# China: US tariffs on China jump to 125%; Lowering real GDP growth forecasts

Andrew Tilton
+852-2978-1802 | andrew.tilton@gs.com
Goldman Sachs (Asia) L.L.C.

Hui Shan
+852-2978-6634 | hui.shan@gs.com
Goldman Sachs (Asia) L.L.C.

Lisheng Wang
+852-3966-4004 |
lisheng.wang@gs.com
Goldman Sachs (Asia) L.L.C.

Xinquan Chen
+852-2978-2418 |
xinquan.chen@gs.com
Goldman Sachs (Asia) L.L.C.

Yuting Yang
+852-2978-7283 |
yuting.y.yang@gs.com
Goldman Sachs (Asia) L.L.C.

Chelsea Song
+852-2978-0106 | chelsea.song@gs.com
Goldman Sachs (Asia) L.L.C.

**Bottom line:**

On April 9th, President Trump announced a further increase in the tariff rate on imports from China to 125%, following the Chinese government's increase of tariffs on US goods to 84%. Although additional tariff increases are likely to have a diminishing marginal impact, the substantial rise in US tariffs on China is expected to significantly weigh on the Chinese economy and labor market. We anticipate the Chinese government will further intensify policy easing, projecting 60bp of policy rate cuts (vs. 40bp previously) and a 4.1pp expansion in our estimate of the "augmented fiscal deficit" this year (14.5% of GDP, up from 10.4% in 2024). However, even these significant easing measures are unlikely to fully offset the negative effects of the tariffs. We are revising our real GDP growth forecasts for 2025 and 2026 downward to 4.0% and 3.5%, respectively, from our previous projections of 4.5% and 4.0%.

**Main points:**

1. On April 9th, President Trump announced a 90-day pause on the additional country-specific portion of the "reciprocal" tariff. Simultaneously, he announced a further increase in the tariff rate on imports from China to 125%. This announcement followed the Chinese government's matching of President Trump's additional 50% tariff overnight, which increased China's retaliatory tariffs on the US "reciprocal" tariff by 84% (Exhibit 1).

2. We previously highlighted downside risks to our forecasts before the recent rapid escalation of US-China tariffs. Subsequent to the initial 34% US "reciprocal" tariff on China, we significantly increased our policy easing assumptions. For example, we previously increased our estimate of the augmented fiscal deficit (AFD) from 12.6% of GDP to 13.8% and projected an increase in total social financing (TSF) stock growth from 8.0% to 9.5% for the year. At that time, we maintained our 2025 full-year real GDP growth forecast at 4.5%, noting that further tariff escalation and a global growth slowdown represented key downside risks to our projections. Given the US tariffs on Chinese products now reaching 125% and downward revisions to growth forecasts ex-China by our economists, we believe that achieving 4.5% GDP growth this year would be very challenging.

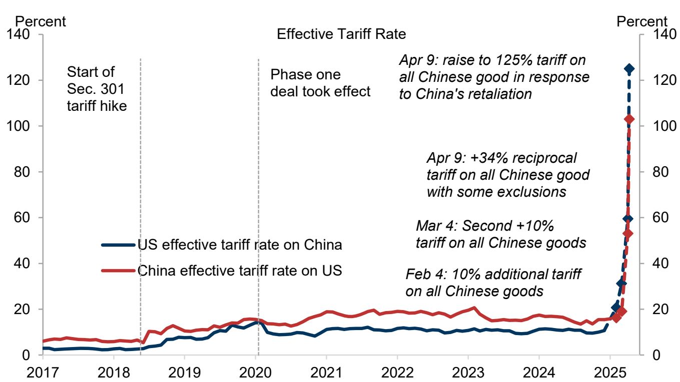
3. Our estimates indicate that the increase in the US effective tariff rate from 11% to 125% since Trump's inauguration is expected to reduce the level of Chinese real GDP by 2.6pp, with an estimated 2.2pp impact in 2025. Given that our previous

forecast already incorporated a 0.7pp tariff drag for this year, this implies an additional reduction of 1.5pp (Exhibit 2). We also project that slower growth ex-China could further weigh on the Chinese economy by an additional 0.2pp this year. However, recent communications from Chinese policymakers suggest the government intends to implement expanded monetary, fiscal, and other policy easing measures to mitigate the tariff impact.

4. We make two sets of forecast revisions. First, we are further increasing our policy easing assumptions. This includes an additional 20bp policy rate cut (for a total of 60bp this year, compared to the previous 40bp) and raising our AFD estimate to 14.5% of GDP (from 13.8% previously), alongside expectations of faster credit growth and relaxed property policies (Exhibit 3). Second, we are significantly reducing sequential growth rates in 2025, resulting in a 1pp reduction on a Q4/Q4 basis and a 0.5pp reduction for both the 2025 and 2026 full-year real GDP growth forecasts (to 4.0% and 3.5%, respectively; Exhibit 4).

5. Recent events have underscored the speed with which President Trump can alter tariff rates, while also highlighting the likelihood that high tariffs on Chinese goods will persist. We estimate that 10-20 million workers in China may be exposed to US-bound exports. The combination of extremely high US tariffs, sharply declining exports to the US, and a slowing global economy is expected to generate substantial pressures on the Chinese economy and labor market. While we anticipate that policymakers achieve 4% real GDP growth, given this year's official target of "around 5%", we think our alternative measures of growth could fall below this level.

**Exhibit 1: President Trump has increased the US effective tariff rate on Chinese goods to 125%**



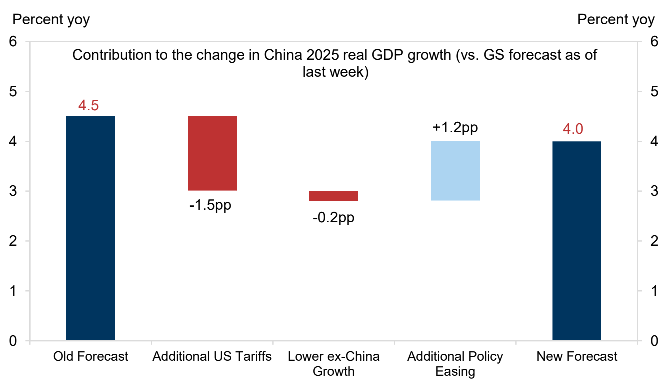

Source: USTR, USITC, Goldman Sachs Global Investment Research

**Exhibit 2: We expect the Chinese government to step up easing measures further to partially offset the tariff effect**

| Type | Instrument | 2024 | 2025F |
|---|---|---|---|
| **Monetary (eop)** | RRR | Large banks: 8.0%<br>Medium-sized banks: 6.0%<br>Small banks: 5.0% | Large banks: 7.0%<br>Medium-sized banks: 5.0%<br>Small banks: 5.0% |
| | 7-Day OMO | 1.50% | 0.90% |
| **Fiscal (full year)** | Effective on-budget deficit (% of GDP) | 4.8% | 6.3% |
| | Augmented fiscal deficit (% of GDP) | 10.4% | 14.5% |
| **Credit (eop yoy)** | TSF stock | 8.0% | 9.5% |
| **Housing** | Housing policy | Further demand easing in tier-1/2 cities; increased liquidity for project completion; government programs to help destock existing inventories | Further reductions to mortgage rates; more bank lending for "whitelist" projects; cash-backed settlement of urban village renovation; continued policy support to destock existing housing inventories |
| **FX (eop)** | USDCNY | 7.30 | 7.35 |

Source: Goldman Sachs Global Investment Research

**Exhibit 3: Higher US tariffs, slower global growth, and more policy easing in China lead us to cut 2025 full-year GDP to 4.0%**




Source: Goldman Sachs Global Investment Research

**Exhibit 4: Significantly slower sequential growth in our new forecast results in a 1pp cut on a Q4/Q4 basis**

| China real GDP growth forecast | | | | | |
|---|---|---|---|---|---|
| | | **New YoY%** | Previous YoY% | **New QoQ%, SAAR** | Previous QoQ%, SAAR |
| 2023 | | **5.4** | 5.4 | | |
| 2024 | | **5.0** | 5.0 | | |
| 2025 | | **4.0** | 4.5 | | |
| 2026 | | **3.5** | 4.0 | | |
| 2024 | Q1 | **5.3** | 5.3 | **6.1** | 6.1 |
| | Q2 | **4.7** | 4.7 | **3.6** | 3.6 |
| | Q3 | **4.6** | 4.6 | **5.3** | 5.3 |
| | Q4 | **5.4** | 5.4 | **6.6** | 6.6 |
| 2025 | Q1 | **5.2** | 4.9 | **5.5** | 4.0 |
| | Q2 | **4.4** | 4.9 | **0.5** | 3.7 |
| | Q3 | **3.6** | 4.5 | **2.0** | 3.9 |
| | Q4 | **2.9** | 3.9 | **3.5** | 4.0 |
| 2026 | Q1 | **2.5** | 3.9 | **4.0** | 4.0 |
| | Q2 | **3.4** | 4.0 | **4.0** | 4.0 |
| | Q3 | **3.9** | 4.0 | **4.0** | 4.0 |
| | Q4 | **4.0** | 4.0 | **4.0** | 3.9 |

Source: Goldman Sachs Global Investment Research

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