Rebalancing Growth



Special Topic - Bridging the Skills Gap for China's Low-Carbon Transition

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China Economic Update - July 2026

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List of Abbreviations

AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
CA	Current Account
CGE	Computable General Equilibrium
CPI	Consumer Price Index
CSI 300	China Securities Index 300
ESCO	European Skills, Competencies, Qualifications and Occupations
ESG	Environmental, Social, and Governance
FAI	Fixed Asset Investment
FYP	Five-Year Plan
GDP	Gross Domestic Product
GFB	Government-managed Funds Budget
G-SIBs	Global Systemically Important Banks
HPF	Housing Provident Fund
IEA	International Energy Agency
ILO	International Labour Organization
IMF	International Monetary Fund
LGFV	Local Government Financing Vehicles
LPR	Loan Prime Rate
MOF	Ministry of Finance
MOHURD	Ministry of Housing and Urban-Rural Development
MSCI	Morgan Stanley Capital International
NBS	National Bureau of Statistics
NEER	Nominal Effective Exchange Rate
NFRA	National Financial Regulatory Administration
NIM	Net Interest Margin
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
PBC	People's Bank of China
PFB	Public Finance Budget
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PPP	Purchasing Power Parity
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
REER	Real Effective Exchange Rate
RMB	Renminbi
RRR	Reserve Requirement Ratio

SAFE	State Administration of Foreign Exchange
SITC	Standard International Trade Classification
SOE	State-Owned Enterprise
TVET	Technical and Vocational Education and Training
UNICEF	United Nations Children's Fund
US	United States
USD	United States Dollar
VAT	Value-Added Tax
WB	World Bank
y/y	Year-on-year

Executive Summary

Growth was solid at the start of the year, with high-tech investment and exports offsetting subdued consumption. GDP expanded by 5.0 percent year-on-year (y/y) in the first quarter of 2026, up from 4.5 percent in the previous quarter. However, the property sector continued to adjust to lower housing demand, and consumer spending remained cautious due to the negative wealth effect from falling property prices and the soft labor market.

Momentum softened in the second quarter, as disruptions to global energy supply raised costs and increased uncertainty. The impact of the global shock on China's economy was mitigated by large oil reserves, diversified fuel imports, a high share of renewables, and policy measures including temporary retail fuel price caps. While higher energy prices increased inflation to 1.1 percent y/y in March-May, this effect is likely to be temporary given underlying weakness in domestic demand.

Growth is projected to moderate to 4.4 percent in 2026 amid continued weakness in domestic demand. Consumption is expected to remain subdued, while private investment is constrained by the ongoing property sector adjustment and low corporate profitability in some sectors. Export growth is also expected to moderate due to slower growth in external demand. Public infrastructure spending and continued strength in high-tech sectors will partly offset these headwinds, leading to a moderation in overall growth in 2026. Growth is projected to continue to moderate over the medium term, with rebalancing toward consumption proceeding only gradually under current policy settings.

China Economic Outlook	*2023*	*2024*	*2025*	*2026f*	*2027f*	*2028f*
Real GDP growth (%)	5.4	5.0	5.0	4.4	4.3	4.2
Consumer price index (% change, average)	0.2	0.2	0.0	1.1	1.5	1.9
Current account balance (% of GDP)	1.4	2.2	3.7	2.1	0.9	0.4
Consolidated fiscal balance (% of GDP)*	-5.5	-6.5	-7.2	-7.6	-7.3	-7.0

Source: World Bank.
Note: f = forecast, * = World Bank staff estimates.

Risks to the outlook are broadly balanced. Although uncertainty with respect to global energy supply has declined in recent weeks and oil prices have fallen, risks of renewed volatility remain. A deeper-than-expected property downturn would compound pressures on consumer spending and investment in real estate and related sectors. Upside risks to the baseline include a supplementary budget introduced if growth risks materialize, as well as stronger-than-expected AI-related investment.

With domestic demand still subdued, near-term macroeconomic policy will need to remain supportive while structural reforms are phased in. Fiscal policy is expected to stay moderately expansionary, but its composition matters as much as its size: capital spending still accounts for 43 percent of the budget. The priority is to strengthen the social safety net, which is essential to reducing precautionary savings and sustainably raising consumption. China spends 11 percent of GDP on social protection, about half the OECD average, and benefits remain unevenly distributed. Raising benefit floors, extending coverage to flexible and informal workers, and providing access based on place of residence rather than registration could give households security to spend rather than save. Estimates point to sizeable consumption gains at a fiscal cost that can be managed over time through expenditure reallocation and revenue and pension reform. Complementary reforms to strengthen the private sector and close jobs-skills mismatches would broaden the income base and support the transition to consumption-driven growth.

Special Focus: Bridging the Skills Gap for China’s Low-Carbon Transition

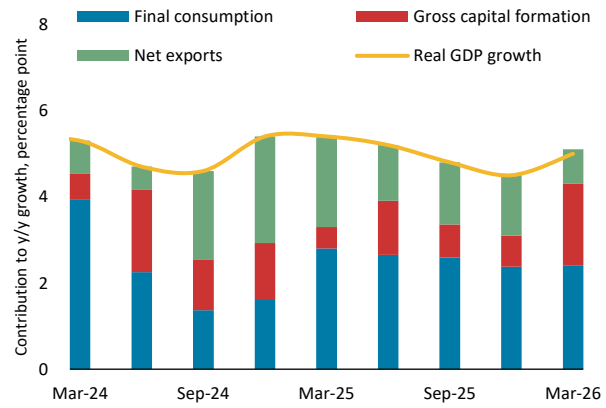
This edition's special focus draws on new evidence—a national database of online job vacancies and surveys of energy-sector employers and training institutions in Shanxi and Inner Mongolia—to examine how China's low-carbon transition is reshaping its labor market. Demand for both green technical skills and transferable competencies such as systems thinking and adaptive learning is expanding beyond narrowly defined low-carbon sectors, with 9 percent of all job postings requiring at least one such skill in 2022. These skills are associated with sizable wage premiums of around 22 to 25 percent in both green and non-green jobs. Yet, skill mismatches are constraining inclusive employment gains, particularly in carbon-intensive regions. More than one-third of energy firms report difficulty filling green positions that require interdisciplinary and digital competencies, while an estimated 85 percent of fossil fuel workers in coal-dependent provinces lack the qualifications needed to move into renewable energy roles.

Realizing the full employment benefits of the transition will require a proactive, coordinated approach to workforce development along two tracks. In the short term, strengthening employer-led training and certification, developing portable micro-credentials for green skills, and scaling up reskilling and labor mobility support—paired with stronger social protection—would help today's workforce move into emerging roles. Over the longer term, embedding green, digital, and transversal competencies into technical, vocational, and higher education curricula, rather than proliferating niche programs, would better align the education system with evolving skill demand. Improving labor market monitoring—including refining the official "L-tag" green-occupation classification and drawing on real-time vacancy data—and involving workers and local institutions in the design of transition support would make workforce planning more responsive and inclusive.

The *China Economic Update* at a glance

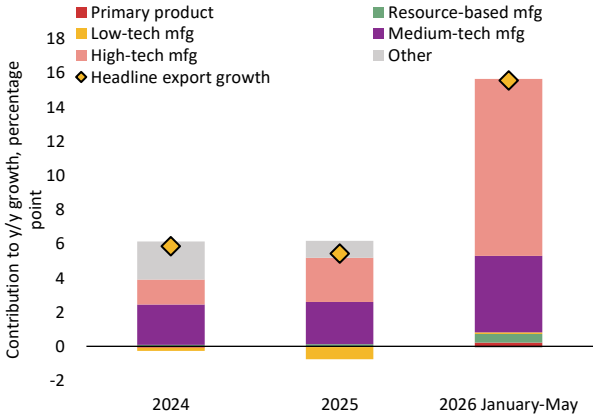
Growth in Q1 2026 was driven by investment in technology and low-carbon sectors

A. Real GDP growth



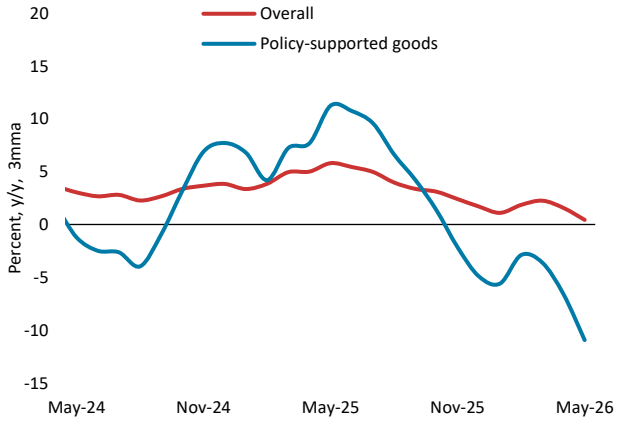
Robust demand for technology products supported exports

B. Exports by category



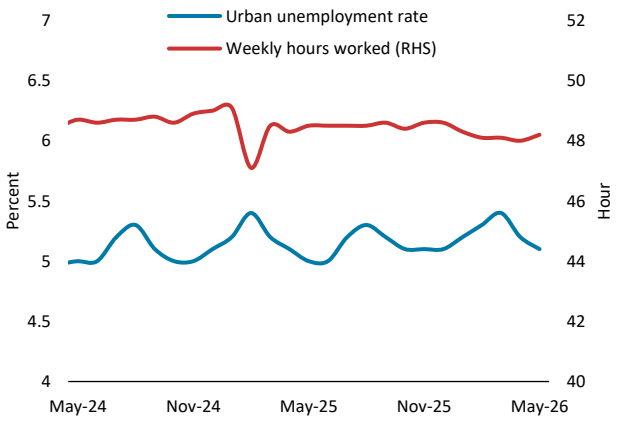
But consumer spending remained subdued, …

C. Retail sales



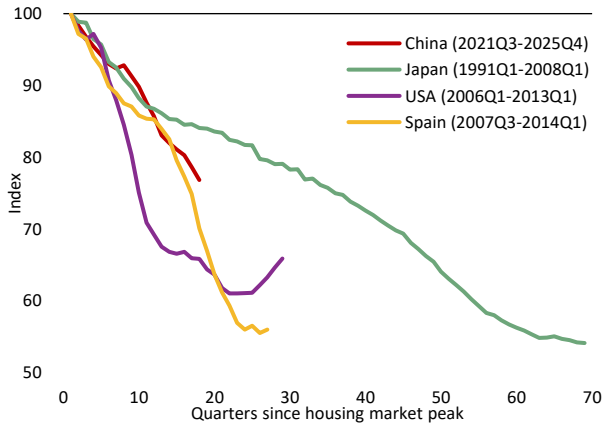
… reflecting the impact of a soft labor market

D. Urban unemployment



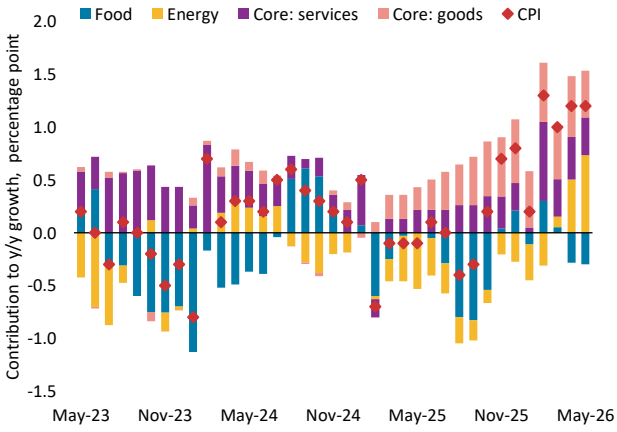
Home prices continued to fall, further dampening household willingness for home purchases

E. Real housing prices



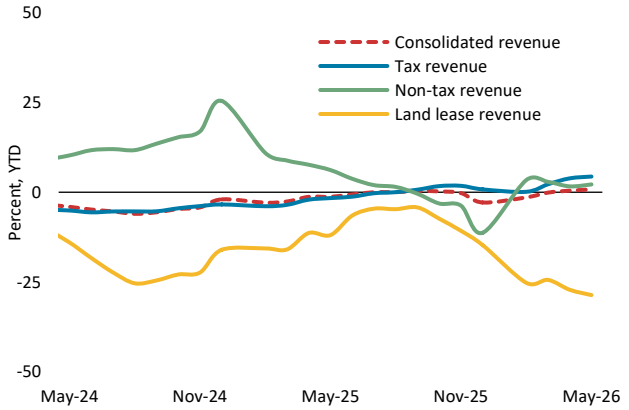
Weak demand kept inflation low, despite higher energy prices

F. CPI inflation



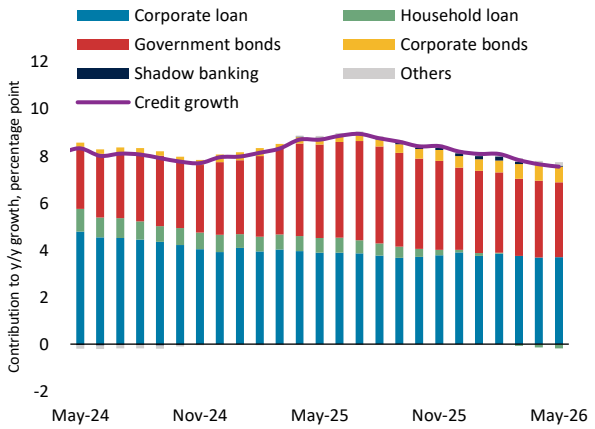
Falling land lease revenues have constrained local fiscal space

G. Fiscal revenues



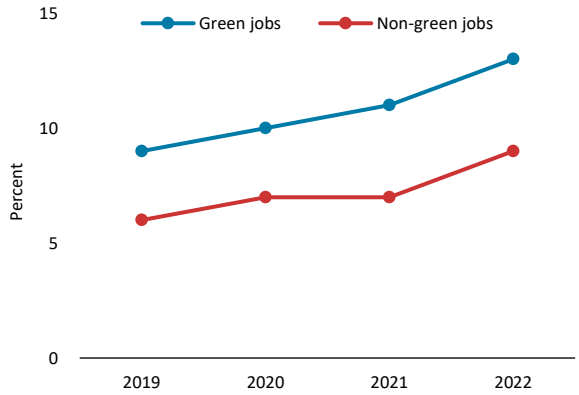
Accommodative monetary policy has not translated into stronger credit demand

H. Credit to non-financial sector



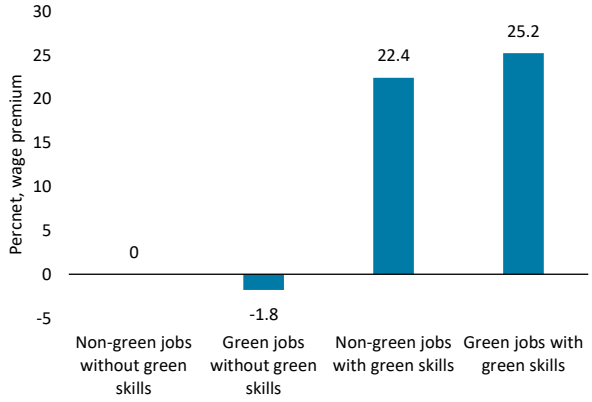
Green skill demand is rising for both green and non-green jobs in China

I. Share of new jobs demanding green skills



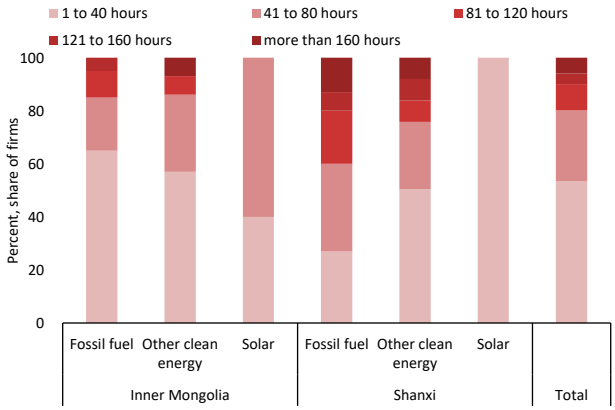
Green jobs command higher wages than non-green jobs

J. Wage premium compared to non-green jobs without green skills



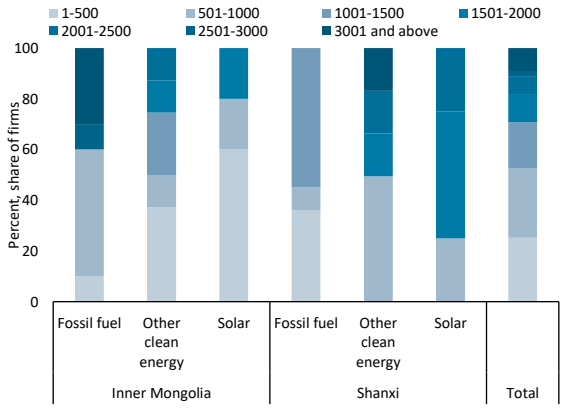
However, workers in carbon-intensive sectors receive less training for emerging green roles

K. Training hours by sector



Employers in carbon intensive sectors invest less in training, limiting workers' readiness for green roles

L. Training fees by type of sector (in RMB per employee)



Source: NBS, PBC, MOF, WIND, CEIC, and WB staff calculations.

I. Recent Economic Developments

Growth has remained resilient despite supply-demand imbalances and energy supply disruptions

Growth was solid at the start of the year, with high-tech investment and exports offsetting subdued consumption. Real GDP expanded by 5.0 percent y/y in Q1, up from 4.5 percent in the previous quarter. Net exports contributed 0.8 percentage points (15.3 percent of growth) (Figure 1A), underpinned by strong high-tech shipments. Investment recovered from weaknesses in the second half of last year, but gains were largely in high-tech sectors and from frontloading of infrastructure spending. Consumption stayed subdued, while the property sector continued to adjust to weak housing demand. Momentum softened in Q2, as domestic demand weakness persisted and disruptions from global energy supply chains weighed on activity.

The energy supply disruptions raised costs and increased uncertainty, though the impact of the shock was mitigated by policy measures. Large oil reserves, diversified imports, a high share of renewable energy and electric vehicles, and increased domestic coal production helped soften the impact. In addition, temporary retail fuel price caps limited the pass-through of high energy prices to consumers and moderated the impact on household budgets. Nevertheless, growth in real value added in oil refining and chemical production slowed. As a result, overall industrial value added growth moderated to an average of 4.3 percent in April-May from 6.1 percent in January-March.

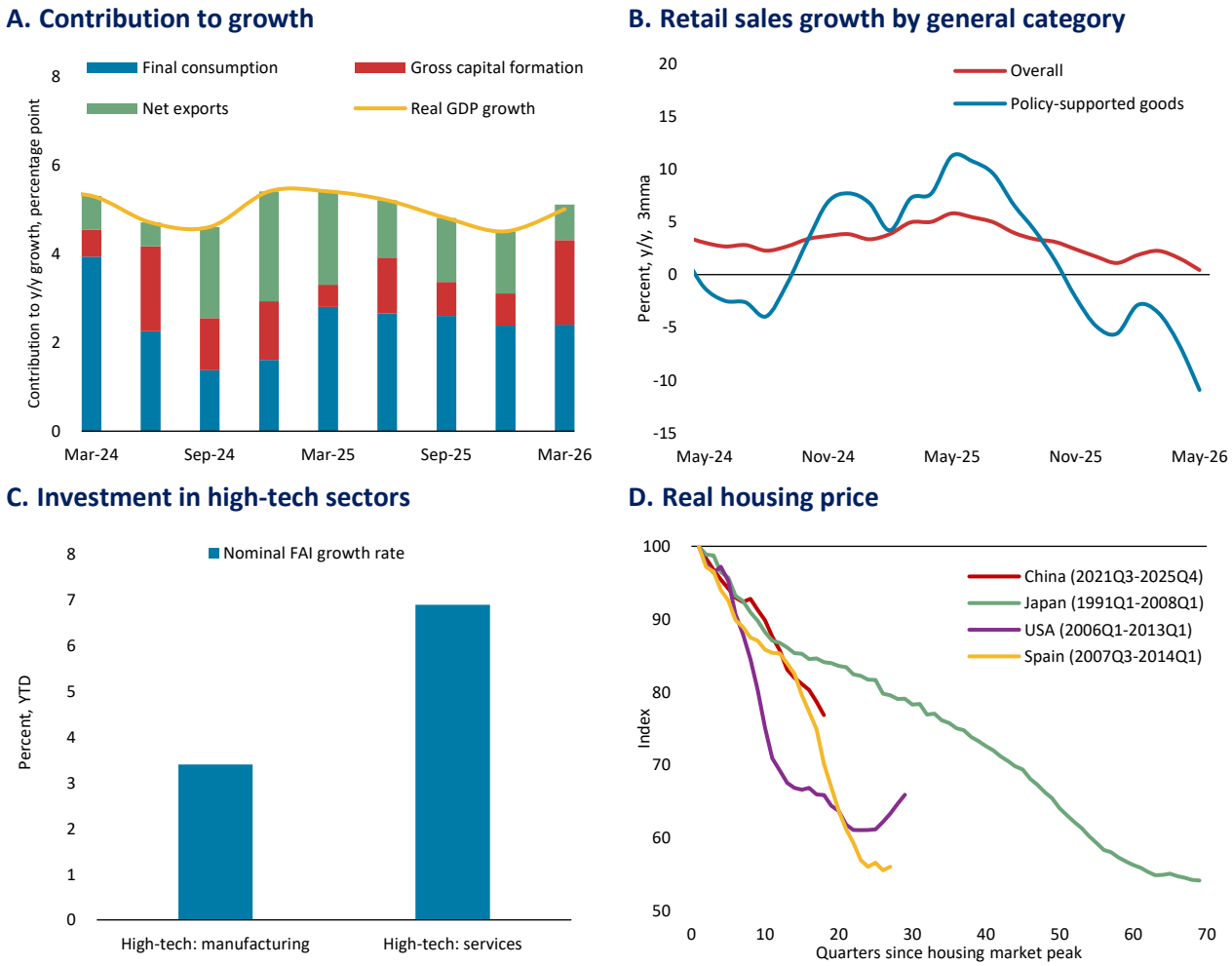
Household consumption growth slowed, as cautious households channeled a greater share of their income to savings and the effect of policy support weakened. Real household consumption expenditure grew by 2.6 percent in Q1, the lowest year-on-year growth since Q4 2022. Discretionary categories such as transport, telecom, education, entertainment, and household facilities saw the sharpest slowdown, while essential categories such as food, clothing, and residence held up relatively better. Income uncertainty and falling property prices have contributed to an elevated precautionary savings rate of 32.4 percent in Q1, up from a pre-pandemic average of 29.6 percent.[1] At the same time, policy support has provided a smaller boost to retail sales this year, with scaled-down consumer subsidies compared to 2025 (Figure 1B). New transfer programs, including subsidies for childcare and for the disabled elderly, are small in scale and have likely had a small effect on aggregate consumption.

High-tech sectors drove investment growth, compensating for the drag from the property sector downturn. Investment in high-tech sectors grew by 4.5 percent y/y in January–May, driven

[1] Based on four-quarter moving average.

by robust AI-related demand at home and abroad (Figure 1C). Infrastructure investment was frontloaded in January and February and then slowed, expanding by just 0.6 percent y/y on average in the first five months of the year. In contrast, real estate investment continues to fall, contracting by 16.2 percent y/y in January-May as the property sector continues to adjust to weaker housing demand.

Figure 1. While high-tech investment has strengthened, domestic demand remains weak overall due to subdued consumer confidence and a weak property sector



Source: China NBS, BIS, World Bank staff estimates.
Note: In Figure B, the "overall" represents total retail sales of goods, the "policy-supported goods" covers automobiles, household appliances, communication devices, and furniture targeted by the consumer goods trade-in subsidy program, and the subcategory breakdown data is sourced from the above-designated size enterprise sales as a proxy for the economy-wide trend.

The property market adjustment remains gradual, with recent policy-driven improvements in large cities falling short of broader stabilization. Policy easing has steadied demand at the

margin, modestly lifting sales and prices in large cities in April and May.[2] However, these gains have not spread to the wider market, where housing demand remains weak and sales are at around half of their peak levels in mid-2021. Real housing prices have fallen by 23 percent since their peak in July 2021 (Figure 1D). Nevertheless, the home price-to-income ratio in China remains high relative to other major Asian economies (World Bank, 2025).[3] The pace of price adjustment has been slower compared to past property downturns in other major economies, though it has accelerated slightly in recent quarters (Figure 1D). Overall, home buyer sentiment remains cautious due to expectations of further home price declines and persistent concerns over pre-sold but unfinished projects (refer to Box 1).

Box 1. Financing constraints continue to hinder housing completion

Facilitating a less costly and more efficient adjustment of the property sector can help reduce its drag on the economy. A key dimension of such an adjustment involves targeted financing to complete pre-sold but unfinished housing, which would support residential investment and rebuild housing market sentiment. This box looks at recent trends in property developer financing and related government policies to support the delivery of pre-sold housing.

The government has deployed a range of policies to support the market and shore up developer financing since 2021. These include the "whitelist" initiative channeling over RMB 7 trillion (or 13.5 percent of outstanding real estate loans at the end of the first quarter in 2026) in loans to viable projects under construction; a central bank lending facility for state-owned enterprises to purchase unsold inventory for affordable housing conversion; local government purchase of idle land;[4] converting housing stock into “urban villages” and social rental housing; and rollover of developer loans through end-2026.

These measures have facilitated adjustment in the property sector, including delivery of unfinished units, purchase of excess stock, and advancing social housing, but difficulties remain. Total property developer financing has decreased for the last 12 months, declining by 21 percent in May 2026 (Figure 2). Domestic bank loans to property developers contracted sharply by 36 percent in May. Bond market funding has remained tepid, with repayments slightly outpacing issuance from May 2025 to May 2026.

Among the measures, the white-list initiative provides targeted support to financially viable property developers. It is a mechanism led by line ministries including the National Financial Regulatory Administration (NFRA) which coordinates across different levels of local governments to match projects with banks. Projects deemed financially sound and operationally viable receive preferential access to bank loans and other financing, with the objective of rapid home completion and transfer to buyers. This initiative aligns with international good practice for managing financial risks for housing projects

[2] In late February, Shanghai announced looser property purchase restrictions, raised Housing Provident Fund (HPF) loan limits, and introduced property tax exemptions. Shenzhen and Guangzhou followed with similar measures in late April, with Guangzhou introducing a trade-in subsidy program for residents selling an existing home and buying a new home.

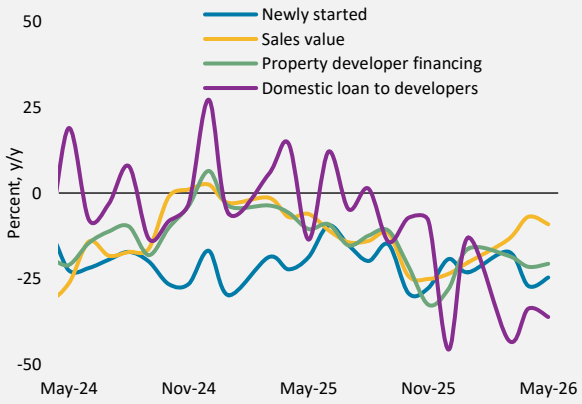
[3] The price-to-income ratio is estimated as housing prices per square meter relative to per capita disposable income.

[4] Over 5,800 land parcels totaling more than 300 million square meters and RMB 780 billion in planned acquisitions have been publicly disclosed as of March 2026, with roughly RMB 350 billion in special bonds issued.

with significant off-plan or advanced sales. By end-2025, the initiative had supported the delivery of around 7.5 million[5] units, or an estimated 15-40 percent of total pre-sold but unfinished housing.[6]

Resolution of the challenge of unfinished construction will likely be gradual. First, even though housing inventory continues to decline, sales have been falling in tandem (Figure 3A), so the time needed to clear all inventory has remained high. As of March 2026, the estimated time to clear existing inventory was 30 months,[7] assuming no new construction. Second, low sales and weak cash flows from large unsold inventories have added to liquidity pressure in recent years. While property developers continue to rely on pre-sales for funding (deposits and advanced payments still accounted for 30 percent of all funding for property developers in 2025, only slightly lower than the 33 percent in 2022 (Figure 3B)), they have struggled to obtain incremental debt or equity funding to complete pre-sold units and meet debt payments, beyond the white-list initiative. The reasons include lack of viable collateral due to decreasing property values and a more cautious approach of commercial lenders.

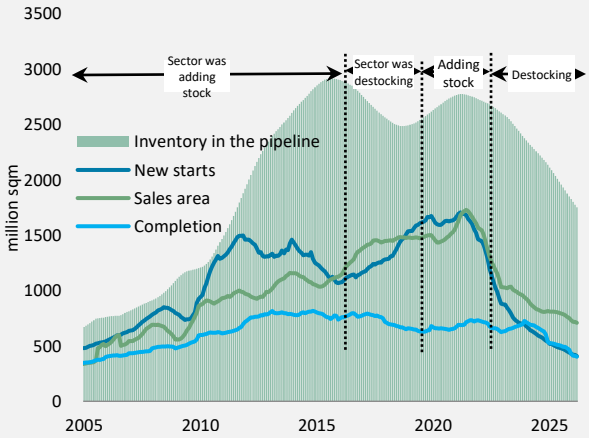
Figure 2. Property developer financing has contracted across different sources



Source: National Bureau of Statistics (NBS).

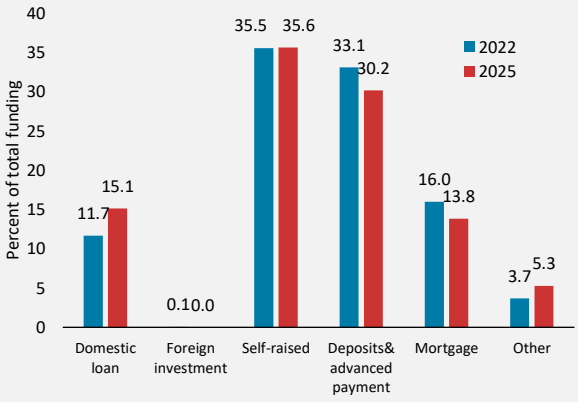
Figure 3. Inventory overhang and pre-sale dependence keep developer financing under strain

A. Housing inventory changes and sales



Source: NBS, CEIC

B. Funding mix of property developers



Source: NBS

[5] Data from the Ministry of Housing and Urban-Rural Development (MOHURD).

[6] The wide range reflects a number of private sector estimates, given a lack of official information. For instance, Nomura (November 2023) estimated that 20 million units were sold but not yet constructed, while Bloomberg Intelligence (August 2024) put the number much higher at around 48 million homes, likely including units at various stages of incompletion, not just fully stalled projects.

[7] World Bank staff calculation based on CEIC and NBS data, assuming no new constructions.

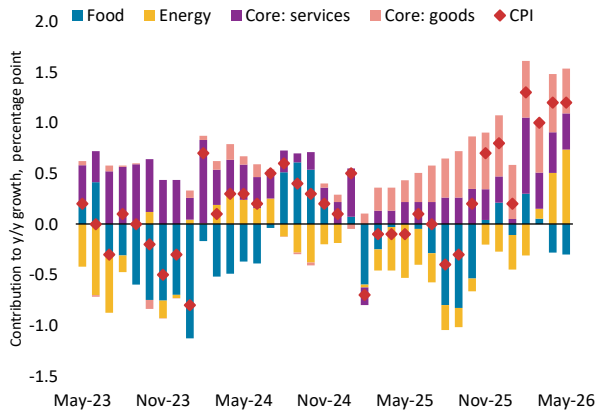
Additional policy measures could reduce the risk of non-completion and help satisfy reasonable demand for financing from developers. Such measures could include stronger oversight of escrow schemes for advanced sales, properly ring-fencing them, and linking disbursements strictly to verified construction milestones. In its January 2026 policy statement, the Ministry of Housing and Urban-Rural Development had already made this a policy priority alongside measures to reduce reliance on pre-sales. This could allow viable projects to restart, supporting construction activity and limiting the drag from falling residential investment, with significant spillovers to construction and related industries. A government-backed guarantee scheme for advanced sales, eventually funded by developer contributions, could provide credibility, protect consumers, and restore confidence in pre-sale contracts.

Energy-driven reflation is likely temporary amid subdued domestic demand

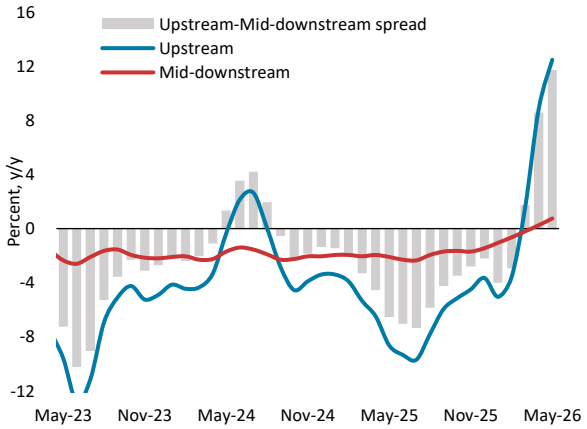
Consumer price inflation rose on higher energy prices, but reflation is likely to be temporary given the supply-demand imbalances. Headline CPI averaged 1.0 percent y/y in January–May, up from about 0.6 percent in 2025Q4, reflecting cost-push energy pressures rather than a broad-based strengthening in consumer demand (Figure 4A). Higher global oil prices have raised domestic fuel costs in recent months, but China's retail fuel-price caps have dampened the pass-through, transmitting only about half of the global price increase to domestic consumers. Lower food prices, particularly pork, also continued to weigh on headline inflation. Underlying price pressures remained subdued, with core CPI (excluding energy and food prices) averaging 1.2 percent y/y in January–May, unchanged from 2025Q4 and below its historical average of 2 percent, reflecting subdued domestic demand.

Figure 4. Policy measures have provided only a modest boost to consumer and producer prices

A. CPI inflation



B. PPI inflation



Source: NBS, World Bank staff estimates.
Note: In Figure A, the upstream sector includes mining & quarrying, and raw materials industries, while the mid- and downstream sectors comprise processing and consumer goods industries.

Elevated commodity prices lifted upstream producer prices and profit margins in recent months, but downstream sectors were squeezed by weak demand. Headline producer price

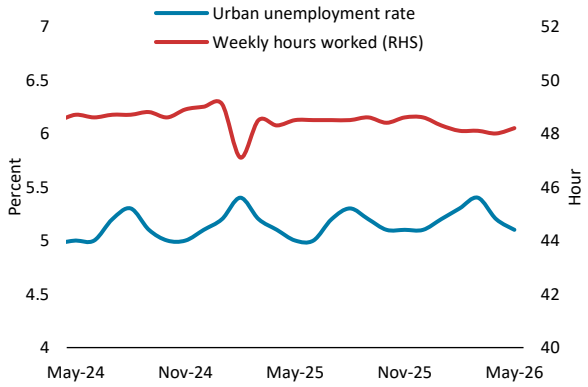
inflation (PPI) rose by 1.0 percent y/y in the first five months, driven by upstream sectors including mining and raw materials. Higher prices, in turn, bolstered profitability in these sectors; profit margins for oil and gas extraction reached 33.0 percent in May, up by 8.3 percentage points compared to end-2025. Meanwhile, inflation in downstream sectors remained muted (Figure 4B). Subdued domestic demand constrained downstream producers' ability to pass higher input costs through to factory-gate prices, compressing profit margins.

Softer employment and income growth have contributed to cautious household spending

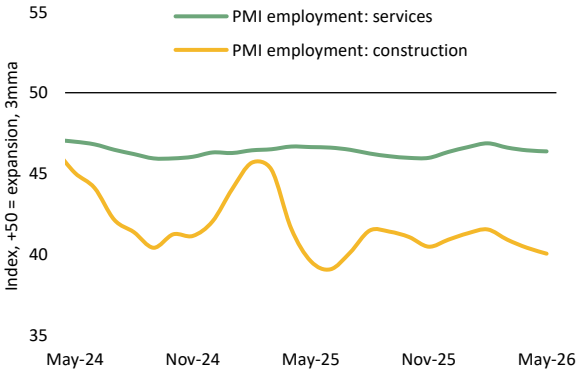
Despite strong headline growth, labor market slack persists. The urban unemployment rate rose to 5.4 percent in March, the highest since February 2025, before moderating to 5.1 percent in May (Figure 5A). Declining PMI readings in early 2026 point to softer employment in construction and services, two labor-intensive sectors (Figure 5B). Furthermore, average weekly hours worked declined from 48.6 hours in December 2025 to 48.2 hours in May, indicating slack in the labor market that the headline unemployment rate does not capture. Unemployment among the youth remained elevated at 15.6 percent in May. In response to the soft labor market, on May 18, the government issued an Action Plan to Stabilize Employment,[8] signaling increased emphasis on job creation and job quality, especially for youth and migrant workers, and calling for stronger cross-sectoral coordination and greater local government focus on job outcomes.

Figure 5. Labor market slack persists, with labor-intensive sectors weighing on employment

A. Urban unemployment and hours worked



B. Purchasing Managers' Index (PMI) employment sub-index



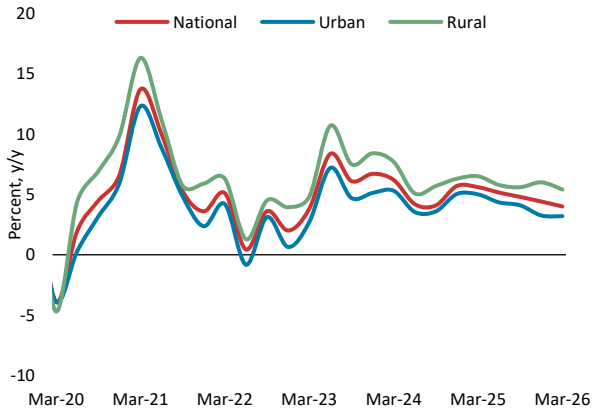
Source: NBS.

[8] The plan is framed around three priorities: (1) stabilizing employment in key traditional sectors, including manufacturing, construction, and accommodation and catering, with employment in the public sector serving as an additional buffer; (2) supporting job creation through consumption stimulus, investment, public services (e.g., childcare, long-term care) and government support for new industries and entrepreneurship; and (3) improving job quality through skills development, better employment services, a higher minimum wage, and stronger employment protections, particularly for flexible workers.

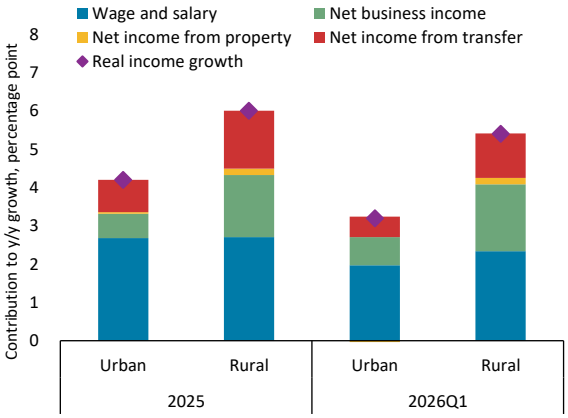
Reflecting the softer construction and services activity and employment, household income growth slowed in the first quarter, especially in cities. Real per capita household income grew by 4.0 percent y/y in Q1, down from 4.4 percent in the previous quarter (Figure 6A). The deceleration was sharper in urban areas, likely reflecting the softening labor market and weaker construction and services activity. Rural incomes held up better at 5.4 percent, as they tend to have a more diversified income base compared to urban incomes. Growth in wage and business income accounted for 42 and 31 percent of the rural income growth, respectively, while transfer payments provided a stronger cushion in rural areas (21 percent) than in urban areas (17 percent) (Figure 6B), pointing to the stabilizing role of social protection programs. Slower income growth has contributed to the weakness in consumption described above.

Figure 6. Income growth slowed across the board, with rural households faring better than urban ones

A. Real per capita income growth



B. Contribution of growth to total income

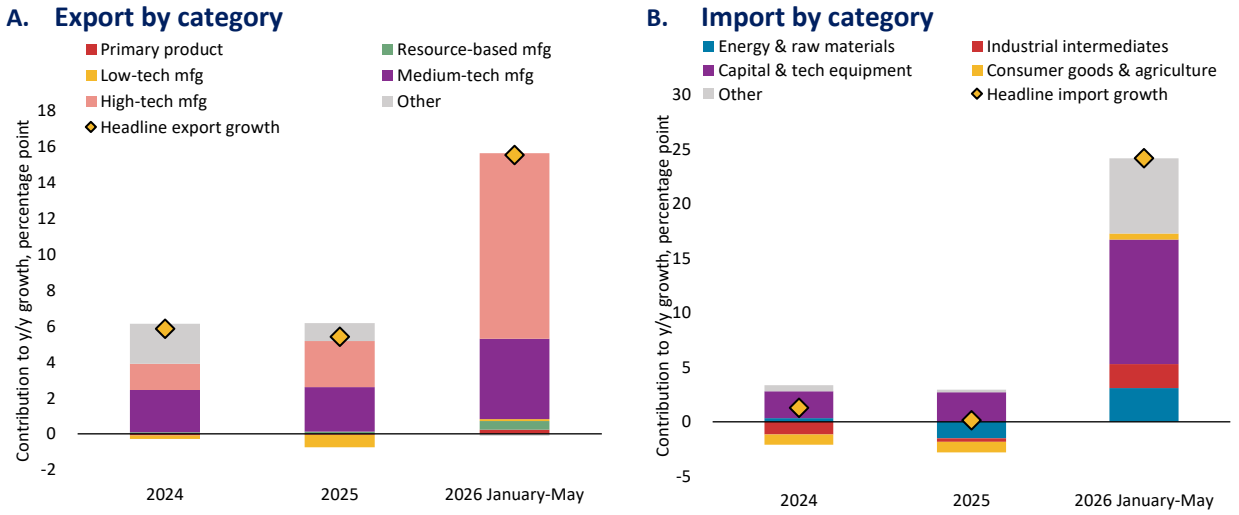


Source: NBS.

Exports cushioned overall growth against the weakness in domestic demand

Strong external demand for technology-intensive goods sustained export momentum, helping to offset weak domestic demand. Exports grew 15.5 percent y/y in January–May in US dollar terms, up from 5.5 percent in 2025, with high-tech manufactures expanding by nearly 31 percent y/y (Figure 7A). The expansion in tech-intensive exports, accounting for more than one-third of China's export basket, was led by electrical capital goods and electronics, consistent with robust external demand amid the AI-driven global tech upcycle. In contrast, labor-intensive exports including clothing, footwear, and furniture remained subdued, likely weighed down by softer consumer demand abroad as higher oil prices constrained household purchasing power.

Figure 7. The global technology upcycle underpinned trade strength



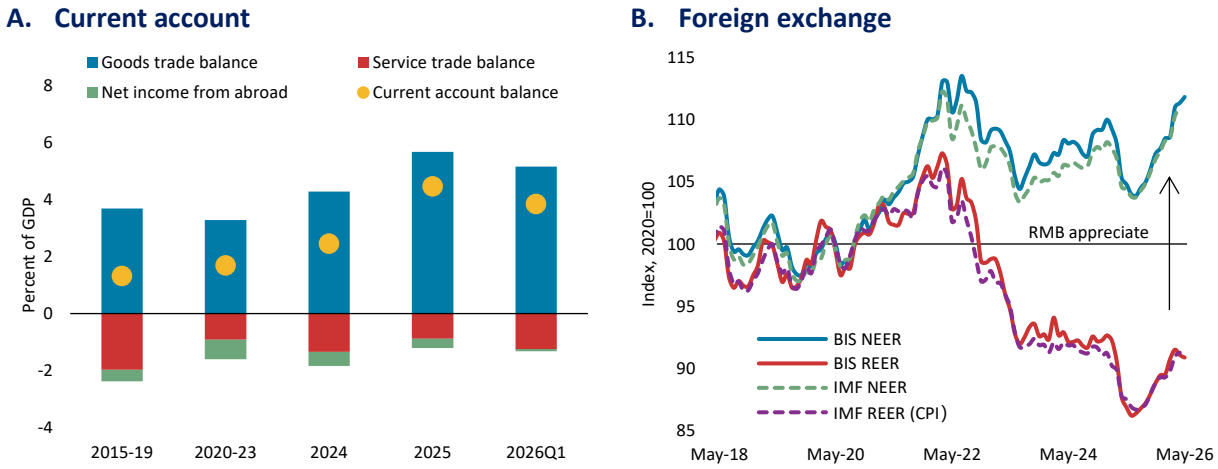
Source: China Customs, World Bank staff estimates.
Note: Classification follows the SITC framework. For exports, “Primary products” includes agricultural and raw goods. “Resource-based manufacturing" includes rubber, timber, paper, and mineral-related processed products such as non-metallic minerals and non-ferrous metals. “Low-tech manufacturing” includes textiles, garments, footwear, furniture and basic metal products. “Medium-tech manufacturing" includes general, special and transportation machinery. “High-tech manufacturing” comprises electronic, electrical, professional and optical equipment. For imports, “Other” refers to SITC not elsewhere classified, including non-monetary gold.

Import growth also accelerated, driven by strong tech-related demand but also higher commodity prices. Imports increased 24.5 percent y/y in US dollar terms in January–May, compared with near-zero growth in 2025, with industrial intermediate inputs and capital and technology-intensive equipment together accounting for more than 56 percent of the increase (Figure 7B). The expansion in tech-related imports reflected accelerating AI-related capital expenditure and demand for components feeding into tech-intensive export production. While import volumes expanded by a robust 8.7 percent y/y on average over the first five months, price effects grew more pronounced in March and May, as oil supply disruptions raised global commodity prices and lifted the nominal import bill. Meanwhile, imports of consumer goods, including automobiles, furniture, and apparel remained subdued, contributing about 0.5 percentage points of import growth.

On balance, export and import developments in the first quarter continued to underpin a large current account surplus. The surplus remained elevated at 3.8 percent of GDP in 2026 Q1. This was supported by a goods trade surplus exceeding 5 percent of GDP, which more than offset a modest widening in the services deficit, driven in part by higher transportation costs amid oil supply disruptions (Figure 8A). At the same time, the financial and capital account deficit (excluding reserves) narrowed to 2.8 percent of GDP, reflecting reduced net portfolio and other investment outflows even as net direct investment shifted back into a small deficit due to larger

outward investment. This likely reflects a search for higher returns amid weak domestic demand and Chinese firms expanding production capacity overseas.

Figure 8. The current account surplus has remained large despite higher commodity and technology imports



Source: SAFE, BIS, IMF, and World Bank staff estimates.

While the renminbi appreciated in nominal terms in early 2026, real appreciation was more limited, reflecting persistently low inflation relative to trading partners, amid weak domestic demand. The nominal effective exchange rate appreciated by 3.8 percent over the first five months, reflecting China's strong external surplus and lower net capital outflows. However, very low domestic inflation dampened real appreciation, with the real effective exchange rate rising by a more moderate 1.6 percent and export prices in US dollar terms increasing by 0.8 percent over the same period, supporting continued export strength (Figure 8B).

Accommodative financing conditions have not translated into stronger credit demand

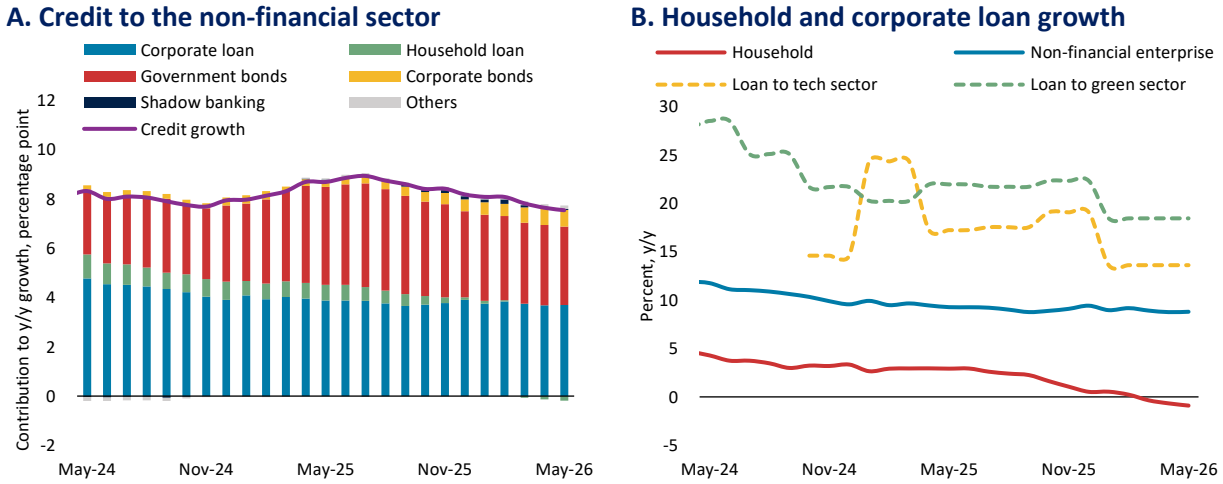
Credit growth continued to slow, despite accommodative financing conditions. Credit growth to the non-financial sector eased to 7.7 percent y/y in May 2026, from 8.3 percent in December 2025 (Figure 9A). The slowdown occurred against a backdrop of moderately accommodative monetary policy. Borrowing costs are broadly contained, with the weighted average rate on new corporate loans and mortgage rates at 3.0 and 3.1 percent, respectively, in May, around 10-20 basis points lower than a year ago.

Slower credit growth has been due to weak corporate and household demand, which has been only partly offset by public-sector borrowing. Household loans declined, mainly reflecting a contraction in mortgage lending amid the prolonged property sector downturn. Short-term

consumption credit also decreased, pointing to weak near-term spending amid uncertainty about income and employment prospects. Overall corporate lending slowed to 8.8 percent y/y in May from 9.2 percent in 2025, largely supported by bill financing for short-term payments rather than longer-term corporate loans. Meanwhile, bank lending to priority sectors continues to expand, with sustained double-digit growth in low-carbon and technology-related sectors (Figure 9B). Government bond issuance continued to support overall credit growth, accounting for more than 40 percent of the growth in the first five months.

Despite slower lending growth and compressed net interest margins, the banking sector remains well-capitalized with adequate buffers. Bank lending margins declined to a record low of 1.4 percent in Q1 2026, compressed by the low-interest-rate environment and subdued credit demand. In turn, profitability weakened, with net profits contracting 3.7 percent y/y in Q1 2026. Notwithstanding the profitability pressure, the aggregate capital adequacy ratio of 15.5 percent has remained well above regulatory minimums, and the April 2026 announcement of an additional RMB 300 billion capital injection into large state banks could raise the aggregate capital adequacy ratio of China's global systemically important banks (G-SIBs) by about 0.3 percentage points. Banks' loss-absorption capacity against potential shocks is ample, with the system-wide non-performing loan (NPL) ratio at around 1.5 percent and provisioning at 205 percent of NPLs.

Figure 9. Credit growth slows as households and corporates stay cautious



Source: SAFE, World Bank staff estimates.

The equity market rebounded from the shock triggered by the Middle East conflict, helping channel long-term financing toward technology-intensive sectors. The main China equity indices—CSI 300, Hang Seng China Enterprises Index, and MSCI China Index—each fell between 5 and 7 percent in March amid the global risk-off sentiment but recovered most of the lost ground in April. The rebound was led by technology sectors, including AI, robotics, semiconductors, and

biotech, consistent with strong investment growth in high-technology sectors and improved earnings expectations. The migration of some maturing household deposits from the banking system to the capital markets has likely provided further support, reflecting a likely search for higher returns amid very low deposit rates under accommodative monetary policy conditions.

The overall policy stance is appropriate but the composition of spending can be improved

The fiscal stance has been broadly neutral year to date, reflecting stimulus that is conditional on economic developments alongside local fiscal constraints. Fiscal policy provided support early in the year through front-loaded infrastructure investment, though delivery tempered between March-May. As a result, the consolidated fiscal deficit through May was 2.2 percent of GDP, compared to 2.4 percent of GDP a year earlier, implying a broadly neutral fiscal impulse year to date. The narrower deficit (relative to the Budget plan)[9] can be explained by reduced need for stimulus, given strong first-quarter activity, but also by growing financing constraints faced by some local governments.

The neutral fiscal impulse may partly reflect flat revenues driven by the fall in land lease revenues. Tax receipts improved in January-May, compared to a year ago, due to VAT gains from commodity-related sectors amid higher global commodity prices. Improved corporate income tax receipts also point to better profitability in high-tech sectors, underpinned by robust AI demand. However, these gains were concentrated in commodity- and tech-related activities, while subdued domestic demand elsewhere weighed on overall revenues. In particular, land lease revenues fell by 28.7 percent y/y in the first five months of 2026, compounding a multi-year structural decline amid the property sector downturn (Figure 10A).

The moderation in fiscal spending in March-May reflected both policy recalibration and tightening financing constraints. Capital spending was strong early in the year before moderating in March–May, leaving year-to-date spending down by 5.2 percent y/y (Figure 10B). The recent pullback reflects a combination of lower stimulus needs because of strong GDP growth in Q1 2026, tighter project approvals,[10] and a deeper contraction in land lease revenues which has constrained funding for infrastructure investment at the local level. The capital allocations have

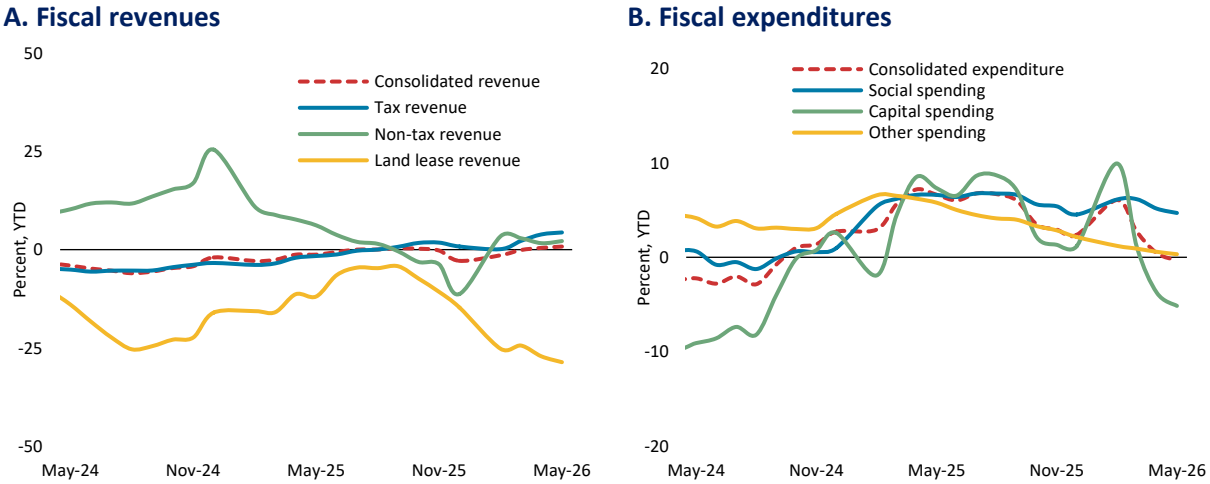
[9] The government nevertheless plans an expansionary budget for the year, with a consolidated fiscal deficit set at 8.1 percent of GDP in 2026, up from a realized deficit of 7.2 percent of GDP in 2025.

[10] The government issued guidelines on deepening investment approval reform on April 15, 2026. Key measures are to: 1) tighten feasibility checks and budget oversight for government investment; 2) ban projects from skipping approvals via state-owned enterprises; 3) adjust approval authority based on capacity; and 4) allow central government to pause approvals in industries with intense competition.

been increasingly concentrated in priority areas, such as digital infrastructure, AI computing capacity, and low-carbon sectors.

Social spending has been increased to boost household consumption, but the expenditure composition continues to favor investment. Social spending rose by 4.7 percent in January-May, driven in part by childcare subsidies and increased support for elderly people with disabilities. However, the increase remains modest—effectively flat as a share of GDP—and does little to alter the investment-heavy composition of public spending.

Figure 10. Land lease revenue contraction contributed to recent pullback in infrastructure spending

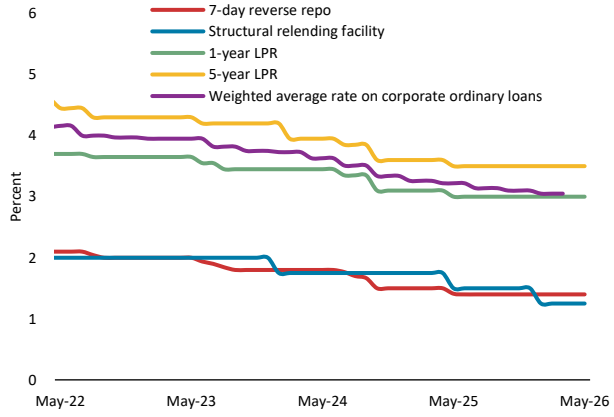


Source: Ministry of Finance, World Bank staff estimates.
Note: "Consolidated revenue" and "consolidated expenditure" combine flows from the Public Finance Budget (PFB) and the Government-managed Funds Budget (GFB). Spending excludes the one-off RMB 500 billion central government capital injection into state-owned banks, recorded in the GFB expenditure in June 2025. "Social spending" covers outlays on education, social security & employment and healthcare under the PFB. "Capital spending" covers outlays on environmental protection, urban and rural community affairs, transportation, and agriculture, forestry and irrigation affairs under the PFB, as well as overall spending under the GFB. "Other spending" covers the remaining outlays under the PFB.

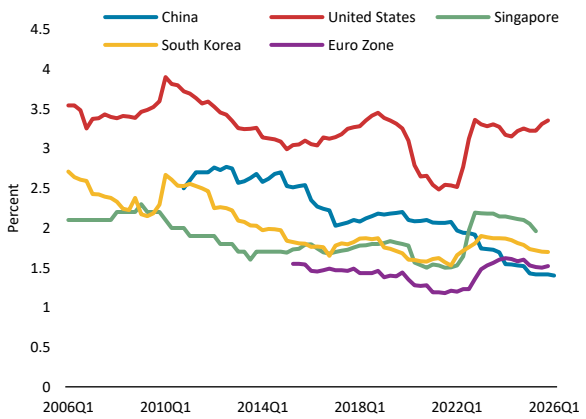
Monetary policy has remained accommodative, with support increasingly delivered through targeted credit facilities, partly due to concerns over low net interest margins. The PBC front-loaded liquidity provision in early 2026 to mitigate the liquidity effect of large government bond issuance. Injections were then scaled back as interbank liquidity remained ample, resulting in a cumulative net provision at 0.2 percent of GDP through May. Rather than lowering the headline policy rate, which remains at 1.4 percent, the PBC reduced the rates on relending facilities by 25 basis points to 1.25 percent, lowering the cost of targeted credit to priority sectors such as technology and services (Figure 11A). This cautious easing is warranted, given uncertainty about the inflation outlook due to the energy supply disruptions, as well as concerns over low and declining net interest margins (Figure 11B).

Figure 11. Monetary policy has remained accommodative, with incremental policy stimulus through targeted structural facilities amid low net interest margins

A. Interest rates (including targeted facilities)



B. Net interest margin



Source: NFRA, Federal Deposit Insurance Corporation, Monetary Authority of Singapore, Financial Supervisory Service, European Central Bank, World Bank staff estimates.

All in, the overall macroeconomic policy stance has been broadly appropriate year to date, but the composition of fiscal spending reinforces pre-existing imbalances. The neutral fiscal impulse is consistent with strong Q1 activity, while the fiscal deficit planned in the 2026 Budget leaves room for additional spending if downside risks to growth materialize. However, the composition of spending, as well as credit policy, continues to favor investment. While the increase in social spending is providing a modest boost to consumption, large public infrastructure investment and directed credit to priority industrial sectors are supporting short-term growth but also delaying the closing of the supply-demand gap.

II. Outlook, Risks, and Policy Implications

Outlook and risks

Energy supply disruptions have weakened global growth and trade. The conflict in the Middle East has disrupted energy markets and shipping routes, raising energy and fertilizer prices and increasing uncertainty. Global growth is projected to weaken from 2.9 percent in 2025 to 2.5 percent in 2026, with the largest impact on economies directly exposed to the conflict. Fiscal pressures are also expected to rise, as many governments mitigate the impact of high energy prices on households through energy subsidies. Global trade growth is expected to decelerate owing to the effects of the conflict, though this will be partly offset by continued robust demand for AI-related products. The outlook assumes that peak disruptions from the conflict will be short-lived, with a gradual recovery of shipping by the end of the year. Global growth is expected to recover in 2027-28 as energy prices moderate, uncertainty recedes, inflation pressures subside, and financial conditions ease. As a result, growth of China's exports, especially of consumer goods, is expected to slow in the near term.

China's economy is projected to expand by 4.4 percent in 2026 (Table 1). Consumer spending is likely to remain subdued, while private investment is constrained by the ongoing property sector adjustment and low corporate profitability in some sectors. Export growth is also expected to moderate, due to slower growth in external demand. Public infrastructure spending and continued strength in high-tech sectors will partly offset these headwinds, leading to a moderation in overall growth in 2026.

Over the medium term, growth is expected to continue to moderate, with gradual reforms providing some support. Measures to rebalance toward consumption and increase productivity are expected to provide an incremental lift and partially offset the structural drag from demographic aging, elevated debt, and diminishing returns to capital, with growth projected at 4.3 percent in 2027 and 4.2 percent in 2028.

Inflation is expected to rise from a very low base, reaching 1.1 percent in 2026 and 1.5 percent in 2027. The partial pass-through from conflict-related energy and fertilizer price increases into domestic prices is a key driver of higher inflation this year. As the near-term commodity price impulse fades, inflation is projected to edge higher in 2027 on somewhat improved domestic demand.

The baseline projections assume accommodative macroeconomic policies, albeit with a less expansionary fiscal stance than last year's. The government budgets a consolidated fiscal deficit

of 8.1 percent of GDP in 2026, compared to a realized deficit of 7.2 percent of GDP in 2025.[11] Adjusted for the effects of the business cycle, the fiscal impulse is estimated to be about 0.3 percent of GDP, smaller than the 1.0 percent impulse in 2025.[12] The projections assume moderate monetary easing mainly through liquidity provision and targeted credit facilities. This approach is consistent with recent policy signals which omitted references to policy rate or required reserve ratio cuts (Xinhua, 2026).

Table 1. China selected economic indicators, 2023-2028

Annual percent change unless indicated otherwise	**2023**	**2024**	**2025**	**2026f**	**2027f**	**2028f**
Real GDP growth, at constant market prices	5.4	5.0	5.0	4.4	4.3	4.2
Private Consumption	9.0	5.2	4.7	4.5	4.7	5.0
Government Consumption	7.3	1.0	4.7	4.5	4.6	4.7
Gross Fixed Capital Formation	4.5	3.0	2.1	2.7	2.6	2.6
Exports, Goods and Services	1.1	11.5	10.0	6.9	5.3	4.2
Imports, Goods and Services	5.6	4.3	2.4	3.8	3.2	3.0
Real GDP growth, at constant factor prices	5.4	5.0	5.0	4.4	4.3	4.2
Agriculture	4.0	3.5	3.9	3.4	3.3	3.0
Industry	4.4	5.3	4.5	4.4	4.0	3.5
Services	6.3	5.0	5.5	4.6	4.7	4.8
Inflation (Consumer price index)	0.2	0.2	0.0	1.1	1.5	1.9
Current account balance (% of GDP)	1.4	2.2	3.7	2.1	0.9	0.4
Net foreign direct investment, Inflow (% of GDP)	-0.8	-0.9	0.4	-0.2	-0.1	-0.1
Consolidated fiscal balance (% of GDP)*	-5.5	-6.5	-7.2	-7.6	-7.3	-7.0
Government debt (% of GDP)	54.7	63.0	71.1	77.8	82.3	83.7
Primary balance (% of GDP)	-4.5	-5.5	-6.1	-6.6	-6.3	-6.0

Source: World Bank.

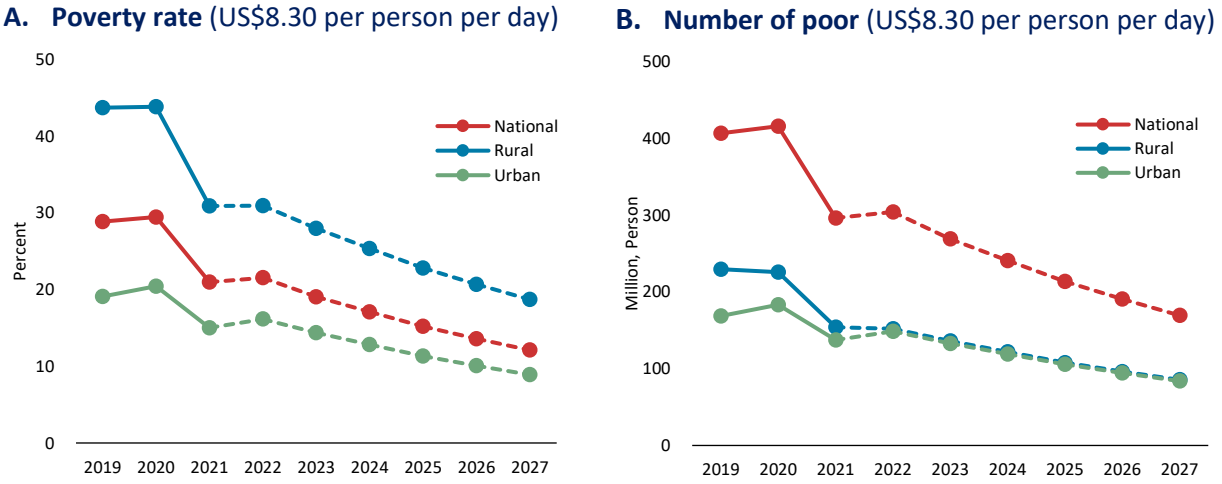
Note: f = forecast (baseline). * World Bank staff estimates.

Living standards continued to improve in 2025, albeit at a slower pace than in 2024. Extreme poverty as defined by the national poverty threshold has effectively been eliminated. In 2025, an estimated 15.2 percent of the population – equivalent to 214 million people – lived with less than US$8.30/day (2021 PPP), a higher living standard benchmark used as a reference by the World Bank to compare progress across upper-middle-income countries. The pace of poverty reduction at this higher benchmark slowed from an estimated 28.0 million people in 2024 to 27.3 million people in 2025 and is expected to continue to decline to 22.9 million and 21.3 million respectively in 2026 and 2027 (Figure 12A and B).

[11] World Bank estimates consolidate China's four budgets (Public Finance Budget, Government Fund Budget, Social Security Fund Budget, State-Owned Asset Operation Budget) minus net withdrawals from the stabilization fund.

[12] The fiscal impulse captures the year-to-year change in discretionary fiscal support, based on the change in the cyclically adjusted consolidated primary balance.

Figure 12. Poverty reduction will continue, albeit slower than in previous years



Source: World Bank staff estimates using tabulated data from NBS and World Bank's GDP growth projections.
Note: Last grouped data available to calculate poverty is for 2022. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass-through 0.85 to per capita household consumption.

Risks to the outlook are broadly balanced. Although uncertainty with respect to global energy supply has declined in recent weeks and oil prices have fallen, risks of renewed volatility remain. A deeper-than-expected property downturn would amplify household asset losses and tighten financial conditions of property developers, compounding pressures on consumer spending and investment in real estate and related sectors. Upside risks to the baseline forecast include a supplementary budget introduced if necessary to meet the government's annual growth target of 4.5-5 percent, as well as stronger-than-expected AI-related investment.

Policy implications

The government has recognized that domestic demand needs to play a larger role in sustaining growth. China's 15th Five-Year Plan elevates domestic demand as the structural foundation of growth and places employment and social policies more explicitly at the center of development strategy. Household consumption is expected to play a larger role as China's economy approaches the level of development of high-income countries. Outcomes will depend on the pace and sequencing of reform. Given domestic and external headwinds, near-term macroeconomic policy would need to remain supportive, while deeper structural reforms are phased in.

Fiscal stimulus remains necessary in an environment of weak demand, low inflation, and constrained monetary policy, but its composition matters as much as its size. Monetary policy easing is constrained by very low bank NIMs and weak credit demand, as discussed above. Fiscal

policy is the main policy lever and is expected to be moderately expansionary in 2026. While the government has policy space, especially at the central level, to increase the stimulus if risks to growth materialize, it can also begin tilting the composition of spending from infrastructure toward social and human-capital outlays within the existing envelope. Capital expenditure accounts for 43 percent of total budget spending in China, compared with an average of 13.5 percent in OECD countries. Conversely, health, education, and social protection combined account for 28 percent of total expenditure in China and over 60 percent in the OECD (Ministry of Finance of China, 2026; OECD, 2023a). Box 2 discusses how a stronger social safety net can support rebalancing toward consumption.

Box 2. Rebalancing to consumption-driven growth through a stronger social safety net

China's 15th Five-Year Plan envisions domestic demand as the key driver of growth and increasingly frames social policy as an enabler of that strategy—supporting jobs, human capital, and consumption. Realizing this ambition, however, is constrained by high precautionary savings. Chinese households save more than 30 percent of disposable income, over double the OECD average, in part because the social safety net does not yet fully insure three risks that households face: inadequate retirement income, out-of-pocket health costs, and job loss. As rapid population aging erodes family-based risk-sharing and technological change reshapes the labor market, this saving motive will intensify in the absence of stronger social protection. Social protection adequacy is therefore not only a welfare question but a macro-fiscal policy lever for the rebalancing the Plan envisions.

China has built a near-universal enrollment across its contributory social insurance and non-contributory social assistance pillars, yet the level of spending is not yet aligned with the rebalancing objective. China spends an estimated 11 percent of GDP on social protection, roughly half the OECD average of 21 percent, and benefit generosity is concentrated among better-protected formal workers. Rural migrants and informal workers under the Rural-Urban Resident Scheme receive an average pension of only RMB 246 per month, equivalent to 13 percent of per capita rural income, compared to a 41-percent replacement rate for formal urban employees covered under the mandatory contributory pension scheme. Government health financing covers a smaller share of costs than in advanced economies, leaving households to pay around 35 percent out of pocket (Zheng and Peng, 2021), while unemployment insurance reaches under half of urban workers and almost no migrants. The Minimum Livelihood Guarantee (Dibao) reaches about 4 percent of the population, compared with an average of 17.6 percent in upper-middle-income countries. Because these gaps fall precisely on lower-income households—those with the highest propensity to consume—the current spending allocation generates less aggregate demand per renminbi than a better-targeted one would.

Closing these gaps can generate sizeable growth dividends and narrow China's current supply-demand imbalances. Cross-country evidence suggests that the social protection spending multiplier is on average around 0.5 in the short run and 1.8 cumulatively, with larger GDP effects in more unequal economies (Cardoso et al., 2025). World Bank estimates suggest that doubling resident-pension benefits could raise total household consumption by 2–4 percent, and that lifting resident health benefits toward formal-sector levels could raise the consumption of affected households by 3.3 percentage points in urban areas and 5.6 in rural areas (Tiwari et al., mimeo). Pairing benefit increases with clear forward guidance on the future path of adjustments, creating a predictable trajectory, would

reduce the need to self-insure today, bringing consumption forward rather than only supporting current retirees. There is also a timing dividend. A gradual rebalancing implies that the gap between supply and domestic demand, and the weak price pressures that accompany it, would close only slowly. A more front-loaded strengthening of social protection offers a way to narrow that gap sooner: it would raise domestic demand and support a faster and more sustainable transition to consumption-driven growth.

The associated fiscal costs can be managed over time through a combination of expenditure reallocation and revenue-side reform, phased to match the benefit increases. General government expenditure is 35 percent of GDP, below the OECD average of over 40 percent. Within that envelope, capital expenditure accounts for 43 percent of spending, against 28 percent for health, education, and social protection combined—where OECD economies devote close to half of spending to social programs. With public investment facing diminishing returns in many areas, a gradual, deliberate reallocation toward social spending could finance a meaningful part of the cost while raising the return on public outlays. For illustration, doubling resident pension benefits is estimated to cost 0.6 percent of GDP net of lower old-age poverty expenditure and stronger aggregate consumption growth (Bonthuis et al., 2026). The question is therefore less whether adequacy improvements are affordable than how to sequence reallocation and revenue measures so that financing keeps pace with benefits.

A credible financing package would combine expenditure efficiency with revenue mobilization and parametric pension reform, building directly on measures already in the 15th Five-Year Plan. On the expenditure side, health-purchasing reform and a shift toward primary care, rationalization of less-targeted subsidies, and procurement efficiency gains can offset part of the cost in the near term, before revenue reforms mature. Pension benefit increases could be linked to parametric pension reforms—national pool consolidation with equalization transfers, actuarially fairer contribution-benefit links, and continued retirement age adjustment. On the revenue side, reforming intergovernmental fiscal relations—predictable general transfers, higher VAT and corporate-income-tax sharing ratios in favor of local governments, and effective implementation of the announced shift in consumption-tax collection to the point of consumption—could ensure that resources flowing to local governments match their social-spending responsibilities. In addition, direct-tax bases could be broadened. A personal-income-tax reform could be designed to raise net incomes for lower earners (IMF, 2024), and a recurrent property tax could be phased in once the housing market stabilizes. Granting local governments bounded discretion to levy taxes within a specified rate range on VAT and PIT bases would further strengthen revenue autonomy, while a larger share of SOE dividends channeled to social-security funds would add complementary gains.

Properly sequenced and financed, adequacy improvements could be an investment in China's households and its long-run fiscal sustainability. In the near term, resident pension and Dibao benefits could be raised to a meaningful floor, contributory coverage and tailored benefits extended to informal, migrant, and platform workers, and access based on place of residence rather than household registration. In the medium term, national pension pooling can be advanced, and the tax system reformed to mobilize more revenue and to improve its progressivity. Viewed through a macro-fiscal lens, this agenda could support rebalancing toward inclusive, consumption-driven growth while mitigating fiscal sustainability risks.

Over the medium term, a coordinated set of structural reforms could address the deeper drivers of weak domestic demand and accelerate the rebalancing. Restructuring and resolving

highly indebted local government financing vehicles (LGFVs) and distressed developers would reduce financial risks and free resources for more productive investment. While recent reforms have reduced entry costs, streamlined procedures, and improved contract enforcement, and the Private Economy Promotion Law, effective in 2025, aims to strengthen legal protections, barriers to competition remain above the OECD average.[13] Closing these gaps would strengthen private sector job creation, boosting household incomes and supporting consumption.

Reducing jobs-skills mismatches would further support the structural transformation by enabling workers to access quality jobs and higher wages. Labor market demand is evolving rapidly, with nearly 4 in 10 businesses in China citing industry talent shortages as a key challenge (World Economic Forum, 2025). Demand for technical, digital, and analytical skills is rising across sectors, while an aging workforce means that older workers face greater difficulty transitioning into roles requiring new digital and green competencies. The mismatch is more pronounced in low-carbon sectors, where relevant skills carry sizeable wage premiums but training has been slow to respond (see Special Focus Note). Scaling up skills development—embedding sustainability, digital, and analytical competencies in education and training and strengthening employer-institution partnerships—would better align supply with demand.

Fiscal reform would ensure these spending needs remain sustainable. Beyond the revenue mobilization and pension reform measures proposed in Box 2, strengthening public finance management anchored in consolidated fiscal reporting across the four budgets, realistic medium-term frameworks with risk scenarios, regular disclosure of fiscal risks from LGFVs, state-owned enterprises, and public-private partnerships, and transparent procurement would shore up fiscal capacity. Local government debt restructuring, including LGFV debt, and selective sales of state assets can help repair balance sheets and create fiscal space.

[13] As measured by the 2024 OECD-WBG Product Market Regulation indicators.

III. Special Focus: Bridging the Skills Gap for China's Low-Carbon Transition

Robust low-carbon investment has supported growth in China in recent years, even as overall domestic demand has remained subdued. Between 2022 and 2024, low-carbon investment grew by 23 percent annually and contributed more than one-third of overall investment growth[14]. The resulting diffusion of low-carbon technologies has been associated with the emergence of new occupations and increased demand for certain skills. These skills fall into two categories: green skills that comprise knowledge, abilities, values, and climate-specific technical skills (e.g., ecosystem management or pollution control), and a broader set of transferable competencies (e.g., systems thinking, communication, and adaptive learning) needed to support sustainable, resource-efficient activities ranging from energy storage design and smart-grid management to energy efficiency auditing and environmental compliance. Online job posting data show that, in 2022, jobs requiring at least one such skill accounted for 9 percent of postings.[15]

Equipping the workforce with relevant skills for the low-carbon transition has also become a policy priority. Within China's objective of achieving high-quality full employment, national strategies such as Skills for the Future, the Massive Training Initiative (2025–27), and the 2022 Implementation Plan for Green and Low-Carbon Development in the National Education System increasingly emphasize skills development for the low-carbon economy. Systematically identifying which occupations are relevant to the low-carbon economy is a prerequisite for targeting training, certification, and labor market policies toward the roles the transition demands. To this end, in 2015, China introduced the L-tag approach to identify green occupations and guide training and skills development (see Box 3). At the subnational level, coal-dependent provinces such as Shanxi and Inner Mongolia have introduced complementary programs linking renewable energy investment with workforce development.

This Special Focus examines how China's low-carbon transition is reshaping labor demand, worker mobility, and the institutions needed to build relevant skills. Drawing on three complementary data sources, it first shows that the transition is likely to generate net employment gains, but with significant reallocation pressures across sectors, occupations, regions, and skill levels. It then shows that demand for green skills extends well beyond narrowly defined low-carbon sectors and that these skills are associated with sizable wage premiums in

[14] Nominal estimates of renewable energy and tech investment come from the International Energy Agency. Real values are calculated using the gross fixed capital formation deflator.

[15] This chapter draws on three complementary studies: Asim et al. (2025), Denisova et al. (2025), and Wang et al. (2025). See Box 3 for a summary of data sources and methods.

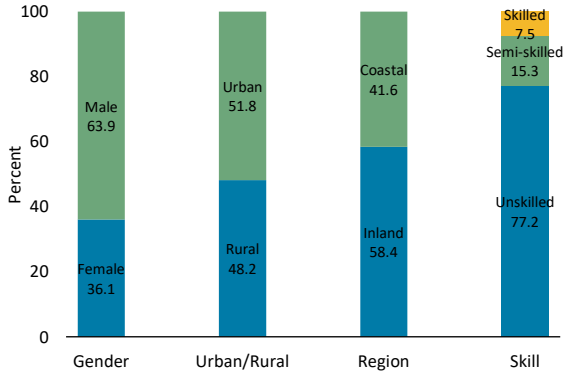
both L-tagged ('green') and conventional jobs. Furthermore, occupations requiring green skills tend to demand prior work experience and interdisciplinary competencies, contributing to the wage premium. The analysis then highlights how skill mismatches are constraining inclusive employment gains, particularly in carbon-intensive regions where many workers face barriers to moving into emerging roles. It concludes by assessing how skills training, education, and labor market institutions are responding, and where further policy action is needed to support worker transitions and broaden the employment benefits of China's low-carbon development.

The low-carbon transition leads to uneven distribution of job gains and losses

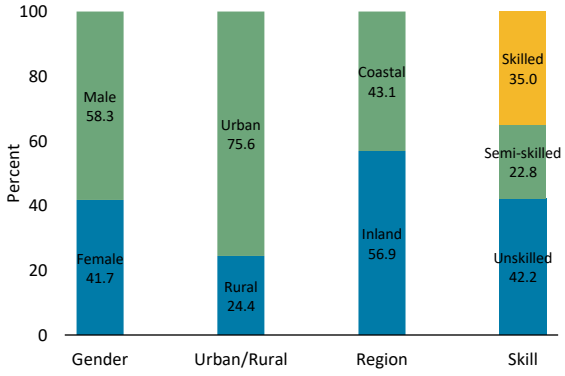
China's low-carbon transition is expected to generate net employment gains, but these aggregate gains will be distributed unevenly across regions, sectors, gender, and skills. Model-based estimates by the IEA (2021) suggest that, under current policy trajectories, low-carbon sectors will create more jobs than are lost in carbon-intensive industries such as coal mining and heavy industry. However, the workers and regions affected by job losses differ from those benefiting from expanding sectors. Many of the employment gains are likely to be in higher-skilled, higher-productivity industries compared to the job losses. Expected net job gains are also likely to be larger in urban coastal areas and disproportionately benefit male workers (Figure 13A and B) (World Bank, 2022).

Figure 13. Expanding and contracting sectors employ workers with different characteristics

A. Workers' characteristics in contracting sectors (% relative to 2018)



B. Workers' characteristics in expanding sectors (% relative to 2018)



Source: World Bank Group (2022).
Note: CGE modeling results in 2030 relative to 2018, combined with average sector characteristics based on 2018 China Family Panel Survey data. Sector characteristics are held fixed at their 2018 levels.

Job losses and skill mismatches are of particular concern in regions that depend on carbon-intensive sectors. Between 2013 and 2021, the coal industry lost an average of 330,000 jobs annually (IEA, 2024), with losses borne by a small number of provinces. Shanxi employed more than 900,000 coal workers in 2022 — over one-third of the national total — and coal and related

industries accounted for more than 40 percent of local employment. Inner Mongolia employed around 200,000 coal workers as of 2018. Both provinces are scaling up investment in renewable energy, hydrogen, and grid modernization, and both show rising shares of L-tagged job postings in national vacancy data. But low-carbon investment does not, by itself, solve the employment challenge: an estimated 85 percent of fossil fuel workers in coal-dependent provinces lack the qualifications needed to move into renewable energy roles. Emerging jobs increasingly require green skills such as environmental compliance and interdisciplinary skills such as digital applications and finance — competencies that command significant wage premiums but require substantial investment in retraining. Whether displaced workers can access these opportunities depends on the capacity of training systems and labor markets to support occupational and geographic mobility.

Demand for green jobs and skills is increasing

Understanding the labor market impact of the low-carbon transition requires examining changes in both occupations and skills demand. First, mapping occupations according to their direct contribution to China's low-carbon transition, which is what China's L-tag approach does (see Box 3), can guide policies by identifying the core workforce required. Second, understanding how the transition is changing the skills and tasks demanded across the broader labor market tells policymakers where opportunities or critical gaps lie. Because this transition reshapes skill demand economywide (LinkedIn, 2025), and technological change is accelerating this process, tracking occupations in designated sectors alone is not sufficient. This chapter combines both approaches (see Box 3) to provide a more complete picture of how the transition is reshaping China's labor market.

Box 3. Data sources and analytical approach

This chapter draws on three complementary data sources and combines China's official L-tag classification with a task-based skills analysis to examine how the low-carbon transition is reshaping labor demand. A national online vacancy database provides a broad demand-side perspective, while surveys of energy sector employers and educational institutions in Shanxi province and the Inner Mongolia Autonomous Region capture both demand- and supply-side dynamics in regions emblematic of China's transition challenges.

- **Online job vacancy data (2019–22).** A random sample of 4.7 million job postings was drawn from 155.6 million listings across five major Chinese job platforms: Qianchenwuyou, Liepin, Ganjiwang, Zhilianzhaopin, and Tongcheng. Job titles were matched to the China Standard Classification of Occupations, and a dictionary of green skills terms adapted from international taxonomies, including O*NET and ESCO (Posadas and Granata, 2024), was used to identify postings requiring green skill competencies.
- **Energy Employer Survey.** A survey of 240 energy-sector employers in Shanxi and Inner Mongolia was conducted by Shanxi University and Inner Mongolia University between March 24 and April 20,

2025, and was supplemented by focus group discussions and interviews with key industry representatives in both provinces. The survey captures current employment trends, task-level skill needs, employer satisfaction with recent graduates, and firm-level training practices in both low-carbon and carbon-intensive sectors.

- **Educational Institution Survey.** A survey of 100 TVET and higher education institutions in Shanxi and Inner Mongolia was conducted by Shanxi University and Inner Mongolia University between March 24 and April 20, 2025. It collected information on enrollment, graduation, curriculum content, new program introduction, and employer engagement. The supply-side data was aligned with the employer survey by matching employer-demanded skills with those developed in relevant degree programs, enabling systematic identification of skill mismatches.

The analysis uses two methodologies to classify green jobs. The L-tag classification follows a "top-down" approach: occupations are labeled with the letter "L" (Lu Se in Pinyin, meaning "green") based on their role in producing goods and services linked to environmental protection, low-carbon development, and the circular economy. The categorization is validated through structured consultations with sector experts, practitioners, and policymakers who assess the tasks performed and outputs produced by each occupation. In 2015, 127 occupations—8.6 percent of the 1,481 total occupations in the national classification—were identified as green. In 2022, the list was updated to 134 occupations, representing 8.2 percent of the total, reflecting a modest expansion in scope alongside the broader revision of the national occupational classification.

In addition to tracking L-tagged occupations, the underlying analysis applies a task-based methodology that classifies jobs according to their actual skill content rather than industry affiliation (Posadas and Granata, 2024; Wang et al., 2025). This combination is important because the two approaches capture different dimensions of the green labor market. Analysis of online job posting data reveals that official green designations do not always align with actual green skill content — many L-tagged postings do not specify green skills, while a significant share of non-L-tagged postings do. Combining both lenses allows the analysis to identify emerging skill demand that cuts across occupational and sectoral boundaries and to inform improvements to the L-tag framework for labor market monitoring and workforce planning.

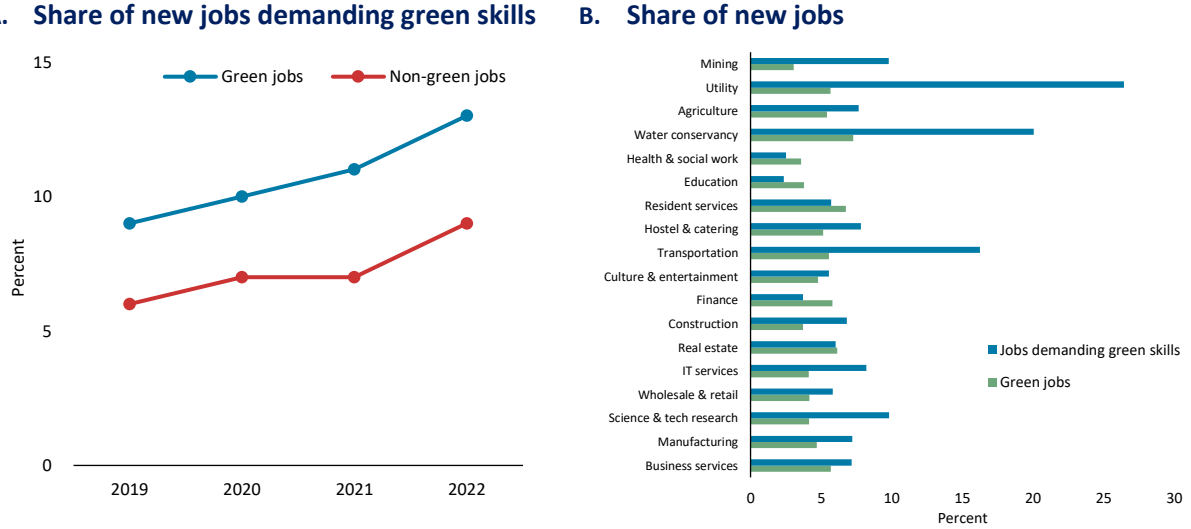
Source: Asim et al., 2025; Denisova et al., 2025; and Wang et al., 2025.

Evidence from online job vacancy data shows that demand for green jobs and green skills is expanding beyond sectors traditionally associated with environmental sustainability. In 2022, about 9 percent of all job vacancies required at least one skill related to environmental sustainability. Such skills were more prevalent in formally designated green occupations (13 percent of postings) but also appeared in 8 percent of non-green job postings, underscoring how green skill demand is expanding across the broader labor market. Demand grew across both categories over 2019-22 (Figure 14A).

The sectoral distribution of these jobs and skills challenges the assumption that the transition is confined to a narrow set of sectors. While sectors such as water conservancy and environmental management, electricity and heat supply, and mining have the highest shares of

postings requiring green skills, demand also extends to manufacturing, transportation, scientific research, financial services, and real estate. In electricity and heat supply, for example, 26.4 percent of postings required at least one green skill, far exceeding the 5.7 percent share officially classified under designated green occupations (Figure 14B). This pattern is consistent with global evidence that green skills are increasingly in demand across industries, not just in environmental sectors (LinkedIn, 2024).

Figure 14. Demand for green jobs and green skills is increasing



Source: China's online job posting and vacancy data 2019-22.

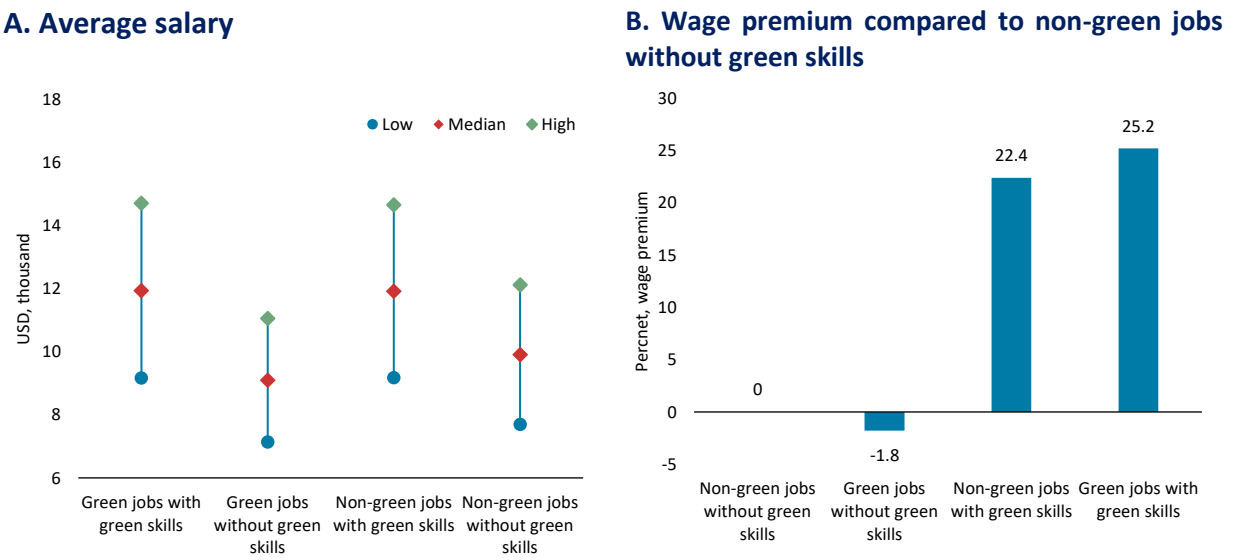
Green skills are associated with wage premiums

The presence of green skills in job postings is associated with substantially higher wages, regardless of whether the position is classified as a green job. Non-green jobs that require at least one green skill offer median wages approximately 22 percent higher than non-green jobs without green skills requirements, after controlling for occupation, industry, location, and year. For green jobs with green skills, the premium is larger, at 25 percent. In comparison, green jobs without green skills requirements offer slightly lower median wages (–1.8 percent) than non-green jobs without green skills—suggesting that it is the skill content of a job, rather than the occupational classification, that drives wage premiums (Figure 15A and B).

However, green jobs are less secure compared to roles in carbon-intensive industries which tend to have established employment stability and social protection. Workers in coal and heavy industry often have long tenure, predictable earnings, and established social protection. Estimates based on Peking University's longitudinal China Family Panel Survey (2016–2022) show

that only 56 percent of workers remain in green jobs after two years, compared with 96 percent retention in non-green jobs (Lin et al., 2025). Nearly half of exits from green jobs involve short-term unemployment spells. Once this turnover is considered, risk-adjusted expected earnings in green jobs fall to within 2–3 percent of conventional-sector levels. Lower job security may not apply equally to the broader range of roles requiring green skills identified in this chapter. But for workers exiting coal and heavy industry, the barrier to transition is not only skills but also the risk of trading employment stability for earnings potential without adequate social protection.

Figure 15. Jobs requiring green skills offer higher salaries across sectors



Source: China's Online job posting and vacancy data 2019-22

Note: Green jobs without green skills refer to L-tagged green occupations whose tasks do not require green skills under the task-based approach, such as general manager of a NEV store, survey planner, and marketing director. By contrast, non-green jobs with green skills refer to non-L-tagged occupations whose tasks do require green skills, such as energy storage solutions engineer, cargo driver, and data analyst.

These findings have clear implications for workforce planning. Higher wage premiums indicate that green skills are valued across the labor market and reflect rising demand for those competencies. This, in turn, indicates greater need for investment in these skills. Additionally, enabling workers to realize higher returns requires labor mobility support and social protection that make transitions financially viable.

Experience and interdisciplinary competencies are important in green roles

Job-vacancy analysis shows that occupations requiring green skills also tend to demand prior work experience, contributing to the wage premium. Half of all designated green job postings that specify green skills require prior work experience, a share that rises to 57 percent for

conventional jobs with comparable green-skill requirements. By contrast, only 36 percent of green jobs that do *not* require green skills demand prior experience—the lowest share across all job categories—suggesting these positions are more entry-level in nature.

Beyond prior work experience, employer surveys and focus groups conducted in Shanxi and Inner Mongolia highlight the growing importance of interdisciplinary competencies. Energy-related jobs in these provinces increasingly require transferable skills that cut across traditional technical training boundaries, including management, communication, and digital capabilities. Employer consultations identified five distinct job types with overlapping skill sets in environmental compliance, digital applications such as drone-based grid inspection and smart-grid management, carbon market finance, environmental, social, and governance (ESG) standards, and client-facing roles in renewable energy that combine product knowledge with communication skills. For these green jobs, employers reported persistent skills shortages in finance, data analytics, and strategic communication, underscoring the need to broaden talent pipelines beyond traditional technical fields.

Education and training systems have not kept pace with rising skill demand

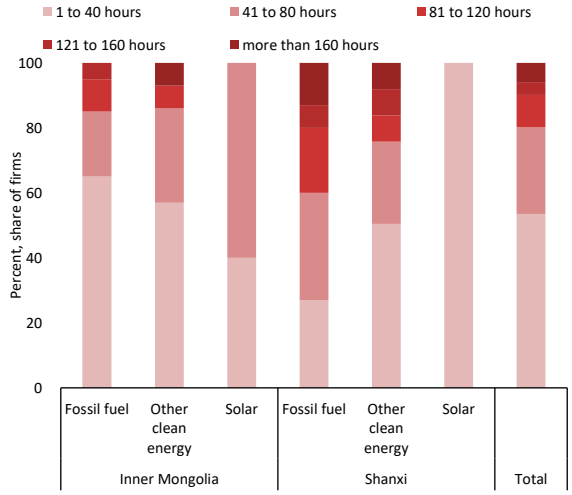
Evidence from Shanxi and Inner Mongolia points to a significant mismatch between labor demand and skill supply. More than one-third of energy firms report difficulty filling key green jobs, particularly those requiring interdisciplinary and digital competencies. But the supply side has been slow to respond. New academic programs targeting green jobs in the energy sector, such as Energy Storage Engineering and Hydrogen Energy Science, have emerged at select institutions but remain limited in scale. Fewer than one-quarter of higher education and TVET institutions introduced relevant new degree programs between 2020 and 2024, and only 13 percent align enrollment planning with employer consultation. The bottlenecks are largely institutional: more than half of surveyed institutions report insufficient faculty incentives to co-develop industry-aligned curricula, and over one-third face delays in program approval. These constraints help explain why curriculum expansion has lagged, even as demand signals have grown clearer. The gap is largest where it matters most—employers identify their most acute shortages in precisely the interdisciplinary competencies that combine environmental knowledge with digital, analytical, and management capabilities. Yet, most programs, new and existing alike, remain narrowly technical.

Firm-provided training reveals an equally persistent gap, this time along sectoral lines. In both provinces, workers in carbon-intensive sectors receive considerably less preparation for emerging green roles than their counterparts in green jobs. Firms were far less likely to provide workers in carbon-intensive roles with more than 40 hours of annual training (46 percent) than workers in green roles (70 percent). The spending gap is starker still: just 30 percent of firms invest

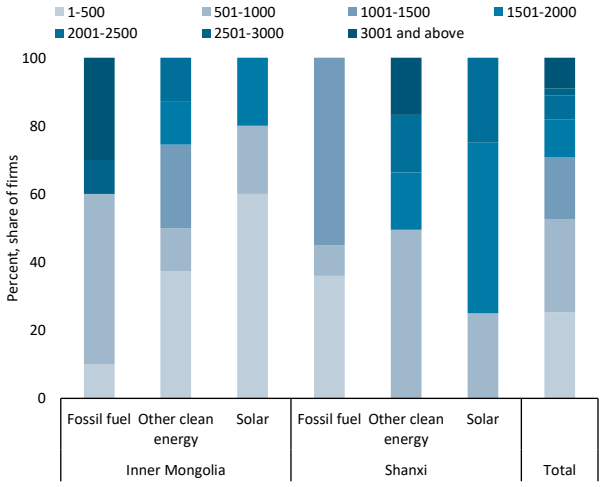
more than 1,500 yuan per worker annually in carbon-intensive roles, against 57–74 percent for green-role workers across the two provinces (Figure 16A and B).

Figure 16. Workers in carbon-intensive sectors receive less training for emerging green roles than those already in green occupations

A. Training hours by type of sector



B. Training fees by type of sector (in RMB per employee)



Source: Energy Employer Survey in Shanxi and Inner Mongolia

Energy sector employers also identify structural barriers to effective reskilling and upskilling. Workers in carbon-intensive roles typically have lower qualifications and narrower skill sets than those required for emerging green jobs. These jobs (such as carbon auditors and grid modernization engineers) increasingly demand higher-level, interdisciplinary competencies—including advanced technical expertise, problem-solving, and digital literacy—creating a steep barrier for lower-skilled workers whose previous roles emphasized routine, physical, and task-specific skills. Even workers who successfully transition are often confined to peripheral roles, such as security positions, where they receive lower wages and fewer benefits (e.g., loss of underground subsidies and limited performance bonuses).

Policy priorities: unlocking employment gains from China's low-carbon transition

China has made substantial progress in aligning labor, TVET, and higher education programs with its low-carbon transition. Low-carbon innovation and technology adoption are boosting productivity and accelerating industrial upgrading toward higher-value, lower-carbon activities, generating new jobs and raising demand for transferable, digital, and green skills. The evidence presented above indicates that these changes will require large-scale reskilling and upskilling so that workers and firms can adapt and seize emerging opportunities (OECD, 2023b; ILO, 2024). In

response, China has subsidized training for more than 92 million workers since 2021 (Xinhua, 2025a) and plans to train more than 10 million people in emerging low-carbon, AI, and elderly care sectors in 2026 (China Daily, 2026). The Ministry of Education and UNICEF have also introduced green skills curricula in 13 vocational institutions, reaching more than 20,000 students by end-2024 (UNICEF China, 2025). In addition, 29 new majors, including carbon neutrality science and engineering, were added in 2025, supported by a fast-track mechanism for strategically important higher education disciplines (Xinhua, 2025b).

While this progress provides a strong foundation, realizing the full employment gains from China's low-carbon transition would benefit from a proactive and coordinated approach to workforce development. Targeted policy measures could help close the gap between rising demand for green and interdisciplinary skills and the current supply of qualified workers. The analysis above points to a two-track strategy: short-term measures to strengthen training, reskilling, and labor mobility for today's workforce, and longer-term reforms to align education and labor market institutions with the evolving demands of a low-carbon economy. These are not only labor market interventions—they are also investments in the productivity and inclusiveness of China's growth model during a period of deep structural change.

Short-term: Strengthen on-the-job training, reskilling, and labor mobility

Invest in employer-led training and certification systems. Strengthening the linkage between government subsidies and certified employer-led training can improve incentives for reskilling and upskilling workers in traditional carbon-intensive sectors to take up green jobs.[16] Developing portable micro-credentials for green skills,[17] alongside onsite or blended online-offline training programs, can increase flexibility and scale. Stronger industry-school partnerships through co-designed, competency-based training modules and curricula can also ensure that training content remains current and relevant. International experience offers useful models: Germany mandates the inclusion of green skills in all apprenticeship profiles (BMBF and BMAS, 2022), and Denmark's social partner committees regularly update vocational tracks to incorporate emerging skills, including those needed for energy-efficient building systems (Cedefop, 2019).

[16] Under Inner Mongolia's 2025 Catalog of Subsidized Occupations, renewable energy roles are designated as high-demand. Tertiary institutions and employers can use this catalog to design targeted upskilling or reskilling training. These subsidies can therefore support upskilling of workers in carbon-intensive industries into green energy occupations. Similarly, provincial skills enhancement plans in Shanxi (2019) and Inner Mongolia (2023) provide financial support that companies and training institutions can leverage for reskilling workers in carbon-intensive industries into green roles—including through short courses, modular programs, and employer-delivered training.

[17] Portable micro-credentials are short, targeted certifications that remain recognizable and transferable across different employers, regions, and education providers. Unlike company-specific training that loses value when a worker changes jobs, portable credentials allow workers to carry verified skills with them—enhancing labor market mobility and reducing the risk of skill obsolescence during industry transitions.

Enable reskilling and scale up labor mobility support. Coal-dependent regions need integrated service delivery that combines job matching, skills assessment, and training in accessible locations. Integrating one-stop public employment services with local training hubs and mobile training units can improve reach (OECD, 2024). For workers who need to relocate, time-bound mobility packages covering transport, temporary housing, and initial living costs, paired with mobility-linked training design and job support at the destination can reduce transition frictions. Combining adequate mobility allowance with targeted training for employment in destination can effectively support the reemployment of displaced workers. Therefore, increased public funding and better targeting of instruments like unemployment insurance and training funds can strengthen reskilling and mobility support. In the longer term, deepening hukou reform along with equalizing public services across regions can further facilitate labor mobility.

Longer-term: Reform education and labor market institutions

Embed a broad set of competencies into technical and vocational education and training programs. Such competencies include not only green skills, but also digital literacy and transferable capabilities that employer consultations identify as being in persistent shortage. Rather than proliferating new standalone programs, existing TVET curricula can be updated to make green skills mandatory components rather than electives. Establishing cross-disciplinary curriculum committees, providing faculty incentives and training in emerging areas, and requiring regular employer consultation in curriculum updates can help institutionalize responsiveness. International experience suggests that systematically greening core curricula, as Germany and Denmark have done, is more scalable and effective than creating niche programs (BMBF and BMAS, 2022; Cedefop, 2019).

Strengthen labor market monitoring and workforce planning. Improving the L-tag classification to better capture evolving skill demand is one important step. This requires complementing the L-tag approach with the task-based approach to capture green skill requirements at a granular level. Furthermore, incorporating real-time, forward-looking labor market intelligence—including insights from online vacancy data—can complement traditional survey-based approaches and make workforce planning systems more responsive. Better data sharing across agencies and wider public access to labor market diagnostics can also improve policy design and strengthen the relevance of both education and active labor market programs.

Expand the role of inclusive higher education. Universities can support China's low-carbon transition by expanding interdisciplinary programs that integrate engineering, data science, and environmental studies, while strengthening research-industry linkages in areas such as renewable energy systems, sustainable finance, and circular economy innovation. A successful transition must also be inclusive: targeted outreach and support measures such as scholarships,

stipends, and flexible learning arrangements for underrepresented or disadvantaged groups can help ensure that the benefits are broadly shared.

Stakeholder consultations in policy design. Finally, international experience suggests that the effectiveness of transition support depends not only on which instruments are deployed, but also on how affected workers and communities participate in their design. Comparative analysis of coal transitions finds that China's current model relies primarily on "consultative implementation"—engaging stakeholders in executing predetermined policies—rather than involving workers and local institutions upstream in shaping transition plans (Lin et al., 2025). To better manage coal transitions, training and reskilling instruments need strong local coordination and regular feedback from affected workers. Economies such as Germany and Poland have achieved durable adjustment outcomes by involving workers, regional transition commissions, and formal stakeholder consultation in policy design (Sartor, 2018; Harrahill and Douglas, 2019). As China's transition deepens, institutionalizing feedback channels—linking employer surveys, public employment services, and worker representatives into provincial workforce planning—could improve the targeting and inclusiveness of reskilling and mobility programs.

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