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A New Funding Source for China's High-Tech Ambitions

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- China's slowing Q2 growth has increased the need for incremental easing and raised market attention on a potentially faster implementation of the RMB800bn "New Policy-Based Financial Instrument" (NPBFI) that was already planned for this year. In this note, we explain how the NPBFI works and why Chinese policymakers have increasingly favored this tool in recent years, and assess its potential impact on GDP.
- The NPBFI is a "quasi-fiscal" policy instrument used in recent years to fund strategically important investment mainly through policy banks, outside traditional commercial bank lending channels. By providing low-cost, long-term capital to supplement the equity tranche of selected projects, the tool aims to resolve the persistent bottleneck of insufficient equity capital that has historically hindered certain manufacturing and infrastructure investment.
- Funding has been targeted toward new-economy sectors and economically stronger provinces. Most NPBFI funding has gone to high-tech manufacturing, AI infrastructure, strategic supply chains, green transition, urban renewal, and "Six Networks" projects (including water networks, new-type power grids, computing power networks, next-generation communication networks, urban underground pipeline networks, and logistics networks). Around 80% of the 2025 quota was allocated to 12 "major economic powerhouse" provinces that account for the majority of China's R&D spending and GDP.
- The tool reflects policymakers' dual objective of supporting high-tech investment while limiting local government debt risks. Compared with local government financing, the NPBFI is more centrally coordinated, relies on policy bank funding via bond issuance and the PBOC's Pledged Supplementary Lending (PSL), and can in theory help mobilize follow-on bank lending and private-sector capital without adding directly to local government off-balance-sheet debt.
- The potential impact on GDP could be meaningful, but official multiplier estimates are likely to overstate the true incremental impact, in our view. We estimate the 2026 NPBFI quota of RMB800bn could lift real GDP level by around 0.5pp in the baseline scenario, with the impact concentrated in late 2026 and early 2027. Scenario analysis suggests a range of 0.3pp to 1.1pp depending on our fiscal multiplier assumptions. High-frequency progress tracking remains difficult because PSL and policy bank bond issuance data are volatile and not always synchronized with actual NPBFI deployment.

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

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China's slowing Q2 growth has increased the need for incremental easing, while recent policy communications reaffirmed top leadership's strong commitment to supporting China's "high-quality growth." These developments have raised market attention on a potentially faster implementation of fiscal easing measures that were already planned for this year, including the RMB800bn "New Policy-Based Financial Instrument" (NPBFI; 新型政策性金融工具). In this note, we explain how the NPBFI works and why policymakers have increasingly favored this tool in recent years, and assess its potential impact on GDP.

The NPBFI is a "quasi-fiscal" policy instrument used in recent years to fund strategically important investment mainly through policy banks,[1] outside traditional commercial bank lending channels (Exhibit 1). By providing low-cost, long-term capital to supplement the equity tranche of selected projects, the tool aims to resolve the persistent bottleneck of insufficient equity capital that has historically hindered certain manufacturing and infrastructure investment.

By sector, most NPBFI funding has gone to high-tech manufacturing (e.g., AI infrastructure, the digital economy, and the low-altitude economy), strategic supply chains (e.g., food, energy, and semiconductors), the green transition, and people's livelihoods (e.g., urban renewal) related areas, reflecting the increasing policy support for China's "New Quality Productive Forces" (新质生产力). Some projects are part of the Nationwide "Six Networks" ("六张网") initiative, which covers water networks, new-type power grids, computing power networks, next-generation communication networks, urban underground pipeline networks, and logistics networks. Geographically, about 80% of funding since 2025 has been allocated to 12 "major economic powerhouse" provinces.

[1] The three policy banks in China – China Development Bank (CDB), Agricultural Developr
(ADBC), and the Export-Import Bank of China (EXIM) – are widely perceived as the agentss
government.



Exhibit 1: A comparison of China's NPBFI implementation between 2025 and 2026

New Policy-Based Financial Instrument (NPBFI)		2025 Outturn	2026 Target	Highlights
Annual quota (RMB bn)	RMB bn	500	800	Notable expansion in the quota from 2025 to 2026; 2025 quota mainly used in Q4 2025
	% in annual GDP	0.4	0.5	
Lending entities	China Development Bank (CDB)	RMB250bn	Distribution among the three policy banks likely similar to 2025	Traditional and new infrastructure, high-tech manufacturing, digital economy
	Agricultural Development Bank of China (ADBC)	RMB150bn		Rural and agriculture related infrastructure
	Export-Import Bank of China (EXIM)	RMB100bn		Trade-related infrastructure, new economy sectors
Share of spending in the 12 "major economic powerhouse" provinces	% of total	~77	Likely around 80	Skewed to more deleveloped coastal regions with rapid expansion of the new economy
Share of spending to support the private sector	% of total	~23	Likely >=20	The 2025 outturn was slightly higher than the target (20%)
The window for implementing the tool		~1 month, from end-Sep to end-Oct 2025	In or after Q3 2026	Part of funding from the 2025 quota was spent in 2026
Major areas for investment		"Major economic powerhouse" provinces, "New Quality Productive Forces", high-tech manufacturing (e.g., AI infrastructure, the digital economy, the low-altitude economy), strategic supply chains (e.g., food, energy and semiconductors), green transition, and people's livelihoods (e.g., urban renewal) related projects.		Increasingly focusing on the new economy sectors

Source: Government websites, Data compiled by Goldman Sachs Global Investment Research

A brief history and operating mechanism of the NPBFI

The NPBFI traces its roots to the 2022 "Policy-backed and Development-oriented Financial Instrument" (政策性开发性金融工具), which deployed RMB740bn of equity funding for major infrastructure projects during the Covid pandemic, particularly in transport, water conservancy, energy, and new infrastructure. At the April 2025 Politburo meeting, amid the US-China tariff escalation, the leadership pledged to establish the NPBFI, institutionalizing the earlier tool and broadening its mandate beyond traditional infrastructure to support China's "New Quality Productive Forces." The National Development and Reform Commission (NDRC) announced a RMB500bn quota for 2025 in late September, which policy banks had fully deployed by end-October. In 2026, policymakers raised the quota to RMB800bn, with a greater tilt toward new-economy sectors.

Under the current NPBFI mechanism, the three major policy banks raise low-cost funding by issuing financial bonds or using the PBOC's Pledged Supplementary Lending (PSL) facility (Exhibit 2). The proceeds are channeled into dedicated investment funds set up by the policy banks, which then provide equity capital to key strategic projects pre-screened by the NDRC. The NPBFI is intended to provide a new source of equity capital, helping eligible projects meet the initial 15-25% (of total project cost) minimum funding requirement before they can borrow from commercial banks or private-sector lenders.[2]

[2] Local practice suggests the contribution from NPBFI generally does not exceed 50% of the project's total equity capital.