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China's Economy, Mid-2025: Resilience Under Strain and the Search for New Growth Engines

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Despite persistent headwinds, China's economy in the first half of 2025 outperformed expectations, demonstrating considerable resilience. Based on International Monetary Fund's July 2025 update,[1] China is expected to contribute roughly 30% of global growth, consistent with its share in recent years. China's targeted government policies helped to mitigate sharper downturn risks, while emerging industries continue to show vitality. Meanwhile, as the transition towards a more balanced, consumption-driven model remains incomplete, achieving the annual growth target of around 5% continues to face significant challenges.

Monetary easing has lowered financing costs since January 2024 but did little to restore business confidence. Fiscal initiatives created temporary demand but left structural issues unresolved. Real estate remained a grave drag, compounded by external headwinds. The government's focus on the "Two New and Two Important"[2] framework provided short-term stability but highlighted Beijing's continued reliance on familiar investment-driven tools to address fundamentally new structural challenges.

Externally, trade frictions and geopolitical rivalries have darkened the outlook, while domestically, cautious households and non-state firms have widened the gap between policy goals and economic realities. The challenge for the remainder of 2025 and beyond is not only stabilising growth but restoring confidence and improving employment.

China stands at a crossroads. Its resilience in overcoming shocks is notable, but resilience alone is insufficient for lasting transformation. To move from stabilising the economy to transforming it, policymakers have to confront the harder and more complex task of boosting household incomes,

[1] https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025, accessed 18 September 2025.

[2] The "Two New" drives sector-wide equipment renewal and consumer trade-ins while the "Two Important" bolsters national projects and critical security, https://www.qstheory.cn/laigao/ycjx/2024-11/14/c_1130219317.htm, accessed 19 September 2025.

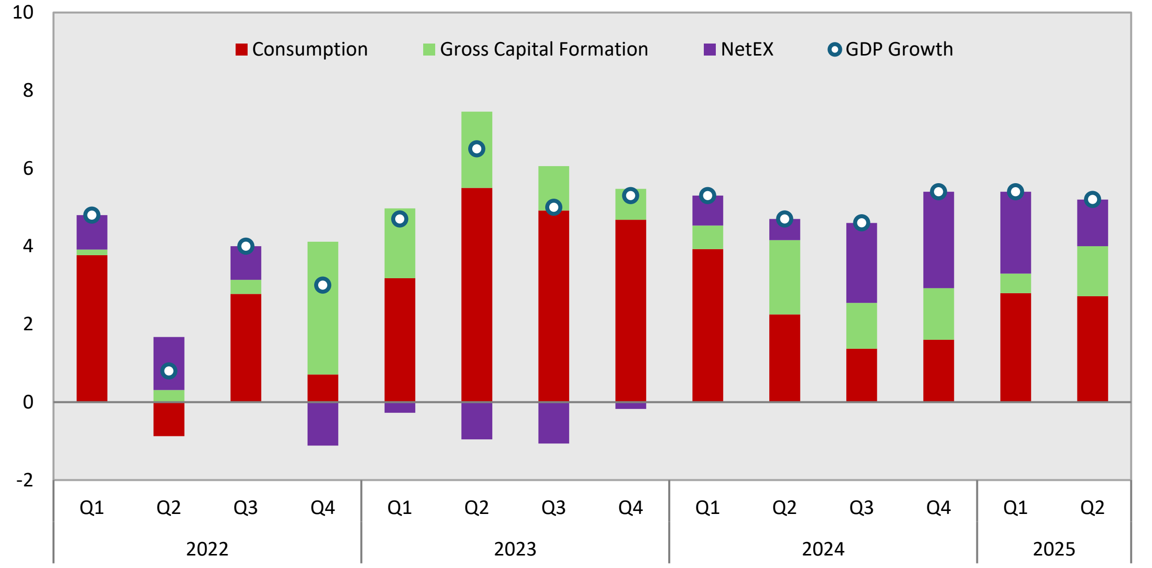
strengthening social safety nets and ensuring fair competition for all enterprises, especially the small and micro private ones.[3] Without renewed confidence, stabilisation risks devolving into stagnation.

ECONOMIC PERFORMANCE FALTERS MID-YEAR

Growth Slows as the Reopening Dividend Fades

China entered 2025 with cautious optimism. After the disruptive shocks of the pandemic and a turbulent 2023–2024 marked by sluggish global recovery and mounting geopolitical tensions, the economy seemed to be on firmer footing in the first quarter, posting 5.4% year-on-year growth. Output aligned with official targets, high-tech exports held firm [4] and state-led investment sustained momentum. Yet by mid-year, the shine had dulled, registering a second-quarter slowdown to 5.2% growth (Figure 1), suggesting that the post-pandemic rebound had largely run its course.

FIGURE 1 CONTRIBUTION TO QUARTERLY GDP GROWTH, 2022Q1–2025Q2 (year over year, %)



Source: CEIC.

Industrial performance was uneven. Strategic emerging industries, such as new energy vehicles, semiconductors, batteries and advanced digital technologies posted robust gains, demonstrating the country's technological ambitions. By contrast, traditional manufacturing, including textiles, furniture and basic consumer goods, encountered stiff headwinds from rising costs, shrinking margins and weakening domestic demand. These pressures eroded profits, led to cutbacks in hiring and heightened public concerns over employment security (Figure 4).

[3] https://www.12371.cn/2025/08/16/ARTI1755313930561974.shtml, accessed 9 September 2025.

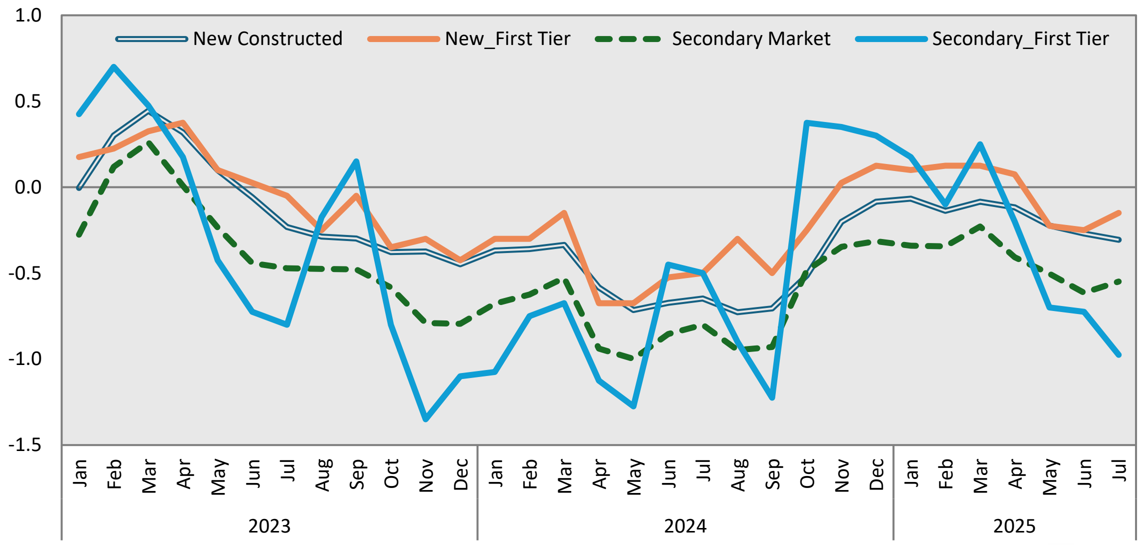
[4] In the first half of the year, China's exports of high-tech products grew by 9.2%, marking nine consecutive months of sustained growth. https://www.gov.cn/lianbo/fabu/202507/content_7031904.htm, accessed 28 August 2025.

Real Estate: The Ghost of Growth Past

Real estate remained the most persistent drag on growth, with its contraction deepening through 2025 with implications for construction, local government revenues and household confidence. Once an engine of urbanisation and a vital source of local government revenue, residential sales fell by 6.2%[5] year-on-year in the first seven months of 2025, with steeper declines in smaller cities. The national average price of urban housing prices has not turned positive at any point this year (Figure 2). Meanwhile, real estate investment contracted by 12% year-on-year through July, while outstanding loans for real estate development have remained above RMB13.8 trillion since March 2025—a record high since data became available—underscoring the sector's acute financial strain.

The consequences reverberated widely. Cement output fell by 4.3% and crude steel production by 3.1% for the first seven months of 2025 compared with the previous year. Stricter environmental controls and persistent overcapacity also contributed, but the sharp contraction in construction demand underscored property's central role in driving these declines. Land sales revenue fell 4.7% in July 2025, tightening the budgets of local governments that depend on these proceeds to fund social programmes and infrastructure. Weakened household confidence in property further dampened demand. The sector's stagnation epitomises the structural strain of China's growth model: an overreliance on an industry that continues to cast a long shadow over the broader economy.

FIGURE 2 GROWTH OF RESIDENTIAL HOUSING PRICES IN CHINA (month on month)



Source: CEIC.

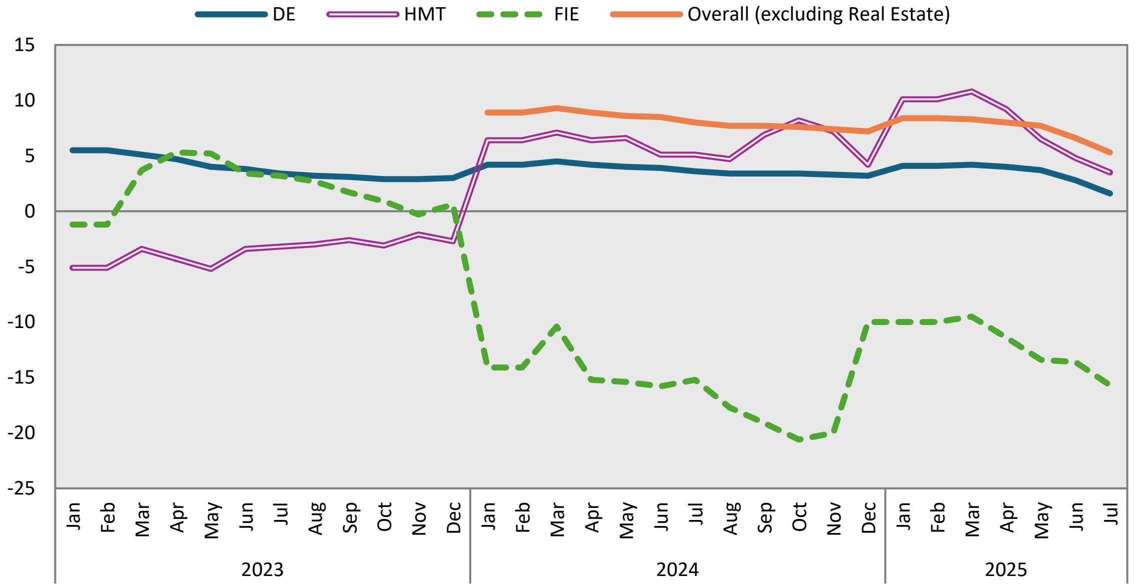
Multiple Fronts, Multiple Frictions

The slowdown has extended across several fronts. Excluding real estate, fixed asset investment continued to expand but at a slower pace than in 2024 (Figure 3), highlighting the limits of state-led

5 Unless otherwise specified, all subsequent data are sourced from CEIC.

spending as a driver of growth. In particular, foreign investment contracted sharply, reflecting heightened caution among foreign firms as they reassessed exposure amid rising costs, regulatory uncertainty and geopolitical frictions.

FIGURE 3 GROWTH IN FIXED ASSET INVESTMENT (year on year, year to date, %)



Source: CEIC.

Confidence stayed fragile among both businesses and households. Households remained concerned about employment prospects as National Bureau of Statistics surveys indicate persistently subdued consumer confidence (Figure 4). Youth unemployment rates surged to 18.9%, the highest since December 2023 when China adopted the new methodology for calculating the statistics. The informal sector is especially vulnerable as the social safety net remained under-developed with especially shallow protection for the informal sector.[6]

Businesses reported little improvement in market demand and avoided long-term commitments.[7] The Purchasing Managers' Index remained in contraction for much of the manufacturing sector, including emerging industries. Only large enterprises offered modest relief (Figure 5).

The external environment compounded these difficulties. Goods trade (exports plus imports) grew by just 2.9% in the first half of the year compared to the same period last year (6.1%) as geopolitical headwinds intensified. Renewed tariffs from Washington under the Trump 2.0 administration, combined with stricter screening of Chinese investments in sensitive technologies abroad, weighed heavily on China's external demand outlook. Although exports of new energy vehicles and renewable

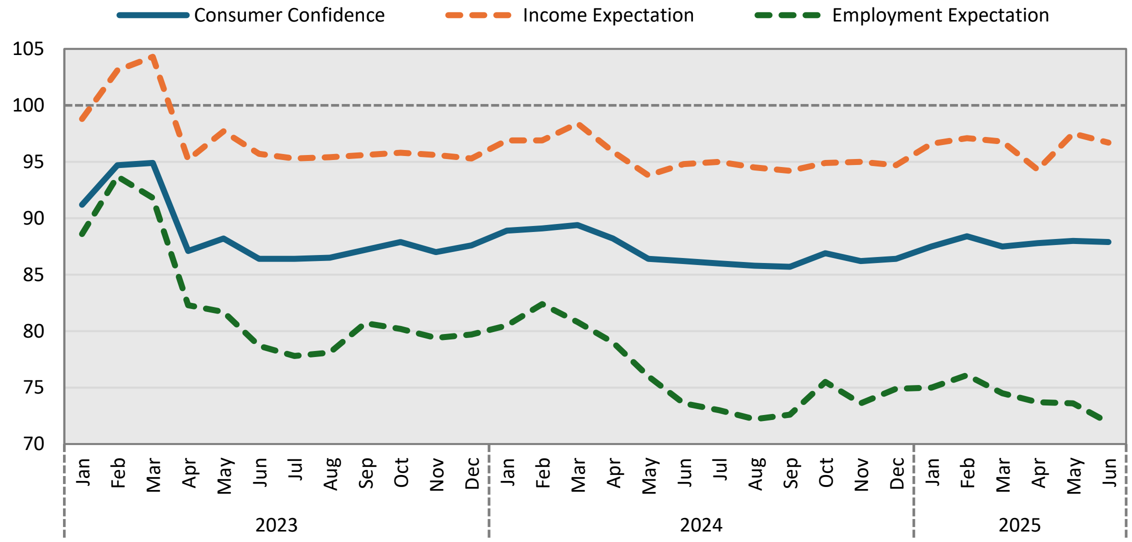
[6] https://www.nytimes.com/2025/08/29/world/asia/china-social-security.html, accessed 18 September 2025.

[7] For more details, please refer to https://english.ckgsb.edu.cn/knowledge/business-sentiment-index/?, accessed 26 August 2025.

energy products provided some cushioning, traditional export sectors continued to languish, such as apparel, furniture and electronics.

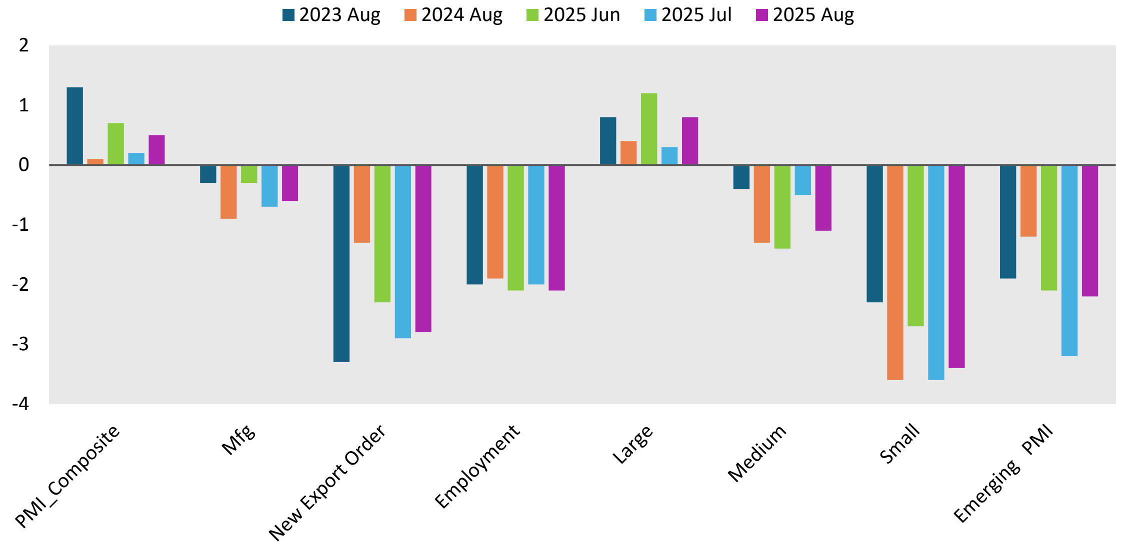
Taken together, China's mid-2025 performance reflected not a single-issue crisis but a convergence of cyclical weaknesses, structural imbalances and external shocks, collectively slowing growth momentum.

FIGURE 4 HOUSEHOLD CONFIDENCE BY NATIONAL BUREAU OF STATISTICS, CHINA (%)



Source: CEIC.

FIGURE 5 PURCHASING MANAGERS' INDEX (expansion–contraction line at "0" value)



Source: CEIC.

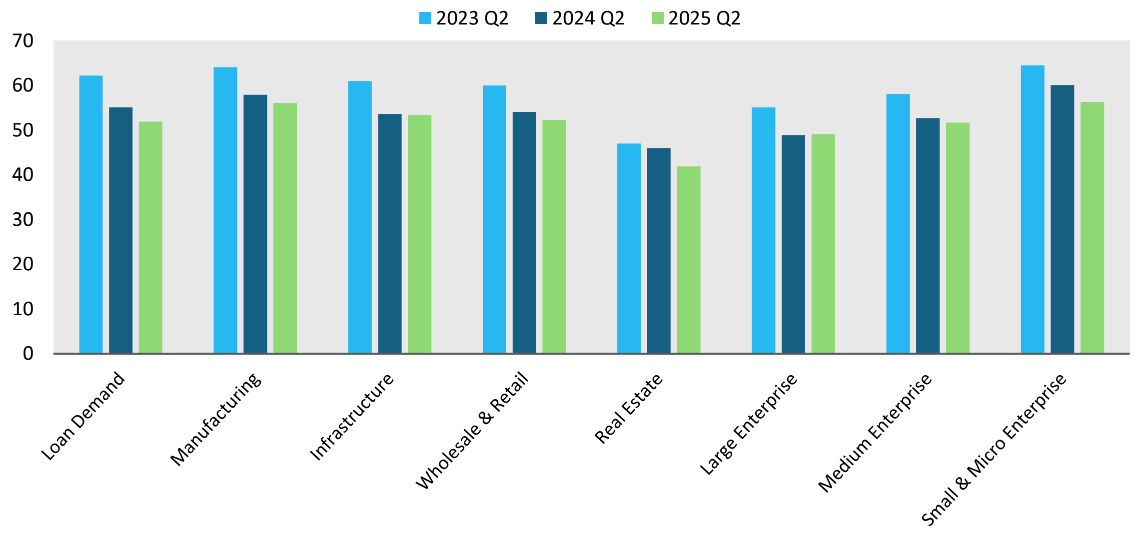
MACROECONOMIC POLICIES YIELDED MIXED OUTCOMES

Monetary Policy: Cheaper Credit, Hesitant Borrowers

Facing external and domestic headwinds, Beijing relied heavily on its macroeconomic policy toolkit. In May 2025, the one-year loan prime rate was cut to a record low of 3% and the reserve requirement ratio for major banks was trimmed by 50 basis points. Lending rates for small and micro-sized enterprises fell to 3.48% in June 2025, from 4.4% a year earlier.[8]

Nevertheless, monetary policy faced a stubborn paradox. In the first seven months of 2025, new loans amounted to RMB12.9 trillion, below the RMB13.5 trillion issued in the same period of 2024. Household lending plunged 45.5%, while corporate loan demand softened outside of state-supported industries. The decline in the Loan Demand Diffusion Index across sectors in the People's Bank of China's survey (Figure 6) shows that weak credit demand has spread beyond infrastructure and real estate to manufacturing, wholesale and retail. Credit demand from medium, small and micro enterprises was notably restrained, held back by fragile market conditions and uncertain policy signals, while large enterprises absorbed much of the available credit. Lower financing costs alone could not offset weak confidence and subdued expectations. Heightened uncertainty from external shocks, the shortfall between domestic policy and implementation, and adverse structural trends—such as ageing demographics and slowing growth—has amplified risk aversion in the economy, making it difficult for cheap credit to spur private investment.

FIGURE 6 PEOPLE'S BANK OF CHINA BANKER SURVEY: LOAN DEMAND DIFFUSION INDEX



Source: CEIC.

[8] Source: People's Bank of China data via CEIC.

Fiscal Policy: Stabilisation Amid Constraints

Fiscal policy assumed greater weight, albeit cautiously. In the first seven months of 2025, central government general public budget expenditure rose 8.8%, targeting infrastructure, technology and consumption incentives. Local governments issued RMB3.3 trillion in bonds, up from RMB2.1 trillion a year earlier. Including local government financing vehicles, China's augmented public debt likely exceeded 120% of GDP by mid-2024.[9] Policymakers thus face a dilemma: the need to deliver stabilisation without triggering a new wave of unsustainable debt accumulation.

Consumption: Trade-Ins and Tourism Boosts

Stimulating household demand grew more urgent. Trade-in programmes revived auto sales by 7.5%% in the first seven months, up from 3.8% a year earlier, while subsidised[10] commodity sales rose from 3.1% to 4.9%. Tourism provided a stronger boost. Domestic trips reached 3.2 billion in the first half of 2025, up over 20%, with revenues increasing by 15.4%. Yet, overall retail sales of goods and services grew just 4.8% in the first seven months of 2025, trailing second quarter gross domestic product (GDP) growth of 5.2%, signalling deep-seated concerns over employment security, income prospects and the adequacy of social safety nets. Families continued to prioritise saving overspending, underscoring the structural limits of consumption stimulus in the absence of deeper reform.

Investment: The Two New and Two Important Strategy

Investment policy gravitated once more towards infrastructure-led stabilisation. The government championed the "Two New and Two Important" framework, covering new infrastructure such as 5G networks and data centres, urban modernisation, major transportation and water conservancy projects, and renewal of old urban neighbourhoods. These investments supported employment and output, temporarily boosting demand and revealing continued reliance on traditional stimulus tools. Despite the shift towards digital and green infrastructure, the core strategy remained focused on construction-heavy projects to prop up growth.

Real Estate: Urban Renewal as a Patch, Not a Cure

In the real estate sector, policy shifted from large-scale expansion to urban renewal and quality development. Older neighbourhoods were redeveloped, idle land re-purposed and projects repackaged to spur investment and housing-related consumption. While these efforts sustained construction activity, they failed to resolve core issues of excessive developer debt, oversupply and fragile consumer trust. For many households, the fear of unfinished projects overshadowed the various subsidies introduced to stimulate property purchases.[11] Thus, real estate continued to weigh heavily on the broader economy, with urban renewal serving more as a temporary fix than a cure.

[9] For more details, please refer to https://www.imf.org/en/News/Articles/2024/07/31/pr24295-china-imf-exec-board-concludes-2024-art-iv-consult, accessed 28 August 2025.

[10] http://www.xinhuanet.com/tech/20250718/e0184ec9155841ad96457c2fcde510e1/c.html, accessed 9 September 2025.

[11] https://www.stcn.com/article/detail/1850476.html, accessed 9 September 2025.

Improving the Business Environment: Reform Meets Reality

Policymakers also understood that confidence could not be restored by investment alone. To reassure businesses and foreign investors, they have improved the business environment since early 2024 by cutting the negative list for foreign investment from 117 items to 106 and expanding unilateral visa-free entry to 75 countries. Foreign trips rose by about 30% year-on-year for the first seven months of 2025,[12] suggesting an early positive response.

Yet foreign direct investment still declined by 13.4% year-on-year to $67 billion for the first seven months in 2025.[13] The dual-track nature of reforms, namely liberalisation in some sectors and heightened controls in sensitive ones, helped reassure domestic constituencies but left foreign firms uncertain. For many, the gap between rhetoric and practice remained considerably wide.

STRUCTURAL AND EXTERNAL FACTORS COMPLICATE POLICY CHOICES

The Boon and Bane of Investment

China's mid-2025 experience underscored the duality of investment-led growth, both its reassurance and its limitations. Investment remains the most expedient means of propping up GDP, mobilising infrastructure projects quickly, creating jobs and generating visible results. Yet the diminishing returns of such projects are increasingly clear. While new infrastructure is oriented towards digital or green sectors, the associated financing burden is large and economic spillovers are weaker than in earlier waves of urbanisation and industrial expansion.

The absence of robust household consumption is glaring. Despite repeated official commitments to rebalance the economy, consumption still contributes far less to GDP than in other major economies. According to the CEIC, the private consumption to GDP ratio for China was 39.9% in 2024, much lower than the United States' 67.9%, Japan's 54.2% and India's 60.2%. Without stronger wage growth and more comprehensive social safety nets, households will continue to prioritise precautionary savings. In this context, infrastructure spending functions more as a stopgap than a solution.

External Headwinds: Tariffs, Tech and Trust

Externally, China is confronted with one of the most challenging environments of recent decades. The return of tariff battles under Trump 2.0 has directly undermined traditional export sectors, while advanced industries such as electric vehicles face growing scrutiny abroad over subsidies and market practices. Moreover, restrictions on Chinese investment in certain sensitive technologies in advanced economies have limited global expansion.

Foreign direct investment in China fell by 15.2% year-on-year in the first half of 2025, reflecting geopolitical risk and concerns about the Chinese economy. Multinational corporations have increasingly diversified towards Southeast Asia, India and other emerging markets to hedge against the uncertainties of operating in China. Despite Beijing's various initiatives, ranging from expanding

[12] https://www.globaltimes.cn/page/202507/1339629.shtml, accessed 28 August 2025.

[13] https://www.mofcom.gov.cn/xwfb/rcxwfb/art/2025/art_7f4785c9b4cf4ea7ae676dbc1159e242.html, accessed 28 August 2025.

visa-free entry, advancing the Hainan Free Trade Port or to leveraging the Regional Comprehensive Economic Partnership, diminishing foreign investor confidence has not been stemmed.

Household Hesitancy: The Missing Engine

The most intractable challenge remains weak household consumption. Even with subsidies, tax incentives and trade-in schemes, spending has still not recovered sustainably or materially. Families remain cautious, citing uncertain job prospects, stagnant wages and the burdens of mortgages, childcare and eldercare. The inadequacy of pensions and healthcare coverage reinforces the propensity to save rather than spend.

Short-term policies may spur temporary spending, but persistent caution will remain without systemic reform. For China to unleash household consumption as a true engine of growth, it must address the structural insecurities that restrain spending. This requires profound reforms in income distribution, social security and public service provision, areas where progress has been slower and more politically difficult than in infrastructure or industrial upgrading.

Policy Signals from the July 2025 Politburo Meeting

The Politburo meeting on 30 July 2025 reflected the government's nuanced recalibration towards these challenges. In contrast to 2024, when authorities explicitly called for "stepping up growth stabilisation" with concrete measures targeting real estate, debt and consumption, the 2025 meeting emphasised stability, cautious observation and structural governance, particularly in regulating competition and managing industrial capacity. The policy tone shifted towards risk prevention and expectation management, placing less emphasis on short-term stimulus and greater emphasis on medium- and long-term strategic considerations.

The remainder of 2025 will test whether Beijing can convert stabilisation into sustained recovery. In the absence of deeper reforms to boost household income and private-sector confidence, growth risks drifting towards a low-consumption, investment-heavy equilibrium—stabilised, but stagnant.

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