

# 10 questions for China in 2025

Forecasting is challenging even in the most stable times, and we are now entering a period of uncertainty with Trump's tariff threats and questions about the speed and aggressiveness of China's fiscal and monetary policy easing. Here are some key points to consider as we look ahead to 2025



Beijing skyline

## 1 What growth target will China set for 2025?

China's annual exercise of setting its growth target at the Two Sessions is extremely important as it sets the tone for government policy for the year. China's government has rarely failed to meet its growth targets, with only two cases on record where growth fell significantly short of the target, in 1990 and 2022.

The growth target set will also show how serious policymakers are about shoring up growth amid what will likely be a less supportive external environment in 2025.

Below are the potential targets and what they could indicate:

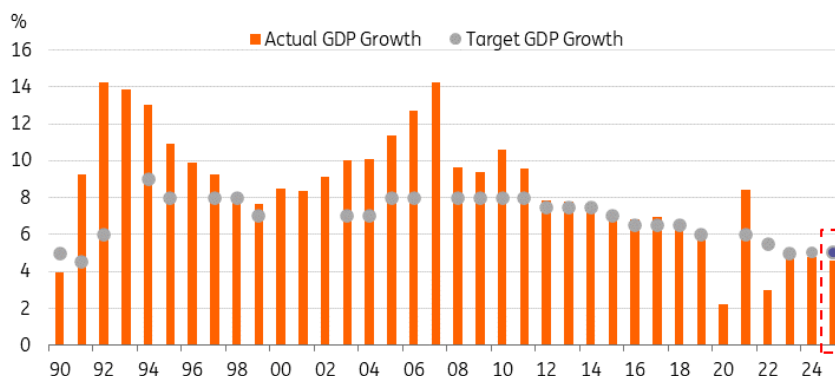
- Baseline case ('around 5%' or 'above 4.5%'): in our baseline case, we expect China to either repeat the 'around 5%' growth target in 2025 for a third consecutive year or to select an "above 4.5%" target. Either of these targets would set a relatively acceptable floor for

growth and would send a message that the government remains confident in its ability to stabilise growth. To successfully manage this goal, we would likely need to see a stronger fiscal and monetary policy stimulus push in 2025. Policy focus will likely shift towards boosting domestic demand, as the odds of export demand holding up are not high. There will also likely be targeted support for industries affected by tariffs.

- Bear case (around 4.5% or below): this more conservative target would naturally be easier to reach and reduce the pressure on policymakers. This is a potential option if policymakers are not expecting the impact of domestic stimulus to be significant enough to offset the drag from the external environment. This sort of result would likely be viewed by markets negatively as a tolerance for lower growth would likely lead to a weaker policy support stance.
- Bull case (Above 5%): this would be bold messaging and a signal of confidence in an environment where most economists are expecting some drag from US tariffs to materialise. Securing above 5% growth would likely require a significant policy push beyond what has already been announced. This sort of commitment would likely act as a catalyst for a rise in markets.

Our baseline forecast has China’s GDP growth at 4.6% YoY in 2025, incorporating a slight net drag from weaker external demand but a stronger supportive policy push domestically. There is a higher than normal level of uncertainty to the forecasts given various question marks surrounding the scenario.

## China could return to the growth target of 'around 5%' to inspire confidence



Sources: CEIC, ING

## 2 Will current monetary easing be effective and is there room for more?

The People's Bank of China (PBoC) has had a busy year. The central bank announced [a new monetary policy framework reform](#) in June, aiming to improve the market transmission of monetary policy by featuring the 7-day reverse repo rate as the new benchmark interest rate and expanding open market operations.

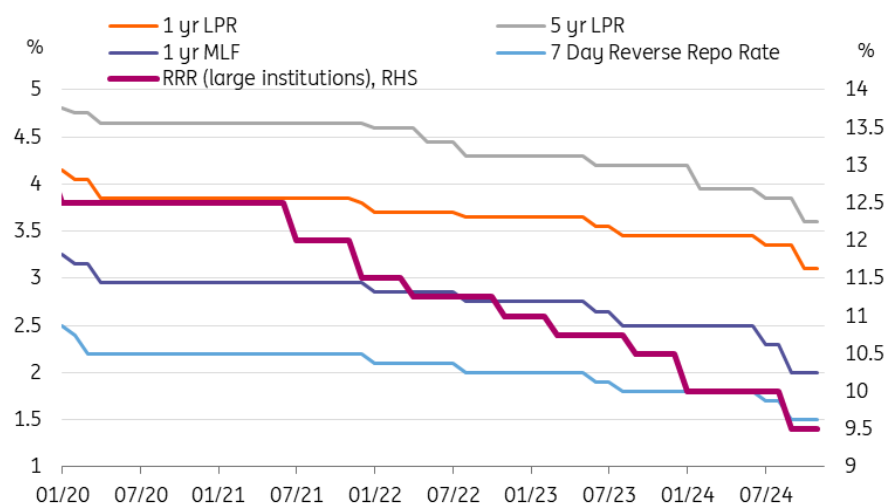
During the year, we saw 30bp of 7-day reverse repo rate cuts, 50bp of 1-year MLF rate cuts, 100bp of RRR cuts (with the possibility of another cut in December), as well as new programmes introduced to support the equity and property markets. This pace of easing was generally a little

faster than most forecasts, and the PBoC’s stabilisation efforts were generally well-received by market participants, with September’s package, in particular, sparking a furious rally in Hong Kong and Mainland Chinese equities.

The efficacy of current rate cuts is up for debate. At first glance, China’s economic activity data has stabilised since September, though it’s questionable how much of that can be attributed to monetary policy given there is typically a longer lag effect. Credit activity has remained weak on an aggregate level, but our channel checks have indicated that there has been a slight uptick in loan demand after rates were lowered.

In 2025, we believe the PBoC will continue to build on the foundations laid in 2024. We expect 20-30bp of rate cuts next year, with more if US tariffs come in earlier or higher than anticipated. Another 50bp RRR cut is widely expected in the coming months, and we could see a cumulative 100bp of RRR cuts before the end of 2025. We also anticipate further expansion of open market operations and a gradual wind-down of the medium-term lending facility in the next part of the PBoC’s reform and continued targeted programmes to support vulnerable areas of the economy.

### PBoC is set to continue easing in 2025



### 3 Can we expect fiscal stimulus to ramp up in 2025?

While monetary policy generally exceeded expectations in 2024, fiscal policy mostly underwhelmed markets. Numerous local governments continued to face short-term debt pressures, with various reports of delayed payments to vendors and staff. In such a challenging situation, it is of little surprise that many local governments did not have the bandwidth to ramp up stimulus.

[The RMB 10tr fiscal package](#) announced at the National People’s Congress in November sets the stage for 2025. We think the market’s lukewarm reaction to the announcement is underestimating the impact of this package; addressing local government short-term debt pressures is a vitally important step in freeing local governments up to resume their traditional roles as executors of fiscal stimulus, and once this is done we expect to see a more forceful fiscal policy stance next year.

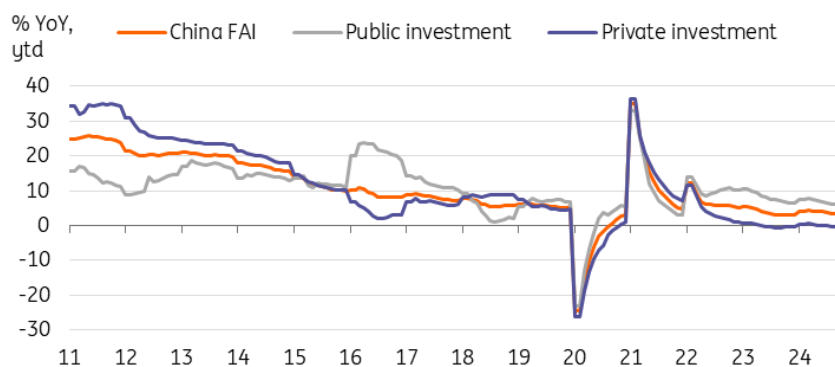
We expect fixed asset investment growth will see a modest pick up next year from the current 3.4% to around 5%, with government-led investment still likely to lead private sector investment. Investment will likely be concentrated in green infrastructure, as well as continued investment in roads, bridges, and railways. The multiplier effect of fiscal stimulus will likely be less than in the past, given the low-hanging fruit for investment is largely gone.

More importantly, markets will be watching to see if we get more tangible policies on support for the property market and consumption.

- For the property market, the direction is likely to be in the form of ramping up purchases of unsold homes to convert to affordable housing or other purposes; while these plans have been announced this year, execution has been understandably quite slow.
- For consumption, we think there is a possibility of accelerating the various programmes put into play this year. We saw a return of the “trade-in” programmes across many cities, which has been a clear driver of retail sales growth in the last few months. Consumption vouchers were also rolled out in Shanghai, and there is potential to see larger programmes across different cities. This year’s targets were primarily focused on household appliances and autos, but there is no reason other categories couldn’t be added to the mix next year. Additionally, we could potentially see adjustments to tax brackets to ease the tax burden on lower-income households.

Overall, we think fiscal policy will be one of the keys to growth stability next year, but the scale, pace, and efficacy of this rollout represent significant uncertainty to our outlook.

## Investment will still likely be driven by the public sector in 2025



Sources: CEIC, ING

### 4 What can we expect from the property market moving forward?

Real estate has been the largest drag on the Chinese economy in 2024. In terms of industry developments, 2024 was a quintessential glass-half-full or half-empty year for the Chinese property market.

- On the one hand, it looks like the property market crisis that dominated headlines toward the end of 2023 was averted. Property developer defaults have slowed, banks have not collapsed, and despite enormous angst over abandoned projects, through the first 10 months of the year, there were more than 420 million square meters of property

completions. The rapidly increasing inventories of unsold properties finally peaked in February 2024 and have started to gradually come down.

- On the other hand, prices continued to fall, and despite a plethora of policy support for the property sector in 2024, prospective buyers are still understandably cautious after years of restrictive policy. Through the first 10 months of the year, secondary market prices were down -7.5%, and primary market prices were down -5.5%. From the 2021 peak, prices are now down -15.8% and -9.4% respectively.

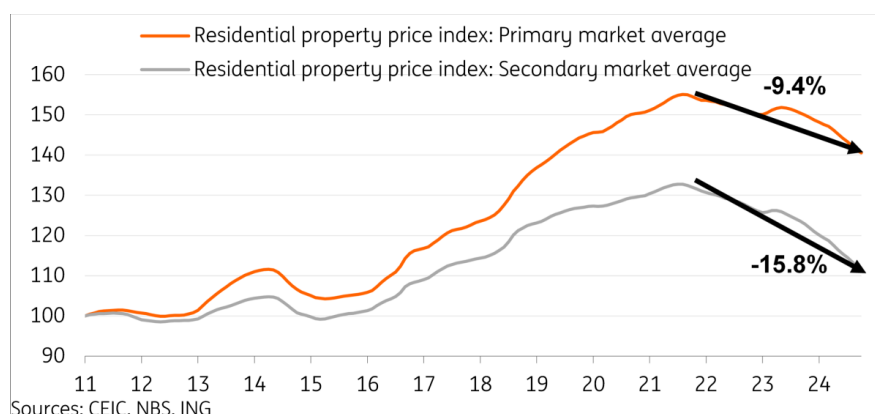
There's still clearly a lot of work to be done, and stabilising property prices remains paramount to maintaining household confidence; it is difficult to expect households to confidently spend when their biggest asset is losing value by the month. We expect the pace of state-owned enterprise (SOE) and government acquisitions of property to pick up in 2025, and this combined with further expansions to existing measures to improve affordability and reduce barriers to purchases will help the market establish a trough.

We think property prices will finally bottom out in 2025, with an L-shaped recovery more likely than a U or V-shaped one. The stabilisation will start from China's core, the Tier 1 cities, then gradually spread through to Tier 2 cities. Tier 3 and 4 cities' performance will be more mixed and may take longer to recover given a greater supply-demand imbalance, but the overall property price index will find a bottom.

The pace of housing inventory decline will also accelerate in 2025 as state-led purchases of unsold homes pick up. In our baseline scenario, inventories are still unlikely to return to pre-crackdown levels next year but there is growing hope that with increased state buying this could be managed in 2026 versus the current pace where it may only be seen toward the end of 2027.

We have argued that it will be difficult to see a recovery of real estate investment until prices have bottomed out and inventories have normalised. It will still be challenging to see both conditions fulfilled in 2025, but we think the Chinese property market could gradually move past the worst part of this cycle.

## Property prices may establish a trough in 2025



### 5 Will consumption recover in 2025?

The other big drag to Chinese growth this year has been the weakening of consumption. Retail sales growth has slowed from 7.2% YoY in 2023 to just 3.5% YoY YTD through the first 10 months

of 2024. As the impact of “revenge consumption” wore off, household spending momentum clearly softened, and consumer confidence broke to new record lows.

There are two clear main contributors to this lacklustre confidence:

- A persistent negative wealth effect over the last few years. Falling property prices play the largest role in this negative wealth effect, but equity markets have also been challenging for much of the past 3-4 years, and many investors were left sidelined for or bought the top of the rebound seen in 2024.
- A nationwide cost-cutting environment has led to slow wage growth and diminishing income confidence. 2023 wage growth of 3.5% YoY was the lowest level since 1998. A PBoC survey of urban depositor confidence showed that income sentiment and income confidence hit record lows in the second quarter of 2024. Official data on these topics tends to be released with a significant lag, but we have not observed much of a turnaround yet, with numerous reports of pay freezes, pay cuts, and layoffs throughout the year.

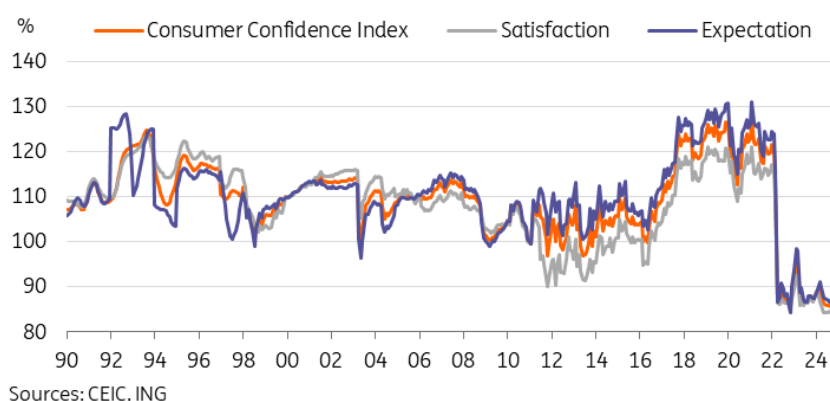
In 2025, we expect to see these headwinds gradually weaken somewhat but will remain a factor. We anticipate property prices bottoming out sometime in 2025, though given an L-shaped recovery is expected at best this turns from negative to neutral rather than a significant positive. Most companies that we have spoken to remain on the cautious side but with many cost-cutting moves already made in 2024, it's possible the worst could be past on this side as well.

As China continues its [long-term economic transitions](#), a key aspect will be to ultimately unlock the potential of the domestic consumer. The two long-term keys are to increase the consumer's spending power and their willingness to spend. China's current economic situation gives a good window for policymakers to take the first steps toward this, by re-orienting policy support from the supply side to the demand side.

The big question is how much tangible policy support for consumption we will see roll out next year. Policymakers had previously been reluctant to direct resources in this direction but there were signs of a shift in 2024 as more mainstream experts have added their voices to call for demand-side stimulus, and the government has rolled out various measures to test the waters. We think this will continue – as we discussed in the earlier question on fiscal policy, we expect an acceleration and expansion of trade-in programmes and consumption vouchers, and possible considerations for tax bracket adjustments to support consumption.

Overall, we are looking for retail sales to rebound to around 4.5% YoY in 2025, with the potential for higher growth if we get stronger-than-expected policy support.

## Consumer confidence has floundered near record lows



### 6 Can China's exports weather a second trade war?

China's exports were perhaps the biggest upside surprise for the economy in 2024, and one of the main reasons China is set to achieve its 'around 5%' growth target. After 2023's -4.6% YoY export growth and expectations for a tepid rebound of global trade in 2024, most forecasts were looking for barely positive growth, but through the first 10 months of the year, exports have grown by 5.1% YoY. Net exports are expected to directly contribute around 1ppt to GDP growth in 2024, and solid export demand has also been an indirect contributor to stronger-than-expected industrial production.

However, after Trump's US election victory and the high possibility of a re-escalation in trade friction, we expect the external demand picture for China will likely weaken in 2025. Estimates place China's direct and indirect exports to the US at around US \$600-700bn, with \$506bn of those as direct exports.

Market estimates for the impact of a potential Trump victory have understandably been all over the place, as there is little clear information on the timeline or scale of potential tariffs and retaliation. We think many of the early estimated impacts (numerous market estimates have ranged between 1-2ppt) on China's GDP tend to be overblown for several reasons:

- We remain sceptical that tariffs will immediately be hiked to a 60% blanket tariff. We expect tariffs will start on a smaller scale with room for negotiations throughout the process, and we expect there will also be exemptions rather than the blanket tariff proposed.
- Unless concurrent and equivalent tariffs are applied against numerous other countries, or if there is a good mechanism to effectively and directly target Chinese products regardless of where it is shipped, it is likely that re-exports will still be able to reduce some of the impact.
- China will almost certainly ramp up supportive policy to help offset the shock from tariffs.

As a result, the drag on growth could fall between 0.4ppt and 0.8ppt of GDP, but the ultimate impact on growth and consequently the extent of our downgrades to the GDP forecasts will be smaller.

Furthermore, since the first trade war, China has rebalanced its trade structure significantly.

- China's exports to the US as a proportion of total exports have fallen from a peak of 19% in 2018 to around 14.6% in 2024.

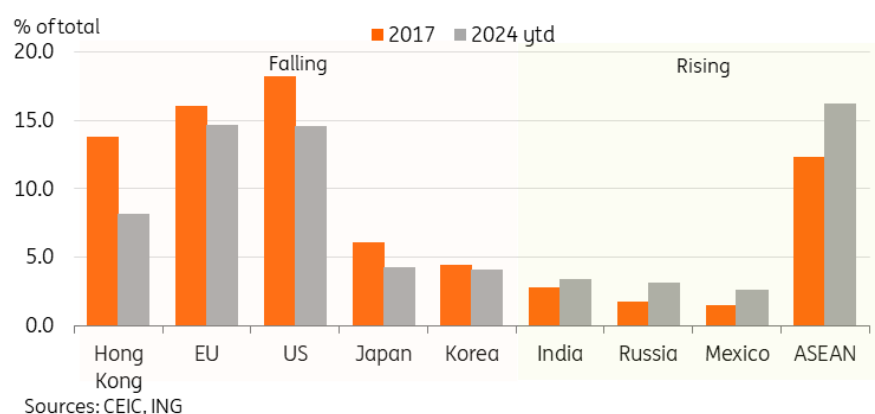
- Furthermore, many of China’s export categories with the fastest growth such as automobiles, ships, and semiconductors do not have a high dependency on the US market.
- Various re-export channels have also been established since the first trade war and it remains to be seen if these will also be cracked down upon in quick order.

With that said, there is a potential downside risk that the US will try to align allies to isolate China with coordinated tariffs or establish a mechanism to crack down on Chinese-owned companies, though enforcement of such a rule would ostensibly be a logistical nightmare. Given China’s role in global supply chains, it is difficult to imagine too many countries willing to agree to these terms, but it is a risk worth considering as this sort of scenario could lead to a bigger shock than what we are currently pencilling in.

The US aside, the backdrop for export demand from other destinations should be relatively stable and could help offset some of the impact. On the positive side, our ING forecasts point to decent growth in ASEAN and India, two increasingly important export destinations for China. On the negative side, a growth slowdown in the US, eurozone, Korea, and Taiwan could lead to weaker demand independent of tariffs.

Overall, our baseline case expects China’s export growth to take a hit in 2025, and export growth should slow to be more or less flat in year-on-year terms, with the upside likely capped at low single-digit growth. We are likely to see a smaller contribution to GDP growth from net exports in 2025. We could see some frontloading of exports in the coming few months but momentum is likely to soften after this is done, unless the outcome of tariff negotiations is surprisingly positive. However, rebalancing of trade, expansions of overseas production facilities, and re-export channels should help limit the damage.

## China's export structure has changed considerably since the first trade war



### 7 Can China stave off deflation in 2025?

China has been in a low inflation environment in 2024. Whether it has successfully avoided deflation depends on the metric used, but deflation risks clearly remain a concern.

- Headline CPI inflation returned to positive territory in February and has remained there since. For much of the year, this was driven by non-food inflation, but in recent months has been driven by food prices.



- Non-food inflation tipped into negative territory starting in September. This is particularly concerning as non-food inflation is arguably a better indication of deflationary pressure, given the cyclical nature of food prices. Cheaper vehicle prices as well as falling rents have been the major drags on non-food inflation.
- PPI inflation has been negative since October 2022 and has fallen for the last few months after peaking at -0.8% YoY. Raw material prices have been the main drag on PPI inflation.
- China's GDP deflator has been in negative territory since 2Q23. This is perhaps the most direct indicator of deflation on a macro level – nominal GDP growth has been lower than real GDP growth for some time.

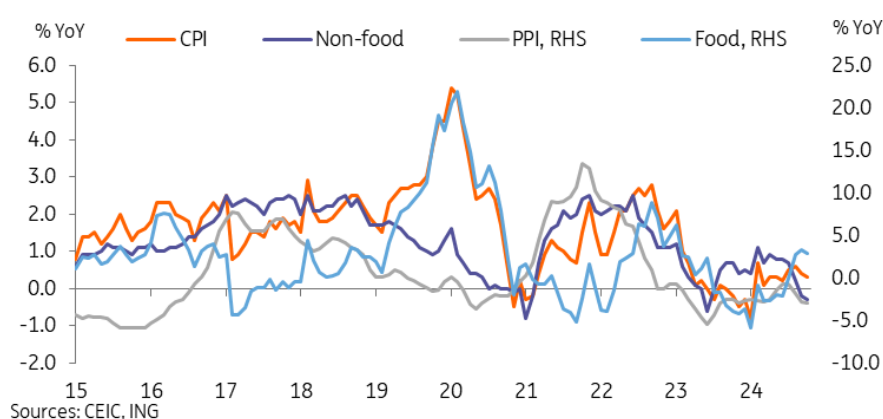
At a September conference, former PBoC Governor Yi Gang said that policymakers “should focus on fighting the deflationary pressure”. Shortly after, the PBoC initiated this effort with a series of monetary policy easing measures, accelerating the pace of policy support

There is concern that deflationary pressures could mount next year. One argument for tariffs is that they could increase China's overcapacity problem, lead to further rounds of price competition and worsen deflationary pressure. The counter-argument is that China will certainly retaliate with its own tariffs which could push certain prices higher.

Though tariffs have been in the headlines, perhaps more important will be how fiscal stimulus will be deployed in China next year. Focus on infrastructure could be a boost to commodity prices, while a pivot toward stimulating consumption could provide a bigger boost to CPI inflation.

We are expecting inflation to remain low but trend a little higher in 2025. Our CPI inflation forecast for the year has a slight uptick to 0.9% YoY. Food inflation will likely be the main driver in the early months of 2025, but non-food inflation should gradually recover as supportive policies take effect. Risks to the inflation scenario are larger than usual given the uncertainty surrounding tariffs and retaliation as well as the scale of domestic policy stimulus.

## CPI inflation will remain low but positive in 2025 as deflationary pressure remains



### 8 What is in store for CNY next year?

Our core view on the Chinese yuan over the past year was that it would be a relatively low-volatility currency compared to other Asian currencies thanks to the PBoC's priority on maintaining currency stability. Our forecasted 2024 fluctuation band of 7.00-7.30 has held up well for most of

the year to date.

Our call had been that under the previous status quo, the CNY was on a trajectory for modest appreciation, considering the start of the Fed rate cut cycle and expectations for China's fiscal stimulus to pick up.

However, Trump's victory has triggered several factors which now moved expectations for the USDCNY in the other direction:

- Trump's impact on China is largely seen as negative by most economists, with tariffs and the related chain reaction front of mind for most investors.
  - The impact on trade and investment flows will be net negative for CNY. In a vacuum, higher tariffs will reduce China's exports to the US and may accelerate the pace of outward direct investment to mitigate or reduce the impact of tariffs and sanctions.
  - A drag from tariffs could necessitate more monetary policy easing than previously forecasted in China, widening the US-China yield spread.
  - The possibility of intentional devaluation to partially offset tariffs.
- Trump's policies are seen as inflationary for the US, leading to fewer Fed cuts. This in turn will limit the degree of spread narrowing and weaken one of the key previous drivers for CNY appreciation.

As a result, market forecasts have rapidly shifted in the other direction, and now a depreciation trend is expected for CNY in the next year. Many market participants have speculated that China will intentionally depreciate CNY to offset US tariffs, and there have been calls for CNY to be depreciated by 10-20%, and in more extreme cases, calls for a 50% depreciation to help offset tariffs.

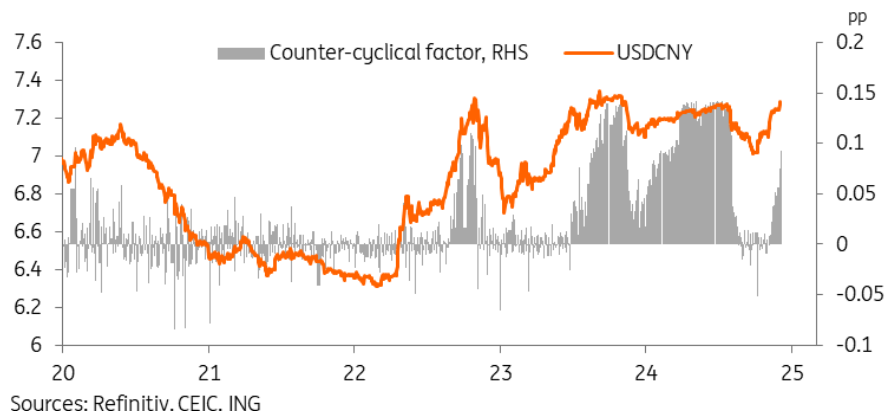
We do anticipate some depreciation pressure in an expected strong dollar environment. However, our view is that some of the depreciation forecasts have now swung a little too far in the opposite direction.

Our key calls for CNY next year are below:

- We don't expect an intentional large-scale depreciation:
  - First, intentional devaluation will be ineffective to mitigate tariffs, as it will likely trigger currency manipulator claims and Trump's administration can easily adjust tariffs further as needed.
  - Second, this will also undermine the efforts of the last few years to stabilise CNY, improve attractiveness as a settlement currency and avoid capital outflow pressures.
  - Third, given China's trend of accelerating investment abroad, a stronger CNY facilitates these investments.
  - In sum, the costs would appear to outweigh the benefits at this point.
- The PBoC will continue to ramp up the use of the counter-cyclical factor as necessary to resist rapid depreciation. Use of the counter-cyclical factor has already ramped up after Trump's election victory.
- We expect the USDCNY pair to move by less than the dollar index and think CNY will remain a low-volatility currency vis-à-vis most other Asian currencies.
- Our 2025 forecast is for the USDCNY to move within a band between 7.00-7.40, with a further upside to 7.50 possible if tariffs come in earlier or are more aggressive than our forecasts.

- A very low-probability but high-impact scenario that would throw fundamentals out the window would be the possibility of a modern-day Plaza Accord-type agreement on currency in order to settle trade disputes.

## PBoC appears likely to pursue its currency stability objective



## 9 What are the key themes for the Chinese government bond market?

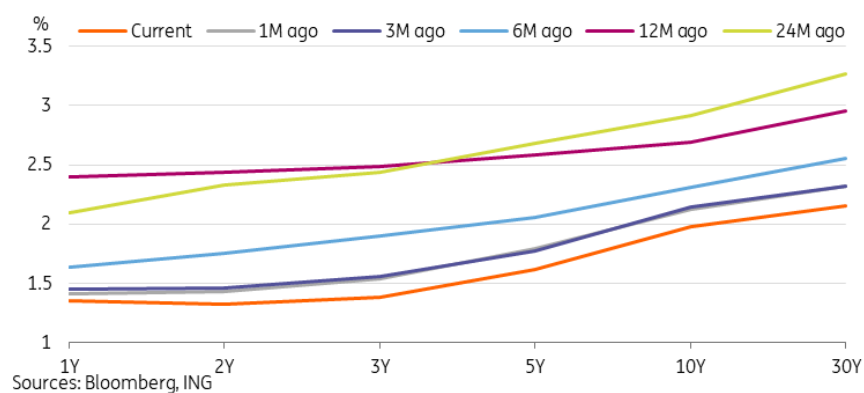
China's government bond market has been one of the few assets to outperform in the last few years, but it has also sparked a lot of controversy throughout the year, as many investors have been concerned about China's very low government bond yields as a sign of deflation and economic weakness. Policymakers have also criticised yields as being out of alignment with fundamentals.

We have highlighted some of the main questions for the Chinese government bond market in 2025:

- Why are China's government bond yields so low? The typical explanations of economic pessimism and deflation concerns are certainly a relevant factor, but perhaps the main reason in our view is because CGBs remain the top option for many investors in a limited field for risk-free yield:
  - Deposit rates have declined as the PBoC has cut rates, with many time deposits now yielding under 1%.
  - RRR cuts have led to banks redirecting funds into the bond market rather than into the real economy given limited high-quality borrowing demand.
  - The property market bust and the spike in defaults have also raised questions about the safety of corporate bonds, especially high-yield bonds.
  - Several years of poor performance in equities has also limited many investors' appetite, despite various high-yielding defensive plays available.
  - With capital controls, many domestic investors have limited options for diversification and seeking higher yields elsewhere in global markets.
- Will Chinese government bonds continue to perform well in 2025?
  - Various factors suggest China's government bonds will continue to fare well in 2025, including likely rate and RRR cuts and continued safe-haven demand.
  - Our baseline forecast for China's 10-year government bond yield is for yields to gradually grind lower toward 1.9% by the end of the year.

- Will the PBoC continue to intervene in the bond market, and is the 2% barrier a line in the sand?
  - While limited explanation was given for the PBoC's intervention, two possible reasons were to avoid a bond market bubble (and a potential Silicon Valley Bank-esque event down the line), and the other was as policymakers wished to encourage funds to flow back toward risk assets.
  - The 2% level for China's 10-year government bond yields has represented a psychological barrier in 2024. It briefly broke below 2% in intraday trading several times this year but was quickly met with selling pressure. December was the first time we saw the 2% level broached without an immediate bounceback.
  - We think this softening signals that policymakers will tolerate a move below the 2% level in 2025 as long as the move is gradual.
- Will we see a flatter or steeper CGB yield curve next year? Despite extensive focus on falling long-term yields, the CGB yield curve has actually steepened slightly in 2024. We expect this trend to continue in 2025 for three main reasons:
  - The PBoC will likely need to continue to cut interest rates, which will drag the short end of the curve lower.
  - The government is set to ramp up bond issuance, increasing supply which in theory should push the long end higher.
  - As the PBoC ramps up its open market operations to try and improve the transmission mechanism of monetary policy, it is likely that open market operations will also target a healthy yield curve.
- Is pessimism over declining yields merited? We think the narrative on the government bond market is far too clouded by doom and gloom. Instead, the low yields represent the government with a rare window of low-cost financing at a time when fiscal stimulus support and refinancing of debt are both useful.
- Could we see a surprise move for higher yields? Possible catalysts for this include:
  - The recovery of risk appetite sparking rotation out of bonds into equities. We saw this during the September rally when the CNY moved stronger despite a rate cut.
  - Accelerated bond issuance could eventually push yields higher.

## Chinese government bond yields have been falling but the curve has steepened



## Will China finally break out of its state of excessive pessimism?

The discourse on China has been quite downbeat over the past few years both domestically and abroad. There certainly are numerous significant challenges; various external and domestic shocks such as the pandemic and trade war in the past few years have added to what was always going to be a difficult long-term economic transition. However, we feel that the environment has since tipped into excessive pessimism.

- Most of China's confidence indicators which are still being published are near or at record lows.
- Equity market valuations have recovered over the last several months but spent much of the year at or below the lower range of historical fluctuation bands. On an absolute number basis, the Hang Seng Index and CSI 300 are still down more than 30% from their Covid-era peaks.

In September, the bold moves from the PBoC sparked a furious rally of Chinese risk assets, with Chinese stocks at one point becoming the strongest-performing equity markets of the year. Our main takeaway was that many investors have been eagerly awaiting signs of an aggressive policy shift – the PBoC's moves drew renewed interest from foreign and domestic investors alike in China.

However, several factors soon cooled off the wave of optimism:

- Firstly, there was a slower than-hoped-for rollout of fiscal policy support as well as no firm commitments to shore up key areas of weakness such as the property market and consumption.
- Secondly, the election victory of Trump has once again shifted the conversation from opportunity for recovery to risks from tariffs and sanctions.

In our view, the early market reaction to both of these factors has tended to be on the overly pessimistic side.

- On the fiscal policy side, we think some investors may have understated the November fiscal policy package. While it is true that there were no specific measures to directly boost growth via supporting the property market or consumption, what the package will achieve is to free local governments up to take action in the coming months. China's upcoming Central Economic Work Conference and Two Sessions will likely be instrumental in setting the direction for this policy action.
- On the Trump effect, early estimates of a 1-2pp shock to GDP growth as well as calls for RMB depreciation of up to 20-50% have since been toned down by many market participants. While an enormous level of uncertainty on the tariff trajectory remains, early signs are that Trump's tariff stance will be transactional rather than ideological, which in our view opens up the possibility of negotiations and exemptions. While we could eventually get the 60% tariffs proposed if talks fall through, it does not look likely this will be a day-one event.

Restoring confidence remains an uphill battle. The short-term challenges remain numerous and considerable. There could be several key steps in this process:

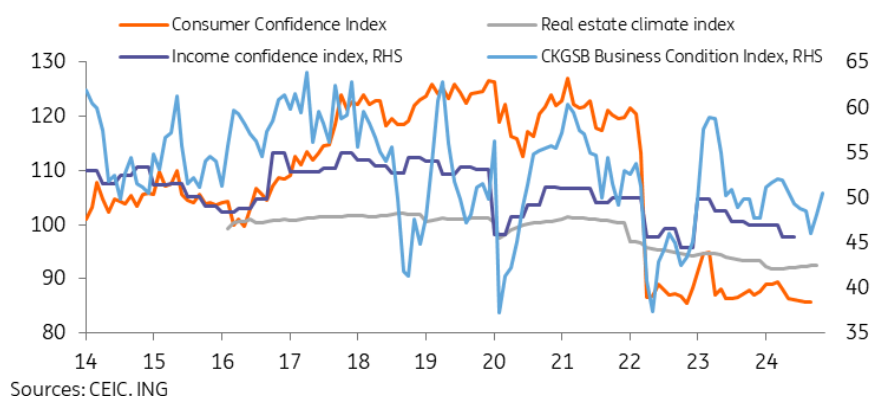
- We think the first step has to come from the stabilisation of asset prices, where we see

some positive signs in equity markets but the more important area has to be stemming the bleeding in property markets.

- The next step has to be gradually moving out of the cost-cutting and downscaling environment and restoring earnings confidence across the economy; 2023 wage growth was the lowest since 1998, and this year's is unlikely to see too much of a significant upturn.
- Finally, the longer-term market and law-based reforms and opening-up process should be continued. Despite increased geopolitical friction in recent years, there have also been significant new opportunities, including stronger trade and investment ties with ASEAN, Latin America, and the Middle East. Improving policy transparency and opening up the market for fair competition will help China continue to attract businesses and help offset some of the impact of Western de-risking.

It is a tall task to expect all of these steps to be achieved in a single year. However, some progress has been made in 2024, and we are cautiously optimistic about more progress along these fronts in 2025 as well.

## Various indicators continue to point to weak confidence



### Conclusion: China will continue efforts to stabilise growth amid rising uncertainty

It feels like every year economists are talking about how there will be a high level of uncertainty in the year ahead, but at risk of sounding like a broken record, 2025 does once again present a series of uncertainties.

At this point, no one can say for certain how fast or how aggressive US tariffs on China will be and what level of retaliation China will take in turn, nor is there much certainty on how fast or aggressive China's fiscal and monetary policy easing will come. New shocks and opportunities will inevitably emerge, and by the end of next year, the narratives and assumptions currently guiding the markets are likely to have changed significantly.

Forecasting is a challenge even in the most stable of times, and we are entering a period where key parameters can change with a single Trump truth or a Chinese government press conference. Our current take on 2025's outlook can be found in the table below.

## Our forecasts for 2025

Indicator	2021	2022	2023	2024F	2025F	2026F
GDP (% YoY)	8.4	3.0	5.2	4.8	4.6	4.2
CPI headline (% YoY)	0.9	2.0	0.2	0.6	0.9	1.6
1 Year Loan Prime Rate (% eop)	3.80	3.65	3.45	3.10	2.80	2.60
1 Year MLF Rate (% eop)	2.95	2.75	2.50	2.00	1.70	1.50
7-Day Reverse Repo Rate (% eop)	2.20	2.20	2.00	1.50	1.20	1.00
RRR Large Institutions (% eop)	11.50	11.00	10.50	9.25	8.50	8.00
3M SHIBOR (% eop)	2.50	2.42	2.53	1.80	1.65	1.50
10-year T-bond yield (% eop)	2.78	2.84	2.60	2.05	1.90	1.85
Fiscal balance (% of GDP)	-3.8	-4.7	-4.8	-5.0	-5.5	-5.0
Unemployment rate (%)	5.1	5.5	5.1	5.1	5.0	5.0
USDCNY	6.35	6.89	7.10	7.25	7.35	7.40

Sources: CEIC, ING

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