CHINA 2027 OUTLOOK

Less Drag, More Uncertainty



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- In 2026, the Chinese economy continued its structural shift from old industries such as property to new industries like high-tech. But the year also brought many surprises. On the positive side, exports surprised to the upside again, and the economy showed remarkable resilience in the face of the global energy supply shock. On the negative side, however, the domestic economy weakened by much more than many investors anticipated.
- Looking into 2027, our baseline expectation for growth is benign: we expect real GDP growth to moderate slightly from 4.6% in 2026 to 4.5% in 2027, assuming that the government's growth target will be nudged down from "4.5-5.0%" this year to "around 4.5%" next year.
- This benign growth forecast is not predicated on significant policy easing or a property market turnaround. Rather, it is built on the arithmetic of less drag from existing growth headwinds. By our estimates, the drag from the property market should lessen from 1.8pp of GDP in 2026 to 1.3pp in 2027, a net lift of 0.5pp. Similarly, we expect China's augmented fiscal deficit to decline more slowly in 2027 compared with 2026, so the negative impulse from continued fiscal tightening will also become 0.5pp smaller. Together, the smaller property and fiscal drags should provide a roughly 1pp lift to growth in 2027 relative to 2026.
- Although the baseline growth forecast is benign, we see increased uncertainty associated with the Chinese economy in 2027. Besides AI capex and technology-related risks that affect global markets, we think US-China relations may become less stable than in 2026 when four meetings between President Trump and President Xi helped keep tensions in check. Additionally, the 21st Party Congress is scheduled for the second half of next year. Although the quinquennial political event makes stable GDP growth particularly important to the top leadership, it could also mean intensified anti-corruption efforts, increased security-related restrictions, and heightened risk aversion at all levels of government, none of which is supportive of economic growth.
- Compared with market expectations, our growth projection is slightly above

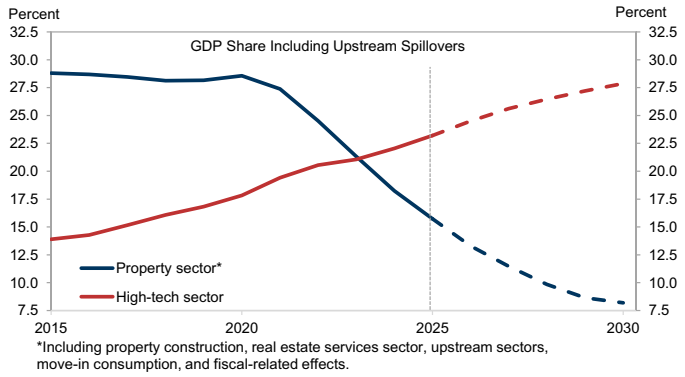
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consensus, our inflation forecast is significantly below consensus, and our current account forecast is notably stronger than consensus. These projections underpin our views of falling Chinese interest rates and a strengthening CNY.

Less Drag, More Uncertainty

Our outlook last year, titled "*Exploring New Growth Engines*," highlighted the Chinese economy's ongoing shift from traditional industries such as property and infrastructure building toward new industries such as AI and high-tech manufacturing (Exhibit 1). This structural shift continued in 2026, but this year also brought ample surprises. On the positive side, the Chinese economy proved much more resilient than many expected in the face of the most severe oil supply shock in decades, despite being by far the world's largest oil importer, and exports continued to grow robustly. On the negative side, the domestic economy weakened by more than many investors expected, with the property market witnessing another year of sharp contraction, local officials lacking incentives to carry out new projects under increased Party disciplinary scrutiny, and the fiscal stance tightening significantly with tax collection enforcement strengthening and government expenditure falling.

Exhibit 1: The shift from property to high-tech continues



Source: Haver Analytics, NBS, Goldman Sachs Global Investment Research

Our baseline projection for growth in 2027 is benign (Exhibit 2). Chinese real GDP is on track for 4.6% growth in 2026, and we expect 4.5% real GDP growth in 2027, consistent with a potential government target of "around 4.5%" next year. The broader picture of "strong exports and weak domestic demand" is unlikely to change, but the growth gap should narrow a bit. We project real export growth to moderate somewhat from 8.5% in 2026 to 6.0% in 2027, still a robust pace and well above WTO's forecast of global trade volume growth. In the domestic economy, we expect real consumption growth in the official data to pick up from 4.0% in 2026 to 4.3% in 2027, and gross fixed capital formation growth to increase from 2.0% to 2.5%, still sluggish paces compared to previous years.

Exhibit 2: We expect real GDP to grow 4.5% in 2027

		2019	2020	2021	2022	2023	2024	2025	2026F	2027F
GDP	**% yoy**	**6.1**	**2.3**	**8.6**	**3.1**	**5.4**	**5.0**	**5.0**	**4.6**	**4.5**
Domestic Demand	pp	5.4	1.7	6.9	2.5	6.0	3.4	3.4	3.4	3.5
Consumption	% yoy	6.3	-0.2	9.4	2.7	8.3	4.0	4.6	4.0	4.3
Household Consumption	% yoy	6.1	-1.9	12.1	1.7	8.8	5.2	4.3	4.0	4.2
Government Consumption	% yoy	6.9	3.8	3.5	5.2	7.2	1.2	5.2	4.0	4.5
Gross Fixed Capital Formation	% yoy	5.5	3.6	2.5	3.5	4.5	2.3	1.2	2.0	2.5
Net Exports	pp	0.7	0.7	1.7	0.5	-0.6	1.5	1.6	1.2	1.0
Exports of Goods (nominal USD)	% yoy	0.5	3.6	29.6	5.6	-4.7	5.8	5.4	22.9	13.7
Imports of Goods (nominal USD)	% yoy	-2.7	-1.0	30.6	0.7	-5.5	1.0	0.3	28.3	12.3
Inflation										
CPI	% yoy	2.9	2.5	0.9	2.0	0.2	0.2	0.0	0.8	0.5
Core CPI	% yoy	1.6	0.8	0.8	0.9	0.7	0.5	0.8	1.0	0.6
PPI	% yoy	-0.3	-1.8	8.0	4.1	-3.0	-2.2	-2.6	2.9	0.3
Other										
Current Account Balance	% GDP	0.6	1.5	1.6	2.2	1.4	2.4	3.7	4.4	4.9
USDCNY (eop)	level	6.97	6.54	6.37	6.95	7.09	7.30	7.00	6.70	6.30
Policy Rate (eop)*	%	2.50	2.20	2.20	2.00	1.80	1.50	1.40	1.25	1.15
TSF Stock Growth (eop)	%	10.7	13.3	10.3	9.6	9.5	8.0	8.3	7.2	6.2
Augmented Fiscal Deficit	% GDP	11.8	16.8	11.5	12.6	11.8	10.9	11.4	10.0	9.5

*The PBOC changed China's monetary policy rate from 7-day reverse repo rate to overnight reverse repo rate in November 2026.

Source: Haver Analytics, Goldman Sachs Global Investment Research

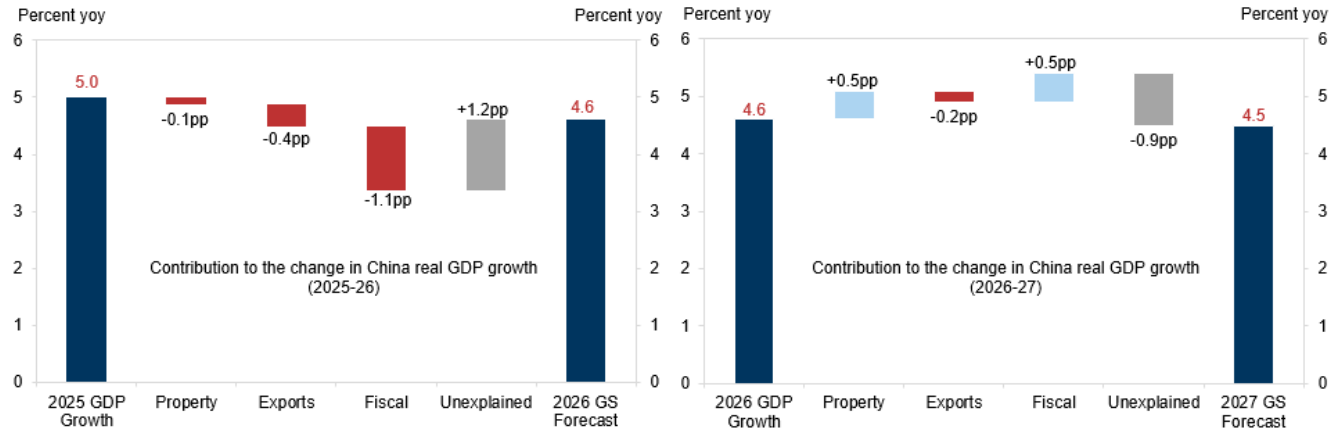
This benign baseline is not built upon assumptions of significant policy easing or a property market turnaround. In fact, we expect property activity and prices to continue to decline and fiscal tightening to persist next year. However, in both cases, we think the drag should lessen from 2026 to 2027. For example, we estimate that the property market's drag on real GDP growth increased from 1.7 percentage points (pp) of GDP in 2025 to 1.8pp in 2026, but this drag should narrow to 1.3pp in 2027 as the property market's share of real GDP continues to shrink and the pace of property activity decline moderates somewhat. Similarly, our estimated augmented fiscal deficit (AFD) declined from 11.4% of GDP in 2025 to 10.0% of GDP in 2026, which should reduce real GDP growth by 0.7pp (= (11.4% - 10.0%) * 0.5), on the assumption of a 0.5 fiscal multiplier. We think the AFD will decline further to 9.5% of GDP in 2027, weighing on real GDP growth by a smaller 0.2pp. In other words, while various headwinds will continue to depress domestic demand next year, the second derivative should turn positive. Less drag from the property and fiscal impulse is the key reason behind our benign baseline forecast.

To be clear, the Chinese economy will face significant uncertainties in 2027. Besides the trajectory of tech development and AI capex that continues to drive global markets, there are two sets of risks unique to China. On the external side, US-China relations may become more challenging next year compared to 2026 as the four Trump-Xi meetings help keep tensions in check this year. On the domestic front, sentiment appears extremely weak, strong industrial output fails to translate into strong employment and household income, and the government deadline for exits of local government financing vehicles (LGFVs) by mid-2027 continues to impose financial risks. Most importantly, the 21st Party Congress is scheduled for the second half of next year. Although the quinquennial political event makes stable GDP growth particularly important to the top leadership, it could also mean intensified anti-corruption efforts, increased security-related restrictions, and heightened risk aversion at all levels of government, none of which is supportive of economic growth.

How to get to 4.5% growth?

In our client conversations, we are often asked how China's real GDP can grow 4.5% given the weak state of the labor market, large erosion of household wealth from the housing bust, extremely stretched local government finances, and unsustainable export growth. We acknowledge that the official real GDP growth number looks high relative to alternative measures. For example, real retail sales of goods and services grew by less than 2% yoy and real fixed asset investment (FAI) declined by around 10% yoy during the first nine months of the year, making the math difficult to add up to the official GDP print. Our import-implied real GDP growth measure registered only 2.4% yoy growth during the first three quarters of 2026. The changes from 2025-26 in the property sector, exports, and the fiscal impulse collectively imply a slowdown 1.2pp steeper than shown in the official GDP data; it is not obvious what components of GDP explain this. That said, when it comes to the 2026-27 change in real GDP growth, less drag from the property market and fiscal tightening, as discussed earlier, should provide a meaningful buffer to maintain growth stability (Exhibit 3).

Exhibit 3: We expect less drag to real GDP growth from the property market and fiscal tightening in 2027



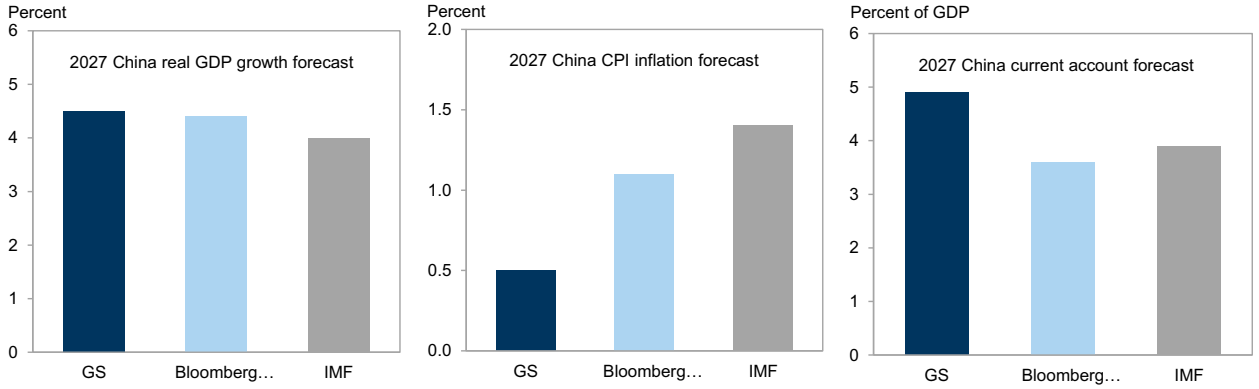
"Property" is the change in our estimated property contribution to real GDP growth. "Exports" is based on official net exports contribution to real GDP growth. "Fiscal" is calculated using our augmented fiscal deficit estimates. "Unexplained" is the residual between official real GDP growth numbers and our estimates of property, exports and fiscal contributions.

Source: Haver Analytics, Goldman Sachs Global Investment Research

Where are we different?

Compared to the Bloomberg consensus of 4.4% real GDP growth in China in 2027, our forecast of 4.5% is slightly higher (Exhibit 4). Our inflation forecasts, however, are significantly below the Bloomberg consensus and IMF forecast. We expect headline CPI inflation to decelerate from 0.8% in 2026 to 0.5% in 2027, while the Bloomberg consensus and IMF forecast show an acceleration toward 1.4-1.5% next year. The ongoing deflationary trend amid China's housing downturn coupled with lower oil prices, is the driver of our below-consensus inflation forecasts. This supports our "lower for longer" projection of China's interest rates. Lastly, we maintain our bullish view on China's current account surplus and project it to rise to 4.9% of GDP in 2027 from 4.4% in 2026, notably above the IMF forecast of 4.0% and the Bloomberg consensus of 3.6%. Our constructive view on Chinese exports and current account surplus underpins our long-held RMB appreciation view.

Exhibit 4: Relative to Bloomberg consensus, we expect slightly higher growth, significantly lower inflation, and notably stronger current account surplus next year

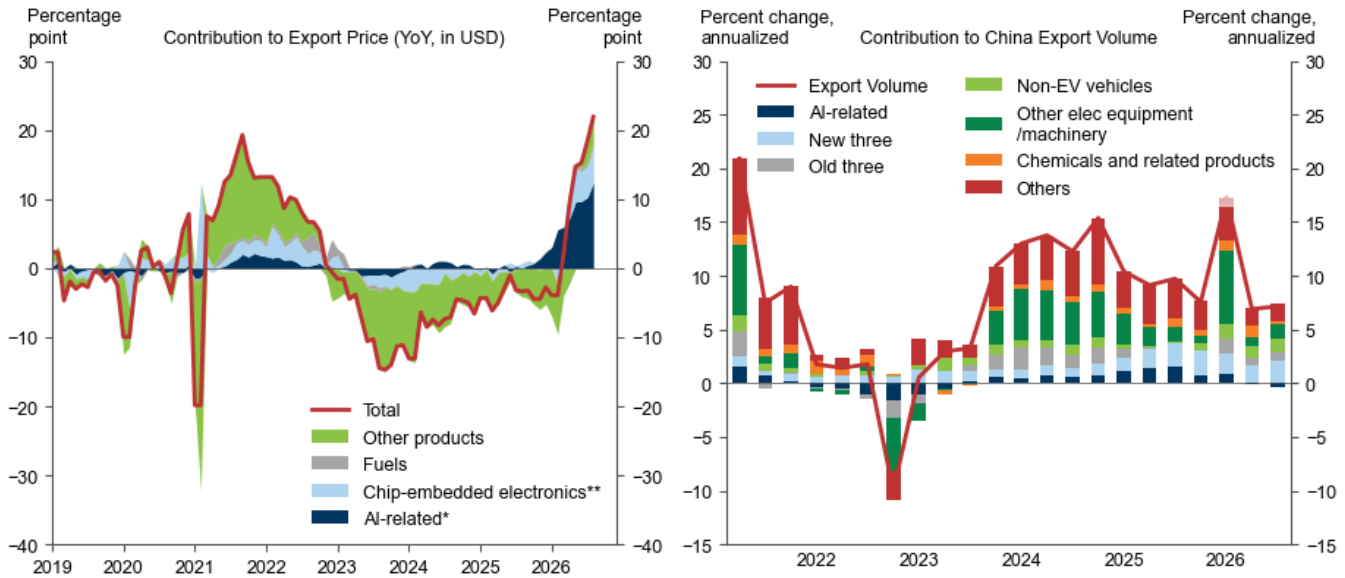


Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research

Trade: Nominal growth to slow, real exports to remain resilient

China's exports have again exceeded expectations, rising 21.3% yoy in USD terms in January-September 2026. Price effects have played a much larger role during this year's export boom. Export prices rose 11% yoy over the period, largely driven by AI-related products and other chip-embedded electronics. Export volumes nevertheless grew a robust 9.5% yoy, supported by the "new three" sectors – electric vehicles, batteries and solar panels – as well as broader strength in electrical equipment. The upturn therefore extends well beyond AI-related demand (Exhibit 5).

Exhibit 5: AI's export boost reflects prices, not volumes; real export growth remains concentrated in high-tech manufacturing products



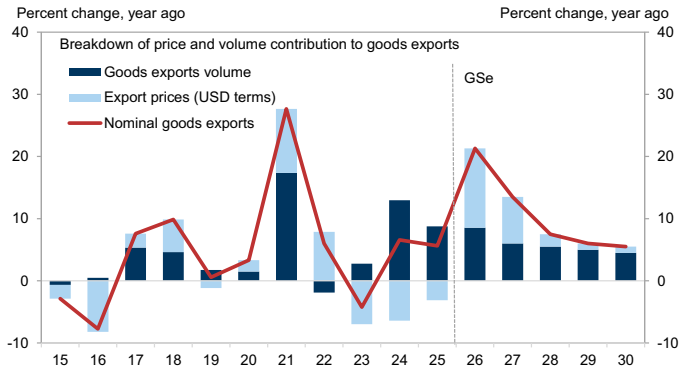
*AI-related products include semiconductors, printed circuits, storage units, processing units, and computer parts and accessories. ** Chip-embedded electronics include mainly computers and other consumer electronics.

Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research

Looking ahead, we expect nominal export growth (in USD terms) to slow from 22.9% yoy in 2026 to 13.7% yoy in 2027. The deceleration mainly reflects easing export price inflation, as we expect year-on-year chip price inflation to peak in 2026 Q4 and lower oil

prices in 2027 should further temper price pressures. By contrast, goods export volume growth should remain resilient, moderating from 8.5% yoy in 2026 to 6.0% in 2027. China's manufacturing competitiveness and ample production capacity should underpin further market share gains, particularly in EMs (Exhibit 6).

Exhibit 6: Lower price inflation should slow nominal export growth, but real export growth should remain resilient at 5-6% over the next few years



Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research

A tougher EU trade stance is a key risk to the export outlook, as the EU accounts for 14% of China's nominal exports and has contributed about 2pp to export volume growth in January-September. Still, our baseline assumes that mutual economic interests will limit escalation and keep downside risk contained. China retains strong leverage over critical inputs such as rare earths, while EU policymakers have incentives to preserve access to the Chinese market and avoid disrupting European manufacturers. Recent EU-China trade talks also suggest the relationship remains negotiation-driven rather than purely confrontational. Further EU curbs may also reshape China's exports rather than simply reduce them. Restrictions on direct exports (e.g., hybrid vehicles) could accelerate Chinese firms' localization of production in Europe, particularly autos, which would reduce finished-goods exports but sustain demand for Chinese intermediate inputs (e.g., batteries).

Higher prices have driven most of the nominal import growth in 2026. We expect goods import volumes to rise 3.0% yoy in 2026, supported by strong non-monetary gold imports but weighed down by weaker energy imports. Volume growth should slow further to 1.6% in 2027 as subdued domestic demand and China's push for self-sufficiency constrain imports. Lower energy prices could encourage fuel restocking but are unlikely to offset the broader demand weakness. As chip and energy prices normalize, we expect import price inflation to ease from 18.9% in 2026 to 4.5% in 2027. Together, slower volume growth and easing price inflation should reduce nominal import growth from 28.3% to 12.3% in 2027.

We expect the customs-basis goods trade surplus to widen from 6.0% of GDP in 2026 to 6.3% in 2027. The services trade deficit should narrow, from 1.0% to 0.8% of GDP in 2027, as easier visa policies and more favorable tax-refund arrangements support inbound tourism. Together, these developments should lift the current account surplus from 4.4% of GDP in 2026 to 4.9% in 2027 (Exhibit 7). In real terms, we expect net exports' contribution to GDP growth, including goods and services, to decline from 1.2pp in 2026 to 1.0pp in 2027.

Exhibit 7: China's current account surplus is set to rise further



Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research

While China's current account surplus was strong in 2026, its financial account balance remained weak. The balance of payments (BOP) data suggests that China's outward foreign direct investment (FDI) continued to outpace the inward FDI over the past few quarters. Combining a larger current account surplus, broadly unchanged total portfolio outflows, and continued net FDI outflows, we expect China's broad balance of payments (BBoP) to improve from 2.9% of GDP in 2026 to 3.5% of GDP in 2027, which is in line with our view of CNY 's gradual appreciation in 2027 (Exhibit 8).

Exhibit 8: We expect China's broad balance of payments (BBoP) to increase in 2027

(USD bn)	2019	2020	2021	2022	2023	2024	2025	2026F	2027F
CA balance	**90**	**224**	**297**	**404**	**257**	**462**	**735**	**959**	**1178**
CA as % of GDP	**0.6**	**1.5**	**1.6**	**2.2**	**1.4**	**2.4**	**3.7**	**4.4**	**4.9**
Goods trade balance	371	500	537	651	600	809	1061	1247	1467
Exports	*2412*	*2539*	*3255*	*3397*	*3263*	*3523*	*3752*	*4612*	*5239*
Imports	*2040*	*2039*	*2718*	*2746*	*2663*	*2714*	*2692*	*3365*	*3772*
Service trade balance	-252	-167	-131	-113	-221	-255	-238	-214	-191
Exports	*232*	*210*	*284*	*310*	*300*	*347*	*385*	*443*	*478*
Imports	*484*	*377*	*414*	*422*	*521*	*602*	*623*	*657*	*670*
Primary/secondary income	-29	-110	-109	-134	-122	-92	-87	-74	-98
Direct investment	**50**	**99**	**165**	**-20**	**-174**	**-150**	**-77**	**-50**	**-70**
Inward	187	253	344	190	51	43	80	100	100
Outward	-137	-154	-179	-210	-226	-192	-157	-150	-170
Portfolio investment	**58**	**96**	**51**	**-289**	**-58**	**-179**	**-426**	**-270**	**-270**
Equity	16	-51	-2	-9	-44	-138	-172	-70	-120
Bond	42	147	53	-280	-14	-42	-253	-200	-150
BBoP	**198**	**419**	**514**	**95**	**25**	**133**	**232**	**639**	**838**
BBoP as % of GDP	**1.4**	**2.8**	**2.8**	**0.5**	**0.1**	**0.7**	**1.2**	**2.9**	**3.5**

Source: Haver Analytics, Goldman Sachs Global Investment Research

Property market: Not bottoming yet, but its growth drag should ease

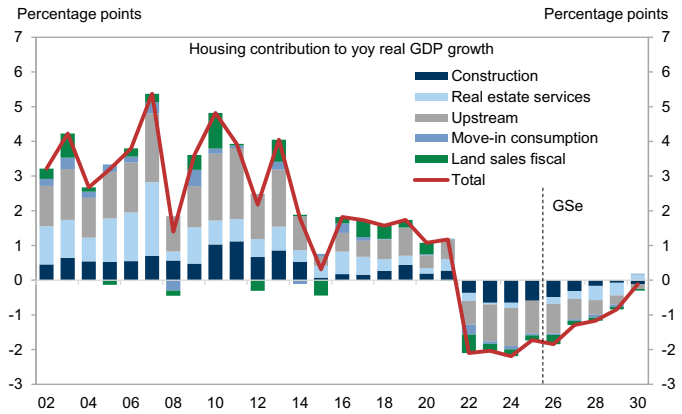
China's property downturn is now in its sixth year. Many housing activity indicators have fallen more than expected so far this year, with most—including new home starts, sales

and property FAI—down 60-90% from their 2020-2021 peaks. Meanwhile, recent property policies are also accelerating the shift from a high-turnover, presales-led business model to completed-home sales with tighter project-level fund supervision. In our view, this transition may add further downward pressure to these indicators over the next few years.

Reflecting these two developments, we recently updated our estimate of the property sector's contribution to real GDP growth: the property sector is now expected to subtract 1.8pp from China's real GDP growth in 2026, slightly more than 1.7pp in 2025. We estimate that the sector's share of GDP fell from a peak of around 30% during 2010-21 to around 15% in 2025, and expect it to decline further before stabilizing at around 8% from 2030 onward. Looking ahead, as the sector shrinks, we expect its growth drag to narrow by around 0.5pp to 1.3pp in 2027 and largely dissipate by 2030 (Exhibit 9). This narrowing of the property sector's drag should, in turn, be supportive for overall economic growth.

However, a narrower growth drag from the property sector does not necessarily imply a broad-based stabilization in home prices. In top-tier cities such as Shanghai and Shenzhen, where inventory is already low, home prices may begin to recover soon. By contrast, for the rest of the country—particularly in lower-tier cities with still-significant inventory overhang—prices may continue to decline for a few more years.

Exhibit 9: We expect the property sector to subtract 1.8pp from China's real GDP growth in 2026, but this drag should narrow to 1.3pp in 2027



Source: Goldman Sachs Global Investment Research

Labor Market: Structural and cyclical challenges

The labor market has been weak for the past few years. While the official unemployment rates look broadly stable, investors in our client conversations are more downbeat on labor-market conditions and increasingly concerned about AI-related job displacement. In addition, the tighter enforcement of social insurance contributions in recent months has raised labor costs and weighed on hiring sentiment. Our recent analysis of China's high-tech push suggests that these sectors will support output but do less for employment, as they are less labor-intensive than property and services sectors. As a result, high-tech expansion is unlikely to deliver a proportionate lift to household income and consumption. The 15th FYP calls for synchronizing household income growth with

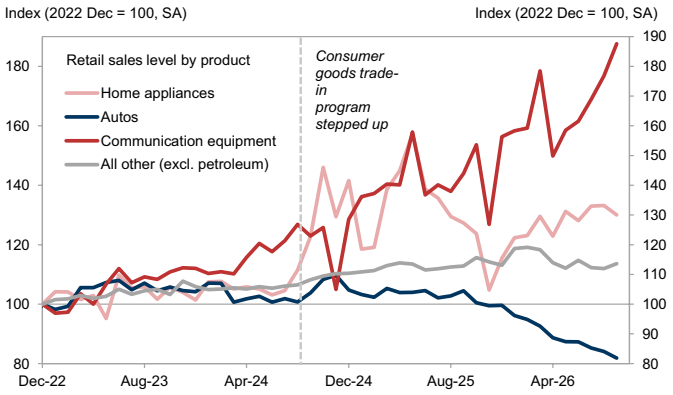
economic growth, but we do not expect major effective policies beyond incremental measures such as small subsidies for labor-intensive services and offline businesses, a higher minimum wage, and lower social security contributions for low-wage and flexible workers (e.g., food deliverers and ride-hailing drivers). Altogether, both structural and cyclical challenges combined with the lack of significant policy responses imply a weak labor market next year.

Consumption: Only a gradual recovery in 2027

Household consumption weakened in 2026 as the effect of the government subsidized consumer goods trade-in program faded and a tax increase on new energy vehicle (NEV) purchases slowed auto sales. Nominal retail sales of consumer goods grew just 1.1% yoy in Q1-Q3, versus 4.5% a year earlier. The consumer goods trade-in program shifted from a tailwind to a headwind as funding fell from RMB300bn in 2025 to RMB250bn in 2026, implementation tightened, and many buyers who wanted to take advantage of the program did so in 2024-25. Alongside the increase in the NEV purchase tax from 0% to 5% at the start of the year, these changes drove a 14.9% decline in auto sales in Q1-Q3, subtracting 1.4pp from headline retail sales growth (Exhibit 10).

We expect the trade-in program to continue next year, given that policymakers have set a target of raising total retail sales of consumer goods to around RMB60tn by 2030 from RMB50.1tn in 2025 in the 15th Five-Year Plan for Expanding Consumption, which implies 3.7% annualized nominal growth. However, funding is likely to be lower than this year's RMB250bn. Beyond goods subsidies, policymakers have reportedly begun drafting the "urban and rural residents' income increase plan" to boost consumption. That said, speakers at our recent China macro CIO tour expect limited consumption policies to be rolled out in 2027, as there is no consensus on what measures would be effective and sustainable, and reforming the fiscal system to strengthen the social safety net is difficult to implement given complicated central-local government relations and diverging interest groups.

Exhibit 10: Auto sales growth dropped significantly in 2026



Source: NBS, CEIC, Goldman Sachs Global Investment Research

Looking ahead, we expect real household consumption growth to edge up to 4.2% in 2027 from 4.0% in 2026, supported by easing headwinds and a low comparison base. To be sure, property prices have yet to bottom, and household confidence and income expectations remain subdued. However, we estimate that the negative housing wealth effect peaked in 2024-25 and should fade gradually over the next few years, easing the

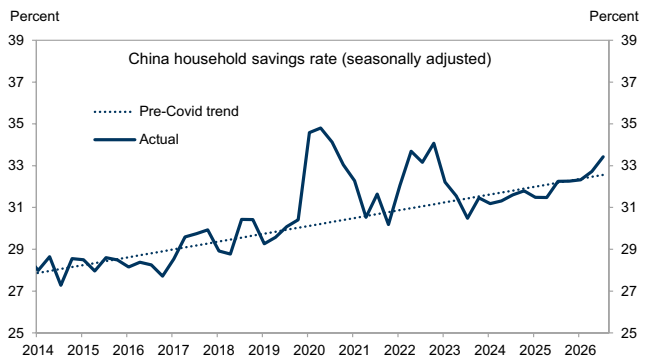
pressure on household consumption. In addition, the NEV purchase tax will stay at 5% through 2027, so autos will face no incremental tax headwind next year. Moreover, because the tax rate is scheduled to rise to 10% in early 2028, households may bring forward NEV purchases into Q4 2027, which should support year-end retail sales next year. Together with a low base, these factors would lift retail sales growth modestly to 2.0% in 2027 from 1.0% expected in 2026.

Services consumption remains the most promising source of growth. The NBS's new total retail sales of goods and services indicator, introduced this year, shows that services retail sales grew 5.0% yoy in Q1-Q3 2026, outpacing goods sales by about 4pp. Services accounted for just 46% of household spending in China in 2025, versus around 60% in developed economies such as the US and Japan, suggesting substantial room for expansion. We expect services consumption to continue growing faster than goods consumption in 2027.

Government consumption (30% of total consumption) accelerated to 5.2% in 2025 from 1.2% in 2024, helped by the RMB10tn local government debt resolution plan launched in late 2024. Growth then slowed to 4.0% in 2026 by our estimates, partly reflecting sharp declines in land sales revenue this year. Looking ahead, as we expect a smaller fiscal drag next year than this year, we forecast government consumption growth to increase modestly to 4.5% in 2027. Overall, we expect total consumption, comprising both household and government segments, to contribute 2.4pp to headline GDP growth in 2027, marginally higher than the 2.3pp in 2026 but still well below the 3.6pp in 2019.

Risk appetite remains low among Chinese households. China's household savings rate rose from 32.7% in Q2 to 33.4% in Q3 after seasonal adjustment, remaining above its pre-Covid trend-implied level (Exhibit 11). Falling deposit rates have done little to encourage households to shift savings toward alternative financial assets, and household bank deposits continue to grow robustly (Exhibit 12). Our forecast of slightly higher consumption growth in 2027 is predicated on cyclical factors, such as a smaller property drag and the largely completed payback effect due to the consumer goods trade-in program. The risk, however, is that several years of persistent domestic demand weakness could lead to a structural downward trend in household consumption growth in the coming years.

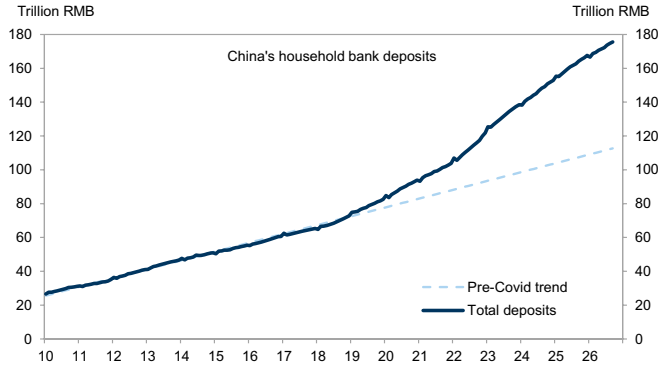
Exhibit 11: Chinese household savings rate rose in 2026



The trend is estimated by using 2013 Q1-2019 Q4 data.

Source: NBS, Goldman Sachs Global Investment Research

Exhibit 12: Households continue to place savings into bank deposits



The trend is estimated by using 2010 January- 2019 December data.

Source: Haver Analytics, Goldman Sachs Global Investment Research

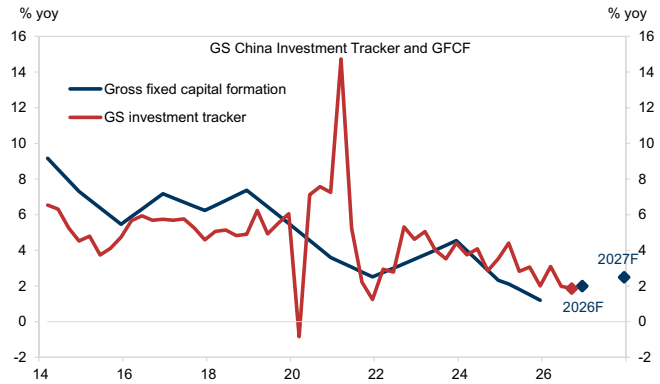
Investment: Expecting modest improvement in 2027 after the significant slowdown in 2026

Following a brief Q1 rebound, headline FAI growth slowed sharply in Q2-Q3 amid fiscal tightening and a deepening property construction downturn. Despite top leadership's pledge to "stabilize and revive investment" at the Central Economic Work Conference last December, FAI has fallen 7.2% yoy so far this year, following a 3.8% decline last year. We remain cautious in interpreting FAI data, as occasional NBS "statistical corrections" to previously over-reported figures may have amplified recent volatility. Alternative indicators nevertheless confirm the continued investment slowdown. Crude steel and cement output fell 2.9% yoy and 8.6% yoy, respectively, in the first nine months of this year, following declines of 4.4% and 6.9% in 2025. Real GDP growth in the construction sector also declined to -4.1% yoy in Q1-Q3 2026 from -1.1% in 2025. Our proprietary investment tracker shows that China's real investment growth has decelerated over the past year to its slowest pace since China's reopening from Covid lockdowns (Exhibit 13).

Amid broad-based investment weakness, SOEs continued to outperform non-SOEs, more-developed coastal regions outperformed less-developed inland regions, and high-tech industries outperformed other industries. Policymakers have increasingly emphasized the "Six Networks" initiative—covering water networks, new-type power grids, computing-power networks, next-generation communications networks, urban underground pipeline networks, and logistics networks—to support near-term investment while addressing longer-term infrastructure, resilience, and innovation needs. Our recent study suggests total nominal investment across the "Six Networks" will rise 14% cumulatively, from RMB24.9tn during the 14th FYP (2021-25) to RMB28.4tn during the 15th FYP (2026-30), implying annualized growth of 2.7%. Therefore, while increased policy focus on "Six Networks" construction may help stabilize investment, it is unlikely to reverse the structural trend of falling investment share of GDP in China.

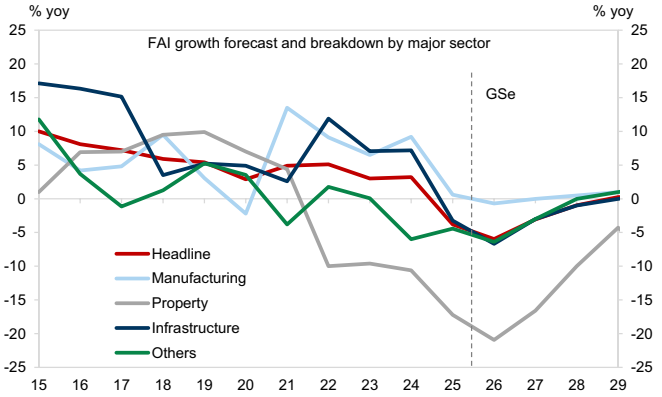
With the drags from the property downturn and fiscal tightening potentially past their peak, and helped by a lower base, we expect FAI growth to improve to around -3% in 2027 from -6% in 2026 (Exhibit 14), while property investment should continue to contract at double-digit rates over the next few years. Adjusting for prices and other distortions, we maintain our forecast that gross fixed capital formation (GFCF; a component of expenditure-based GDP) growth will rise modestly from 1.2% in 2025 to 2.0% in 2026 and 2.5% in 2027.

Exhibit 13: Our investment tracker shows falling investment growth in 2026



Source: Goldman Sachs Global Investment Research

Exhibit 14: We expect FAI growth to improve to around -3% in 2027 from -6% in 2026



Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Inflation: Cost-push reflation likely to fade in 2027

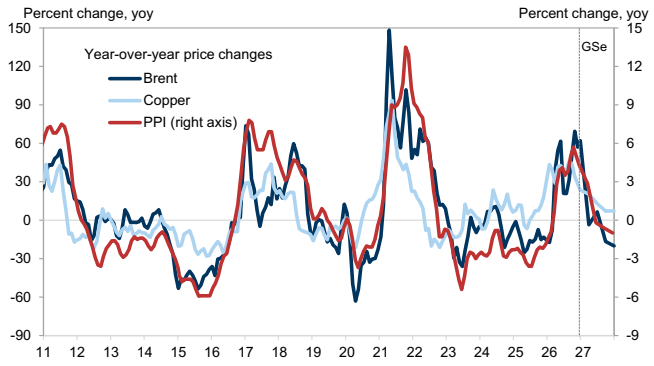
In 2026, China exited a protracted deflationary cycle that had been visible across both producer prices and the GDP deflator. PPI inflation turned positive in March after 41 months of decline, and the GDP deflator rose 1.5% yoy in Q2 2026, ending 12 consecutive quarters of contraction. The rebound has mainly reflected higher oil prices amid the Iran war and rising AI-related hardware prices, which lifted PPI inflation to 5.7% yoy in October. By contrast, headline CPI inflation stayed subdued at 0.7% yoy as of October, with core CPI easing to 0.8%, underscoring the difficulty of passing higher upstream prices on to end users amid weak demand. We expect both energy and AI price inflation to ease in 2027, and weak domestic demand should further dampen inflation next year.

We expect headline PPI inflation to moderate to 0.3% in 2027 from 2.9% in 2026 (Exhibit 15). PPI inflation rose notably this year, driven by surging energy and commodity prices and robust AI hardware demand, which lifted prices for non-ferrous metals, servers, and data storage components. Yet gains remain concentrated in upstream sectors: producer goods prices rose 3.7% yoy in January-October, whereas consumer goods prices still fell 0.9%. Looking ahead, the fading of the energy-price boost and a high base of AI-related product prices should weigh on year-over-year PPI inflation, which could turn negative as early as Q2 2027. That said, significant uncertainties remain around global commodity prices and whether China will step up implementation of "anti-involution" policies to support prices in 2027.

We expect headline CPI inflation to ease to 0.5% in 2027 from 0.8% in 2026, mainly on lower energy price inflation (Exhibit 16). Our commodity strategy team expects Brent oil prices to average US$88/bbl in 2027, which should materially reduce the contribution of vehicle fuel prices to CPI inflation, while likely higher pork prices should provide a partial offset. We expect core CPI inflation to slow to 0.6% in 2027 from 1.0% in 2026. Strong AI-related demand and tight component supply lifted prices of communication hardware this year, including data storage devices, PCs, and handsets. However, our sector analysts expect significantly slower increases in memory and computer prices, implying a smaller contribution from AI-related consumer electronics. Our commodity team's gold price forecast path implies a slightly lower full-year average price in 2027

than 2026, which should also weigh on core CPI inflation.

Exhibit 15: We expect year-over-year PPI inflation to decline markedly in 2027



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 16: We expect headline CPI inflation to slow from 0.8% in 2026 to 0.5% in 2027



Source: Haver Analytics, Goldman Sachs Global Investment Research

Monetary policy: Measured easing amid gradual reforms

The PBOC has refrained from high-profile easing, such as policy rate and reserve requirement ratio (RRR) cuts, since May 2025 (when China was countering US tariffs above 100%). Instead, the central bank has opted for measured liquidity injections through low-profile open market operations (OMO), including outright and overnight reverse repos. The PBOC has also strengthened credit easing in policy-favored sectors—such as high-tech manufacturing, new infrastructure, strategic supply chains, services consumption, and SMEs—by expanding relending quotas and lowering interest rates on some structural monetary policy tools. While these measures have helped keep interbank liquidity ample, credit growth has continued to decelerate amid subdued private-sector demand and a structural economic transition away from credit-intensive property and infrastructure toward AI and high-tech manufacturing.

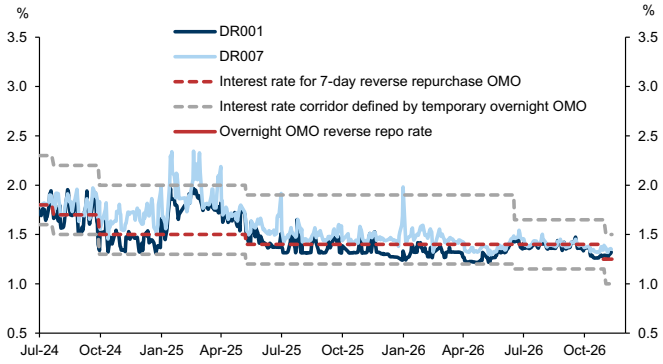
Following Governor Pan Gongsheng's speech at the Financial Street Forum, the PBOC announced major adjustments to OMOs on 31 October, shifting its policy rate from the 7-day to the overnight reverse repo rate (currently at 1.25%) and resetting its interest rate corridor to 1.0-1.5% (Exhibit 17). This brings its monetary policy framework closer to global central bank standards. The next step would be to accelerate loan repricing against the interbank overnight interest rate (DR001), as Governor Pan suggested earlier. Although not a conventional 15bp policy rate cut, we view the change as equivalent to a 5-10bp cut in front-end interbank rates.

We expect a 10bp policy rate cut next year, most likely in Q4 after the 21st Party Congress concludes and the Fed resumes rate cuts in December 2027 as expected by our US economists. The PBOC may also stick with its low-profile liquidity injection playbook next year, using various OMO tools, relending and CGB purchases.

Total social financing (TSF) stock growth continued to slow this year, from 8.3% at end-2025 to 7.2% yoy expected at end-2026, mainly dragged down by decelerating outstanding RMB loan growth. We expect it to ease further to 6.2% yoy by end-2027, as government bond issuance quotas should shrink from this year's level on reduced funding for local government debt resolution, while credit demand from households and private enterprises may remain subdued (Exhibit 18). The continued decline in credit

growth is consistent with PBOC's pledge to keep shifting its focus from quantity-based credit growth toward interest rates during the 15th Five-Year Plan (FYP).

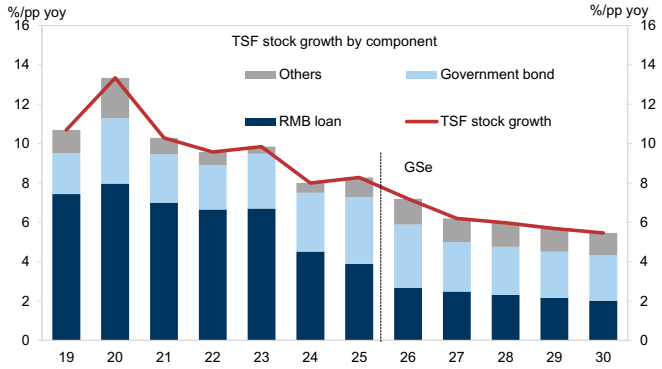
Exhibit 17: The PBOC shifted its policy rate to overnight reverse repo rate in November



The PBOC's policy rate shift to the overnight reverse repo rate became effective on November 2, 2026.

Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 18: We expect TSF stock growth to slow further in 2027



Source: PBOC, Wind, Data compiled by Goldman Sachs Global Investment Research

Fiscal policy: Short-lived easing within a structural tightening cycle

Despite repeated pledges of "a more proactive fiscal policy" this year, policymakers have actually tightened fiscal policy from last year amid strong exports. Falling land sales revenue, reduced policy bank support and tighter tax collection have significantly narrowed China's augmented fiscal deficit (AFD) since April 2026. Its 12-month moving average fell from 11.4% of GDP in December 2025 to 9.4% in September 2026, the lowest since October 2015. With domestic demand weakening, policymakers introduced a batch of incremental easing measures between end-September and mid-October, mainly through fiscal and credit channels. In our view, these measures aim to secure this year's "4.5–5.0%" growth target and prepare funding to ensure solid growth momentum in early 2027 ahead of the March "Two Sessions", rather than to launch a sustained easing cycle.

Recent policy actions, including catching up on this year's planned easing through faster bond issuance and proceeds spending, approval of an additional RMB550bn local government bond issuance quota, and deployment of the RMB800bn new policy-based financial instrument (NPBFI), may modestly widen the AFD from its September trough. However, continued constraints on fiscal policy transmission next year and beyond, especially on funding and local officials' incentives, imply that tightening will likely persist, albeit at a slower pace than this year:

- First, local government funding conditions may worsen further next year. We expect land sales revenue to fall another 20%, following a 30% decline this year, reflecting the new housing policies rolled out at end-August that accelerate the shift from "presales" to "completed home sales". Funding arrangements for local government debt resolution will also decline significantly (from RMB2.8tn annually during 2024-26 to RMB800bn annually during 2027-28). In addition, China's earlier pledge to complete the full commercialization of LGFVs by mid-2027 may put further pressure on local government finances.

- Second, intensified anti-corruption investigations should continue to constrain local officials' incentives to launch major projects. Although this constraint may ease marginally in some more developed coastal regions after their local leadership reshuffles, which will be largely completed by early next year, less developed inland regions may remain focused on debt resolution and LGFV deleveraging. The breakdown of local government bond proceeds also shows that, so far this year, more funds have gone to repaying corporate arrears and overdue civil servant salaries than in previous years, and less to investment projects.

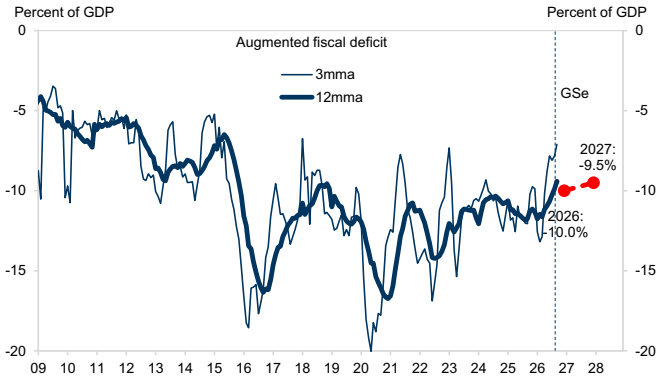
On an annual basis, we expect the AFD to narrow to 10.0% in 2026 and 9.5% in 2027 (Exhibit 19), with tightening continuing gradually over the longer term despite the recent temporary, small-scale easing (Exhibit 20). We estimate that fiscal tightening is the single largest drag on China's GDP growth this year, subtracting 1.1pp from real GDP growth from 2025 to 2026 and exerting a larger incremental drag than the property downturn. Fiscal policy will likely remain a drag next year, but a smaller one than this year, and may lift real GDP growth by 0.5pp from 2026 to 2027 by our estimates (Exhibit 21).

Exhibit 19: We expect AFD to narrow from 11.4% of GDP in 2025 to 10.0% in 2026 and 9.5% in 2027

		Percent of GDP	2019	2020	2021	2022	2023	2024	2025	2026F	2027F
1	**=3-(2+4)**	**Official on-budget deficit**	**2.8**	**3.6**	**3.2**	**2.8**	**3.8**	**3.0**	**4.0**	**4.0**	**4.0**
2		Budget revenue	18.9	17.7	17.3	16.5	16.8	16.3	15.4	15.3	14.7
3		Budget expenditure	23.7	23.7	20.9	21.1	21.2	21.1	20.5	19.7	19.3
4		Net drawdown of fiscal deposit and transfer from other fiscal accounts	2.0	2.5	0.5	1.8	0.7	1.8	1.1	0.4	0.6
5	**=3-2**	**Effective on-budget deficit**	**4.8**	**6.1**	**3.7**	**4.6**	**4.5**	**4.8**	**5.1**	**4.4**	**4.6**
6		Local government special bond (LGSB)	2.1	3.5	2.8	3.6	3.0	3.0	3.1	3.0	3.0
7	=8+9	LGFV bond and railway construction bond net issuance	1.3	2.2	2.1	1.0	1.0	-0.1	0.0	0.2	0.0
8		LGFV bond net issuance	1.2	2.2	2.0	1.0	1.0	0.0	0.0	0.2	0.0
9		Railway construction bond net issuance	0.0	0.1	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0
10	=11+12	Policy bank support (including PSL)	1.5	2.2	1.5	2.0	1.5	0.5	0.6	0.2	0.6
11		Policy bank bond issuance	1.4	2.5	1.8	1.7	1.4	1.2	1.5	0.2	0.4
12		PSL	0.2	-0.3	-0.4	0.3	0.1	-0.7	-1.0	0.0	0.2
13		Trust loans	-0.2	-0.5	-0.9	-0.2	0.1	0.1	0.1	-0.1	-0.1
14		Net financing via land sales	2.1	2.4	2.2	1.6	1.3	1.1	0.9	0.6	0.4
15		Central government special bond (CGSB)	0.0	1.0	0.0	0.0	0.0	0.7	1.3	1.1	0.8
16		Local government debt resolution (swap / refinancing / special-purpose refinancing bond)	0.1	0.0	0.2	0.1	0.4	0.7	0.5	0.6	0.2
17	**=5+6+7+10+13+14+15+16**	**Augmented fiscal deficit (AFD)**	**11.8**	**16.8**	**11.5**	**12.6**	**11.8**	**10.9**	**11.4**	**10.0**	**9.5**

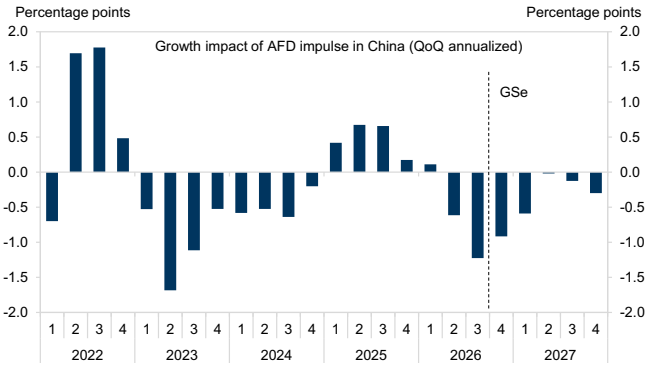
Source: MOF, CEIC, Haver Analytics, Wind, Goldman Sachs Global Investment Research

Exhibit 20: Fiscal policy has tightened meaningfully from last year …



Source: Wind, CEIC, Goldman Sachs Global Investment Research

Exhibit 21: … with its growth impact turning negative since Q2



Source: Goldman Sachs Global Investment Research

Risks to our 2027 growth outlook

Risks to our 2027 growth forecast are tilted slightly to the downside. These include renewed US-China tensions, significant trade barriers against China from other major trading partners (especially Europe), a deeper property contraction, rising financial stress among some local governments and their agents, and weak policy implementation. On the upside, risks include faster export growth, stronger AI capex, and more aggressive policy stimulus than in our baseline. However, any stimulus would probably be preceded by shocks such as a sharp slowdown in export growth, financial contagion from unexpected credit events, or signs of social instability from significant job losses. We outline key macro catalysts through end-2027 that could affect China's growth and markets in Exhibit 22.

Exhibit 22: Upcoming key macro catalysts for China markets

Date	Events
18-19 Nov 2026	APEC 2026 China (in Shenzhen)
Early to mid-Dec 2026	Politburo meeting on economic policies
Mid-Dec 2026	Central Economic Work Conference
14-15 Dec 2026	G20 Summit in Miami
10 Jan 2027	Expiration of extended tariff/rare earth control pause agreed at Trump-Xi meeting in Washington D.C.
Jan-Feb 2027	2027 provincial-level "Two Sessions"
Mid-Jan 2027	Q4 2026 GDP release
4-12 Mar 2027 (likely)	2026 National "Two Sessions" (the National People's Congress to start on 5 Mar 2027)
Mid-Apr 2027	Q1 2027 GDP release
End-Apr 2027	Politburo meeting on economic policies
Mid-Jul 2027	Q2 2027 GDP release
End-Jul 2027	Politburo meeting on economic policies
1 Aug 2027	100th anniversary of the founding of China's People's Liberation Army (PLA)
Autumn 2027	The 21st National Congress of the Chinese Communist Party (CCP) and its 1st Plenary Session of CCP Central Committee
Mid-Oct 2027	Q3 2027 GDP release
Early to mid-Dec 2027	Politburo meeting on economic policies
Mid-Dec 2027	Central Economic Work Conference

Source: Government websites, Data compiled by Goldman Sachs Global Investment Research

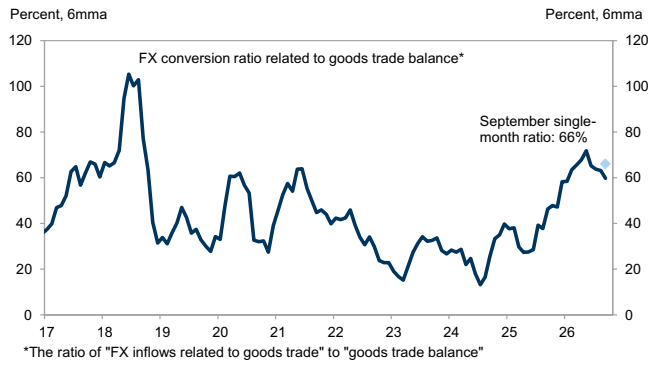
Market implications: Higher equity, lower rates, stronger CNY

Overweight China Equities into 2027: Our equity strategists anticipate that Chinese equities will deliver mid-to-high teen returns in 2027. AI-powered profit growth for Tech Hardware should decelerate, but earnings of the AI Application and Internet cohort could bounce off a low base, driving a potential valuation recovery in the latter. Still-heavy investor positioning in AI Hard Tech equities points to a choppy liquidity and sentiment backdrop in early 2027, so our strategists reiterate their alpha-over-beta investment strategy and diversification bias within the Chinese AI ecosystem.

Long-end yields to trend lower in 2027, supported by subdued demand and lower bond supply: Following the shift in the policy rate anchor from the 7-day to the overnight reverse repo rate—which we view as equivalent to a 5–10bp cut in the front-end interbank rates—we expect one further 10bp policy rate cut in Q4 2027, taking the overnight OMO rate from 1.25% at end-2026 to 1.15% by end-2027. Ample interbank liquidity should keep short-term funding rates anchored near the policy rate. Further out the curve, subdued growth momentum, weak underlying inflation and slowing credit growth should continue to support long-dated China Central Government Bonds (CGBs). Our forecast for modest fiscal tightening and lower CGB issuance in 2027 reinforces this view. Potential changes to bond taxation, including a 25% corporate income tax on interest income from central and local government bonds, may push yields higher upon announcement. However, we see this mainly as a one-off step-up in yield levels rather than a reversal of the structural forces driving them lower.

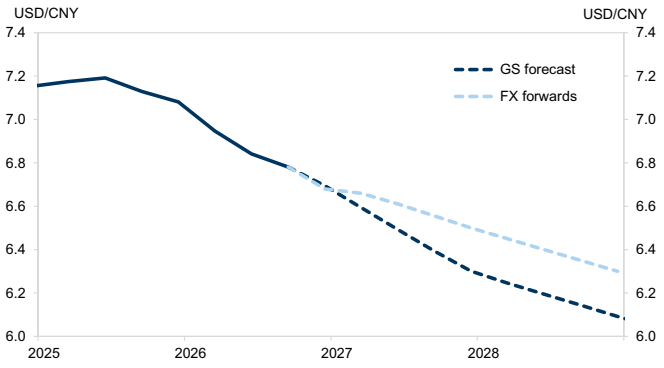
Gradual CNY appreciation supported by a widening trade surplus and strong exporter conversion: We expect USD/CNY to reach 6.60/6.50/6.30 in 3/6/12 months. Despite wider US-China interest rate differentials, we believe a growing goods trade surplus, continued exporter conversion of FX receipts, and policymakers' push for RMB internationalization should keep supporting the CNY (Exhibit 23). We forecast China's goods trade surplus to rise to US$1.3tn in 2026 and US$1.5tn in 2027. However, policymakers are likely to manage the pace of appreciation. The PBOC's recent increase in the reserve requirement ratio on FX deposits from 2% to 4% tightens onshore FX liquidity, signaling a desire to curb rapid appreciation and discourage one-way expectations. This is consistent with our view that Beijing favors gradual CNY appreciation of around 3–5% per year against the USD. Our baseline appreciation path is faster than implied by FX forwards (Exhibit 24).

Exhibit 23: FX conversion ratio for goods trade balance remained high at 66% in September



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 24: Our baseline forecast implies faster CNY appreciation than FX forwards



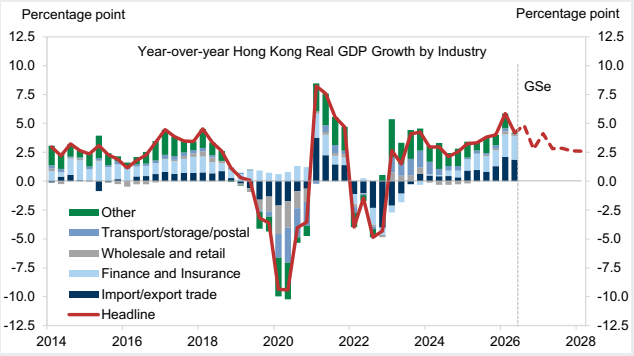
Source: Bloomberg, Goldman Sachs Global Investment Research

Hong Kong: Cyclical tailwinds set to fade in 2027

Hong Kong's economy expanded strongly in 2026, supported by the global AI investment cycle, buoyant financial market activity and a recovery in residential property. Real GDP growth accelerated to 5.2% yoy in Q3 from 4.2% in Q2, bringing year-to-date growth to 5.1% yoy, the strongest comparable performance in five years.

Financial services and trade have led the expansion. Financial activities grew 7.6% yoy in H1, contributing around 2pp to real GDP growth (Exhibit 25). IPO fundraising reached HK$388bn in the first nine months, more than double the year-earlier level, supported by mainland Chinese company listings and investor demand for technology exposure. Meanwhile, the global AI investment boom has boosted demand for electronics, with technology-related products accounting for more than two-thirds of Hong Kong's goods exports year-to-date. As re-exports dominate Hong Kong's merchandise trade, the domestic benefits accrue mainly through trade intermediation, transportation and logistics services.

Exhibit 25: Financial services and trade-related sectors have supported Hong Kong's economy in 2026

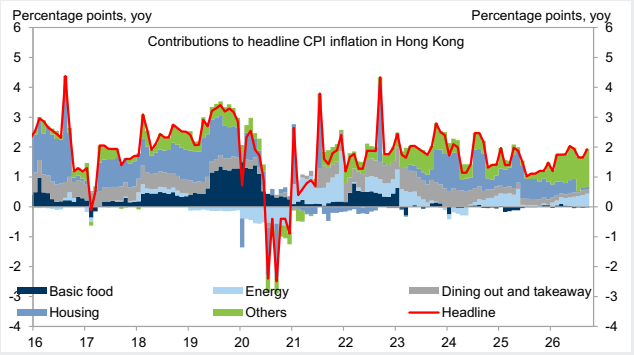


Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research

The domestic recovery has been less broad-based. Rising residential property prices and improving tourism have supported household confidence and consumer-facing sectors, but private consumption has recovered only gradually. The labor market has softened at the margin, with the unemployment rate rising to 4.1% in Q3 from 3.7% in Q2.

Inflation has remained contained despite higher energy prices, with headline CPI rising 1.9% yoy in September (Exhibit 26). Subdued food and core inflation point to limited passthrough to broader prices, consistent with the Hong Kong economy's relatively low energy intensity. With oil prices expected to decline in 2027, we forecast headline inflation to remain modest at 1.7% in 2027 (vs. 1.8% in 2026).

Exhibit 26: Headline CPI inflation remained subdued despite higher energy prices



Source: Haver Analytics, Goldman Sachs Global Investment Research

We forecast Hong Kong's real GDP growth to slow to 3.1% yoy in 2027 from 5.0% in 2026, as the exceptional momentum in trade and financial services eases. While global AI capex may rise further from $1.1tn in 2026 to $1.8tn in 2027, providing continued support for trade and logistics sectors, the growth impulse should moderate over time. Our equity strategists also expect IPO fundraising to moderate in 2027, while further Fed rate hikes and renewed US-China technology tensions pose downside risks to capital market activity. In addition, our equity analysts expect residential property price growth to slow from 15% in 2026 to 7% in 2027, suggesting a smaller boost to consumption from household wealth gains. Alongside a still-soft labor market, this is likely to keep the recovery in household consumption gradual.

Hong Kong's first Five-Year Plan (2026-30) could strengthen medium-term growth through Northern Metropolis infrastructure investment, deeper offshore RMB markets and diversification into technology sectors. Its near-term contribution, however, depends on effective implementation, particularly the ability to attract private investment, raise productivity, and expand the skilled workforce.

Disclosure Appendix

Reg AC

We, Hui Shan, Lisheng Wang, Yuting Yang, Chelsea Song and Andrew Tilton, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

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