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China – Will the Fire Horse balk at the jump or run at full gallop? How will it affect China's five-year plan?

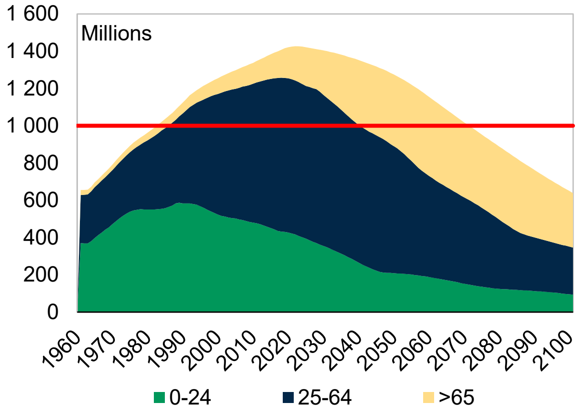
As the Year of the Fire Horse begins on 17 February, what can we expect from the Chinese economy in the coming months?

In Chinese astrology, the sign of the horse is associated with strength and the natural desire to move forward, while the element of fire reflects energy and passion. After the Year of the Wood Snake (careful thought and subtlety), will the Year of the Fire Horse bring rapid change, bold initiative and a seismic shift?

The country's birth rate could be the first to feel the effects. Unlike the Year of the Dragon, when births tend to rise, the Year of the Fire Horse has traditionally seen a decline in births of girls. It is widely believed that girls born under this sign are so strong-willed that they will "destroy their husbands mentally, morally and even physically[1]."

The last two years of the Fire Horse (1906 and 1966) saw a decline in the birth of girls in Japan and China. While the authorities have recently announced $22 billion in measures to boost birth rates[2], the number of newborns plummeted to 7.9 million in 2025, and China recorded a population decline of 3.3 million. This age-old superstition could also exacerbate the shortage of women: China has one of the biggest gender imbalances in the world, with around 115 men per 100 women.

China: population



Sources: UN, Crédit Agricole S.A./ECO

Review of 2025

Key events in 2025 were US-China trade negotiations at the external level and the return of the "involution" at the domestic level.

The trade war: the fragile truce does not mask the deep disagreements

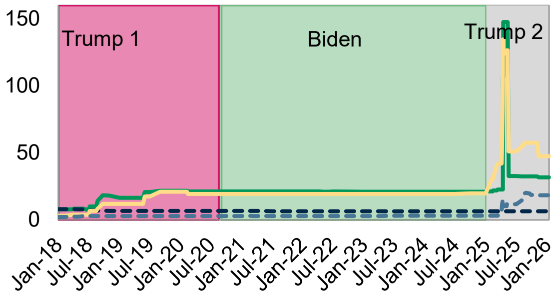
The trade war dominated the second and third quarters. After Trump's Liberation Day announcements on 2 April 2025, China began a standoff with the United States, which led to an escalation in tariffs (an additional 125% from China and 145% from the US). Several rounds of negotiations ultimately led to an agreement, which sets the additional tariffs at 10% on each side, with

[1] *L'année « Cheval et Feu »* [The Year of the "Horse and Fire"] – Persée

[2] The new measures include the renewal of national subsidies for young children, the reimbursement of all pregnancy-related medical expenses (including for IVF treatment), and the introduction of a 13% tax on contraceptives.

numerous exemptions, and suspends restrictions on rare earth exports for a year.

Customs duties have never returned to their 2018 levels



Sources: PIIE, Crédit Agricole S.A/ECO

Two main conclusions emerge from this episode

When dealing with Donald Trump, China no longer shies away from open confrontation and is willing to deploy its offensive weapons. The weaponisation of rare earth elements, which China is now using as an instrument of extraterritoriality[3] – like the dollar for the United States – is particularly important, as it is already guiding the geopolitical situation. Be it in the form of US claims on Greenland or its agreements with ASEAN countries (Malaysia and Thailand in particular), the issue of control over rare earths (extraction and refining) will continue to fuel tensions between China and the US.

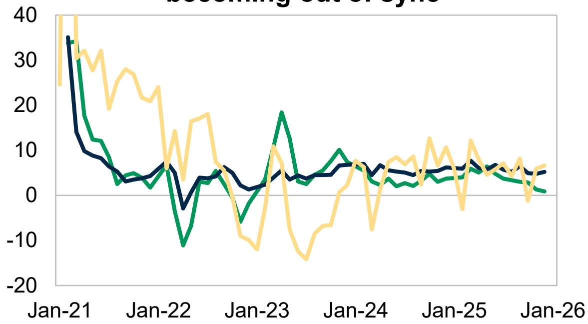
China will continue its efforts to reduce its dependence. This applies in two areas: the country's technological catch-up, which is widely expected to be one of the priorities of the next five-year plan (see below), and the continued internationalisation of Chinese companies to diversify production sources and limit exposure to potential tariff or non-tariff barriers. International trade figures show how quickly China has adapted to trade uncertainty, using Asean countries to bypass tariffs.

Growth: 5%, of course

2025 also ended with the publication of growth figures. **The Chinese authorities announced that they had reached their annual growth target of 5%**, despite a slowdown in Q4 (4.5% year-on-year, compared with 4.8% in Q3, 5.2% in Q2 and 5.4% in Q1). The consensus is increasingly questioning the credibility of these figures, which should not distract from the imbalances in the economy.

Activity data show an increasingly strong disconnect between industrial activity (production and exports) **and domestic demand** (retail sales). In December, industrial production rose 5.2% year-on-year, compared with 0.9% for retail sales.

Supply and demand are becoming out of sync



Source: NBS

Exports also remained very strong throughout the year. China's twelve-month trade surplus was close to $1.2 billion in December, an all-time high. Exports increased by 5.5% in 2025, and were up 12.2% compared to 2021, despite trade tensions with the United States. China has managed to diversify its clients while maintaining access to the US via Asean countries. The proportion of China's value-added in global exports has therefore probably increased even faster than its exports.

The disconnect between retail sales and overall activity has been seen since the end of Covid-19 (retail sales growth has been almost systematically below that of GDP) and reflects **a crisis of confidence among Chinese households**, which are building up ever greater precautionary savings. In 2025, Chinese households saved 38% of their disposable income on average, compared with 31% in 2023.

Weak demand in China has resulted in the return of "involution", a word that has reappeared in the Chinese vocabulary that refers to an economic context in which weak demand puts pressure on prices and corporate profits and leads to deflation. The consumer price index has not risen by more than 1% since February 2023, while the producer price index has been in negative territory since January 2023. The success of the authorities' "anti-

[3] Before signing the trade agreement with the United States, China had announced its intention to make exports of any item produced from Chinese rare earths subject to authorisation, regardless of whether that item was manufactured in China or elsewhere.

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involution campaign" to reflate the economy will be one of the major challenges of 2026.

Real estate: when will the decline end?

2025 was the fifth consecutive year of contraction in the real estate market. Until December, property prices, the number of transactions and investment continued to fall, meaning that the turning point has still not been reached.

This continued deceleration is weighing on household purchasing power: the fall in property prices has reportedly cost Chinese households $18,000 billion since Covid-19. It has also severely restricted local authorities as a large part of their revenue came from the sale of land. As a result, central government has taken over a greater proportion of public spending directly to avoid a debt crisis.

The five-year plan: a broad outline and still many questions

The Year of the Fire Horse will also see the presentation of the 15th five-year plan (2026-2030), which will be unveiled at the annual sessions of the two Assemblies in March.

The conclusions of the Fourth Plenum already indicate that new technologies will be at the heart of the objectives and growth model. With this new plan, China aims to be a leader in the fourth industrial revolution and to catch up in a few key areas in which it remains dependent on foreign technologies, including semiconductors and aeronautics. **Industry is therefore likely to remain at the heart of the Chinese growth model** for several reasons.

The first is this **catch-up strategy** in these key sectors, which will require significant government resources, particularly in terms of research and development.

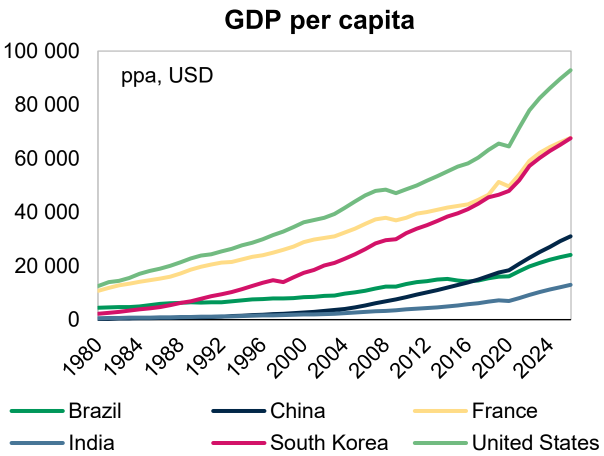
The second is that the **Chinese authorities are much more comfortable with supply policies than with support for demand**. Although China has recently acknowledged that it is suffering from overcapacity[4] and excessive competition - a breeding ground for price wars and deflation - the "anti-involution campaign" has had little effect so far. Officially, many sectors are affected and have been asked to reduce their capacity: batteries, synthetic fibre, solar panels, cement, medical equipment, pig farming, copper, alumina, steel, chemicals and petrochemicals, electric vehicles.

As investment is declining, we might have thought that the campaign was beginning to pay off. But **the decline is more pronounced for service sectors** – and therefore consumption – such as hotels, restaurants, retail and real estate, than for industry.

The authorities continue to invoke a modern Say's Law[5] by seeking to "create new demand with new supply", convinced that the development of new, better-quality products could be a response to weak household consumption.

Finally, we must not forget the objective of making China a "moderately prosperous" socialist economy by 2035. Over and above the concept, which has its roots in Confucian ideology, this aim assumes a substantial increase in GDP per capita to around $20,000. To achieve this, China would need a growth rate of around 4.2% for another decade. Productivity gains are easier to achieve in an industrial economy than in a service economy. In any case, this is what economic history suggests: among the advanced economies, those with the highest and most stable growth over the long term are those with the highest share of industry in GDP.

China's GDP per capita in purchasing power parity has been converging faster towards that of the United States since the 2000s, but it **remains very far from the level of the main advanced economies**.



Sources: IMF, Crédit Agricole S.A./ECO

What policy mix will support the plan?

The central bank (PBoC) has already made some announcements and is still pursuing a "moderately

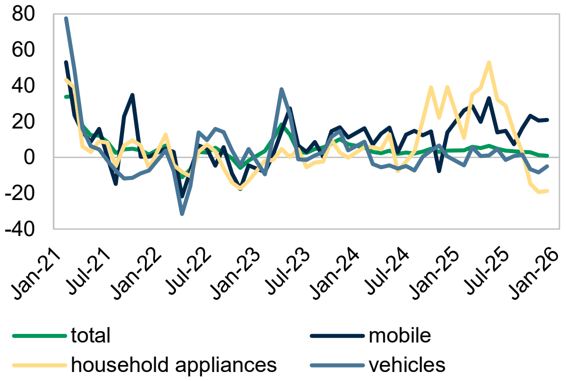
[4] Until now, the authorities and the official press have only spoken of "involution" to refer to imbalances between supply and demand, arguing that the so-called "overcapacity" was a Western invention to justify the introduction of tariff or non-tariff barriers.

[5] Say's Law, or the law of markets, is an economic theory according to which supply creates its own demand.

accommodative" monetary policy. **On 15 January, the governor unveiled a new package of measures**: a 25 basis point cut in refinancing rates, an increase in refinancing quotas and a reduction in the mandatory downpayment ratio (to 30%) for property purchases, designed to encourage a recovery in lending. The governor also said that there was room for further rate cuts during the year (in particular for the reserve requirement ratio), and that the yuan's stability against the dollar facilitated the conduct of monetary policy. Finally, the PBoC has undertaken to better coordinate its actions with fiscal policy by deploying new, more structural instruments, for example by supporting very long-term bond issues.

On the budget side, the main change is linked to the gradual rebalancing of debt between local authorities and central government. Central government has increased its direct debt holdings to support new infrastructure investments and the consumer subsidy scheme, which was renewed in December. The government has released $9 billion to support retail sales, financed through very long-maturity bond issues. Households will be able to receive discounts ranging from 12% (electric vehicles) to 15% (electronic devices). It remains to be seen whether this will be enough, as weak consumption in China is the result of low consumer confidence, not purchasing power.

China: the effect of subsidies on retail sales



Sources: NBS, Crédit Agricole S.A./ECO

In any case, this accommodative fiscal policy will result in a slight increase in the broad deficit (which includes all the fiscal revenue used by the government to support growth, including investments made by local government financing vehicles), which is expected to reach 10.5% of GDP in 2026. No real revolution, then, and above all nothing that provides a real response to the loss of confidence among Chinese households, which can be seen in consumption figures and birth rates.

☑ **Our opinion –** *China will open a new chapter in its economic history with the unveiling of its new five-year plan. It is expected to confirm China's ambitions in terms of technological catch-up and reaffirm its strategic priorities, enabling it to project itself as a rival to the United States in all areas. But how do these ambitions reconcile with the current imbalances? How can China support innovation and investment without creating overcapacity in new sectors? How can it continue to manage the perpetual contradiction between state interventionism and a market economy while maintaining an effective economic policy? How can it rebalance the economy without slowing growth? These are the difficult questions that the new five-year plan will have to address.*

Despite the popular beliefs surrounding the Fire Horse, 2026 promises to be a year of transition rather than major change, with stabilisation in the real estate market, gradual reflation and the beginning of a rebalancing of production capacities. To achieve this, first it will be necessary to consolidate an increasingly distorted economy and, above all, regain consumers' confidence in the Chinese economic miracle, which had changed the lives of hundreds of millions of households between 2000 and 2020.

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