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China: The new round of supportive measures is not sufficient to bolster growth

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Today, China's top economic and financial authorities, including the PBoC, the Ministry of Finance and the National Financial Regulatory Administration, rolled out a new package of policy easing measures to lower financing costs and boost central bank lending. The policy announcement was not a big surprise, as the State Council's meeting memo released *yesterday* already sent an advance notice. Under the package, the interest rate for PSL is lowered by 25bp to 1.5% from 1.75%, the scope of PSL support is broadened to include the "Six Networks", the PBoC's re-lending quota is raised by a total of RMB700bn for select sectors, and the interest subsidy program for mortgage payments is finally unveiled. However, we expect a limited impact, as these policy measures are either of small scale or fail to effectively address the real growth barriers.

For the mortgage subsidy program, we estimate that it may merely save RMB20-30bn in interest payments per year and may only slightly increase home sales. The subsidy program mainly targets purchases of low-priced homes, especially in lower tier cities, where most people still expect home prices to decline further, due to sustained population outflows and *the K-shaped economy*. To end the still ongoing property bust, we believe Beijing needs to clean up the colossal non-performing debt related to the property sector (see *Special Report – Clearing inter-firm arrears: The key to rejuvenating China's economy*, 16 September 2026). To fully address the current economic weakness, we also see some structural reforms of public finance and the social security system as necessary.

The PBoC cuts the PSL rate and expands re-lending quotas

Today, the PBoC announced four adjustments to its monetary policy toolkit, all involving *structural monetary policy instruments (SMPIs)*, citing the Politburo meeting and a State Council executive meeting.

- First, the 1-year PSL rate is cut by 25bp to 1.50% from 1.75% to encourage policy-bank lending to the real economy.
- Second, PSL eligibility is extended to "six networks" construction (water, new-type power grids, compute power, next-generation communications, urban underground pipelines and logistics) to expand effective investment and domestic demand, an area the Q3 PBoC MPC statement, released last week, *had newly added to structural policy priorities*.
- Third, the tech-innovation and technological-transformation re-lending quota is raised by RMB200bn to RMB1.4trn, and its support ratio is lifted uniformly to 100% from 60%, targeting loans to small and mid-sized tech firms and equipment-upgrade investment.
- Fourth, the agriculture and small-business re-lending and rediscount quota rises by RMB500bn to RMB4.85trn, including RMB300bn more for private enterprise re-lending (to RMB1.3trn), to encourage local banks to lend to agriculture-related, small and micro firms, especially private SMEs.

The PBoC frames the objective as a supportive monetary environment for stabilizing growth and financial markets, and pledges ample liquidity. That said, SMPI quotas are ceilings rather than commitments, thus, full utilisation is not guaranteed amid *weak private credit demand*. Under the "lend first, borrow later" design, base money is created only when banks draw on quotas from the PBoC after extending qualifying loans, hence, both the liquidity and credit effects hinge on actual loan demand.

The cut to the PSL interest rate is largely in line with our expectations. In early September, we *noted* "That said, amid rising growth headwinds, we believe the PBoC is likely to

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deliver some targeted rate cuts to complement fiscal stimulus measures, similar to the case in mid-January this year" and "as the PBoC's PSL could be a key funding source for NPFT, interest rates for PSL could be further lowered to accommodate policy bank lending to investment projects".

Same toolkit as in January with a tilt toward infrastructure

Relative to *the last round of SMPI rate cuts in January*, today's package uses the same low-profile, targeted toolkit and again avoids policy rate and RRR cuts, consistent with our view, but it is narrower in pricing (interest rates) and size (quotas). In January, the PBoC cut rates on all structural facilities by 25bp, taking re-lending to 1.25% and PSL to 1.75%, whereas this round only cuts PSL, which now matches the 1.50% rediscount rate and sits 10bp above the 1.40% 7-day OMO rate. New quotas total RMB700bn, and compare with RMB900bn in January, plus a RMB200bn bond risk-sharing facility.

The more meaningful change in the margin may be in transmission, as a 100% support ratio means the PBoC now funds the full principal of qualifying tech loans. The sector mix also broadens from tech and private SMEs toward infrastructure networks, and fiscal-monetary coordination is somewhat tighter. The "six networks" construction programme now sits within structural policy priorities, alongside the RMB800bn policy-based financing instruments deployed by policy banks, extending the PBoC and SMPI's quasi-fiscal role. *As we flagged last week*, the "six networks" are likely a key destination for these policy financing funds. If the funds are spent promptly, credit and FAI growth could rebound moderately in Q4.

The long-awaited mortgage subsidy program is finally unveiled

Along with a slew of monetary easing measures, the MOF, PBoC and NFRA jointly announced a new program to offer subsidies for mortgage interest payments. This program has been hyped for a while, and it was initially covered by Bloomberg in *November 2025*. Under this program, a 1% interest subsidy will be provided for a maximum period of five years. This program will start from 1 October and last for one year.

This is the first time that the central government has provided direct fiscal funding for the property sector, especially for homebuyers. But there are certain restrictions for this benefit, including:

- First-home purchases, regardless of whether they are newly built or existing homes;
- The space of a home is no more than 120 sqm, with the total price no more than RMB1.5mn;
- Newly issued mortgage loans to replace an existing mortgage do not qualify;
- Only commercial mortgage loans. Mortgage loans for affordable housing or that are covered by the Provident Fund are excluded.

Taking those restrictions into account, this program only targets, or mainly subsidizes, first-time purchases of low-priced homes, and they are mostly in small cities. We see a limited impact, as in those lower tier cities, people still generally expect home prices to decline further, due to the after-effect of the property bubble in 2015-18 and sustained population outflows.

In the meantime, as many home purchases in big cities will be excluded from this program, the mortgage interest burden will remain relatively high for mortgage borrowers in big cities, especially compared with investment returns currently in China. For some middle-income households, they might still have a high incentive to pay back their mortgages in advance, which will continue to put pressure on overall loan growth and banks' balance sheets.

For this year, banks' loan extensions have collapsed, mainly dragged down by mortgage loans. In the first eight months, new mortgage loans slumped to only about RMB20bn, which is a record low and well below the RMB4.2trn at the peak in 2021.

The Ministry of Finance (MOF) has introduced a few interest subsidy programs since September last year, with more expansions of these programs this year. However, the impact has been rather limited. For example, the interest subsidy programs for the services business and consumption loans support total consumption of RMB1.88trn in the first seven months of this year, according to the MOF. However, retail sales growth still slowed markedly to only 1.2% y-o-y in January-July from 3.7% in 2025.



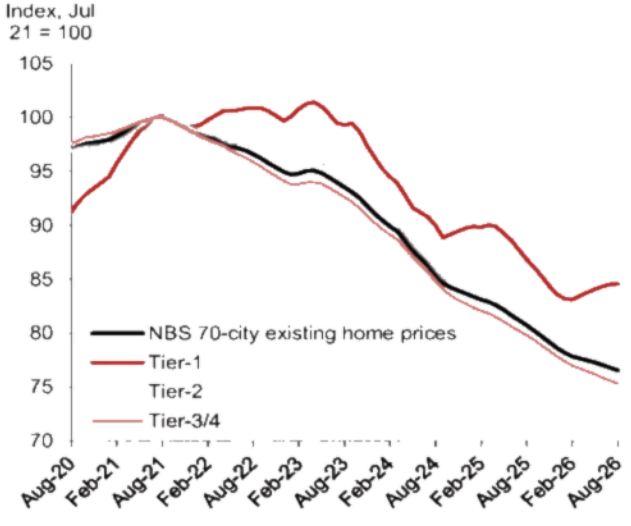
Gauging the impact of the mortgage subsidy program

To evaluate the overall impact and total fiscal cost of the mortgage subsidy program, we make the following assumptions:

- New home sales: Around RMB7.4trn in 2026 (2025: RMB8.4trn). Excluding affordable housing (15% of total new home sales), the remaining value would be about RMB6.3trn.
- Existing home sales: According to the NBS, existing home sales by floor space are likely to exceed new home sales this year. Assuming slightly lower prices for existing homes than new homes, we estimate the total transaction value of existing homes could be around RMB6.5trn.
- The total transaction value of new and existing homes could be around RMB13trn.
- Assuming half of the total transaction value is covered by mortgage loans, and further excluding mortgage loans covered by the Provident Fund (around 18%, according to the Provident Fund 2024 annual report), we estimate total commercial mortgage loans could be around RMB5.3trn.
- First-home purchases: Again, according to the Provident Fund 2024 annual report, the share of first-home purchases in overall mortgage loans under the Provident Fund was 86.9% in 2024. We assume a similar share for 2026.
- Restrictions of "120 sqm" and "RMB1.5mn": Again, according to the Provident Fund 2023 annual report, the share of no more than 90 sqm, between 90 sqm and 144 sqm, and more than 144 sqm, were at 21.4%, 69.2% and 9.4%, respectively, in 2023 (latest data available). We assume about 40-60% of home transactions could meet the requirements of no more than "120 sqm" and "RMB1.5mn".

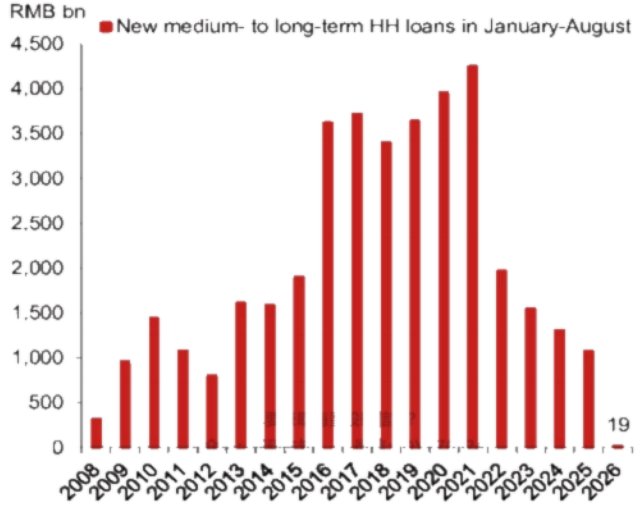
Altogether, with a 1% interest rate subsidy, we estimate the mortgage subsidy program could save a total of about RMB20-30bn a year in interest payments, which is notably less than the impact of the two rounds of existing mortgage rate adjustments introduced in late 2023 (*RMB170bn*) and late 2024 (RMB150bn).

Fig. 1: Existing home prices: K-shape in the making



Source: NBS, Wind, Nomura Global Economics.

Fig. 2: A collapse in new mortgage loans this year



Source: PBoC, Wind, Nomura Global Economics.