China: Premier Li Pledges Incremental, Modest Easing to Meet the Full-Year Growth Target

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Bottom line:

At the State Council meeting today (28 September), Premier Li pledged to "launch a package of pragmatic and effective incremental policy measures" and reaffirmed the commitment to "strive to achieve the full-year economic and social development targets." He highlighted the use of unspent local government bond issuance quotas accumulated from previous years, the expansion of targeted PBOC relending for technological innovation and small businesses, and further study of measures to stabilize the property and labor markets for future rollout. The package points to targeted and measured easing—primarily through fiscal and credit channels—rather than broad-based, significant stimulus. In the coming weeks, we expect the MOF to approve an additional RMB500bn or more in local government bond issuance quota, the PBOC to modestly increase its relending quota, policymakers to further broaden the use of housing provident funds, and more large cities to introduce local housing easing measures.

Main points:

1. **What happened?** At the 28 September State Council meeting, Premier Li Qiang pledged to "launch a package of pragmatic and effective incremental policy measures" to address "issues emerging in current economic operations." He reiterated the call to "strengthen counter-cyclical macro policy adjustments" and "strive to achieve the full-year economic and social development targets," echoing the July Politburo meeting. Besides calling for faster implementation of planned easing, Premier Li highlighted the use of unspent local government bond issuance quotas accumulated from previous years, the expansion of targeted PBOC relending for technological innovation and small businesses, and further study of measures to stabilize the property and labor markets for future rollout. He also urged stronger policy coordination and quicker investment project approvals. The briefing suggests that policymakers continue to prioritize high-tech sectors and investment—particularly the "Six Networks" projects ("六张网项目")[1]—over consumption.

2. **Why now?** Despite stronger easing rhetoric at the July Politburo meeting, local implementation of planned measures was slow in August, fiscal policy remained a growth drag, and domestic growth momentum stayed subdued. We expect real GDP growth to remain below the lower bound of this year's "4.5-5.0%" target at 4.4% yoy in Q3 (vs. 4.3% yoy in Q2), with risks skewed to the downside. Since early September, government bond issuance has accelerated somewhat, and media reports indicate

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

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that implementation of the RMB800bn new policy-based financial instrument has just begun. Incremental policy measures laid out by Premier Li today pointed to targeted and measured easing—primarily through fiscal and credit channels—rather than broad-based, significant stimulus. However, given renewed risks from the Middle East conflict and delayed policy easing this year, we recently lowered our 2026 full-year real GDP growth forecast by 10bp to 4.5%.

3. **What's next?** In the coming weeks, we expect the MOF to approve an additional RMB500bn or more in local government bond issuance quota,[2] while we view a high-profile budget revision as less likely. We expect the PBOC to modestly increase its relending quota and potentially lower relending rates, but maintain our baseline forecast of no policy rate cuts for the remainder of 2026, given narrow bank net interest margins, although high-profile monetary easing could become more likely if growth slows further in the coming months. We expect policymakers to further broaden the use of housing provident funds to slightly reduce weighted-average mortgage rates, and more large cities to introduce local housing easing measures. However, significant pressure on local government finances from off-budget channels—especially land sales and LGFV financing—should limit incremental easing to moderate measures. We also caution that tighter tax collection and weak incentives for local officials to launch projects amid intensified anti-corruption efforts and local government leadership reshuffles have been contractionary and may continue to weigh on policy transmission. Despite incremental easing measures ahead, we continue to see downside risk to our 2026 AFD forecast of 11.5% of GDP (vs. 11.0% in 2025).

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[2] We estimate that around RMB1.8tn of unused government bond issuance quota had ac
years by end-2025—RMB0.6tn in central government bonds and RMB1.2tn in local govern
could be tapped relatively easily with Ministry of Finance approval if needed (see past exan

