

Article | 3 September 2026

CHINA

China's recovery stalls as K-shaped divergence widens

China got off to a sluggish start in the second half of the year, with the economy's K shaped divergence still widening, and policymakers signalling that stimulus will likely be incremental and targeted



Recent economic indicators point to renewed weakness in China

China's K-shaped divergence continues to widen

China's data has deteriorated again in recent weeks, underscoring that the slowdown hasn't bottomed as the third quarter gets underway.

China's K-shaped divergence is widening this year. External demand remains a strong leg, with exports up 18.5% year-on-year in the first seven months thanks to surging shipments of cars, ships, and chips. And despite an even bigger jump in imports, net exports have swung back into positive territory – a sign that trade is doing more heavy lifting as domestic momentum softens.

But domestic demand indicators once again missed forecasts across the board. Retail sales and fixed asset investment both slumped to post-pandemic lows, while the property sector and credit data continue to contract sharply year-on-year.

Modest policy support expected ahead

China's July Politburo meeting drew intense scrutiny for signs of fresh stimulus. The tone was upbeat enough, but the substance underwhelmed: leaders offered little in the way of new support and instead signalled a preference for incremental and targeted easing through existing tools.

On the fiscal front, the priority will be accelerating the use of already approved funds, not rolling out new quotas. Bond issuance is expected to accelerate in the coming months to finish using this year's existing quotas.

The government announced a set of policy measures to support domestic demand at the start of August, centred on broadening the scope of interest subsidies for consumer loans.

The loan ceilings were also raised. The next few months of data will show whether the policy shift is gaining traction, but we expect any boost to be modest at best.

More help does appear to be coming. On 21 August, the Ministry of Finance signalled that additional fiscal measures are in the pipeline, with more spending aimed at households and consumption, and tighter coordination across fiscal, monetary, and industrial policy to amplify the impact. We still see a solid case for a 10bp rate cut before year-end, especially with inflation and growth momentum both fading and credit demand still soft.

Lowering growth and inflation calls as momentum stalls

Given the soft start to the second half and signs that policy support will remain relatively modest, we're trimming our 2026 GDP forecast slightly – to 4.6% YoY from 4.7%.

On the inflation side, we see persistent drags from food and rent, which are denting the reflation theme. Price competition for the economy as a whole remains significant despite "anti-involution" efforts in select industries. Higher energy prices and broadly steady core inflation should keep headline inflation comfortably positive this year, but we're trimming our full-year forecast to 0.9% YoY from 1.2%.

We're keeping our 6.67–6.92 USDCNY fluctuation band for the yuan in the second half of 2026. But risks are increasingly skewed toward CNY strength. Appreciation expectations remain firm, and China's current-account surplus and pent-up buying pressure from Chinese exports continue to support the CNY.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.