QNB Economics
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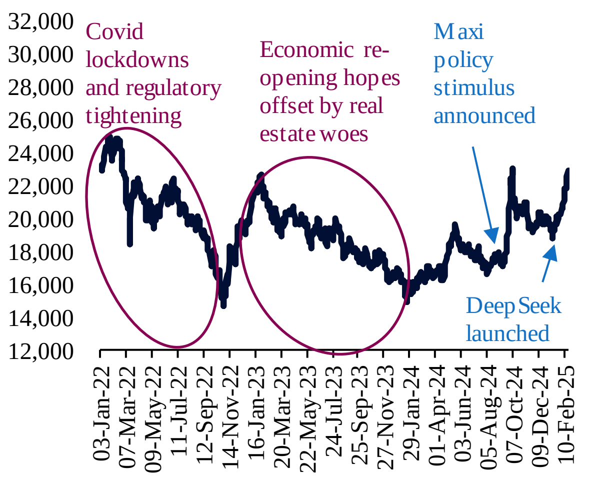
China's investor momentum has further room to run

Less than six months ago, few analysts would have expected China to be one of the major drivers of the global economic agenda in 2025. In fact, after years of volatile growth and subdued private sector sentiment, the "secular or long-term economic slowdown story" for China dominated the market narrative. This negative backdrop was fulled by a trauma from hard pandemic lockdowns in parts of the country in 2022, real estate wounds, strict regulatory tightenings in dynamic sectors, and the reluctance from economic authorities to step up policy stimulus.

However, since Q3 last year, a more sustainable turnaround in private sector sentiment seemed to have begun. This can be observed by the behaviour of the Hang Seng Index (HIS), the benchmark stock market index that tracks the performance of the largest and most liquid companies listed on the Hong Kong Stock Exchange, including some of the largest and most important Chinese multinational firms.

Hang Seng equity index
(index points, 2022-2025)



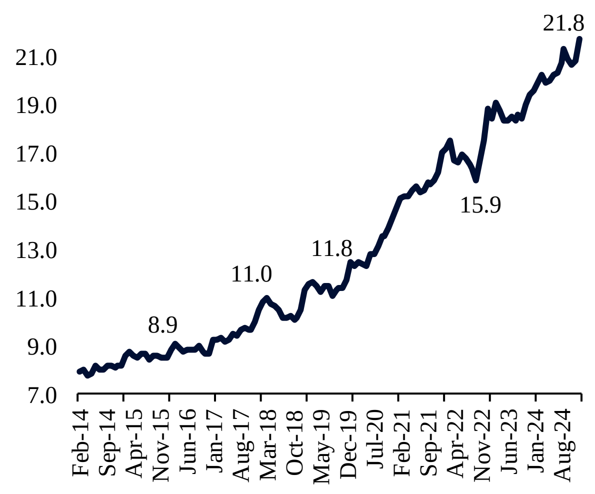
Sources: Haver, Hang Seng, QNB analysis

After a long period characterized by strong selling pressure and headwinds, equity investors seem to be finally getting more optimistic about the prospects for China. The HIS is up around 38% since September 2024.

In our view, three main factors sustain the more optimistic view that has been forming around China in recent months.

First, the round of stimulus first launched by Chinese authorities in September 2024 suggests that policymakers are well aware of the risks associated with a protracted period of slower growth. Hence, activity expansion was re-prioritized, with the GDP growth target becoming a core KPI for government officials. In order to achieve this, new policy measures included the re-capitalization of state banks, cuts in interest rates and reserve requirement ratios, more fiscal spending, and support for both real estate and capital markets. More recently, earlier this month, additional fiscal support was announced at the National People's Congress, when a new GDP target of "around 5%" was confirmed.

Personal deposits in Chinese banks
(USD trillion, 2014-2025)



Sources: Haver, PBoC, QNB analysis

Second, Chinese households have been conservative with their finances over the last few years, fearing for their future on the back of the pandemic, the real estate crisis, uncertainty about government priorities, and the lack of a more robust social security system. According to the People's Bank of China (PBoC), the local central bank, personal deposits in the Chinese banking system increased from USD 11.8 trillion pre-pandemic to USD 21.8 trillion in January 2025. This impressive build-up of private savings can be quickly mobilized for more consumption or investments over the medium-term, if confidence in the future is further restaured. This would contribute for a significant acceleration of growth. However, it must be noted that the bar is high for a significant increase of consumer spending in China, given the cultural predilection for savings and the fact that the social security systems in China are still being developed, requiring higher levels of private savings to buffer economic shocks or funding retirement. Despite this, only a small change in the savings rate would be enough to create a significant impact on consumption and investment.

Third, the recent release of DeepSeek, a Chinese cutting-edge general-purpose AI model, underscored the country's rapid advancements in frontier technology. Importantly, this has not only stated China's competitiveness in AI, but also highlighted the success of the country in advancing on its technological roadmap, i.e., moving up the value chain of strategic sectors like space, transportation, quantum communications and computing. The renewed exposure and promotion of Chinese tech also served as a catalyst for further cooperation between the government and major local tech companies. This led to a big symposium last month where Xi Jinping met with tech entrepreneurs, effectively signalling the end of the regulatory crackdown that has been looming over Chinese tech companies since 2022. As a result, sentiment has improved and this should spur more investments over the coming years, driving further growth.

All in all, several tailwinds are favouring a constructive environment for growth in China in 2025 and beyond. The willingness of economic authorities to provide more stimulus and effectively create a "high floor" for growth, alongside further uplift of consumption and investmnent through the private sector as well as more investments in dynamic tech sectors, all point to a "return of mighty China" to the economic agenda.

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