

China’s Macroeconomic and Financial Landscape: A Review and Monetary Policy Outlook for the 15th Five-Year Plan

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This article examines China’s macroeconomic landscape, financial environment, and the trajectory of its monetary policy as the 14th Five-Year Plan concludes and the nation prepares to enter the 15th Five-Year Plan period. China’s economy is navigating a critical transition, shifting from a growth model fueled by real estate and infrastructure toward one focused on “high-quality development.” Simultaneously, however, it grapples with multiple structural challenges, including sluggish domestic demand, a protracted downturn in the property sector, mounting local government debt risks, and weakened private-sector confidence stemming from institutional factors.

On the macroeconomic front, although China met its official full-year GDP growth target in 2025, growth momentum decelerated quarter by quarter. Consumer spending remained notably weak, underscoring subdued household sentiment. In terms of prices, the economy continues to face entrenched deflationary pressures. The full-year Consumer Price Index (CPI) flatlined at zero growth, while the Producer Price Index (PPI) dropped by 2.6%, marking its 41st consecutive month of contraction. This sustained decline highlights persistent manufacturing overcapacity and increasingly squeezed corporate profit margins.

Regarding monetary policy, the People’s Bank of China (PBOC) deployed a “moderately accommodative” stance in 2025. It sought to sustain market liquidity through measures such as cutting the reserve requirement ratio (RRR), lowering benchmark interest rates, and reducing the loan prime rate (LPR). Yet, despite an expansion in the broader money supply, actual credit demand remained anemic. This disconnect exposes the financial system to the risk of a liquidity trap, as injected capital has failed to effectively translate into real economic demand.

A closer analysis of the prevailing structural headwinds reveals four primary issues:

First is the imbalance between domestic and external demand. With the trade surplus hitting another record high in 2025, net exports contributed nearly one-third of overall economic growth. This underscores an economy still highly dependent on



external demand. However, household income and spending power have not risen in tandem, cementing a paradigm of “strong external, weak domestic” performance.

Second is the balance-sheet recession triggered by the property crisis. The real estate market has been trapped in a protracted correction since the introduction of the “Three Red Lines” policy. Falling home prices have induced a negative wealth effect, further stifling consumption. Concurrently, a plunge in land sale revenues has placed immense strain on local government finances.

Third is the risks associated with local government debt and the broader financial system. The hidden debt accumulated by local government financing vehicles (LGFVs) poses a critical systemic risk. Although authorities have rolled out massive debt resolution programs, these are essentially rollover measures that fail to address the underlying sources of debt repayment. Furthermore, the debt resolution process squeezes commercial banks’ profit margins, compounding systemic financial stress.

Fourth is an institutional dilemma. Chinese policymaking has long favored the supply side, deploying relatively insufficient demand-side measures to improve income distribution and social welfare. Meanwhile, an operating environment heavily focused on national security and stringent regulatory oversight has prompted private enterprises to adopt defensive strategies. As a result, private fixed-asset investment has continued to contract, sapping economic vitality.

Looking ahead to the monetary policy trajectory during the 15th Five-Year Plan period, four major shifts are anticipated. First, intermediate targets will gradually pivot from predominantly quantitative indicators to a price-based regulatory framework. Second, monetary policy tools will transition from traditional volume controls to price controls, elevating the strategic importance of secondary-market treasury bond trading. Third, structural monetary policy tools will take center stage, channeling targeted resources into sectors such as technology, green initiatives, inclusive finance, elderly care, and digital finance. Fourth, Beijing will press ahead with the internationalization of the renminbi and market-oriented exchange rate reforms. By bolstering global demand for the currency and expanding exchange-rate flexibility, China aims to enhance the financial system’s resilience against external shocks.

The Chinese economy is currently navigating a transitional phase where old growth engines are sputtering while new ones have yet to fully materialize. Although monetary policy is advancing toward market-oriented and structural reforms, relying solely on innovative policy tools will be insufficient to thoroughly resolve China’s deep-seated structural issues. Such measures must be accompanied by concurrent

efforts to improve income distribution, stimulate domestic demand, and rebuild private-sector confidence.