China: Urgency Rises, Stimulus Remains Targeted

New measures support growth, weak transmission limits impulse

- The government's heightened urgency is a clear positive signal, reinforced by rapid and coordinated policy follow-through.
- Faster fiscal deployment, targeted PSL and relending support, and the first-home mortgage subsidy form an execution-led but narrowly focused package.
- Transmission remains the binding constraint: PSL can partly bypass weak bank credit demand, but its impact still depends on project execution and private-sector crowding-in.
- Compared with 9/24, policy transmission will be slower and the macro impulse smaller, reflecting weak credit demand, local-government constraints and limited household reach.
- Faster fiscal delivery and incremental support underpin our forecasts of 3.6%q/q saar growth in 3Q26, 5.3% in 4Q26 and 4.5%y/y in 2026, with momentum extending into 1Q27.
- Sustained confidence requires broader housing easing and direct fiscal support for household income and services; otherwise, the initial boost may fade.

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See page 6 for analyst certification and important disclosures.

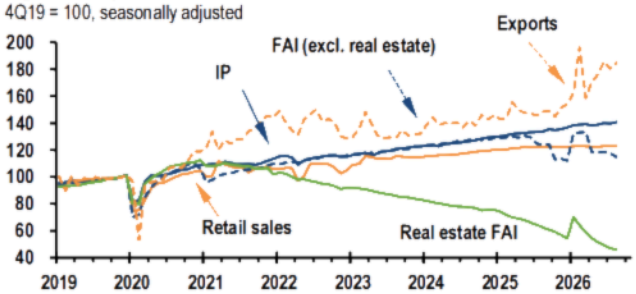
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The September 28 State Council meeting was followed the next day by targeted PBOC measures and the first central-government interest subsidy for commercial home-purchase mortgages, jointly announced by the Ministry of Finance, PBOC and NFRA. The speed and coordination of the response matter: policy has moved from accelerating existing measures to providing incremental support for investment, private enterprises and housing demand.

The urgency reflects renewed weakness in domestic demand and housing. In August, industrial production recovered, but retail sales were flat sequentially and fixed-asset investment remained in deep contraction. PBOC data showed only CNY60bn of new loans, with household borrowing contracting, corporate borrowing exceptionally weak and aggregate loan growth falling to a record-low 4.9%oya. Housing data were equally soft: in January-August, real-estate investment fell 19.9%oya, new-home sales value declined 13.0%, developer funding dropped 21.0% and personal mortgage funding fell 22.4%. Resilient production alongside weak household demand, corporate credit and property activity remains the central macro imbalance (Figure 1).

Figure 1: Key economic indicators in China
4Q19 = 100, seasonally adjusted



Source: NBS, China Customs, J.P. Morgan

The government has already responded by accelerating fiscal financing. Local-government bond issuance rose to CNY1.19trn in August from CNY738bn in July, while disbursement under the CNY800bn policy-based financing tool began in early September. Yet financing has not translated into a broad demand impulse: general-budget spending rose only 1.2%oya in January-August, against a 4.4% budget target. The key test is whether faster funding converts into physical investment, improves local-government cash flow and crowds in private activity.

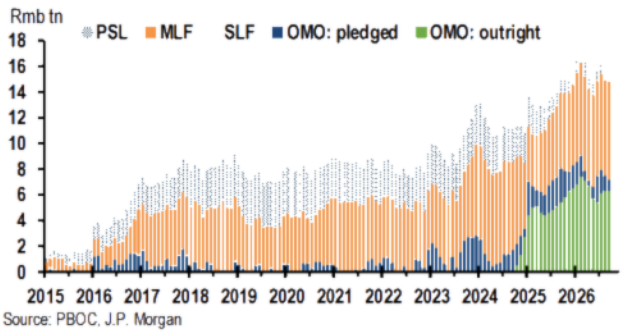
Further targeted support, conditional transmission

The September 28 State Council meeting set the policy framework. It called for stronger counter-cyclical adjustment to meet the annual targets; faster bond issuance and deployment; earlier starts for "15th Five-Year Plan" and "six networks" projects; expanded interest subsidies for investment and consumption; additional relending for technology, equipment upgrading, agriculture and small firms; and further measures on housing, employment and income. The guiding principle was faster execution of existing policies, supplemented by practical incremental support and stronger central-local and fiscal-monetary coordination.

The September 29 measures are the first implementation of this framework. The Pledged Supplementary Lending (PSL) rate cut and wider eligibility for the "six networks"—water, power, computing, next-generation communications, urban underground pipelines and logistics—lower policy-bank funding costs and support project starts; expanded technology and equipment-upgrade relending targets effective investment; additional facilities for small and private firms address weak credit transmission; and the first-home mortgage subsidy supports transactions and confidence. Together with faster bond deployment and the CNY800bn policy-based financing tool, this is a coordinated, execution-led package—not yet comprehensive easing.

The monetary package provides targeted balance-sheet support rather than broad easing. The PBOC cut the one-year PSL rate by 25bp to 1.5% and widened its scope; increased the technology and equipment-upgrade relending quota by CNY200bn to CNY1.4trn and raised the PBOC funding share from 60% to 100%; and added CNY500bn to relending and rediscount facilities, including CNY300bn for private enterprises. The CNY700bn quota increase is equivalent to roughly 0.5% of GDP, but transmission differs across instruments. Relending and rediscount facilities still require commercial banks to originate loans and firms to borrow, leaving take-up constrained by weak credit demand. PSL can be deployed more directly through policy banks to designated projects (Figure 2).

Figure 2: China outstanding monetary policy instruments



Source: PBOC, J.P. Morgan

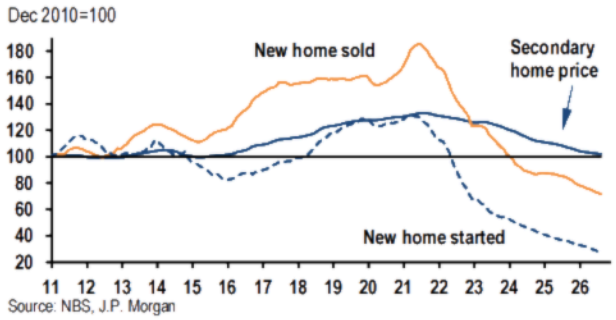
PSL therefore has an implementation advantage when conventional monetary transmission is impaired. With aggregate loan growth at a record-low 4.9%oya, household borrowing contracting and corporate borrowing exceptionally weak,

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lower system-wide funding costs alone may not generate new credit demand. By channeling low-cost, longer-term funding through policy banks to pre-identified projects, PSL partly bypasses this constraint. Its impact nevertheless remains narrow and contingent on project readiness, local execution, and private-sector crowding-in.

The mortgage subsidy is more directly demand-facing, but too narrow to stabilize housing. From October 1, eligible new first-home commercial mortgages approved during an initial one-year application window on homes no larger than 120 square meters and priced at no more than CNY1.5mn receive a 1ppt annual subsidy for up to five years, on loans capped at CNY1mn; refinancing and provident-fund loans are excluded. For a CNY1mn 30-year mortgage, monthly payments fall by about CNY522, or 12%, generating roughly CNY48,000 of savings over five years. J.P. Morgan estimates that 46% of units but only 31% of sales value may qualify nationwide, and less than 10% of sales by major listed developers. Estimated annual funding of CNY28bn is only about 0.2% of primary and secondary sales value, with 90% borne by the central government. The measure may support entry-level transactions, but against a 19.9% decline in investment, 13.0% fall in new-home sales value and 21.0% drop in developer funding, it is insufficient to stabilize nationwide prices, revive construction or materially lift consumption (Figure 3).

Figure 3: China housing activity indicators



Source: NBS, J.P. Morgan

The consumption impulse is positive but weak. The mortgage subsidy improves cash flow only for eligible homebuyers, while infrastructure spending and credit support for private firms affect consumption indirectly through employment, income and confidence. With income and house-price expectations still soft, households are likely to save part of the relief, while the investment-to-consumption channel remains slow and uncertain. The package therefore limits downside risks rather than turning consumption into a growth driver. A broader fiscal package centred on household income, services and the social safety net is needed to widen coverage, reduce precautionary saving and raise the multiplier.

Fiscal policy remains the main swing factor. Higher bond issuance and the launch of the CNY800bn policy-based financing tool confirm that delivery is accelerating; the State Council has also called for faster use of bond proceeds and unused local-government debt quotas, alongside stronger interest subsidies for investment and consumption. Yet the 1.2% rise in general-budget spending and more than CNY2trn increase in fiscal deposits show that substantial funding has yet to reach activity. The immediate task is to convert approved financing into physical work; the next is to add support if growth remains below target. Composition matters as much as speed: infrastructure can stabilize near-term investment, but a stronger and more durable multiplier requires viable local projects, private-sector crowding-in and direct support for household income, consumption and services.

Overall, the package is a clear positive signal, but not a change in the macro regime. It reduces near-term downside risks and improves the probability that growth remains within the government's 4.5–5.0% target range. Yet targeted credit and a narrow mortgage subsidy are small relative to the weakness in household and property demand. Without stronger fiscal delivery and broader follow-through, the measures are unlikely to stabilize housing or turn consumption into a growth driver. Local execution, private-sector participation and the fiscal multiplier remain decisive.

9/24 Revisited: Less bazooka, more targeting

September 24, 2024 (9/24) remains the benchmark for a broad, confidence-oriented policy pivot. The PBOC cut the reserve requirement ratio (RRR) by 50bp, releasing about CNY1trn of liquidity; lowered the 7-day reverse repo rate by 20bp and the one-year Medium-term Lending Facility (MLF) rate by 30bp, followed by 20–25bp cuts to Loan Prime Rates (LPRs) and deposit rates; reduced average outstanding-mortgage rates by about 50bp, lowering annual interest costs by an estimated CNY150bn; cut the minimum down payment on second homes to 15%; raised the PBOC funding share for housing-inventory purchases to 100%; and introduced CNY800bn of equity-market liquidity and buyback facilities. The September 26, 2024 Politburo meeting reinforced the pivot with stronger commitments on fiscal policy, housing, employment, consumption and capital markets (Table 1).

The current emphasis on PSL reflects the deterioration in monetary transmission. PSL directs low-cost, longer-term policy-bank funding to designated infrastructure and redevelopment projects, relying less on weak household and corporate loan demand than conventional easing or relending. By contrast, the 9/24 RRR and policy-rate cuts lowered system-wide funding costs, while the equity facilities supported asset

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prices and confidence directly. PSL is more targeted and closely aligned with fiscal execution, but narrower and slower, with less capacity to generate immediate, economy-wide repricing.

The two rounds share the same policy logic: both responded to weaker growth and housing with coordinated central action, sought to stabilize confidence and relied on fiscal follow-through to translate the policy signal into activity. The difference lies in breadth and transmission. In September 2024, with growth slowing sharply, the GDP deflator negative for five consecutive quarters and the annual target at risk, broad rate, RRR, mortgage and equity-market measures could reprice financial conditions quickly. Today, the imbalance is more entrenched: real-estate investment fell 19.9%oya in January-August, household credit is contracting, and local-government constraints weaken the fiscal multiplier. The current round is therefore more project-led, quantity-based and execution-dependent, with narrower household and industry coverage.

Table 1: Comparison with 9/24: Narrower Coverage, Smaller Macro Impulse

Dimension	Sep 28–29, 2026	Sep 24–26, 2024	Key contrast
Signal / coordination	Rapid State Council-to-agency delivery; MOF-PBOC-NFRA housing action.	Joint PBOC-NFRA-CSRC pivot; prompt Politburo endorsement.	Similar urgency; weaker regime signal today.
Monetary policy	25bp PSL cut; wider PSL scope; CNY700bn targeted relending.	50bp RRR and 20bp policy-rate cuts; about CNY1trn liquidity.	Project-led quantity support vs broad price and liquidity easing.
Housing	1ppt subsidy for narrowly eligible new first-home mortgages.	Broad mortgage-rate and second-home down-payment easing.	Both target housing confidence; current support is narrower.
Fiscal / demand	Faster bond use and project execution; household support remains limited.	Stronger fiscal stance; larger property- and equity-led confidence boost.	Both require fiscal follow-through; 2026 is more execution-dependent.
Capital markets	No new equity-market facility.	CNY800bn equity-liquidity and buyback facilities.	Clear 9/24 advantage.
Likely impact	Selective market gains; modest, execution-led growth support.	Broad rally; stronger immediate confidence and financial easing.	Same downside-risk objective; smaller and slower aggregate impulse.

Source: PBOC, MOF, J.P. Morgan

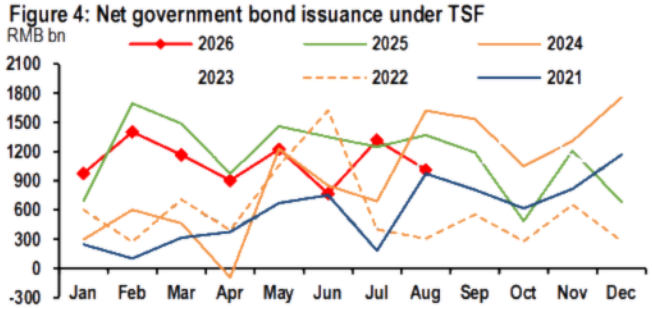
The market and macro impulse should therefore be smaller than after 9/24. This round neither lowers economy-wide policy rates nor provides a direct equity-market backstop, so its effects should concentrate in infrastructure, equipment, private-enterprise and lower-priced housing exposures. In 2024, broad financial easing produced an immediate confidence and asset-price response, although transmission to housing and consumption remained limited. Today, weaker credit demand, tighter local finances and limited household support make the response slower and more dependent on delivery. Without further fiscal and housing measures, sector rotation is more likely than a sustained beta rally, and the growth effect should remain modest.

A positive start, but more is needed

The signal is unambiguously positive, but confidence will not persist unless policy delivery produces stronger growth. The package is too narrow to benefit the broader population or a wide range of industries, leaving household demand, housing and private-sector confidence largely unresolved. Consumption remains the central weakness. Without broader and more effective follow-through, this round risks a strong opening but weak delivery.

We expect local governments to lead further housing easing through broader purchase incentives, destocking and project-completion support. More consequential would be a central fiscal package for household income, consumption and services, rather than another round concentrated on infrastructure, advanced manufacturing and AI. Direct demand support would reach more households and industries, strengthen the multiplier and improve the prospect of crowding in private activity.

Figure 4: Net government bond issuance under TSF



Source: PBOC; J.P. Morgan

Faster fiscal delivery and promised incremental spending should support our forecasts of 3.6%q/q saar growth in 3Q26 and 5.3% in 4Q26, leaving full-year 2026 growth at 4.5%y/y, with momentum carrying into 1Q27, when we expect around 4.5%q/q saar (Figure 4). Further policy escalation should follow a clear hierarchy. If fiscal execution or private-sector crowding-in disappoints, the first response should be stronger central funding and direct support for households and services. If housing weakens further, broader local purchase incentives, destocking and project-completion funding should follow. A 10bp policy-rate cut and a 50bp RRR cut would be the next line of defence if growth and deflation risks persist. Monetary easing can reinforce fiscal support, but cannot substitute for repairing household demand.