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China: The new policy package continues to unfold, with limited scale

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According to the state-run CCTV, the Ministry of Finance has recently allowed local governments to tap an extra RMB550bn funding from previously approved but unused bond quotas to bolster their spending and investment. This arrangement is largely in line with our views formulated in *early August*. The market had also developed some expectations, especially after the policy signal from *the State Council* on 28 September. Compared with similar policy arrangements in 2024 and 2025, when a large part of the extra bond quotas was used to resolve hidden debt, all of this RMB550bn is planned for incremental fiscal spending in Q4, which might have a slightly larger impact than in 2024-25. That said, this might only offset part of the *fiscal contraction* in the past half a year.

We continue to see a limited impact from the new round of policy package, *including* more central bank lending quotas and the targeted mortgage subsidy program. We believe the current economic woes require far more sophisticated planning and the cleaning of *non-performing debt*, and some structural reforms on public finance and social security system are also necessary. We maintain our GDP growth forecast of 4.5% y-o-y in Q4.

The arrangement of the extra RMB550bn in LGBs for 2026

According to a CCTV report, the extra local government bond (LGB) quota of RMB550bn comprises RMB300bn in local government general bonds (LGGB) and RMB250bn in local government special bonds (LGSB). The RMB300bn LGGB will be fully allocated to support in-budget general spending needs of county- and district-level local governments, as growth of in-budget fiscal spending slowed markedly to 0.2% y-o-y in April-August from 2.6% in Q1 (Figure 1), despite a pick-up in in-budget fiscal revenues to 8.0% from 2.4% in Q1, resulting in a fiscal contraction. The remaining RMB250bn will be distributed to regions with active investment project funding needs in Q4, especially favouring major provincial economies, targeting ongoing projects and new projects related to the "Six Networks".

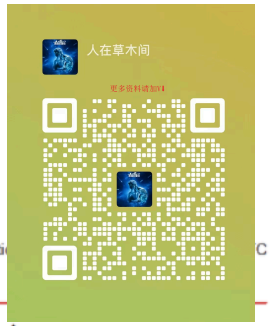
Local governments' unused bond quota

In the past few years, it has become common practice for the MOF to allow local governments to tap extra funding from their previously approved but unused bond quotas, especially in the second half of a year, when growth headwinds intensify and the annual bond quotas approved at the March NPC prove insufficient. In H2 2022, H2 2024 and H2 2025, RMB500bn, RMB400bn and RMB500bn of extra LGB quotas were approved, respectively. From a legal perspective, it is relatively easy for Beijing to deploy carryover LGB quotas, as it does not require additional approval from the NPC, China's top legislative body.

Based on our estimates, there was about RMB1.25trn of the unused LGB quota at end-2025, including RMB568bn in LGGBs and RMB683bn in LGSBs from previous years that Beijing could allow local governments to tap for additional funding. After this RMB550bn, there remains a RMB700bn unused LGB quota.

For this year, all of this RMB550bn extra LGB quota will be used as incremental spending, while in 2024 and 2025, only RMB100bn of the RMB400bn and RMB200bn of the RMB500bn were deployed for incremental spending, respectively, with the rest of the RMB300bn in both years used for resolving hidden debt.

For this year's planned government bond quota, we estimate net financing of government bonds, including both central and local governments, has reached RMB10.4trn in the first nine months (Figure 2), which is around RMB1.1trn below a year ago's level. With this RMB550bn extra LGB bond quota, the annual quota for overall net government bond financing is raised to RMB14.44trn in 2026 from RMB14.36trn in 2025. We estimate net financing of government bonds could reach about RMB4.0trn in Q4, above the RMB2.3trn a year earlier.



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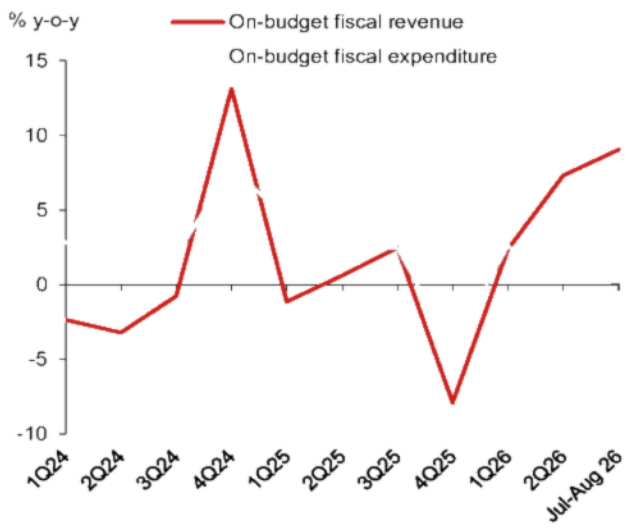
Augmented fiscal spending growth might slow to ~1.0% in 2026 from 3.3% in 2025

According to the latest MOF data, on-budget fiscal expenditure growth slowed further in August, to 0.2% y-o-y from 0.5% in July, after a rebound to 4.0% in June from -1.6% in May. In the first eight months of this year, expenditure growth was only 1.2% y-o-y, well below the annual growth of 4.4% set at the March NPC meeting. By contrast, on-budget fiscal revenue growth remained robust at 8.0% y-o-y in August, compared with 11.7% in July, with its year-to-date growth at 5.7% y-o-y in August (annual target: 2.2%).

As the MOF said it will strengthen supervision 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 are eventually met, the implied expenditure growth would reach 9.8% y-o-y for September-December. However, the actual pace could be much slower, at around 5.0% y-o-y especially if we consider the impact of slumping land sales revenues and the debt swap program. As such, the annual in-budget expenditure growth might be at around 2.6% in 2026, above 1.0% in 2025.

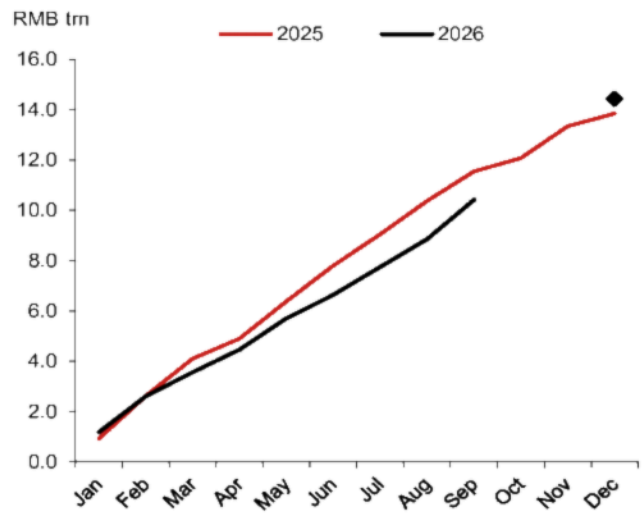
However, for augmented fiscal spending, which also includes incremental borrowing via central and local government special bonds, the impact of the debt swap program and adjusted land sales revenues, we believe it could be weaker than that in 2025. In August, growth of land sales revenue remained negative at -12.3% y-o-y, albeit up from -27.1% in July, taking its year-to-date growth to -28.6% y-o-y in August. Assuming similar rate of slump for the whole year of 2026, land sales revenues would drop by about RMB1.2trn in 2026 from 2025, which will more than offset the boost from the RMB550bn extra LGB quota. Altogether, we expect growth of augmented fiscal spending to slow to around 1.0% in 2026 from *3.3% in 2025*.

Fig. 1: On-budget fiscal revenue and expenditure



Source: MOF, Wind. Nomura Global Economics.

Fig. 2: Cumulative net government bond financing



Note: The black diamond marker is implied by the total annual government quota for 2026, including the RMB550bn.
Source: MOF, Wind, Nomura Global Economics.