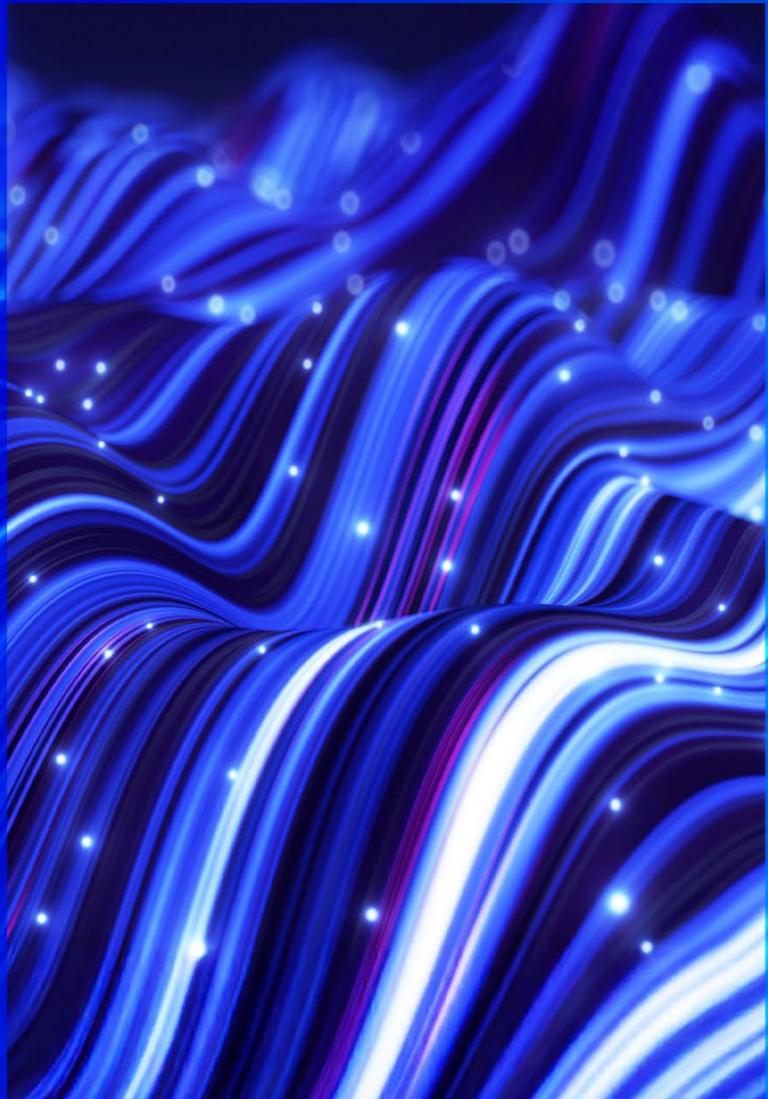




Ten Macroeconomic Trends in 2026



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Abstract

Looking back on 2025, China's economic landscape was characterised by steady progress with two notable highlights standing out. Firstly, external demand remained resilient despite headwinds from US tariffs. This resilience was supported by China's increasingly diversified trading partnerships, the growing international competitiveness of Chinese exports, and strong global demand for AI-related products. Secondly, the pace of domestic industrial transformation picked up. Early breakthroughs in homegrown AI technology, together with increased government emphasis on the private sector and scientific innovation, drove sustained investment in high-tech industries throughout the year – laying a foundation for new economic drivers.

However, insufficient domestic demand remains a persistent challenge for China's economy, both now and in the years ahead. The real estate market remains under pressure, leading to a sustained contraction in household wealth. At the same time, high debt levels among enterprises and local governments have dampening the appetite for balance sheet expansion across Chinese society. While domestic consumption and investment saw a brief recovery in the first half of 2025—underpinned by the "Two New" (equipment upgrades and consumer goods trade-ins) and "Two Major" (major national strategies and security capacity in key areas) policy initiatives – momentum faded in the second half of the year as policy support waned. The resulting imbalance between supply and demand has prolonged deflationary pressures, creating another hurdle for the recovery of domestic demand.

In this context, the Central Economic Work Conference (CEWC) held in December 2025 outlined the economic agenda for 2026. The conference emphasised the need to make full use of both existing and new policy tools, counter-cyclical and cross-cyclical adjustments, and improve the effectiveness of macroeconomic governance. In line with the 2025 policy framework, Recommendations for the 15th Five-Year Plan, and the spirit of the CEWC, China's macroeconomic policy will continue to focus on achieving a better balance between supply and demand. On the demand side, the focus will be on increasing household consumption – through increased fiscal spending to unlock short-term consumer demand while expanding investment in public welfare to enhance long-term purchasing power. On the supply side, policy will continue to champion scientific innovation, the development of emerging and future industries, and the cultivation of new growth drivers.

Abstract

As 2026 marks the first year of the 15th Five-Year Plan, we believe that a strong start is both strategically important and achievable. With the easing of China-US trade tensions, exports are expected to remain resilient. Domestically, we anticipate continued proactive macro policies, with a greater emphasis on technological innovation, advanced manufacturing, new infrastructure, social welfare, and the supply of high-quality consumer goods and services to support balanced growth. On this basis, we project full-year GDP growth to reach approximately 4.8%.

Specifically, the following ten macro trends are worth watching in 2026:

01 China's economic rebalancing will gather pace as supply – demand gap narrows

06 New infrastructure buildout will gain pace, with private capital playing a larger role

02 Macro policy is expected to stay proactive, with domestic demand and innovation as twin priorities

07 Real estate sector to stabilise with support from government purchases

03 Consumption will shift further toward services-led spending

08 Trade resilience will continue as two-way cross-border investment evolves

04 Manufacturing investment will rebound as industrial upgrading accelerates.

09 Hong Kong SAR will strengthen its role as a regional connector and capital hub

05 The scale of Agentic and Physical AI deployment will increase

10 RMB-denominated assets to gain greater weight in global asset allocation

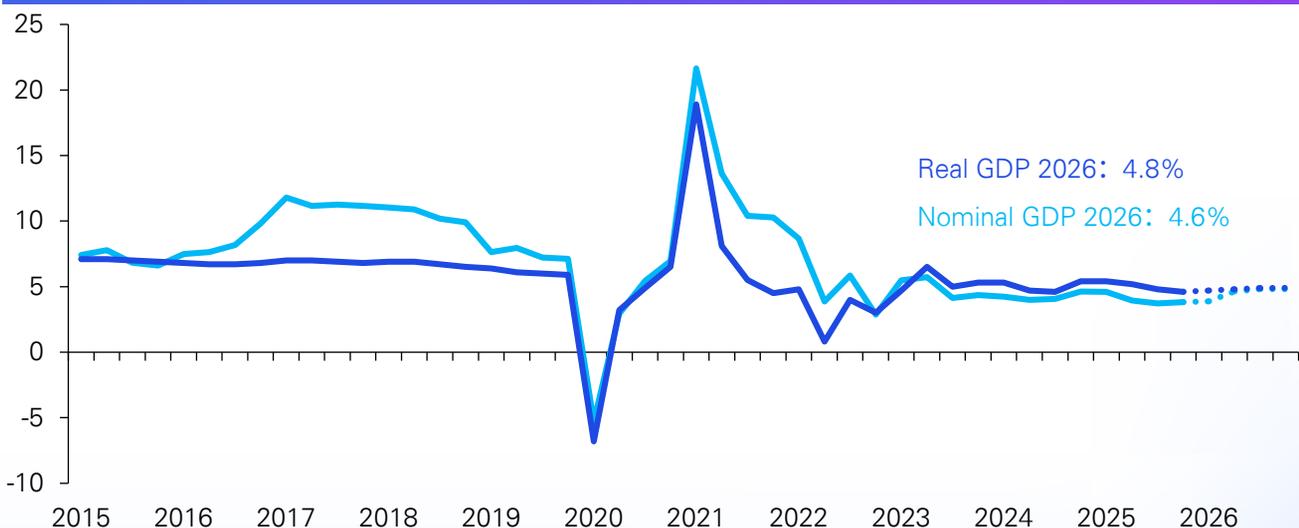
01 China's economic rebalancing will gather pace as supply-demand gap narrows

Economic performance in 2026 is expected to remain stable overall as China's 15th Five-Year Plan commences. Externally, an accommodative global fiscal and monetary environment, the dissipation of uncertainty in U.S. trade policy, and robust demand for AI-related commodities are expected to provide favourable tailwinds for China's exports. Internally, household consumption is likely to remain steady, supported by the continuation of trade-in policies, the upgrading of consumer goods supply, and improvements in social welfare. Meanwhile, fixed-asset investment (FAI) is poised for a bottom-out recovery, driven by the launch of major 15th Five-Year Plan projects, the expansion of high-tech industries, and the accelerated digitalisation of traditional sectors.

Alongside the demand recovery, "anti-involution" policies are expected to be rolled out prudently throughout 2026. The CEWC emphasised the importance of building a unified national market and intensifying the crackdown on involutionary competition. This is expected to facilitate the steady exit of inefficient capacity within a fairer competitive environment. Between September and October 2025, the Ministry of Industry and Information Technology (MIIT) released a new round of growth initiatives for ten key industries, focusing on eliminating irrational competitive behaviour and enhancing high-end supply capabilities. Furthermore, the revised *Anti-Unfair Competition Law and Price Law* are expected to provide the necessary legal safeguards for market order.

As growth-stabilising and demand-expanding initiatives synergise with "anti-involution policies", we anticipate China's real GDP growth to reach around 4.8% in 2026. Concurrently, price levels are expected to exhibit a modest recovery, pushing nominal GDP growth up to approximately 4.6%. This shift suggests that the "temperature gap" between economic supply and demand could narrow more rapidly (Figure 1).

Figure 1 China GDP growth, quarterly YoY, %



Source: Wind, KPMG analysis

Note: The dashed lines represent KPMG's projected quarterly growth.

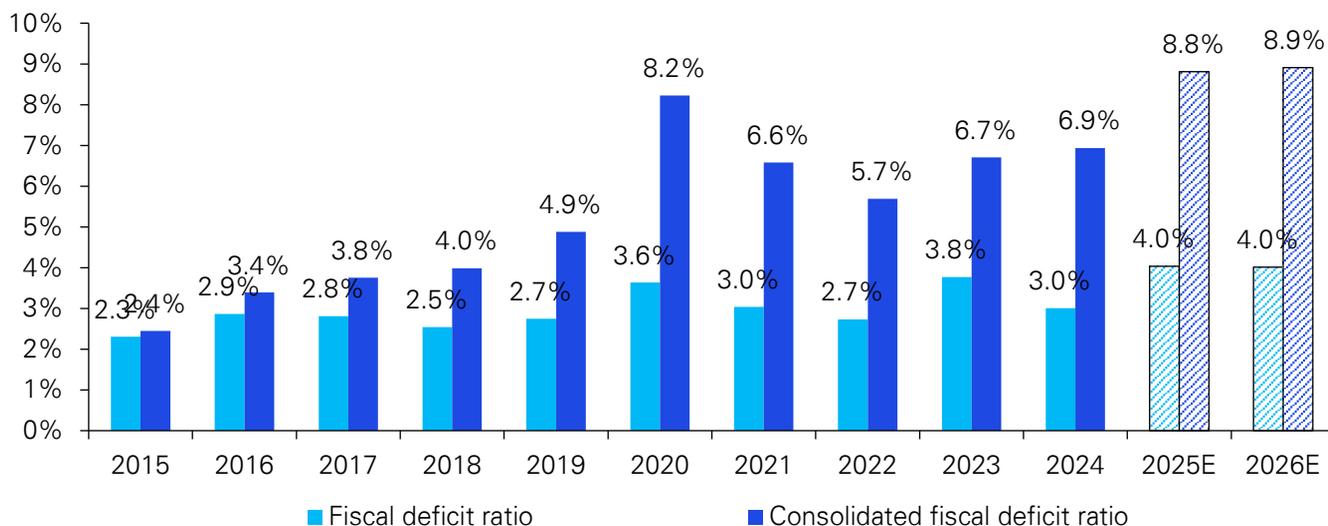
02

Macro policy is expected to stay proactive, with domestic demand and innovation as twin priorities

China's macroeconomic policy stance for 2026 is expected to remain proactive, with the CEWC emphasising the implementation of more "active and promising" macro policies. Given that expectations among households, enterprises, and local governments financing capacities remain constrained, the central government will continue to lead balance sheet expansion in 2026. This entails maintaining necessary levels of fiscal deficit, total debt, and overall spending to foster an accommodative fiscal environment. We project the fiscal deficit ratio to hold at approximately 4.0%, while the consolidated fiscal deficit ratio—which includes local government special bonds and ultra-long-term special national bonds—is expected to edge up to 8.9% (Figure 2). Stable government financing is expected to support broad fiscal expenditure growth by 5.4%, consistent with 2025 levels. To accelerate the translation of investment commitments into tangible project progress and ensure the achievement of annual growth targets, the deployment of fiscal resources will remain front-loaded.

China's monetary policy is expected to continue to be moderately accommodative, with the CEWC noting that promoting stable economic growth and a reasonable rebound in price levels are key considerations. By utilising a flexible and efficient mix of tools, including cuts to the Reserve Requirement Ratio (RRR) and interest rates, the People's Bank of China (PBOC) is expected to maintain an easing stance consistent with the previous year, with projected rate cuts of 10–20 basis points and RRR cuts of 50 basis points over 2026. To complement the front-loaded fiscal efforts, RRR cuts are also likely to be implemented early in the year. Furthermore, the PBOC will employ a combination of quantitative tools—such as treasury bond trading, outright reverse repos, and expanded Medium-term Lending Facility (MLF) operations—to ensure precise liquidity injection across short, medium, and long terms, supporting government bond issuance and enhancing bank lending capacity.

Figure 2 Historical fiscal deficit ratio (excluding transferred funds and balances), %



Source: Wind, KPMG analysis

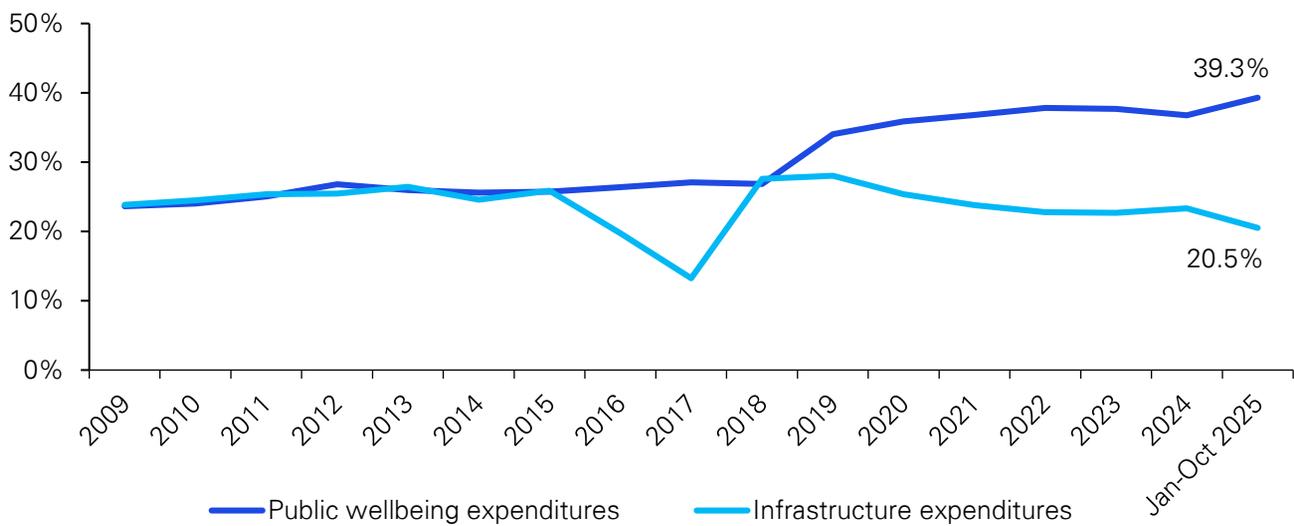
Note: Fiscal deficit ratio = (central government general bonds + local government general bonds) / nominal GDP. Consolidated fiscal deficit ratio = (central government general bonds + central super-long-term special bonds + local government general bonds + local government special bonds + mid-year debt quota used) / nominal GDP. 2025-26 are estimates.

Policies in 2026 are expected to focus on expanding domestic demand and catalysing innovation. Regarding demand expansion, there will be a strategic emphasis on integrating investment in physical assets with investment in human capital, with ultra-long-term special national bonds maintaining strong support for the "Two Major" and "Two New" projects. Concurrently, the public fiscal budget will likely increase spending on social welfare to bolster consumer sentiment. Expenditures on education, social security and employment, and healthcare are collectively expected to exceed 40% of the budget (Figure 3). In terms of innovation, local governments will leverage policy-based financial instruments and special bond funds to ramp up support for emerging industries and industries of the future. Meanwhile, the central government will increase public funding for basic research to facilitate the efficient commercialisation of major scientific breakthroughs.

As the current downturn in the real estate sector has yet to run its course, efforts to prevent and mitigate risks in key areas are expected to continue. Local governments will likely leverage the "4+6+2" debt resolution framework to step up the disposal of existing off-balance-sheet liabilities, strengthen project quality assessments to prevent the accumulation of new hidden liabilities, and accelerate the clearance of overdue payments to enterprises. Meanwhile, to contain financial risks in the property sector and ease debt repayment pressures on real estate developers, the government may in 2026 increase funding support for the acquisition of idle land and existing housing inventory, utilising a portion of ultra-long-term special treasury bonds and local government special bonds.

Overall, China's fiscal policy in 2026 is expected to remain broadly consistent with that of 2025, while the division of responsibilities between the central and local governments may become more clearly defined. The central government is likely to assume a greater role in funding initiatives with strong public-interest attributes and relatively low short-term returns, such as the "Two New" and "Two Major" projects. Local governments, by contrast, are expected to focus more on investments with clearer return prospects, including stepping up support for the development of emerging industries, and to improve people's livelihoods in an effort to boost consumption. As expenditure responsibilities are clarified and refined, a policy configuration is expected to take shape in which the central government stabilises short-term domestic demand, while local governments play a greater role in advancing economic transformation. Against this backdrop, the overall effectiveness of macroeconomic policies in 2026 is expected to improve further compared with 2025.

Figure 3 Share of public fiscal spending on livelihood and infrastructure, %

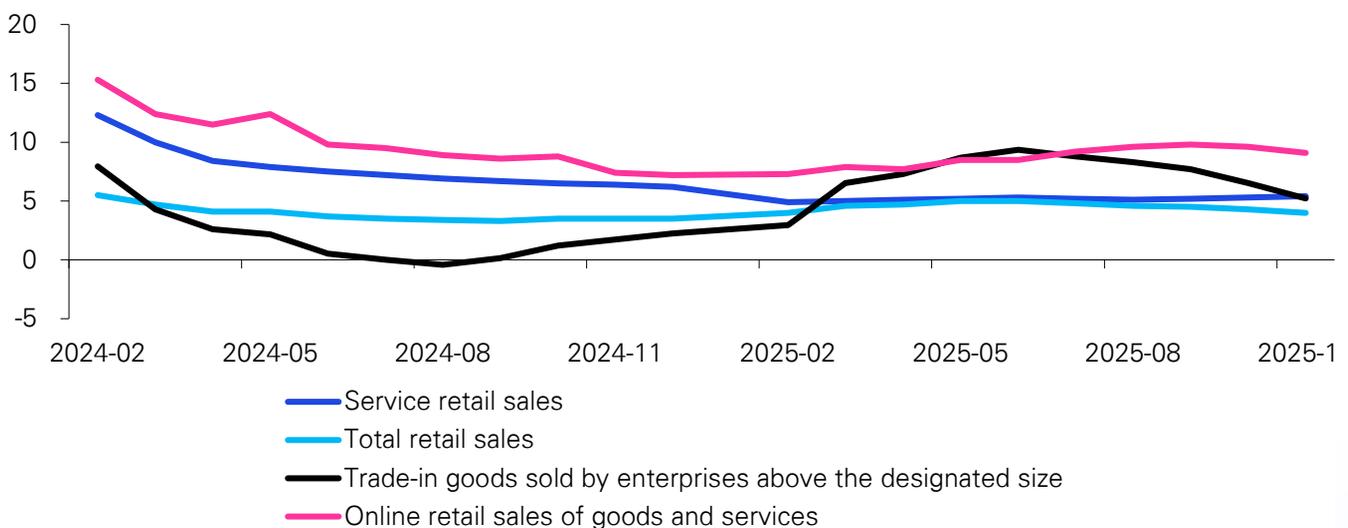


Source: Wind, KPMG analysis

03 Consumption will shift further towards services-led spending

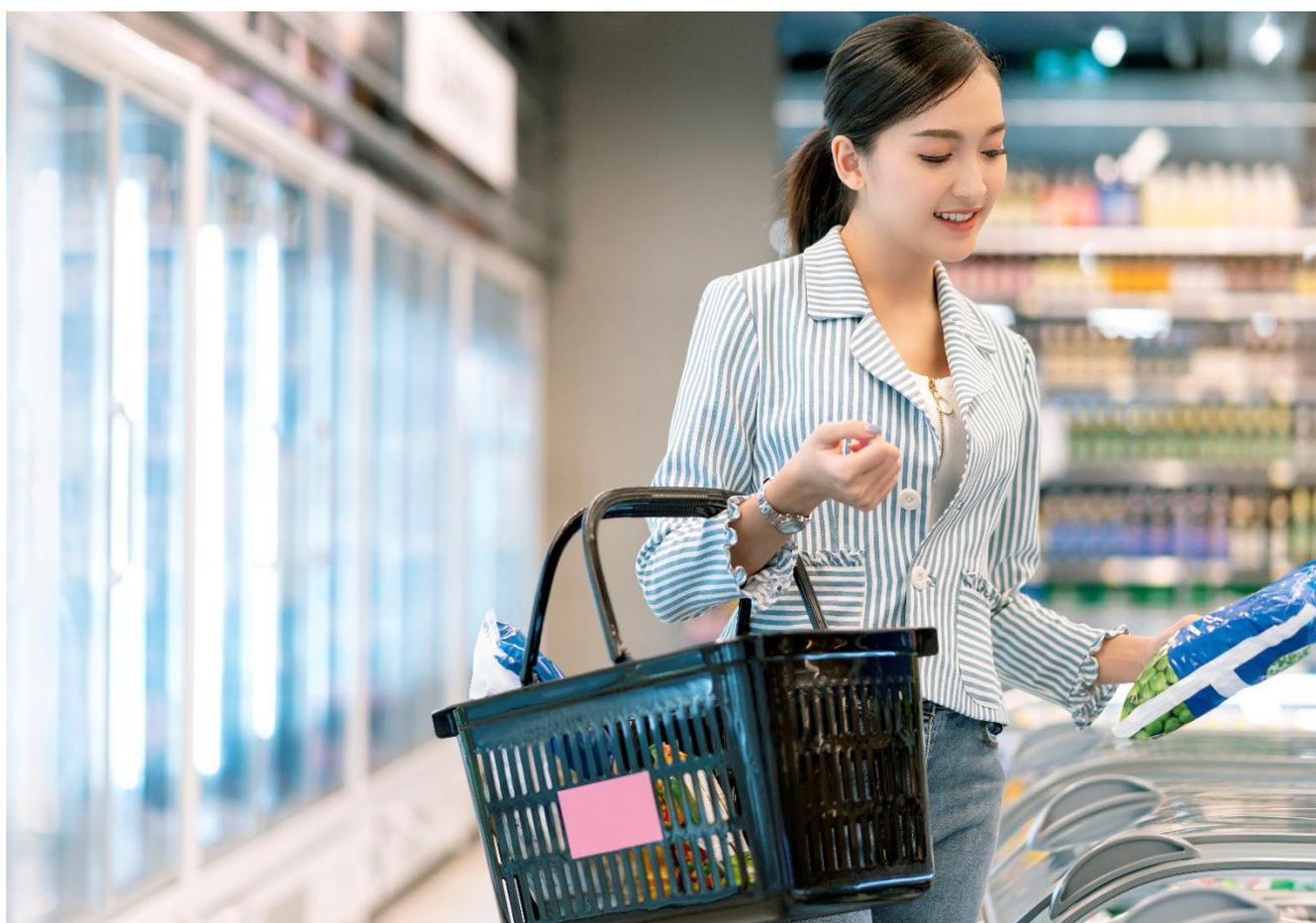
Supported by a series of pro-consumption policies—such as trade-in programmes for consumer goods and measures to expand service consumption—consumption emerged as the primary engine driving economic growth in 2025. Notably, since the second half of 2025, as demand for most traditional big-ticket items has largely been exhausted and the marginal impact of trade-in policies has diminished, combined with a continued slowdown in household income growth, growth in goods consumption has slowed markedly (Figure 4). By contrast, service consumption has continued to grow steadily, while new consumption formats—represented by new energy vehicles (NEVs), smart wearable devices, instant retail, unattended retail, and AR/VR immersive experiences—have expanded rapidly, catering to consumers’ upgrading demand for higher-quality, more personalised and experience-oriented consumption. In particular, digital consumption has shown strong momentum. From January to November, national online retail sales grew by 9.1% year on year, with online retail sales of physical goods and non-physical goods (including services and virtual products) increasing by 5.7% and 27.5%, respectively. Digital products, online services and e-commerce platforms have become key highlights.

Figure 4 Service retail, total retail, and online retail growth, cumulative YoY, %



Source: Wind, KPMG analysis

Looking ahead to 2026, policies aimed at boosting consumption are expected to continue exerting coordinated efforts on both the supply and demand sides, underpinning stable consumption growth, with service consumption remaining a key focus. On the supply side, policies will focus on expanding the provision of high-quality goods and services and improving the business environment in the consumer sector. Measures such as easing market access and promoting integration across consumption formats are expected to prop up the market and innovation potential. On the demand side, trade-in policies for consumer goods are likely to be extended, with possible adjustments to subsidy coverage to better align with the upgrading of consumption structures. Policy support is expected to tilt towards areas such as “AI +” consumption, silver economy consumption, and childcare-related consumption. Products such as smart wearables, age-friendly goods, baby strollers and child safety seats may be incorporated into subsidy schemes. Moreover, under the policy objective of raising the household consumption rate during the 15th Five-Year Plan period, service consumption is set to become a policy focal point. Subsidies for service consumption are expected to increase, with instruments such as consumption vouchers and electronic invoice rebates targeted at sectors including culture and tourism, catering, healthcare, and household services. In addition, policies aimed at improving living standards are expected to intensify, including measures to expand employment, raise household incomes in both urban and rural areas, and strengthen fiscal support for social welfare. These initiatives are expected to help enhance households’ consumption capacity and willingness to spend. Notably, amid sustained policy support for the stable and healthy development of capital markets, the wealth effect is expected to improve gradually, contributing to a recovery in income growth and a marginal increase in households’ propensity to consume.

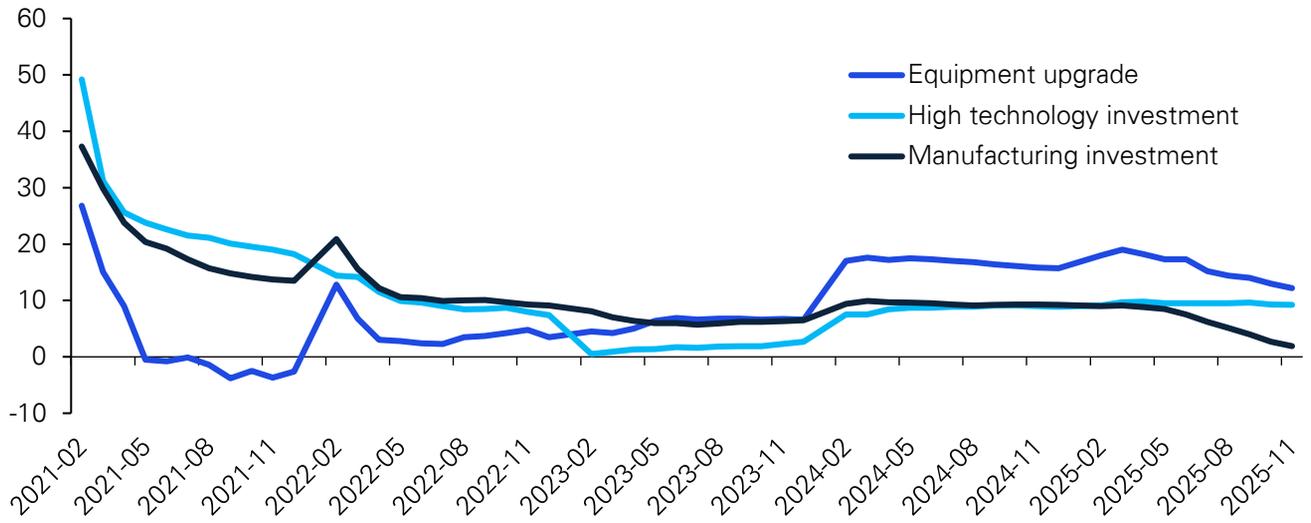


04 Manufacturing investment will rebound as industrial upgrading accelerates

In the first half of 2025, manufacturing investment maintained relatively strong growth, supported by exports and equipment upgrade policies. However, from the third quarter onwards, manufacturing investment declined significantly (Figure 5), amid policy disruptions related to anti-involution measures, heightened uncertainty surrounding US trade policies, and the waning impact of equipment renewal support. Looking ahead to 2026, as corporate expectations improve and a new round of industrial deployment continues to advance, manufacturing investment is expected to bottom out and rebound, becoming the largest contributor to fixed-asset investment growth. During the 15th Five-Year Plan period, advanced manufacturing is also set to serve as a key lever for China's economic transformation and for addressing intensifying global technological competition.

Manufacturing investment in 2026 to benefit from four key factors. First, a more stable policy environment is expected to restore corporate investment confidence. Externally, reduced uncertainty around US trade policies is likely to lift investment sentiment in labour-intensive industries with low profit margins that were heavily affected by tariffs. Domestically, as anti-involution policies kick in, fears of large-scale capacity cuts are gradually receding, allowing previously deferred investment demand to be released in line with market conditions. Second, traditional manufacturing enterprises are entering an accelerated transformation phase, driving a rebound in industrial upgrading investment. The Recommendations for the 15th Five-Year Plan explicitly call for promoting technological upgrading, advancing the digital and intelligent transformation of manufacturing, and developing smart manufacturing, green manufacturing and service-oriented manufacturing. In addition, the State Council's issuance of the Opinions on Deepening the Implementation of the "AI Plus" Initiative sets out a target for deep integration between AI and industrial development by 2027. As a result, intelligent upgrading of traditional industries is likely to be concentrated in 2026–2027. With continued disbursement of equipment renewal subsidies in 2026, investment demand for equipment replacement and technological upgrades in traditional industries is expected to remain strong. Third, under the guiding principle of "new demand drives new supply" proposed in the Recommendations for the 15th Five-Year Plan, emerging industries are set to intensify technological innovation and accelerate the commercialisation of innovation outcomes. Product iteration cycles in manufacturing are expected to shorten gradually, continuously creating incremental investment opportunities for emerging industries. Fourth, attention should be paid to the catalytic role of AI in driving manufacturing investment. AI is both a focal point of global competition and a key emerging pillar industry during the 15th Five-Year Plan period. The CEWC has called for deepening and expanding the "AI+" initiative. With increased policy support for AI projects and continued capital expenditure by foreign technology firms, demand for computing infrastructure, hardware equipment and electrical equipment is expected to strengthen both domestically and internationally in 2026. Consequently, investment in high-tech manufacturing related to these sectors is expected to exert a stronger influence on overall investment than in 2025.

Figure 5 Manufacturing investment growth, %



Source: Wind, KPMG analysis



05 Agentic and Physical AI will be deployed on a larger scale

AI is advancing rapidly. In 2026, we expect a bigger shift from generative AI to agentic AI - systems designed not just to generate content, but to take action. Domain-specific language models (DSLMs)¹ and AI agents are already being used to adapt to specialised scenarios, automate tasks, and improve over time. This is helping organisations address operational challenges, reduce costs, and enhance products and services.

In 2026, we expect agentic AI to move from single agents to multi-agent systems, allowing multiple AI tools to work together. This could improve how businesses manage complex processes, moving from isolated pilots to integrated solutions across all functions. The workforce will also be affected, with skills shifting towards human-machine collaboration, business insight, and ethical judgement. Human qualities—such as empathy, decision-making, and communication—will remain important.

Physical AI is expected to change how AI interacts with the real world. We anticipate progress in robotics, embodied intelligence, and brain-computer interfaces. With strong policy support and investment, China is well positioned to lead. We may see milestones such as mass-produced humanoid robots and clinical trials for vision restoration, driving innovation in manufacturing, healthcare, and other sectors.

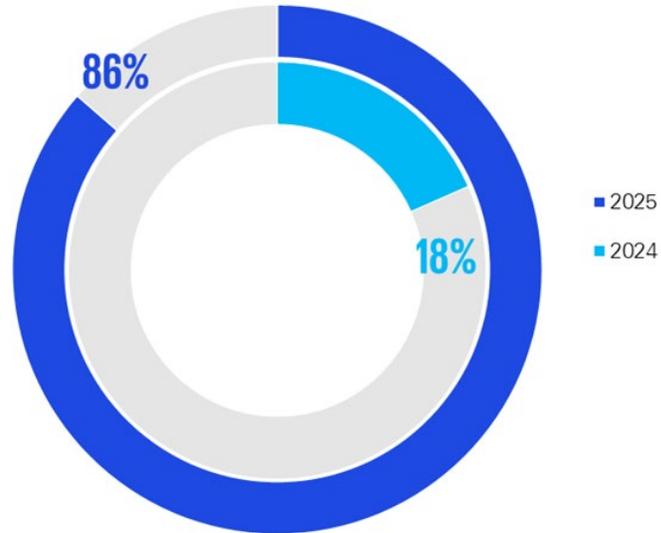
The commercial outlook is strong. According to KPMG's 2025 China CEO Outlook², 86% of Chinese CEOs now expect to see returns on AI investments within three years, up from 18% last year. AI is already delivering results in e-commerce, content, and social platforms. In manufacturing, DSLMs and multi-agent collaboration are supporting flexible, high-value production. In R&D-intensive sectors, AI is improving innovation and efficiency. In finance, agent-based AI is enabling more precise decision-making and risk management.

With continued policy support, technological progress, and data growth, we expect 2026 to be an important year for the large-scale deployment of Physical AI and "AI+" applications across industries.

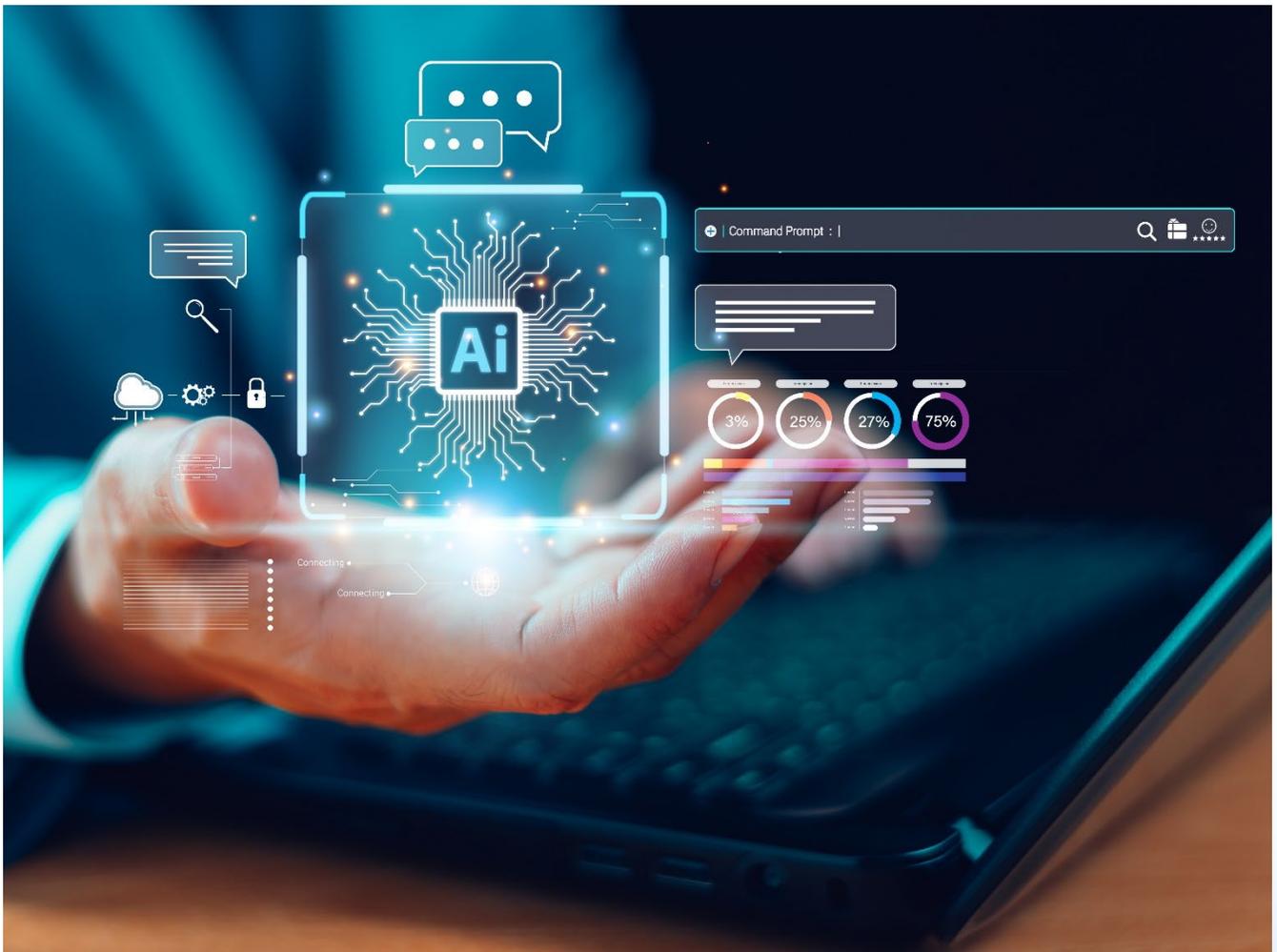
¹ According to Gartner's Top Strategic Technology Trends for 2026, released in October 2025, domain-specific language models (DSLMs) are language models trained or fine-tuned on specialised datasets tailored to specific industries, functions or business processes. Compared with general-purpose models, DSLMs are better positioned to meet targeted business requirements with greater accuracy, reliability and regulatory compliance. <https://www.gartner.com/cn/newsroom/press-releases/2026-top-strategic-tech-trends>

² 2025 China CEO Outlook, <https://kpmg.com/cn/en/insights/2025/11/2025-china-ceo-outlook.html>

Figure 6 Chinese CEOs expecting to see returns on AI investments within three years, %



Source: KPMG 2025 Global CEO Outlook



06 New infrastructure buildout will gain pace, with private capital playing a larger role

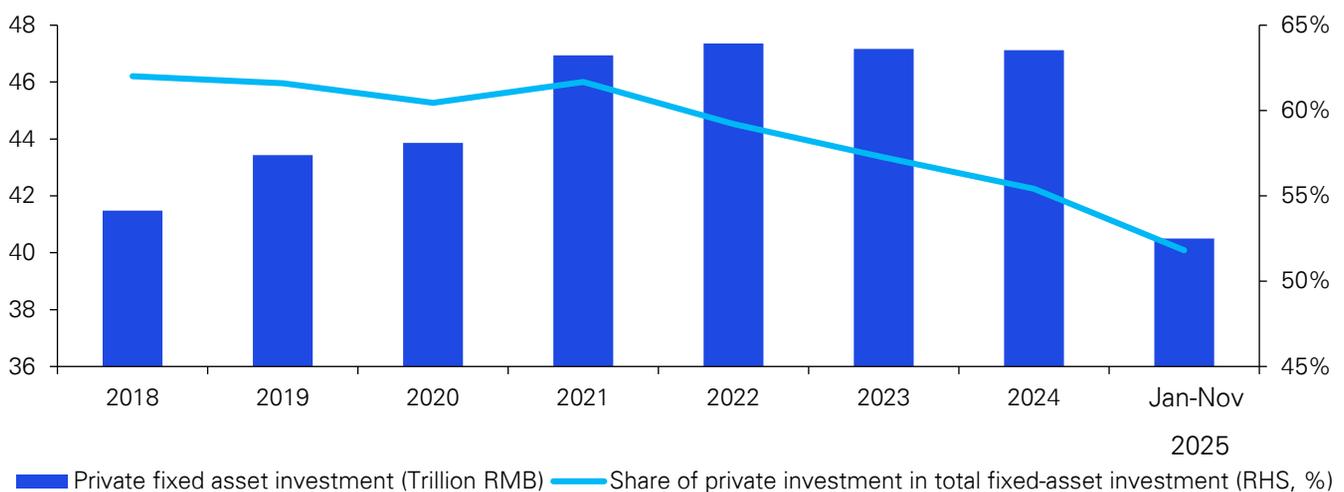
Accelerated fiscal spending early in the year supported robust infrastructure investment growth in the first half of 2025. From the third quarter onwards, however, infrastructure investment growth decelerated noticeably. This slowdown was driven, on the one hand, by the near completion of 102 major projects under the 14th Five-Year Plan, resulting in a temporary gap in project succession, and on the other hand by continued weakness in the property market. Lower-than-expected land sales and real estate-related tax revenues increased short-term debt-servicing pressure on local governments, prompting a policy shift from investment expansion toward debt risk mitigation. Looking ahead to 2026, the CEWC emphasised the need to stabilise investment and arrest the decline, suggesting that infrastructure investment may enter a recovery phase. Projects under the 15th Five-Year Plan are expected to commence construction in a more concentrated manner in 2026. In addition, projects backed by RMB 500 billion in policy-based financial instruments and certain local government special bonds were largely in the preparation stage during the second half of 2025, and are expected to rapidly translate into commence construction in 2026. On the funding side, the central government is expected to increase on-budget investment, expand new policy-based financial instruments, and coordinate the use of ultra-long-term special treasury bonds and local government special bonds, ensuring that infrastructure investment continues to play its role as a stabilising anchor for overall investment.

Two structural highlights are expected to characterise infrastructure investment in 2026. First, the share of “new infrastructure” is set to rise. The Recommendations for the 15th Five-Year Plan call for “moderately front-loading the development of new infrastructure,” which primarily includes AI-related infrastructure projects such as the construction of a national integrated computing power network. China still lags behind advanced economies in areas such as data centre scale and high-end computing capacity, with the United States estimated to command around 75% of global advanced AI computing capacity, while China accounts for approximately 15%³. Moreover, as large models continue to scale and areas such as multimodal AI and embodied intelligence develop rapidly, demand for computing power is set to rise further. To address these gaps and align with future technological requirements, fiscal and financial resources are expected to tilt toward new infrastructure in 2026, driving a structural increase in its share of total infrastructure investment.

³ Konstantin F. Pilz et al. (2025), “The US hosts the majority of GPU cluster performance, followed by China”, Epoch AI, <https://epoch.ai/data-insights/ai-supercomputers-performance-share-by-country>

Second, private capital participation in infrastructure projects is also expected to increase. Historically, private investment—primarily driven by private enterprises—accounted for over 60% of China’s fixed-asset investment prior to 2021, serving as a key growth engine. In recent years, however, private investment has weakened amid the property downturn and other factors. Under the influence of anti-involution policies, the share of private investment fell to 52% in the first 11 months of 2025 (Figure 7). To stabilise the role of private investment in supporting economic growth, the State Council issued the Several Measures on Further Promoting the Development of Private Investment in mid-November, introducing 13 policy measures. These include encouraging private capital to participate in revenue-generating, nationally approved major projects such as railways, nuclear power, hydropower and oil and gas pipelines, as well as in smaller, commercially viable local urban infrastructure projects. These measures are expected to enable private enterprises to participate in and share the long-term returns of major infrastructure projects, mobilising idle private capital previously constrained by the property downturn and anti-involution policies. At the same time, as private enterprises’ innovation capabilities have continued to strengthen in recent years, their participation in infrastructure operations is expected to facilitate the digital and intelligent transformation of the sector, enhancing operational efficiency. In addition, increasing the share of private capital in infrastructure projects should help free up fiscal space for governments, allowing more public resources to be directed towards long-term, public-interest projects with lower financial returns.

Figure 7 Private fixed asset investment and its share in total FAI, %

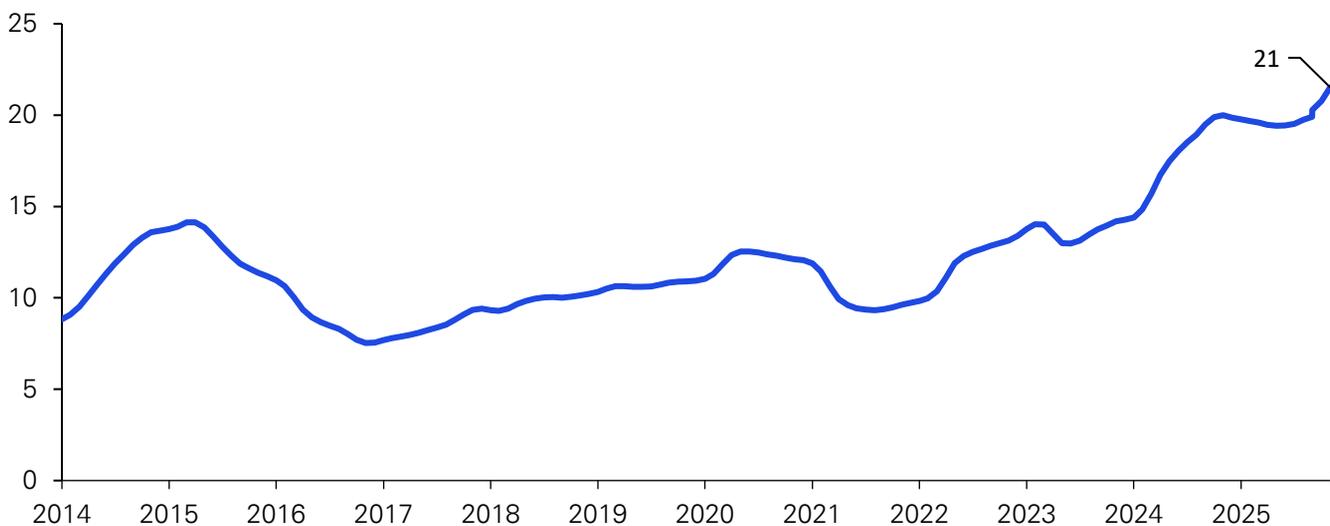


Source: Wind, KPMG analysis

07 Real estate sector to stabilise with support from government purchases

Since China's real estate sector entered a downcycle in 2021, both demand and supply have contracted simultaneously. In the first 11 months of 2025, residential property sales by area and completed investment amounted to only 48% and 62%, respectively, of their levels in the same period of 2021 as the market remains in a state of excess supply. As of November 2025, new-home and second-hand home price indices had declined by 12% and 21%, respectively, from their peaks in August 2021. Inventory pressures also remain elevated: unsold commercial housing area continued to grow year on year in 2025, while the inventory-to-sales ratio in the top ten cities stood at 21 months by year-end, reaching historical highs (Figure 8). Persistently declining prices have reinforced a wait-and-see sentiment among homebuyers, further suppressing demand, while high inventories continue to constrain developers' investment appetite. As a result, endogenous recovery momentum in real estate sales and investment is expected to remain limited in 2026, with both indicators still facing downward pressure.

Figure 8 Inventory-to-sales ratio of residential properties in top 10 cities, 12-month moving average, monthly



Source: Wind, KPMG analysis

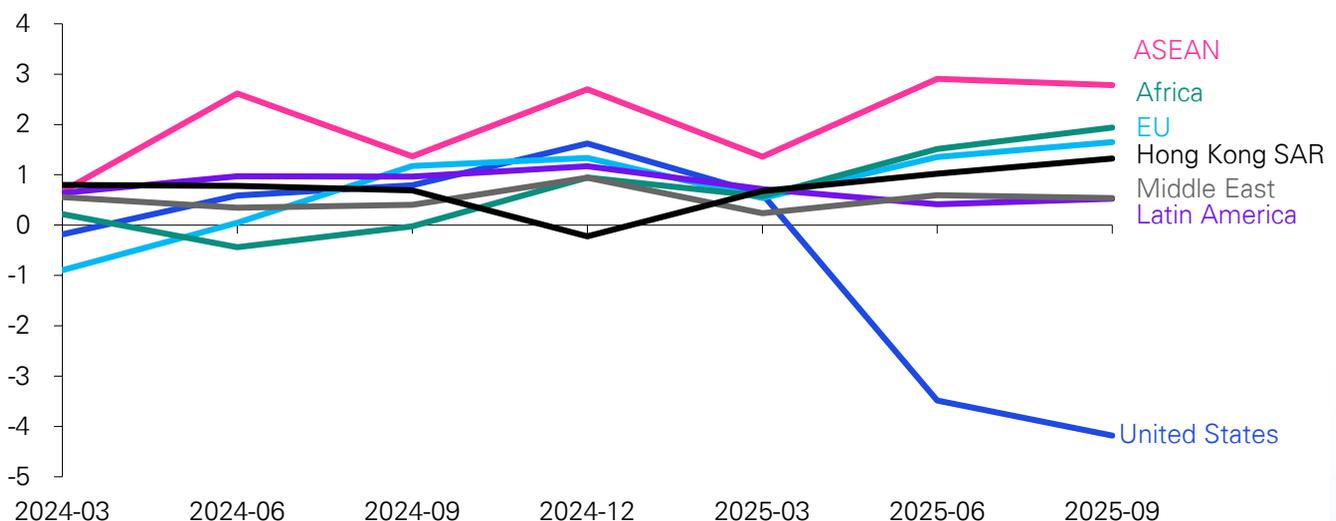
Against this backdrop, the CEWC underscored the need to stabilise the real estate market. During the 15th Five-Year Plan period, China's real estate sector is expected to accelerate its transition towards a more stable state. On the supply side, amid tighter financing constraints, developers are expected to shift their focus from scale expansion toward quality improvement. Guided by *the Recommendations for the 15th Five-Year Plan*, developers are expected to prioritise improving housing quality and property management services, "building more houses that are safe, comfortable, eco-friendly, and smart." On the demand side, three sources of potential demand are expected to be released at an accelerated pace. First, *the Recommendations for the 15th Five-Year Plan* call for abolishing "unreasonable restrictions on the purchase of housing." As a result, restrictive property policies are likely to be further eased, such as additional relaxation of home purchase restrictions in higher-tier cities, reductions in mortgage costs and transaction-related taxes and fees, and continuation of housing provident fund reforms. Pent-up demand previously held back by declining price expectations is expected to be gradually released. Second, as housing supply quality improves, demand for better housing is expected to expand further. Third, attention should be paid to government-led inventory purchases. As China's strategy to expand domestic demand increasingly integrates livelihood improvement with consumption promotion, enhancing housing welfare has become cornerstone policy. During the 15th Five-Year Plan period, the government is expected to continue optimising the supply of affordable housing and improving living conditions for urban working class, low-income households and migrant populations. The CEWC called for encouraging the acquisition of existing commercial housing, with a focus on its conversion into affordable housing. A new round of government inventory purchases is therefore expected in 2026, accelerating the rebalancing of supply and demand in the property market.



08 Trade resilience will continue as two-way cross-border investment evolves

In 2025, amid global headwinds from rising trade protectionism, China's exports demonstrated resilience exceeding expectations. In the first half of the year, China's share of global exports reached 14.2%, a record high for the same period. Export growth rose over the first three quarters, becoming a key pillar supporting economic growth. On the one hand, China made significant progress in expanding non-US markets, with strong export performance effectively offsetting the impact of declining exports to the United States (Figure 9). On the other hand, the accelerated development of global AI and new energy industries, combined with China's strengthening competitiveness in high-end manufacturing, significantly boosted exports of integrated circuits and the "Three New" products. Looking ahead, following the October China-US economic and trade consultations in Kuala Lumpur, during which multiple agreements were reached on tariff policies and regulatory measures—including the removal of a 10% fentanyl-related tariff and the extension of a one-year suspension of 24% reciprocal tariffs—the external trade environment for China is expected to improve marginally. With expectations of looser global fiscal and monetary policies, external demand is likely to retain a degree of resilience. Demand expansion in emerging economies, together with China's competitive advantage in high-tech products, is expected to continue supporting steady export growth in 2026.

Figure 9 Contributions to China's exports growth, by major trading partners, quarterly, percentage points



Source: Wind, KPMG analysis

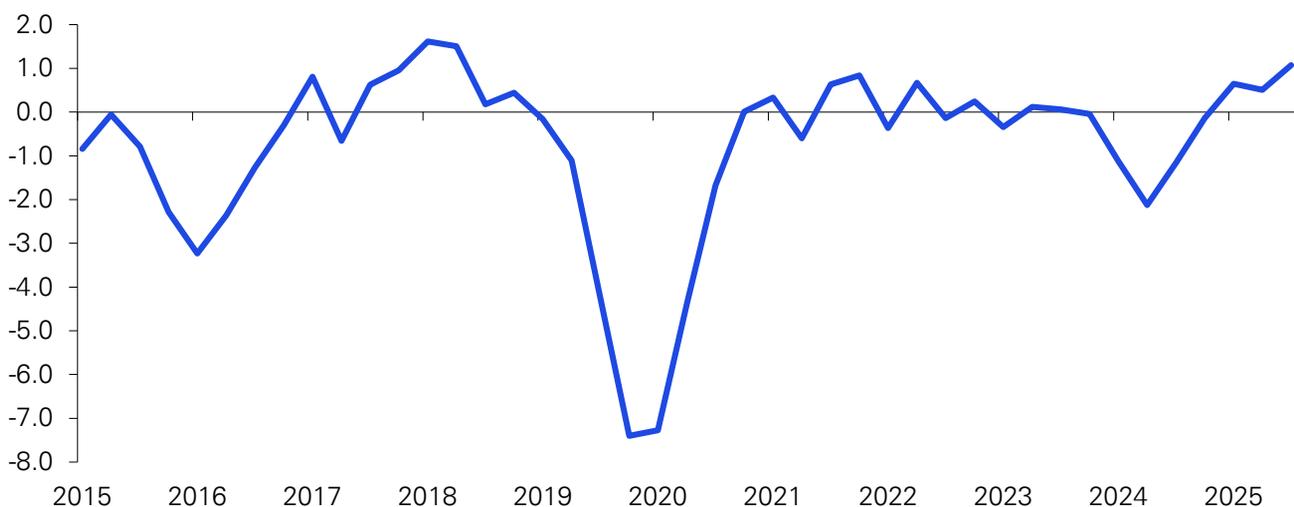
China's cross-border investment is set to enter a new phase of higher-quality, more efficient two-way expansion in 2026, characterised by three key trends. First, foreign investors are accelerating their strategic positioning in sectors aligned with China's high-quality development agenda. By continuously improving the business environment, China aims to guide foreign investment toward strengthening, extending and upgrading domestic industrial chains. In the first three quarters of 2025, high-tech industries accounted for 29.8% of utilised foreign direct investment, signalling accelerating foreign participation in advanced manufacturing and modern services. Second, Chinese enterprises' international operating capabilities have improved markedly, deepening synergies between cross-border investment and trade. By expanding China's trade partners, advancing regional and bilateral trade and investment agreements, and improving overseas integrated service systems, policies support enterprises in accessing overseas resources and expanding intermediate goods trade. This enhances China's global resource allocation capacity and forms a virtuous cycle of "capital outflows, trade upgrading and industrial integration". Third, institutional opening-up is enhancing China's influence over global value distribution. By actively participating in international rulemaking and promoting value chain upgrading through technological innovation and the export of standards, China is facilitating the transition of its enterprises from mere participants to leaders in global value chains, thereby strengthening their bargaining power in value distribution. As a result, both China's outbound investment scale and the share of overseas revenue generated by Chinese enterprises are expected to increase further in 2026.



09 Hong Kong SAR will strengthen its role as a regional connector and capital hub

In 2026, amid profound adjustments in the global economic landscape and deeper regional integration, Hong Kong SAR's unique role as a connector between the Chinese Mainland and the rest of the world is becoming increasingly prominent, with its position as a strategic hub poised for comprehensive upgrading. Externally, the restructuring of global industrial and supply chains continues, while Asia—an important driver for global growth—is seeing increasingly close industrial collaboration. Enhanced intra-regional coordination has become a key pathway for mitigating external risks and unlocking growth momentum. As a core node in Asia-Pacific trade, shipping and financial networks, Hong Kong SAR is set to further strengthen its role as a critical connector, with significant potential to facilitate regional resource integration and the efficient flow of production factors. At the same time, Chinese enterprises' models of overseas expansion are undergoing profound transformation, shifting from traditional goods trade toward higher-value forms such as R&D collaboration, global brand operations, and the export of managerial capabilities and expertise. Hong Kong SAR is therefore transitioning from a traditional "trade entrepôt" into a one-stop cross-border service provider focused on high value-added services. Leveraging its strengths in internationally recognised legal, financial and advisory services, Hong Kong SAR is increasingly serving as the launchpad for Chinese enterprises expanding overseas. As a result, the contribution of services trade to Hong Kong SAR's economic growth is expected to rise further in 2026 (Figure 10).

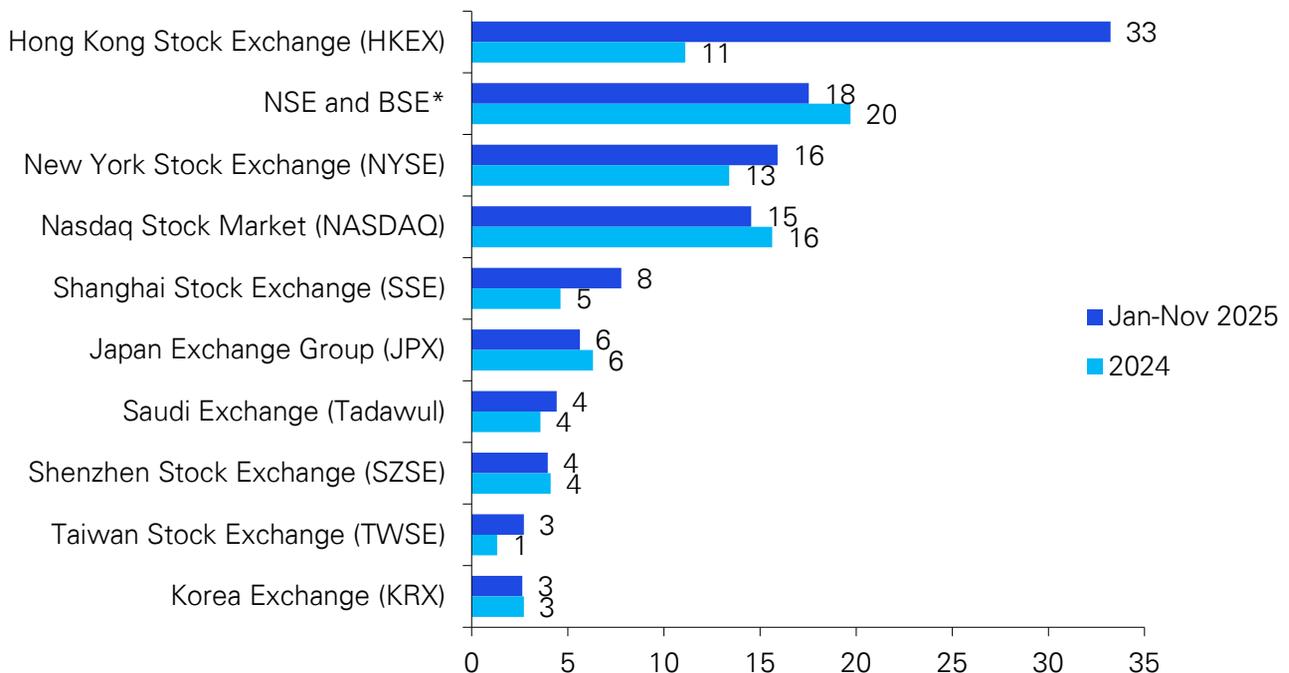
Figure 10 Contribution of service net exports to real GDP in Hong Kong SAR, quarterly, percentage points



Source: Wind, KPMG analysis

Beyond external strategic opportunities, the upgrading of Hong Kong SAR’s role is fundamentally driven by continuous policy optimisation and deeper regional synergy. Efforts to develop a “headquarters economy,” and the Professional Services Advancement Support Scheme are attracting more multinational regional headquarters and professional service firms to Hong Kong, further concentrating high-end resources. In the financial sector, cooperation mechanisms within the Greater Bay Area continue to improve, and connectivity between Hong Kong and Chinese Mainland financial markets has deepened, characterised by broader participation, more active capital flows and more diversified areas of cooperation. The ongoing optimisation of Stock Connect, Bond Connect, Wealth Management Connect and A+H listings has reinforced Hong Kong SAR’s role as a critical link between Chinese Mainland and global capital markets. In addition, Chapter 18C of the Hong Kong Main Board Listing Rules—tailored for specialist technology companies—has attracted high-growth technology firms through more flexible listing thresholds and valuation approaches, further strengthening Hong Kong SAR’s position as a financing platform for innovation-driven enterprises. Since 2025, Hong Kong’s IPO market has surged, with total IPO proceeds reaching USD 33.2 billion from January to November—nearly three times the full-year total of 2024—ranking first globally (Figure 11). Finally, as a sandbox for institutional innovation in the Greater Bay Area, Hong Kong SAR continues to pioneer reforms in areas such as financial opening-up and RMB internationalisation, technology innovation and intellectual property protection, green finance and cross-border data flows. By aligning with high-standard international regulations and promoting the free and efficient cross-border flow of production factors, Hong Kong SAR provides valuable policy experimentation and practical experience for China’s steady advancement of institutional opening-up.

Figure 11 Total IPO proceeds on top 10 stock exchanges, Jan–Nov 2025, USD billion



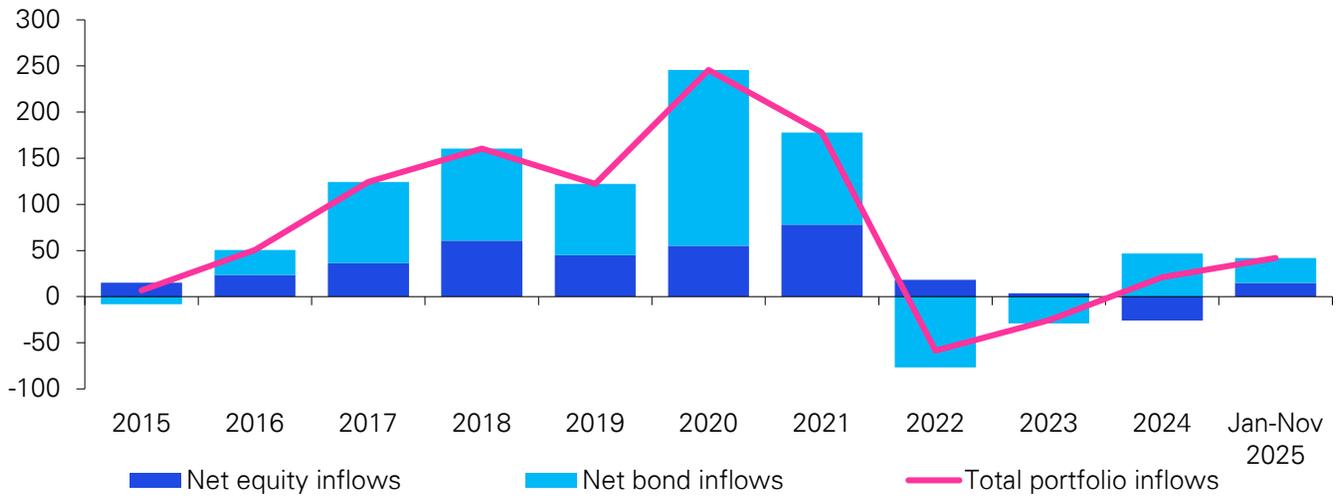
Source: The World Federation of Exchanges, KPMG analysis
 Note: National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE)

10 RMB-denominated assets to gain greater weight in global asset allocation

Since 2025, amid the restructuring of the global financial order and a marginal weakening of US dollar dominance, global assets have entered a new revaluation cycle. On the one hand, prolonged geopolitical tensions and heightened volatility in global financial markets have prompted central banks and institutional investors to seek more resilient asset allocations. At the same time, the credit foundation of the US dollar has been gradually eroded by elevated US debt levels and policy uncertainty, accelerating the diversification of reserve assets by central banks worldwide. On the other hand, a new wave of technological innovation and industrial transformation is reshaping traditional asset pricing and investment paradigms. Looking ahead to 2026, global capital market dynamics are expected to be driven by four core variables: the monetary policy trajectories of major central banks, macroeconomic fundamentals, the AI industry narrative, and evolving geopolitical dynamics. From a global liquidity perspective, US inflation is expected to gradually converge toward the 2% policy target, while the labour market is likely to continue to face headwinds, with unemployment edging higher. The Federal Reserve is therefore expected to continue on a gradual rate-cutting path while maintaining a pause in balance sheet reduction. Meanwhile, to consolidate economic recovery, the European Central Bank is also expected to maintain a relatively accommodative monetary stance. Against a backdrop of rising global liquidity, structurally elevated geopolitical risks and accelerated reconstruction of the international monetary system, expectations of a weaker US dollar and lower real interest rates are likely to further reduce the attractiveness of US assets, driving continued global capital reallocation.

By contrast, China's market and RMB-denominated assets are becoming increasingly attractive and gaining greater weight in global asset allocation, supported by multiple comparative advantages (Figure 12). First, China's economic fundamentals remain solid, with corporate earnings gradually recovering. Despite persistent external risks, China's GDP growth is expected to remain around 4.8% in 2026, maintaining a leading position among major economies. Second, China's technological competitiveness continues to strengthen, with the dividends from industrial upgrading being realised at an accelerated pace. In 2026, the virtuous cycle linking technology, industry and finance is expected to operate more smoothly, shifting the pricing paradigm of China's technology assets from cost-driven valuation toward one based on technological premium and growth certainty. Third, the institutional environment continues to improve. China's capital market reforms are continuing to improve the inclusiveness and coverage of the multi-tiered capital market system and providing more accessible financing avenues for innovative enterprises. At the same time, policies aimed at broadening channels for long-term capital inflows, optimising issuance, listing and M&A frameworks, and promoting the quality and strength of listed companies are reinforcing the foundations for stable capital market development and boosting investor confidence at home and abroad. Overall, supported by improving liquidity conditions, recovering corporate earnings, asset revaluation and ongoing capital market reforms, China's capital markets are expected to sustain a steady upward trajectory in 2026.

Figure 12 China cross-border capital net inflow, USD billion



Source: Institute of International Finance, KPMG analysis



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