



# Key Takeaways from China's 2026 Two Sessions



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# Executive Summary

From 4 to 12 March 2026, the Fourth Session of the 14th National People's Congress and the Fourth Session of the 14th National Committee of the Chinese People's Political Consultative Conference were held in Beijing. During the Sessions, the National People's Congress approved the Report on the Work of the Government ("the Report") and The 15th Five-Year Plan for National Economic and Social Development of the People's Republic of China ("15th Five-Year Plan"), along with other key documents. Marking the start of the 15th Five-Year Plan, the Report reaffirms economic development as China's central task and high-quality growth as the overriding priority, setting a GDP target of 4.5–5%. This deliberately measured target is aligned with the Government's long-term goal of basically achieving socialist modernization by 2035 and leaves sufficient policy space for ongoing structural reforms. Amid a landscape of both strategic opportunities and growing uncertainties at home and abroad, the Report lays out four core strategies: unlocking growth through domestic demand, powering growth through innovation, removing bottlenecks through reform, and broadening opportunities for development through opening up. In doing so, it strikes a balance between stabilizing growth in the short term and promoting transformation over the long run. The following ten points merit particular attention:

- 01** GDP growth target for 2026 is pragmatic, focusing on quality over speed
- 02** Macroeconomic policy support remains measured and prudent, with greater emphasis on delivery
- 03** Efforts to build a strong domestic market will strengthen, backed by measures to drive broader and higher-quality consumer spending
- 04** Stronger public wellbeing projects will be implemented to give households both the means and the confidence to spend
- 05** A multi-pronged effort will be taken to stabilize and recover investment, with a focus on unlocking private capital
- 06** Innovation and industrial upgrading will advance in tandem as "AI Plus" scales up
- 07** High-standard opening up to widen, with trade and investment more tightly integrated
- 08** Major city clusters to deepen coordination and strengthen cross-jurisdictional cooperation
- 09** A new electric power system will be built, anchoring the green and low-carbon transition
- 10** A coordinated push will be made to stabilize the property market, restructure local government debt, and reform high-risk financial institutions

Table 1 Comparison of Economic Targets, 2024–2026

	Indicator	2024 target	2024 actual	2025 target	2025 actual	2026 target
<b>Macroeconomy</b>	GDP	Around 5%	5.0%	Around 5%	5.0%	4.5%-5%
	Consumer Price Index	Around 3%	0.2%	Around 2%	0.0%	Around 2%
	Growth in personal income	Keep pace with economic growth	5.1%	Keep pace with economic growth	5.0%	Keep pace with economic growth
<b>Employment</b>	New urban jobs created	Over 12 million	12.56 million	Over 12 million	12.67 million	Over 12 million
	Surveyed urban unemployment rate	Around 5.5%	5.1%	Around 5.5%	5.2%	Around 5.5%
<b>Monetary policy</b>	Policy stance	A prudent monetary policy should be flexible, appropriate, targeted, and effective	—	A moderately accommodative monetary policy	—	Continue to apply an appropriately accommodative monetary policy.
	Money supply and aggregate financing to the real economy (AFRE)	Growth in M2 and AFRE should rise in step with projected economic growth and CPI levels	M2: 7.3%, AFRE (stock): 8.0% (Nominal GDP: 4.2%)	Growth in aggregate financing to the real economy and the money supply should rise in step with projected economic growth and CPI levels	M2: 8.5%, AFRE (stock): 8.3% (Nominal GDP: 4.0%)	Growth in AFRE and the money supply generally matched expected targets for economic growth and overall prices
	Policy stance	A proactive fiscal policy should be appropriately strengthened and become more effective	—	A more proactive fiscal policy	—	Continue to adopt a more proactive fiscal policy
	Deficit-to-GDP ratio	3%	3%	Around 4%	4%	Around 4%
<b>Fiscal policy</b>	Fiscal deficit	4.06 trillion yuan	4.06 trillion yuan	5.66 trillion yuan	5.66 trillion yuan	5.89 trillion yuan
	Local government special-purpose bonds	3.9 trillion yuan	3.9 trillion yuan	4.4 trillion yuan	4.4 trillion yuan	4.4 trillion yuan
	Ultra-long special-purpose treasury bonds	1 trillion yuan	1 trillion yuan	1.3 trillion yuan	1.3 trillion yuan	1.3 trillion yuan
	Special-purpose treasury bonds (for replenishing bank capital)	Not mentioned	0.5 trillion yuan	0.5 trillion yuan	0.3 trillion yuan	Special-purpose treasury bonds (for replenishing bank capital)
	New policy-based financial instruments	Not mentioned	Not mentioned	0.5 trillion yuan	0.8 trillion yuan	New policy-based financial instruments

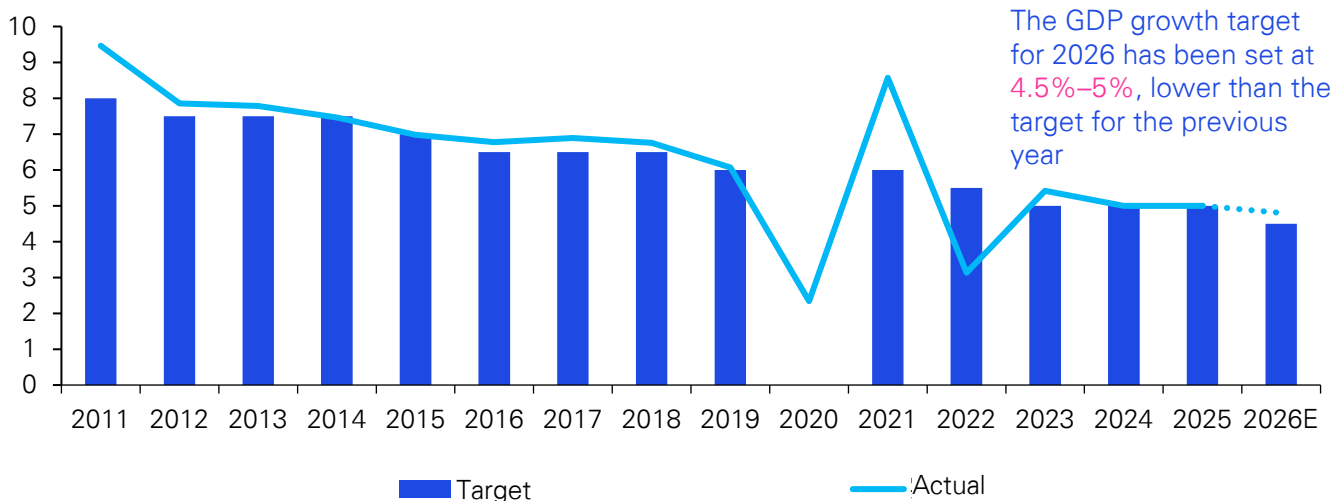
Source: Government Work Report, National Bureau of Statistics, KPMG analysis

Note: The fiscal deficit and deficit-to-GDP ratio do not include transferred funds or carryover balances

# 01 GDP growth target for 2026 is pragmatic, focusing on quality over speed

During the 15th Five-Year Plan period, placing economic development at the centre has once again returned to the forefront of the strategic agenda, while the emphasis on high-quality development has become even more pronounced. On the one hand, The 15th Five-Year Plan does not set a quantitative economic growth target. Instead, it proposes that GDP growth be kept within an appropriate range based on structural optimization and quality improvement, and that GDP should keep growing within an appropriate range, with annual growth rates to be determined in light of actual conditions. On the other hand, as the first year of the 15th Five-Year Plan period, this year's Report on the Work of the Government sets the economic growth target within a range of 4.5%—5%, lower than last year's target of "around 5%," while striving for better in practice (Figure 1).

Figure 1 GDP Growth Targets and Actual Growth Over the Years, %



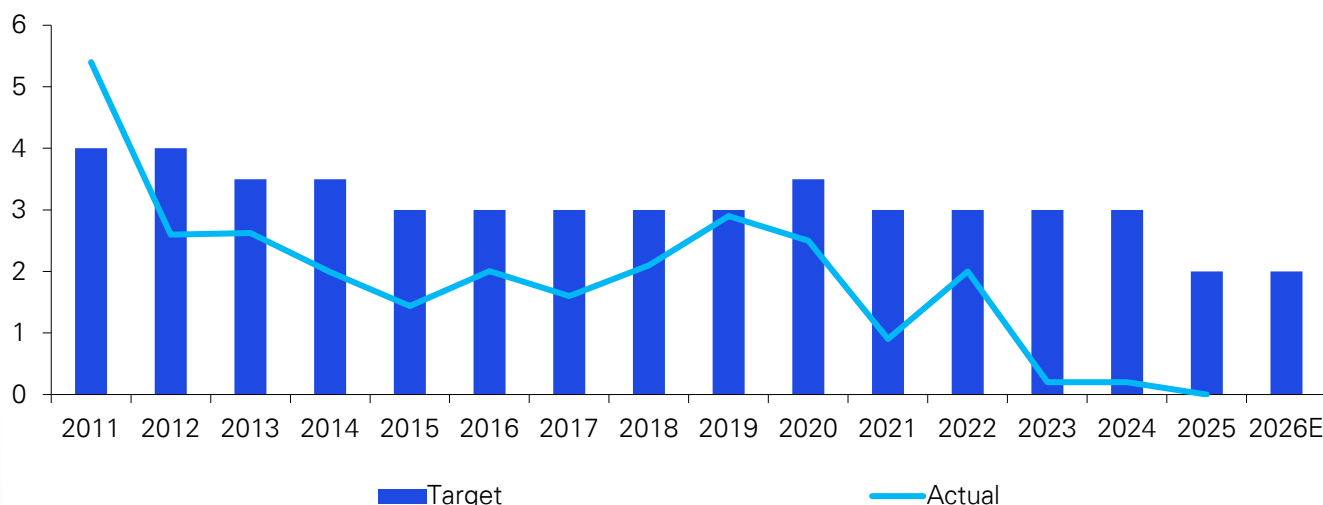
Source: Wind, KPMG analysis  
 Note: No GDP growth target was set in 2020 due to the pandemic.

The more pragmatic GDP growth target will help local governments foster a correct understanding of governance performance. Since last year's Central Economic Work Conference called for "establish and practice a sound view of governance performance", local governments across the country have generally lowered their economic growth targets for this year. Major provincial economies such as Guangdong, Zhejiang, and Jiangsu have all revised down their targets in tandem. This will help each region carry out economic work in light of local realities and support the implementation of a more effective approach to governance performance.

A lower GDP growth target does not necessarily mean greater downward pressure on the economy. This year's economic growth is supported by three positive factors. First, China-U.S. economic and trade relations are easing, while global demand for artificial intelligence investment remains robust. Exports of high-tech products are therefore expected to sustain strong growth in China's exports. Second, investment in China recorded negative growth for the first time in 2025. With current policy taking a proactive stance toward stabilizing investment, domestic investment has considerable room for recovery this year. Third, the drag from the real estate sector on the economy is easing. Although the process of stabilizing and reviving the real estate market encountered setbacks in 2025, Qiushi magazine — the Chinese Communist Party's leading policy and theoretical journal — stated at the beginning of this year that real estate policy should be "fully introduced in one move," with the aim of reshaping market expectations and smoothing market fluctuations. Under a more proactive policy orientation, the impact of the real estate market on social expectations and domestic demand is expected to become more manageable this year.

Finally, lowering the economic growth target will create more room this year for structural adjustment, risk prevention, and reform. In terms of structural adjustment, the aim is for the government to continue optimizing the supply structure while expanding domestic demand, reduce inefficient capacity, and promote a reasonable rebound in prices. Against the backdrop of last year's inflation target not being met, the target for consumer price inflation this year is still set at around 2%. This target not only helps guide expectations but also reflects practical feasibility (Figure 2). The Report states that efforts will be made to better balance supply and demand and steer price levels back into positive territory, underscoring the government's determination to narrow the supply-demand divide. In terms of risk prevention, the emphasis is on balancing old and new growth drivers. While developing new quality productive forces in light of local conditions, China will also accelerate the digital and intelligent transformation of traditional manufacturing, make better use of existing assets, and continue to defuse risks in the real estate sector as well as local government fiscal and financial risks. In terms of reform, the government aims to devote more policy resources to promoting scientific and technological innovation and improving people's wellbeing. Although, during this period of economic structural transformation, these areas may have relatively limited short-term effects in stabilizing growth, over the medium to long term they will help foster a new economic development model led by domestic demand and driven by consumption, in line with the medium- and long-term development objectives for the next five years.

Figure 2 CPI Growth Target and Actual Growth over the Years, %



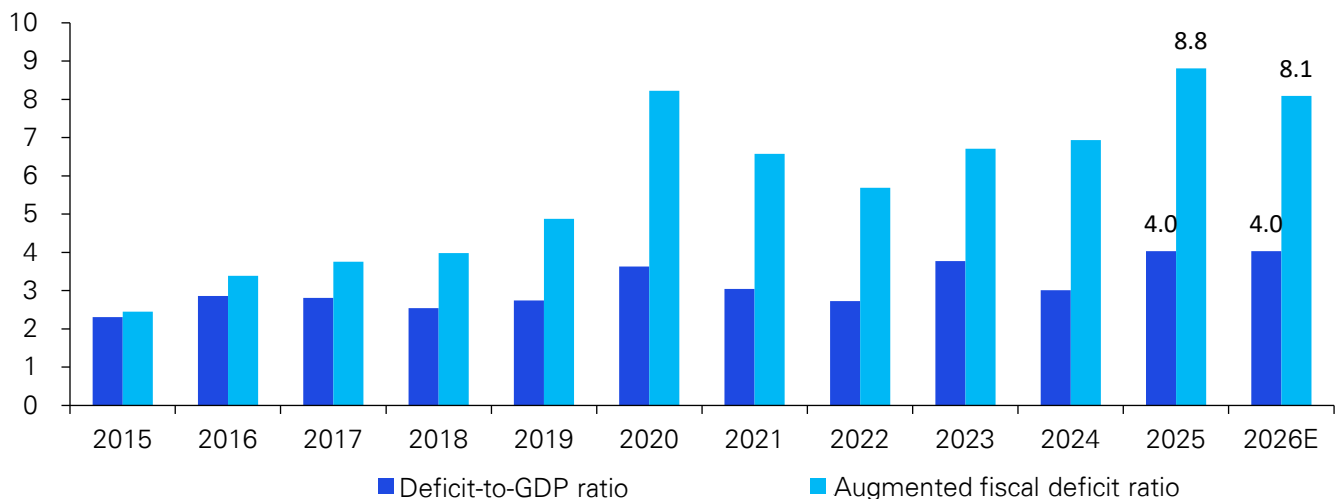
Source: Wind, KPMG analysis

# Macroeconomic policy support remains

## 02 measured and prudent, with greater emphasis on delivery

To achieve effective qualitative improvement and reasonable quantitative growth in the economy, this year's macro policies will seek balance in two respects. First, in terms of policy intensity, the Report makes clear the need to ensure coordination between existing and new policies, that is, strike a proper balance between those already in place or newly introduced. In the fourth quarter of last year, the government introduced an additional 500 billion yuan in new types of policy-backed financial instruments and another 500 billion yuan in unused local government debt quotas. These funds will be used on a cross-cycle basis this year. With adopted policies providing support, the need for a substantial increase in newly-introduced policies this year has diminished, and the overall policy stance will remain steady. On fiscal policy, the government will continue to pursue a more proactive one. This year, the deficit-to-GDP ratio is again set at around 4%, the same as last year, while the fiscal deficit will reach 5.89 trillion yuan, an increase of 230 billion yuan over last year. Looking at both central and local government deficits, the budget at the beginning of this year provides for 11.89 trillion yuan in additional government debt, 30 billion yuan more than last year and another record high; the augmented fiscal deficit ratio stands at 8.1%, slightly lower than last year's 8.3% (Figure 3). This year, augmented fiscal expenditure is projected to grow by 4.6%, up modestly from 3.7% last year, reflecting a moderately expansionary fiscal stance.

Figure 3 Fiscal Deficit Ratios over the Years, %



Source: Ministry of Finance, KPMG analysis

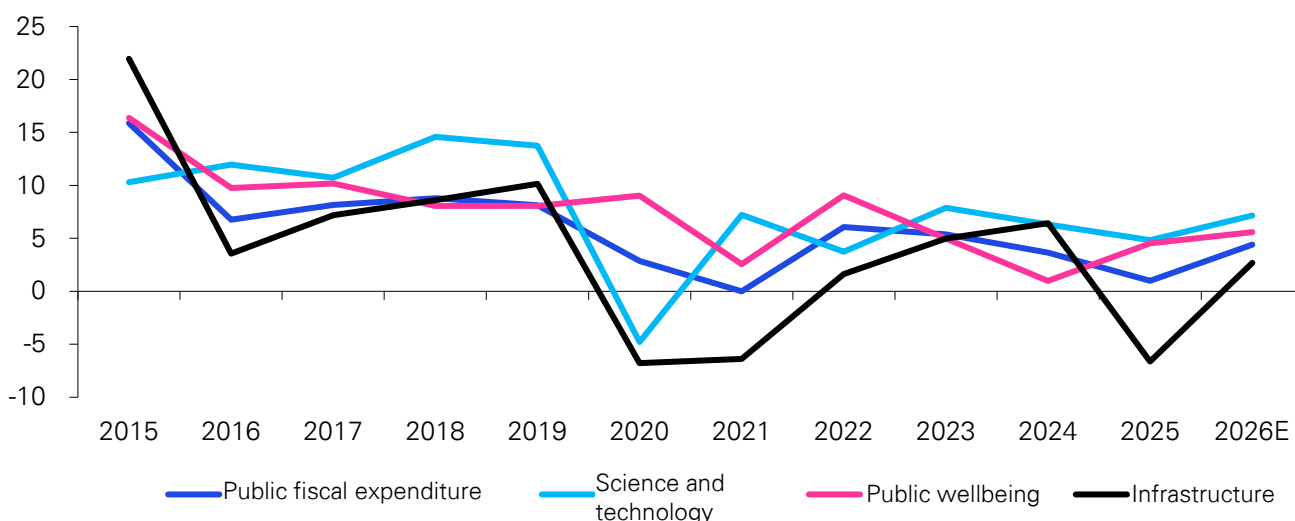
Note: Deficit-to-GDP ratio = (central government bonds + local government general bonds) / nominal GDP;

Augmented fiscal deficit = central government bonds + local government general bonds + local government special-purpose bonds + special-purpose treasury bonds + various transferred funds

On monetary policy, the Report clearly states that this year China will flexibly and effectively employ a range of policy instruments, including cuts to required reserve ratios and interest rates, indicating that the supportive policy stance remains unchanged. China’s required reserve ratios are still relatively high. At the same time, with large-scale deposits maturing this year and facing repricing, pressure on banks’ liability side will ease, leaving some room for cuts in required reserve ratios and interest rates. That said, it is important to note that in its fourth-quarter monetary policy implementation report, the central bank made clear that it would “appropriately grasp the intensity, pace, and timing of policy implementation in light of domestic and international economic and financial conditions and developments in financial markets,” indicating that monetary policy this year will still follow a discretionary, conditions-based approach. A sharper-than-expected slowdown in the domestic economy or significant volatility in financial markets could trigger stronger monetary easing.

Second, in terms of policy focus, the Report makes clear that China should enhance counter- and cross-cyclical adjustments—that is, strike a proper balance between stabilizing growth in the short term and advancing economic structural transformation over the longer term. To maintain short-term economic stability, fiscal support for investment expansion and consumption promotion will remain at a meaningful level. The amount of ultra-long special-purpose treasury bonds used to provide continued support for endeavours such as implementing major national strategies, enhancing security capacity in key areas, and carrying out large-scale equipment upgrades and consumer goods trade-in programs will total 1.3 trillion yuan, unchanged from last year. To advance medium- and long-term economic transformation, foster new industrial growth drivers, and enhance households’ consumption capacity, fiscal investment in scientific and technological innovation and public wellbeing programs will be further increased. This year’s public budget shows that expenditure on science and technology and public wellbeing will grow by 7.1% and 5.6%, respectively, both higher than the overall fiscal expenditure growth rate of 4.4% and the 2.7% growth rate of infrastructure-related spending. (Figure 4). Spending on science and technology and public wellbeing will account for 42.8% of total fiscal expenditure, up another 0.5 percentage points from last year and reaching a record high.

Figure 4 Growth in Fiscal Expenditure on Science and Technology, Public Wellbeing, and Infrastructure, %



Source: Wind, KPMG analysis

It is worth noting that in recent years, mounting downward pressure on local government revenue and rising debt-servicing burdens have constrained local willingness to spend and weakened the effectiveness of macro policy implementation. To ease local debt pressures, the central government will once again assume the primary responsibility for new borrowing this year. Newly added central government debt will reach 6.7 trillion yuan, exceeding that of local governments for the second consecutive year, while transfer payments to local governments will hit a record high. At the same time, the Report proposes improving the efficiency of fiscal fund utilization and enhancing the consistency and effectiveness of macro policy orientation. The former suggests that this year the government will place greater emphasis on using instruments such as new types of policy-backed financial instruments and venture capital guidance funds. Indeed, for the first time this year, the government has set aside 800 billion yuan in new types of policy-backed financial instruments at the start of the year, significantly above last year's 500-billion-yuan quota. These instruments have strong leverage effects in mobilizing private capital, and policy efficiency is therefore expected to improve further. The latter indicates that fiscal and monetary policies will work in closer coordination this year. The Report shows that, for the first time, the government has established a special fiscal-financial coordination fund of 100 billion yuan and financial measures to boost domestic demand, using a combination of interest subsidies, financing guarantees, and risk compensation to support the expansion of domestic demand. It is also expected that the scale and scope of structural monetary policy tools will continue to be optimized, enabling more targeted coordination in areas supported by fiscal interest subsidies.

# Efforts to build a strong domestic market will 03 strengthen, backed by measures to drive broader and higher-quality consumer spending

Expanding domestic demand remains the top priority of the government's work this year. The Report stresses the need to stay committed to domestic demand as the main driver, take the expansion of domestic demand as our priority, and continue to advance special initiatives to boost consumption. More specifically, this year's consumption-promotion policies will make coordinated efforts on three fronts.

First, carry out large-scale equipment upgrades and consumer goods trade-in programs to encourage a shift in goods consumption toward newer and better products. The Report makes clear that 250 billion yuan in ultra-long special-purpose treasury bonds will be allocated this year to support consumer goods trade-in programs, 50 billion yuan less than last year. This likely reflects the fact that durable goods have relatively long replacement cycles, and the earlier subsidies were so strong that they triggered a wave of purchases all at once and may have even front-loaded part of future demand. In 2024, 150 billion yuan in central fiscal funding lifted the annual growth rate of total retail sales of consumer goods by 1 percentage point<sup>1</sup>, whereas in 2025, 300 billion yuan—double the previous amount—raised growth by only 0.6 percentage points<sup>2</sup>, indicating that the trade-in program's effect in boosting aggregate consumption has already weakened somewhat. In terms of implementation pace, the first batch of 62.5 billion yuan in trade-in funding for the first quarter was allocated to local governments in advance at the end of 2025. Compared with last year, when the pace of state subsidy disbursement was front-loaded and then tapered off—81 billion yuan in both the first and second quarters, and 69 billion yuan in both the third and fourth quarters—causing relatively large fluctuations in consumption growth, this year's fund allocation will place greater emphasis on balance and orderly implementation. The remaining three quarters are expected to each receive an average allocation of 62.5 billion yuan, while local governments will be guided to ensure balanced coordination across weeks, months, and quarters. From the perspective of implementation, the policy is more focused on areas that subsidize consumption upgrading and promote green, low-carbon, and intelligent products. In 2025, the large-scale equipment upgrades and consumer goods trade-in programs fully played their catalytic role in both consumption upgrading and industrial innovation. Among consumer goods trade-in purchases across different sectors, new-energy vehicles accounted for nearly 60%, home appliances with Grade 1 energy or water efficiency ratings represented over 90%, and mid- to high-end digital products made up 72.5%.

<sup>1</sup> State Council Information Office holds press conference on ensuring spring festival market supply and promoting holiday consumption, January 2025, SCIO, <http://www.scio.gov.cn/live/2025/35455/tw/>

<sup>2</sup> State Council Information Office holds press conference on acting on the guidelines of the Central Economic Work Conference and promoting a good start to the 15th Five-Year Plan, SCIO, January 2026, <http://www.scio.gov.cn/live/2026/37885/tw/>

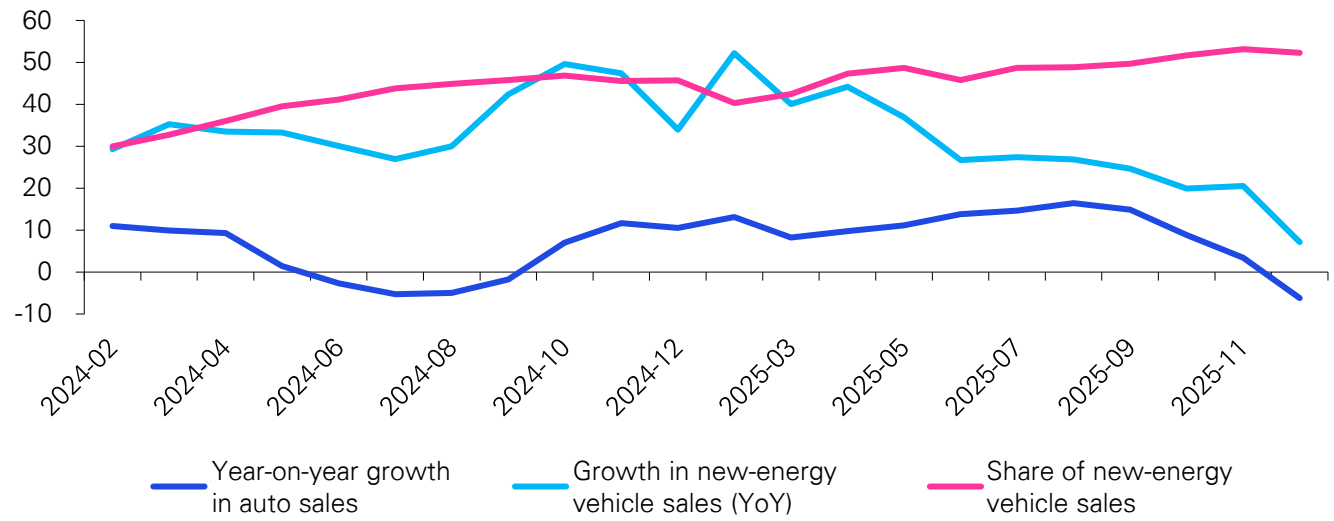
In 2025, the penetration rate of new-energy vehicles in the automobile sales market reached 47.9%, up by a notable 7.0 percentage points from 2024, with the monthly penetration rate exceeding 52% by year-end (Figure 5). According to the Notice on the Implementation of Large-Scale Equipment Upgrades and Consumer Goods Trade-In Programs in 2026 jointly issued by the National Development and Reform Commission and the Ministry of Finance, the automobile subsidy mechanism in 2026 will shift from fixed-amount subsidies to subsidies linked to vehicle prices, which will help better leverage fiscal funds. Subsidies for new-energy vehicles will remain higher than those for gasoline-powered vehicles; subsidies for home appliances will be limited to products with Grade 1 energy or water efficiency ratings; smart glasses will be added to the list of subsidized digital product categories; and in the home improvement segment, support is mentioned only for smart home products, including age-friendly home products. In addition, the equipment upgrade policy has brought under its support scope people's wellbeing- and safety-related areas such as installing elevators in old residential communities, elderly care institutions, firefighting and rescue facilities, and inspection and testing, as well as offline commercial facilities for consumer spending such as commercial complexes, shopping malls, department stores, and large supermarkets. This reflects supply-side support aimed at improving people's wellbeing and optimizing consumption scenarios.

Second, the policy seeks to expand the supply of high-quality consumer goods and services and foster diverse new consumption scenarios. The Report proposes developing a number of new, high-profile consumption scenarios with broad appeal, and moving faster to nurture new areas of consumption growth. Through coordinated fiscal and financial support and stronger standards development, the policy will promote the wide application of new technologies and new models such as artificial intelligence, big data, and flexible manufacturing in both manufacturing and services, support enterprises in enriching the supply of high-quality and personalized goods and services, develop more new consumption scenarios that are digital, green, and intelligent, and foster new areas of consumer interest such as the emotion economy, debut economy, sports-event economy, and platform economy. At the same time, it will move faster to build a new standards system suited to consumption expansion and upgrading, advance the revision and upgrading of standards on the safety, performance, and environmental credentials of consumer goods, strengthen standards development in both traditional and emerging service sectors, and create a secure consumption environment. In addition, the policy will strengthen the development of consumption scenarios for inbound visitors, make China a favoured shopping destination, and foster international consumption centre cities.

Third, it will abolish all excessive restrictions on consumption and unlock spending potential of service consumption. On the one hand, the policy will continue to remove restrictive measures in sectors such as automobiles and housing by optimizing purchase restrictions and streamlining transaction procedures, so as to unleash the vitality of big-ticket consumption. On the other hand, future policy priorities will extend further into service consumption, so as to promote higher quality and better performance in the service sector while expanding and upgrading service consumption. In 2025, expenditure on services accounted for 46.1% of per capita consumer spending by Chinese residents (Figure 6). The 15th Five-Year Plan emphasizes expanding service consumption by focusing on broader market access and greater business-form integration, and fostering new areas of growth in service consumption. This year, the Report proposes abolishing all excessive restrictions on consumption, and unlocking spending potential in areas such as culture, tourism, sports events, and healthcare.

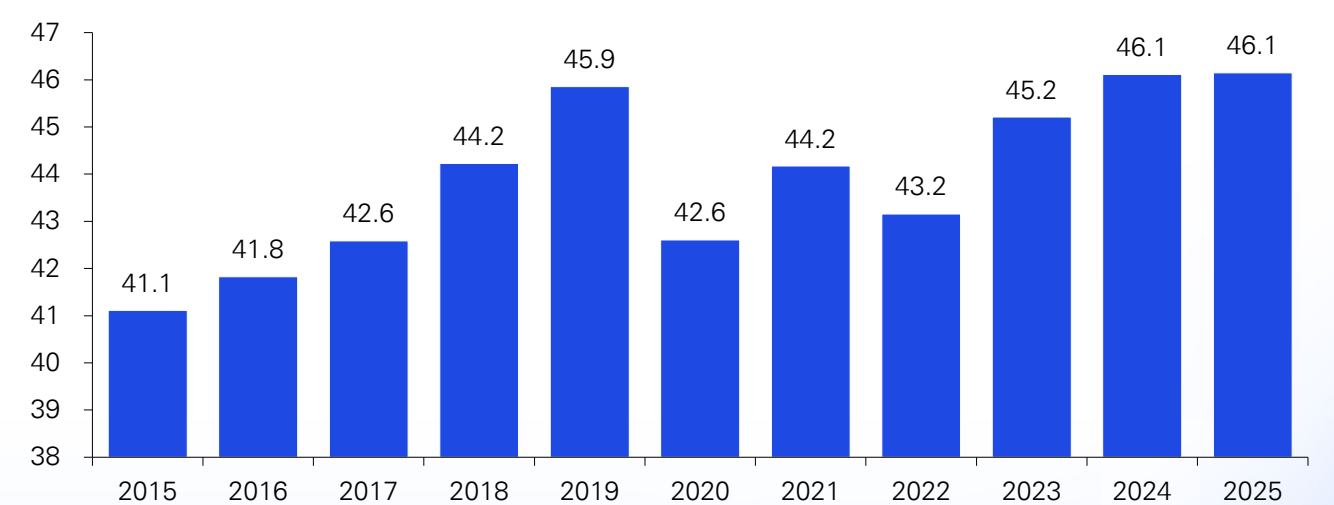
On the demand side, spring and autumn holidays will be introduced for primary and secondary school students in localities where conditions permit, and the system of staggered paid leave will be implemented, so that residents have more time to consume. On the supply side, in response to current barriers in service sectors such as culture and tourism, sports events, and healthcare, including market access restrictions, qualification approval hurdles, and unreasonable price controls, the policy will break down local protectionism and industry monopolies, attract more foreign investment and private capital, promote the freer flow of high-quality service resources, and enrich the supply of high-quality services. In addition, the State Council issued the Work Plan for Accelerating the Cultivation of New Growth Drivers in Service Consumption at the beginning of the year, making it clear that new business forms will be subject to prudent and inclusive regulation and that a package of measures, including stronger fiscal and financial support, broader market access, and encouragement for cross-sector integration and innovation, will be adopted to support the development of emerging service sectors such as online audiovisual services, smart living services, integrated transport-culture-tourism-sports services, the emotion economy, and the automotive aftermarket.

Figure 5 Growth in Auto Sales and New-Energy Vehicle Penetration Rate, Monthly, %



Source: Wind, KPMG analysis

Figure 6 Expenditure on Services as a Share of Per Capita Consumer Spending, %



Source: Wind, KPMG analysis

# 04 Stronger public wellbeing projects will be implemented to give households both the means and the confidence to spend

Growth in household income and people's sense of security in public wellbeing are the two core variables that determine both consumers' purchasing power and their willingness to spend. This year's Report underscores the need to invest in people and stimulate the internal momentum for household spending. Following immediately after the call to continue advancing special initiatives to boost consumption, it highlights the need to take stronger steps to ensure and improve public wellbeing, ensure that public services are inclusive, meet essential needs, and provide a cushion for people most in need, and formulate and implement an income growth plan for urban and rural residents. This reflects a clear policy orientation toward closely integrating public wellbeing improvement with consumption promotion, namely, establishing and improving long-term mechanisms that enable people to consume when they have stable incomes and give them the confidence to consume when they are free from worries, thereby injecting a steady source of momentum into sustained long-term consumption growth.

The core of the income growth plan for urban and rural residents lies in boosting the incomes of low-income groups and expanding the middle-income group. In 2025, per capita disposable income nationwide rose by 5.0% in nominal terms year on year, 0.3 percentage points slower than in 2024. Median household income grew by only 4.4%, 0.6 percentage points below the overall rate and 0.7 percentage points slower than in 2024. This indicates that income distribution disparities remain, and that stronger policy support is urgently needed to raise the incomes of the low- and middle-income groups which account for the largest share of the population. In 2026, policy measures will focus on the following three areas to steadily raise household incomes and significantly strengthen people's sense of security in public wellbeing.

First, implement initiatives to create more stable, better-quality job opportunities, and steadily raise wage income. At present, wage income accounts for over 60% and 42% of the income of urban and rural residents, respectively. In 2025, per capita wage income for urban and rural residents grew by 4.5% and 6.2% respectively, representing slowdowns of 0.6 and 0.8 percentage points from 2024. The Report proposes promoting high-quality full employment. It calls for implementing the initiative for creating more stable, better-quality job opportunities, supporting labour-intensive sectors and enterprises in keeping payrolls stable, nurturing new occupations and jobs to serve emerging industries and industries of the future, and seeing that the service sector plays a greater role in job creation. At present, structural problems in China's labour market remain prominent, and key low- and middle-income groups such as college graduates and migrant workers still face considerable employment pressure. In 2025, the unemployment rate among the labour force aged 16 to 24, excluding students, stood as high as 16.5%, up 0.8 percentage points from 2024; the number of rural migrant workers employed outside their home areas increased by 0.9% year on year, 0.7 percentage points lower than in 2024.

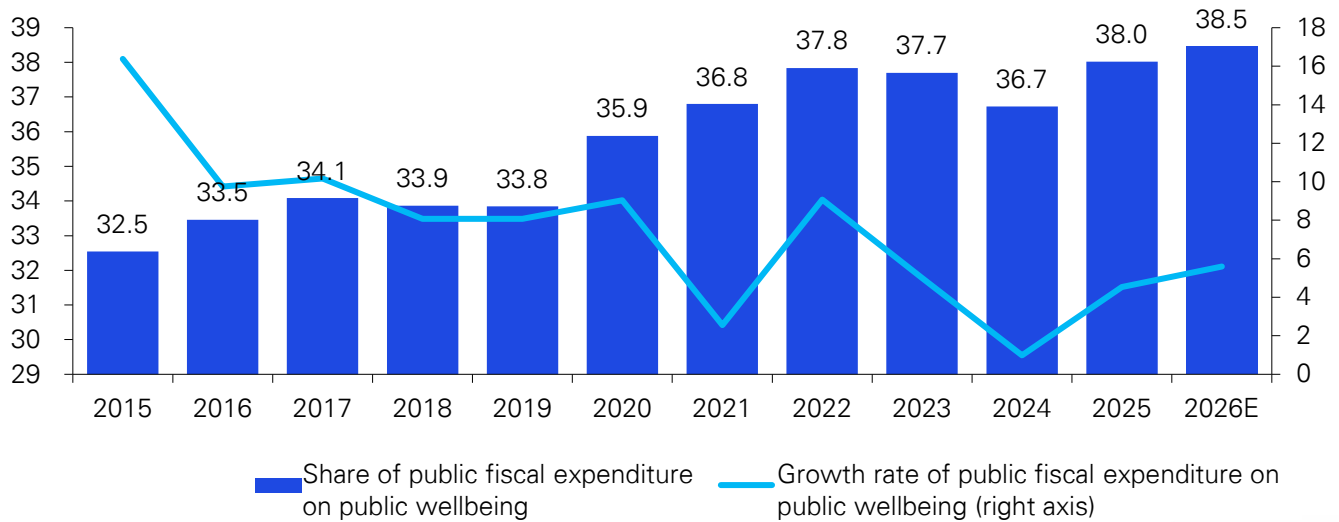
Going forward, policy measures will take a category-based approach to strengthening employment support and improving employment quality for key groups: for college graduates, this will include strengthening school-enterprise cooperation and internship base development, establishing joint talent development models for emerging industries and industries of the future such as artificial intelligence, new energy, and biomanufacturing, and improving employment channels; for migrant workers, it will include increasing funding for work-relief programs and advancing household registration reform to reduce the cost of urban employment; for flexible workers, it will include supporting the development of new business forms such as the digital economy and platform economy, strengthening the standardized development of flexible employment, improving the protection of rights and interests, and exploring a social insurance system better adapted to the characteristics of flexible employment. In addition, policy measures will strengthen coordination between industrial development and employment. Through the continued implementation of large-scale vocational skills training, they will improve employment quality, promote growth in labour remuneration in step with labour productivity, and ensure that real growth in per capita disposable income remains broadly in step with economic growth.

Second, improve income distribution and broaden income channels to narrow income disparities. According to the 15th Five-Year Plan, the share of labour remuneration in primary distribution should be raised. Going forward, the government will further improve the mechanisms for determining wages, ensuring their reasonable growth, and securing timely payment; advance the system of collective wage bargaining; refine the mechanism for adjusting minimum wage standards; and gradually raise the ratio of minimum wages to the average wage in society. At the same time, the government will strengthen redistribution measures. Specific steps may include optimizing individual income tax policy, appropriately raising the tax threshold, and improving tax incentives for self-employed households; shifting pension adjustments toward more targeted regulation aimed at raising lower benefits while restraining higher ones; and increasing fiscal transfer payments to central and western regions and rural areas, so as to narrow income distribution gaps. In addition, the Report proposes increasing property income for residents. Going forward, policy will continue to promote the sound development of the capital market, encourage listed companies to raise cash dividend payout ratios, and enrich investment products such as bonds and wealth management products, thereby unleashing the capital market's wealth effect. At the same time, it will continue to deepen reform of the rural land system, activate rural assets, and broaden channels for increasing farmers' incomes.

Third, improvements should be made to social security and public services alongside efforts to effectively ease the burden of rigid household spending on basic wellbeing. In 2025, spending in areas related to the people's wellbeing accounted for 38% of total fiscal expenditure, while outlays in key areas such as education, social security and employment, and health continued to post steady growth. The 15th Five-Year Plan proposes increasing government funding for wellbeing-related spending and appropriately raising the share of public service spending in total fiscal expenditure.

According to this year’s budget arrangements, the share of wellbeing-related spending will rise further to 38.5%, and its growth rate will reach 5.6%, up 1.1 percentage points from last year and exceeding the overall growth rate of public fiscal expenditure, which stands at 4.4% (Figure 7). The Report focuses on key areas such as education, medical care, elderly care, and childcare, and calls for carefully implementing public wellbeing programs. Specifically, this includes adjusting the layout and structure of educational resources and increasing the supply of regular senior secondary school places and undergraduate enrolment at high-quality universities, and enhancing the training capacity of vocational schools; improving the multi-tiered medical security system, deepening reform of medical insurance payment models and medical service pricing, promoting the expansion and downward extension of quality medical resources, accelerating the development of commercial health insurance, and promoting high-quality development of innovative drugs and medical devices; and improving elderly care and childcare, advancing insurance schemes for long-term care, vigorously developing silver economy-related industries such as elderly products, elderly care finance, and retirement living, improving childbirth support policies and incentives, ensuring the effective implementation of policies such as childcare subsidies, maternity leave, and free preschool education, and continuing to reduce the costs of childbirth, childcare, and education for families. In addition, the fiscal interest subsidy policy for personal consumer loans introduced last year covers essential wellbeing-related consumption in areas such as elderly care, childbirth, education and training, and health and medical care. This year, the policy further raises the ceiling on interest subsidies and extends the implementation period through the end of the year, so the benefits of these inclusive policy measures are expected to continue to be released.

Figure 7 Share and Growth Rate of Public Fiscal Expenditure on Public Wellbeing, %



Source: Ministry of Finance, KPMG analysis

# A multi-pronged effort will be taken to stabilize 05 and recover investment, with a focus on unlocking private capital

Against the backdrop of insufficient domestic demand and the impact of policies to address involutionary competition, fixed asset investment in 2025 posted its first annual decline since comparable statistics became available, and its contribution to GDP also fell to a record low. As an important component of domestic demand, keeping investment stable has become one of the government's major tasks this year. The Report proposes fully tapping and unleashing the potential of effective investment.

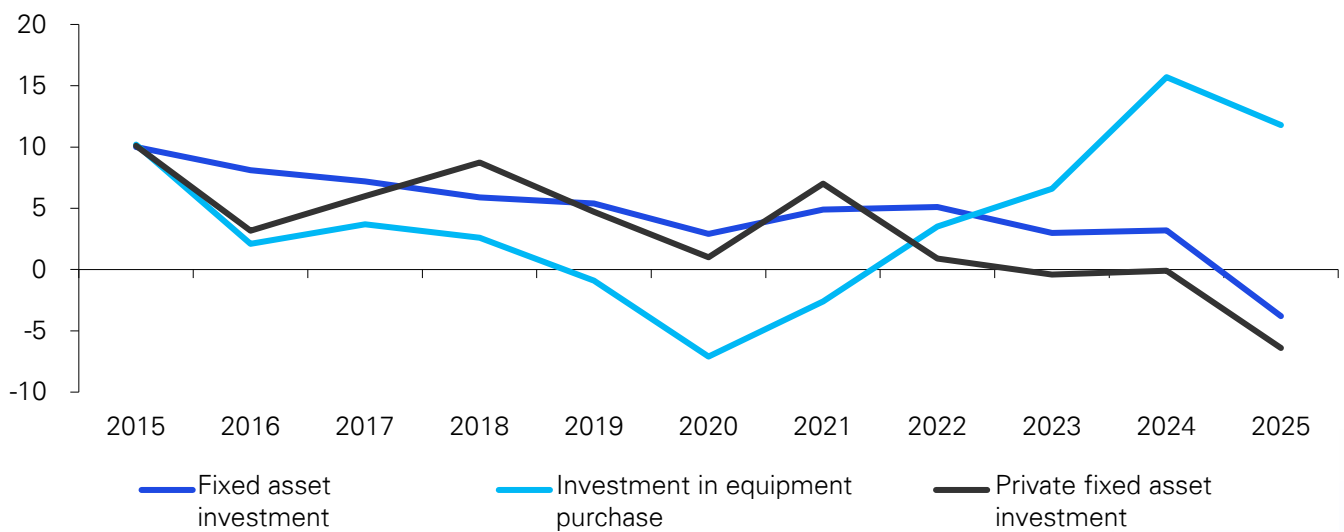
Specifically, the government will stabilize investment through three approaches this year. First, it will ensure strong fiscal support for investment. On the one hand, central government budgeted investment will be increased to 755 billion yuan, up 20 billion yuan over the previous year. At the same time, 200 billion yuan and 800 billion yuan from ultra-long treasury bonds will continue to be allocated to support large-scale equipment upgrades and the implementation of major national strategies and enhancement of security capacity in key areas, respectively. Although overall investment performance remained weak in 2025, policy guidance and support kept demand for enterprise equipment upgrades and technological transformation robust, driving another rapid 11.8% increase in investment in equipment purchase. (Figure 8). On the other hand, the new quota for local government bonds this year is set at 4.4 trillion yuan, unchanged from 2025. However, the Report proposes that quotas earmarked for projects be raised and placed under separate management, while continuing to allocate more quotas to localities where investment projects are well prepared and funds are used effectively. It is expected that the crowding-out effect of local government debt resolution on project construction last year will ease this year. In addition, the government will issue 800 billion yuan in new types of policy-backed financial instruments this year, a notable increase from 500 billion yuan last year, with a view to encouraging more nongovernmental capital to participate in investment. According to information previously released by the National Development and Reform Commission, the 500 billion yuan in new types of policy-backed financial instruments in 2025 supported more than 2,300 projects, with total project investment of around 7 trillion yuan, mainly directed toward the digital economy, artificial intelligence, consumer infrastructure, and urban renewal projects such as transport, energy, and the construction and renovation of underground pipeline networks<sup>3</sup>. Measured against that multiplier, this year's 800 billion yuan in such instruments could be expected to leverage around 11 trillion yuan in project investment. Second, China should better leverage the leading role of central government enterprises and other SOEs in industrial investment. During the 14th Five-Year Plan period, central government enterprises and other SOEs not only actively expanded investment in electricity and water conservancy, but also recorded average annual investment growth of more than 20% in strategic emerging industries. This year, the Report further encourages central government enterprises and other SOEs to take the lead in fostering emerging pillar industries.

<sup>3</sup> National Development and Reform Commission (NDRC) Press Conference for October, NDRC, October 2025, <https://www.ndrc.gov.cn/xwtd/wszb/10yxwfbh1/wzsl/>

Third, efforts should be made to invigorate private investment. Compared with the government and central government enterprises and other SOEs, private capital investment is markedly pro-cyclical. Since 2022, private investment has lost momentum, with average annual growth of -1.2% from 2022 to 2025, below the overall investment growth rate of 1.5% over the same period. The Report points out the need to boost market-driven effective investment and effectively invigorate private investment. At the end of last year, policy steps were already taken to ease access restrictions on private capital investment in major projects and emerging industries. This year, efforts will go further to refine the long-term mechanisms for facilitating the participation of private enterprises in major project development and to guide private investment toward new arenas such as high technology and modern services.

In terms of investment direction, beyond investment in traditional infrastructure, the government will also make appropriately forward-looking plans for new infrastructure and step up investment in areas related to new quality productive forces this year. As for traditional infrastructure, investment in electricity and water conservancy will maintain strong growth. To achieve the dual carbon goals, China's new type of power system will enter a period of accelerated development in 2026, driving continued rapid growth in power grid and green electricity development. In water conservancy, China still has weaknesses in its flood and drought disaster prevention system and in the development of a modern water network. Nearly 70% of the country's urban clusters, more than 90% of its energy bases, and more than 60% of its major grain-producing areas are in water-scarce regions, making the risks and challenges involved in safeguarding water security particularly acute. Given the long construction cycles of major water conservancy projects, and in order for them to be completed and begin delivering benefits before 2035, 2026 is expected to see the launch of a number of strategically important major water conservancy projects in these areas.

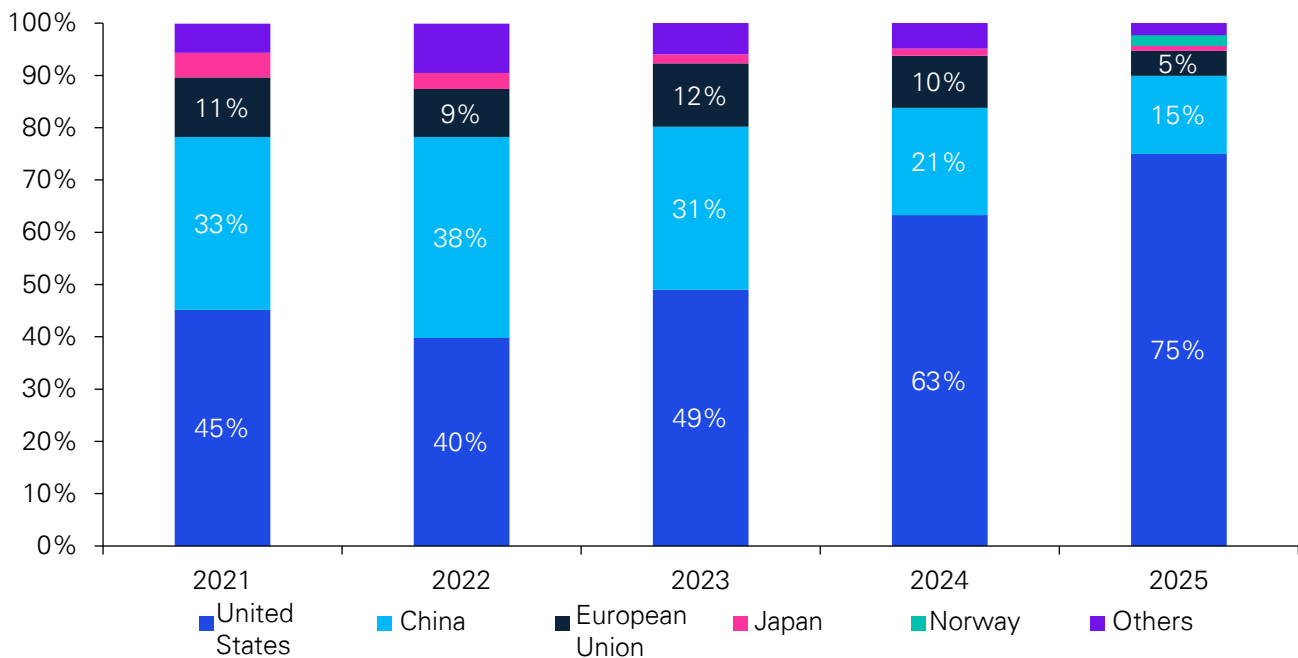
Figure 8 Growth in Fixed Asset Investment, %



Source: Wind, KPMG analysis

As for new infrastructure, the 15th Five-Year Plan clearly states that China should pursue appropriately forward-looking development of new types of infrastructure. At present, China still lags advanced economies in the scale of data centre development and in high-end computing. According to estimates, the United States currently accounts for about 75% of the world's high-end AI computing capacity, while China accounts for only 15% (Figure 9). The Report states that China should launch new infrastructure projects on hyper-scale intelligent computing clusters and coordinated development of computing capacity and electricity supply. Investment in computing infrastructure may therefore be among the first to enter a new phase of capacity expansion in 2026. In areas related to new quality productive forces, the government will make coordinated use this year of both existing and newly-introduced new types of policy-backed financial instruments, while also giving full play to the National Venture Capital Guide Fund established at the end of last year, so as to fully encourage the participation of nongovernmental capital in investment and meet the investment needs of key strategic emerging industries and industries of the future.

Figure 9 Global distribution of INT16 computing capacity, %



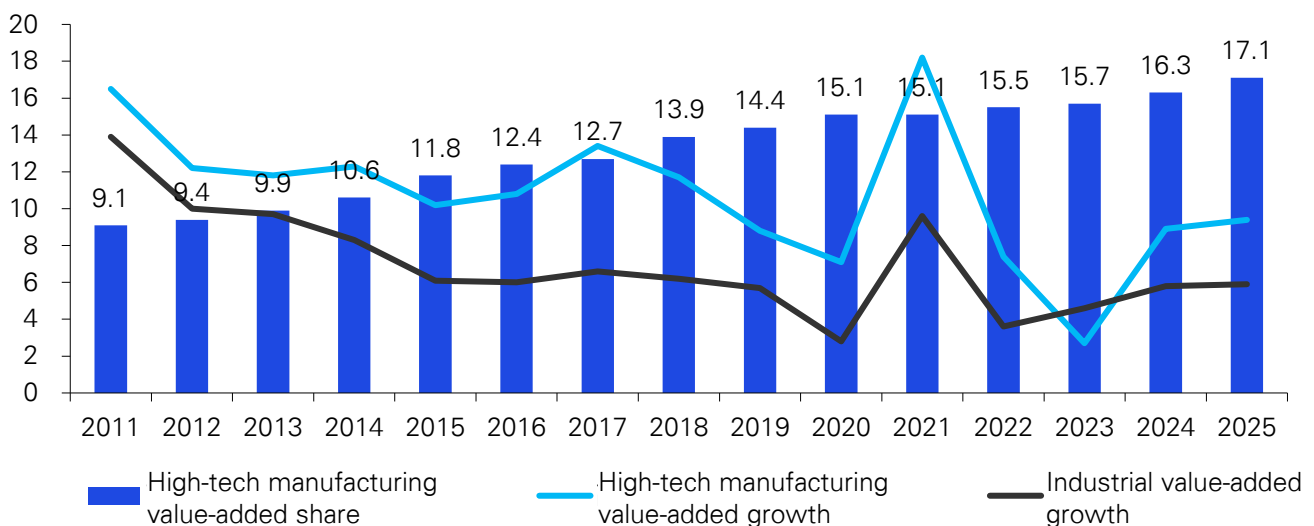
Source: Epoch AI; KPMG analysis

Note: The figure represents the sum of observed AI supercomputing capacity, covering approximately 10–20% of the current global total.

# 06 Innovation and industrial upgrading will advance in tandem as "AI Plus" scales up

As a new round of technological revolution and industrial transformation deepens, global scientific and technological innovation has entered a period of intensive activity. In this context, pursuing innovation-driven development and optimizing the structure and quality of the supply system have become important strategic choices for China. The 15th Five-Year Plan identifies "building a modernized industrial system and reinforcing the foundations of the real economy" and "achieving greater self-reliance and strength in science and technology and steering the development of new quality productive forces" as the first two tasks for economic development over the next five years. In terms of work for 2026, the Report lists "fostering new growth drivers at a faster pace" and "moving faster to achieve greater self-reliance and strength in science and technology" among the priority tasks. At present, growth momentum in areas related to new quality productive forces remains strong, and new drivers of economic growth are taking shape more quickly. High-tech manufacturing is a case in point. In 2025, its value added grew by 9.4%, significantly outpacing the 5.9% growth in value added of industrial enterprises above designated size, while its share in total industrial value-added rose further to 17.1% (Figure 10). In the near term, the government will improve domestic institutions and mechanisms for innovation while also advancing the development of a modernized industrial system, with particular attention to the enabling role of artificial intelligence across industries.

Figure 10 High-Tech Manufacturing Value-Added Growth and Share, %



Source: National Bureau of Statistics, Wind, KPMG analysis  
 Note: High-tech manufacturing refers to industrial enterprises above designated size.

In scientific and technological innovation, the first priority is to drive advances in original innovation and breakthroughs in core technologies in key fields. The government will further increase the share of R&D spending on basic research and intensify scientific and technological efforts in areas such as integrated circuits, artificial intelligence, biomanufacturing, quantum technology, brain-computer interfaces, and fusion energy, so as to provide stronger scientific and technological support for industrial development. The second priority is to strengthen the role of enterprises as the main drivers of innovation. At present, when major science and technology projects are led primarily by universities and research institutes, research outcomes can become disconnected from industrial demand. To address this, enterprises will be encouraged to play a greater role in defining innovation priorities and participating in national science and technology decision-making. The Report calls for stronger support for leading technology firms to spearhead innovation consortiums and take on a larger share of major national R&D projects. At the same time, fiscal and financial support for technology enterprises will be expanded to encourage broader private-sector participation in innovation and commercialization. On the fiscal side, the additional tax deduction for R&D expenses should be raised for enterprises. On the financial side, the Report highlights the need to improve full life-cycle, whole-of-chain financial services for scientific and technological innovation and establish routine fast-track channels for public listing, merger, acquisition, and restructuring for sci-tech enterprises developing core technologies in key fields.

Industrial upgrading, meanwhile, should advance in step with technological innovation, with the government focusing on three priorities. First, it should promote AI deployment across industries. The Report proposes that China advance and expand the “AI Plus” Initiative and create new forms of smart economy. Last year, the State Council issued the Opinions on Deepening the Implementation of the “AI Plus” Initiative, which made clear that by 2027 China will take the lead in achieving broad and in-depth AI integration in six key areas. Going forward, AI technologies will use such capabilities as intelligent planning, self-optimization, and tool integration to transform industries across the entire process chain and across all production factors, give rise to new forms and models of business, and provide new growth drivers for socioeconomic development. At the same time, the Report proposes for the first time that steps be taken to improve AI governance, marking data protection and the prevention of technological misuse as key issues in AI development this year.

Second, China should accelerate the growth of emerging industries and industries of the future. For emerging industries, the Report makes clear that China will foster emerging pillar industries such as integrated circuits, aerospace, biomedicine, and the low-altitude economy. These four industries are expected to be among the first to enter a stage of large-scale and cluster-based development this year. For industries of the future, the Report explicitly calls for establishing mechanisms for increasing investment in and sharing risks for such industries, and for fostering industries of the future such as future energy, quantum technology, embodied AI, brain-computer interfaces, and 6G. At the end of January this year, the Ministry of Industry and Information Technology had already launched the development of pilot zones for industries of the future and accelerated technological breakthroughs in areas such as 6G and quantum technology. This suggests that the lag between top-level design and industrial application in these industries will narrow further this year.

Third, China should support the intelligent upgrading of traditional industries. The Report proposes planning new projects for major technology transformation and upgrading, with a focus on smart manufacturing and smart construction. Notably, this year's policy for large-scale equipment upgrades has further lowered the investment threshold for project applications and ramped up support for small and medium-sized enterprises (SMEs) undergoing digital and intelligent transformation. Through digital and intelligent transformation, traditional industries are expected to improve productivity, accelerate product innovation, and break out of rat race competition.

Innovation requires both incentives and sound regulation. For the second consecutive year, the Report emphasizes developing new quality productive forces in light of local conditions. This means that the current round of development in emerging industries cannot be pursued through indiscriminate duplication or blind expansion. Local governments are required to fully consider practical feasibility, leverage their own resource endowments, and make plans for emerging industries and industries of the future in light of actual conditions. At the same time, their previously irregular pro-growth practices, such as noncompliant investment attraction and bidding activities, will be subject to stricter oversight. As a result, the cultivation and development of emerging industries in this round will proceed on a sounder footing.

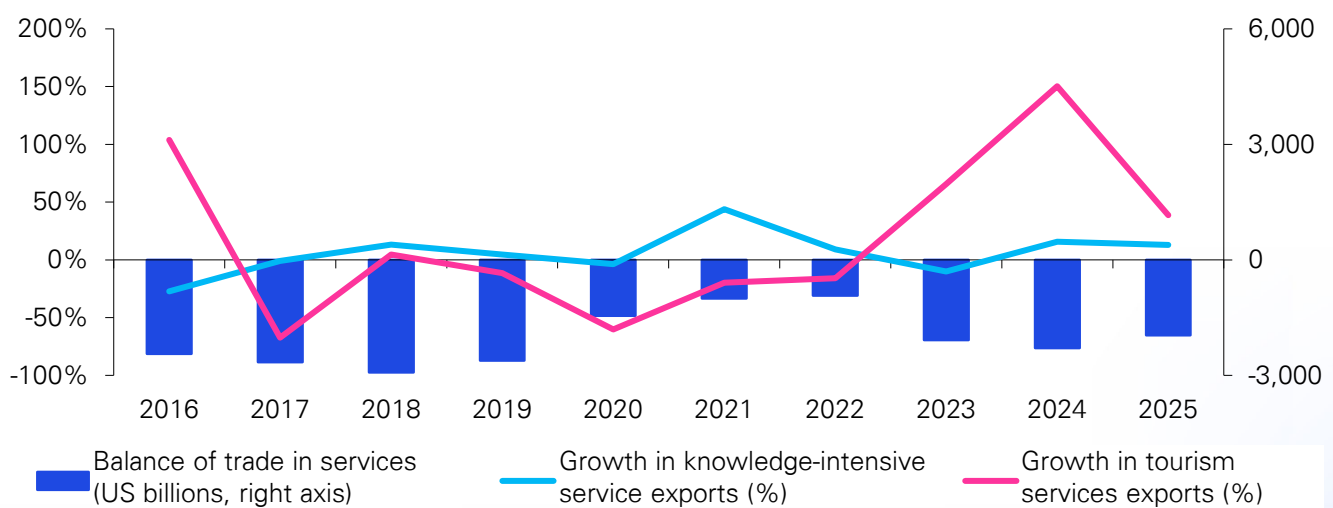


# 07 High-standard opening up to widen, with trade and investment more tightly integrated

Against a backdrop of profound restructuring in the global economic governance system and an undercurrent of deglobalization, expanding high-standard opening up is not only a strategic choice for responding to risks, but also a core driver of high-quality domestic economic development. The Report emphasizes the need to further expand high-standard opening up. This includes continuing to pursue mutually beneficial cooperation, steadily expanding opening up at the institutional level, and promoting broader flows in the international economy.

In cross-border trade, the Report proposes advancing integrated development of domestic and foreign trade, and fostering new drivers of trade growth. A key priority is the expansion of services trade. In 2025, China's services exports reached a record high of USD 433.6 billion, rising 12.9% year-on-year, significantly outpacing the 2.7% growth in services imports. As a result, the services trade deficit narrowed by USD 36.83 billion to USD 190.04 billion. Travel services and knowledge-intensive services were the main growth drivers. On the one hand, supported by continued policy measures to optimize visa-free entry, departure tax refunds, and payment facilitation for inbound visitors, China's inbound tourism market recovered rapidly and remained highly active, driving travel services exports up by 38.7% year-on-year in 2025. On the other hand, exports of knowledge-intensive services increased by 10.3%, with exports of intellectual property royalties, cultural and entertainment services, and telecommunications, computer, and information services rising by 29.7%, 15.8%, and 12.8%, respectively. This reflects China's strengthening international competitiveness in high value-added sectors such as technology-related services, cultural products, and digital services (Figure 11).

Figure 11 China's Services Trade Balance and Growth in Knowledge-Intensive and Travel Services Exports, %

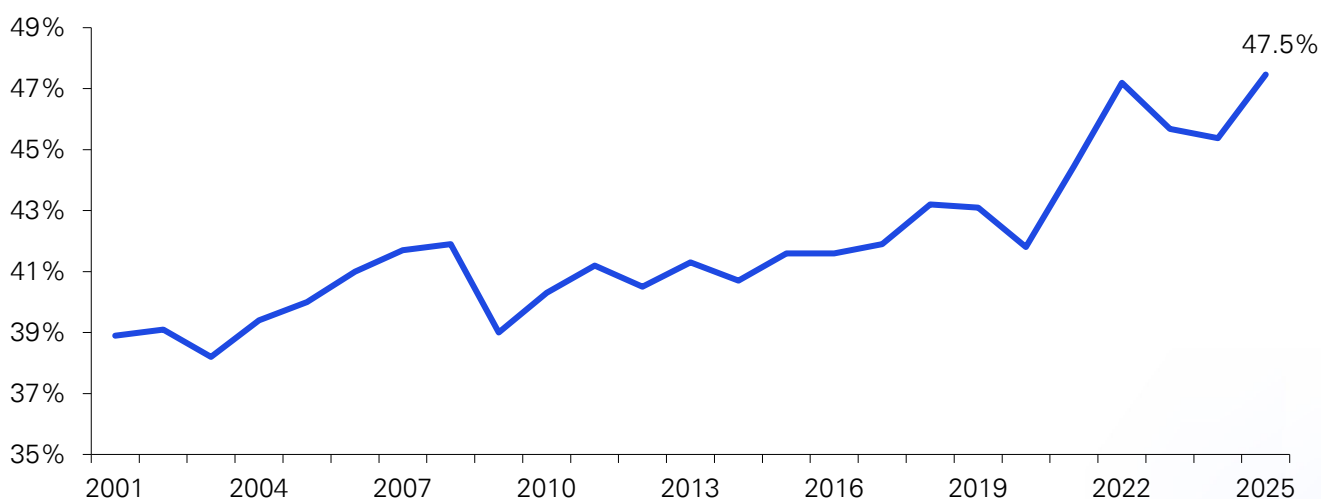


Source: Wind, KPMG analysis

Note: Exports of knowledge-intensive services include financial services, insurance services, computer and information services, charges for the use of intellectual property, personal cultural and recreational services, and other business services.

Going forward, policy will continue to expand inbound consumption and support exports of knowledge-intensive services such as information technology, finance and insurance, culture and entertainment, intellectual property, and other business services. Second, the active development of digital trade and green trade should be pursued. The newly revised Foreign Trade Law will provide legal support for mutual recognition of digital certificates and the development of green standards, while aligning with high-standard international economic and trade rules. Third, the policy framework for integrated domestic and foreign trade development should be improved. Policies will progressively eliminate differences between domestic and foreign trade in taxation, regulation, standards, and certification, while supporting enterprises in establishing marketing systems and logistics networks that cover both domestic and international markets. At the same time, the Report emphasizes actively expanding imports and promoting balanced trade development. On the one hand, China will shorten the negative list for cross-border trade in services in order to expand imports of high-quality services. On the other hand, it will facilitate the expansion and upgrading of the “cross-border e-commerce plus overseas warehouses” model, thus better connecting the two markets. Fourth, the expansion of trade in intermediate goods should be prioritised. In recent years, driven by the adjustment of global industrial and supply chains and the accelerated global expansion of Chinese enterprises, China’s exports of intermediate goods have continued to grow, accounting for 47% of total exports in 2025 and becoming the core force driving export growth (Figure 12). China has ranked first in the world in exports of intermediate goods for 14 consecutive years, fully demonstrating both the breadth and depth of its participation in the global value chain. Going forward, China will further deepen and expand cooperation with countries participating in the Belt and Road Initiative in areas such as the digital economy, green development, artificial intelligence, and healthcare, while promoting the joint development of cross-border industrial parks and logistics hubs and improving trade facilitation infrastructure. As China guides the rational and orderly cross-border deployment of industrial and supply chains, this is expected to continue supporting exports of intermediate goods and help stabilize and strengthen the resilience of external demand.

Figure 12 Share of Intermediate Goods in China’s Exports, %



Source: UNCTAD, the General Administration of Customs, KPMG analysis

In cross-border investment, the government will actively open up new space for two-way investment cooperation and continue to consolidate China's pivotal position in the global value chain. In terms of attracting foreign investment, the Report proposes enhancing services and support for foreign-funded enterprises to make China a favoured destination for foreign investment. The core task is to ensure not only market access but also market operations, and thereby improve the quality and level of foreign investment utilization. In recent years, affected by slower global cross-border capital flows and the restructuring of industrial chains, the scale of foreign direct investment in China has declined to some extent. But this does not mean foreign capital is withdrawing from China on a large scale. Foreign investment in high-tech industries such as e-commerce services, medical instruments and equipment, and aerospace equipment has still posted double-digit growth. Behind this lie three core attractions of the Chinese market that are hard to replicate. First, its enormous and multi-tiered consumer market means foreign investors neither can nor will walk away from China. Second, the Chinese market changes rapidly and generates new business models at speed, while its digital economy and green industries are leading globally, making China a real-world arena in which foreign investors can sharpen their competitiveness. Third, as Chinese companies accelerate their global expansion and emerge as major competitors on the world stage, having a strong foothold in China has taken on added value as a source of strategic insight. This year, policy efforts will focus on three fronts to foster new strengths in attracting foreign investment. First, China will expand market access and open up more areas, particularly in the service sector, by further expanding opening-up trials for value-added telecom services, biotechnology, wholly foreign-owned hospitals, and other fields. Second, it will refine post-entry regulation to ensure that foreign-funded enterprises enjoy national treatment in such areas as access to production factors, standards setting, and government procurement. Third, it will strengthen incentives for foreign reinvestment by implementing a new edition of the Catalogue of Encouraged Industries for Foreign Investment and extending tax incentives and credit support to reinvestment projects that comply with national industrial policies. It will also support foreign-funded enterprises in expanding production locally and in establishing functional institutions in China, including R&D centres and regional headquarters.

With respect to outbound investment, the Report proposes guiding the overseas distribution of industrial and supply chains in a rational and orderly manner, improving comprehensive overseas services, and prevent and control outbound investment risks and protect China's overseas interests. On February 11, the national comprehensive overseas service platform was officially launched. By coordinating service resources in such areas as legal services, fiscal and taxation services, finance, logistics, and trade promotion, the platform provides one-stop public services for enterprises going global. At the same time, at the market level, policy support will focus on helping service-sector enterprises expand into overseas markets and on fostering a group of specialized overseas service providers, including transnational legal service institutions, accounting firms, and consulting companies, so as to provide market-based and professional services for enterprises venturing abroad. In addition, the government will continue to deepen international cooperation by advancing negotiations to conclude or upgrade more regional and bilateral trade and investment agreements. It will also encourage industry associations and chambers of commerce to play their role as bridges and links by organizing overseas exhibitions, industrial research visits, and resource matchmaking activities, thereby helping enterprises go global in clusters. By building a service network in which the government and the market work in concert, China will significantly enhance the efficiency of services available to enterprises going global and strengthen their ability to respond to risks, enabling them to optimize resource allocation worldwide and build comprehensive competitive strengths.

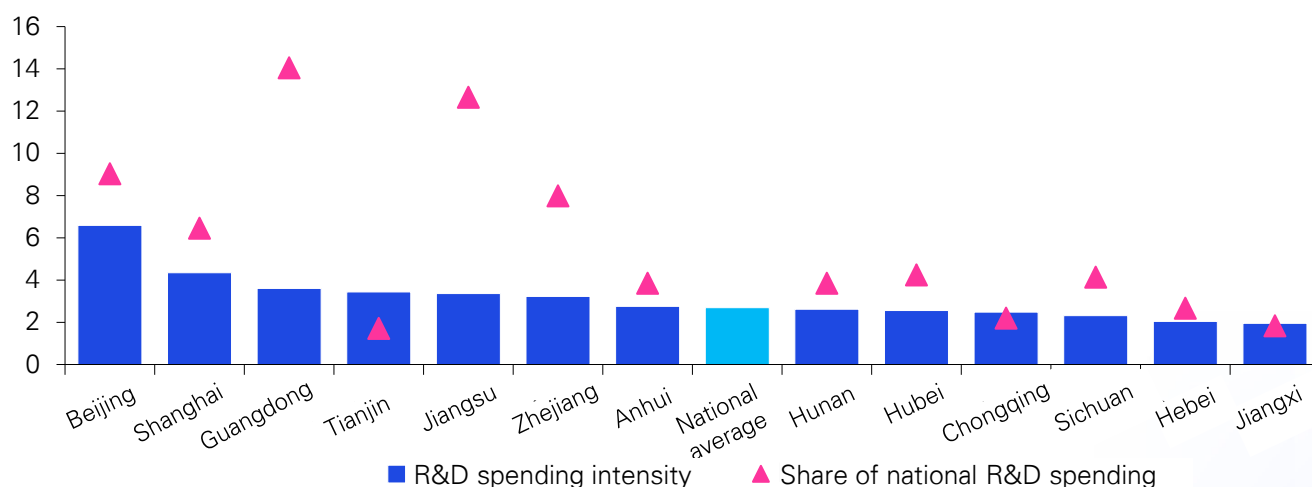
## 08 Major city clusters to deepen coordination and strengthen cross-jurisdictional cooperation

At present, China's regional development strategy places emphasis on ensuring equitable access to development opportunities and balanced resource allocation. All regions should proceed from their resource endowments, identify their principal functional positioning, improve economic efficiency, and achieve high-quality development. The Report also points out the need to enhance regional development coordination and leverage comparative advantages. Building on the strategic framework covering the eastern, central, western, and northeastern regions, China will support major economic provinces in shouldering greater responsibility and promote coordinated development among key city clusters. In August 2025, the State Council issued the Opinions on Promoting High-Quality Urban Development, which for the first time explicitly designated the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Guangdong-Hong Kong-Macao Greater Bay Area as world-class city clusters, while defining the Chengdu-Chongqing economic zone and the city cluster in the middle reaches of the Yangtze River as growth poles for high-quality development. This means that China is set to form a new "3+2+N" city-cluster landscape, thereby establishing the framework for the next stage of its regional coordinated development strategy.

Looking ahead, the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Guangdong-Hong Kong-Macao Greater Bay Area, as world-class city clusters and as the engines of high-quality development highlighted in the 15th Five-Year Plan, will further enhance their capacity to allocate global resources, strengthen their role as sources of scientific and technological innovation, promote further institutional opening up, and improve their international competitiveness. Leveraging Beijing's nationally leading R&D intensity of 6.6%, the Beijing-Tianjin-Hebei region is committed to giving full play to the capital's leading and exemplary role, strengthening basic research and original innovation, and support China's strategic scientific and technological capabilities. The Yangtze River Delta will capitalize on its strong economic foundation, complete industrial system, and efficient market mechanisms to be a hub for the commercialization of scientific and technological achievements and a cluster for high-end industrial innovation. In 2024, combined R&D spending in the three provinces and one municipality of the Yangtze River Delta accounted for 30.9% of the national total, forming the country's largest concentration of innovation investment and supporting the region's need to upgrade manufacturing through intelligent transformation. The distinctive advantage of the Guangdong-Hong Kong-Macao Greater Bay Area lies in its favourable conditions for openness and institutional diversity. It is working to build an international centre for scientific and technological innovation and a hub for high-standard opening up, with a particular focus on exploring cross-border collaborative innovation. As growth poles for high-quality development, the Chengdu-Chongqing economic zone and the city cluster in the middle reaches of the Yangtze River are primarily enhancing their driving role for the central and western regions and becoming strategic pivots for the domestic economy. With Wuhan, Changsha, and Nanchang as its core cities, the city cluster in the middle reaches of the Yangtze River will leverage the advantages of the Yangtze River's golden waterway to build an innovation corridor linking east and west and connecting south and north, and is committed to becoming a key pillar in advancing the rise of central China (Figure 13).

The development of world-class city clusters also depends on cross-jurisdictional cooperation. In this regard, the Report calls for improving mechanisms for planning coordination, industrial collaboration, and benefit sharing, implementing the project for upgrading the development of industries transferred from one region to another, and deepening cross-jurisdictional cooperation. At the very beginning of this year, the Spatial Coordination Plan for the Modern Capital Metropolitan Area (2023–2035), the first metropolitan area plan approved by the CPC Central Committee and the State Council, was released. Both its cross-jurisdictional coverage and its planning scale exceed those of all other approved metropolitan area plans. The Plan emphasizes ““coordination between the central and local governments and among the three jurisdictions” and, through planning guidance and institutional innovation, explores deeper cross-jurisdictional cooperation in six areas: industry, transport, ecology, public services, culture and tourism, and security. The Beijing-Tianjin-Hebei region will take the relief of Beijing of functions nonessential to its role as the capital as a key lever, promote the Xiong’an New Area in Hebei and the Beijing Municipal Administrative Centre to undertake these relocated functions in a coordinated and differentiated way as the “new two wings,” and develop a spatial configuration featuring “one core, two wings, two cities, multiple nodes, two corridors, and multiple circles.” At the same time, the Plan calls for building an “industrial synergy circle,” marking a shift from the previous model of largely one-way relocation and assistance from core cities to surrounding areas toward a new model based on comparative advantages and focused on two-way empowerment and deeper coordination. Leveraging Beijing’s strength in scientific and technological innovation, Tianjin’s manufacturing base, and Hebei’s advantages in undertaking industrial relocation, the region will work to build a vertical industrial chain linking innovation and R&D, commercialization of research results, and manufacturing support across the three jurisdictions. This will help steer the regional economy away from homogeneous competition and toward specialized collaboration, while creating an embedded and mutually reinforcing interplay with the “commuting circle” and the “functional circle,” thus fostering an industrial ecosystem characterized by complementary strengths and close coordination and enhancing the region’s overall competitiveness.

Figure 13 R&D Intensity and Share of National R&D by China’s Five Major City Clusters in 2024, %



Source: Ministry of Science and Technology, KPMG analysis

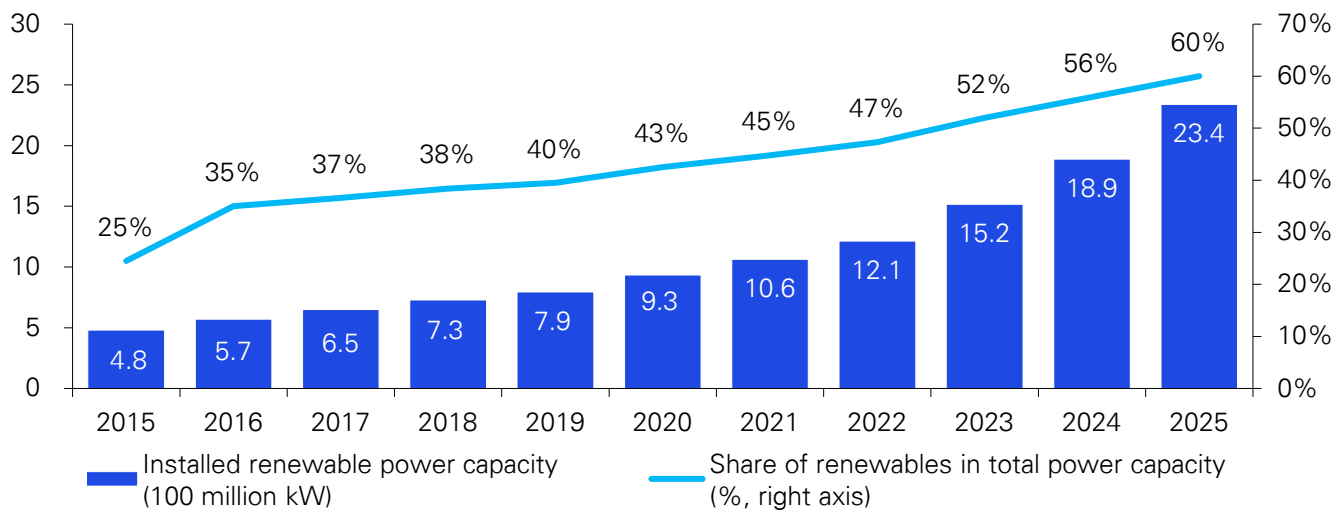
# 09 A new electric power system will be built, anchoring the green and low-carbon transition

To strengthen the green development drivers, building a new electric power system has for the first time been written into the Report on the Work of the Government. This means that during the 15th Five-Year Plan period, the focus of energy development will shift from the singular pursuit of incremental installed capacity in new energy to building a modern electricity ecosystem capable of safely accommodating, efficiently absorbing, and flexibly regulating a high share of renewable energy. To achieve this goal, China will take coordinated steps across three key links in the future power system—generation sources, the grid, and users—and advance this agenda in a systematic manner.

First, it will make energy supply cleaner and continue to raise the share of non-fossil energy supply. After years of sustained progress, China has made notable achievements in energy reform, and the replacement of fossil energy with non-fossil energy is advancing steadily. Thanks to the rapid development of the wind and photovoltaic industries, by the end of 2025 China's installed renewable energy capacity had reached 2.34 billion kilowatts, accounting for around 60% of total installed capacity nationwide, up 17 percentage points from 2020. (Figure 14). Of this total, installed capacity of wind and solar power combined reached 1.84 billion kilowatts. The priority in building a new electric power system is to substantially increase the supply capacity of clean electricity. Wind and solar power will continue to lead growth. According to the new round of Nationally Determined Contributions, total installed capacity is expected to reach 3.6 billion kilowatts by 2035, implying a compound annual growth rate of around 6.9% over the next decade. Given China's wind and solar resources, industrial foundation, and market demand, this target rests on a solid basis for achievement. Hydropower development will also drive growth in installed hydropower capacity as major projects such as those in the lower reaches of the Yarlung Zangbo River move forward, while nuclear power will, on the premise of ensuring safety, expand its integrated utilization in areas such as district heating. In addition, the Report proposes setting up a national fund for low-carbon transition and foster new growth drivers such as hydrogen power and green fuels.

Second, the system will become smarter, with a modernized power grid built on a new electric power system. The focus here is on improving the flexibility, security, and smart capabilities of the power system to meet the challenges posed by the integration of a high share of renewable energy. Going forward, one priority will be to vigorously develop new types of energy storage and accelerate the development of smart grids and microgrids to accommodate new energy integration. Another priority will be to improve market and pricing mechanisms. By deepening power market reform, price signals should be enabled to effectively guide the optimal allocation of resources across generation, the grid, load, and storage.

Figure 14 China's Renewable Power Capacity and Share



Source: National Energy Administration, KPMG analysis  
Renewable energy includes hydropower, wind power, solar power (photovoltaic), and biomass power generation.

Third, China will raise the level of electrification in end-use energy consumption and increase the share of green electricity in final energy consumption. The Report explicitly calls for boosting the green and low-carbon economy and promoting more extensive use of green electricity. Raising the level of electrification is an important pathway for advancing the green and low-carbon energy transition, promoting more extensive use of green electricity, and ultimately achieving zero-carbon emissions. In recent years, China's electrification rate has continued to rise. A report released by the China Electricity Council in September 2025 projects that during the 15th Five-Year Plan period, the national electrification rate will increase by around one percentage point annually, reaching about 35% by 2030<sup>4</sup>. Going forward, efforts will focus on further advancing electrification in key sectors such as manufacturing, buildings, and transport. In hard-to-abate sectors—including steel, chemicals, shipping, and aviation—greater emphasis will be placed on the coordinated development of electricity, hydrogen, green ammonia, and green methanol. Alongside higher electrification in end-use energy consumption, increasing the share of green electricity in final consumption will also be essential. In our view, the next phase of green power demand growth will depend on three factors. First, more targeted policy support. China has pledged to steadily expand mandatory green certificate consumption requirements and raise the share of green electricity use in sectors such as steel, nonferrous metals, building materials, petrochemicals, chemicals, and data centres. Mandatory assessments for green power consumption in the electrolytic aluminium industry have also been introduced. As a result, green power consumption is expected to shift gradually from a voluntary option to a compliance requirement. Second, stronger market mechanisms and financial support. This includes promoting direct green power supply arrangements and long-term power purchase agreements (PPAs), while developing innovative financial instruments linked to green electricity consumption and future carbon assets to reduce transition costs for enterprises. Third, greater international alignment of standards. China will promote mutual recognition of its green certificates with international standards and support internationally recognized carbon footprint accounting systems, helping companies better respond to trade measures such as the EU Carbon Border Adjustment Mechanism (CBAM).

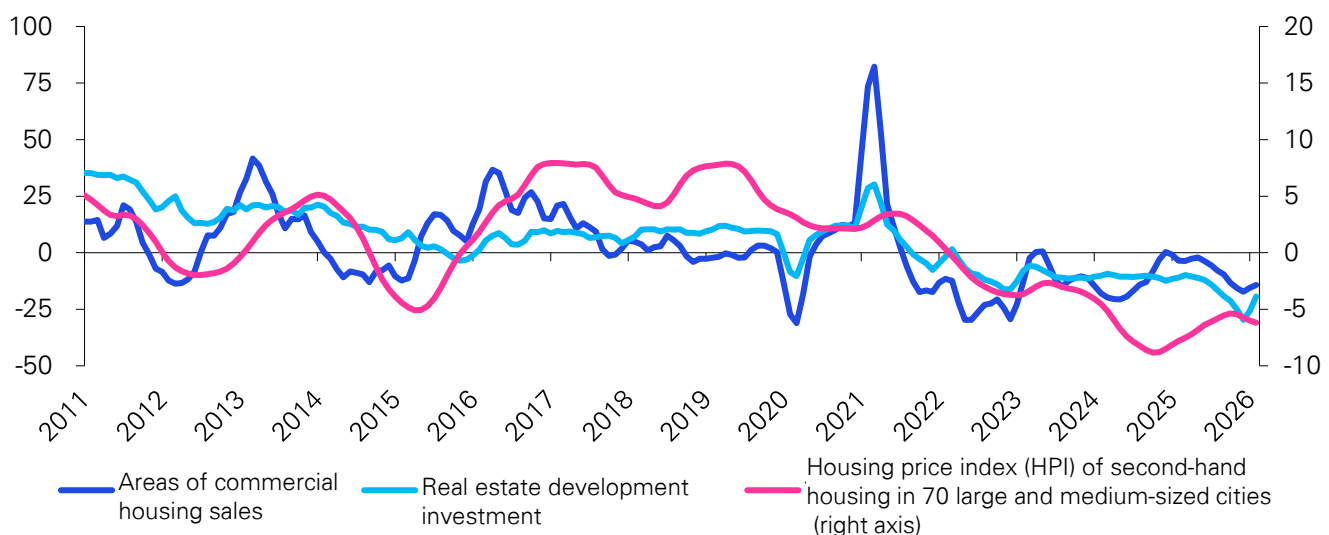
<sup>4</sup> China Electrification Annual Development Report 2025, Electric Power Development Research Institute of CEC, September 2025, [https://mp.weixin.qq.com/s?\\_\\_biz=MzU5NTQ1NzgyNA==&mid=2247488336&idx=1&sn=3c16b6cc13f65c147813ff7044eb96da&chksm=ff82856c4d1db49a3fb0557fad3b8ba54ad4d72384519a32f9f0893acd92dc9dee40172cb123&mpshare](https://mp.weixin.qq.com/s?__biz=MzU5NTQ1NzgyNA==&mid=2247488336&idx=1&sn=3c16b6cc13f65c147813ff7044eb96da&chksm=ff82856c4d1db49a3fb0557fad3b8ba54ad4d72384519a32f9f0893acd92dc9dee40172cb123&mpshare)

# 10 A coordinated push will be made to stabilize the property market, restructure local government debt, and reform high-risk financial institutions

This year, the government will continue to focus on three key areas—real estate, local government debt, and small and medium financial institutions—and take an integrated approach to both risk resolution and transformation and development. It will stay on the path of defusing risks through development, make better use of market mechanisms, promote the orderly unwinding of existing risks, and effectively prevent new risks.

Regarding risks in the real estate market, the Report makes clear that efforts must be made to stabilize the real estate market by adopting city-specific policies to control new supply, reduce inventory, and improve supply. Following the Political Bureau meeting in September 2024, policies to stabilize the property market were rolled out intensively, and signs of a market stabilization began to emerge. However, the recovery remains weak. After the first quarter of 2025, the year-on-year declines in both commercial housing sales area and real estate development investment widened markedly (Figure 15). On the one hand, to shorten the adjustment period as much as possible and smooth market fluctuations, this year's policy measures will continue to stabilize the market through demand-side relief. First, restrictive policies will be further relaxed by removing home-purchase restrictions in tier-1 cities, lowering mortgage costs and transaction taxes and fees, and deepening reform of the housing provident fund system, to unlock pent-up homebuying demand. Second, efforts to purchase existing housing inventory will be stepped up, with a focus on improving the supply of government-subsidized housing and accelerating the renovation of old and dilapidated housing units through cash-based resettlement and other means to facilitate destocking in the commercial housing market.

Figure 15 Property Sales, Real Estate Investment, and Existing Home Price Index, YoY, 3-Month Moving Average, %

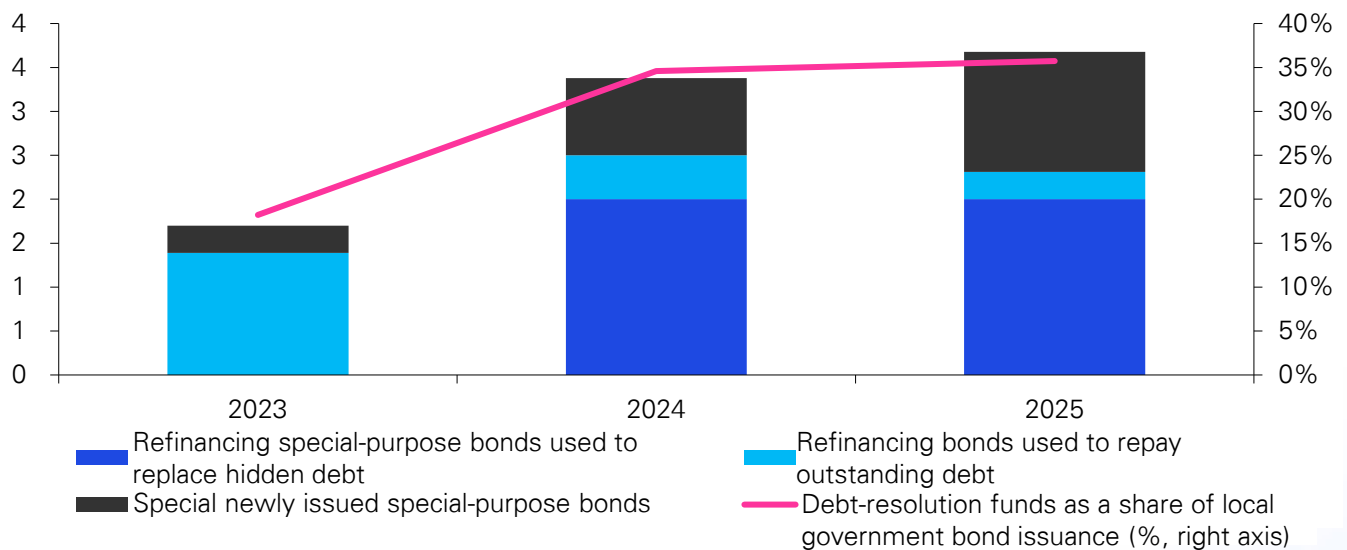


Source: Wind, KPMG analysis

On the other hand, regarding long-term high-quality development, supply-side policies will focus on coordinated reform of the key factors of people, housing, land, and funding in order to accelerate the development of a new model for real estate development. First, deepen foundational reforms in real estate development, financing, and sales. In property development, an SPV-based development model will be promoted, under which each project is established as a separate legal entity to enable risk ring-fencing and closed-end fund management. In property financing, a lead-bank system will be introduced, with one designated bank responsible for each project to ensure reasonable financing access while strengthening oversight of fund usage. In the housing sales market, the transition toward completed-home sales will continue, allowing buyers to purchase finished properties rather than pre-sold units, thereby fundamentally reducing delivery risks. Second, prudential financial management will be strengthened. Authorities will continue to leverage the urban real estate financing coordination mechanism and make better use of the “whitelist” system for housing delivery support to mitigate debt default risks. Third, efforts will be made to advance the development of safer, greener, smarter, and more comfortable housing. This will include programs to improve housing quality and enhance property management services. Fourth, multiple channels will be explored to revitalize existing assets, including encouraging the broader expansion of Real Estate Investment Trusts (REITs).

Regarding local government debt risks, the Report calls for defusing hidden debt risks at a faster pace, taking stringent measures to prevent fraudulent debt resolution, and enforcing the prohibition on incurring new hidden debts in breach of regulations as an ironclad rule. Since 2025, hidden local government debt has been resolved in an orderly manner through a combined package of “6+4+2” debt-resolution measures. According to our estimates, funds used for local government debt resolution totalled approximately 3.7 trillion yuan in 2025<sup>5</sup>(Figure 16), which is expected to drive the balance of hidden debt down sharply from 14.3 trillion yuan at the end of 2023 to around 6.8 trillion yuan by the end of 2025. Following debt replacement, the average interest cost of the debt fell by more than 2.5 percentage points, generating cumulative interest savings of over 450 billion yuan<sup>6</sup>.

Figure 16 Scale of local government debt-resolution funds, 2023–2025, RMB trillion



Source: Enterprise Warning App, KPMG analysis

<sup>5</sup> Scale of local government debt-resolution funds = refinancing special-purpose bonds used to replace hidden debt + refinancing bonds used to repay outstanding debt + special newly issued special-purpose bonds

<sup>6</sup> Transcript of the State Council Information Office Press Conference on the Achievements in Fiscal Reform and Development During the 14th Five-Year Plan Period, Ministry of Finance, September 2025.

[https://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202509/t20250912\\_3972196.htm](https://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202509/t20250912_3972196.htm)

By the end of September 2025, the number of local government financing vehicles nationwide and the scale of their outstanding operating financial debt had fallen by 71% and 62%, respectively, compared with the end of March 2023<sup>7</sup>. This year, the government will adhere to the principle of combining easing and tightening measures and handling different categories differently, to achieve a systemic shift in local debt governance from short-term containment to long-term governance. First, as this is the final year of the 6-trillion-yuan debt-resolution plan, the government will launch a decisive campaign to eliminate hidden debt, while strictly enforcing a lifetime accountability mechanism for local government borrowing and a retrospective audit system for debt-related violations. Second, it will optimize debt restructuring and swap mechanisms, and deploy a range of measures to address the operational debt risks of local government financing vehicles (LGFVs). These include asset revitalization and greater participation of private capital to enhance debt-servicing capacity. In parallel, LGFVs will be encouraged to transition toward asset and infrastructure operation models, while the use of direct financing instruments such as REITs and science and technology innovation bonds will be further expanded. Third, it will optimize debt monitoring and assessment indicators and build a long-term central-local coordination mechanism. The central government will reduce local expenditure pressure by assuming greater spending responsibilities in areas such as housing security and cross-regional infrastructure and by increasing transfer payments, while local governments will deepen fiscal and tax reform, expand local tax sources such as property tax and consumption tax, and gradually reduce dependence on land finance.

Regarding risks facing small and medium financial institutions, the Report proposes that a full range of resources and means will be leveraged to address risks in small and medium local financial institutions. It further makes clear the need to ramp up capital replenishment through various channels and prudently handle the non-performing assets of financial institutions. Going forward, the government will continue to press ahead with efforts to reduce the number of small and medium financial institutions while improving their quality. “Reducing the number” means using market-based approaches such as mergers and acquisitions, equity transfers, and bankruptcy liquidation to phase out high-risk and low-efficiency small and medium financial institutions and promote resource integration. “Improving quality” means enhancing the operating quality and overall competitiveness of surviving institutions, strengthening their ability to serve the real economy, and reinforcing their capital strength and risk resilience through such measures as introducing strategic investors, issuing perpetual bonds and Tier-2 capital bonds, and injecting capital through local government special-purpose bonds. The central bank’s rating results for different types of banking institutions in the first half of 2025 show that some local small and medium banks remain in the “red zone,” indicating a relatively high level of risk ( Table 2). According to Enterprise Warning App, a total of 458 banks were approved for merger, dissolution, or deregistration in 2025, of which 440 were village and township banks, rural commercial banks, and rural credit cooperatives. The corresponding figures for 2024 were 194 and 187, respectively. In 2026, the legislative process for the Financial Stability Law will continue to accelerate, providing greater clarity on key elements in the risk resolution of small and medium financial institutions, including the allocation of responsibilities, procedural requirements, and funding sources. It is expected that this year the pace of mergers and reorganizations among small and medium financial institutions, as well as the development of locally rooted and specialized business models, will further accelerate.

<sup>7</sup> Report of the State Council on the Work of the Financial Sector — Delivered at the 18th Session of the Standing Committee of the 14th National People’s Congress on October 26, 2025, People’s Bank of China, October 2025, <https://www.pbc.gov.cn/goutongjiaoliu/113456/113469/5882746/index.html>

Table 2 Central bank rating results by type of banking institution, first half of 2025

Institution type	Number of institutions	Distribution of rating results
Development and policy banks	3	Ratings 1–5
Large state-owned commercial banks	6	
Joint-stock commercial banks	12	
City commercial banks	123	Ratings 2–10
Rural commercial banks	1499	Ratings 2–10
Rural cooperative banks	20	Ratings 5–9
Rural credit cooperatives	374	Ratings 2–10
Private banks and direct banks	21	Ratings 2–9
Foreign-funded incorporated banks	42	Ratings 2–6
Village and township banks	1429	Ratings 3–D
Total	3529	-

Source: Wind, KPMG analysis

Note: Rating results are classified from low to high risk into Grades 1–10 and Grade D. Grade D indicates that an institution has failed, been taken over, or had its license revoked. Institutions rated 1–5 fall within the “green zone,” while those rated 6–7 fall within the “yellow zone.” Institutions in the green and yellow zones are generally considered to be within the safety boundary. Institutions rated 8–D fall within the “red zone,” indicating that they are in a relatively high-risk condition.

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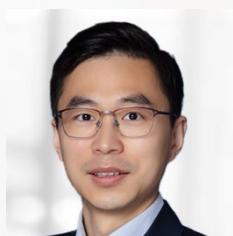


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