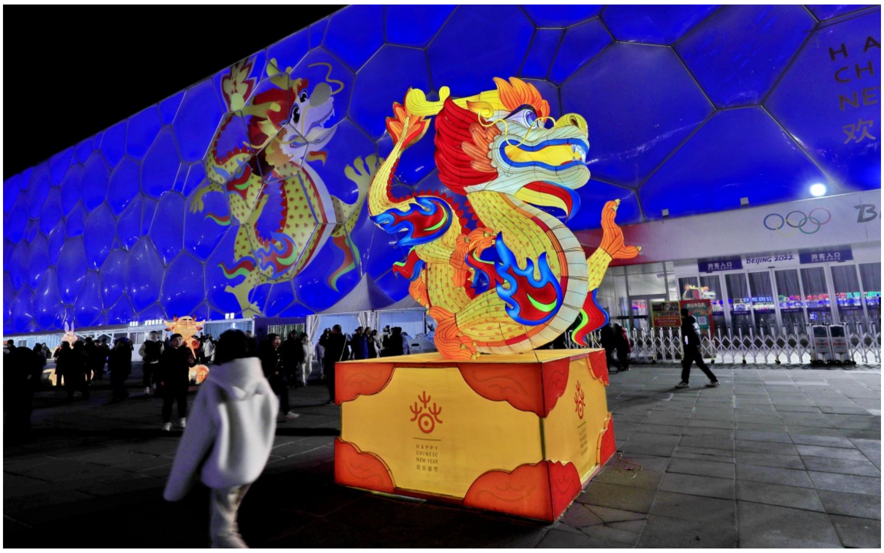
Three calls for China: Steady, but headwinds are getting stronger

China's stabilisation efforts will face a greater challenge in 2025, but policymakers appear up for the task



The National Olympic Sports Centre in Beijing

1 Call 1: China will keep growth stable despite increasing external noise

China has managed to avert the much-feared property and local government debt crises and looks set to complete this year's growth objective of 'around 5%'. This is largely thanks to stronger-than-expected external demand boosting exports, and manufacturing offsetting very weak confidence in households and the private sector; through the first three quarters of 2025, net exports contributed 1.1 ppt of the 4.8 ppt of year-to-date growth.

We expect China to target stable growth of "around 5%" or at the least "above 4.5%" in 2025. With escalating tariffs expected to dampen export momentum next year, China must turn to other drivers to keep growth stable. This will come in the form of more 'forceful' fiscal policy, as local governments return to their traditional roles as the executors of fiscal stimulus after managing their debt through swaps and issuing special bonds. Monetary policy easing will further spur a credit recovery and stave off deflation. We see GDP growth settling at 4.6% year-on-year and inflation of around 0.9% YoY in 2025.

Call 2: China's property prices will finally bottom out

Many policies were introduced this year to stabilise property prices. These measures aimed to improve housing affordability, remove barriers to purchase, absorb excess inventories, and provide financial support for property developers. However, despite these efforts, property prices continue to decline.

We think property prices will finally bottom out in 2025, with an L-shaped recovery more likely than a U-shaped or V-shaped one. Stabilisation will begin in China's core Tier 1 cities and gradually extend to Tier 2 cities. The performance of Tier 3 and 4 cities will be more varied and may take longer to recover due to a greater supply-demand imbalance. However, the overall property price index is expected to eventually bottom out.

The bottoming out of property prices represents the big first domino and a necessary but not sufficient condition in the process of restoring confidence; it is difficult to expect households to spend confidently when their biggest asset is losing value by the month.

3 Our bold call: China will hold the line on its currency

Many market participants have speculated that China will intentionally depreciate the yuan to offset US tariffs. There have been calls for the CNY to be depreciated by 10-20% and in more extreme cases, calls for a depreciation of 50%. Our view is this will not happen next year.

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 the CNY, improve attractiveness as a settlement currency and avoid capital outflow pressures.

We anticipate some depreciation pressure in an expected strong dollar environment but expect the USD/CNY pair will move by less than the dollar index. We don't expect an intentional large-scale depreciation and think the CNY will remain a low-volatility currency vis-à-vis most other Asian currencies. Our 2025 forecast is for the USD/CNY to move within a band between 7.00-7.40, with further upside to 7.50 possible if tariffs come in earlier or more aggressive than our forecasts. Given Trump's stated preference for a weaker dollar, a small-probability high-impact risk is the possibility of a new Plaza Accord-type deal, which could represent an upside risk for the CNY.

Author

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com