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China in 2026: five factors behind a resilient outlook



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China's 2026 growth outlook remains resilient, with exports and investment continuing to underpin activity, supported by the global AI and technology investment cycle. Geopolitical risks – particularly around the Middle East and energy supply – have become more prominent, but high energy self-sufficiency, diversified energy sources, sizeable policy buffers and a cautious policy stance mean these risks remain manageable.

Key takeaways

- Despite geopolitical disruption, China's exports remain robust, bolstered by the global technology and artificial intelligence (AI) investment boom and strong non-tech demand.
- China's policymakers have pledged to raise the share of domestic consumption in gross domestic product (GDP) but would also like to maintain "reasonable" investment growth, making us think the latter will stay resilient and continue outpacing consumption.
- Disruption to Middle East energy supplies, including a prolonged closure of the Strait of Hormuz is a key external risk, but we consider the impact to be manageable as China is energy self-sufficient and supplies are diversified.

As tensions in the Middle East have returned to the centre of global markets' attention, China has found itself especially visible. Beijing has played an increasingly active diplomatic role in recent efforts to stabilise the situation around Iran and the Strait of Hormuz, reflecting the scale of its economic, energy and strategic interests in the region. Against this backdrop, we expect China's economic growth in 2026 to remain driven by manufacturing investment and exports, rather than domestic consumption. Domestic demand is likely to stay subdued amid the still ongoing adjustment in the real estate sector.

The global technology and artificial intelligence (AI) investment boom has significantly boosted China's export performance, particularly in capital goods, electronics, and related supply chains across East Asia. Export growth has also been supported by strong non-tech demand, including traditional manufacturing sectors such as textiles, furniture and auto parts.

As exports are performing robustly, we think there is limited urgency for Beijing to roll out a large-scale domestic stimulus package. Policymakers are therefore likely to tolerate weak consumption unless China experiences either a sharp external shock or a sudden export downturn. A key vulnerability in this regard lies in global energy markets, where heightened geopolitical tensions have increased the risk of supply disruptions.

We think there are five key factors likely to shape China's outlook in 2026.

1. External risks – from the Strait of Hormuz to tariffs – appear manageable, in our view

Even though China relies on the Middle East for around 45% of crude oil and roughly one-third of LNG imports, we consider the impact of a prolonged closure of the Strait of Hormuz to be manageable for several reasons:

- China produces roughly 80% of its primary energy needs¹, with less than 20% of its consumption met through imports, limiting the impact of trade disruptions on power production.

- China's energy imports are geographically diversified, with supplies also sourced from Russia, Africa, Southeast Asia and South America.
- Strategic energy reserves are substantial, offering meaningful short-term buffers.

Elevated global energy prices may temporarily increase inflation, but they also help support very muted price pressures caused by subdued demand. We do not expect higher energy prices to derail overall growth unless geopolitical tensions escalate significantly or persist for an extended period.

While China's reliance on external demand leaves it exposed to rising trade protectionism, we are less concerned about the impact of current US tariffs, given China's dominance in global rare earth supplies and its generally sanguine relations with the US in the near term.

2. Policy support remains focused on investment growth, despite efforts to rebalance the economy

With external risks elevated and policymakers reluctant to deploy large-scale stimulus as long as exports remain resilient, China's medium-term policy framework becomes particularly important in shaping the growth outlook. The 15th Five-Year Plan (2026-2030) provides that anchor, setting a strategic direction that prioritises industrial upgrading, technological self-reliance and the expansion of advanced manufacturing, alongside goals such as green transformation and the creation of a more unified domestic market. These objectives underscore policymakers' continued focus on expanding productive capacity and strengthening supply-side competitiveness.

Despite official pledges to increase the share of consumption in GDP, the plan simultaneously emphasises maintaining "reasonable" investment growth, particularly in high-tech and strategic industries. As a result, we expect investment growth to remain resilient and continue outpacing consumption growth, creating more industrial capacity. Consumption demand is expected to remain comparatively weak and insufficient to absorb all the products produced by the

¹ China relies on coal for 51.4% of its total energy consumption and derives over 30% of its energy from nuclear and renewables such as hydro, wind and solar.

country's highly efficient manufacturing capacities. We think this reality highlights the challenge the government faces in its effort to rebalance the economy towards a domestic demand-led economy.

3. Economic growth is set to remain robust, while inflation is likely to stay subdued despite higher energy prices

China's official macro targets for 2026 reinforce the picture of an economy navigating external risks with cautious pragmatism rather than aggressive stimulus. At the annual National People's Congress – the country's key policy-setting forum – Premier Li Qiang set out growth and inflation objectives that reflect more realistic assessments of China's medium-term potential and policymakers' continued focus on stability.

The government lowered its 2026 growth target to 4.5–5%, broadly in line with market expectations. We anticipate growth of around 4.8% in 2026, down slightly from 5% in 2025. The government's inflation target for 2026 remains at 2%, again broadly in line with market expectations. We think inflation will undershoot this level again, coming in at around 0.8%. While higher energy prices may lift headline inflation temporarily, core inflation is likely to remain subdued, in our view.

Fiscal policy remains proactive but not expansionary. The augmented fiscal deficit is estimated at around 11.3% of GDP, marginally smaller than 2025 (11.7% of GDP). Despite efforts to contain leverage, government debt continues to rise, pushing public debt to 96.3% of GDP in 2025 from 88.3% of GDP in 2024. Overall leverage in the economy is expected to increase further as fiscal policy continues to prioritise investment.

4. The balance of payments is likely to remain largely stable, limiting upward pressure on the yuan

Strong merchandise exports, coupled with comparatively weaker imports due to subdued domestic demand, are expected to drive the current account surplus above 4% of GDP in 2026.

While this surplus suggests sustained currency strength, it is likely to be offset by continued capital and financial account outflows, including overseas direct investment, portfolio investment and other capital movements. These flows



reflect the ongoing diversification of Chinese companies as they expand overseas and the increasing interest of Chinese investors in offshore assets.

The overall balance of payments is expected to remain broadly stable, in our view, limiting upward pressure on the Chinese yuan (CNY). The Chinese currency is expected to face pressure to appreciate against the US dollar but remain relatively stable on a trade-weighted basis.

5. Monetary policy has shifted towards a more neutral stance, with further easing likely to be gradual

Against this backdrop of stable growth targets and subdued inflation, the People's Bank of China (PBoC) has shifted towards a more neutral monetary stance. While we still expect the PBoC to deliver one 10 basis points cut to the 7-day policy repo rate and one 50 basis points cut in the required reserve ratio (RRR) this year, the timing is likely to be pushed back due to:

- Rising energy price risks.
- Supply shock risks as a sizable share of Asia's energy supply transits through the Strait of Hormuz.
- Policy caution among other Asian central banks.

Given the uncertain global environment, we anticipate near-term policy to remain largely supportive but restrained.

Outlook: resilient, albeit unbalanced, economy

In summary, China's economy is resilient, but its growth model remains unbalanced, with exports and investment doing most of the heavy lifting. One positive is that policymakers are doing their best to pursue technological advancement to maintain manufacturing leadership and raise productivity. As growth remains stable, China will continue to refrain from aggressive stimulus, but consumer demand is

still expected to expand amid rising wages and a bottoming real estate sector.

External risks – most notably tensions in the Middle East and the temporary closure of the Strait of Hormuz – present downside risks, but we view them as manageable given China's high energy self-sufficiency, diversified energy supply and policy buffers.

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Past performance does not predict future returns. If the currency in which the past performance is displayed differs from the currency of the country in which the investor resides, then the investor should be aware that due to the exchange rate fluctuations the performance shown may be higher or lower if converted into the investor's local currency.

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