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FX RATES CHINA

Growth, FX stability and potential holiday reforms: 3 calls for China

China has the policy levers to produce another year of stable growth in 2026. China's currency stability objective should keep USD/CNY range-bound again. Could holiday reform be a low-cost, high-impact move to support consumption?



ING's base call: China's growth to remain on track in 2026

In November, Premier Li Qiang commented that China's target is for GDP to surpass RMB 170tr by 2030, giving us a mid-point target to President Xi's prior goal of doubling 2020's output level by 2035. This goal implies that a growth rate of 4-5% is needed over the next five years.

China's history of setting growth targets suggests it's rarely a good call to bet against the government achieving its goals. They look considerably more realistic if positive momentum continues into 2026. As such, another year of targeting "around 5% growth", or at least "above 4.5% growth", could be in the works.

The big surprise of 2025 was external demand remaining the main growth driver despite the trade war. For similar growth to continue, we'll need to see domestic

demand pick up more of the slack. This will require more effective policy support.

Our risky call: PBoC's currency stability focus will keep USD/CNY range bound

Our bold call for 2025 was that the People's Bank of China (PBoC) would hold the line on the CNY for a 7.00-7.40 fluctuation band. It was a controversial call at the time; most in the markets expected depreciation to support exporters ahead of a second trade war. The range held, and our call gradually went from outlier to consensus.

We see little reason to change this view of limited fluctuation next year. Currency stability has worked out well for China in the past few years, helping avoid another area of uncertainty. We expect the fluctuation band to narrow to 6.90-7.30 next year, with risks generally balanced toward appreciation, given the narrowing US-China yield spread and the large amounts of FX held abroad by Chinese exporters that have yet to be converted back to China. Barring a change of heart, the PBoC has shown a willingness and ability to keep the CNY steady.

Our bold call: China could see holiday reforms to boost consumption

China's national holidays are well known for being key windows of consumption and tourism, so much so that economic data is often shaped by these holidays; much of China's January and February data is published in one block in March to avoid market overreactions to year-on-year data; China's Lunar New Year and Golden Week data are tracked closely.

The long holiday periods are often big bursts of consumer demand, but they also result in a less-than-optimal result for consumption and tourism, with overcrowding. We believe the balance should shift toward more statutory annual leave to be used at employees' discretion, to help smooth out the consumption and tourism demand throughout the year. China's statutory leave scales by years of service and is only 5 days for employees with under 10 years of tenure at a company, limiting discretionary travel outside the main holiday windows.

Many would-be travellers have sworn off trips during the big holiday windows due to the overcrowding and high prices, while tourism sites remain relatively underutilised the rest of the year. Holiday reform could be a low-cost, high-impact move to boost domestic activity to supplement more traditional policy stimulus.

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