CHINA

INNOVATION AND AI DRIVING ECONOMIC DEVELOPMENT

China's economic growth model is based on imbalances, characterised by sluggish domestic demand, excess production capacities, strong exports and the pursuit of self-sufficiency, which have implications for its trading partners. While the IMF has recently reiterated the urgent need to boost private consumption, Beijing continues to give the priority to industrial policy and maintains moderately accommodative fiscal and monetary policies. It places cutting-edge sectors, innovation, AI and technological autonomy at the heart of its development strategy. This strategy aims to foster productivity gains and economic growth, while also consolidating China's dominance in global industry and its commitment to "national security".

📈 GROWTH (INCREASINGLY) DEPENDENT ON EXPORTS

Chinese economic growth held steady at 5% in 2025, the same as in 2024. Quarterly data indicates a slight upturn in Q4 (+1.2% q/q), driven by exports. The imbalances inherent in the growth model have, in fact, intensified since last summer and are expected to continue in 2026.

On the domestic demand front, signs of weakness have worsened, with total investment contracting and household consumption remaining sluggish.

Real estate investment has been declining steadily for four years, while investment by local governments has been constrained by shrinking land sales proceeds and tighter fiscal management rules imposed by Beijing. In the manufacturing sector, companies have been scaling back their investments in recent months as a result of a deteriorating demand outlook, low capacity utilisation rates (averaging 75.2% in Q4), falling prices and profits, and the government's anti-involution directives aimed specifically at reducing production overcapacity. Consequently, the contribution of total investment to real GDP growth reached a record low in 2025 (Chart 1). It could recover slightly in 2026: although the decline in real estate investment is expected to continue (with unsold inventories remaining high), manufacturing investment could see an uptick in "strategic" sectors, spurred on by government policies.

As far as consumers are concerned, the impact of government support diminished in H2 2025, and retail sales growth slowed (from 4.7% y/y in real terms in June to just 0.1% in December). However, this was offset in Q4 by a recovery in demand for services, which was also boosted by fiscal measures. Total consumption (both private and public) saw a slight increase in its contribution to growth in 2025, but it is less vigorous than before the Covid pandemic. Its average growth was estimated at between 4% and 4.5% per year in real terms in 2024-2025, compared with 7.7% during the period of 2015-2019. The short-term outlook is uncertain, still overshadowed by the property crisis, a lack of dynamism in the labour market and low household confidence. Public policies aimed at durably boosting private consumption are likely to remain insufficient.

🔁 RECORD HIGH SURPLUSES IN THE TRADE AND CURRENT ACCOUNT BALANCES

On the external demand front, growth in merchandise exports remained robust until the end of the year. The decline in sales to the United States since April (-23% y/y) was more than offset by an increase in exports to other regions of the world, bolstered by the strong price and non-price competitiveness of Chinese goods. The yuan's real effective exchange rate (REER), which was already weak in 2024, lowered further in 2025 (it depreciated by 5.8% in H1, and then appreciated

FORECASTS

	2023	2024	2025e	2026e	2027e
Real GDP growth, %	5.4	5.0	5.0	4.7	4.5
Inflation, CPI, year average, %	0.2	0.2	0.0	0.9	1.0
Official budget balance / GDP, %	-3.8	-3.0	-4.0	-4.3	-4.0
Official general government debt / GDP, %	54.7	60.9	68.4	74.5	77.4
Current account balance / GDP, %	1.4	2.3	3.8	3.6	3.3
External debt / GDP, %	13.4	12.9	12.3	11.3	10.5
Forex reserves, USD bn	3 450	3 456	3 744	3 844	3 924
Forex reserves, in months of imports	13.3	12.7	13.9	13.8	13.5

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

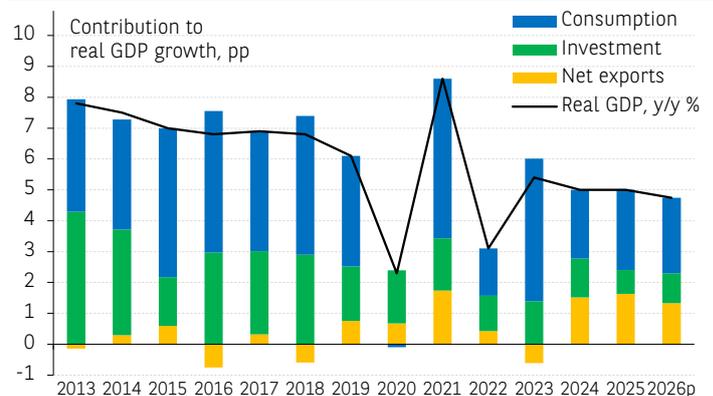### CHINA: EXPORTS REMAIN A KEY DRIVER OF GROWTH

CHART 1

SOURCE: NBS, CEIC, BNP PARIBAS

by 3.6% in H2). The average REER index in 2024-2025 was about 10% below its average for the previous five years (based on BIS data). The average export price in USD fell by -2.9% in 2025, following a -6.8% decline in 2024. In volume terms, exports rose by +9% in 2025 (+12% in 2024), while imports remained virtually unchanged (after a +2% rise in 2024), reflecting sluggish domestic demand and Beijing's self-sufficiency targets.

Consequently, on the one hand, the contribution of net exports to growth, which had rebounded strongly in 2024, strengthened further. In 2025, it accounted for one-third of real GDP growth, the highest share since the early 2000s. On the other hand, China's trade surplus

increased by 20% in 2025 and reached a record high of USD1189 bn (based on General Administration of Customs data). The current account surplus also expanded significantly, rising from USD424 bn in 2024 to USD735 bn in 2025. It exceeded 3% of GDP for the first time in fifteen years (3.8%).

These recent dynamics have strengthened China's position as a global export power. They have also allowed China to increase its investment overseas (including direct investment, credit and portfolio investment flows) and strengthened its position as a net foreign creditor. Large trade imbalances, the risk of a persistent competitive pressure from Chinese goods, and the stagnation of Chinese imports are expected to continue to fuel severe tensions with most trade partners, including Europe.

🔖 DEFLATIONARY PRESSURES, A SYMPTOM OF IMBALANCES

Weak domestic demand and excess production capacities are fuelling deflationary pressures as well as competitive pressures of Chinese goods on export markets. CPI inflation did pick up slightly in Q4 (to +0.6% y/y vs. an average of -0.1% over the first nine months of 2025) and core inflation rose back above +1%. However, these developments are mainly due to temporary factors and the anti-inflation campaign. The latter is likely to remain modest, especially if the authorities revise their production reduction targets for fear of negative effects on growth. Without a resurgence in demand, the alleviation of deflationary pressures will remain limited in the short term.

🏛 MONETARY AND FISCAL SUPPORT REMAINS MODERATE IN 2026

Recent statements from Beijing indicate a degree of confidence in the economy's growth prospects – confidence reinforced by the recent reduction in US tariffs[1]. At the annual session of the National People's Congress (NPC) from 5 to 11 March, Beijing is expected to announce its growth target (expected to be 4.5%-5%) and inflation target (expected to be capped at 2%) for 2026, and is likely to affirm its commitment to a moderately accommodative economic policy.

On the monetary front, new measures are likely to be implemented in the very short term in response to the ongoing slowdown in domestic credit growth. This is being held back in particular by the near stagnation in outstanding household loans (+0.4% y/y at the end of 2025, with a 1% contraction in housing loans). In 2026, as in 2025, easing measures will remain cautious and targeted, with, in particular, a slight reduction in policy rates (-20bp expected over the year).

On the fiscal front, the "official" deficit target may be raised (4.3% of GDP projected for 2026, up from 4% in 2025), signalling increased support for growth. However, support from extra-budgetary entities (such as local government financing vehicles) is expected to continue to decline. With regard to the property sector, no new support measures (aside from the purchase of unsold homes by local governments and the relaxation of rules governing home loans and purchases) are expected this year.

Beijing is set to release the full text of the 15th Five-Year Plan for 2026-2030 at the end of the NPC meeting. The Plan's main economic objectives are well known; in particular, they aim to strengthen a "modern industrial system", global leadership and technological autonomy, as well as strengthening the domestic market. With regard to the latter, the authorities are keeping the development of private consumption high on their list of priorities. However, they are not contemplating the far-reaching reforms needed to significantly improve incomes and

CHINA LEADS THE RACE FOR LARGE AI MODELS ALONGSIDE THE US

Cumulative number of large-scale AI models (with training compute exceeding 10^{23} FLOP)

US
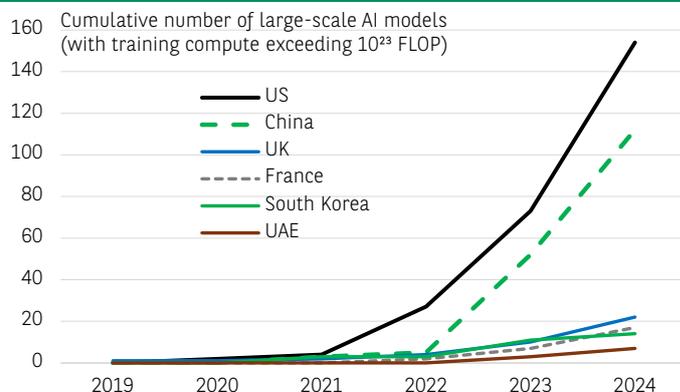China
UK
France
South Korea
UAE

CHART 2   SOURCE: EPOCH AI (2025) – WITH MAJOR PROCESSING BY OUR WORLD IN DATA, BNP PARIBAS

the social protection system. The assistance programmes introduced in 2025, which include subsidies for the replacement of consumer goods, allowances for parents of young children, and pension increases, could simply be extended in 2026. These programmes account for less than 0.5% of GDP, and their impact has been small. In 2025, household consumption accounted for just 40% of GDP (compared to an average of 57% worldwide), and the household savings rate remained very high (estimated at 37% of disposable income, and 35% in 2019).

🔍 INNOVATION AND AI AT THE HEART OF THE NEW FIVE-YEAR PLAN

Instead of focusing on the domestic market and consumers, China's strategy will continue to prioritise the export manufacturing sector, green energy and advanced technologies. Industrial policy will remain a key tool, and exports will continue to serve as both a vital growth engine and a strategic asset for China in its rivalry with the United States and its quest for global dominance in strategic sectors. R&D, innovation and artificial intelligence (AI) play a central role in this strategy. The "AI+" initiative, unveiled last August, reaffirmed these objectives, and the 15th Five-Year Plan is expected to underscore the significance of AI in developing "new quality productive forces".

Internationally, China occupies a dominant position in the AI sector (see the Editorial in this issue of EcoPerspectives). China is involved in nearly the entire AI value chain and is developing some of the most powerful computing models (Chart 2). In the AI supply chain, China accounts for 21% of the total "AI-related goods" exported worldwide and controls the supply of critical materials. On the domestic front, AI development and widespread deployment across the country should boost productivity gains and foster growth. Thanks to its highly developed digital infrastructure, its own LLM models and its education system, the country is well-positioned to adopt AI. China therefore has the strategy, infrastructure, energy resources, critical materials and capital to pursue the development of AI in the next five years.

Article completed on 27 February 2026

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[1] Since 24 February, the US tariffs imposed on China, which previously included "reciprocal" tariffs of 10% (with exemptions) and "fentanyl" tariffs of 10% (without exemptions), have been replaced by the new 10% tax (with exemptions). The effective tariff on US imports of Chinese goods has thus been lowered (to 19% from 31%) and is now more aligned with those of neighbouring countries (e.g. 13% for Vietnam).

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