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BOFIT Forecast for China 2025–2027 Webinar

28.4.2025

Bank of Finland Institute for Emerging Economies (BOFIT)
Bank of Finland

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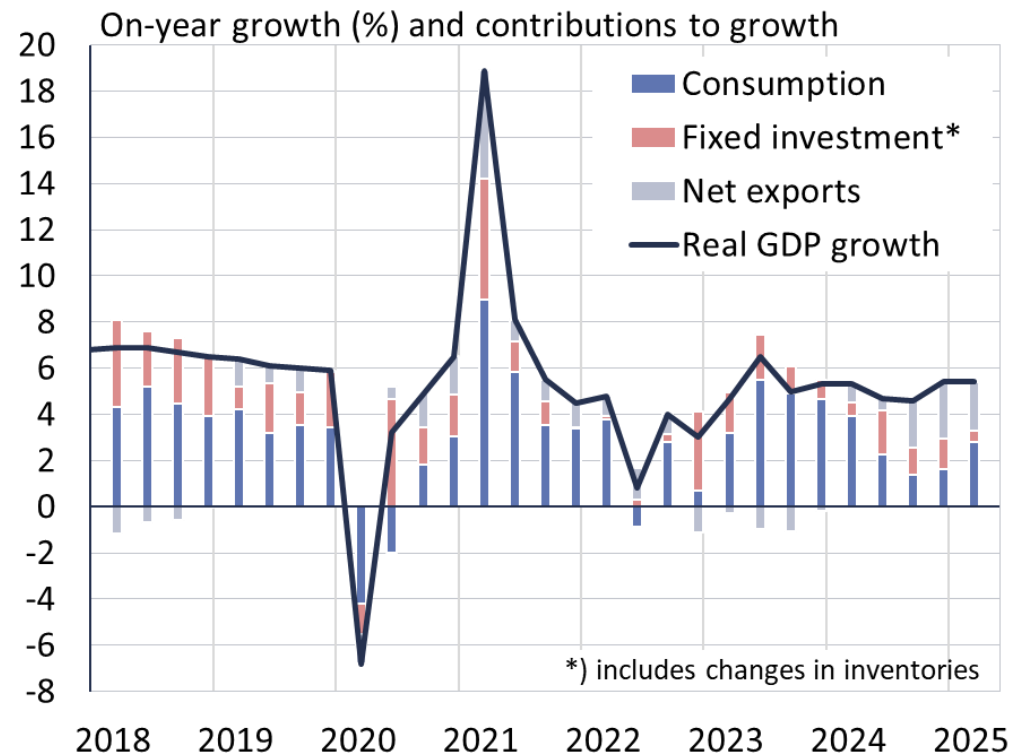
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BOFIT China forecast 2025–2027

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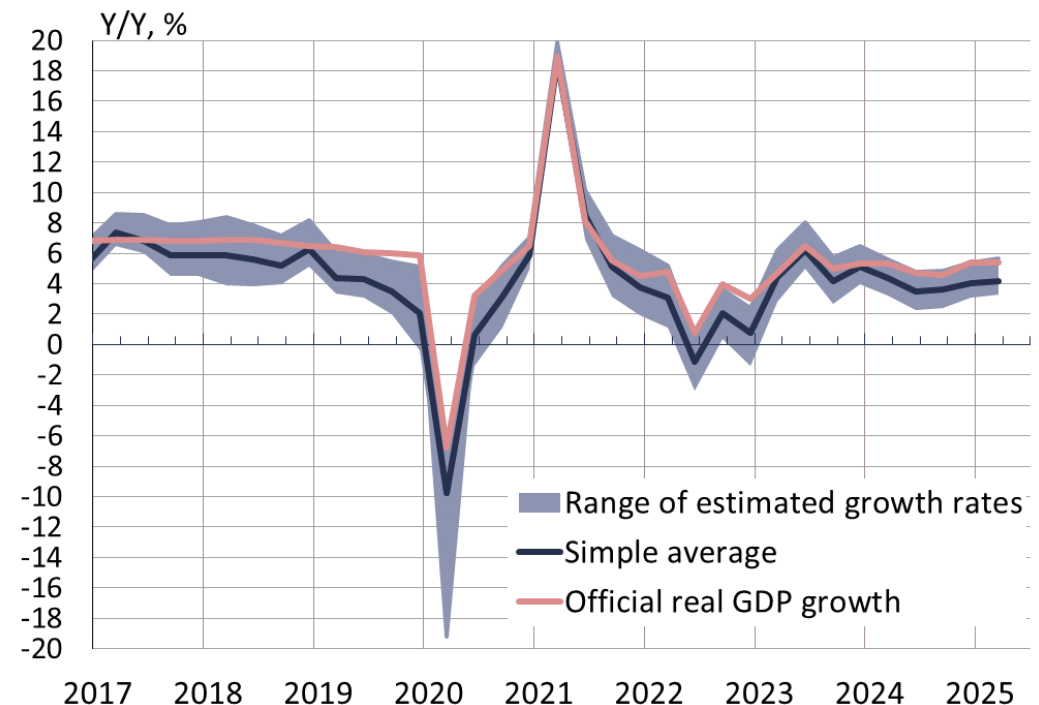
Economic growth has been robust up until now – although probably not as high as official figures show

Contributors to GDP growth



Sources: NBS, CEIC and BOFIT.

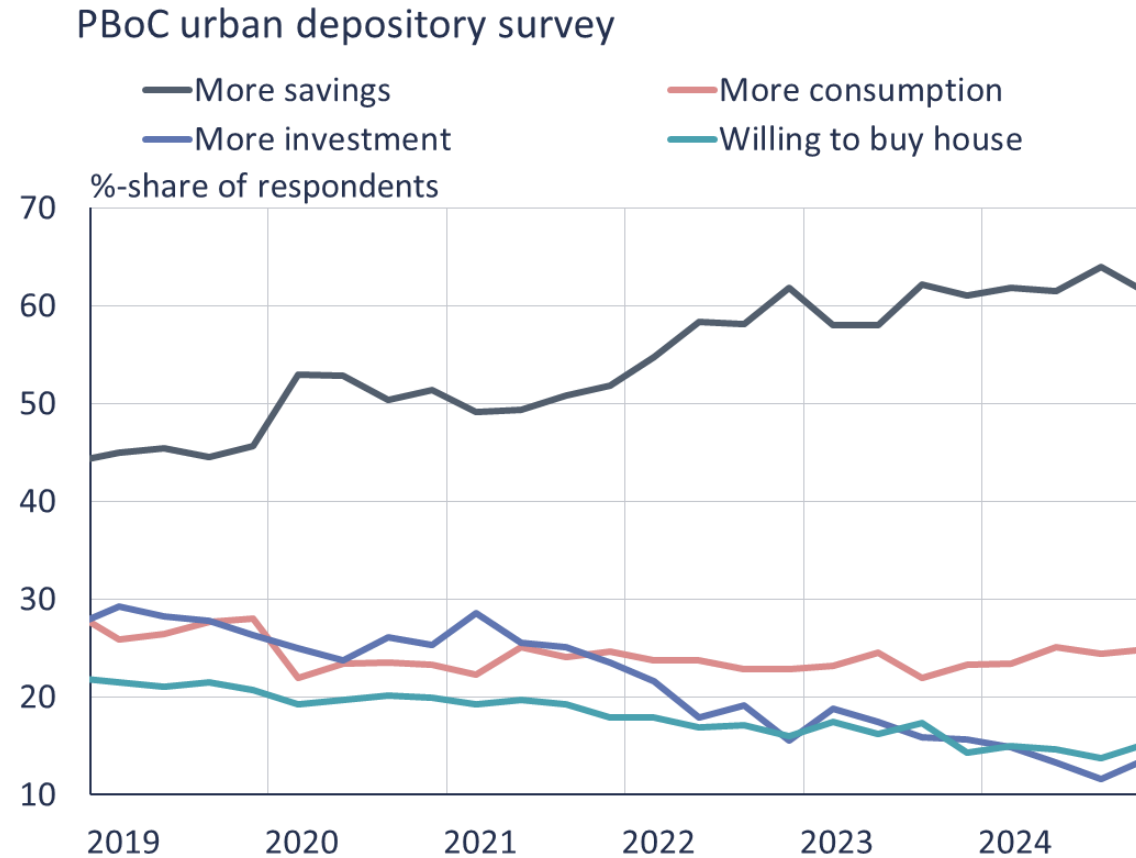
Official and estimated GDP growth



Sources: NBS, Macrobond and Bank of Finland calculations

Estimations based on Kerola, E. (2019) "In search of fluctuations: Another look at China's incredibly stable real GDP growth rates" Comparative Economic Studies 61(3): 359-380.

Consumer confidence remains depressed

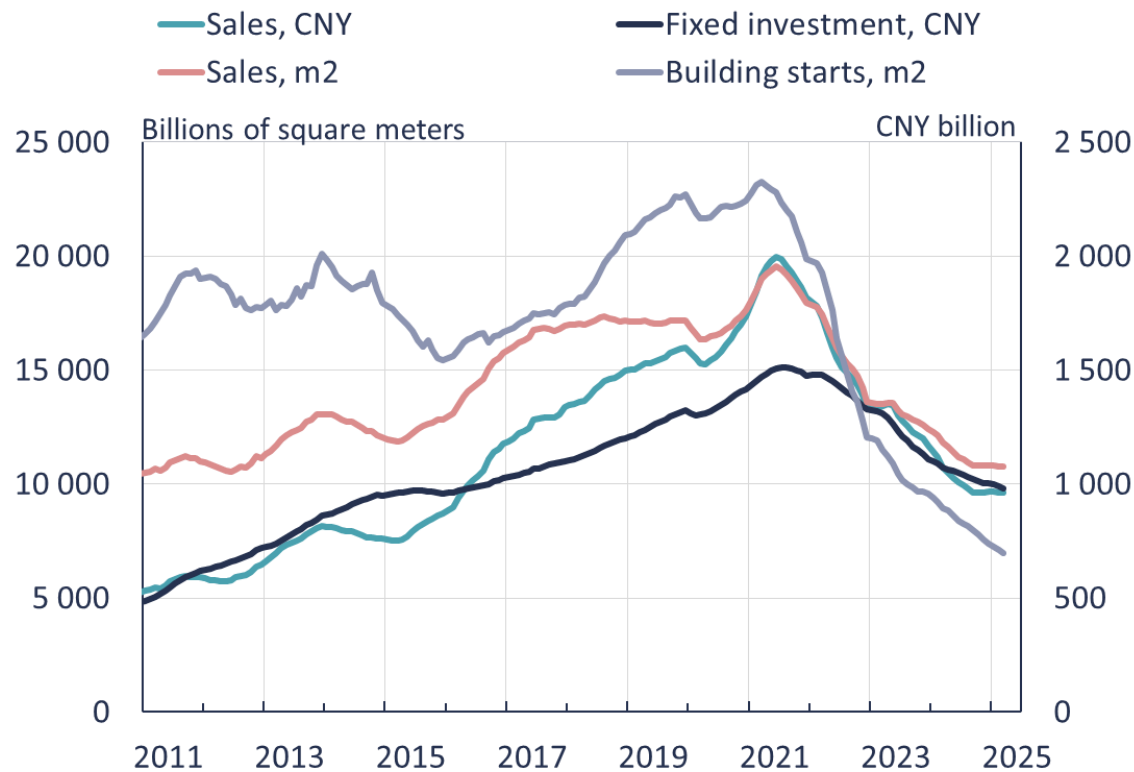


Source: PBoC and CEIC

- Falling apartment prices reduce household wealth
- Weakening employment prospects
 - Long delays in public sector wage payments in some regions
 - Persistent youth unemployment
- Higher household savings
- Domestic consumption set a top theme at National People's Congress
 - Measures announced to date quite modest
 - E.g. broadening the consumer trade-in programme

Real estate troubles continue – the sector plays much smaller role as an engine of economic growth

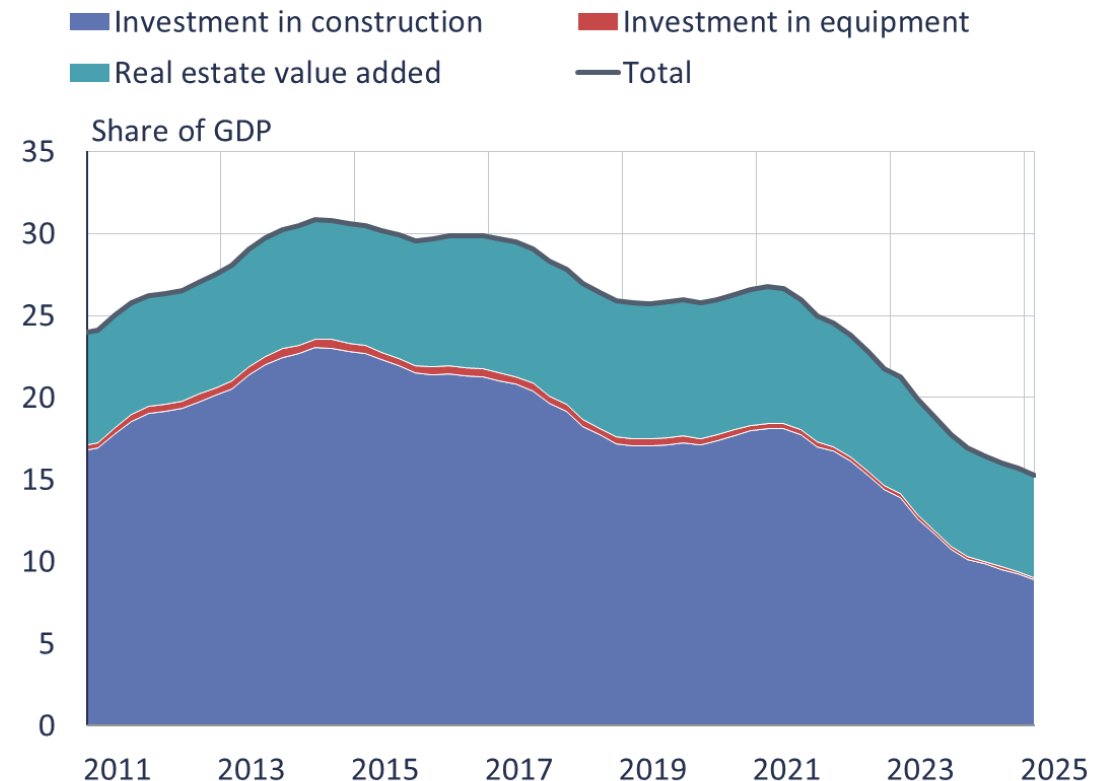
Real estate construction and sales



Note: series are 12m moving sums.

Sources: NBS, CEIC and BOFIT.

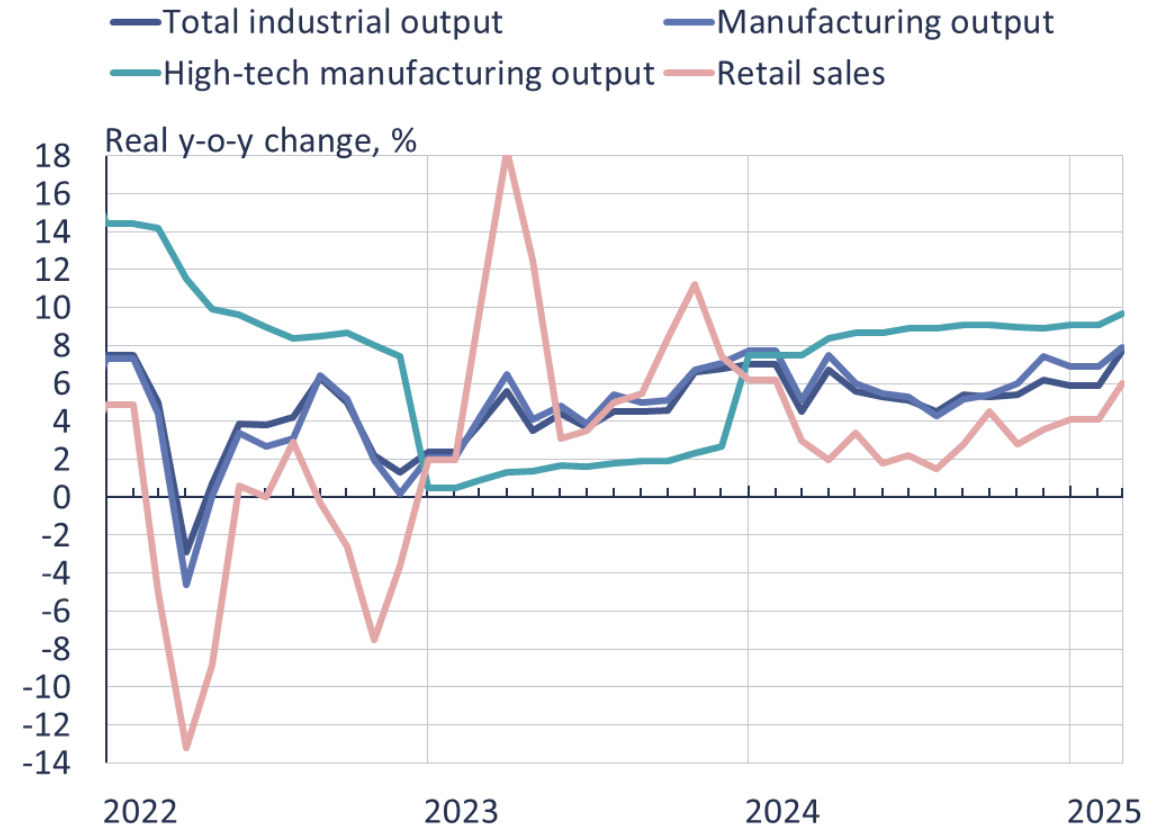
Real estate sector and related activities, % share of GDP



Source: NBS, CEIC, Rogoff & Yang (2021) and BOFIT calculations

Manufacturing investment and output still growing rapidly

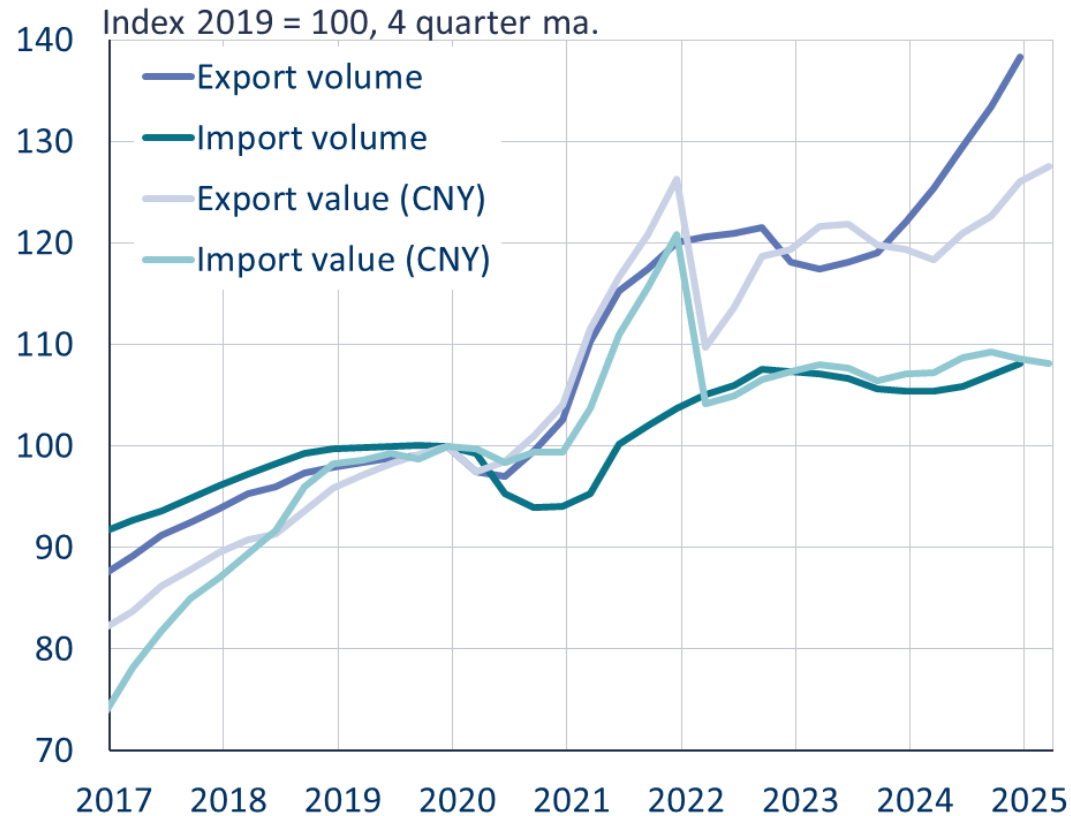
- Manufacturing investment are increasing
 - Government support e.g. for advanced technologies
 - China targets greater self-sufficiency
- Production capacity growth has outpaced demand growth in many sectors
 - Capacity utilisation is declining in many sectors
 - This is reflected also in prices
 - And has boosted exports
- Manufacturing sector is vulnerable to the escalation of the US-China trade war



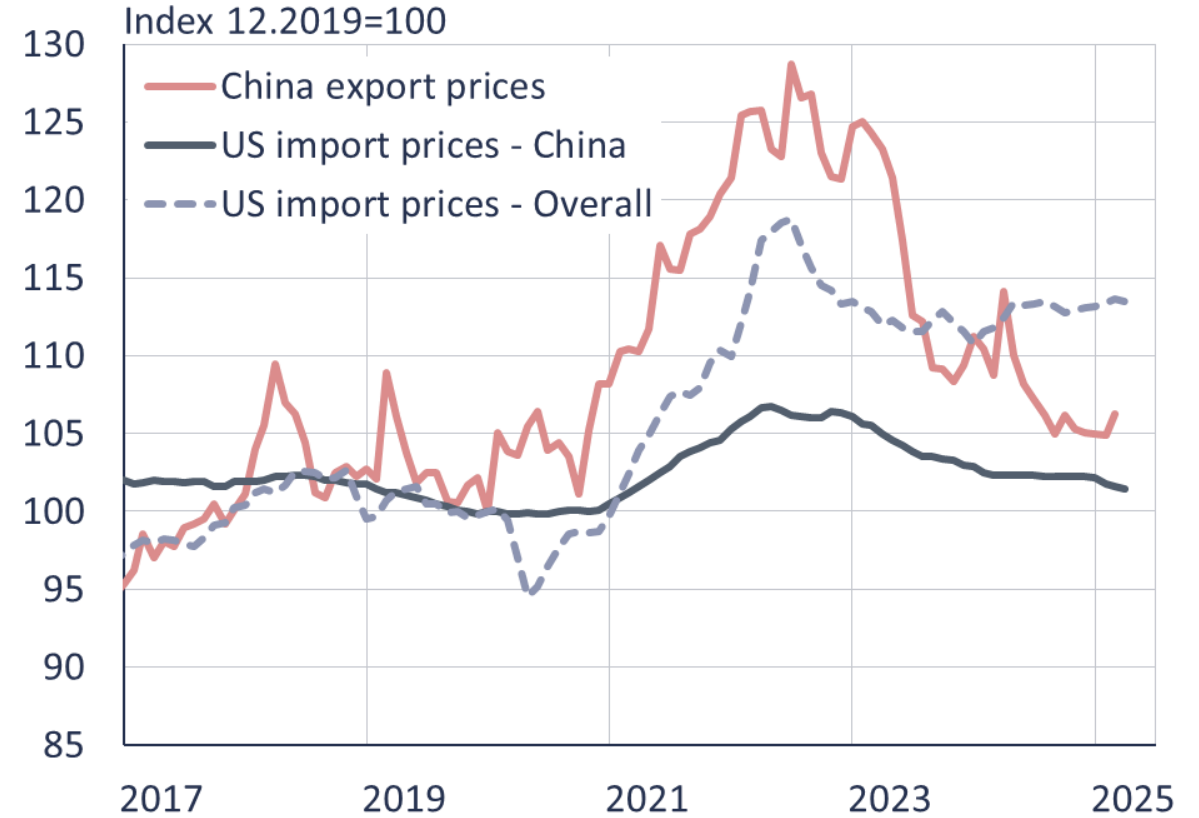
Sources: NBS, CEIC and BOFIT

Retail sales growth based on consumer price inflation.

Strong export growth has been the bright spot of the economy – supported by declining prices



Source: WTO, China Customs, Macrobond and BOFIT

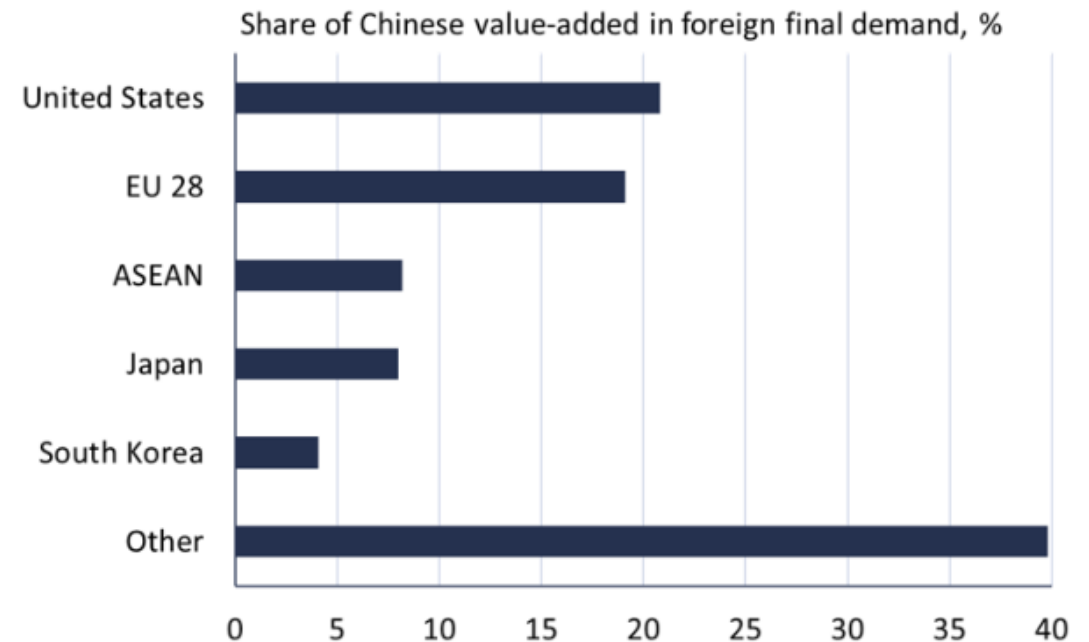


Source: BEA. CPB World Trade Monitor. Macrobond and BOFIT

Less Chinese value added consumed abroad than a decade ago, still export sector remains important for the economy

- Around 15 % of Chinese value added is consumed abroad
- Foreign companies still account over one fourth of Chinese exports
- Export sector is the most open and dynamic part of the economy
- The sector employs over 100 million people (about 15 % of the labour force)

The largest share of exported Chinese value-added in 2020 went to the US, % share

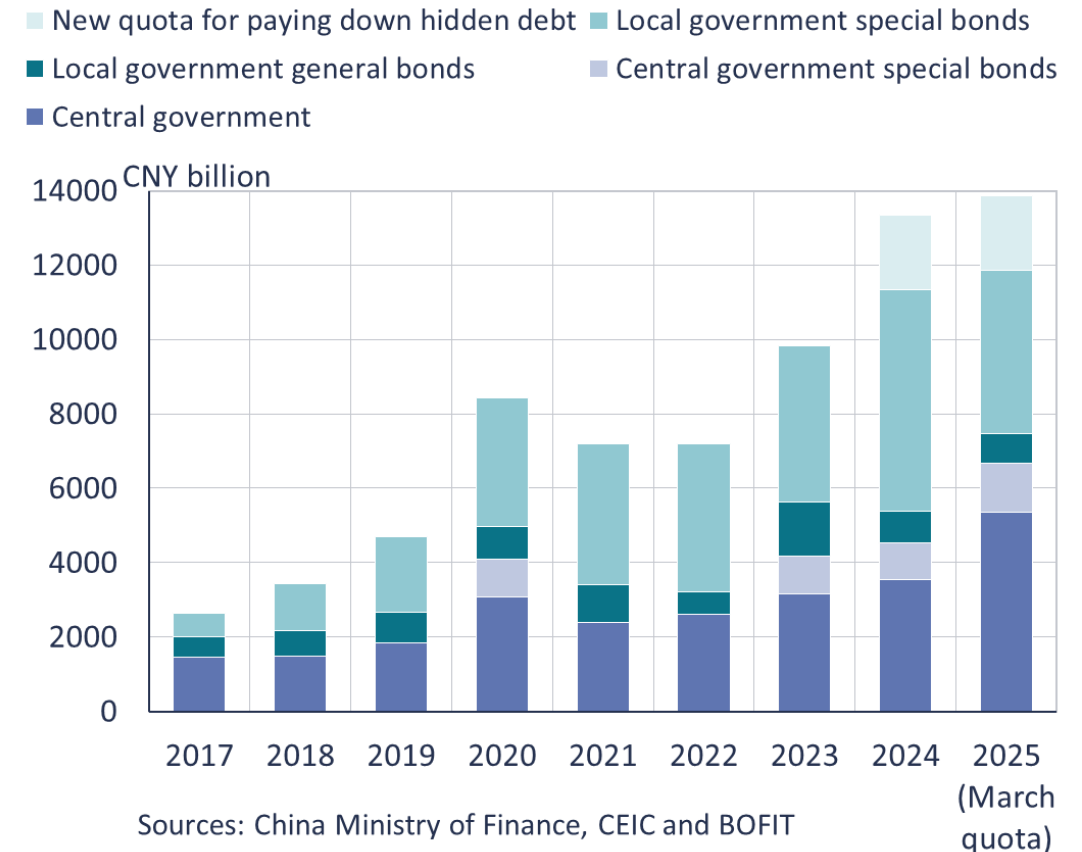


Sources: OECD TiVA and BOFIT.

Especially with local fiscal conditions weakening, many regions still need to resort to off-budget borrowing

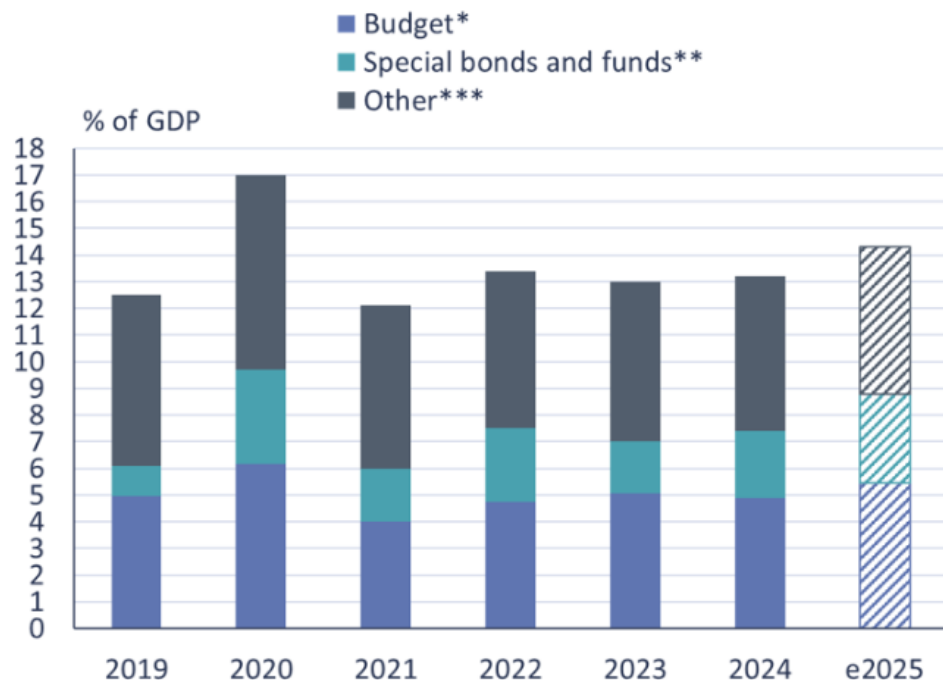
- Local governments are traditionally responsible for stimulus measures, more debt needed e.g. to cover the revenue from land sales
- Part of new central government debt to recapitalising big state-owned banks and to finance consumer trade-in programme
- Off –budget borrowing still expected to increase to finance spending, even if government plans to phase it out local off-budget borrowing
 - Local government financial vehicle debts have increased 2 pp of GDP annually in recent years

Central and local government debt issuance



More fiscal policy easing expected - worsening the already severe public sector imbalances

China General Government deficit



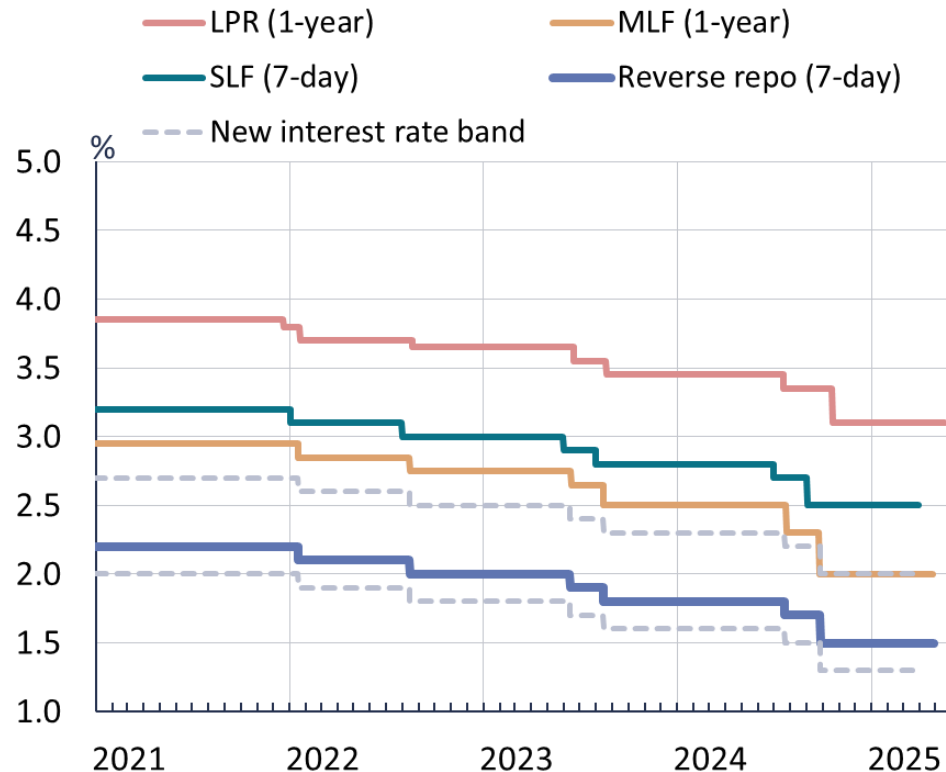
- In the budget approved in March the 2025 planned general government deficit 1 pp of GDP larger than in 2024
- More easing measures are expected to support the economy
- General government debt was 124 % of GDP in 2024 and is estimated to climb over 140 % at the end of 2027

*) The finance ministry's reported budget deficit in internationally comparable form. **) The finance ministry's reported estimated deficits (surpluses) in government funds, as well as central and local government measures funded with special-purpose bonds. ***) The IMF's estimate of deficits of LGFVs and government-guided funds.

Sources: IMF, China's finance ministry and BOFIT.

Monetary policy easing surprisingly limited, the PBoC limits yuan depreciation against the dollar

PBoC policy rates



Sources: PBoC, National Interbank Funding Center and CEIC

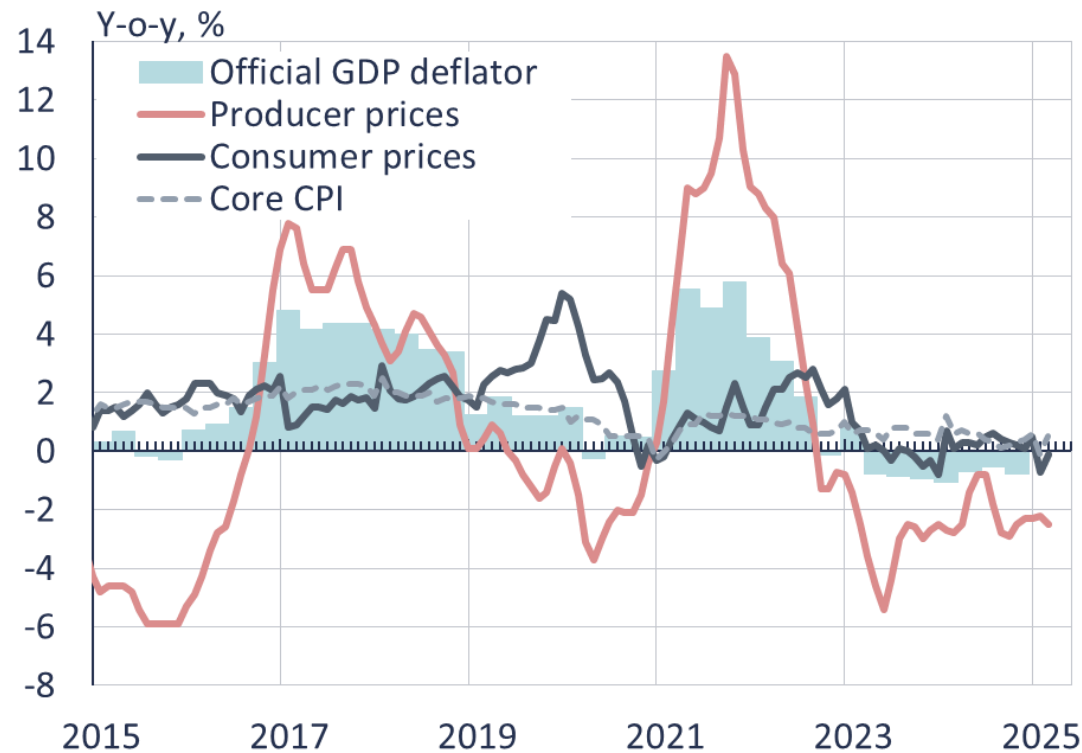
Yuan-dollar exchange rate, fixing, and trading band



Sources: Macrobond and BOFIT

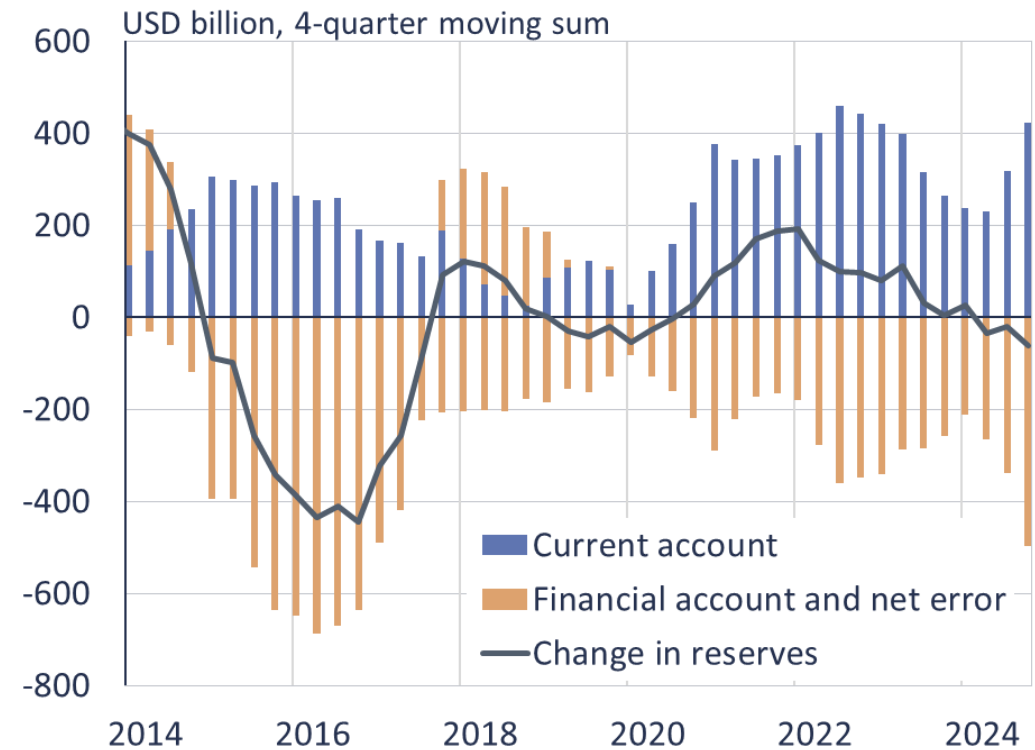
Low inflation would support monetary easing, but is constrained by capital outflows

Price developments



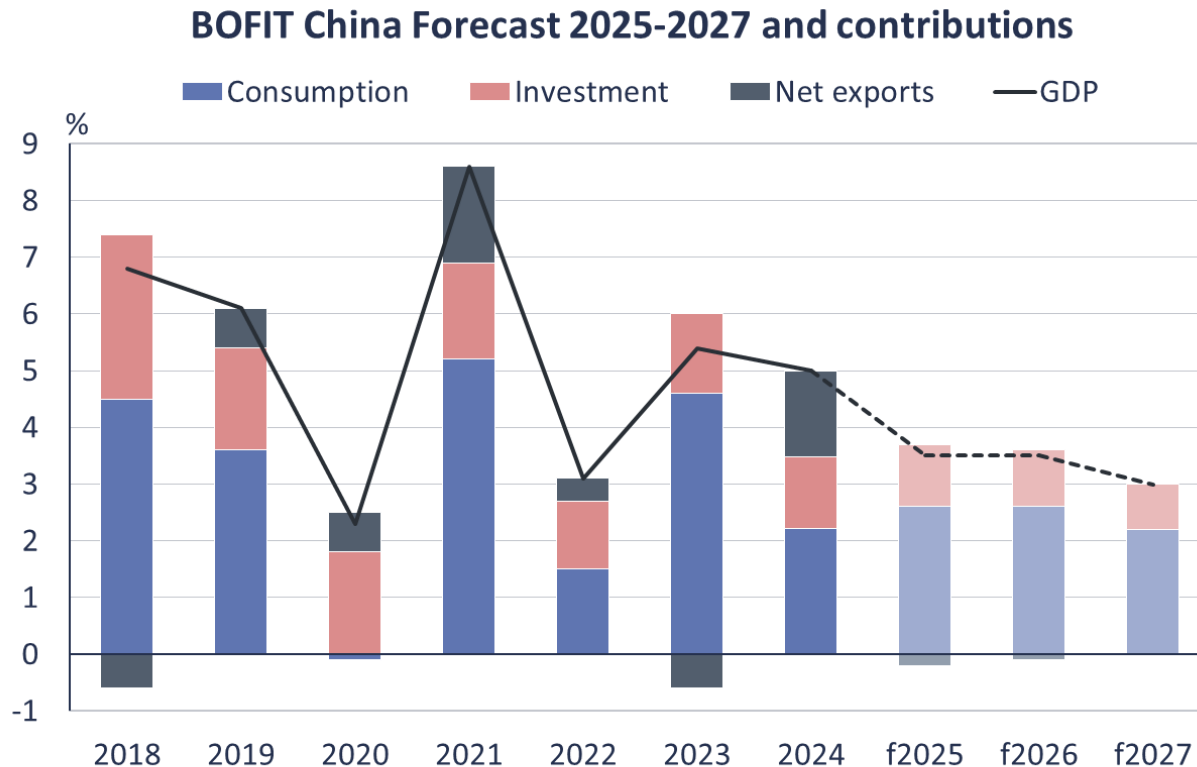
Sources: NBS; CEIC and BOFIT

China's balance of payments



Source: SAFE and Macrobond

BOFIT expects actual GDP growth to remain well below 4 % p.a.



Source: NBS and BOFIT.

- Already slowing growth driven by structural factors
- Trade war will have a negative effect on growth
- Policy support will be increased
- BOFIT forecast for GDP growth
 - 2025: around 3½ %
 - 2026: around 3½ %
 - 2027: around 3 %

The forecast comes with increasing risks

- Economic policies + (or –)
 - Economic stimulus may be stronger than expected, potentially boosting growth beyond the forecast
 - Targeting stimulus challenging to produce timely economic growth without creating new imbalances
- Financial sector – (or +)
 - Financial market risks have increased, and policy space is more limited, raising the risk of contagion to the real economy
 - Structural reforms (?) to limit local government off budget borrowing and banking sector risks
- Trade and geopolitics + / –
 - Trade policy uncertainty is expected to remain very high throughout the forecast period
 - Negative effects could be mitigated if the US and China manage to calm the current situation
 - Elevated geopolitical risks add to the overall uncertainty

Thank you!

The forecast is available online:

[BOFIT Forecast for China 2025–2027](#)

[BOFIT Kiina-ennuste 2025–2027](#)

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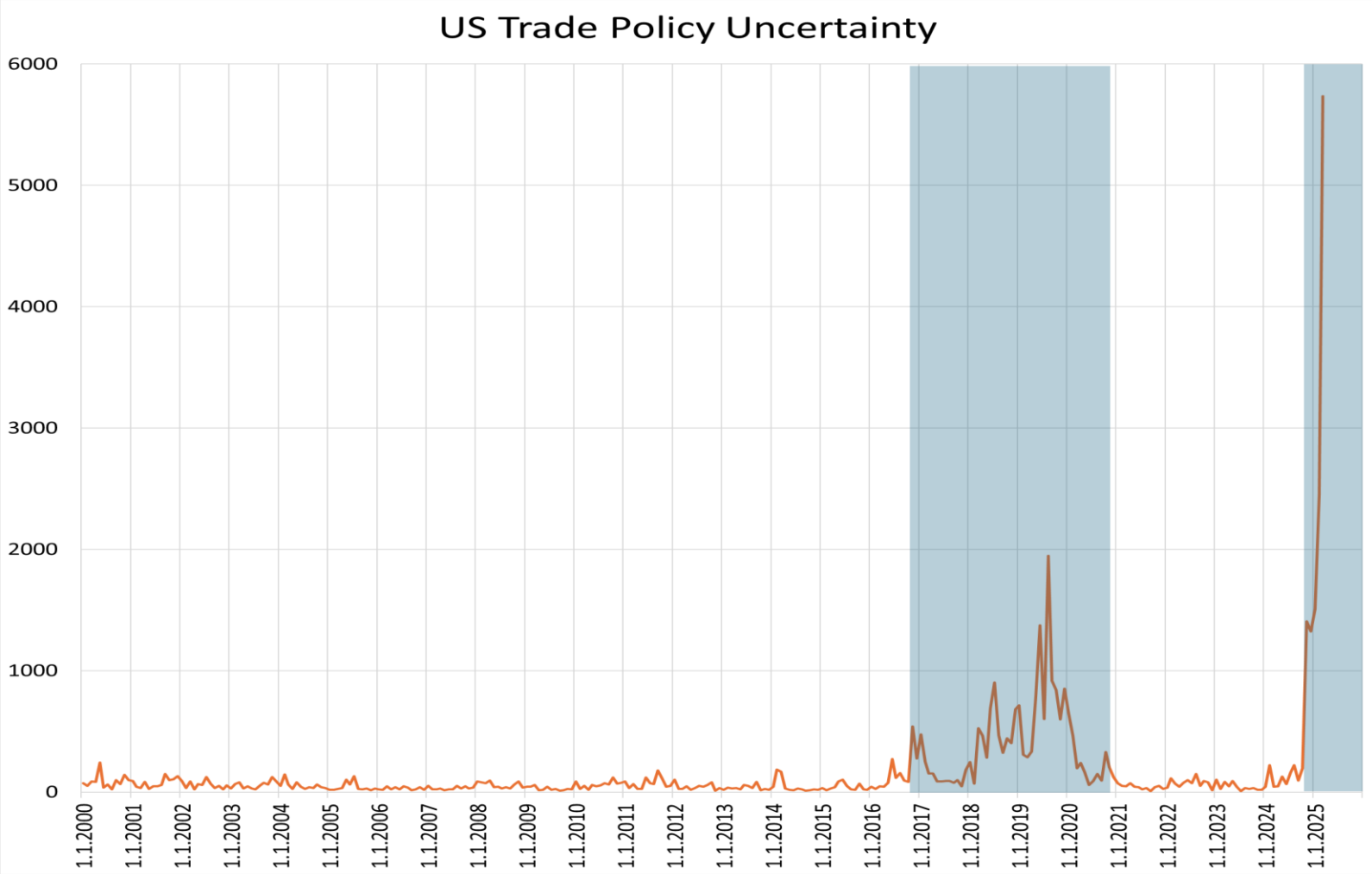


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China and the Trade War

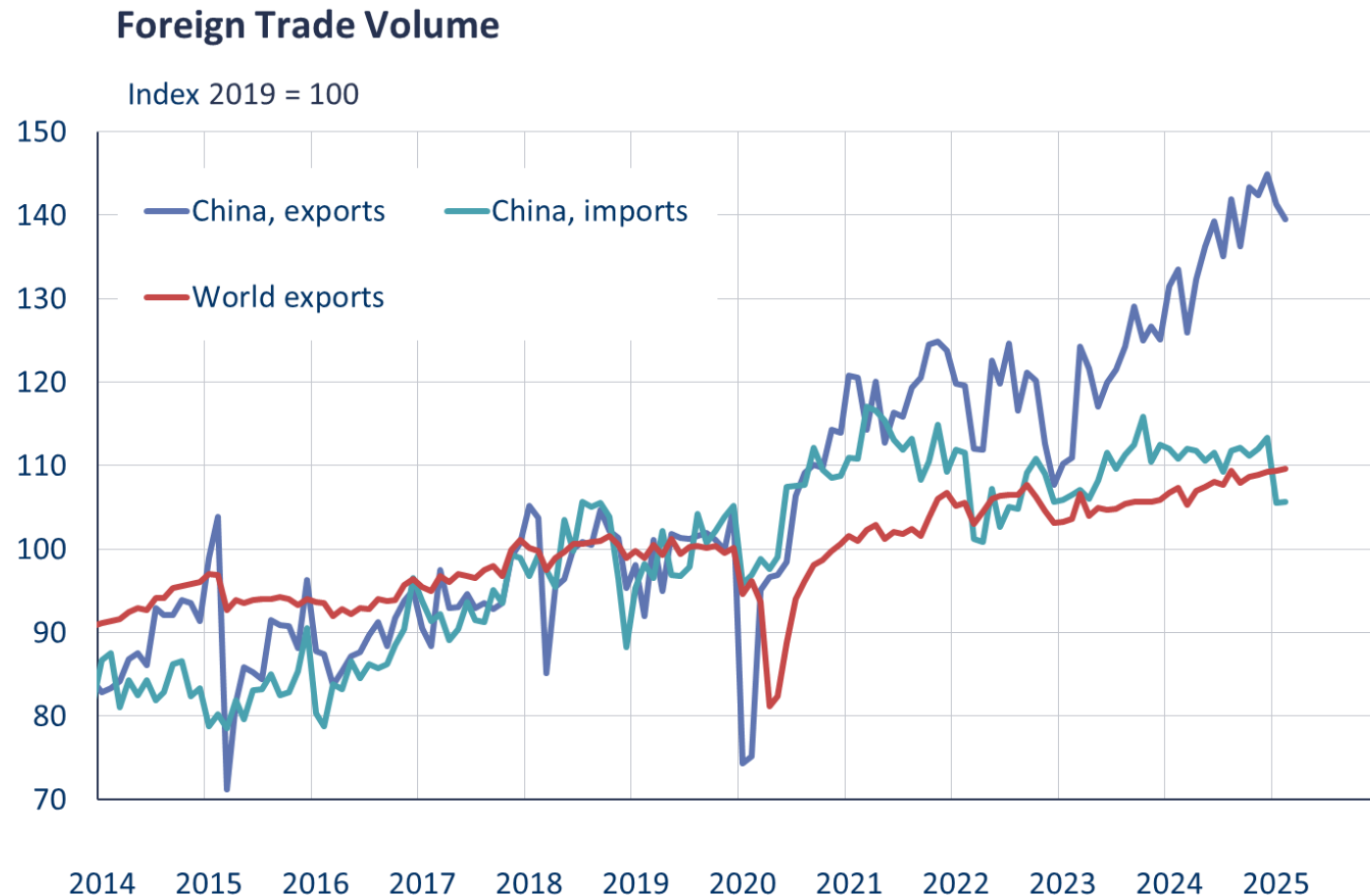
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Cliche “Uncertainty is unusually high” might be now true..



Source: Economic Policy Uncertainty

If Chinese exports increase much faster than imports for an extended period... We have a problem



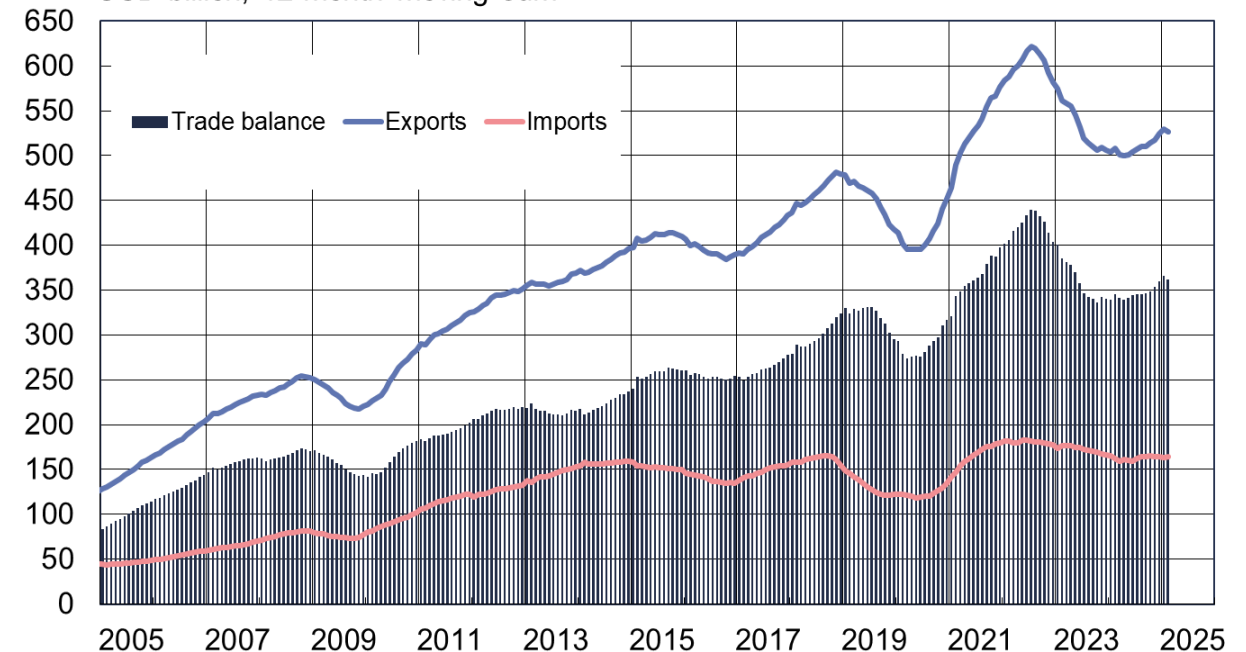
Sources: China Customs, CPB, CEIC, Macrobond and BOFIT.

What happened the last time China and the US raised tariffs?

- US tariffs on Chinese exports were gradually raised to approximately 20% during 2018 and 2019
- China retaliated in full
- By autumn 2019 two thirds of Chinese exports were under higher US tariffs
- China's direct exports to the US, imports from the US and bilateral trade surplus with the US declined – until the pandemic

China's goods trade with US

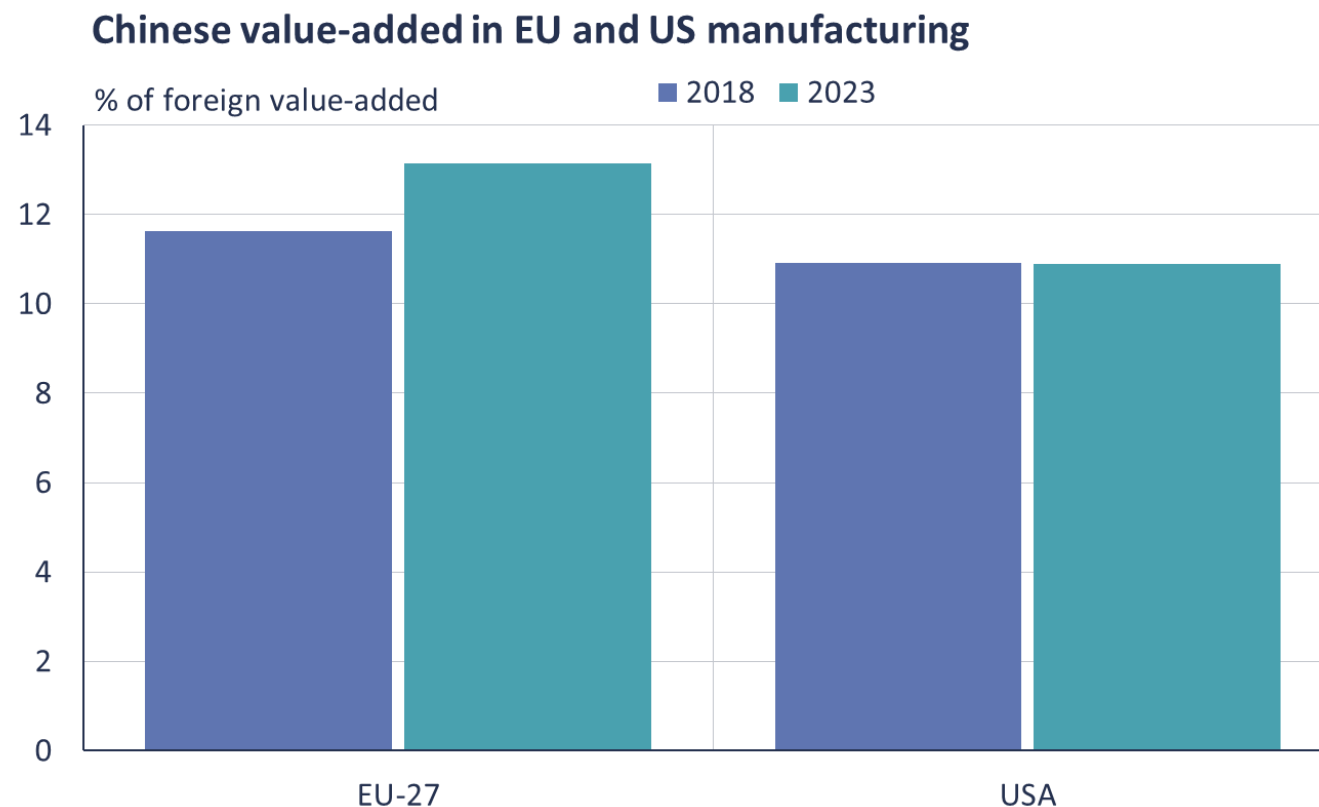
USD billion, 12-month moving sum



Source: Macrobond and BOFIT

21232@Kiinan USAn-kauppa ENG

However, despite the drop in direct bilateral trade, Chinese value-added ended in the US as before



Sources: Bank of Finland Institute for Emerging Economies (BOFIT), based on Asian Development Bank (ADB) data.

But now we are in a very different place

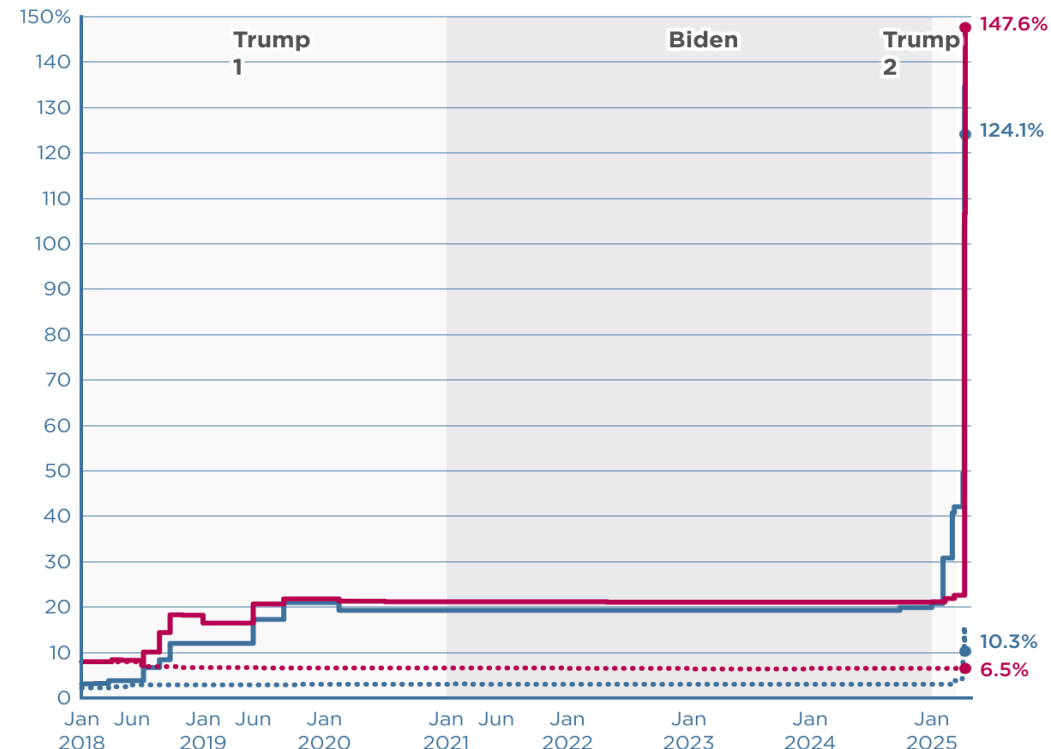
- Some electronics etc. have been exempted from the US tariffs “for now”
- China has also exempted certain key goods and components
- Looming tariffs on third countries, including Mexico and especially Vietnam would be very high (46 % for Vietnam), making flow of Chinese value-added through e.g. these countries more difficult

US-China trade war tariffs: An up-to-date chart

Last updated April 12, 2025

a. US-China tariff rates toward each other and rest of world (ROW)

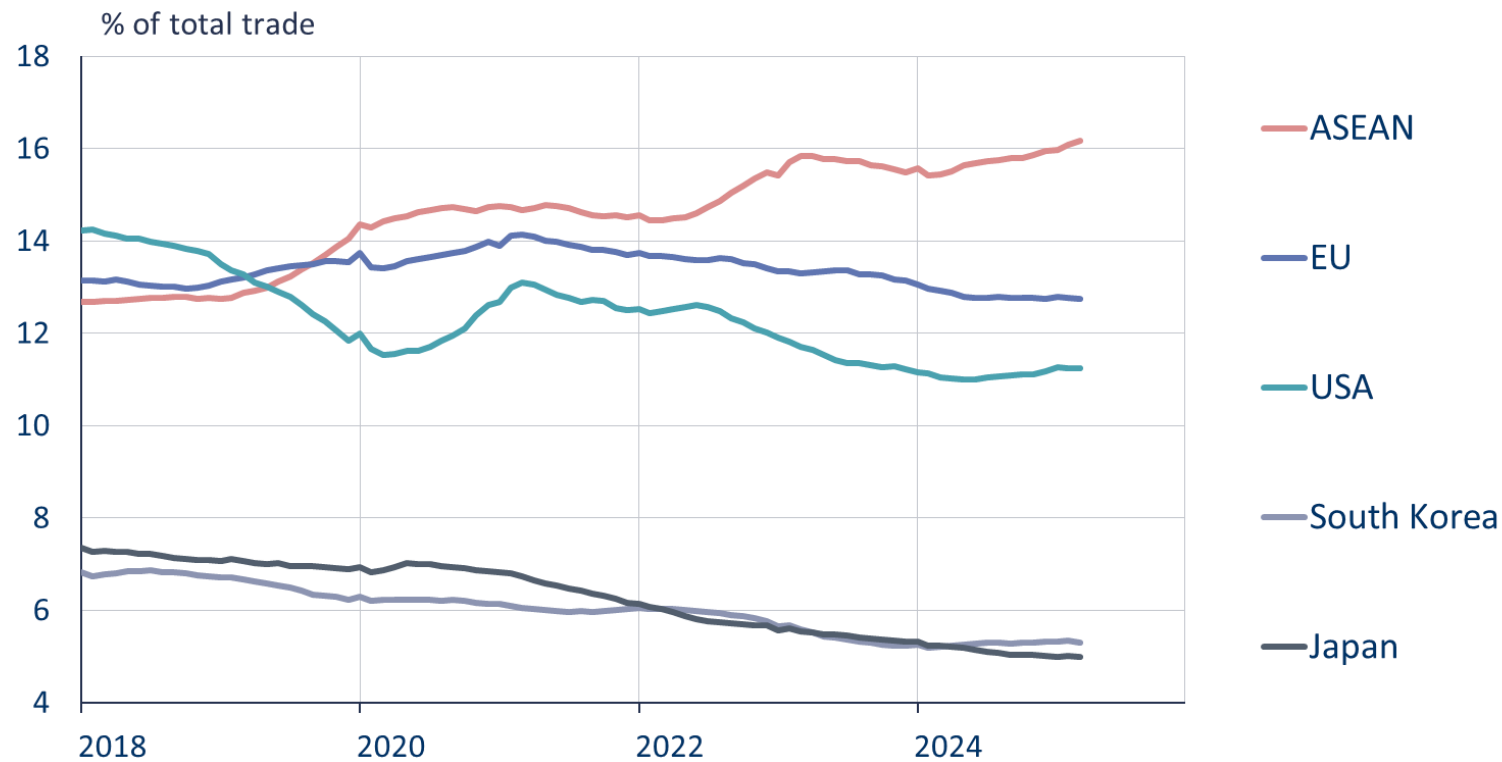
— Chinese tariffs on US exports — US tariffs on Chinese exports ... Chinese tariffs on ROW exports ... US tariffs on ROW exports



Source: PIIE

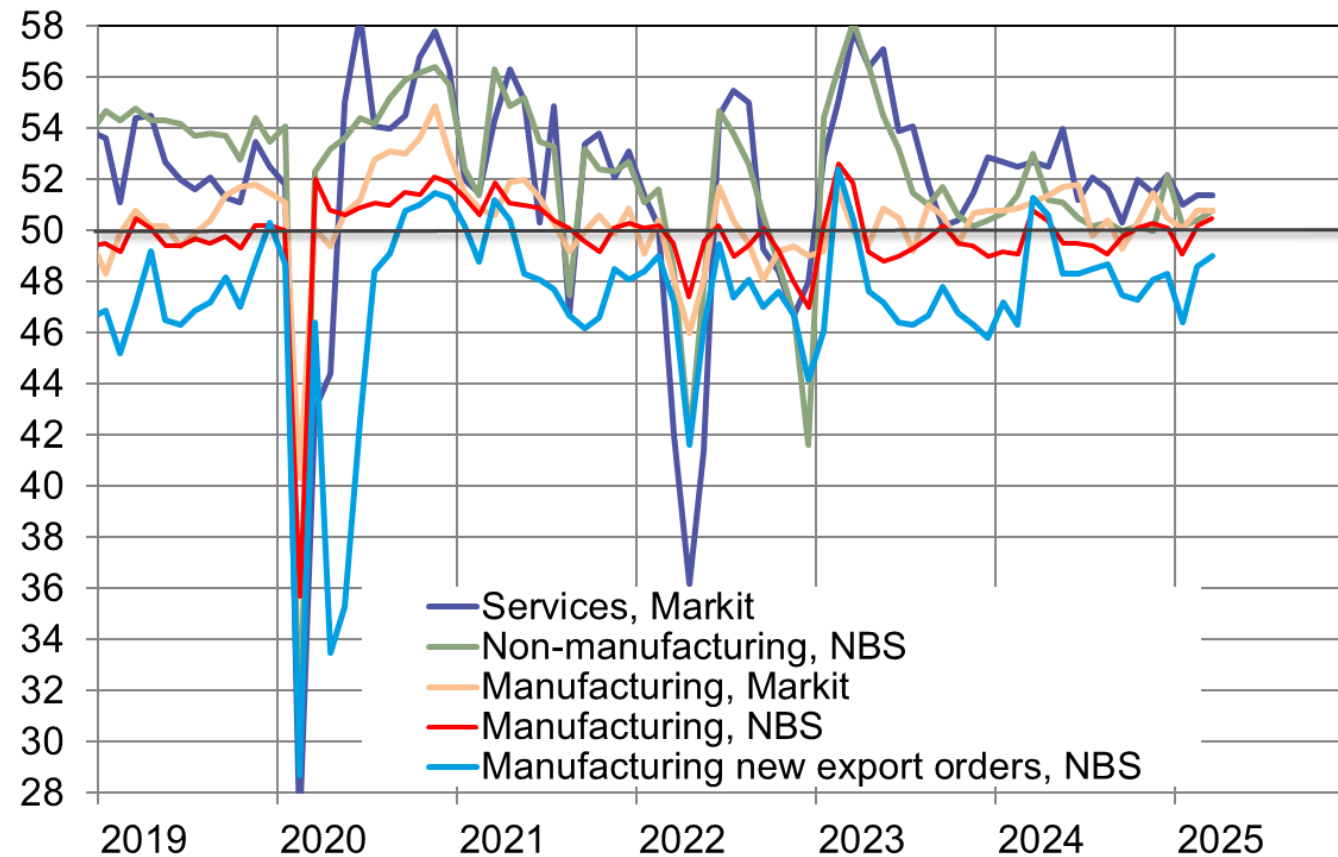
Importance of the US has declined in China's foreign trade

Main trade partners' share of China's total trade



Sources: China Customs, Macrobond, and BOFIT.

How are export orders doing?



Sources: NBS, Markit, Macrobond

23316@PMIs_2019 (eng)

What happens next?

- Are China and the US negotiating? There seems to be some confusion on this...
- Decoupling of China and the US in many areas seems almost certain
- Some parts of the global value chains continue to move away from China (all iPhones destined to the US market to be manufactured in India etc.)
- Given the importance of net exports for China's recent growth, where will the goods previously destined to the US go? And how will other countries react?

Thank you!

The updated forecast is available at:

<https://www.bofit.fi/en/forecasting/latest-forecast-for-china/>

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