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China: Moderate stimulus measures are offset by a worsening fiscal contraction

Research Analysts

Asia Economics

Jing Wang - NIHK
jing.wang@nomura.com
+852 2252 1011

Ting Lu - NIHK
ting.lu@nomura.com
+852 2252 1306

As the summer break is coming to an end, multiple government agencies appear to have gradually ramped up pro-growth efforts. Last week, the NDRC hosted a series of policy meetings to accelerate spending on investment and motivate the private sector to join the state on investing in major projects. On 21 August, the MOF doubled down on the interest subsidy program, called for faster fiscal spending in regions that are persistently lagging the budget, and committed to roll out a new round of fiscal measures in H2. In the meantime, Beijing and Shanghai recently introduced another round of local property policy easing measures.

We expect a limited boost from those policy easing measures and maintain our below-consensus GDP growth forecast of *4.3%* for Q3, especially considering a worsening fiscal contraction with faster fiscal revenue growth of 11.7% y-o-y and slower fiscal expenditure growth of 0.5% in July. We expect Beijing, under rising pressure to support growth, to unveil more policy measures later this year. Beijing's renewed push to clear arrears in the private sector demonstrates its attempt to rebuild trust in the beleaguered economy, in our view, but its actual commitment and execution remain unclear.

Fiscal contraction worsened in July

Following the *fiscal contraction* in H1, the latest July fiscal data pointed to a further contraction, suggesting that fiscal conditions remained a material growth drag amid the *worsening slowdown* in July. Although on-budget fiscal revenue growth quickened to 11.7% y-o-y in July from 8.7% in June and 4.7% in H1, expenditure growth slowed markedly to 0.5% in July from 4.0% in June and 1.5% in H1. Meanwhile, land sales revenue still contracted by a notable 27.1% y-o-y in July, following a 42.2% decline in June and a 31.5% decline in H1, as off-budget spending continued to be derailed by the prolonged property bust. This year, a positive PPI and strengthened tax collection in a wide range of areas have contributed to solid tax revenues, whereas fiscal expenditure has become a substantial growth drag amid stronger-than-expected exports and Beijing's intensified anti-corruption efforts.

The NDRC and MOF have started to push faster government spending

As growth concerns build, the *Politburo* meeting on 30 July explicitly called for faster fiscal spending. However, policy clarity remained limited until last week. Among a slew of policy meetings, the NDRC urged policy banks to speed up the deployment of the RMB800bn in new policy financing tools to bolster investment, especially for the buildout of China's own national power-communication-computing AI ecosystem (i.e., the "2+3+N" network), and encouraged private enterprises to actively participate in major national investment projects. On 21 August, the MOF expanded the scope and the quota of the interest subsidy program, urged faster fiscal spending in regions that are persistently lagging the budget, and vowed to roll out more fiscal measures in H2.

We expect on-budget fiscal spending to grow ~5% y-o-y for the rest of the year

In the first seven months, on-budget fiscal revenue and expenditure grew 5.8% y-o-y and 1.3%, running well above and below their respective targets of 2.2% and 4.4%. Assuming the government fulfills the remaining bond issuance quota, and the annual spending target is eventually met, we estimate implied expenditure growth would reach 8.3% y-o-y for the last five months of the year. However, the actual pace could be much slower, given the impact of the much larger-than-expected slump in land sales revenues and the need to resolve hidden debt. Overall, we believe on-budget expenditure growth might rebound to around 5.0% y-o-y in August-December from 1.3% in the first seven months.

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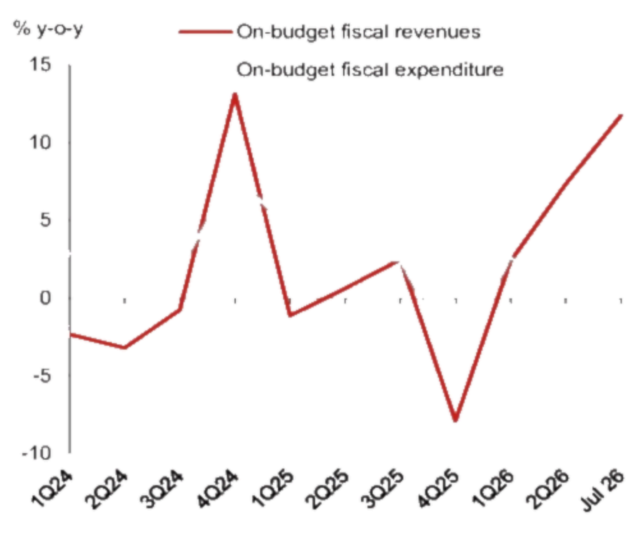
Fiscal conditions remained a material growth drag in July

According to the latest MOF data, on-budget fiscal revenue growth quickened further to 11.7% y-o-y in July from 8.7% in June (Figure 1), taking its year-to-date growth to 5.8% y-o-y in July, well above the annual target of 2.2%. July's revenue growth marked its highest since December 2024, mainly led by further advancement of tax revenue growth to 13.9% y-o-y in July from 10.8% in June, while non-tax revenue growth dropped to -5.4% from 2.9%. The strength in tax revenue was broad-based, as growth of value-added tax (VAT), individual income tax, consumption tax and property-related tax increased to 6.7%, 25.9%, 6.3% and -1.1% y-o-y, respectively, in July from 4.9%, 17.0%, -5.3% and -12.3% in June (Figure 2). Growth of corporate income tax (CIT) and stamp duty tax on stock trading remained elevated at 21.8% y-o-y and 108.6%, respectively, in July, albeit down from 29.7% and 145.3% in June.

Despite the solid revenue growth, we believe the real economy is much weaker, as the strong growth of VAT and CIT has mainly been a result of PPI turning positive this year, while individual income tax revenue growth rebounded on enhanced tax enforcement on overseas earnings and online streaming income, as well as rising capital gains tax collection amid the stock market rally. Indeed, land sales revenue growth remained deeply negative at -27.1% y-o-y in July, albeit up from -42.2% in June, taking its year-to-date growth to -30.8% y-o-y in July (Figure 3), down from -14.7% in 2025. The deterioration in land sales revenue dragged growth in government-managed fund revenue to -21.2% y-o-y in the first seven months of 2026 from -7.0% y-o-y in 2025, falling short of the March NPC meeting's full-year revenue target of 0.6% growth for government-managed funds. The continued deterioration in property-related revenue is likely to exacerbate the fiscal strain on local governments.

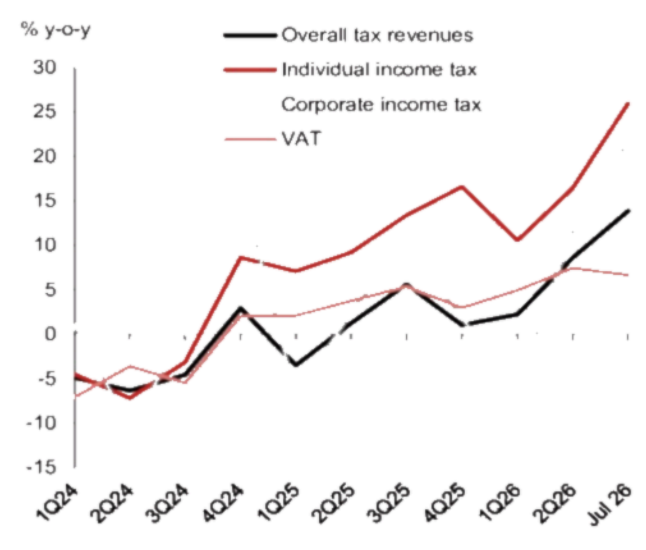
By contrast, amid still-subdued policy support in July, on-budget fiscal expenditure growth slowed markedly to 0.5% y-o-y, following a brief rebound to 4.0% in June from -1.6% in May. The slowdown was evident across the board, as expenditure growth in infrastructure, healthcare, education, social security & employment, and environmental protection decelerated to -1.5% y-o-y, 1.7%, 1.5%, 2.3% and -22.6%, respectively, in July, from -0.5%, 8.8%, 5.4%, 13.2%, -15.7% in June (Figure 4).

Fig. 1: On-budget fiscal revenues and expenditure



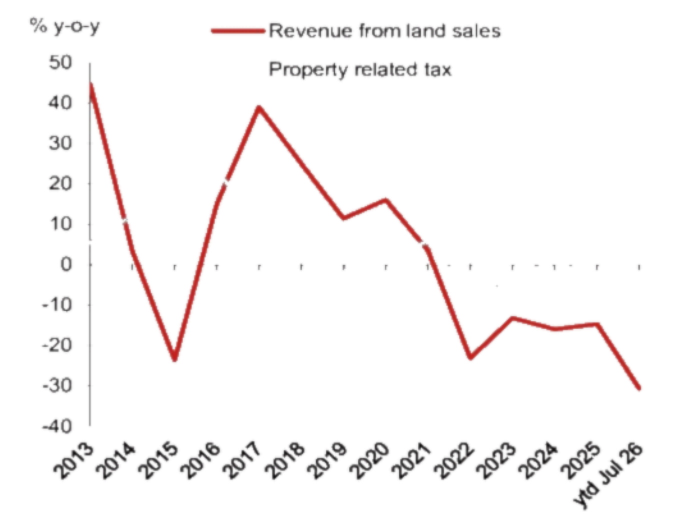
Source: MOF, Wind, Nomura Global Economics.

Fig. 2: Major drivers of tax revenues



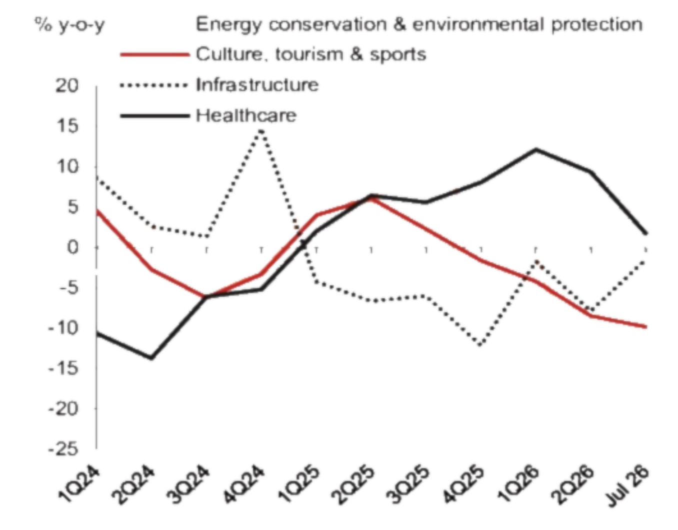
Source: MOF, Wind, Nomura Global Economics.

Fig. 3: Property-related revenue growth



Source: MOF, Wind, Nomura Global Economics.

Fig. 4: Major drivers of on-budget fiscal expenditure



Source: MOF, Wind, Nomura Global Economics.

A series of NDRC policy meetings to bolster investment

On 17 August, on the heels of the release of worsening activity data in *July*, the NDRC Deputy Director Yue Xiuhu hosted a meeting to accelerate the development of the 2026 "new policy financing tools (NPFT)" and boost the support for private investment projects. Representatives from the three policy banks, including China Development Bank, the Export-Import Bank of China, and the Agricultural Development of China, attended the meeting. The NPFT is a quasi-fiscal tool led by policy banks to bolster investment. The deepening investment contraction to -12.8% y-o-y in July from -9.7% in Q2 has pushed the NDRC to speed up the use of the NPFT. At the March NPC meeting, the annual quota for NPFT was set at RMB800bn for this year, up from RMB500bn in 2025. We provided an extensive *discussion* on NPFT in mid-March.

On 19 August, NDRC Deputy Director Yue Xiuhu hosted another meeting to coordinate investment on major projects of "six networks". The focus was to establish a mechanism to coordinate the investment on computing power, modern power grids, and next-generation communication network of "2+3+N" (two power grids, three telecom operators, and N computing enterprises). Representatives from the Ministry of Industry and Information Technology (MIIT), and National Energy Administration (NEA), State Grid, China Southern Power Grid, China Telecom, China Unicom, China Mobile and multiple computing related enterprises attended the meeting.

On 20 August, the NDRC head Zheng Shanjie hosted a symposium with private enterprises from various industries, including electrical equipment, pharmaceutical equipment, consumer services, smart electronics, and textile/chemical. Zheng gathered views and difficulties of entrepreneurs and encouraged them to actively participate in major national investment projects.

On 20 August, the NDRC Deputy Director Yue Xiuhu hosted a meeting to advance the "Two Majors" construction projects, i.e., major strategic and major security areas. Senior provincial officials from Tianjin, Inner Mongolia, Jiangsu, Zhejiang, Henan and Guangdong spoke on the progress of project implementation. According to the NBS, fixed asset investment growth in these six regions were at -11.9% y-o-y, -5.1%, -9.5%, -8.5%, -1.1% and -11.3%, respectively, in the first seven months, compared with the national reading of -6.7% over the same period. According to the MOF, the annual quota of RMB800bn in ultra-long central government special bonds for the "Two Majors" has already been fully to allocated to fund 1,417 major projects.

Bloomberg report of a RMB2.0trn plan for the national AI buildout

The "2+3+N" network is a new program initiated by the NDRC, and we believe it could represent one of Beijing's major efforts to develop China's own AI ecosystem. Indeed, according to a Bloomberg report on 9 June, the Chinese government is drafting a RMB2.0trn plan to establish a cohesive national network of data centers over the next five years. It appears to us that the new "2+3+N" network might be part of the plan. According to the report, total project spending is likely to total at least RMB5.0trn when factoring associated power grid infrastructure investments. Funding will primarily come from ultra-long central government special bonds and state funds designated for strategic industries, supplemented by bank loans and private capital. Amid the US-China AI arms race, the new network will rely on domestic suppliers for at least 80% of core technology, including AI chips from Huawei, and will be predominantly operated by state telecom giants, including China Mobile and China Telecom.

According to the NDRC on 31 July, the total planned investment in the new modern power grid network is expected to exceed RMB5.0trn during the 15th FYP. The NDRC also cited estimates from some research institutions and commented that investment for the construction of computing power networks may increase by RMB4.0trn during the 15th FYP, driven primarily by private enterprises.

The MOF's press conference

On 21 August, the Ministry of Finance (MOF) held a press conference on fiscal policies. Although this presser was part of a series on the theme of "Embarking on the 15th Five-Year Plan (FYP)", the MOF unveiled a small set of new policy measures to upgrade the interest rate subsidy program. In addition, the MOF also commented on the progress on government bond issuance this year and briefly touched on its policy agenda for H2.

Doubling down on the interest rate subsidy program

The interest rate subsidy program (IRS) was initially introduced in *September 2025* to boost consumption and services business and broadly expanded to five fiscal programs in *January 2026*. This program is a main policy tool of this year to boost domestic demand, intended to enhance the coordination between fiscal and monetary policies, and backed by the RMB100bn of central fiscal funding. Yet, the policy impact has been rather limited so far, as retail sales growth slowed markedly to 1.2% y-o-y ytd in July from 3.7% in 2025, and growth of outstanding aggregate financing dipped a record low of 7.4% y-o-y in July from 8.3% at end-2025. Against this backdrop, the latest upgrade expanded the scope of the interest rate subsidy program for businesses and consumers, with also larger loan caps, compared with the expansion in January.

For eligible SMEs, working-capital loans will be also covered by the IRS program, with an annual interest rate subsidy of 1.0%. Previously, the program only covered fixed-asset loans and loans that are linked to the NPFTs, with an annual interest rate subsidy of 1.5%. For consumers, the new program scrapped restrictions on credit card installments. All types of credit card installments, including special-purpose and cash-advance installments, are available for an interest rate subsidy of 1.0%.

In addition to a large scope, the new program also raised loan caps:

- For eligible SMES, the loan cap is raised to RMB75mn from RMB50mn per year.
- For services business loans, the loan cap is doubled to RMB20mn annually from RMB10mn.
- For consumer loans, including credit cards, cumulative interest subsidy caps for per individual at a single financial institution are raised to RMB5,000 from RMB3,000 annually.

In the meantime, the scope of banks that are eligible to handle the ISR program for SMEs and services business loans is also expanded to include 3A-rated private banks.

MOF updates on the progress of bond issuance and debt resolution

According to the MOF, in the first seven months, net issuance of local government special bonds (LGSB) totaled RMB2.4trn. For the RMB1.3trn in ultra-long central government special bonds (CGSB), the RMB800bn for "Two Major" projects and RMB200bn for equipment upgrade have already been fully allocated, while for the RMB250bn planned for the consumer trade-in program, RMB187.5bn (75% of total) have been deployed. As the annual quota for LGSB was set at RMB4.4trn, and the RMB300bn CGSB for state bank recapitalization will be issued soon, the MOF said there will be a total of over RMB2.0trn LGSB and CGSB to be issued in H2, which would be the largest scale in recent years. On debt resolution, in the first seven months, a total of RMB1.73trn government bonds has been issued to replace hidden debt, representing 86.7% of the RMB2.0trn annual quota. In addition, the MOF said it will urge faster spending in H2, especially in regions that are constantly lagging their annual budget, and committed to introduce a new round of fiscal measures in H2.

Fig. 5: An upgrade of interest subsidy programs in August 2026

Comparison Item	August 2026	January 2026	Key Policy Changes
Scope of interest-subsidized SME loans	Working capital loans of qualified private SMEs are eligible for interest subsidy. Annual subsidy rate: 1%, maximum tenure: 2 years. Original rules for fixed-asset loans remain unchanged.	Only fixed-asset loans of qualified SMEs are eligible; working-capital loans excluded. Maximum subsidy tenure: 2 years at an annual rate of 1.5%	Working-capital loans for private MSMEs are newly covered; note the 1% annual subsidy rate is lower than the 1.5% for fixed-asset loans.
Personal consumption interest subsidy: Credit card installment coverage	All new credit-card-based installment products are covered: special-purpose installments, purchase-transaction installments and cash-advance installments, at 1% annual interest subsidy.	Only credit card installments qualify; special-purpose, regular purchase and cash-advance installments are excluded.	Material expansion of eligible credit-card installment scenarios, including vehicle purchase, home renovation and other large-ticket special-purpose installments.
Annual cap of subsidized loans per bank per SME	RMB75mn	RMB50mn	50% increase in the upper limit of subsidizable loan balance for one bank.
Annual cap of subsidized loans per bank per services entity	RMB20mn	RMB10mn	Upper limit doubled. Other parameters including 1% subsidy rate, 1-year maximum tenure and 9:1 central-local cost-sharing remain unchanged.
Annual cumulative interest-subsidy cap per bank per individual	RMB5,000	RMB3,000	Raised by RMB2,000. Other personal-consumption-loan rules remain unchanged.
Authorized lending institutions for SMEs & services business loans	21 national-level banks, plus city commercial banks, rural cooperative institutions, private banks and foreign banks with regulatory rating of 3A or above	21 national-level banks, plus city commercial banks, provincial-level rural commercial banks and foreign banks with regulatory rating of 3A or above	A marked expansion of eligible lenders for SMEs and services business loans to include more rural banks and private banks.

Source: MOF, Nomura Global Economics.

We expect fiscal expenditure growth to rebound to ~5% in the last five months

According to the latest MOF data, on-budget fiscal expenditure growth slowed again in July, down notably to 0.5% y-o-y, after a rebound to 4.0% in June from -1.6% in May. In the first seven months of this year, expenditure growth was only 1.3% y-o-y, well below the annual growth of 4.4% set at the March NPC meeting. By contrast, on-budget fiscal revenue growth increased further to 11.7% y-o-y in July from 8.7% in June, taking its year-to-date growth to 5.8% y-o-y in July (annual target: 2.2%).

As the MOF said it will strengthen the supervisions in regions with persistently slow spending, we expect fiscal expenditure growth to rebound for the remainder of the year. If the government fulfills the annual bond issuance quota and the spending target is eventually met, the implied expenditure growth would reach 8.3% y-o-y for the last five months of the year.

However, the actual pace could be much slower, if we consider the impact of slumping land sales revenues. According to the MOF, about 15% of land sales revenues, which is off-budget, will be used to support on-budget spending. In July, land sales revenue growth remained deeply negative at -27.1% y-o-y, albeit up from -42.2% in June, taking its year-to-date growth to -30.8% y-o-y in July. Assuming similar rate of slump for the whole year of 2026, land sales revenues would drop RMB1.3trn in 2026, which will result in RMB200bn less revenues for on-budget spending.

Further considering part of remaining bond proceeds could be used for debt resolution, rather than spending and revenue is not a material constraint, we believe on-budget expenditure growth might rebound to around 5.0% y-o-y in August-December from 1.3% in the first seven months of the year.

Beijing's own property easing measures, following Shanghai and Shenzhen

On 7 August, the Beijing municipal government announced a new round of property easing measures, following Shanghai on *25 February* and Shenzhen on *29 April*, in response to weakening recovery momentum in local housing markets in recent months.

Restrictions on home purchases were relaxed further for non-locals

Non-local residents now need only one year of payment records of social security or personal income tax to purchase one home within the 5th Ring Road of Beijing (i.e., urban areas of Beijing). Previously, two years of payment were required.

Raising the loan quota for the housing provident fund

- For a family with a single contributor to housing provident fund (HPF), the loan quota remained unchanged for RMB1.2mn for the first-home purchase and RMB1.0mn for the second-home purchase.

- For a family with two contributors, the loan quota is raised to RMB2.4mn for the first-home purchase and RMB2.0mn for the second-home purchase from RMB1.2mn and RMB1.0mn, respectively. Previously, there was essentially no single/couple distinction for the loan quota, with the quota now doubled for the two-contributor families.
- The loan quota could be further raised by up to RMB0.6mn for single contributors and RMB1.0mn for double contributors, if other multiple conditions are met. These conditions include purchasing a first home in a suburban area by local residents of urban areas, purchasing as a multi-child family, and purchasing a home from a green project.
- The loan quota per contribution year is raised to RMB0.2mn for families with a single contributor and RMB0.4mn for ones with double contributors, respectively, from both RMB0.15mn before.
- A removal of hard "loan count" limit. Households that have already fully repaid their mortgage loans under the HPF are allowed to apply mortgages from the fund again. Previously, further applications would not be allowed, after two cumulative uses, regardless of repayment status.
- Support for home renovations. Residents are allowed to withdraw from the HPF to renovate their self-occupied housing based on a value-added tax (VAT) invoice issued by a qualified construction decoration corporation. The withdrawal amount cannot exceed 50% of the VAT invoice total and is capped at RMB0.25mn. The same owner can only apply for a renovation withdrawal for the same home once every 10 years.

Shanghai kick-started the second round of property easing measures this year
On 20 August, six Shanghai government departments jointly issued a new package of property policy easing measures, following the previous round introduced on *25 February*. We believe Shenzhen and Beijing, the other two tier-one cities still holding some policy room, are likely to follow suit based on precedent. The new package relaxed the requirements of using the housing provident fund, lowered the minimum down payment ratios for the purchase of second homes in suburban areas, doubled down on the trade-in housing loan subsidy, and pushed to accelerate the procurement of existing homes for affordable rental housing.

- The scope of using the housing provident fund (HPF) for down payments was expanded to include completed new homes from only new pre-sale homes. The use of HPF for down payments will not affect the loan quota under the HPF.
- Contributors who meet the conditions to use HPF to purchase an owner-occupied home can make a withdrawal once a year within five years after obtaining property ownership certificates, compared with only once before.
- Contributors can withdraw from their own HPF and that of their spouses for deed tax payments for the purchase of owner-occupied homes, as well as the purchases of parking lots and storage rooms.
- The minimum down payment ratio for the purchase of second-home outside the outer ring road (i.e. suburban areas) is lowered to 15% from 20%. The down payment ratio for the purchases of the first-home and second-home in urban areas remained unchanged at 15% and 25%, respectively.
- Trade-in housing loan subsidy. From now until 31 March 2027, resident families who purchase a new home in suburban areas and, within one year of the purchase, finish the selling of an existing home in Shanghai, can apply for a subsidy equivalent to 1% of the mortgage loan for the new home, with a cap of RMB50,000 for each new home. The total subsidy fund pool for this program is RMB200mn, available until used up. The maximum subsidy per new home could be raised by another RMB30,000 to RMB80,000, if the sold existing home locates in urban areas.
- In addition, the Shanghai municipal government has called for more use of housing vouchers for urban village renovations and old urban area redevelopment projects, as well as an acceleration of procurement of existing homes for affordable rental housing.

Fig. 6: Major fiscal indicators

Major fiscal indicators	unit	Jul 26	Jun 26	Q2 26	Q1 26	H1 26	2025	2024
On-budget revenue growth	% y-o-y	**11.7**	**8.7**	**7.3**	**2.4**	**4.7**	**-1.7**	**1.3**
Tax revenue	% y-o-y	13.9	10.8	8.6	2.2	5.3	0.8	-3.4
Value-added tax (VAT)	% y-o-y	6.7	4.9	7.4	4.9	6.0	3.4	-3.8
Corporate income tax	% y-o-y	21.8	29.7	11.3	-5.6	3.9	1.0	-0.5
Property-related tax	% y-o-y	-1.1	-12.3	-5.3	-6.3	-5.8	-4.4	0.0
Consumption tax	% y-o-y	6.3	-5.3	-2.0	-4.4	-3.4	2.0	2.6
Individual income tax	% y-o-y	25.9	17.0	16.4	10.5	13.1	11.5	-1.7
Stamp duty tax on stock trading	% y-o-y	108.6	145.3	118.2	78.3	97.3	57.8	-29.1
Non-tax revenue	% y-o-y	-5.4	2.9	1.6	2.9	2.3	-11.3	25.4
Revenue growth from government-managed funds	% y-o-y	**-19.1**	**-31.1**	**-26.5**	**-16.2**	**-21.6**	**-7.0**	**-12.2**
Revenue from land sales	% y-o-y	-27 1	-42.2	-38.0	-24.4	-31.5	-14.7	-16.0
On-budget expenditure growth	% y-o-y	**0.5**	**4.0**	**0.2**	**2.6**	**1.5**	**1.0**	**3.6**
Infrastructure	% y-o-y	-1.5	-0.5	-7.9	-1.8	-4.8	-7.8	7.3
Healthcare	% y-o-y	1.7	8.8	9.3	12.1	10.8	5.7	-9.1
Education	% y-o-y	1.5	5.4	1.6	-0.3	0.6	3.2	2.0
Social security and employment	% y-o-y	2.3	13.2	5.9	9.0	7.6	6.7	5.6
Science & technology	% y-o-y	2.6	2.6	4.9	-3.7	1.3	4.8	5.7
Environmental protection	% y-o-y	-22.6	-15.7	-19.8	-1.1	-10.3	6.1	-1.4
Expenditure growth from government-managed funds	% y-o-y	**-16.4**	**-44.0**	**-31.0**	**3.1**	**-16.4**	**11.3**	**0.2**
Fiscal balance	RMB bn	**309**	**-887**	**-919**	**-1,309**	**-2,228**	**-2,333**	**-1,887**
Fiscal balance (12m rolling sum)	RMB bn	**-6,565**	**-6,793**	**-6,793**	**-7,182**	**-6,793**	**-7,135**	**-6,491**

Source: Wind, Nomura Global Economics.