

China Watch

March China macro tour takeaways: Bracing for higher tariffs

We hosted our China macro tour during March 25-26 in Beijing. With investors from within China and outside, we had 11 meetings with academics, policy advisors and industry experts. Below is a summary of our key takeaways from the tour.

Trade: consensus expects a bumpy road ahead

Both Chinese and US experts largely agreed that additional US tariff hikes on Chinese products are likely and that China stands ready to react with counter measures, despite higher tariff threats ahead. That said, experts noted that China remains open for bilateral dialogue, but would look for mutual willingness to cooperate. Under the positive scenario of effective negotiation, China could potentially offer more open market access to American firms, higher investments in the US, and bigger purchases of US goods, according to our experts.

Fiscal policy: more proactive, but challenges remain

Experts all welcomed the expansion in fiscal budget deficit as well as a larger fiscal package, and expect improvement in fiscal expenditure growth in 2025. However, some are still concerned about weak corporate earnings and household income. They have expressed concern over tax revenue and land sales receipts this year, and recognized the fiscal shortfall at the local level despite the progress made via refinancing bond issuance. After all, experts in general agree that further fiscal policy step-up is likely if external conditions deteriorated, given the current package was formulated before the escalation of tariff threats (during the CEWC last Dec). The implementation of new-born subsidy is also likely to roll out later this year with support from both central and local government.

Monetary policy: constraints on near-term easing

Most experts analyzing monetary policy concur that the PBoC faces mounting pressure to reduce effective interest rates. However, they emphasize that monetary policy alone cannot single-handedly stimulate credit demand. Analysts widely acknowledge that near-term rate cuts are constrained by the need to preserve exchange rate stability. One expert additionally highlighted the PBoC's prioritization of safeguarding banks' NIM. While further cuts to the RRR are anticipated in Q2 2025 to bolster liquidity, skepticism persists on their efficacy due to weak business confidence.

Consumption: stabilized, but more effort needed

Experts in general recognized the improvement in retail sales growth lately, and expect a more stabilized consumption outlook in coming months. That said, they also agreed that the property market and income expectation may still weigh on households. Some experts also noted the fading effectiveness of the previously announced consumer goods trade-in policies, including auto sales as well as home appliances sales in some categories. They expect further step-up in fiscal support if retail sales growth continues to ease later this year.

(more on page 2)

27 March 2025

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Abbreviations:

CEWC: China Economic Work Conference

PBoC: People's Bank of China

RRR: Reserve rate ratio

NIM: net interest margin

YTD: year-to-date

LGSB: local government special purposed bonds

AI: Artificial Intelligence

Property market: remains on uncertain ground

Flickers of recovery emerged in China's property sector YTD, particularly in land transactions, but experts caution against interpreting this as a rebound. Price declines have narrowed marginally nationwide, though stabilization remains elusive. Meanwhile, Chengdu (regional migration) and Hangzhou (AI-sector optimism) stand out with strong price and sales volume as notable exceptions. Sales trends are fragmented: Guangzhou and Shenzhen registered stronger demand following relaxed home-purchase restrictions, while Beijing and Shanghai maintained tighter controls.

Beyond tier-1 cities, tier-2 and tier-3 markets saw stagnant or declining new home sales, highlighting persistent challenges in achieving broad market stabilization. To attract buyers, developers are increasingly offering concessions such as relaxed floor-area ratios and design modifications to enhance affordability (e.g., promoting 100%+ usable space), experts mentioned. Meanwhile, the land market's apparent recovery masks deepening polarization, as developers favor low-margin projects in core cities over riskier ventures in lower-tier markets. Local governments are repurchasing stalled projects using LGSB, often at 80-90% of original land price.



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