

# China Economy

## Credit recovery faces tariff shock

Credit growth continued to show tentative signs of stabilisation in Mar as RMB loans to real economy picked up as an additional driver of social financing growth, alongside government bond issuance. Loans to households improved as housing sales and mortgage demand moderately recovered. Loans to corporates picked up as ST loans to corporates surged. However, the credit recovery is facing the trade war shock, which could cool down China's foreign trade activity and undermine manufacturing investment. China has to further loosen its policies to defy the trade war shock. The PBOC may cut RRR and LPRs in 2Q25 by 50bps and 20bps respectively. Outstanding social financing and loans may pick up 8.2% and 7.7% at end-2025 after rising 8% and 7.6% at end-2024. China might launch additional fiscal stimulus measures especially those targeting consumption, including expanding consumer trade-in scheme, providing child-birth subsidy and strengthening social benefit net.

■ **Social financing flow climbed up driven by government bonds, and RMB loans picked up for the first time in 18 months.** The growth of outstanding social financing (SF) edged up to 8.4% in Mar (all in YoY terms unless otherwise specified) from 8.2% in Feb, as the SF flow expanded from 16.6% growth in 2M25 to 21.8% to RMB5.9trn, coming above market expectation at RMB4.7trn. Government bond extended its rapid growth to 220.5% in Mar at RMB1.5trn, thanks to fiscal expansion. RMB loans to the real economy under SF grew 16.3% to RMB2.8trn in March, the first notable YoY growth since October 2023, indicating a bottoming out of private credit demand. Corporate bond issuance, on the other hand, registered a net decline of RMB90.5bn in Mar, as LGFV saw -RMB59.6bn net bond financing in Mar. The M1 supply, which once majorly reflected corporate business vitality and now better captures overall liquidity of money under new calibre, inched up to 1.6% in Mar from 0.1%. M2 remained flat at 7% in Mar, as non-financial corporate deposits rebounded.

■ **New RMB loans notably surged driven by ST corporate loans.** Growth of outstanding RMB loans inched up to 7.4% in Mar from 7.3%, while the new RMB loans notably picked up 17.8% to RM3.6trn in Mar compared to -3.6% in 2M25, beating market expectations at RMB2.9trn. Household loan flows rebounded from -86% in 2M25 to 4.8% in Mar, with short-term loans moderately dropping 1.4%, indicating subdued consumer demand. New M&L-term loans expanded by 11.8% to RMB50bn in Mar, the largest flow since Jan 2024, as housing market sales strengthened in 1Q25. However, the new housing market has shown notable slowdown in early Apr across the tiers of cities. New loans to the corporate sector notably accelerated to 21.4% in Mar compared to 7.2% in 2M25, driven by 46.9% growth in short-term loans. However, M&L-term loans continued to decline by 1.3% in Mar, possibly due to the impact of the LGFV debt swap.

■ **China might further loosen credit supply to defy the trade war shock.** The trade war shock would lower China's GDP growth and add deflationary pressure by reducing overseas demand, curbing business capex and undermining consumer confidence. Compared to the US, China retains more policy space on both fiscal and monetary fronts. Maintaining robust domestic demand and a resilient financial market would enhance China's bargaining power in negotiations with the US and create a leverage for China to strengthen trade and investment ties with non-US economies. The PBOC may cut RRR and LPRs in 2Q25 by 50bps and 20bps respectively. Outstanding social financing and loans may pick up 8.2% and 7.7% at end-2025 after rising 8% and 7.6% at end-2024. China might launch additional fiscal stimulus measures especially those targeting consumption, including expanding consumer trade-in scheme, providing child-birth subsidy and strengthening social benefit net.

**Frank Liu**

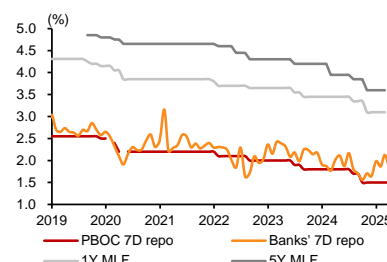
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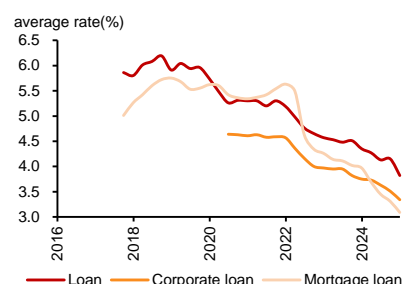
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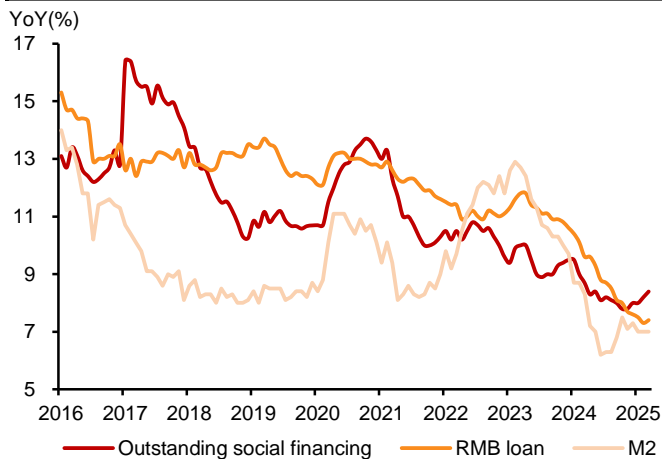
Source: Wind, CMBIGM



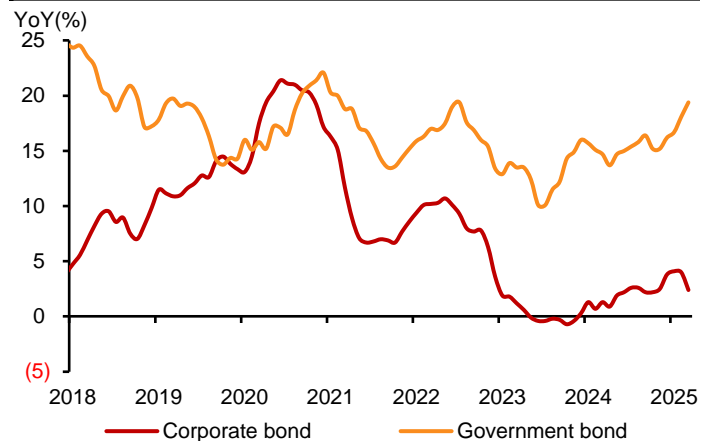
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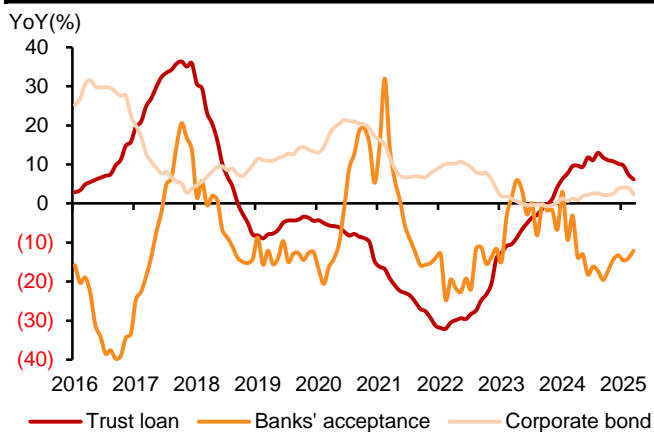
Source: Wind, CMBIGM

**Figure 1: Growth of outstanding social financing**

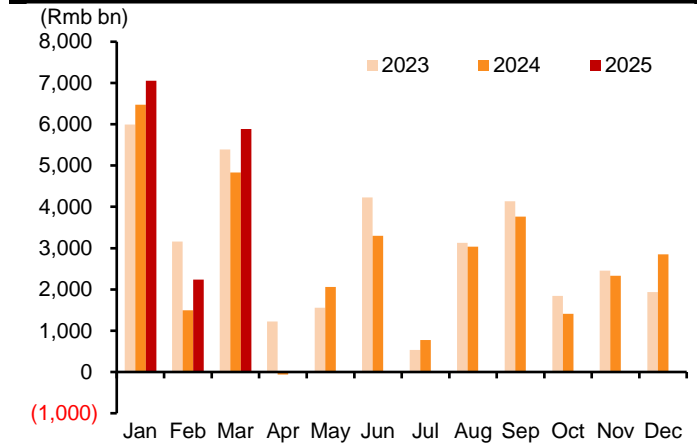
Source: Wind, CMBIGM

**Figure 2: Growth of outstanding bond financing**

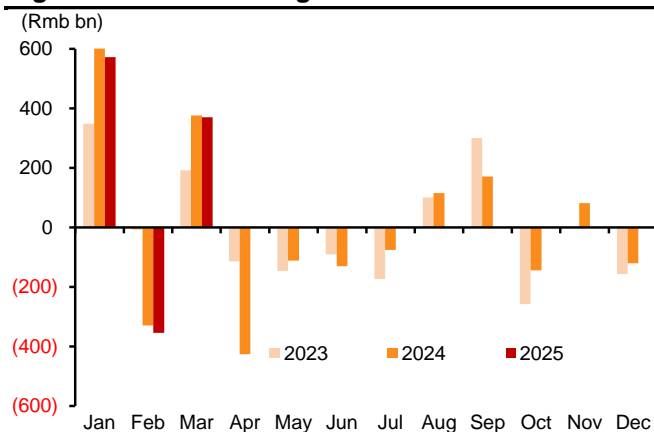
Source: Wind, CMBIGM

**Figure 3: Growth of outstanding OBS financing**

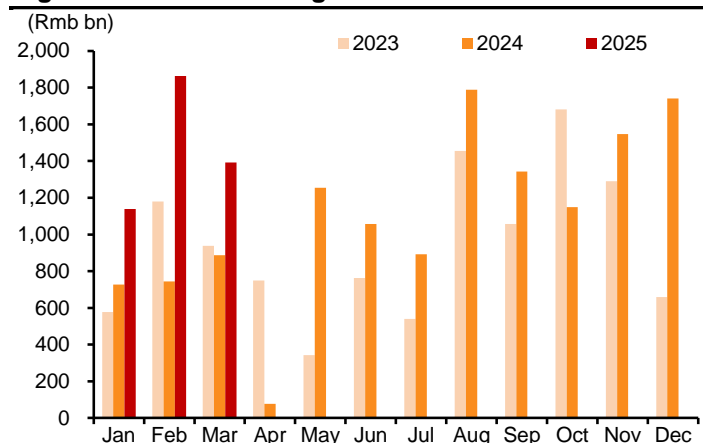
Source: MoF, CMBIGM

**Figure 4: Total social financing**

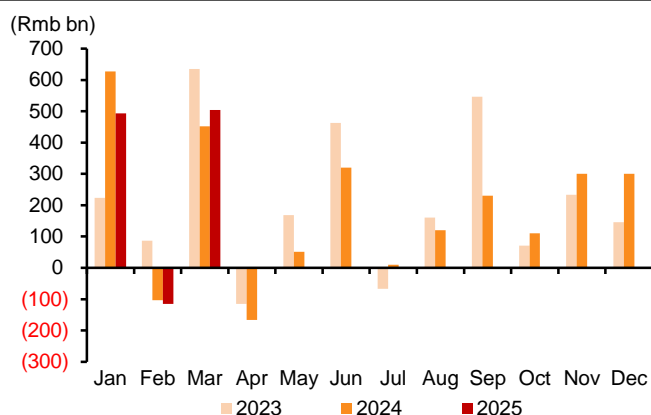
Source: MoF, CMBIGM

**Figure 5: OBS financing**

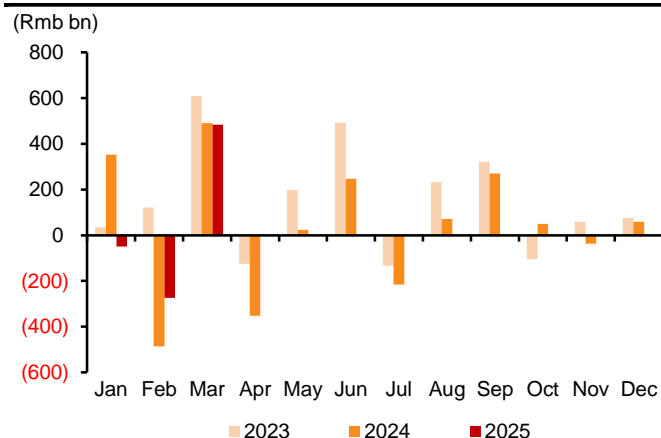
Source: Wind, CMBIGM

**Figure 6: Bond financing**

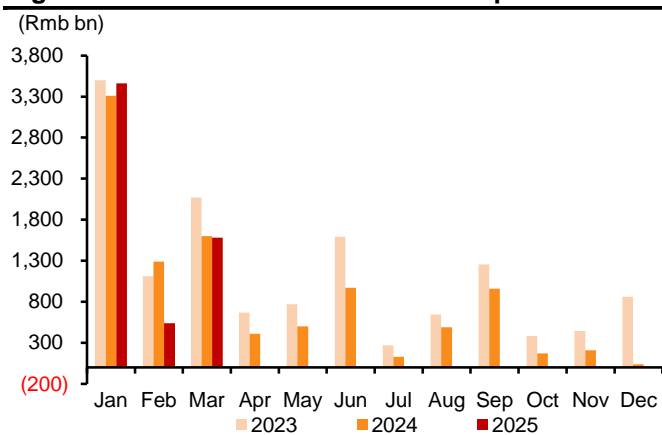
Source: Wind, CMBIGM

**Figure 7: New M&L term loans to households**

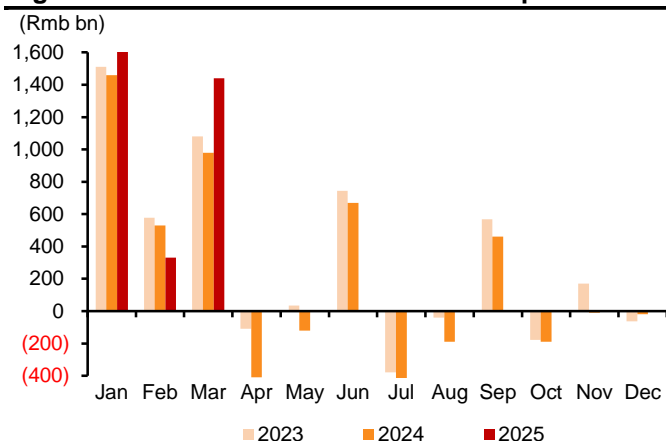
Source: Wind, CMBIGM

**Figure 8: New short-term loans to households**

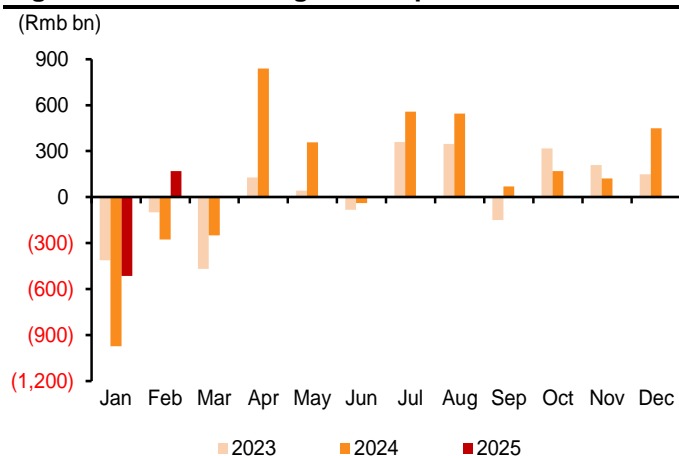
Source: Wind, CMBIGM

**Figure 9: New M&L term loans to enterprises**

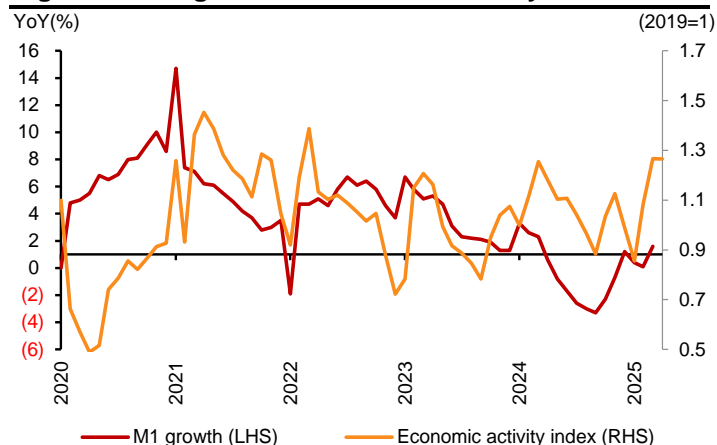
Source: Wind, CMBIGM

**Figure 10: New short-term loans to enterprises**

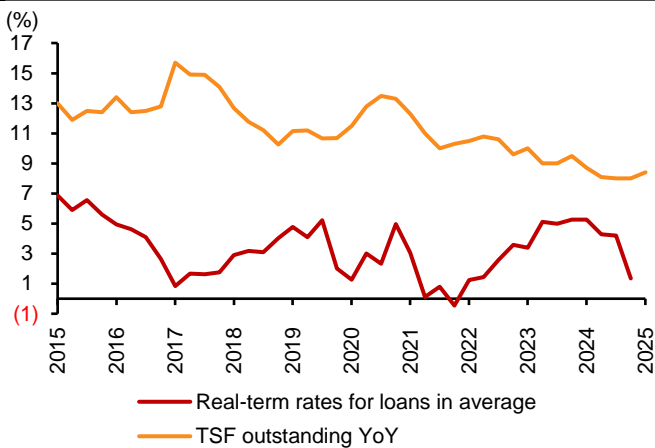
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**

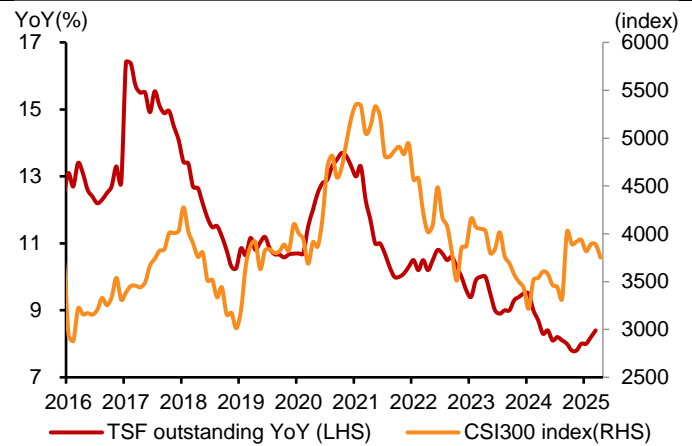
Source: Wind, CMBIGM

**Figure 12: M1 growth & Economic activity index**

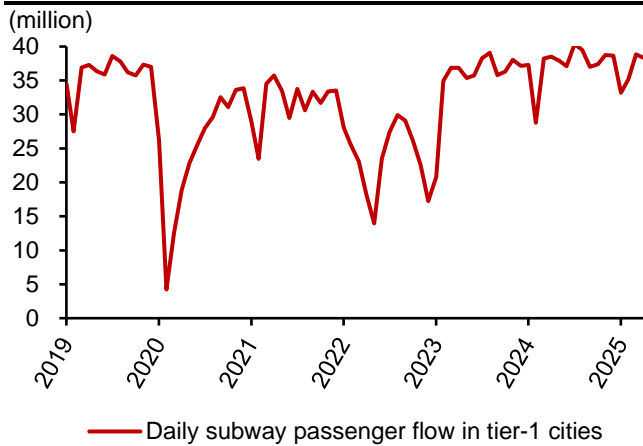
Source: Wind, CMBIGM

**Figure 13: Real-term loan rates & TSF growth**

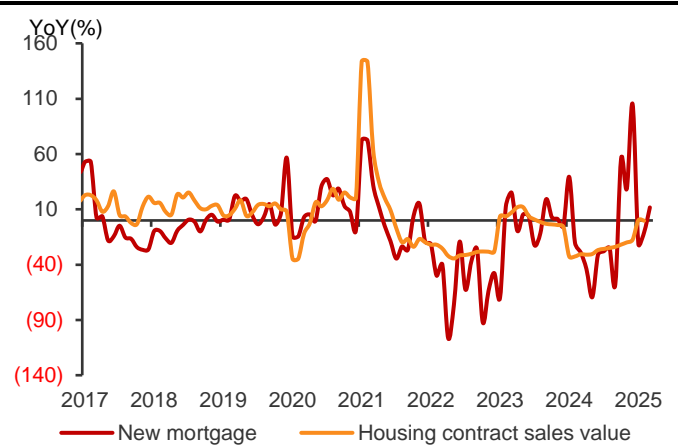
Source: Wind, CMBIGM

**Figure 14: TSF growth & CSI300 index**

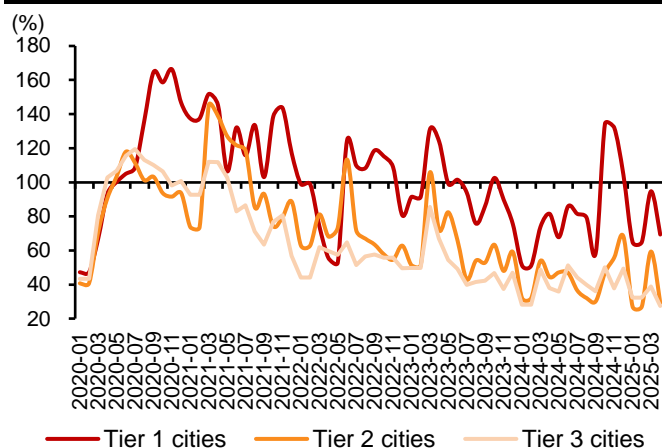
Source: Wind, CMBIGM

**Figure 15: Daily domestic traffic flow in tier-1 cities**

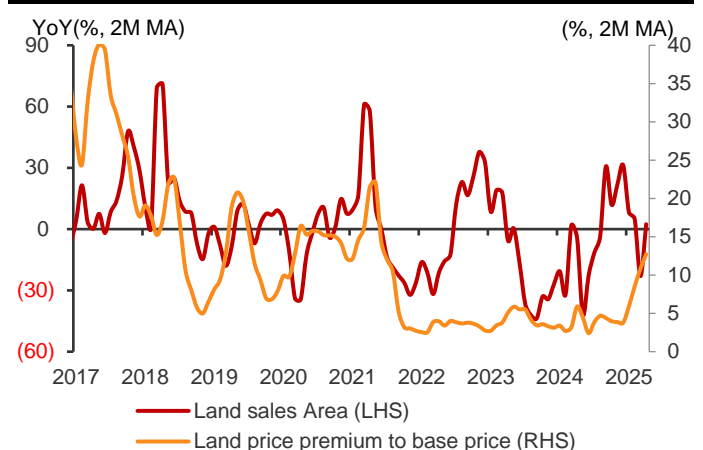
Source: Wind, CMBIGM

**Figure 16: New mortgage & housing sales**

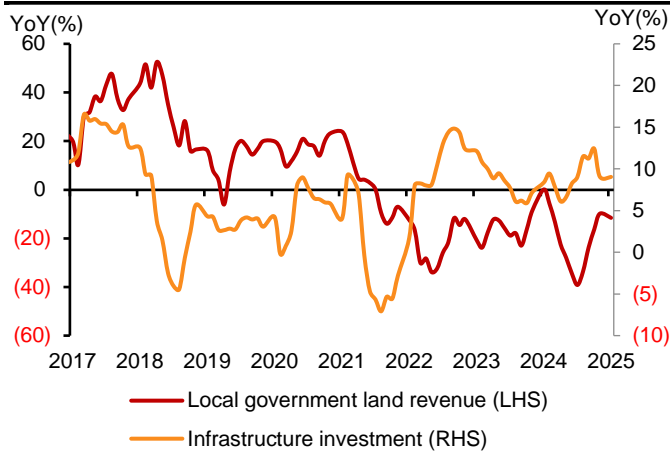
Source: Wind, CMBIGM

**Figure 17: Housing sales recovery rates compared to 2019**

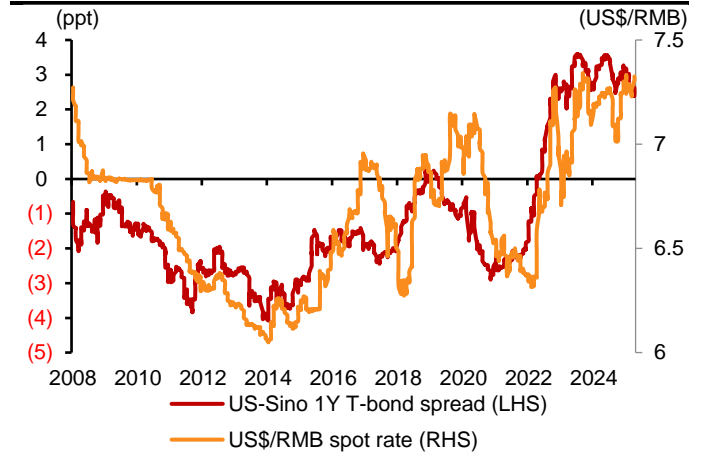
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**

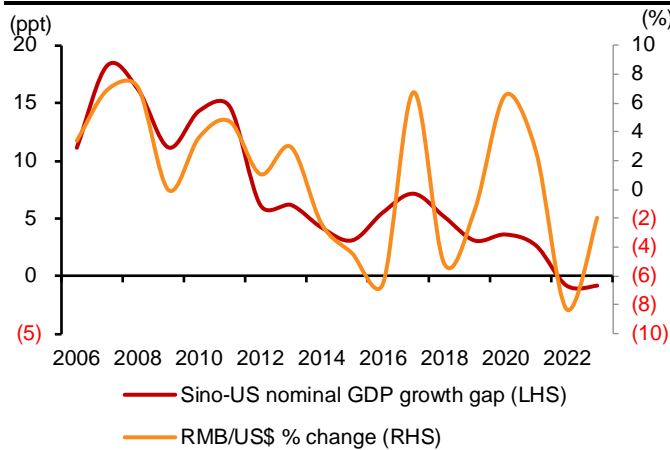
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**

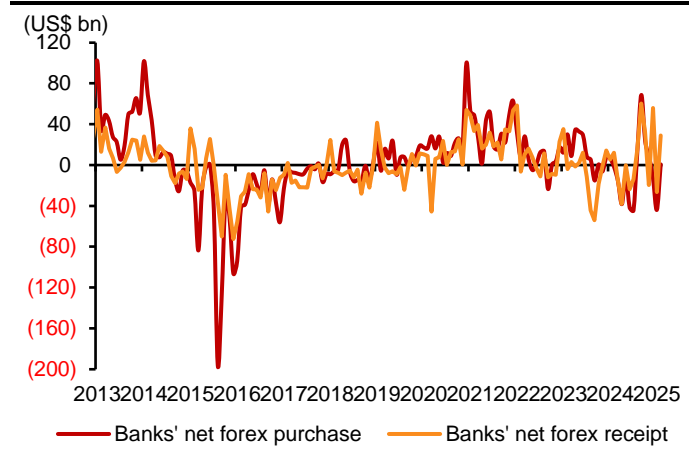
Source: Wind, CMBIGM

**Figure 20: US-China interest spreads**

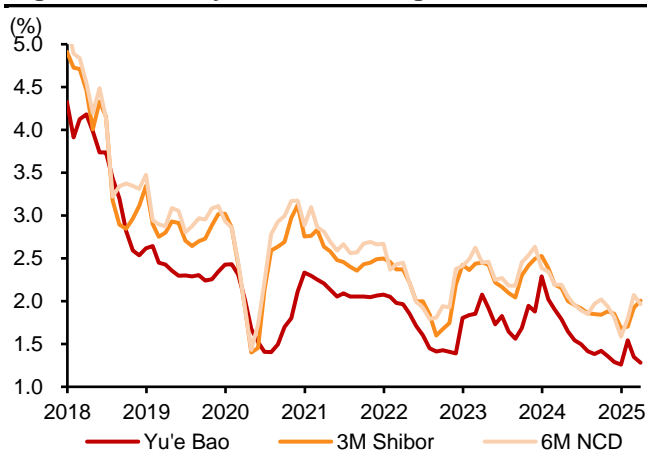
Source: Wind, CMBIGM

**Figure 21: China-US growth gap & RMB/US\$ change**

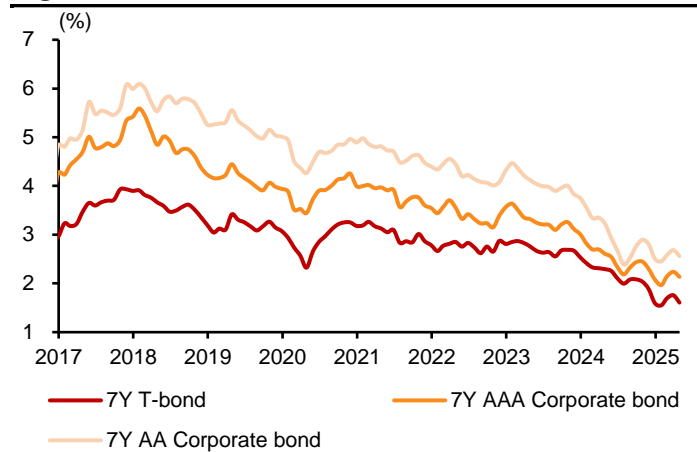
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**

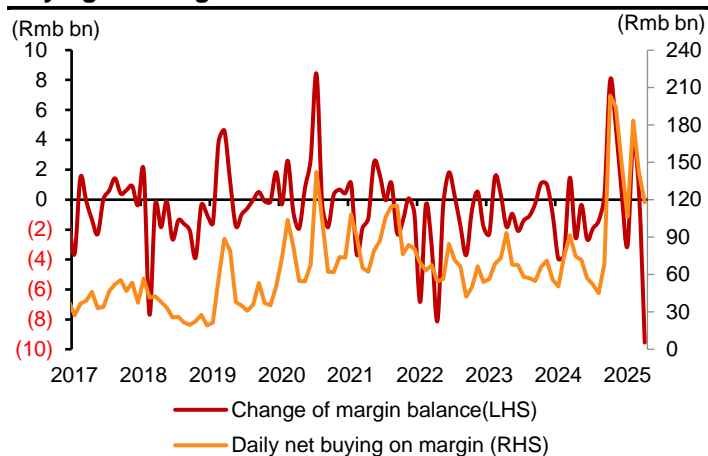
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**

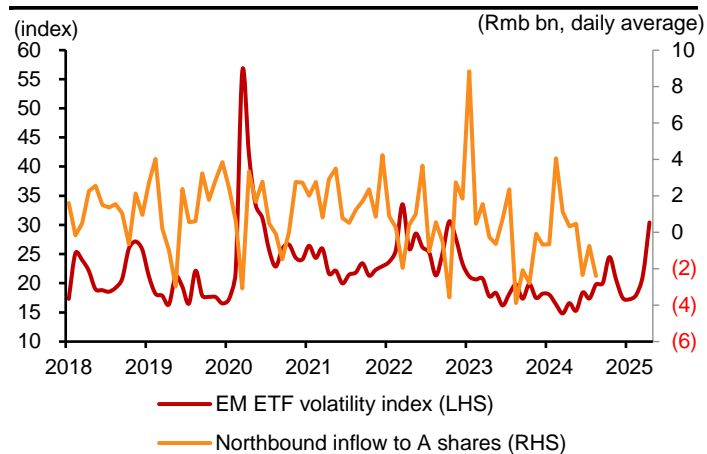
Source: Wind, CMBIGM

**Figure 24: Bond market rates**

Source: Wind, CMBIGM

**Figure 25: Change of margin balance and daily net buying on margin**


Source: Wind, CMBIGM

**Figure 26: EM volatility and northbound flow to A-share**


Source: Wind, CMBIGM

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