



China Economic Outlook with the 15th Five-Year Plan – A Global Overview

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Model and Method: NiGEM

- Global macroeconomic model owned and maintained by National Institute of Economic and Social Research since 1987
- 57 countries/regions; 7,500+ variables; 10,000 equations. Can change default assumptions on monetary/fiscal/currency reaction functions.
- Strengths include:
 - Global interlinkages
 - Relative granularities
- Tariff module added 2024 and has two ‘versions’
 - Price model: importing firms get a shock to their input prices that they pass on to consumers
 - Tax model: imported goods get taxed and importers can respond by reducing pre-tax prices
 - Price model gives larger impacts due to higher consumer inflation



The Tariff Scenario on 12 May 2025

Baseline: Tariff Situation before Trump Term 2.

We model the tariff scenario on 12 May 2025 with consideration of the China-US tariff deal.

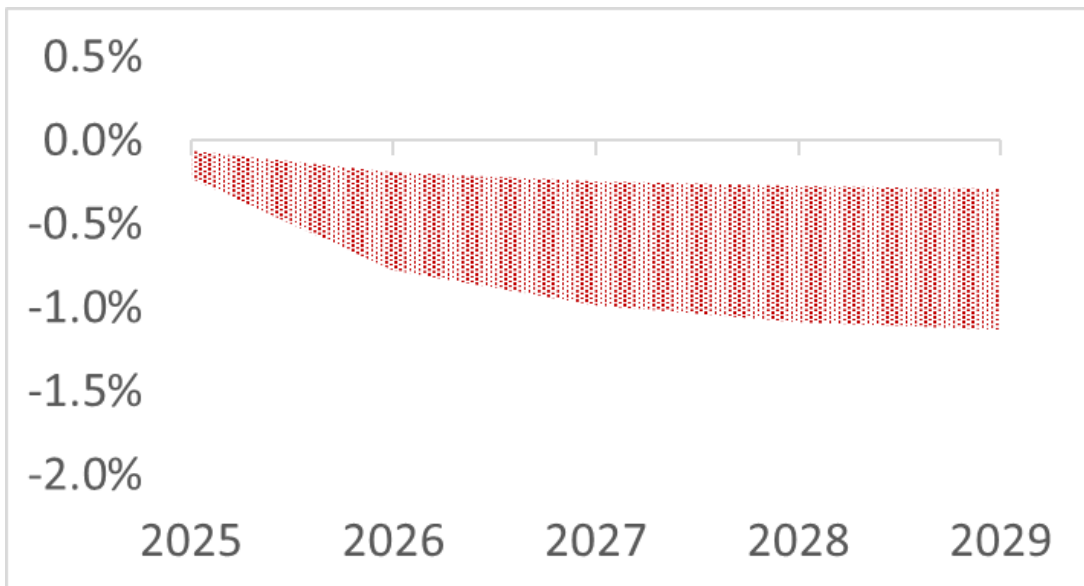
- The US imposes a 10% universal tariff except Canada, Mexico and Russia
- US 10% universal tariff + US 20% additional tariff on Chinese goods + Chinese 10% tariff on US goods and commodities.
- Imposed as permanent tariffs beginning 2025Q2; concentrate on medium-term equilibrium.
- The UK-US deal is not estimated, nor are the effects of export bans (minor macro effects).
- RMB peg unchanged, i.e., no managed devaluation against USD (though it can fluctuate against other currencies with the USD).

We will test both price and tax models under the tariff scenarios.

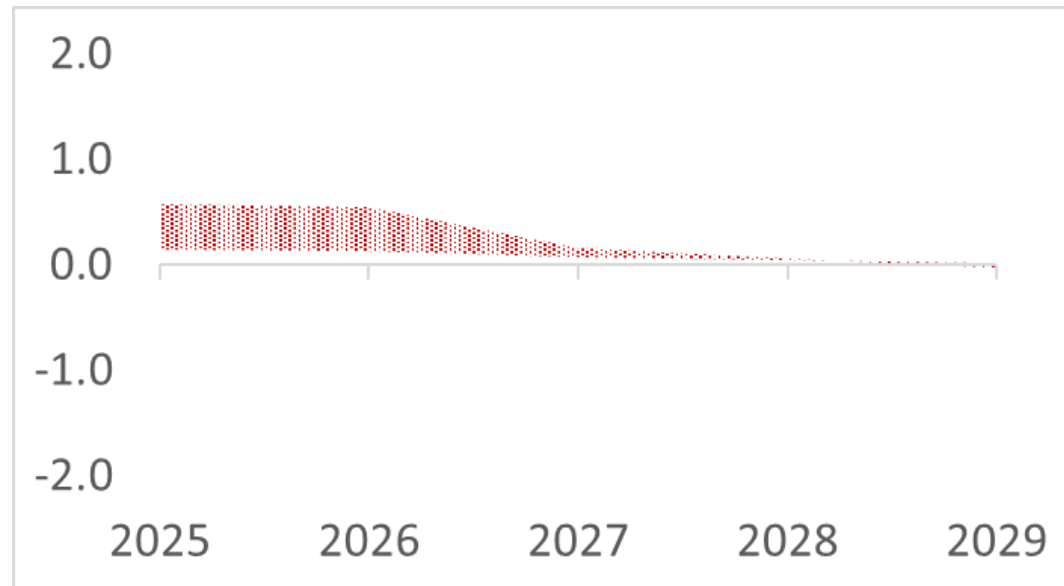


World

GDP (% from baseline)



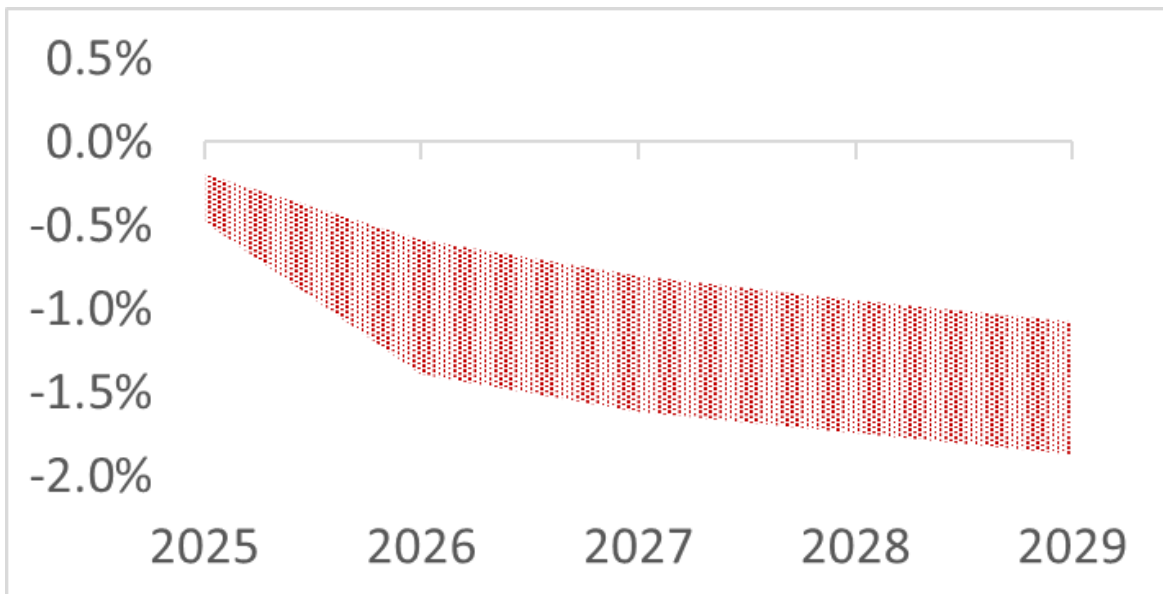
Inflation (pp from baseline)



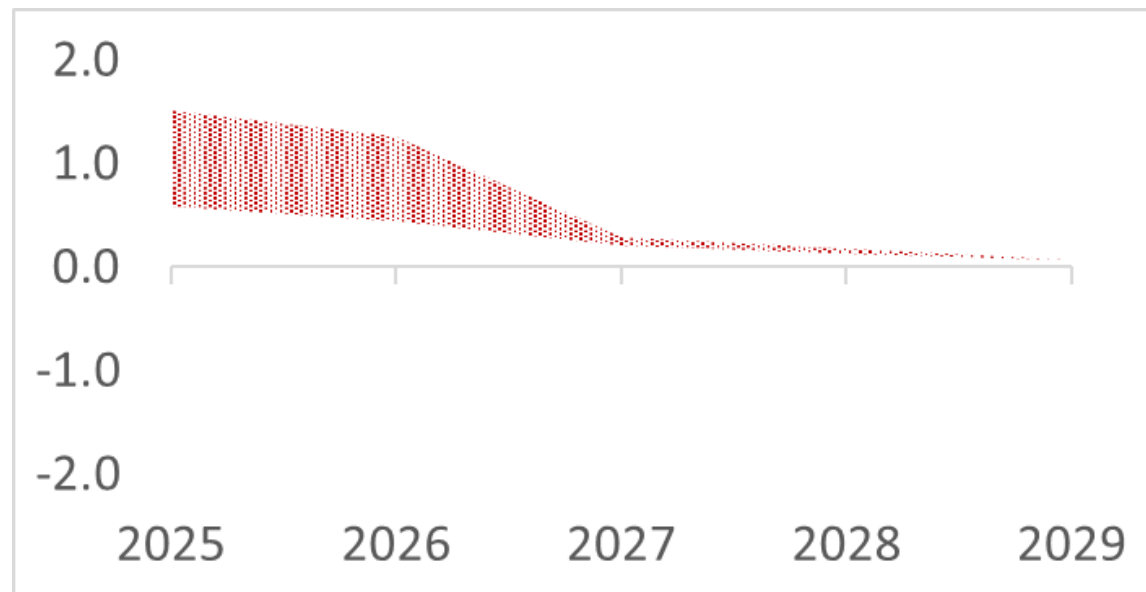


US

GDP (% from baseline)



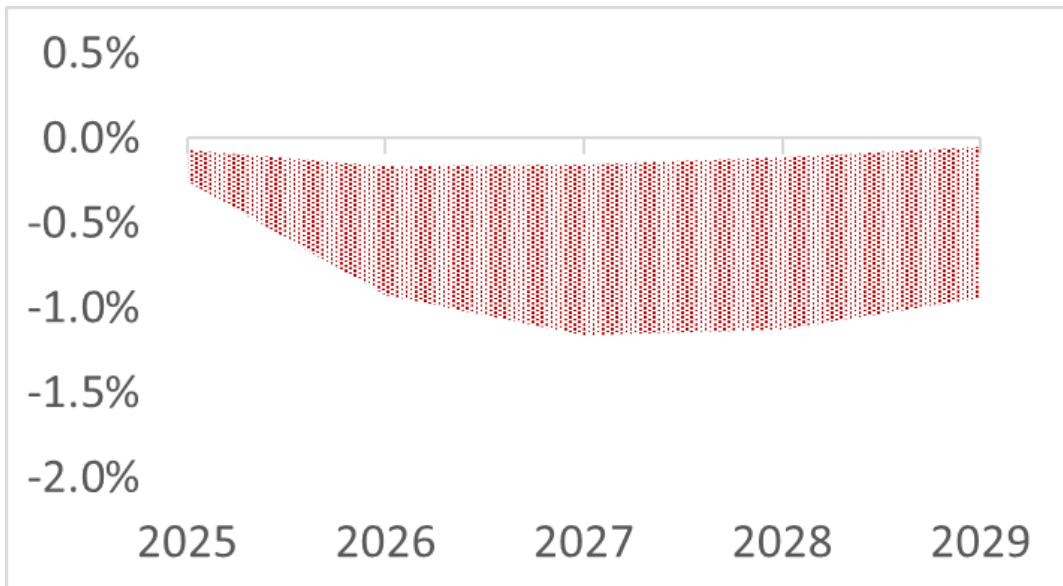
Inflation (pp from baseline)



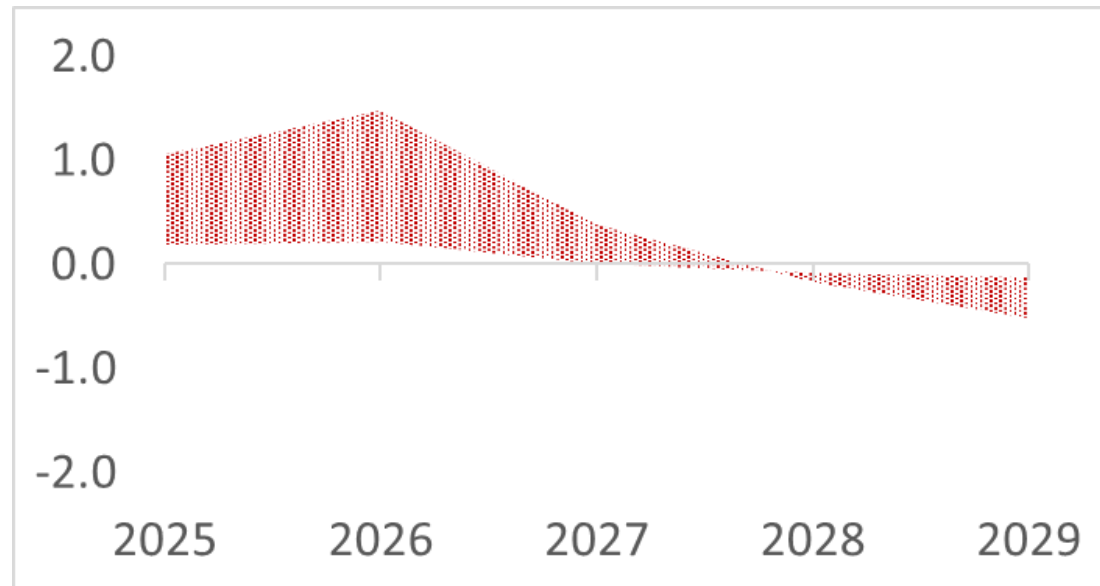


UK

GDP (% from baseline)



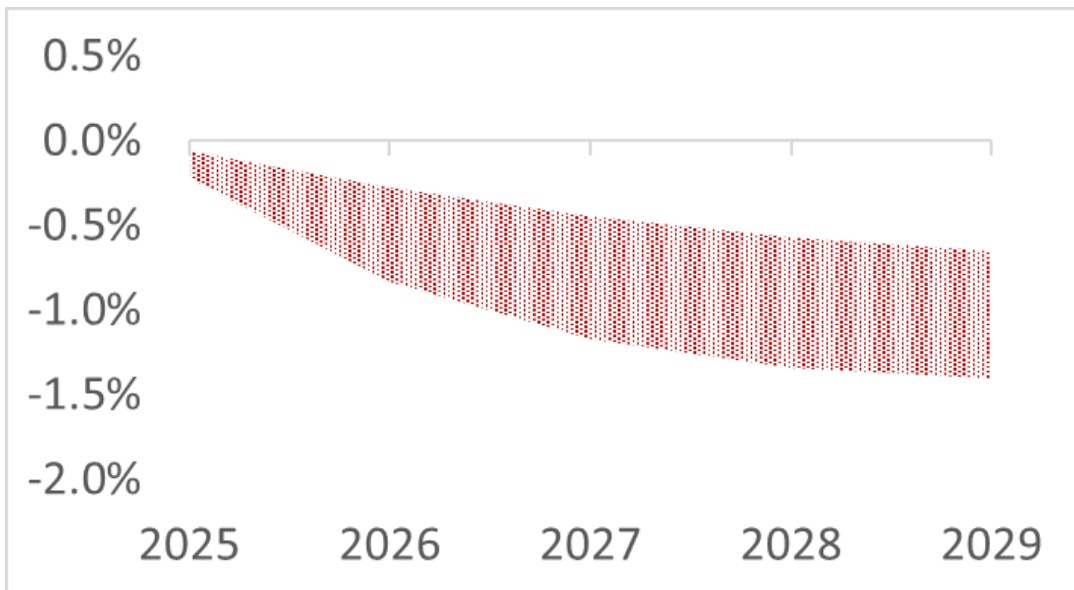
Inflation (pp from baseline)



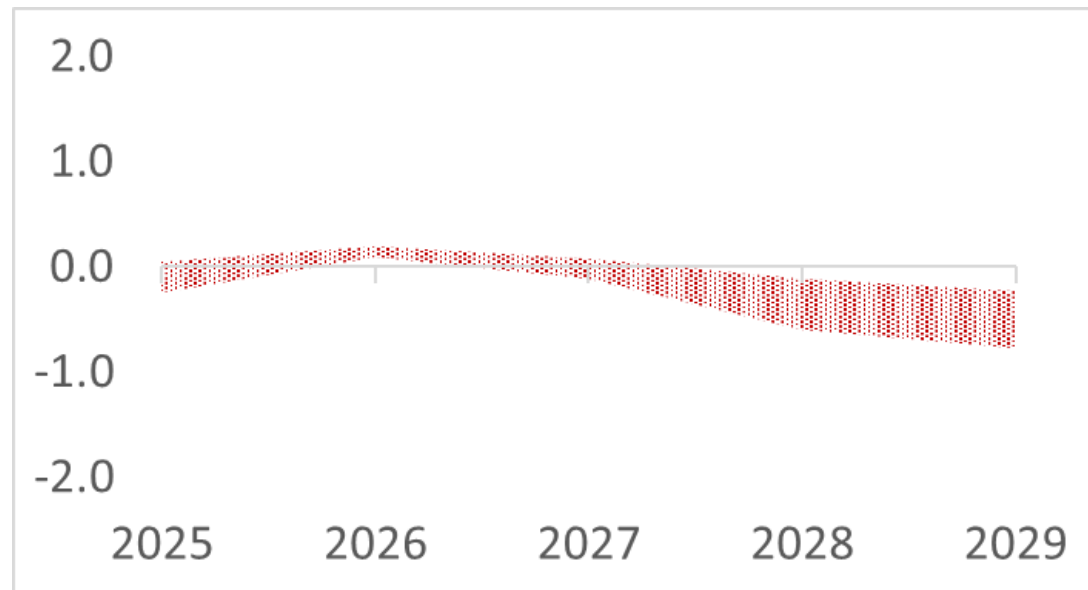


China

GDP (% from baseline)



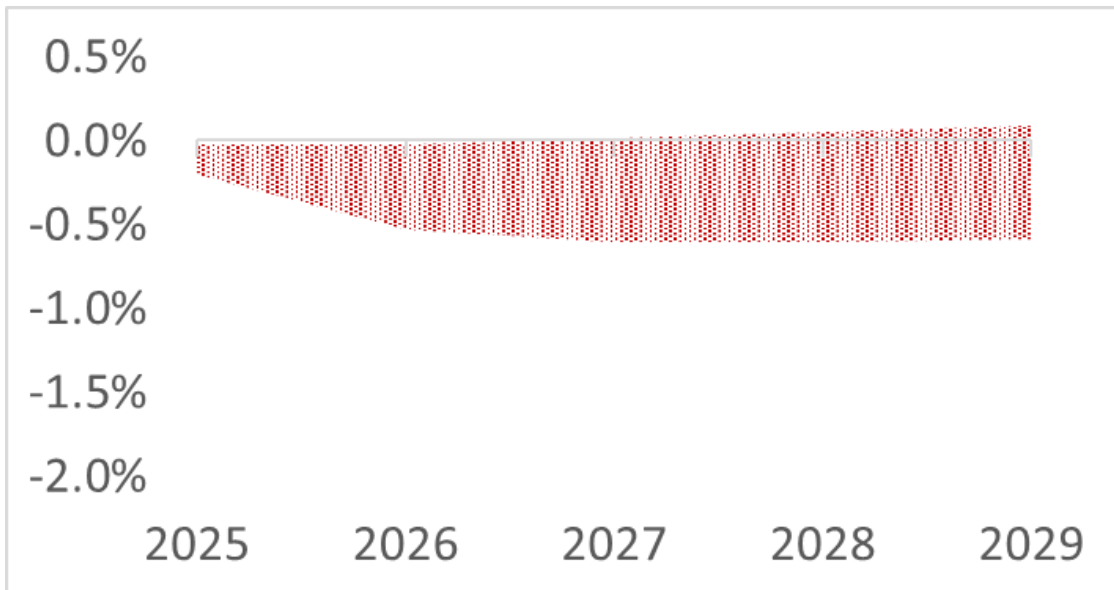
Inflation (pp from baseline)



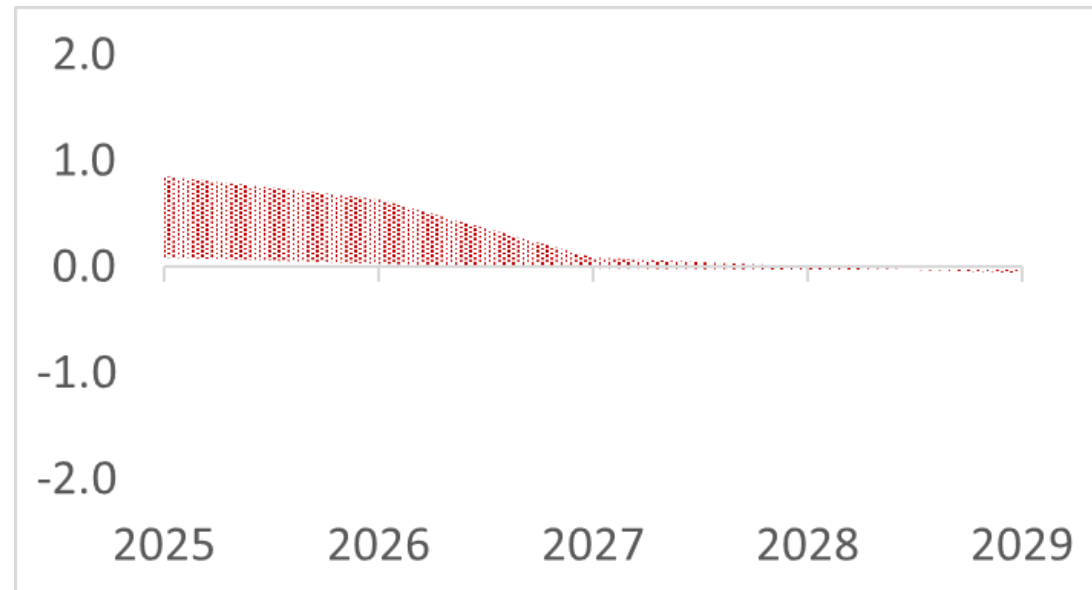


Eurozone

GDP (% from baseline)



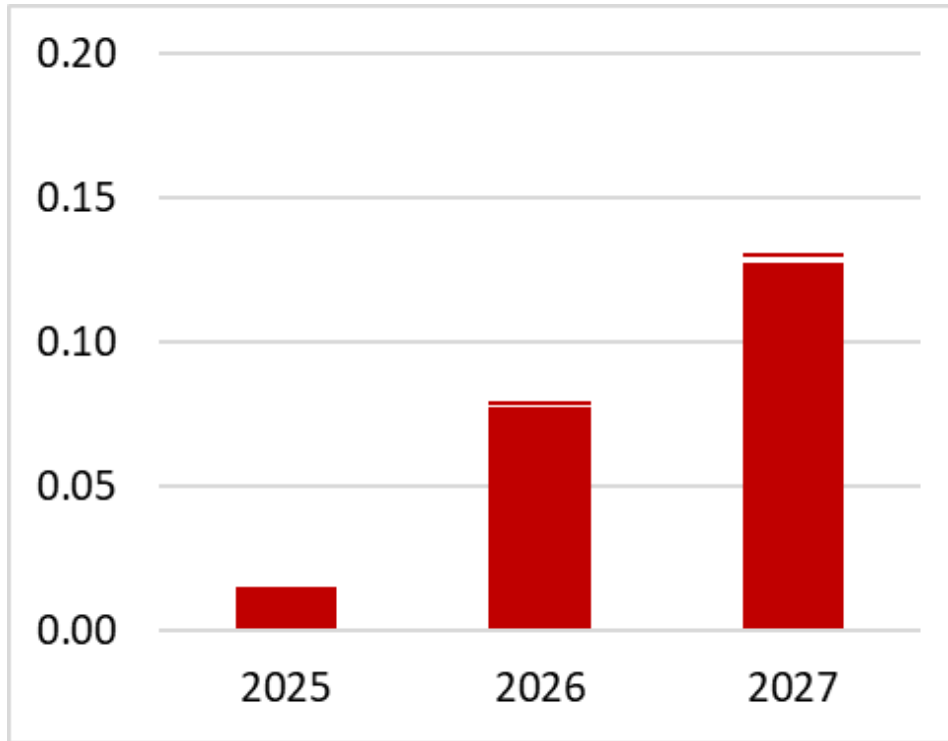
Inflation (pp from baseline)





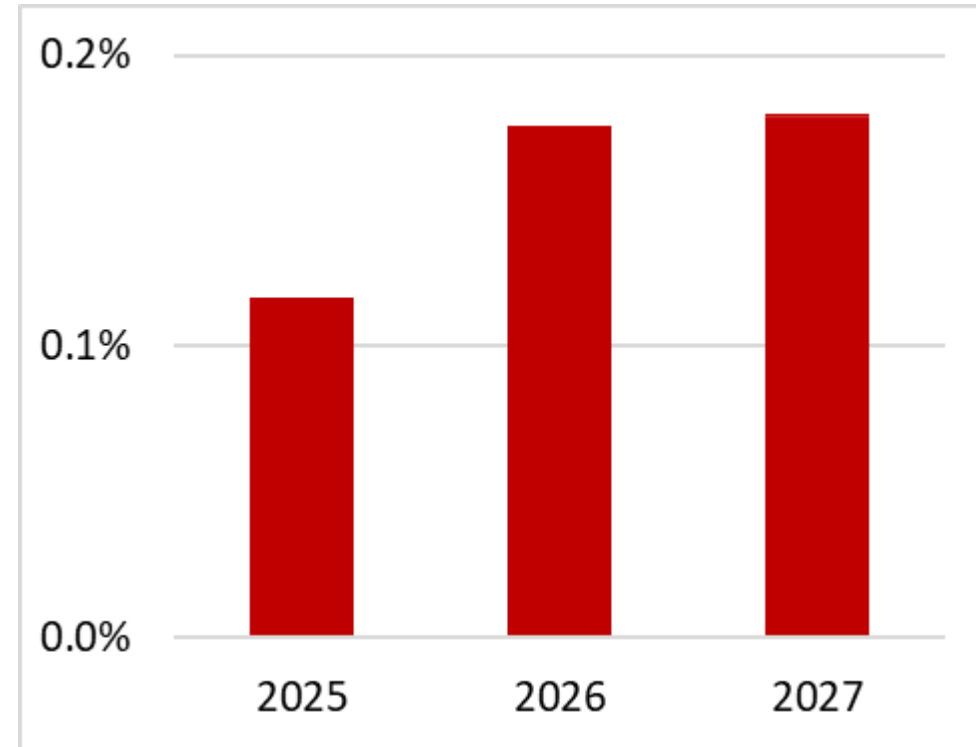
Impact of Fiscal Stimulus (2% of China's Annual GDP) on China

Chinese Inflation Rate (pp from new baseline)



Source: NiGEM, Bank of China

Chinese GDP (% from new baseline)

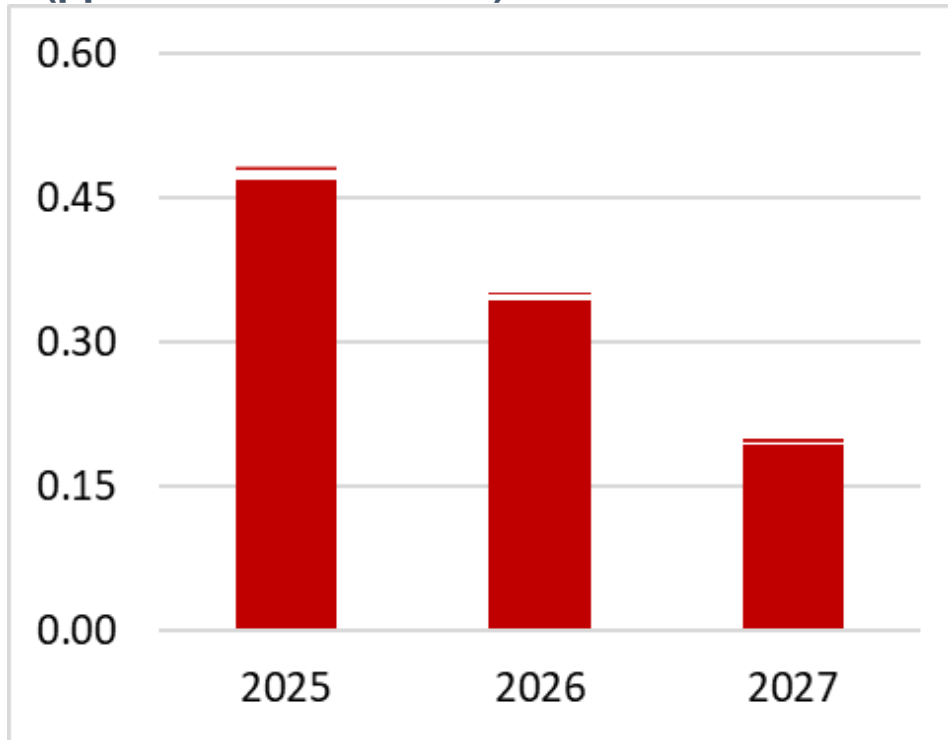


Source: NiGEM, Bank of China



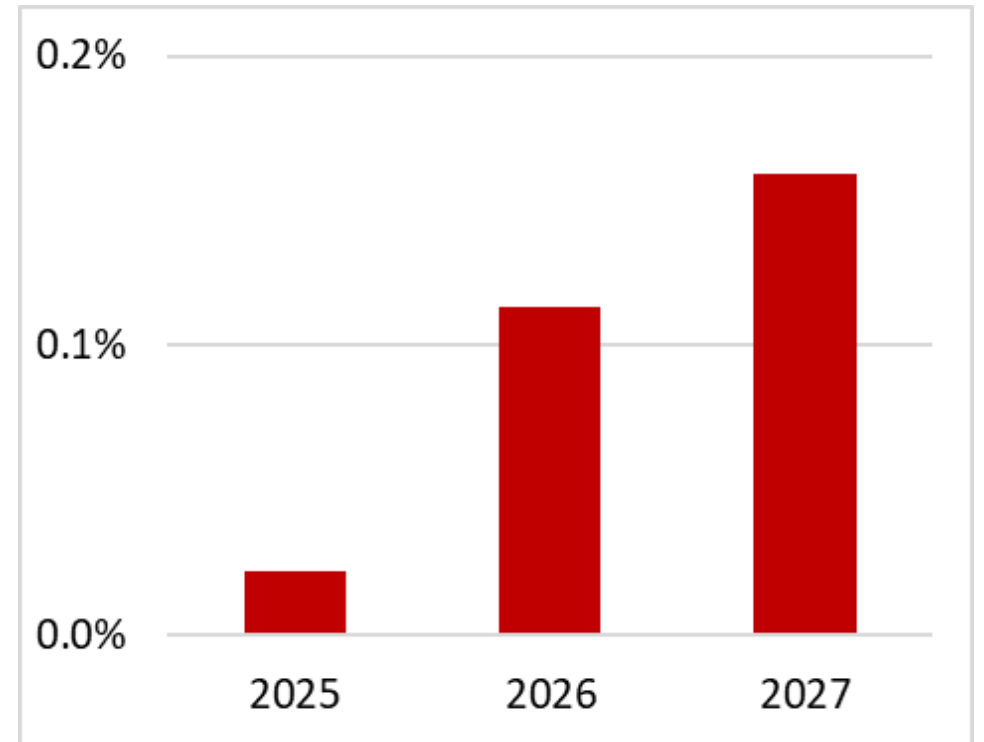
Impact of 2% RMB Depreciation on China

Chinese Inflation Rate (pp from new baseline)



Source: NiGEM, Bank of China

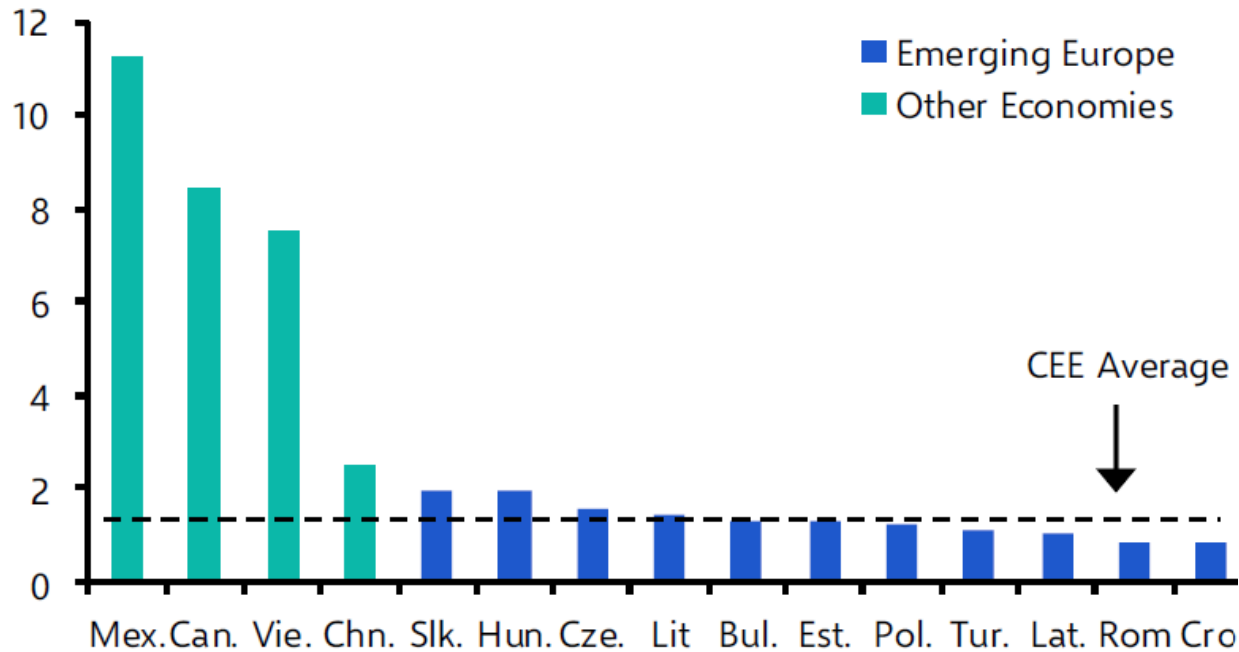
Chinese GDP (% from new baseline)



Source: NiGEM, Bank of China

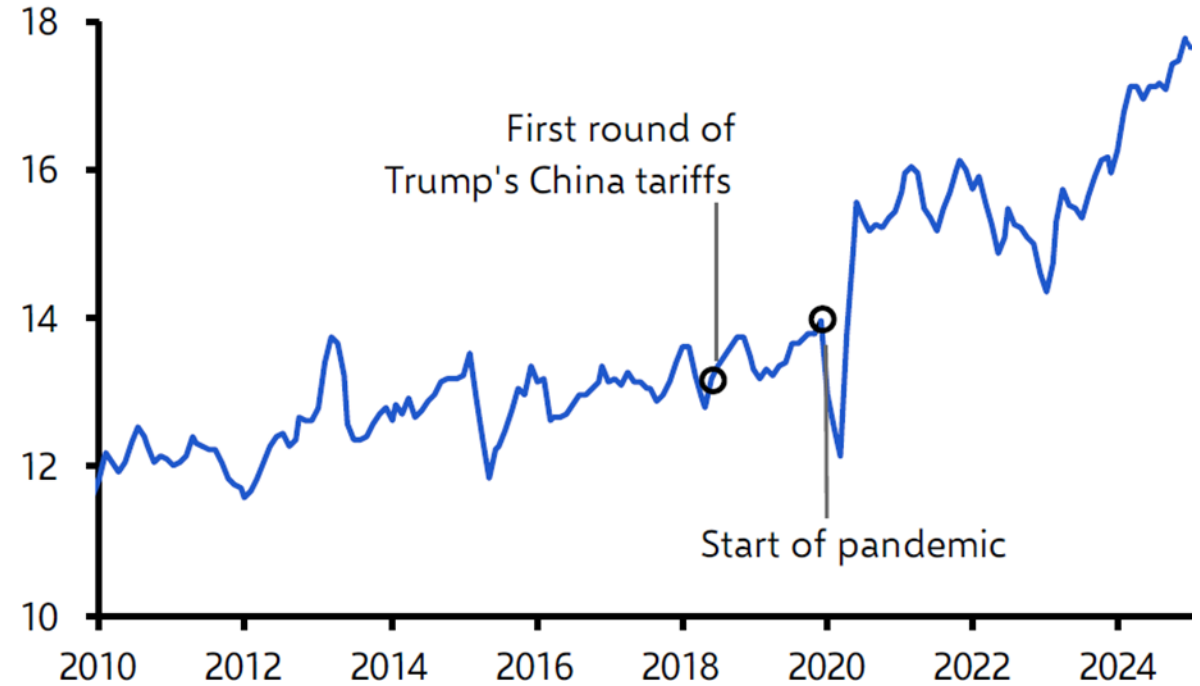


Share of GDP Dependent on US Goods Demand* (% 2015-20 Avg.)



Source: Capital Economics, BOC London Research Department

China's Share of Global Goods Export Volumes (% 3m sum)



Source: Refinitiv, BOC London Research Department

- China is relatively insulated from US tariffs.
- China's exports are expected to grow in the long term.



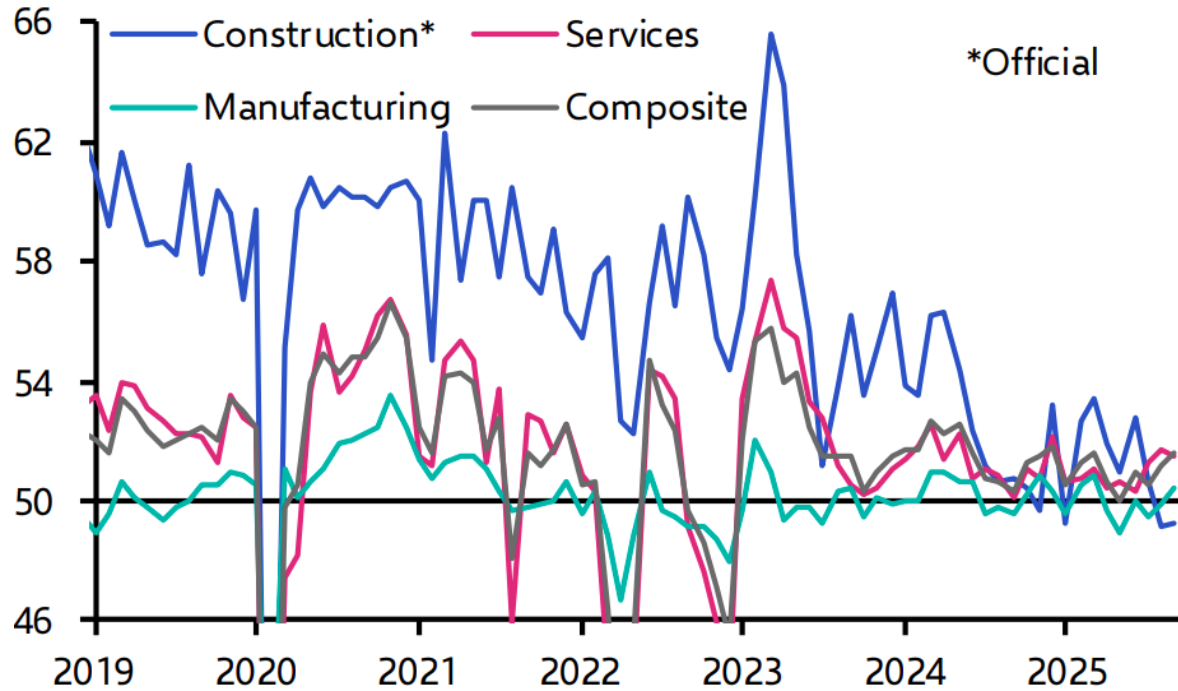
Summary

Key Takeaways on tariffs (If they are implemented):

- The World Economy growth is expected to slow (No recession)
- The US economy is to be hit harder than China (2 times as hard as China in growth rate)
- Additional 0.5- 1.5pp inflation for the US initially, meaning tighter monetary policy than expected, rate cut delayed to Sep.
- Most EU countries are less affected.
- China has tools to mitigate the impact.

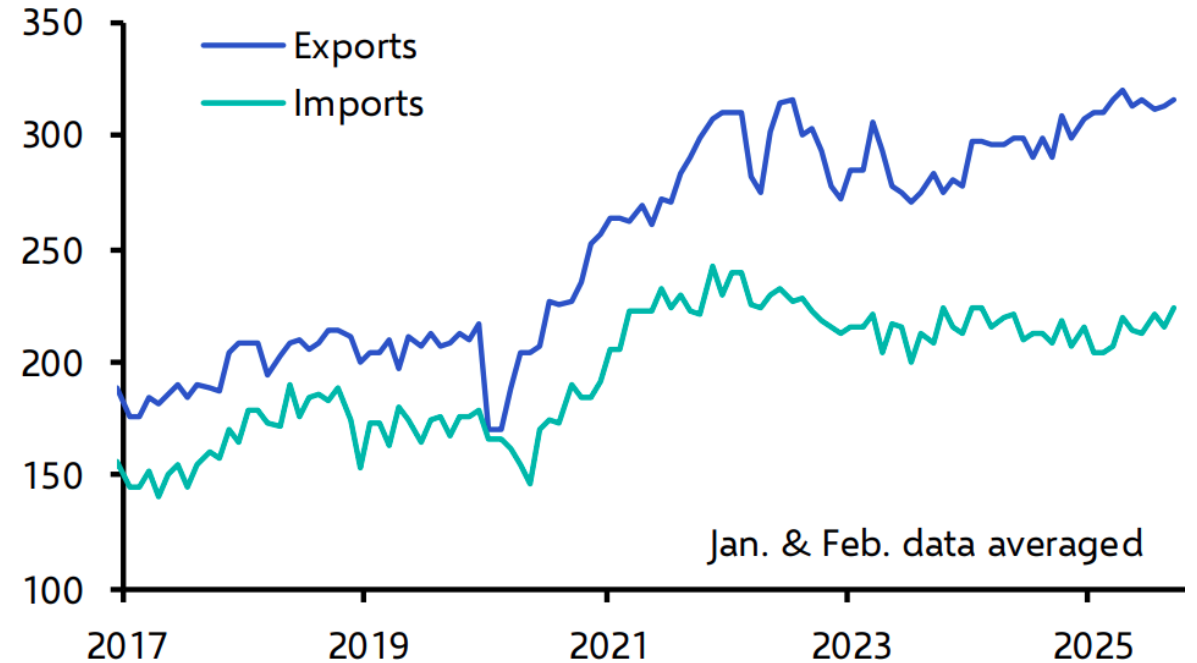


Figure 1: China PMIs



Source: Refinitiv, BOC London Research Department

Figure 2: China Goods Trade (\$bn, seasonally-adjusted)

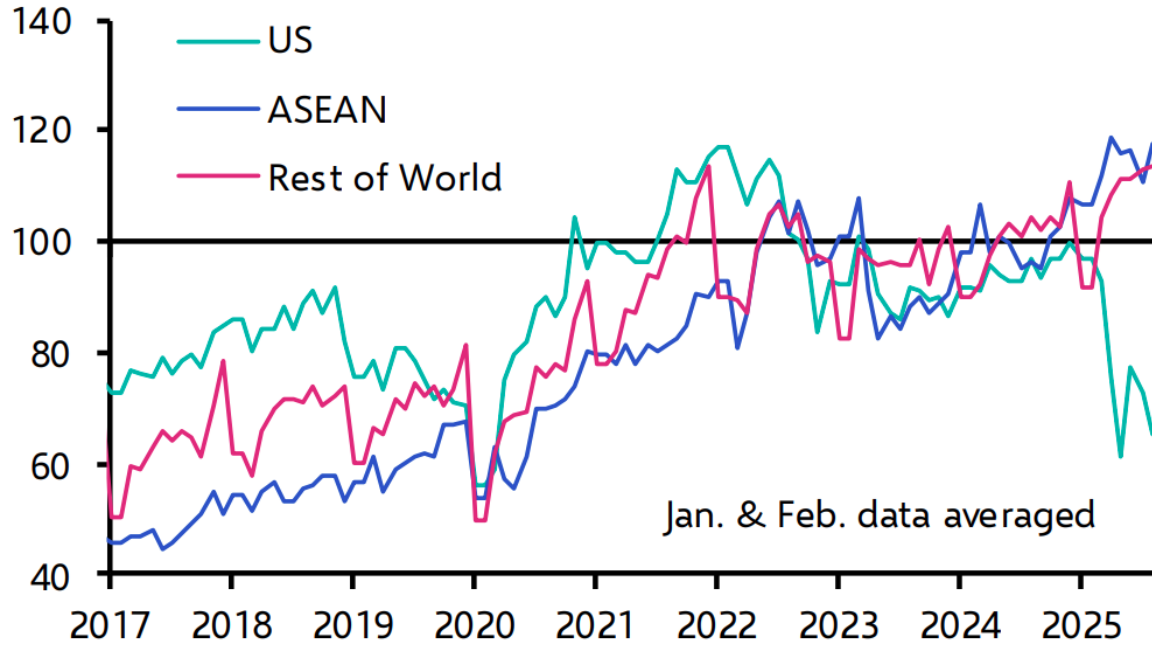


Source: Refinitiv, BOC London Research Department

- The PMIs for September suggest that the economy accelerated a touch, driven by manufacturing activity.
- Exports have held up well since the start of the year, despite US tariffs

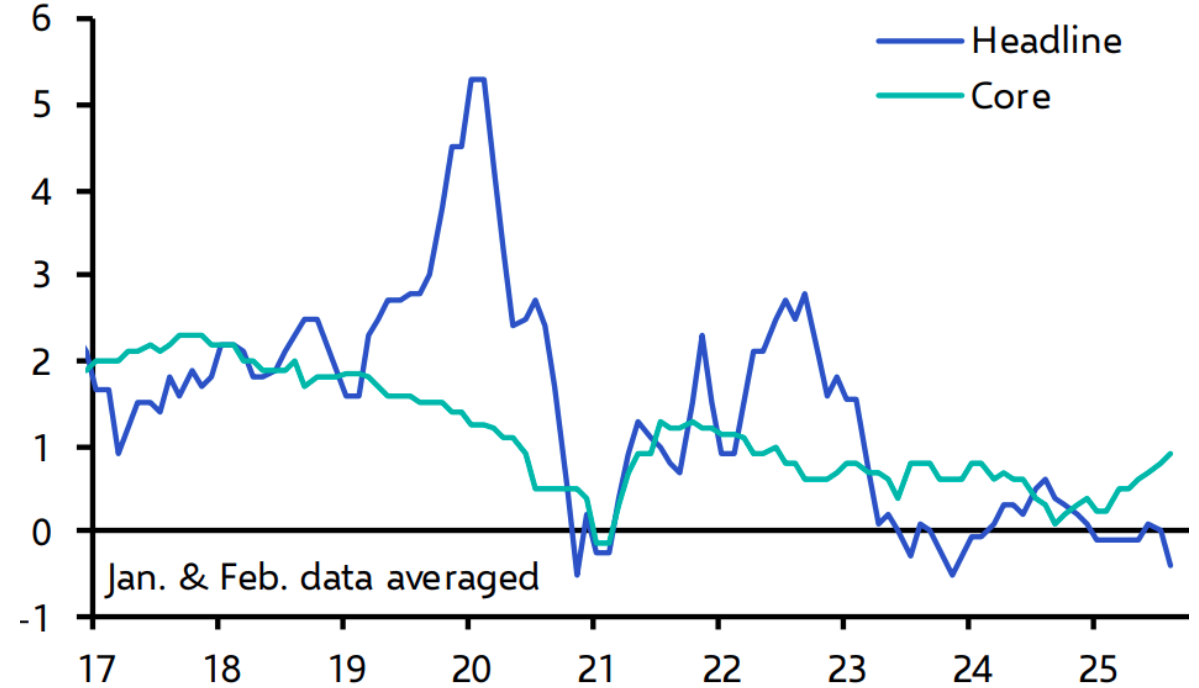


Figure 3: China Exports by Destination (2024 = 100, S.A.)



Source: Refinitiv Datastream, BOC London Research Department

Figure 4: Consumer Prices (% y/y)

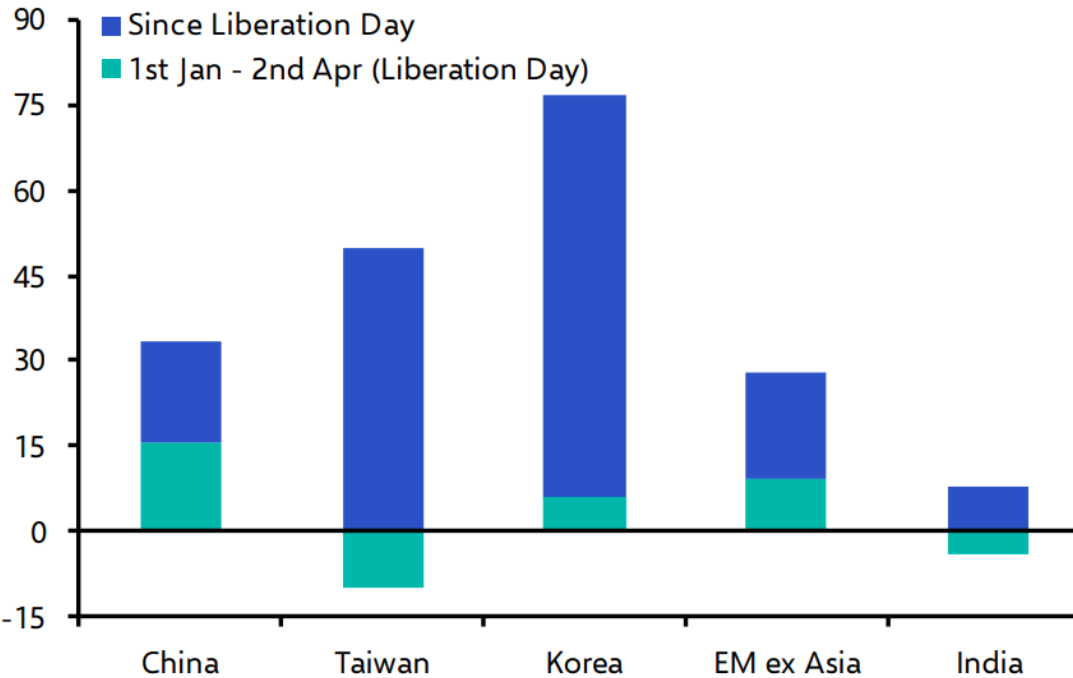


Source: Refinitiv, BOC London Research Department

- A pickup in exports to other economies has helped to offset the hit from US.
- Headline inflation turned negative last month, but that just reflects volatile food prices. Core inflation actually ticked up from 0.8% y/y in July to 0.9% y/y in August

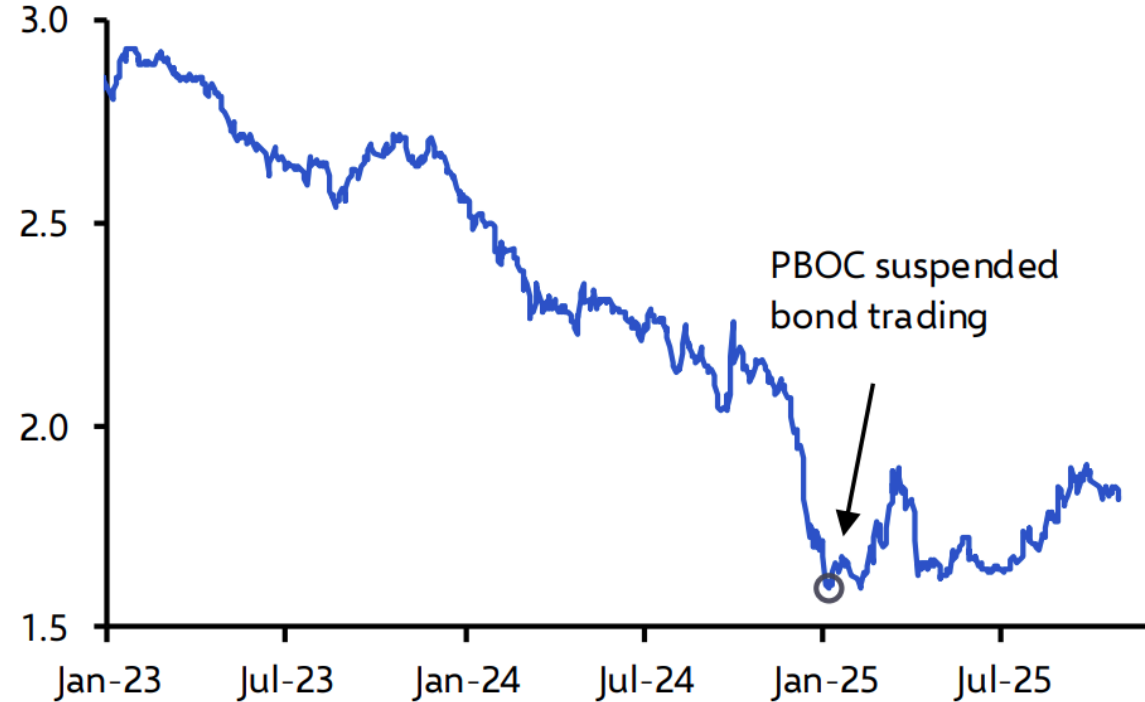


Figure 5: MSCI Equity Indices across Economies (\$, %-change)



Source: Refinitiv Datastream, BOC London Research Department

Figure 6: 10-year China Treasury Yield (%)

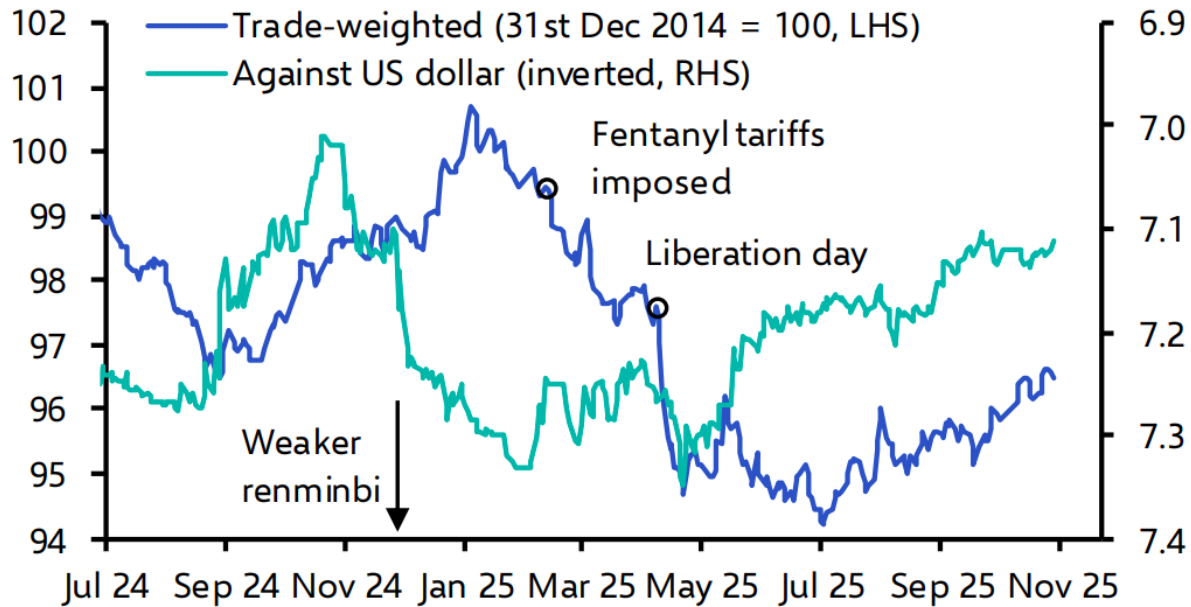


Source: Refinitiv, BOC London Research Department

- Chinese equities have outperformed most EMs outside of Asia this year.
- Investor optimism has also helped 10-year bond yields pass their pre-liberation day level.

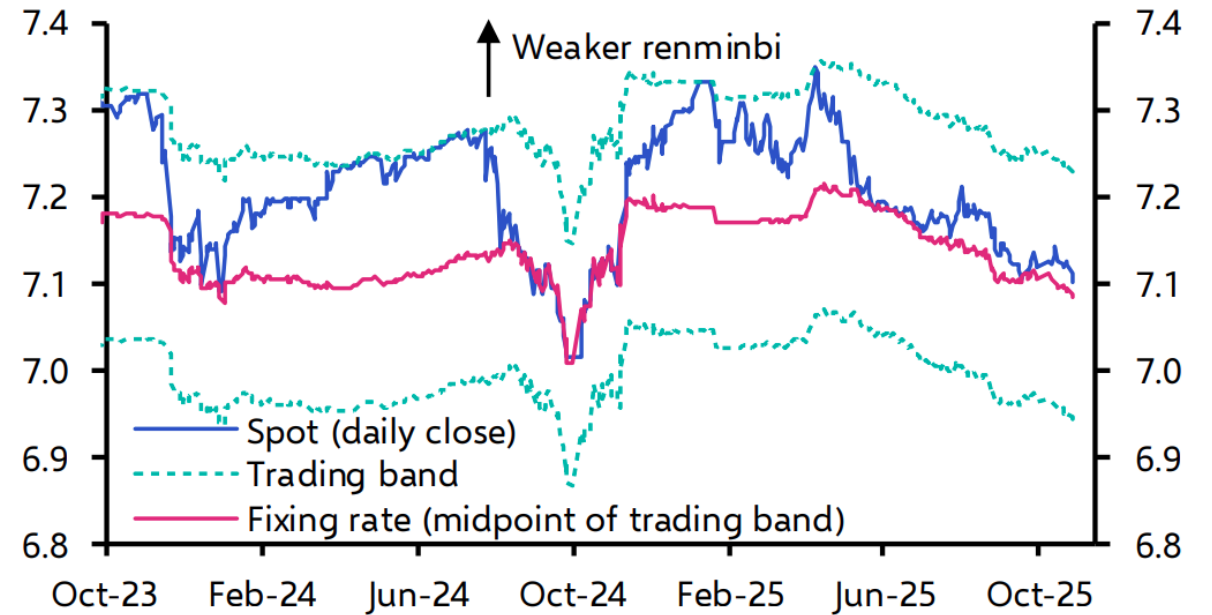


Figure 7: Renminbi Exchange Rate



Source: Refinitiv Datastream, BOC London Research Department

Figure 8: Renminbi Exchange Rate (CNY/USD)

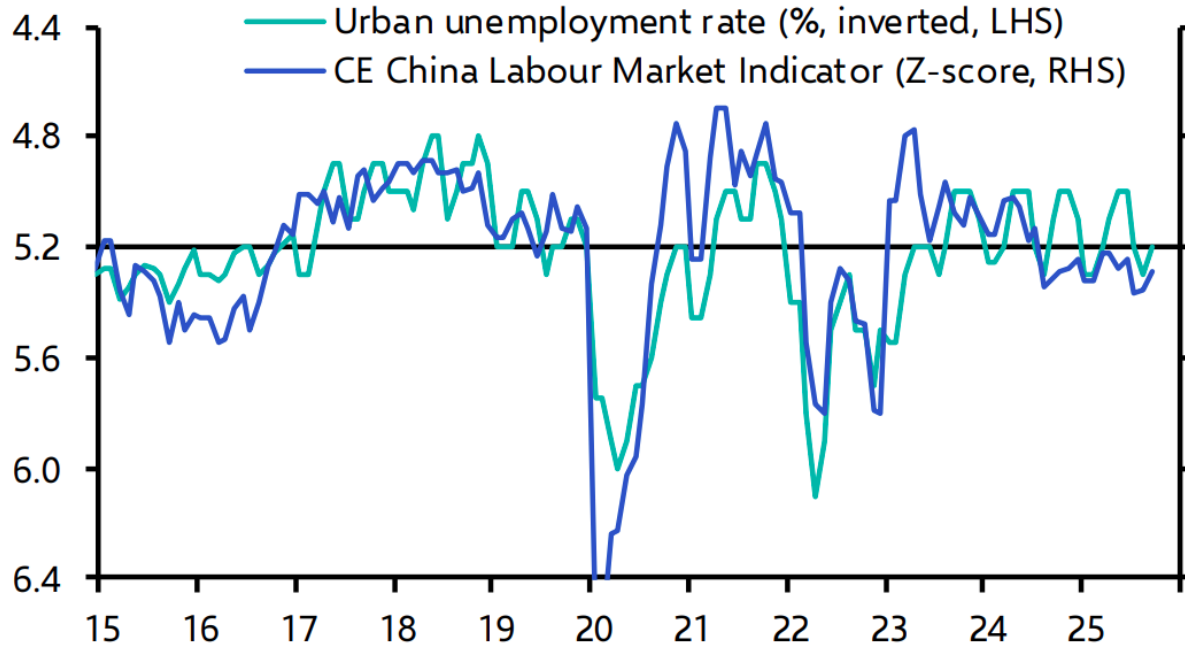


Source: Wind, BOC London Research Department

- The renminbi has strengthened against the dollar since Liberation Day. But it has weakened in trade-weighted terms.



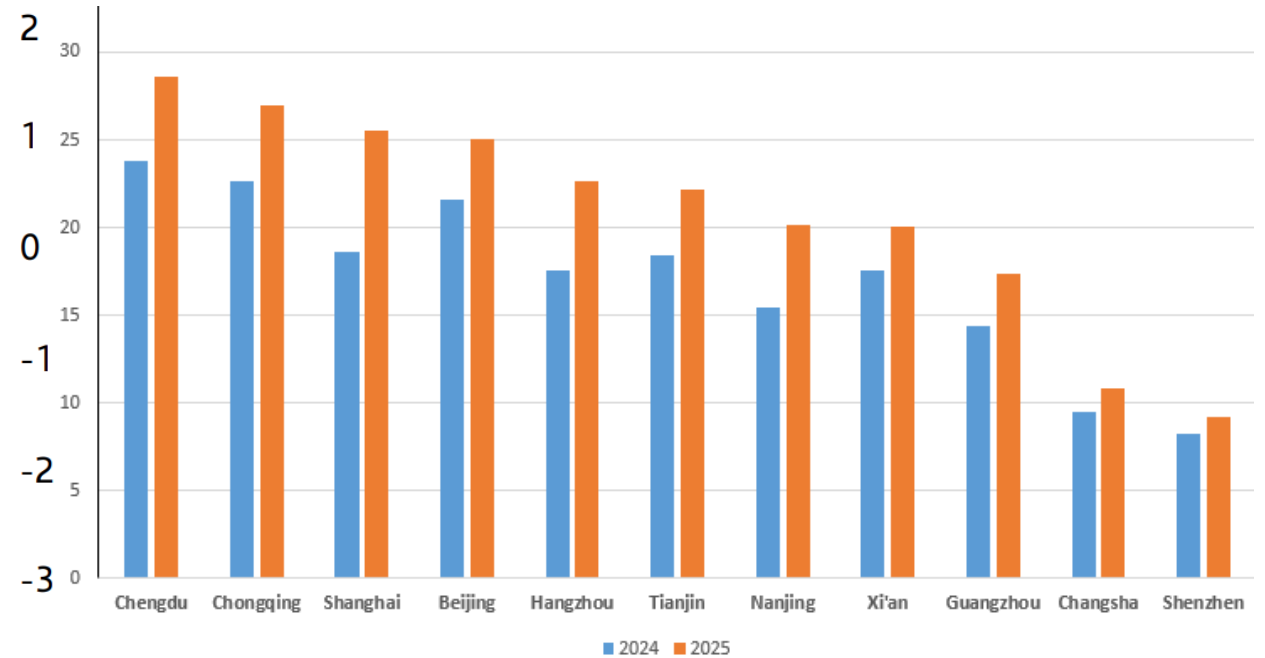
Figure 9: China Labour Market Conditions Indicator & Unemployment Rate



Source: Capital Economics, BOC London Research Department

- The unemployment rate edged down in September.
- Domestic tourism remains strong momentum.

Figure 10: No. of Tourists during the October Holiday Season (Unit: Million)



Source: Tourist Offices of Above Cities, BOC London Research Department

China Economy: Macro-Environment & Regulatory Updates



GDP Growth:

- China's GDP grew by 5.3% year-on-year in the first half of 2025, reaching 66.0 trillion Yuan
- Industrial Sector: Led by strong manufacturing and industrial output, which grew by 6.4%.
- Services Sector: Recovered with a 5.5% expansion, driven by travel and retail.



PMI:

- September 2025 PMIs: Manufacturing 49.8, Non-Manufacturing 50.0, Composite 50.6
- Manufacturing PMI beat market consensus of 49.7, and the pace of decline was the slowest in the sequence
- Non-Manufacturing PMI slipped to 50.0, down from both the August reading and market estimates of 50.3. It was the lowest figure since November 2024



Exports/Imports:

- Exports from China increased by 8.3% YoY to a seven-month high of USD 328.6 billion in September 2025, surpassing expectations for a 6% rise and accelerating from a 4.4% gain in August
- Imports surged 7.4% YoY in September 2025, hitting a seven-month high of USD 238.1 billion and exceeding market expectations of 1.5%
- PBOC and CSRC issued the Measures for the Supervision and Administration of Financial Infrastructure. This decision is to implement the arrangements set out in the Work Plan for Coordinated Regulation of Financial Infrastructure.
- PBOC and Six Other Authorities Jointly Issue the Guidelines on Promoting Financial Support for New Industrialisation. The Guidelines follow the fundamental principles of aligning financial services with the needs of the real economy.



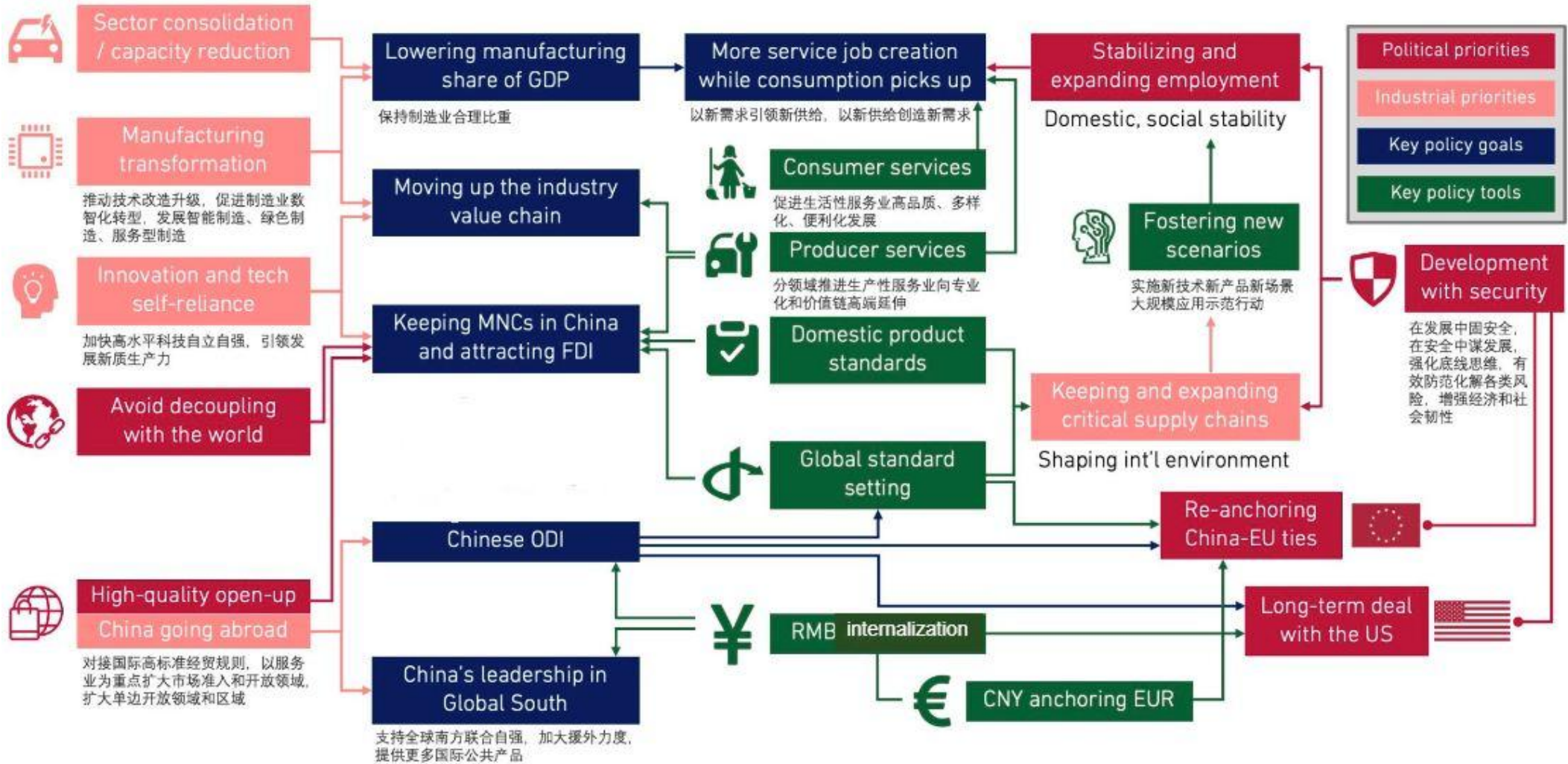
15th 5Yr Plan Preview

<p>Fostering New Quality Productive Forces</p>	<p>To drive economic growth through intensifying scientific and technological innovation and achieve technological breakthroughs in critical areas. And upgrading traditional industries, nurturing emerging sectors, and laying the groundwork for future industries.</p>
<p>Expanding Domestic Demand</p>	<p>Boosting household consumption to become the main engine and anchor of economic growth, and optimize investment infrastructures, stimulating domestic demand across the board</p>
<p>Advancing Green and Low-Carbon Transition</p>	<p>As a global leader in green technology, China will press ahead with its domestic green transition while contributing to global climate action through its cost-effective products and tech expertise.</p>
<p>Enhancing People's Livelihood</p>	<p>Strengthening employment support and building a comprehensive welfare system especially the youth and elderly.</p>
<p>Pursuing High-level Opening-up</p>	<p>From 2026 to 2030, China will continue to advance comprehensive reforms, building on the belt and road initiative, to enhance global trade and economic internationalization.</p>
<p>Coordinating Security and Risk Management</p>	<p>Geopolitical tension demands independent risk bearing ability against ever-changing external pressures, and Internally Strengthen bottom-line thinking to prevent financial risks.</p>

- **Timeline:** The draft of the 15th Five-Year Plan was released in **late October 2025**, with the official plan expected in June 2026.
- **Reform Agenda:** Over 300 reform measures adopted at the Third Plenum will be implemented during 2026-2030, advancing comprehensive reforms and high-standard opening-up.

15th 5Yr Plan Preview

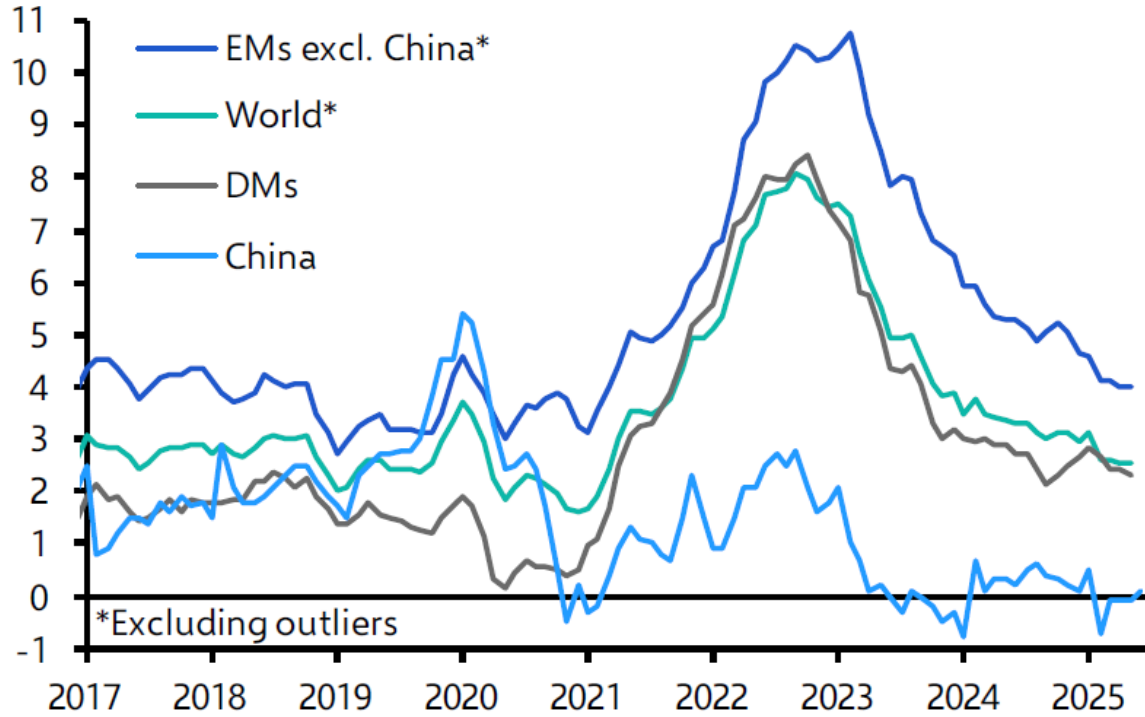
The 15th Five-Year Plan aims to balance multiple priorities in outward orientation





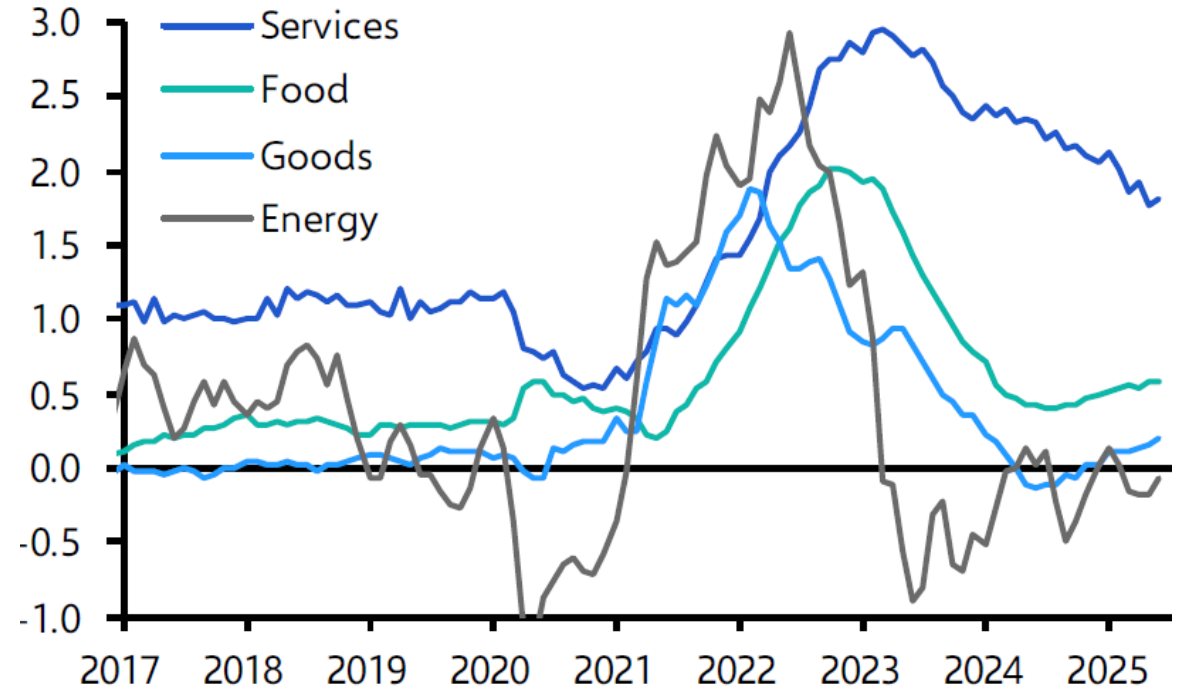
Disinflation: Inflation has fallen globally with no significant tariff impact on the goods.

Headline Inflation (%)



Source: LSEG, BOC London Research Department

Contributions to Headline Inflation in Major DMs (%-pts)



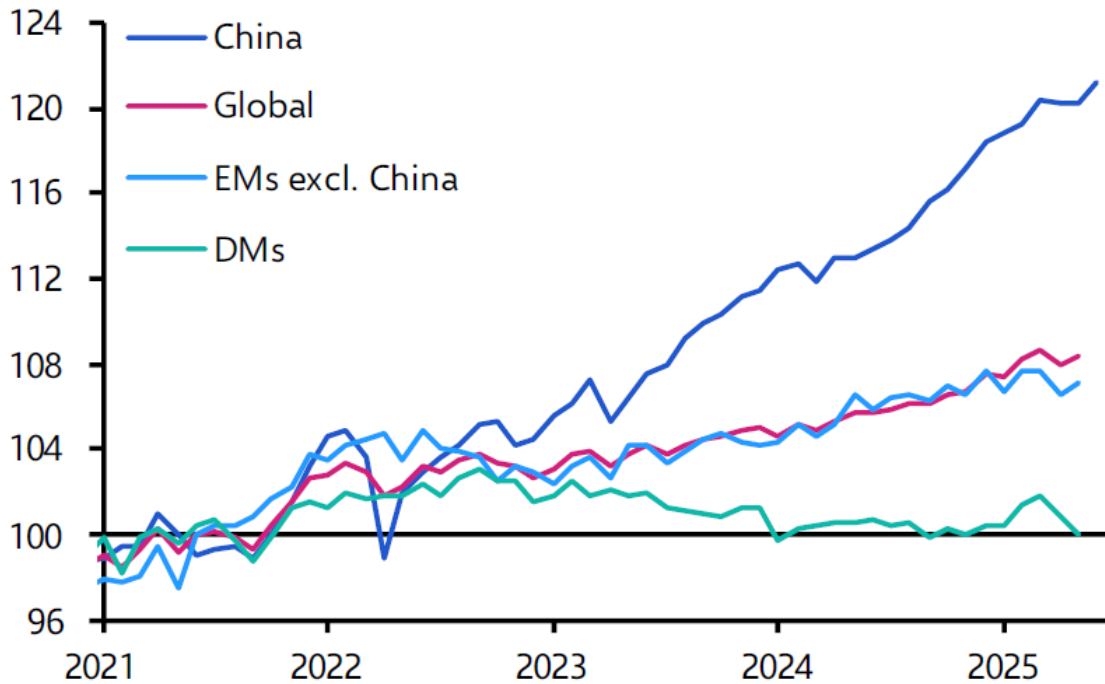
Source: WIND, BOC London Research Department

- Inflation has fallen globally since the start of the year, although the pace of disinflation has slowed in recent months.
- In advanced economies, while services inflation has continued to moderate, this has been somewhat offset by rises in food and goods inflation.



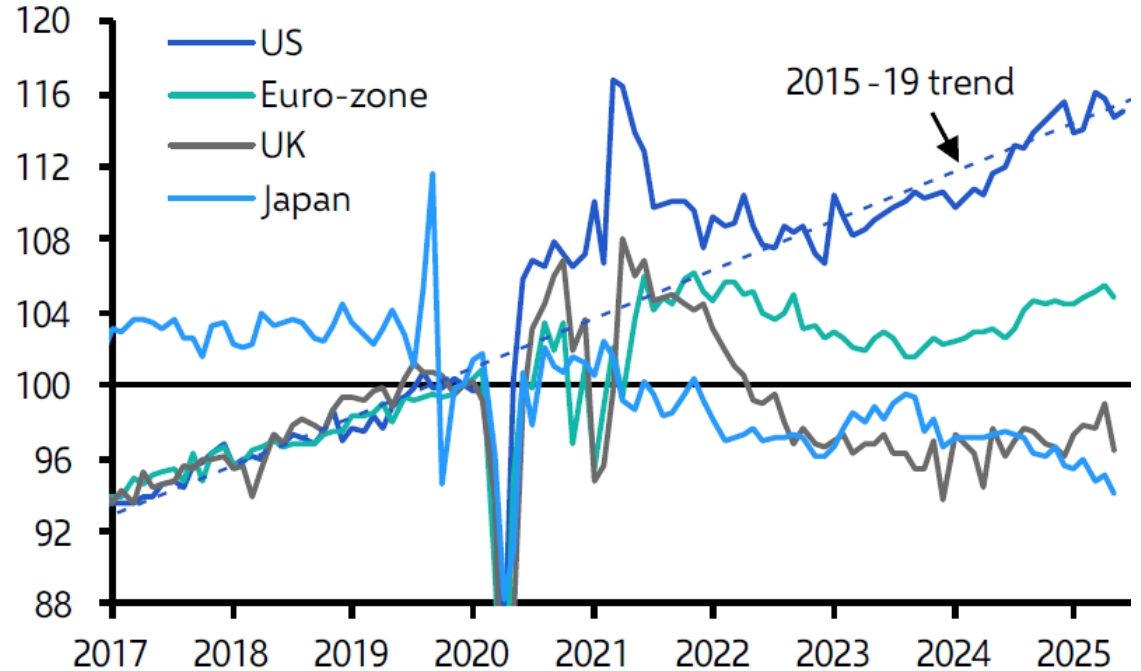
Divergence: Multipolarity becomes a three-body problem, which is the third pole?

Industrial Production (Jan. 2022=100)



Source: Refinitiv Datastream, BOC London Research Department

Real Retail Sales (Dec. 2019 = 100)

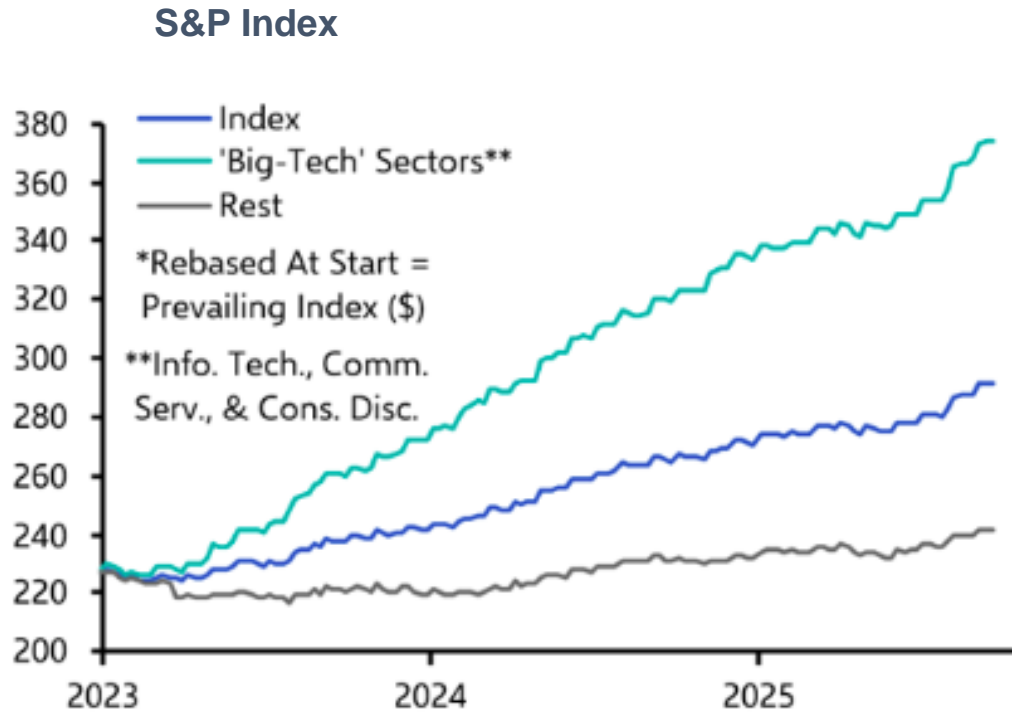


Source: Refinitiv, BOC London Research Department

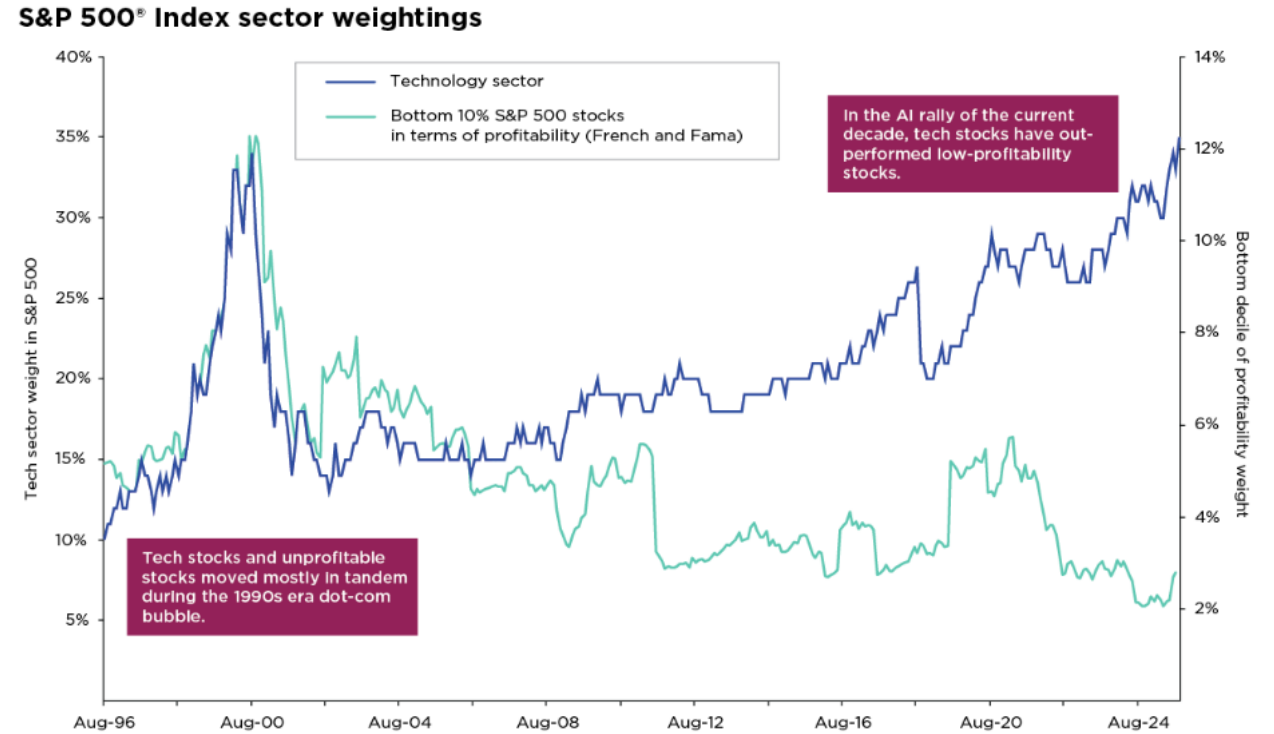
- Global industrial production ticked up in May, as stronger activity in EMs offset the further fall in output in DMs. **Meanwhile, output in China rose in June.**
- **Retail sales ticked up in the US in June while felling other major developed economies.**



Deflation: Are we going to see the deflation of AI bubble, if there is any?



Source: Refinitiv Datastream, BOC London Research Department



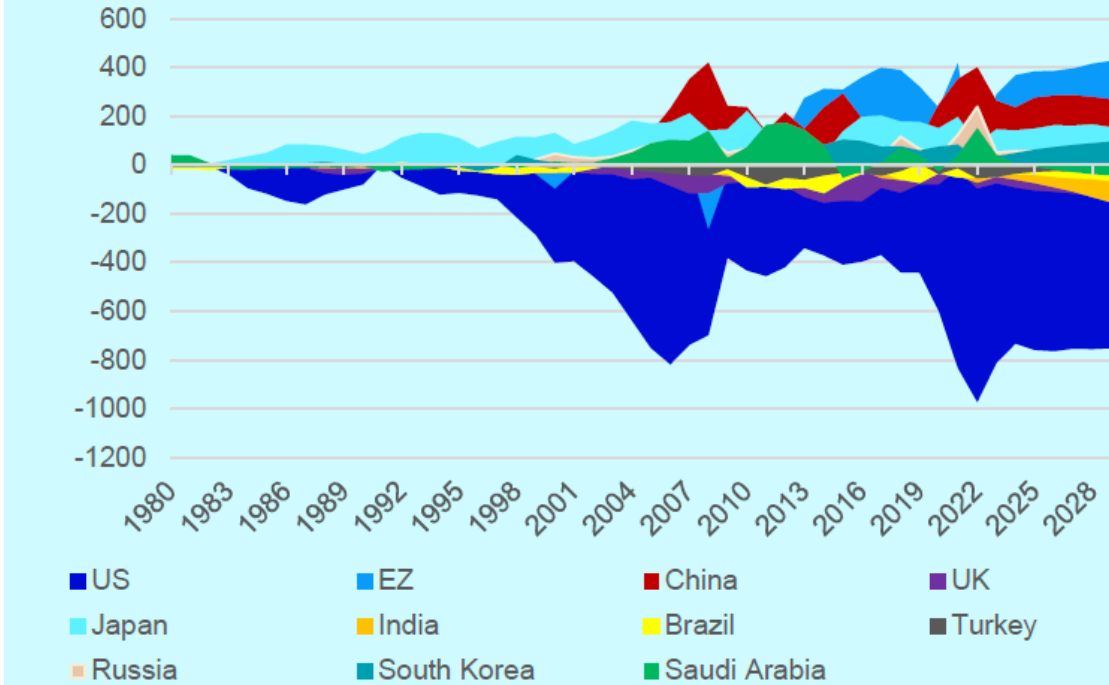
Source: Refinitiv, BOC London Research Department

- The **'big-tech'** (information technology, communication services, and consumer discretionary) companies have accounted for nearly 70% of the increase in S&P 500 forward-twelve-month (FTM) earnings since YD 2022.
- Unlike many dot-com darlings, these firms are not only profitable, **they're driving the market's earnings engine.**

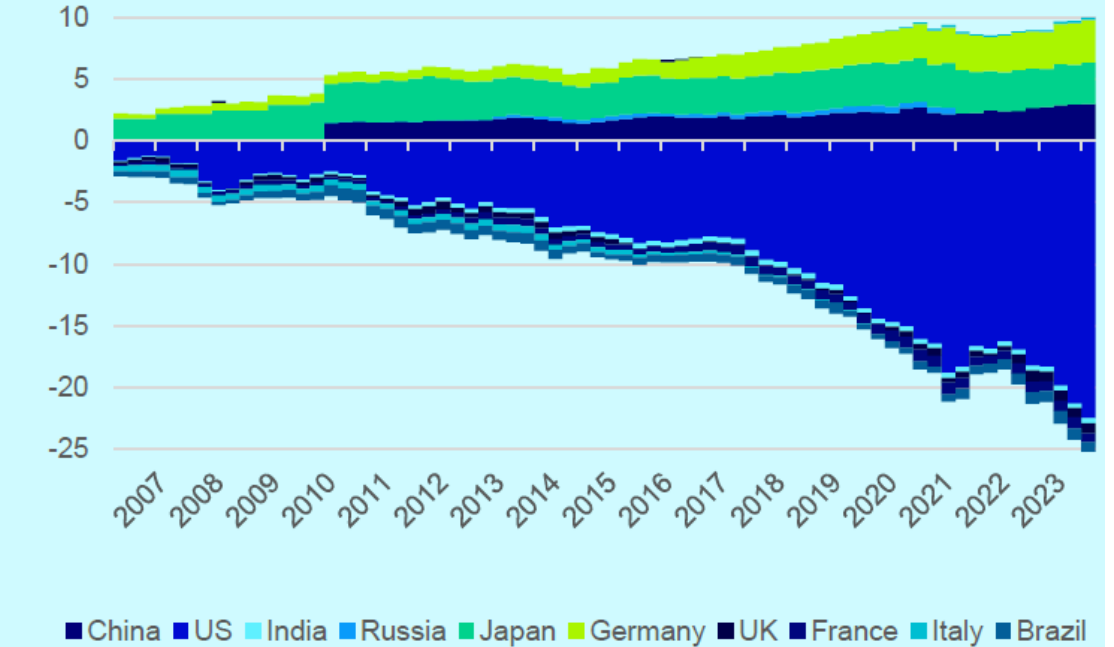


Deficit: The unbalanced current accounts

US as the indispensable country: Largest continuous deficit country
Current account balances, US\$tns



Largest Debtor: US is suddenly, deeply in hock to many others,
Net International Investment Positions, US\$tns



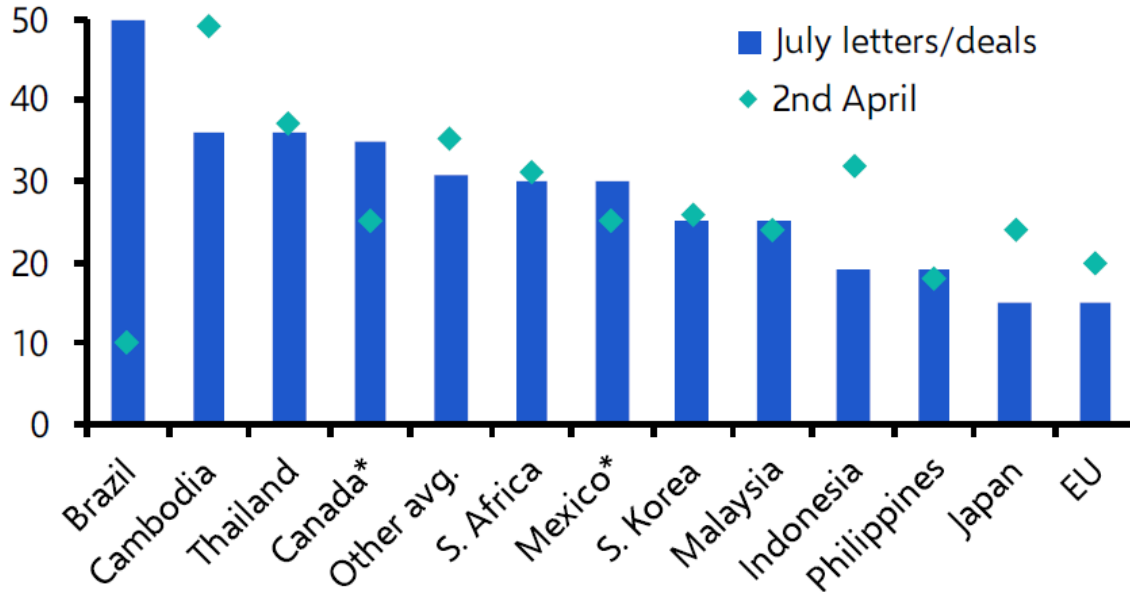
Note: Current US Dollars.

Source: IMF, Macrobond, Invesco. Annual data to 2023 and IMF WEO forecasts to 2028; all as at 25 October 2024.



De-Globalisation: There is no universal TACO and Tariff is up.

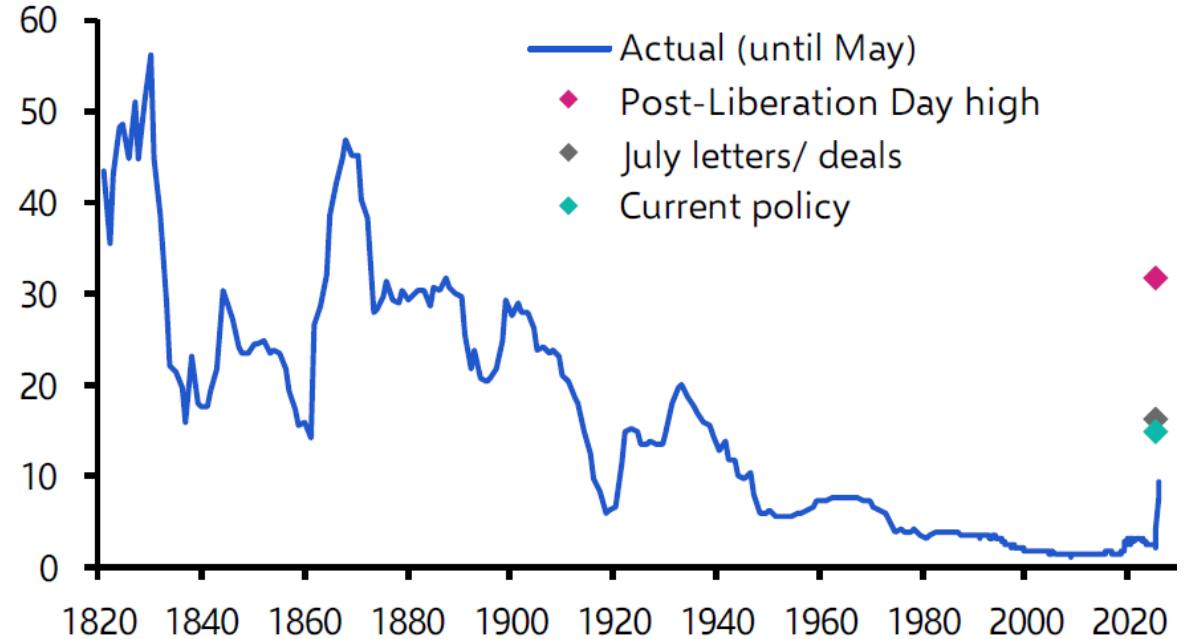
US Reciprocal Tariff Rates (%)



*Fentanyl/border, not reciprocal tariffs

Source: White House, USITC, BOC London Research Department

US Effective Tariff Rate (%)

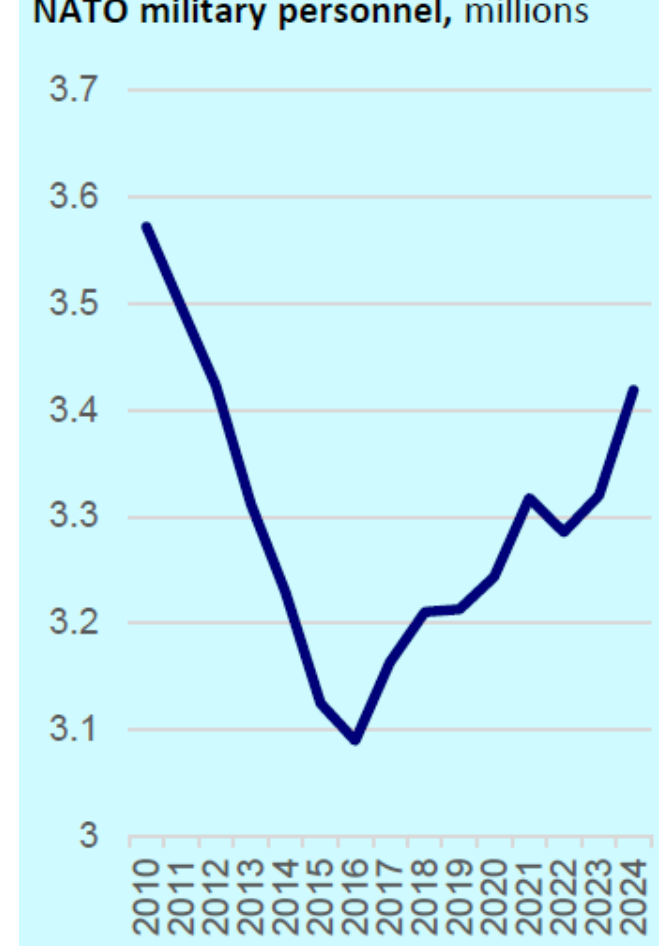
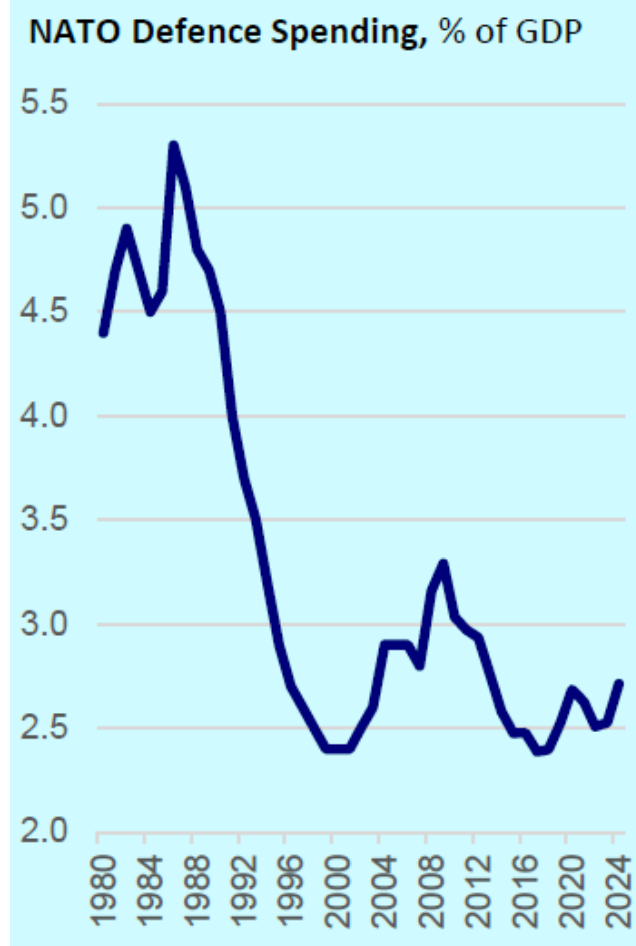
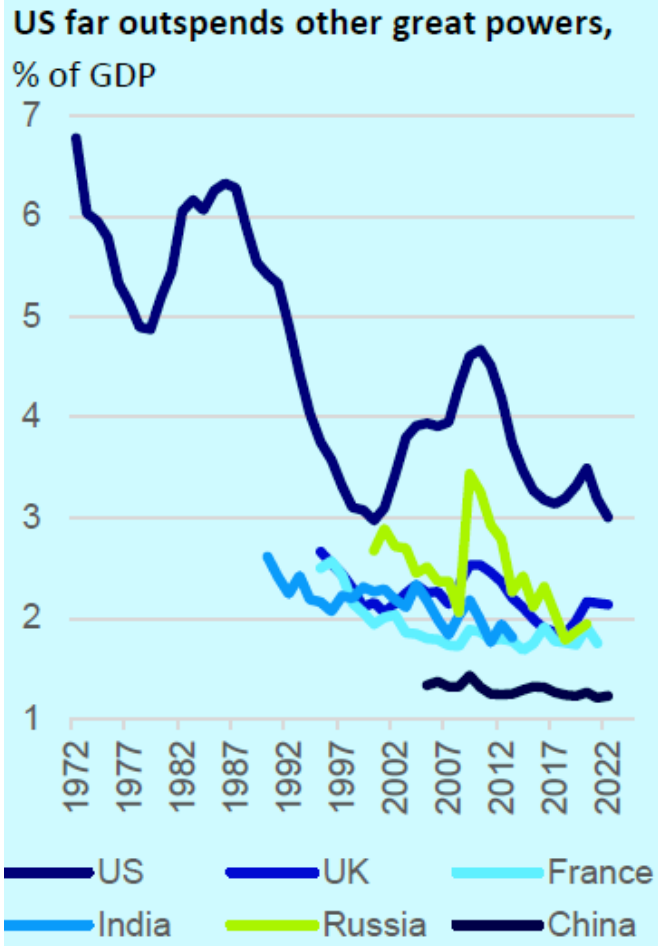


Source: White House, USITC, BOC London Research Department

- The US has struck trade deals with some countries including the EU and Japan but has threatened reciprocal tariffs for several countries that don't agree deals by 1st August.
- The US effective tariff rate rose to 9.1% in May, while the tariff policies currently in place put it at about 15%.



Defence: Reversing Post-Cold War “Peace Dividend”

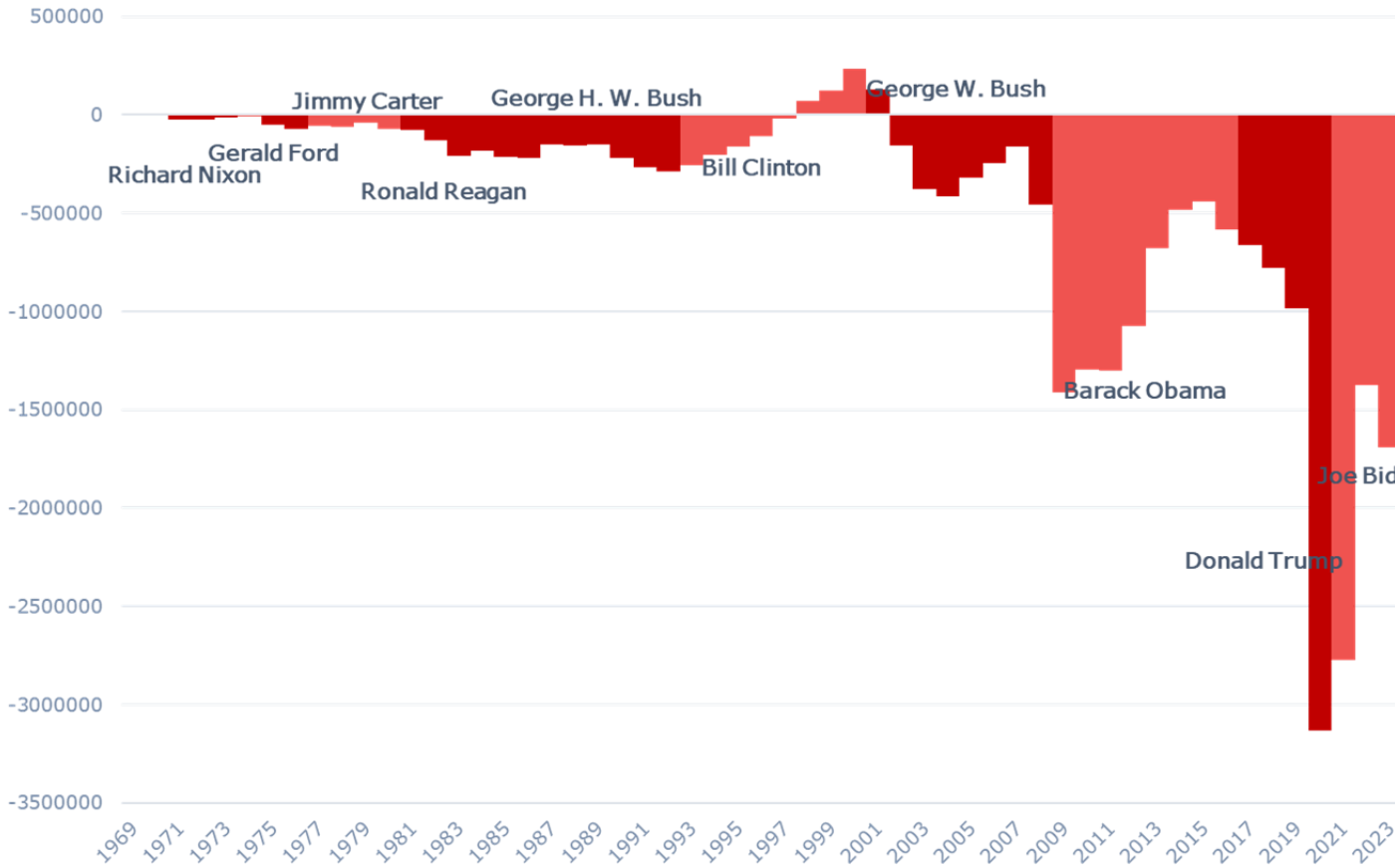


Source: Source: IMF GFS, NATO, Macrobond, Invesco. Annual data, latest available, with NATO projections for 2024, all as at 22 November 2024.

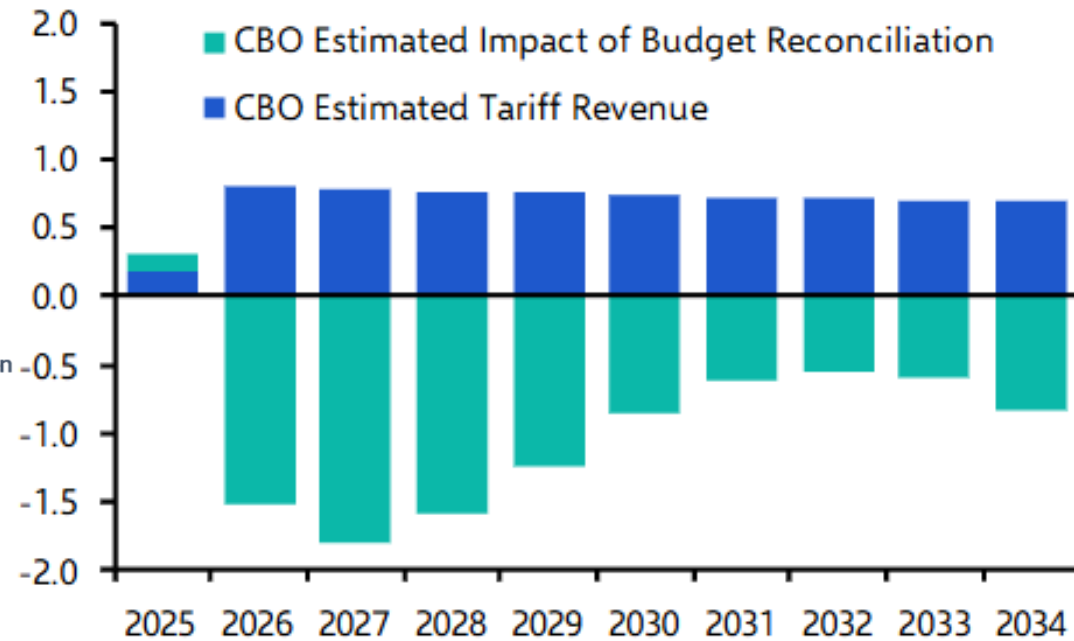


Debt: US has a debt issue but a fiscal crisis is not imminent (BBB vs Tariff) .

US Federal Deficit (\$ Mn)



Net Fiscal Impact of Budget Reconciliation vs Tariff Revenue (% of GDP)



Source: FED, BOC London Research Department

- The US debt has been increasing fast in the past two decades.
- US federal debt holdings by type of investor suggest a fiscal crisis is not imminent: Domestic investors hold over 75% of gross federal debt.
- The tariff revenue helps offset the additional spending and tax cuts included in the One Big Beautiful Bill Act.



Dollar: Short term weakness vs long term appreciation

US Dollar: Nominal effective exchange rate (NEER)



Source: BIS, BOC London Research Department

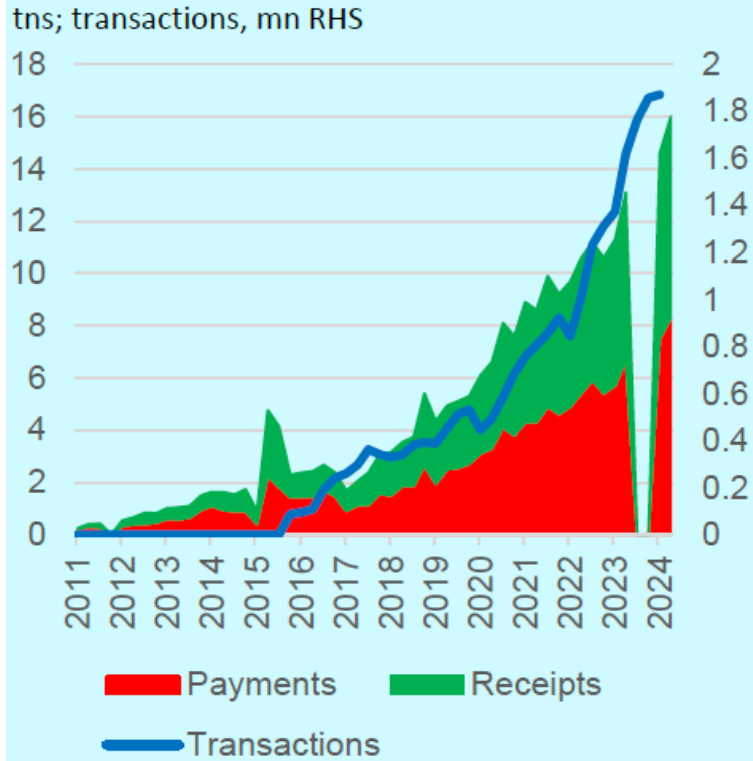
- The US dollar index (DXY) has tumbled in 2025 which may reflect the US damaging economic policy that weighs on the market sentiment, in particular the sweeping tariffs.
- However, the long term nominal effective exchange rate (NEER) remains elevated, suggesting that the dollar may still be overvalued



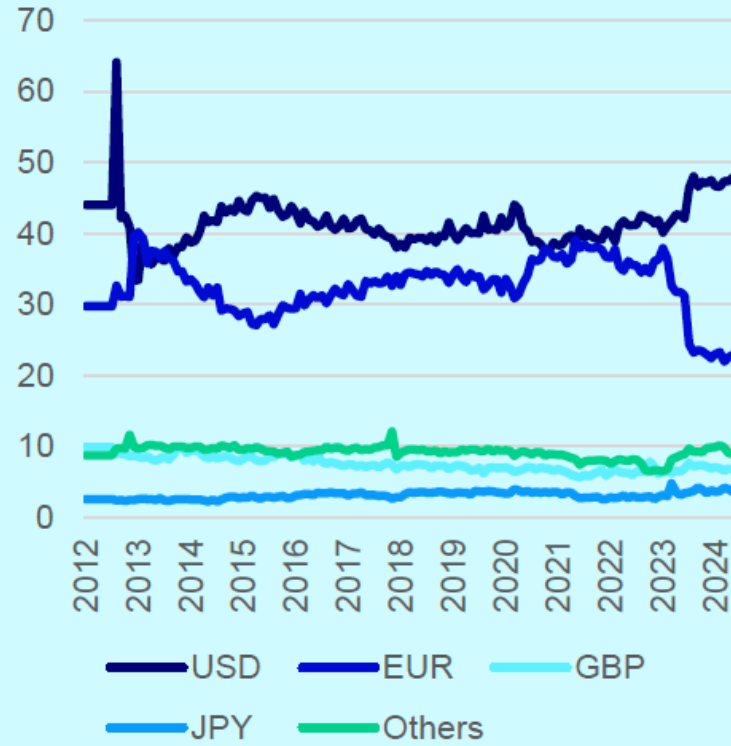


De-Dollarisation: De-Euroisation, China moves to CIPS, Reserves split across US allies and adversaries

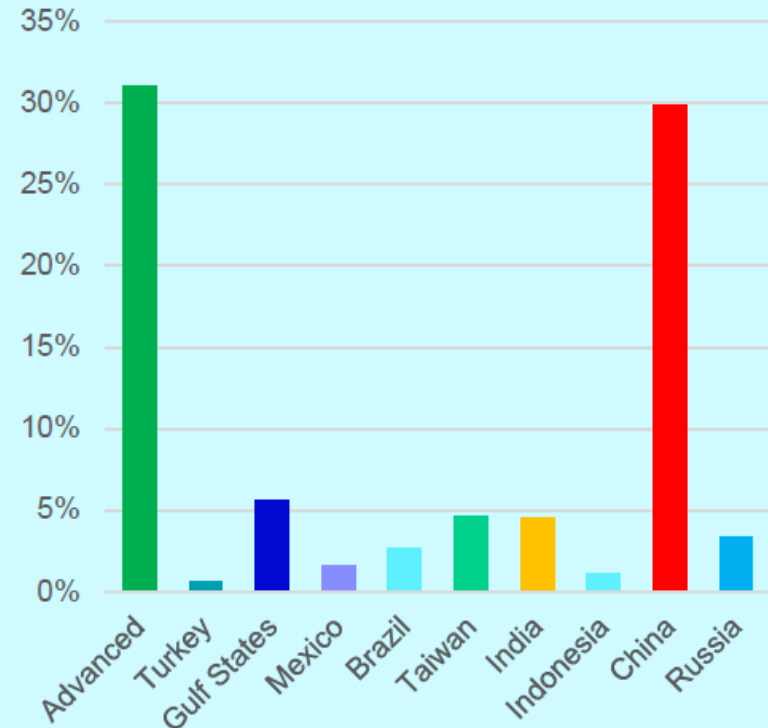
Cross-Border International Payments System, CNY



SWIFT: USD payments up; EUR, down, %



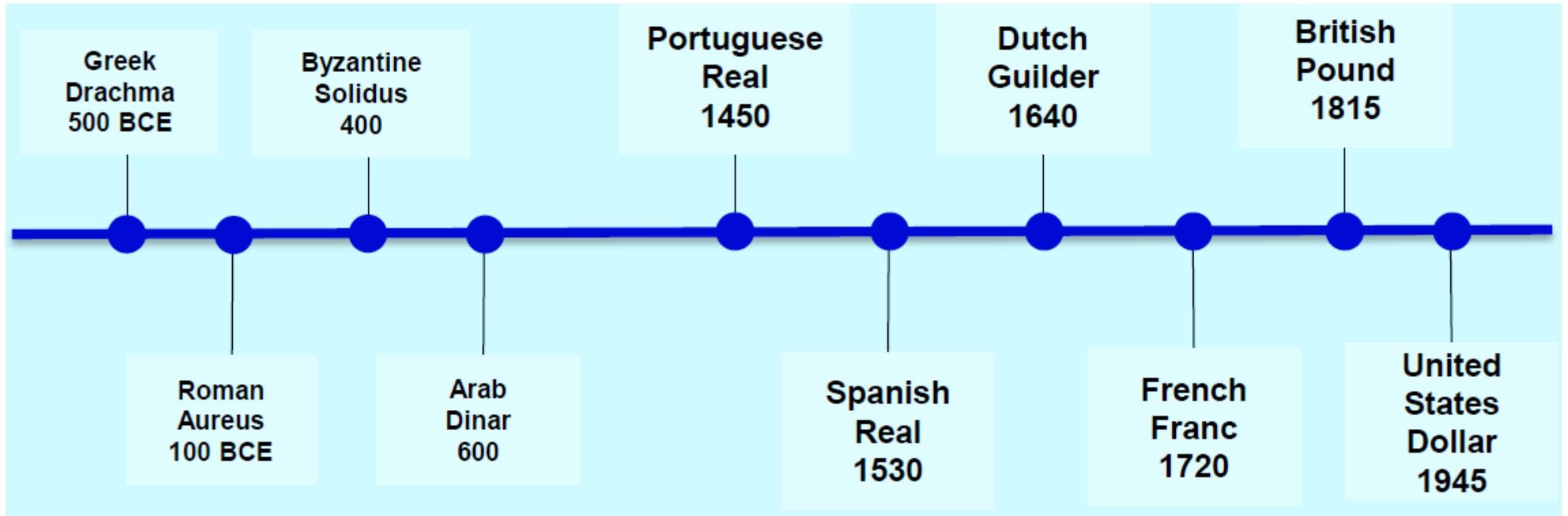
Global FX reserve holdings, % market share



- Note: CIPS – China’s Crossborder International Payments System. SWIFT – Society for Worldwide Interbank Financial Telecommunications. Advanced – IMF definition but excludes Taiwan, Hong Kong, Macao, Singapore; weekly data to 25 March 2024, China 26 February. Gulf States, most of which have dollar pegs and military ties to the US. China includes Hong Kong, Macao Special Administrative Regions, annual data through 2023.
- Source: IMF, Macrobond, Invesco. Left, data to 1 April 2024, with a gap in reporting early 2024. Right, monthly data through June 2024, as at 7 October 2024..



One more thing: Leading global currencies – usually domestic currencies of “hegemons”



- Note: During the Italian Renaissance, some city-state currencies, e.g., the Florentine ducato, served as international currencies for a time; they lacked macro/military heft but were hubs of financial innovation.
- Source: Invesco, De-Dollarisation Dilemmas, October 2023

An aerial photograph of London, England, showing the River Thames winding through the city. The Tower Bridge is prominent in the foreground, and the dense urban landscape extends to the horizon. The image is overlaid with a semi-transparent red and blue gradient.

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