China: MOF approves an additional RMB550bn bond issuance quota to ensure full-year growth target is reached

Lisheng Wang
+852-3966-4004 |
lisheng.wang@gs.com
Goldman Sachs (Asia) L.L.C.

Bottom line:

Following the 28 September State Council meeting and credit easing measures announced on 29 September, the Ministry of Finance (MOF) recently approved an additional RMB550bn local government bond issuance quota using those quotas carried over from previous years, in line with our expectations. We expect government bond issuance and the deployment of proceeds to accelerate in the coming weeks, alongside faster implementation of the RMB800bn New Policy-Based Financial Instrument. The incremental policy measures introduced since end-September point to targeted, measured easing underway—mainly through fiscal and credit channels—rather than broad-based, significant stimulus. They appear intended to reverse earlier tightening and secure this year's "4.5–5.0%" growth target, rather than to launch a sustained easing cycle, in our view.

Main points:

1. **Recent policy efforts on fiscal easing:** Following the 28 September State Council meeting and credit easing measures announced on 29 September, the Ministry of Finance (MOF) recently approved an additional RMB550bn local government bond issuance quota using those quotas carried over from previous years. This move is in line with our expectations, echoing Premier Li Qiang's recent call to "strengthen counter-cyclical policy adjustment" and "strive to achieve the full-year economic and social development targets". The RMB550bn is equivalent to 4.6% of the RMB11.9tn government bond new issuance quota approved in this year's budget report and 0.4% of nominal GDP, by our estimates. According to the MOF announcement, the additional quota comprises RMB300bn of local government general bonds (LGGB) to strengthen local government finances and RMB250bn of local government special bonds (LGSB) prioritizing regions with ready-to-go projects for Q4, major economic powerhouse provinces, and "Six Networks" projects ("六张网"项目).[1] At a symposium with private enterprises on 10 October, NDRC Head Zheng Shanjie pledged to accelerate the launch of major investment projects planned under the "15th Five-Year Plan" and the "Six Networks" initiative. We expect government bond issuance and the deployment of proceeds to accelerate in the coming weeks (Exhibit 1), alongside faster implementation of the RMB800bn New Policy-Based Financial Instrument (NPBFI). Although the PBOC's Pledged Supplementary Lending (PSL) and policy bank bond net issuance—two key funding sources for NPBFI—contracted in September (Exhibit 2), media reports indicate that some local governments have

[1] "Six Networks" projects include water networks, new power grids, computing power networks, next-generation communication networks, urban underground pipeline networks, and logistics networks.

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.

begun using the tool to fund related projects since early September.

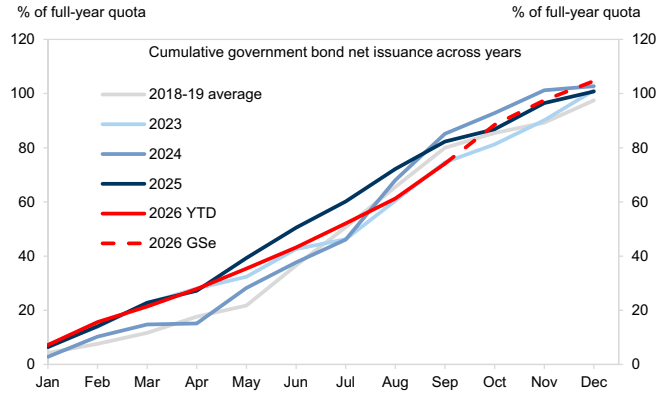
2. **Available fiscal capacity for Q4:** Following recent policy developments, we estimate that roughly RMB5tn in fiscal capacity remains available for the remainder of this year. This includes RMB3.1tn in unused government bond issuance quota as of end-September approved in the budget (equivalent to 26% of the full-year quota), plus the recently approved RMB550bn extra-budget local government bond issuance quota, the RMB800bn NPBFI now starting to be deployed (up from RMB500bn last year), and the RMB550bn year-on-year increase in outstanding fiscal deposits (as of August, the latest data available). After recent fiscal easing measures, we estimate that unused government bond issuance quota carried over from previous years will decline from RMB1.8tn at end-2025 to RMB1.2tn at end-2026. This remaining quota comprises RMB0.6tn in central government bonds and RMB0.6tn in local government bonds, providing a potential fiscal buffer for future years.

3. **Macro and policy implications:** The incremental policy measures introduced since end-September point to targeted, measured easing underway—mainly through fiscal and credit channels—rather than broad-based, significant stimulus. They appear intended to reverse earlier tightening and ensure this year's "4.5–5.0%" growth target is reached (Exhibit 3), rather than to launch a sustained easing cycle, in our view. Pressure on local government finances from off-budget sources—particularly land sales and LGFV financing—is likely to persist. Assuming the announced fiscal funding is deployed by year-end, we expect China's augmented fiscal deficit (AFD) to widen modestly from its recent trough, easing the growth drag from earlier fiscal tightening in the coming months. However, tighter tax collection and weak incentives for local officials to launch large projects amid intensified anti-corruption efforts and local leadership reshuffles may continue to constrain policy transmission. Given this year's delayed easing, our 2026 AFD forecast of 11.5% of GDP (vs. 11.0% in 2025) remains subject to downside risk, implying that fiscal policy could still tighten on a year-on-year basis. Recent policy communications pointed to continued priority on high-tech sectors and investment over consumption, in our view.

Lisheng Wang



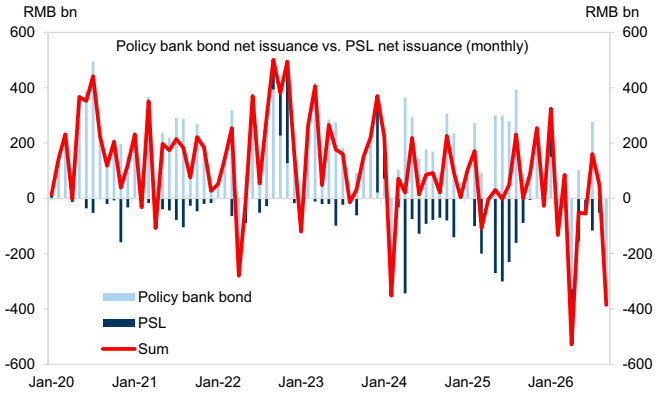
Exhibit 1: We expect government bond issuance to accelerate in the coming weeks



For our run-rate estimates, the denominator is the full-year quota approved in the budget report at the March "Two Sessions." It excludes extra-budget bond issuance quotas approved later in the year and local government special-purpose refinancing bonds issued for debt resolution. For 2026 GSe, the numerator includes the recently approved extra-budget quota.

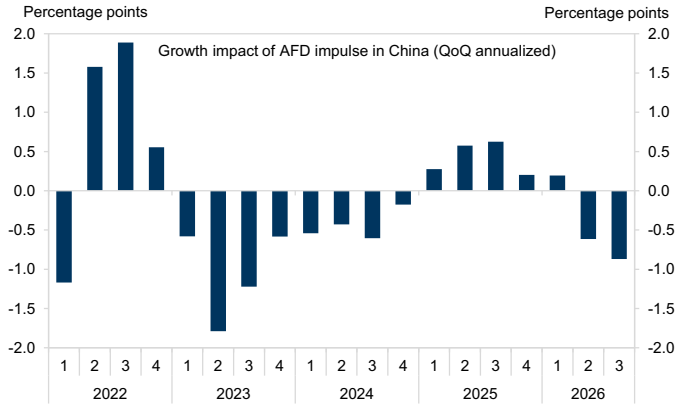
Source: MOF, Wind, Goldman Sachs Global Investment Research

Exhibit 2: PBOC's PSL and policy bank bond net issuance contracted in September



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

Exhibit 3: China's fiscal impulse turned into a significant growth drag in Q2-Q3 from a modest driver in Q1 this year



Source: Goldman Sachs Global Investment Research

The China Economics Team

Andrew Tilton
+852-2978-1802
andrew.tilton@gs.com
Goldman Sachs (Asia) L.L.C.

Hui Shan
+852-2978-6634
hui.shan@gs.com
Goldman Sachs (Asia) L.L.C.

Lisheng Wang
+852-3966-4004
lisheng.wang@gs.com
Goldman Sachs (Asia) L.L.C.

Xinquan Chen
+852-2978-2418
xinquan.chen@gs.com
Goldman Sachs (Asia) L.L.C.

Yuting Yang
+852-2978-7283
yuting.y.yang@gs.com
Goldman Sachs (Asia) L.L.C.

Chelsea Song
+852-2978-0106
chelsea.song@gs.com
Goldman Sachs (Asia) L.L.C.