ASIA IN FOCUS

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.

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

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 Development Bank of China (ADBC), and the Export-Import Bank of China (EXIM) – are widely perceived as the agentss of the central 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

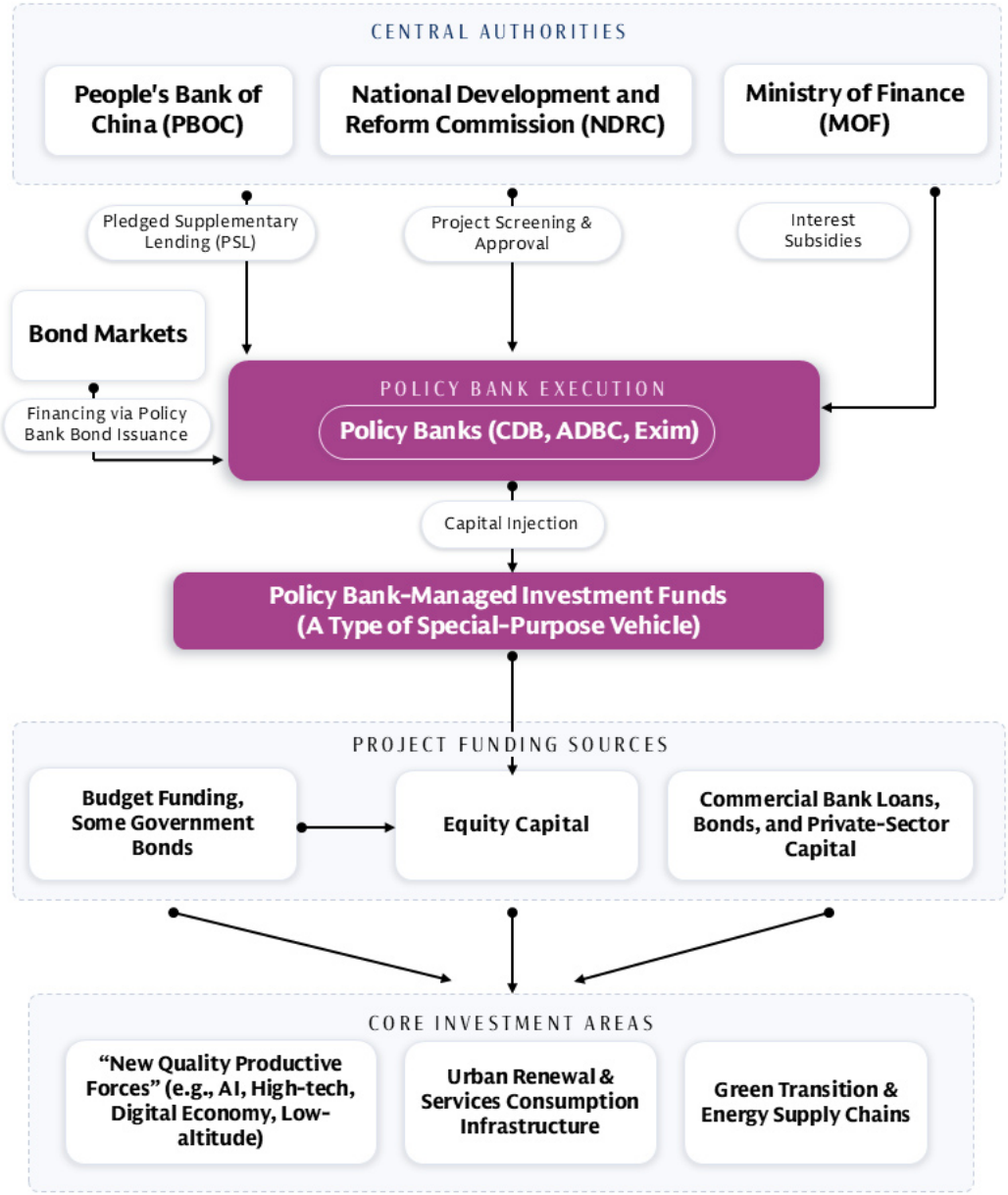
The NPBFI traces its roots to the 2022 "Policy-backed and Development-oriented Financial Instrument" (政策性开发性金融工具), which deployed RMB740bn of equity funding for major infrastructure projects during the Covid pandemic, particularly in transport, water conservancy, energy, and new infrastructure. At the 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.

The NPBFI's effective financing cost is generally lower than that of most government financing channels (see Exhibit 12 in the Appendix for a detailed comparison). This reflects the already-low PSL interest rate (currently 1.75%, typically with tenors of 3y or longer) and China Development Bank Bond (CDB, as a representative of policy bank financial bonds) yields (around 1.5%/1.6% p.a. in recent months for the 3y/5y tenor), both of which are below local government financing costs (Exhibit 3). The central budget also offers additional interest subsidies for some designated areas, such as loans to projects involving small and medium-sized private enterprises.

Exhibit 2: How the NPBFI mechanism works



Source: PBOC, NDRC, Goldman Sachs Global Investment Research

Why have Chinese policymakers increasingly favored this tool in recent years?

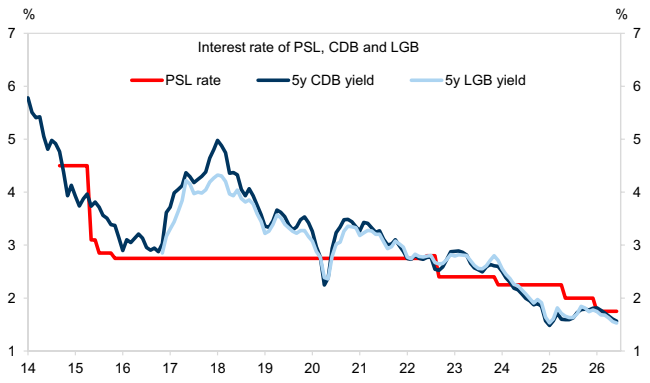
In our view, China's fiscal system now faces a dual mandate: supporting the economy's transition toward high-tech sectors while containing local government debt risks. On

one side, the ongoing US-China technology race calls for larger and more durable funding support for high-tech industries over the medium to long term. Funding for China's high-tech manufacturing sector, including AI supply chains, remains largely government-led, as policymakers seek to narrow the gap in hyperscaler capex between the US and China (Exhibit 4). On the other side, several off-budget government financing channels—especially local government financing vehicle (LGFV) financing and land sales revenue—are likely to remain under pressure amid the 2024-28 local government debt resolution program and the prolonged property downturn.

China therefore needs a financing approach that can address both objectives, and the NPBFI is one of its new tools. The instrument is centrally controlled, requires high-level coordination among the PBOC, NDRC, Ministry of Finance (MOF) and policy banks, and in theory helps fill project capital shortfalls to better leverage private investment without adding directly to local government off-balance-sheet debt. It also complements China's existing government funding channels for high-tech investment, including state-run national investment funds (e.g., for semiconductors, AI, and venture capital), central government special bonds (CGSB) for "Two Majors" projects ("两重"项目; i.e., projects and areas of strategic importance, including high-tech manufacturing), local government special bonds (LGSB) for new infrastructure, and commercial bank loans backed by the PBOC's low-cost relending support.

From a statistical perspective, the NPBFI is not fully captured in the PBOC's total social financing (TSF) metric,[3] because the funds are raised by policy banks (rather than non-financial sectors) through bond issuance and PSL, and then deployed as project equity capital (rather than lending to corporates).

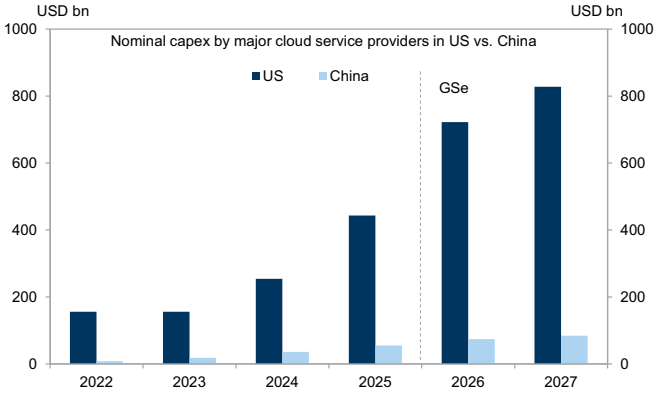
Exhibit 3: PSL interest rates and CDB yields have declined since the start of 2026



PSL, CDB and LGB refer to Pledged Supplementary Lending, China Development Bank Bond, and Local Government Bond, respectively.

Source: PBOC, Wind, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: The US-China hyperscaler capex gap remains significant



For ByteDance (Not Covered), our China Internet Research team imputed capex based on industry trends. We caution that the US-China gap in AI-related computing capacity is likely smaller than nominal hyperscaler capex suggests, given China's lower data-center construction costs and the government's sizable role in AI-related investment.

Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

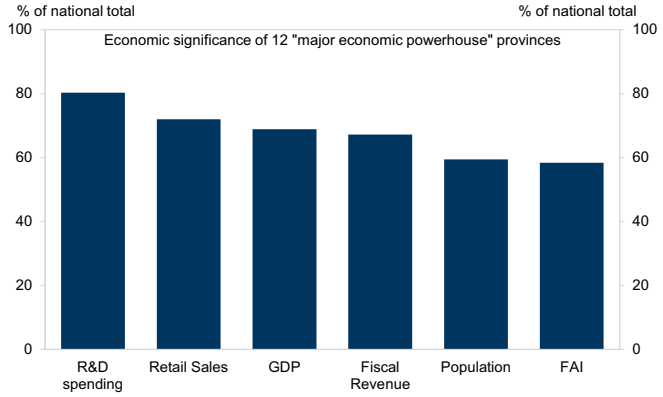
[3] The PBOC's TSF metric includes both direct and indirect financing from the financial inc
economy". TSF consists of RMB bank loans, FX loans, trust loans, entrusted loans, undiscou
acceptance bills, net corporate bond issuance, equity financing, net government bond issua
securities of depository financial institutions and loan write-offs. Therefore, policy bank bo
PBOC and bond markets are not directly counted in the TSF.

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NPBFI funding is skewed toward larger, more developed provinces

According to policy bank announcements, around 80% of 2025 NPBFI funding—roughly RMB400bn out of the RMB500bn annual quota—was allocated to China's 12 "major economic powerhouse provinces" ("12个经济大省"): Guangdong, Jiangsu, Shandong, Zhejiang, Sichuan, Henan, Hubei, Fujian, Shanghai, Hunan, Anhui, and Beijing, based on official definitions ranked by nominal GDP size in recent years. The share was 78% for CDB, 73% for ADBC, and 83% for EXIM. Together, these provinces accounted for 80% of national R&D spending, 72% of retail sales, 69% of GDP, 59% of the population, and 58% of fixed asset investment (FAI), based on our estimates (Exhibit 5). We expect the FAI gap between more developed coastal regions and fiscally constrained inland regions to remain wide in coming years, reflecting stronger policy support for high-tech development (with the NPBFI as one example), ongoing local government debt resolution, and continued population inflows to large cities (Exhibit 6).

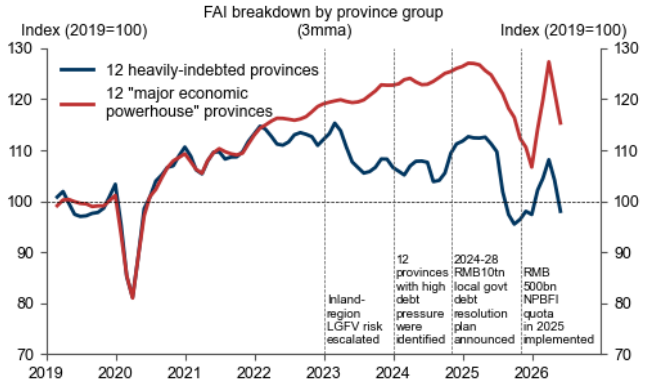
Exhibit 5: The 12 "major economic powerhouse" provinces account for large shares of national R&D spending and GDP



The 12 "major economic powerhouse" provinces are based on official definitions, including Guangdong, Jiangsu, Shandong, Zhejiang, Sichuan, Henan, Hubei, Fujian, Shanghai, Hunan, Anhui, and Beijing.

Source: Wind, CEIC, Goldman Sachs Global Investment Research

Exhibit 6: FAI divergence between "major economic powerhouse" provinces and heavily indebted provinces remains wide



The 12 "major economic powerhouse" provinces include Guangdong, Jiangsu, Shandong, Zhejiang, Sichuan, Henan, Hubei, Fujian, Shanghai, Hunan, Anhui and Beijing; and the 12 heavily-indebted provinces include Guizhou, Tianjin, Yunnan, Inner Mongolia, Liaoning, Jilin, Chongqing, Guangxi, Heilongjiang, Gansu, Ningxia, and Qinghai, both according to official definitions.

Source: Wind, CEIC, Goldman Sachs Global Investment Research

Assessing the GDP impact under different scenarios

Using last year as a reference, policy banks completed the deployment of the 2025 quota by end-October, roughly one month after its approval in late September, while some supplementary private-sector capital for approved projects was still being mobilized in H1 this year. High-tech-related FAI rebounded quickly in the following months and continued to outperform headline FAI (despite our long-standing concerns about FAI data reliability, the relative performance of FAI sub-sectors may still provide useful signal value; Exhibit 7). Our proprietary China investment tracker suggests that real investment growth improved to 3.5% yoy in H1 2026 from 2.2% yoy in Q4 2025.

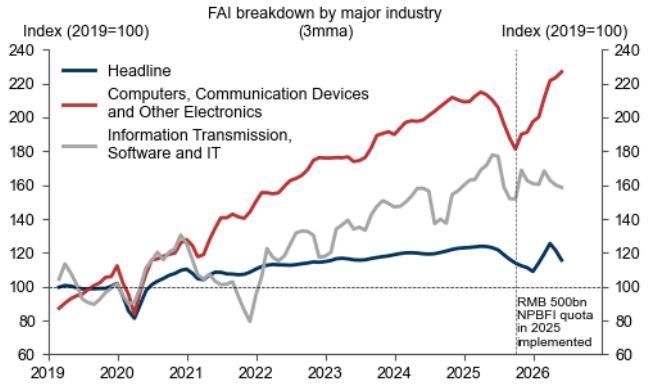
Official estimates typically assume investment multipliers of 10-15x, implying that the RMB500bn and RMB800bn NPBFI quotas in 2025 and 2026, respectively, could lift headline FAI by RMB7tn and RMB10tn over the medium to long term. Some China watchers estimate that this year's RMB800bn NPBFI could generate RMB5-8tn of total FAI, based on the minimum equity capital requirement of 20-30% for most infrastructure projects and the maximum 50% share of NPBFI in project equity capital,

assuming other funding channels such as proceeds from central and local government special bond issuance provide the remaining equity capital needed for project launches.

Although we expect the NPBFI to deliver a larger investment and growth multiplier than some traditional government funding tools, such as LGFV financing and LGSB, we believe these estimates overstate the net impact because the expected "crowding-in" effect could partly crowd out financing for other investment projects. Specifically:

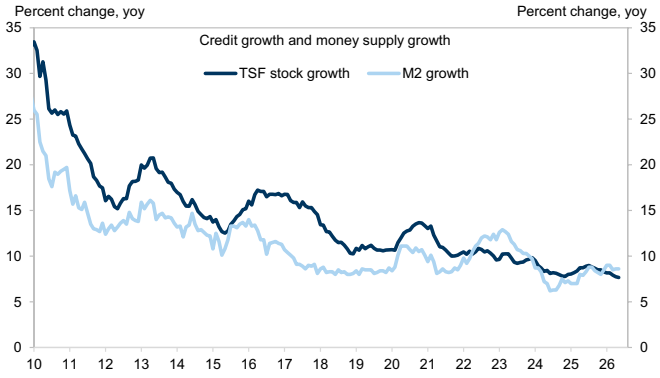
- Some complementary funding may come from the government budget rather than purely incremental private-sector capital, so its multiplier effect should not be double counted.
- NPBFI implementation – particularly during policy bank bond issuance and local government resource re-allocation – may divert financing from other investment projects already in the pipeline.
- Relatively weak incentives for local officials to launch major investment projects in recent years – amid high-pressure anti-corruption campaigns and local-level political reshuffles – could remain a bottleneck for policy implementation. With subdued private-sector credit demand, as evidenced by the continued decline in TSF stock growth in recent quarters (Exhibit 8), some projects financed by NPBFI could be projects that would have been financed anyway with or without NPBFI, implying little additional boost to total investment.

Exhibit 7: High-tech investment continues to outpace headline FAI



Source: NBS, Wind, Goldman Sachs Global Investment Research

Exhibit 8: TSF stock growth has continued to slow in recent quarters despite measured fiscal expansion



Source: PBOC, Wind, Data compiled by Goldman Sachs Global Investment Research

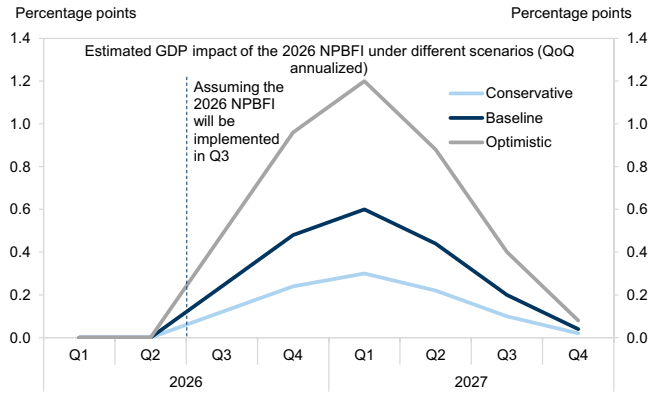
Our earlier study finds that a 1pp widening in the augmented fiscal deficit (AFD) would lift China's real GDP level by a cumulative 0.5pp four quarters after the shock. Given the NPBFI's short track record and rising concerns about FAI data quality, estimating its fiscal impulse precisely is challenging. We therefore use scenario analysis, assuming fiscal multipliers of 0.5x, 1x, and 2x in our conservative, baseline, and optimistic scenarios, respectively.

Specifically, we estimate that the RMB500bn NPBFI deployed in September-October 2025 lifted real GDP level by a cumulative 0.2pp, 0.4pp, and 0.7pp in the conservative, baseline, and optimistic scenarios, respectively (after rounding), over the following four quarters, with most of the impact concentrated in 2026. Assuming the planned

RMB800bn NPBFI for this year will be implemented in Q3, we estimate a baseline GDP impact of 0.5pp (with conservative and optimistic impacts of 0.3pp and 1.1pp, respectively), likely concentrated in late 2026 and early 2027 (Exhibit 9).

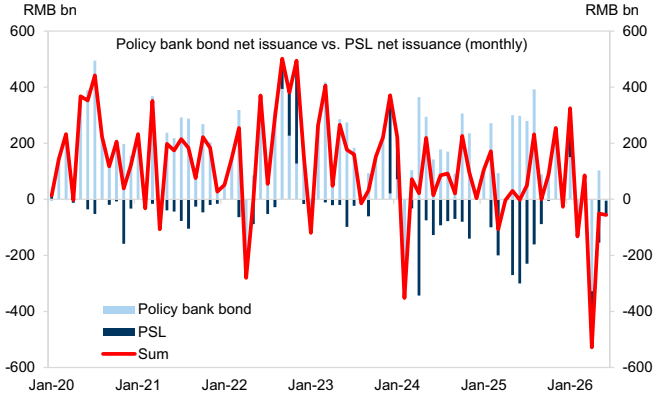
Fiscal policy dragged on growth in Q2 as government spending slowed meaningfully after a strong Q1. We expect central and local governments to increase bond issuance, accelerate proceeds spending, and speed up NPBFI implementation in the coming months.

Exhibit 9: Estimated GDP impact of the RMB800bn NPBFI in coming quarters



Source: Goldman Sachs Global Investment Research

Exhibit 10: Policy bank funding via PSL and bond issuance has been volatile recently



Source: Wind, CEIC, Data compiled by Goldman Sachs Global Investment Research

Tracking NPBFI progress remains difficult outside official announcements

Monthly data on PSL net increases and policy bank bond net issuance—the two main funding sources for the NPBFI—have been highly volatile in recent years, with their combined flow staying negative during April-June 2026 (Exhibit 10). Several recent PSL contractions reflect the maturity of outstanding loans previously used for the shantytown renovation program (SRP; initially issued in 2014-18 and rolled over during 2019-21). Fluctuations in policy bank bonds may also reflect discretionary supply adjustments to accommodate government bond issuance. As a result, changes in outstanding PSL and policy bank bonds have not always been synchronized with NPBFI implementation, making progress difficult to track. That said, recent signals from local government announcements point to stronger efforts to accelerate project-pipeline preparation and improve coordination among key participants, although full implementation has not yet begun (Exhibit 11).

Exhibit 11: Recent local government announcements on the 2026 NPBFI implementation

Local government		Date	Implementation progress	Key target sectors/areas
Province	City			
Inner Mongolia	Tongliao	8 Apr	The municipal NDRC hosted a meeting to outline project reserves, explain policy changes, streamline the application process, and facilitate the implementation	Stabilizing local growth and expanding domestic demand
Shaanxi	Ankang (Baihe County)	8 Apr	Local NDRC held a symposium with banks and corporates	Flagging that investment projects funded by NPBFI are eligible for 1.5% annualized fiscal subsidies
Hubei	Shiyan (Maojian District)	9 Apr	Local officials hosted a dedicated teach-in session on China Development Bank NPBFI	Digital economy, AI, low-altitude economy, consumption, green transition, agriculture and rural development, transport, logistics, and industrial parks
Shandong	Weihai	23 Apr	The municipal NDRC organized a preparation meeting to facilitate the implementation of NPBFI and coordination among different participants	Technological innovation, consumption, foreign trade
	Dezhou	16 May	The municipal NDRC held a leadership meeting to review project pipelines, aligning local reserves with the updated 2026 guidelines	Low-altitude economy, digital economy, AI, and productive services industries

Source: Local governments, Media reports, Data compiled by Goldman Sachs Global Investment Research

Lisheng Wang

The author would like to thank Samson Yau, an intern on the Asia Economics team, for his contribution to this report.

Appendix

Exhibit 12: A comparison of major government financing channels

Disclosure Appendix

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I, Lisheng Wang, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

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