, volume estimates of GDP are broken down by only 9 activities compared to the G20 average of 26 activities. On methodology, China updates the base year for GDP every 5 years and regularly conducts household and firm surveys to produce quarterly GDP. While this base year update procedure is broadly in line with international standards, recommended best practice is to use annual chain linking within a supply and use framework. This requires updating the base year annually and linking the year-on-year changes. Further, the use of the CPI to derive volume estimates should be minimized and single deflation should be avoided.

Government Finance Statistics

4. Two longstanding challenges with fiscal data relate to the perimeter of the government and granularity of expenditure data. China's official general government statistics consists of four accounts: the general public budget; the government managed fund budget, which channels proceeds mainly from land-use-right transfers and special-purpose bonds to capital spending; the state capital operations budget, which reports profits, dividends, and proceeds from asset transactions, along with expenditures to support state-owned enterprise operations; and the

social insurance fund budget, which covers the pension, medical, unemployment, and other social insurance schemes. These accounts exclude off-budget entities such as local government financial vehicles (LGFVs), government-guided funds (GGFs), and special construction funds. Furthermore, even the official accounts data does not provide a breakdown of expenditure by economic type (current versus capital expenditure).

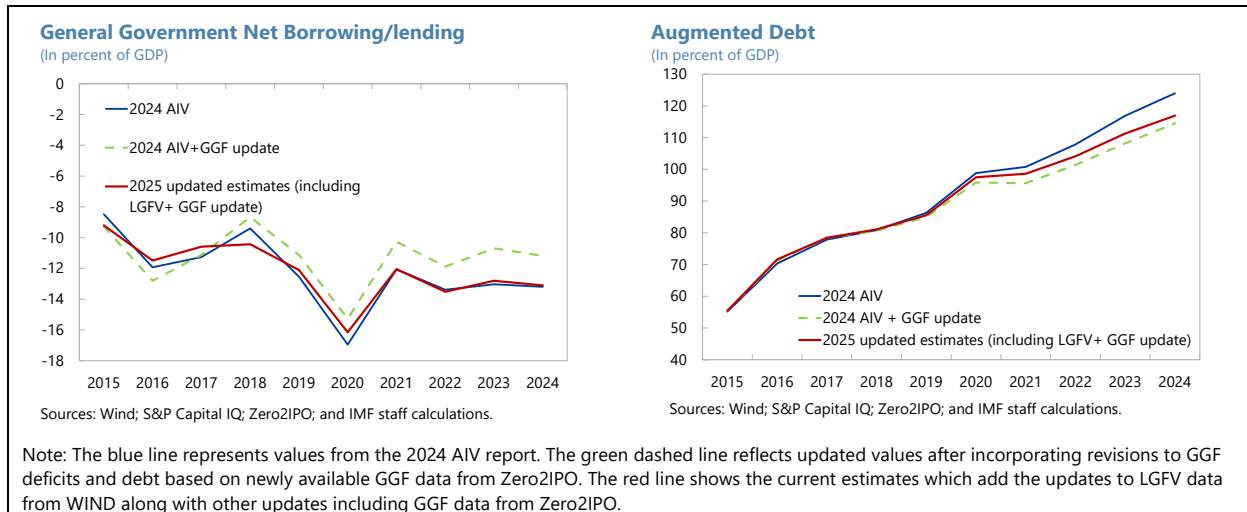
5. The authorities have made progress in measuring off-budget debt, but their notion of the perimeter of general government remains based on a legal concept. The Ministry of Finance (MoF) has completed a stocktaking of off-budget entities and recognized a subset of the total debt as “hidden debt”. Specifically, the government assumed responsibility for the debt incurred by financing platforms for public welfare projects backed by local governments. The official estimate of hidden debt stood at RMB 14.3 trillion in 2023 and declined to RMB 10.5 trillion in 2024 largely due to debt swaps (into official LG debt) and the reclassification of some LGFVs to non-financial corporations. While the publication of hidden debt data improves transparency and is welcome, the MoF definition of hidden debt is based on legal criteria rather than an economic one, and the authorities have not published a full time series for hidden debt, nor have they provided above-the-line estimates of fiscal stance that is consistent with the debt data. Furthermore, staff estimates of off-budget LGFV debt, which are based on GFSM principles and an economic concept of the perimeter of general government, are more than three times the official figures for hidden debt.

6. The Fund continues to use the concept of “augmented” fiscal aggregates for surveillance purposes, relying on additional data from various sources. Staff has updated data sources for computing fiscal aggregates as described below, which has resulted in slightly lower estimates of augmented debt while the augmented deficit was little changed.

- **LGFVs:** In previous staff reports, LGFV debt was estimated by aggregating firm-level data from S&P Capital IQ, interpolating missing values where necessary. Due to data limitation in S&P Capital IQ, the above-the-line fiscal deficit for LGFVs was computed as the change in debt levels between two years rather than as the difference between revenues and expenditures of LGFVs. Given the debt swap, changes in LGFV debt are no longer a good proxy for above-the-line-fiscal deficits of LGFV (see Box for details). To overcome this challenge, WIND data on interest-bearing liabilities is now used to estimate LGFV debt. Furthermore, above-the-line LGFV deficits are explicitly calculated from financial statements data available in WIND. The change in data source has led to LGFV debt and deficits being revised up marginally (see text chart).¹
- **GGFs:** Following Mano and Stokoe (2017), staff has included GGFs as part of the perimeter of government. Due to limited data availability, GGF deficits in recent years were assumed to be around 1.8 percent of GDP, broadly at the same level since 2019. With newly-published data

¹ The list of LGFVs, which was update in 2020 based on classification from the National Association of Financial Market Institutional Investors (NAFMII) and Bloomberg, has remained unchanged. Therefore, the change in debt estimates reflect (i) small differences in data for the same set of companies between WIND and S&P Capital IQ, including better data coverage in WIND which requires less interpolation; and (ii) differences in definition of interest-bearing liabilities in S&P Capital IQ and WIND.

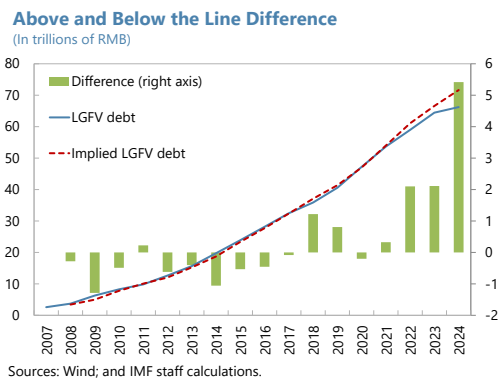
from Zero2IPO, staff has updated the debt and deficit estimates for GGFs following the same methodology as Mano and Stokoe (2017). Both debt and deficits for GGFs are now lower than those presented in the previous Article IV (see text figure).²



Box 1. Above-the-Line Estimates of LGFV Deficit and Recent Debt Swaps

More timely and comprehensive financial statement data in WIND allows for the estimation of above-the-line fiscal deficits for LGFVs. Corporate financial statements are used to estimate LGFV revenues, recurrent expenditures and interest expenses. Revenue includes operating income, non-operating income, and other income such as government subsidies. Recurrent expenditures encompass selling expenses, management fees, R&D expenses, finance costs, non-operating expenses, and taxes and surcharges. Capital expenditure is captured through net cash received from the disposal of long-term assets and cash paid for the acquisition or construction of such assets. Interest payments can be measured from the cash flow statement.

Differences between above-the-line and below-the-line LGFV data since 2022 may reflect the impact of debt swaps. Implied debt in period t+1 is computed as the debt in period t plus the above-the-line deficit described above. The comparison of actual debt and implied debt shows that the differences between above-the-line and below-the-line data were small before 2022 and did not show a systematic bias. Since 2022, however, implied debt has been higher than actual debt i.e. the above-the-line deficit has been larger than what the change in debt suggests. This potentially reflects the issuance of special refinancing bonds since 2022, which may have been used to reduce LGFV debt levels without impacting above the line estimates for LGFV deficits.

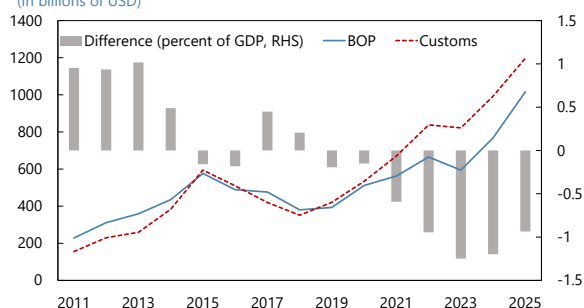


² The change in methodology will also result in marginal changes in the historical debt levels reported in the WEO, which includes 2/3 of LGFV debt. GGFs are not included in the WEO definition of debt.

Balance of Payments Data

7. China's trade surplus recorded in balance of payments (BOP) and customs data have diverged in recent years with the gap over one percent of GDP in 2024. As discussed in the 2024 Article IV report (Annex VII), these two datasets are compiled based on different methodologies and serve different purposes. While customs data record the physical movement of goods, BOP records exports and imports according to the change of ownership principle; therefore, it includes cases where the goods do not cross the border (e.g., nonresidents' purchase and resale of the goods in China) that are not recorded in customs data.

Goods Trade Balance, Customs vs. BOP
(In billions of USD)



Sources: China General Administration Customs; SAFE; Haver Analytics; and IMF staff calculations.

Note: The 2025 data cover Q1–Q3, seasonally adjusted and annualized.

8. Exports and imports in the BOP also typically reflect actual financial payments between exporters and importers, whereas customs-recorded exports and imports may sometimes include transactions without corresponding payments. For example, if Chinese assemblers receive goods and return them after assembling, no actual payments were made for the values of received and returned goods (only for assembling fees). However, the values of received and returned goods are recorded in full as imports and exports by customs.

9. Due to these differences, care is needed when using customs data as a source for compiling BOP data. If customs data are used as a source to record exports and imports in BOP, compilers should adjust the data by collecting additional information. However, this additional data collection is often challenging and costly.

10. To compile exports and imports in line with BOP principles, Chinese BOP compilers developed a direct reporting system from large enterprises, which they began using in 2022 to record trade in goods in BOP. According to the authorities, more than 13,000 enterprises report monthly on their exports and imports and related financial transactions, covering over 70 percent of China's trade. The remaining exports and imports are recorded based on settlement data from banks operating in China. This approach also enables the Chinese BOP compilers to record exports and imports based on actual transaction prices between residents and nonresidents, which correspond to payments between exporters and importers (customs declaration prices may differ from transaction prices).

11. To further improve the data on trade in goods in the BOP, Chinese BOP compilers have launched a pilot program to collect data on the counterpart country/region of trade contracts to the enterprise direct reporting system. Adding the geographical breakdown of trade in goods will significantly enhance the analytical value of China's trade data for bilateral and multilateral

surveillance. It will also support reconciliation with China's customs data as well as counterpart country data, and strengthen the quality of China's BOP trade statistics.

12. While the trade data in the BOP is broadly adequate for surveillance, there is scope to better explain the factors driving the gap between customs and BOP trade data. Given the large gap between customs and BOP trade balance, further analysis of the factors driving the difference can improve the credibility of the data. In particular, analysis of trends in factoryless goods manufacturing would be helpful. Back of the envelope calculations by staff and discussions with the authorities suggest that profits of multinational enterprises that are attributed to "Made-in-China-For-China" activities (i.e. MNEs outsourcing production to China, assuming ownership of goods post-production, and then reselling them in the Chinese economy at a higher price) are significant and can explain a substantial portion of the customs-BOP gap. However, reliable estimation of the contribution of such activities requires additional data, including from MNEs' headquarters outside China.

13. There is significant scope to enhance investment income and financial account data. China does not provide the institutional sector breakdown for the financial account, or the detailed breakdown for investment income as required by the sixth edition of the *Balance of Payments and International Investment Position Manual*, which limits the depth of economic analysis. As discussed in the 2025 External Sector Report (Box 1.1), with the global rise in interest rates, the top 10 largest economies saw implied yields on assets (and liabilities) increase markedly during 2022-24 relative to 2021. In contrast, China experienced a notable decline in the implied yield on assets, which in 2024 is estimated to have remained below the 2021 level. Several factors could potentially explain China's divergent trend, including a large share of FDI assets and non-commercial lending (e.g. infrastructure projects in LICs), which may not generate yields aligned with global interest rates. However, pinpointing the drivers of the decline in yields is constrained by the lack of granular investment income flow data.



PEOPLE'S REPUBLIC OF CHINA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

January 28, 2026

Prepared By

Asia and Pacific Department
(In consultation with other departments)

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FUND RELATIONS

(As of January 15, 2025)

Membership Status: Joined December 27, 1945; Article VIII (December 1, 1996)

General Resources Account:

	SDR Million	% Quota
Quota	30,482.90	100.00
Fund holdings of currency	22,320.00	73.22
Reserve position in Fund	8,162.95	26.78
Lending to the Fund		

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	36,206.16	100.00
Holdings	40,762.53.08	112.58

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	11/12/86	11/11/87	597.73	597.73
Stand-by	03/02/81	12/31/81	450.00	450.00

Projected Payments to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal		0.00	0.00	0.00	0.00
Charges/interest		0.17	0.17	0.17	0.17
Total		0.17	0.17	0.17	0.17

Exchange Rate Arrangement:

The de jure exchange rate arrangement is "managed floating" with a view to keeping the RMB exchange rate stable at an adaptive and equilibrium level based on market supply and demand with reference to a basket of currencies to preserve the stability of the Chinese economy and financial markets. The floating band of the RMB's trading prices is 2 percent against the U.S. dollar in the interbank foreign exchange market: on each business day, the trading prices of the RMB against the U.S. dollar in the market may fluctuate within a band of ± 2 percent around the midrate released that

day by China's Foreign Exchange Trading System (CFETS). China's de facto exchange rate regime is classified as a "crawl-like" arrangement. The People's Bank of China (PBC) indicated that the RMB's floating range would be changed in an orderly manner, based on the developments of the foreign exchange market and economic and financial situation. Within the trading band, banks may determine their RMB exchange rates to the U.S. dollar with their clients without any limit on the spread, based on market supply and demand (PBC No. 2014/188). On August 11, 2015, the PBC decided to further increase the flexibility of the RMB-to-USD exchange rate midrate quoting mechanism, thereby enhancing the market determination of RMB exchange rates, and giving market supply and demand an even greater role in exchange rate formation.

The CFETS publishes its exchange rate index (composed of 24 currencies since January 1, 2017, previously, 13 currencies), and other RMB indices based on the Bank for International Settlements (BIS) currency basket and the SDR currency basket.

China has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions, except for restrictions maintained for national or international security reasons which have been notified to the Fund, pursuant to Executive Board Decision No. 144 (52/51).

While exchange controls continue to apply to most capital transactions, the use of renminbi in international transactions has expanded over time. On October 1, 2016, the RMB was determined to be a freely usable currency and was included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, Japanese yen, and the British pound.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <https://www.worldbank.org/en/country/china>

Asian Development Bank: <https://www.adb.org/countries/prc/main>

CAPACITY DEVELOPMENT

Table 1. China: Summary of Capacity Development Activities, 2011–25

Department	Purpose	Date
Tax System Reform		
FAD	Mission on Tax Gap Analysis	September 2011
FAD	Micro-Simulation Models	December 2013
FAD	Analysis of the Macroeconomic Impact of Tax Policy	March 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	The Future Design of Value-added Tax	September 2016
FAD	Tax Policy for promoting entrepreneurship and employment	September 2017
FAD	Social security contributions	March 2018
FAD	VAT policy	September 2018
FAD	Workshop on Microsimulation on Income Tax	November 2020
FAD	Workshop on Value-added Tax	July 2021
FAD	Workshop on Capital and Labor Income Taxation	October-November 2021
FAD	Revenue Forecasting and Analysis	February 2023
FAD	Income Tax Cross Border Issues	November 2023
FAD	International Taxation	October 2024
Tax Administration Reform		
FAD	Tax Policy and Administration	September 2011
FAD	Tax Administration (Peripatetic Expert Visit 4 Of 5)	October 2011
FAD	Tax Administration (Peripatetic Expert Visit 5 Of 5)	October 2011
FAD	Large Taxpayer Compliance	October 2011
FAD	Workshop on Practical Tax Analysis for Tax Officials	December 2012
FAD	Large Taxpayer Administration	January 2013
FAD	Tax Administration Follow-Up	April 2014
FAD	Tax Collection Law Revision	May 2014
FAD	Tax Collection Law Revision	July 2015
LEG	Mission on Reforming Tax Collection Law	July 2015
FAD	Reforming the Personal Income Tax	October 2015
FAD	Improving Tax Compliance on ODI by Chinese Enterprises	October 2016
FAD	Tax administration—outbound investment and Taxpayer services	October 2017
FAD	Evaluate implementation of multi-year tax administration modernization	January 2018
FAD	Tax administration—performance measurement	March 2018
FAD	Tax administration--PIT	November 2018
FAD	Workshop and report on tax modeling and analysis	April 2019
FAD	Improving International and Domestic Taxpayer Compliance through Strengthened Services and Supervision	October 2020
FAD	Administering the Value-added Tax on Cross-border Transactions	November-December 2020
FAD	Improving Taxpayer Compliance through Strengthened Services and Supervision	October 2021
FAD	International Practices in Compliance Risk Management and Data Management	November 2021
FAD	Administering the Individual Income Tax on Offshore Transactions	December 2021

Table 1. China: Summary of Capacity Development Activities, 2011–25 (continued)

FAD	Administration of Human Resources	July-August 2022
FAD	New Tax Administration Technologies	November 2022
FAD	Strategy and Practice of Digitalization	July 2023
FAD	Strengthening Administration of Social Security Contributions	May-June 2023
FAD	Consumption (excise) tax on oil producers	September 2023
FAD	Taxpayer Services	May-June 2024
FAD	Risk Management for Large Enterprises	November 2024
FAD	Hybrid Exploring Modern Approaches in Identifying Tax Risk	May 2025
Public Financial Management		
FAD	High-level Dialogue on PFM Institutions	June 2011
FAD	Medium-Term Expenditure Framework Seminar	November 2011
FAD	Medium-Term Revenue Administration Program and Policies Discussion	June 2012
FAD	High-Level Dialogue on PFM Institutions	November 2012
FAD	Mission on Introducing Advanced Treasury Reforms	February 2013
FAD	High-level Seminar on Fiscal Reforms	January 2014
FAD	Mission on Modernization of Government Accounting	April 2014
FAD	Mission on Medium Term Expenditure Frameworks	July 2014
FAD	Expert visit on Treasury management (accounting)	September 2014
FAD	Expert visit on Chart of Accounts Improvements	March 2015
FAD	Expert visit on Treasury Management (cash management)	March 2015
FAD	Mission on Strengthening Local Government Borrowing Reform	April 2015
FAD	Mission on Accounting Modernization	November 2015
FAD	Workshop on Medium-Term Expenditure Frameworks	April 2016
FAD	Seminar and Case Study on Local Government Borrowing and Bond Market Development	April 2016
FAD	Expert visit on Treasury – Central Bank Coordination	June 2016
FAD	Workshop on Medium-term Expenditure Frameworks	April 2017
FAD	Government accounting and financial reporting	April 2018
FAD	Performance Budgeting	April 2019
FAD	China-Revenue Administration	May-June 2023
FAD	China-Revenue Administration	July 2023
Statistics		
STA	Workshop On Special Data Dissemination Standard	April 2011
STA	Government Finance Statistics	May 2011
STA	Data Work: SRFs Data Development for OFCs/ FSI Data Reporting	April 2012
STA	Quarterly National Accounts	November 2013
STA	Total Social Financing (TSF) Indicators/Monetary and Financial Statistics	March 2014
STA	SDDS Assessment	August 2014
STA	Data Work: Monetary Data Reported in SRF	September 2014
STA	SDDS Assessment	December 2014
STA	TSF/Monetary Data Reported in SRFs	March 2015
STA	Multi-sector Mission: SDDS Metadata Development and Topical TA	June 2015
STA	Quarterly National Accounts	March 2019

Table 1. China: Summary of Capacity Development Activities, 2011–25 (continued)**Monetary Policy, Bank and financial Supervision, and AML/CFT**

LEG	AML/CFT Legislative Drafting	March 2011
LEG	Bank Resolution	May 2012
MCM	Seminar on Article VIII of IMF's Articles of Agreement	July 2017
MCM	Securities Markets Supervision Workshop	September 2017
MCM	Mission on Securities Market Supervision	March 2018
MCM	Regulatory and Prudential Framework	August 2018
MCM	Financial Sector Technical Assistance	September 2018
MCM	Financial Sector Technical Assistance	November 2018
MCM	Monetary Policy Implementation and Operations	January 2019
MCM	Financial Sector Technical Assistance	January 2019
MCM	Financial Sector Technical Assistance	April 2019
MCM	Workshop on Sovereign Bond Futures Market	April 2019
MCM	Indicator-based Framework for Systemic Risks Monitoring	May 2019

Training

LEG	AML/CFT Legislative Drafting Mission	March 2011
INS	Course on Macroeconomic Management and Financial Sector Issues	March 2011
INS	Course on Macroeconomic Forecasting	April 2011
INS	Government Finance Statistics Course at CTP	May 2011
STA	Course on Government Finance Statistics	May 2011
STA	Course on Government Finance Statistics	June 2011
INS	BOP and IIP Course at CTP	June 2011
STA	Course on Balance of Payments Statistics	October 2011
INS	Monetary and Financial Statistics Course at CTP	November 2011
STA	Participate in OECD-NBS Workshop on National Accounts	March 2012
INS	FSI Course at CTP	September 2012
MCM	Medium Term Debt Management Workshop	November 2012
INS	BOP/IIP Course at CTP	April 2013
MCM	Workshop on Capital Account Convertibility and Exchange Rate Policy	June 2013
STA	SDDS Seminar	July 2013
INS	Introductory Course on Monetary and Financial Statistics in CTP	September 2013
STA	Quarterly National Accounts Seminar organized by NBS	November 2013
ICD	Macroeconomic Management & Financial Sector Issues	January 2014
MCM	Financial Statistics	March 2014
MCM	Workshop on Financial Regulation and Supervision	March 2014
ICD	Macroeconomic Management & Financial Sector Issues	March 2014
MCM	Course on External and Systematic Financial Risks	July 2017
ICD	Macroeconomic Diagnostics	September 2014
INS	Financial Soundness Indications in CTP	September 2014
STA	Seminar at Fund HQ for SAFE Officials on Experiences and Challenges in the Implementation of BPM6	September 2014
ICD	Macroeconomic Forecasting	October 2014
STA	OECD/NBS Workshop on Sectoral Accounts (with STA participation)	December 2014
ICD	Macroeconomic Management and Financial Sector Issues	March 2015
MCM/STA	Total Social Financing Indicator	March 2015

Table 1. China: Summary of Capacity Development Activities, 2011–25 (continued)

STA	Meeting: ECB Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
STA	Meeting: BIS Meeting with Delegation from China on Debt Securities & Data Issues	April 2015
MCM	SDR Review/Operational Issues	June 2015
ICD	Macroeconomic Forecasting	June/July 2015
INS	Advanced Course on Monetary and Financial Statistics in CTP	August 2015
STA	SAFE-Course on Compilation of Balance of Payments Statistics	September 2015
ICD	Macroeconomic Diagnostics	September 2015
STA	Balance of Payments Statistics	September 2015
ICD/FAD	Fiscal Analysis and Forecasting	November 2015
FAD/ICD	Course on Fiscal Analysis and Forecasting	December 2015
STA	OECD/NBS China Workshop on National Accounts (with STA participation)	March 2016
MCM	Sub-national Debt Market Development	April 2016
MCM	Workshop on Securities Supervision	April 2016
STA	Seminar on Cross-border Position Statistics and Challenges in the Implementation of New Data Initiatives	June 2016
ICD	Macroeconomic Forecasting	June/July 2016
ICD	Macroeconomic Forecasting – Advanced	July 2016
ICD	Financial Sector Surveillance	June/July 2016
MCM	Workshop on Enforcement and Market Surveillance	September 2016
ICD	Dynamic Stochastic General Equilibrium Modeling	November 2016
ICD	Dynamic Stochastic General Equilibrium Modeling - China	November 2016
ICD	Financial Sector Surveillance	June 2017
ICD	Macroeconomic Forecasting –advanced course	June 2017
ICD	Monetary and Fiscal Policy Analysis with DSGE Models	August - September 2017
ICD	Dynamic Stochastic General Equilibrium Modeling – China	September 2017
STA	Cross-border Position Statistics	September 2017
ICD	Managing capital flows	March 2018
ICD	Macro-Econometric Forecasting and Analysis	May-June 2018
ICD	Fiscal Policy Analysis	June 2018
ICD	Financial Sector Surveillance	June 2018
ICD	Financial Development and Financial Inclusion	June-July 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models	August 2018
ICD	Monetary and Fiscal Policy Analysis with DSGE models(advanced)	August 2018
MCM	Stress Testing and Systemic Risks I	October 2018
ICD	Financial Programming and Policies	October 2018
ICD	Inclusive Growth	December 2018
MCM/ICD	Adapting Financial Supervision to New Financial Technologies	January 2019
SPR	Debt Sustainability Framework in Low-Income Countries and Fund	February-March 2019
MCM	Policies	March 2019
ICD/MCM	Stress Testing and Systemic Risk II	April 2019
ICD	Financial Markets and Instruments	April 2019
ICD	Financial Sector Policies	May 2019
MCM/ICD/LE	Macroeconomic Diagnostics	May 2019
ICD	Managing Capital Flows	June 2019
STA	Financial Sector Surveillance	June 2019
	Debt Securities Statistics	
ICD	Monetary & Fiscal Policy Analysis with DSGE Models-Advanced Workshop	September 2019
ICD	Fiscal Sustainability	September 2019

Table 1. China: Summary of Capacity Development Activities, 2011–25 (continued)

LEG	Current International Issues in Tax Law Design	September 2019
MCM	Bank Restructuring and Resolution	September 2019
ICD	Macroeconomic Diagnostics	October–November 2019
STA	Cross-Border Position Training	November 2019
ICD	Financial Programming and Policies	December 2019
SPR	Virtual Workshop on Debt Sustainability Analysis and IMF Policies	July 2020
MCM	Virtual Course on Stress Testing and Systemic Risk	September 2020
ICD	Virtual Course on Macroeconomic Diagnostics	October 2020
ICD	Economic Issues in Regional Integration (ERIV)	November 2020
ICD	(Selected Issues in) Financial Sector Policies (FSSv)	November–December 2020
SPR/ICD/LEG	Debt Sustainability Analysis and IMF Policies	December 2020
ICD/MCM/LEG	Managing Capital Flows (MCFv)	December 2020
ICD	Fiscal Policy Analysis (FPA)	December 2020
LEG	Corporate and Household Insolvency (CHI)	January 2021
ICD	Financial Markets and Instruments (FMI)	January 2021
LEG	International Issues in Tax Law Design (TLWD)	March 2021
MCM	Workshop on Regulation and Supervision of Issuers (RS)	April 2021
ICD	Fiscal Frameworks (FF)	July 2021
LEG	Implementing the International AML/CFT Standards (AMLS)	July 2021
ICD	Monetary and Fiscal Policy Analysis with DSGE Models(DSGE)	August 2021
SPR	Webinar on Implications of RCEP and CPTPP for China	September 2021
SPR/LEG	DSA AND IMF POLICIES WORKSHOP	September 2021
MCM	Course on Bank Restructuring and Resolution	November 2021
FAD	Financial Development and Financial Inclusion (FDFI)	November 2021
STA	Statistics on International Trade in Goods and Services	November–December 2021
MCM	Systemic Macro-financial Risk Analysis (MFRA)	November–December 2021
FAD	Applying the Tax Administration Diagnostic and Assessment Tool (TADAT)	December 2021
ICD	Managing Capital Flows	December 2021
ICD	Financial Sector Policies (FSP)	January 2022
ICD	Macroeconomic Diagnostics (MDS)	February 2022
ICD	Financial Development and Financial Inclusion (FDFI)	March 2022
ICD	Fiscal Sustainability (FS)	March 2022
ICD	Debt Dynamics and Fiscal Adjustment Paths (Part 2) (DDFAP)	March 2022
MCM	Selected Issues in the Regulation of Fintech (SIFR)	March 2022
ICD	Macroeconometric Forecasting & Analysis (MFA)	April 2022
ICD	Financial Markets and Instruments (FMI)	June 2022
LEG	Implementing the International AML/CFT Standards (AMLS)	June 2022
ICD	Nowcasting (NWC)	June–July 2022
ICD	Macroeconomic Diagnostics (MDS)	August–September 2022
SPR	Debt Sustainability Analysis and IMF Policies (DSA)	August–September 2022
STA	Statistics in International Trade in Goods and Services (ITGS)	September 2022
MCM	Current Issues in Banking Supervision and Regulation (BRS)	October 2022
FAD	Tax Policy and Administration: Theory and Practice (TPAT)	October 2022
ICD	Managing Capital Flows (MCF)	October–November 2022
STA	Balance Sheet Approach (BSA)	November 2022
STA	External Sector Statistics - Intermediate Level (ESS-M)	November 2022
LEG	International Issues in Tax Law Design (TLWD)	November–December 2022
ICD	Vulnerability Diagnostics (VDS)	December 2022
ICD	Fiscal Sustainability (FS)	December 2022
FIN	IMF Financial Account Operations	December 2022
ICD	Financial Sector Surveillances (FSS)	March 2023
MCM	"Green Finance" Webinar	April 2023

Table 1. China: Summary of Capacity Development Activities, 2011–25 (concluded)

STA	Financial Soundness Indicators (FSI)	June 2023
LEG	Implementing the International AML/CFT Standards (AMLS)	July 2023
ICD	Systemic Macro Financial Risk Analysis	May 2024
ICD	Cross-border Payments in the Digital Age	May 2024
ICD	Bank Restructuring and Resolution	October 2024
ICD	Corporate Governance in Banking Supervision and Regulation	March 2025
MCM	Core Elements of Banking Supervision (CBS)	July 2023
ICD	Monetary & Fiscal Policy Analysis with DSGE Models (DSGE)	August-September 2023
STA	Monetary and Financial Statistics-Introductory (MFS-I)	September 2023
ICD	Fintech Market Development and Policy Implications (FINTECH)	September 2023
ICD	Macroeconomic Diagnostics (MDS)	September 2023
FAD	Tax Policy and Administration: Theory and Practice (TPAT)	October 2023
APD/FAD/STA	Managing Fiscal Risks of Local Governments	October 2023
LEG	International Issues in Tax Law Design (TLWD)	November 2023
SPR	Debt Sustainability Analysis and IMF Policies (DSA)	November 2023
MCM	Selected Issues in the Regulation of Fintech	November 2023
ICD	Macroeconometric Forecasting and Analysis	December 2023
ICD	Inclusive Growth	December 2023
MCM	Bank Restructuring and Resolution	December 2023
MCM	Macroeconomic Stress Testing	January 2024
ICD	Central Bank Digital Currencies: Principles and Policy Considerations	February 2024
ICD	Financial Sector Policies	March 2024
ICD	Macroeconometric Forecasting and Analysis	April 2024
APD/FAD/STA	IMF-MOF Technical Cooperation in Government Finance Statistics	April 2024
FAD	Technical Cooperation Program on Fiscal Reforms	June 2024
APD/FAD/STA	IMF-MOF Technical Cooperation in Government Finance Statistics	July 2024
SPR	Sovereign Risk and Debt Sustainability Framework (SRDSF) for Market Access Countries and IMF Policies (SRDSF-MAC)	November 2024
LEG	Joint Assessor Training (JAT)	March 2025
LEG	Assessed Country Training for China for the FATF Fifth Round of AML/CFT Mutual Evaluations	June 2025
MCM	Capital Markets Oversight and Development Workshop	July 2025
MCM	Retail Payments, Innovations in Money and CBDC	October 2025
STA	Add-on Workshop on Balance Sheet Approach	November 2025

Statement by Zhengxin Zhang, Executive Director for the People's Republic of China

February 13, 2026

We would like to thank Managing Director Kristalina Georgieva, First Deputy Managing Director Dan Katz, and IMF staff for their constructive policy dialogue with the Chinese authorities during the China 2025 Article IV Consultation. We commend staff for their professionalism and hard work, and value their comprehensive and well-focused analyses. In 2025, China's economy has exhibited strong resilience and achieved steady growth. In 2026, the first year of the 15th Five-Year Plan, China will take steps to boost domestic demand, optimize supply, develop new quality productive forces based on local conditions, and promote high-quality economic development.

I. China's Recent Economic Developments and Medium-Term Growth Outlook

We welcome staff's upward revisions to China's growth forecasts for 2025 and 2026. In 2025, despite severe disruptions to the global economic and trade order as well as an increasingly challenging domestic environment, the Chinese economy remained stable and continued to improve on the back of more proactive macroeconomic policies. The annual GDP grew by 5.0 percent year on year to a historical high of RMB 140 trillion. **China remained a key engine of the world economy**, continuing to contribute about 30 percent to global economic growth. Domestic demand contributed 67.3 percent to China's economic growth, with consumption accounting for 52 percent, underscoring the key role of consumer demand in stabilizing the overall economy. On a year-on-year basis, total retail sales of consumer goods increased by 3.7 percent, and industrial value added grew by 5.8 percent. Imports and exports of goods (priced in RMB) increased by 3.8 percent, with exports growing by 6.1 percent and imports by 0.5 percent. The surveyed urban unemployment rate stood at 5.2 percent. Prices stabilized and rebounded, with core CPI rising 0.7 percent year on year, up 0.2 percentage points from the previous year. In December 2025, CPI rose by 0.8 percent year on year, the fastest since March 2023; core CPI rose by 1.2 percent, marking a fourth consecutive month of increases above 1 percent; and the decline in PPI narrowed to 1.9 percent. Going forward, with the continued implementation of consumption-boosting measures and the anti-involution policies, CPI is expected to increase moderately.

Looking ahead, trade tensions and geopolitical conflicts will continue to pose significant uncertainties, and domestic demand still needs to be strengthened. However, the underlying conditions and fundamentals of China's long-term growth remain unchanged. In the short term, the indicators of production, prices, and expectations have shown encouraging signs of improvement. In December 2025, the year-on-year growth of value added of above-scale industrial enterprises and the Index of Service Production accelerated compared with the previous month; prices grew faster on a year-on-year basis; and the manufacturing PMI returned to the expansionary territory. The

package of fiscal and financial policies implemented at the beginning of the year to boost domestic demand is also paving the way for this year's resilient economic performance. **In the long run**, China benefits from a vast market, a comprehensive industrial base, and abundant human resources. Its technological and industrial innovation is beginning to yield tangible results, with emerging sectors such as high-end equipment, green energy, and intelligent manufacturing expanding rapidly. We would have appreciated further elaboration on these developments in the Report.

II. Policy Issues

1. Monetary policy. China's appropriately accommodative monetary policy stance is consistent with staff's advice in terms of policy direction. In 2025, the People's Bank of China (PBOC) continued to implement an appropriately accommodative monetary policy stance by using a variety of monetary policy tools and maintaining sufficient liquidity in the system. Monetary and financial policies have been effective in supporting the real economy. As of the end of 2025, the aggregate financing to the real economy (AFRE) and broad money supply (M2) increased by 8.3 percent and 8.5 percent year on year, respectively, both significantly above the nominal GDP growth rate, reflecting appropriately accommodative monetary and financial conditions. Over the past two years, the PBOC has cut the policy interest rate three times by a cumulative 0.4 percentage points, bringing it down to 1.4 percent. In December 2025, the weighted average interest rates of new corporate loans and mortgages both stood at about 3.1 percent, down 2.5 and 2.6 percentage points respectively from the second half of 2018. In addition, the structure of the financial system has been continuously improved, and support for key areas such as sci-tech innovation and consumption has been strengthened to boost domestic demand. In priority areas such as technology, green transition, inclusion, elderly care, and digital economy, credit growth has remained in the double digits.

In 2026, China will continue to pursue an appropriately accommodative monetary policy, with promoting steady economic growth and supporting a reasonable rebound in prices as important policy considerations. **In terms of aggregate support**, the PBOC will use a mix of monetary policy tools, such as cutting the reserve requirement ratio (RRR) and interest rates, in a flexible and efficient manner, to maintain adequate liquidity in the system, and ensure that the growth of AFRE and money supply align with expected targets for economic growth and the overall price level. There remains room for further RRR and policy rate cuts this year. **In terms of structural support**, the PBOC introduced a number of monetary and financial policy measures at the beginning of this year. It lowered the interest rates of various structural monetary policy instruments by 0.25 percentage points. The PBOC established a RMB 1 trillion central bank relending facility to support private enterprises and introduced a combined bond risk-sharing tool for technology innovation and private enterprises. The PBOC expanded the relending facility for agriculture and small businesses by RMB 500 billion to RMB 4.35 trillion, and increased the relending facility for sci-tech innovation and technological upgrading by RMB 400 billion to a total amount of RMB 1.2 trillion. In addition, the PBOC expanded

the scope of the carbon emission reduction facility and the service consumption and elderly care relending facility.

2. External sector assessment and exchange rate policy. We do not agree with staff's preliminary assessment that China's external position in 2025 is stronger than the level implied by fundamentals. First, the assessment does not take into account the impact of trade restrictions and geopolitical factors on the current account, nor temporary factors such as trade frontloading. The expansion of China's exports in 2025 was primarily driven by its competitiveness and innovation capacity, as well as export frontloading caused by the uncertainty of US trade policy, while China's imports was affected by trade restrictions in some advanced economies and the decline in commodity prices. Second, the EBA model has important limitations. It focuses on the current account without accounting for the financial account, and as a single unified model applied across countries it cannot fully reflect country-specific circumstances. As the EBA model is currently under review, we request a timely update on the assessment result once the review is completed to avoid sending misleading signals.

China maintains a clear and consistent exchange rate policy which relies on market forces to play a decisive role in the formation of the RMB exchange rate, while keeping the exchange rate basically stable at an adaptive and equilibrium level. China has no need or intention to gain a competitive advantage in international trade through exchange rate depreciation. The RMB has strengthened since August 2025 as the economic and trade tensions between China and the US eased, partly reversing the notable depreciation pressure earlier in the year amid the US tariffs. Exchange rates are affected not only by the current account, but also by capital flows. With respect to the RMB's real effective exchange rate, its depreciation mainly reflects China's relatively low inflation compared with its trading partners.

3. Fiscal policy. We agree with staff's assessment that fiscal expansion in 2025 has provided welcome support to growth. However, we hold different views on the characterization of the fiscal expansion as "modest," as well as issues related to the concept of augmented debt and to local government debt.

In 2025, China implemented a more proactive fiscal policy stance, which has not only provided strong support to near-term economic growth, but also facilitated the structural transformation of the Chinese economy. First, countercyclical policy support was strengthened. In 2025, China's budgetary deficit as a percentage of GDP was set at 4 percent, an increase of 1 percentage point over the previous year. RMB 500 billion in special bonds were issued to support large state-owned commercial banks in replenishing their Common Equity Tier 1 Capital, and RMB 500 billion of unused local government debt quotas was carried over to bolster local governments' overall fiscal capacity and expand effective investment. **Second, measures have been taken to boost consumption.** RMB 1.3 trillion in ultra-long special bonds were issued to continue supporting major national strategies and capacity building in key areas related to national security ("two major priorities"), as well as a new round of large-scale equipment upgrades

and consumer goods trade-in programs (“two new initiatives”). Of this amount, RMB 300 billion was allocated for consumer goods trade-in programs. In addition, policies were introduced to provide interest subsidies to consumer loans and loans to service-sector businesses, and policies related to duty-free shops and departure tax refunds were further optimized. **Third, efforts were intensified to improve people’s livelihood.** The central government allocated RMB 66.74 billion for employment subsidies, raised the standard of medical insurance subsidy and the minimum benefit level of the basic pension scheme, gradually rolled out free preschool education, and provided childcare subsidies for infants and young children under the age of three.

In 2026, China will continue to implement a more proactive fiscal stance. The overall scale of fiscal expenditure will be expanded to ensure sufficient funding for essential spending areas. The expenditure structure will be further optimized to channel funds to the priority areas, including boosting consumption, investing in human capital, and safeguarding people’s livelihood. Moreover, efforts will be made to enhance the efficiency of fiscal spending and advancing reforms in key fiscal and taxation areas.

Regarding local government debt, the government introduced a policy in September 2024 to use RMB 10 trillion of local government special bonds to swap implicit debts. As of the end of September 2025, out of the RMB 6 trillion quota, about RMB 4 trillion of local government debt has been issued. The average interest cost has dropped by more than 2.5 percentage points, significantly easing the debt repayment pressure of local governments and gradually mitigating their debt risks. At the same time, **the government has taken multiple measures to address the debt risks of local government financing vehicles (LGFVs) and made important progress.** The principle of “the provinces bear the overall responsibility” has been clarified, and LGFVs have been transformed into market-oriented entities through mergers and acquisitions, restructuring, and asset injection. Financial institutions were also guided to resolve the debt risks of LGFVs through market-based approaches such as maturity extensions, refinancing, and debt swaps. As of September 2025, about 70 percent of LGFVs have exited from the LGFV list through market-oriented transformation and other channels, with their debts remaining under close surveillance by relevant authorities.

4. Preventing and mitigating financial risks. China’s financial system remains generally sound, with financial risks continuing to decline and well under control. The risks related to LGFV debt and the real estate sector have been well managed and addressed. All major financial institutions have replenished their core capital. By the end of September 2025, the capital adequacy ratio of commercial banks stood at 15.36 percent, and their non-performing loan ratio at 1.52 percent. The comprehensive solvency ratio of insurance companies reached 186 percent, and the average risk coverage ratios of securities and futures companies were 295 percent and 226 percent respectively. All these indicators remain well above regulatory requirements, indicating strong overall resilience. The implicit debt swap is currently progressing in an orderly manner, and tangible progress has been made in resolving LGFV debt risks. On the real estate front, the central bank has

adjusted macro-prudential policies in terms of down payment ratios, new and existing mortgage rates, and structural relending tools. Financial regulatory authorities have also rolled out measures such as the “whitelist” program. With these measures, the authorities have properly addressed the spillover from the real estate market’s long-cycle adjustment to the financial system and preserved the overall stability of financial institutions and markets.

After more than three years of deep adjustment, the real estate market has entered a bottoming phase. The market has observed multiple signs of bottoming out, including a rebound led by first-tier cities, the narrowing of declines in nationwide sales and prices, a steady rise in the rent-to-sales ratio, the successful completion of pre-sold housing delivery, and the resumption of offshore bond issuance by high-quality developers. **In the short term**, the construction of affordable housing, the renovation of urban villages, and ongoing urban renewal will play a positive role in stabilizing real estate investment and the macroeconomy. **In the long term**, there remains considerable potential for further urbanization in China, with the urbanization rate based on the registered residence (“hukou”) only standing at about 48 percent. The ongoing urbanization will lend strong support to the long-term steady development of the real estate market.

5. Industrial policy. We agree with staff’s view that industrial policy, if well implemented, may have benefits such as increased innovation and self-reliance, and can potentially correct externalities. However, we believe staff’s estimates of the scale and impact of China’s industrial policy are significantly overstated. First, there is currently no commonly accepted methodology for measuring industrial policy. Linearly and mechanically aggregating different industrial policy instruments suffers from inherent methodological deficiencies. At present, staff’s estimates of the scale of industrial policies in China, the United States, and Europe differ in terms of policy coverage and statistical definitions, resulting in a lack of comparability. **Second**, the estimate that the fiscal cost of China’s industrial policies amounts to about 4 percent of GDP is subject to significant limitations. Extrapolating from listed companies to other firms introduces bias. In addition, many measures—such as land price adjustments, broader tax benefits, and credit support—are implemented in line with market-oriented principles and including them overstates the actual scope of industrial policy. **Third**, the estimate that industrial policy-related misallocation has reduced the level of GDP by about 2 percent requires greater caution. China’s industrial policies are primarily focused on promoting innovation, advancing the green and low-carbon transition, and invigorating small- and medium-sized enterprises. We believe that well-designed and effective industrial policies can have a positive impact on innovation and aggregate productivity. For example, China’s industrial policies supporting green development have effectively advanced green and low-carbon transformation and posed positive spillover effects globally.

Historically and today, industrial policy has been a common practice across countries and is by no means unique to China. Many advanced economies have adopted industrial policies in the past. Today, many advanced economies, including the United

States and Europe, continue to pursue such policies, and in some cases even resort to exclusionary and discriminatory measures such as trade restrictions. **By contrast, China's industrial policies are open and transparent**, apply equally to state-owned enterprises, private firms, and foreign-invested entities, and emphasize the decisive role of the market in resource allocation. In recent years, China's industrial policies have shifted their focus to technological innovation from capacity expansion, with subsidies in many sectors gradually phased out. For example, China recently announced that, starting in April 2026, it will eliminate export VAT rebates for more than 200 products, including photovoltaic products. We call for objective and even-handed discussions on industrial policy, which should avoid double standards and an overly broad definition of industrial policy.

China's manufacturing competitiveness stems from its efficient and complete industrial and supply chain system, a fully competitive market ecosystem, and sustained technological innovation, which is fully aligned with global technological advances and the green development agenda. This competitiveness cannot be "created" through industrial policies, but rather the product of market forces. Since its accession to the WTO, China has earnestly fulfilled its WTO obligations and opening-up commitments, strictly adhered to WTO rules, faithfully fulfilled obligations related to subsidy policies, notification, and transparency requirements, and firmly upheld multilateralism.

6. Promoting consumption. The Chinese government places high priority on boosting domestic demand and promoting consumption, which is also consistent with staff's recommendation to facilitate the transition to a consumption-led growth model. Since 2025, the government has actively implemented special initiatives to stimulate consumption, including the introduction of policy measures such as consumer goods trade-in programs and the "Shopping in China" promotional activities. These measures are aimed at expanding service consumption, fostering new types of consumption, creating a full range of new consumption scenarios, and further unlocking domestic consumption potential. In addition, the PBOC has introduced a central bank relending facility to support service consumption and the elderly care sector, expanded the relending facilities to promote technological innovation and upgrading, and promoted consumption in key service sectors. Looking ahead, the 15th Five-Year Plan places strong emphasis on vigorously boosting consumption, which will further strengthen the fundamental role of consumption in driving economic growth.

7. Trade policy and international cooperation. We agree with staff's view that China has an important role in strengthening the multilateral trading system and that it should continue its efforts to pursue high-standard trade agreements. China champions true multilateralism, actively participates in global economic governance, and safeguards the WTO-centered multilateral trading system. China continues to advance institutional opening up in terms of rules, regulations, management, and standards, and to foster a market-oriented, law-based, and world-class business environment. It has actively implemented new unilateral opening-up measures and promoted high-standard opening up. In this regard, China has granted zero tariffs across all tariff lines to products from 53

African countries with which it has diplomatic relations. China has also promoted the development of pilot free trade zones, implemented new opening-up measures in cross-border trade in services, and supported free trade zones where conditions are in place to pilot alignment with high-standard international rules such as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Digital Economy Partnership Agreement (DEPA). In addition, China has applied a negative list for cross-border trade in services. At present, China has signed 24 free trade agreements with 31 countries and regions, including the *China-ASEAN Free Trade Area 3.0 Upgrade Protocol*, which was signed in October 2025. China is also actively promoting negotiations on the establishment or upgrading of free trade agreements with trading partners such as Honduras, Peru, the Gulf Cooperation Council (GCC), New Zealand, South Korea, and Switzerland. The China International Import Expo (CIIE) has been held for eight consecutive years, generating a cumulative value of intended deals exceeding USD 580 billion, and serving as a platform through which China shares its development opportunities and promotes common development with the rest of the world. In December 2025, Hainan Free Trade Port launched an island-wide customs operation, marking an important step towards high-level opening up.

In addition, **China remains firmly committed to improving data quality and adhering to the IMF's data dissemination obligations and commitments.** The authorities have maintained close communication with the IMF and had an in-depth exchange with the IMF on statistical issues in July 2025. To better align with the IMF's balance of payments principles, China has adopted the direct collection of data from enterprises to record trade in goods in the balance of payments, and also plans to release the breakdown data of foreign direct investment and non-foreign direct investment under investment income, as well as the sectoral breakdown data of financial accounts in March this year. China actively participates in the work of the Task Team on Global Asymmetries (TT-GA) and the Monetary and Financial Statistics Advisory Committee (MFSAC) and shares its experience with other members.

Finally, we wish to convey our appreciation to Managing Director Kristalina Georgieva, First Deputy Managing Director Dan Katz, APD Director Krishna Srinivasan, Deputy Director Thomas Helbling, Mission Chief Sonali Jain-Chandra, Deputy Mission Chief Siddharth Kothari, as well as the entire China team, in recognition of their dedication and professionalism, and their long-standing support for cooperation between the IMF and the Chinese authorities.