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Global Markets Research

Research Alert

China's GDP hit Beijing's 5.0% target for 2025

4Q growth eased for the third quarter to 4.5% y/y, its slowest since 4Q of 2022

Growth continues to be export & industrial driven; domestic demand remains weak

Expect 2026 GDP growth @ 4.5-5.0%; PBoC likely to maintain policy rates tomorrow

Summary

China's economy matched consensus forecast as well as Government's target of 5.0% y/y in 2025 (2024: 5.2% y/y) with growth in 4Q easing for the third consecutive quarter and to its lowest since 2022 to 4.5% y/y (3Q: 4.8% y/y). While exports and industrial production continued to maintain a largely steady pace in 4Q, domestic-oriented indicators like retail sales and investment remain weak.

Details

As it is, weighing on 2025 growth was its first contraction in fixed asset investment in decades, worse than expected at -3.8% y/y in 2025, partially weighed down by Beijing's clampdown on hidden debt. Softish jobs market (unemployment rate: 5.1%), especially for youths, as well as sentiment, meanwhile, continues to put a dampener on domestic demand, sending retail sales down to 0.9% y/y in Dec (prior: 1.3% y/y; 3.7% y/y in 2025 vs 3.5% y/y in 2024), while property investment continues to fall (-17.2% y/y in 2025).

Weathering Trumps' tariff, resilient export growth nonetheless continues to spur growth for the manufacturing sector, sending industrial output accelerating more than expected to 5.2% y/y in December (prior: 4.8% y/y) and for the whole year by at 5.9% y/y (prior: 5.8%). Manufacturing output grew at a faster pace of 5.7% y/y (prior: 4.6% y/y) driven by robust output for transportation, electronics & electrical goods as well as specialty-used equipment.

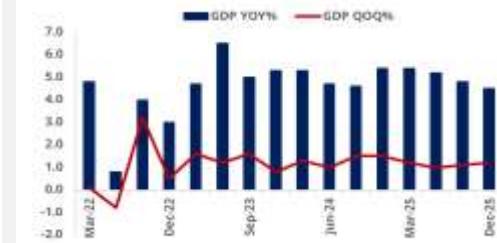
Outlook

Beijing is expected to announce its 2026 GDP growth target in early March during the annual session of the National People's Congress (NPC). Back in November 2025, Premier Li Qiang has suggested that China will maintain its current growth momentum, adding that China's target for GDP is to surpass 170tn yuan by 2030.

This implies an average annual growth rate of at least 4% for the next 5 years. In our opinion, Beijing will mostly likely want to maintain its positive growth pace and will likely unveil another year of "around 5% target" or at least "4.5-5.0" for 2026, the latter reflecting more pronounced impact from the external environment and the imbalance from domestic supply and demand. We would like to reiterate that Beijing has a history of achieving its growth targets, and it is unwise to bet against this, especially with the government focusing on expanding domestic demand, especially on boosting consumption in line with the "investing in people policy".

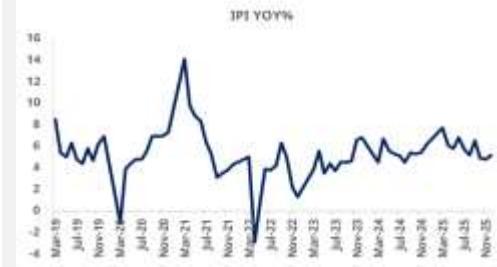
Monetary policy wise, we expect no change in the 1Y and 5Y lending rates tomorrow (3.00% and 3.50%) but the sharp slump in 4Q domestic demand could likely spur officials to ramp up its stimulus early this year (house view: -20bps by end 2026). Beijing will also maintain a proactive fiscal policy with dual focus on boosting consumption and investment, which amongst others, include the recently announced extension in the government subsidy programme for consumer goods and EVs, as well as the issuance of ultra-long special sovereign bond for national strategic and security projects.

Figure 1: 3rd consecutive quarter of deceleration in year-on-year GDP growth & softest since 2022



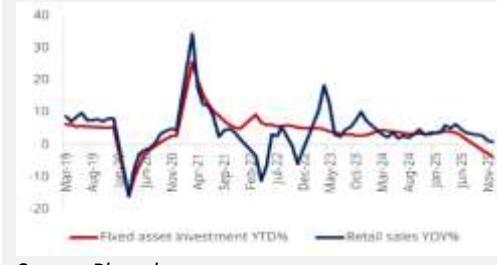
Source: Bloomberg

Figure 2: External demand supported manufacturing sector partially



Source: Bloomberg

Figure 3: Domestic demand continues to flounder



Source: Bloomberg

Figure 4: House View and Forecasts

	1Q-26	2Q-26	3Q-26	4Q-26
1Y LPR (%)	2.90	2.80	2.80	2.80
USD/CNY	6.90	6.83	6.85	6.90
CNY/MYR	0.58	0.58	0.58	0.58

Source: Bloomberg; HLBB Global Markets Research

In terms of FX, we see little reason to change to our view of limited currency movements in line with the PBoC currency stability focus. We expect the CNY/MYR to hold steady at 0.58 for the whole year, while USD/CNY could weaken to 6.90 again by end-2026 from as strong as 6.83 expected for 2Q, in an environment of USD depreciation over the medium term and expectations that Fed will ease its monetary policy by 75bps this year.

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