

China Economy

Uneven recovery in credit growth

Credit growth started to bottom out following the stimulus as social financing, medium & long-term loans to household and M2 growth rebounded, thanks to the acceleration of government bonds financing and pick up in housing and durable goods sales. However, credit demand in corporate sector remained sluggish, with new loans and bond financing still contracting despite the policy easing. Due to overcapacity and deflation pressure, private business capex was weak. Looking forward, monetary policy might remain accommodative with possible RRR cut by 50bps in 1H25. 2H25 is likely to see additional policy rate cuts by 20-30bps as Trump may launch another trade war and China's current policy stimulus effects may gradually diminish. 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

- Social financing and M2 both rebounded.** Outstanding social financing growth recovered to 8% YoY (all in YoY terms unless otherwise specified) in Dec from 7.8% in Nov as its flow skyrocketed 47.9% in Dec, better than market expectation. Government bond financing was the major driver, rising 88.9% in Dec to RMB1.76tn after growing 13.7% to RMB1.31tn in Oct. Corporate bond financing turned negative to -RMB15.3bn in Dec, yet better than its year ago level at -RMB274bn. M1 supply continued to recover from -3.7% to -1.4% as the housing and durable goods sales rebounded. M2 bounced up from 7.1% to 7.3%, as government picked up spending.
- New RMB loans narrowed its decline as mortgage demand sharply rebounded.** Growth of outstanding RMB loans edged down to 7.6% in Dec from 7.7%, while the better-than-market expected flow of RMB loans declined 15.4% to RMB990bn in Dec, following the 46.8% drop to RMB580bn in Nov. Growth of new loans to households has turned positive to 57.6% the first time since Jan 24. Medium- and long-term loans saw a remarkable surge of 105% to RMB300bn in Dec thanks to the booming housing sales while short-term loans remained subdued, dropping 22.5%. New loans to the corporate sector saw limited signs of improvement, dropping 45% in Dec to RMB490bn. Both short-term and medium & long-term borrowing remained subdued dropping 69% and 95% respectively while bill financing notably surged 200% to RMB450bn, signalling cautious business sentiment.
- PBOC might further cut rates after the Trump shock and a decline of the latest stimulus effect in 2H25.** Credit contraction is gradually bottoming out, as recent policy stimulus has eased financial liquidity condition and expanded government financing. Households also increased their long-term borrowing as housing market improved especially in higher-tier cities. However, credit demand in corporate sectors continued to slow down as the overcapacity and deflation pressure restrained private business capex. Looking forward, the monetary policy might remain accommodative with possible RRR cut by 50bps in 1H25. 2H25 may see additional policy rate cuts by 20-30bps as Trump might launch new trade war after the US inflation trends lower and China's latest policy stimulus effect gradually diminishes. 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

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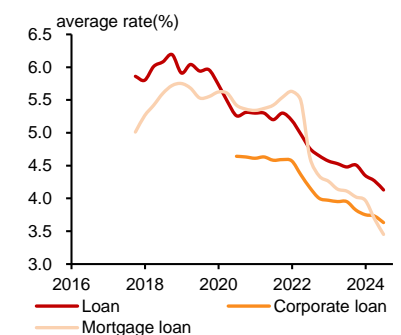
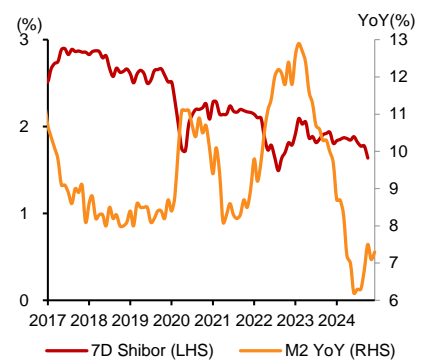
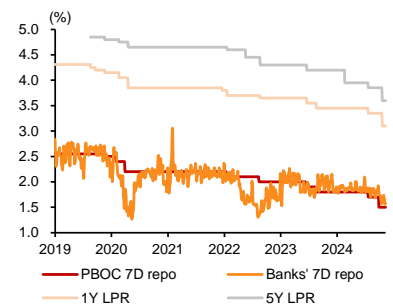
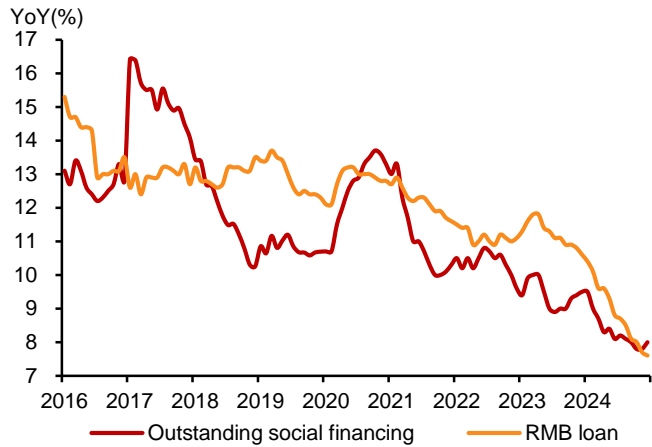
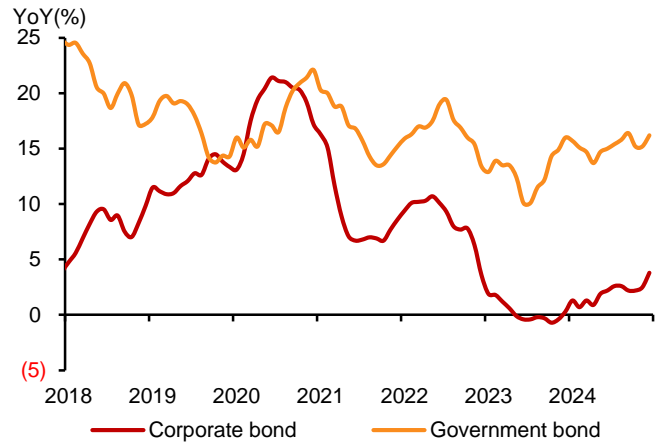
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Figure 1: Growth of outstanding social financing



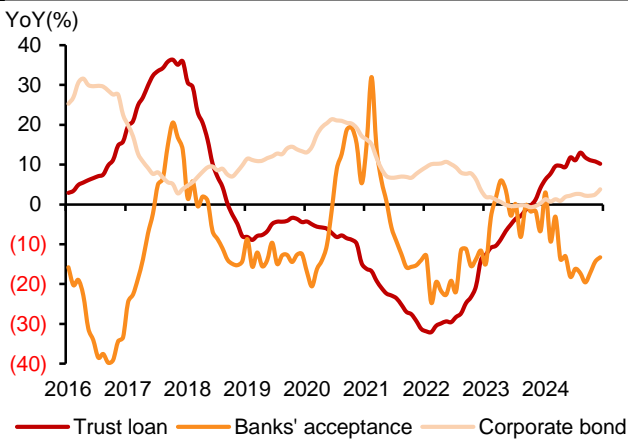
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



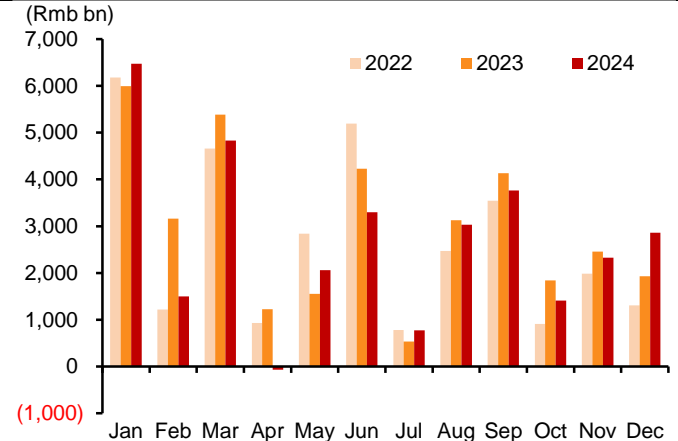
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



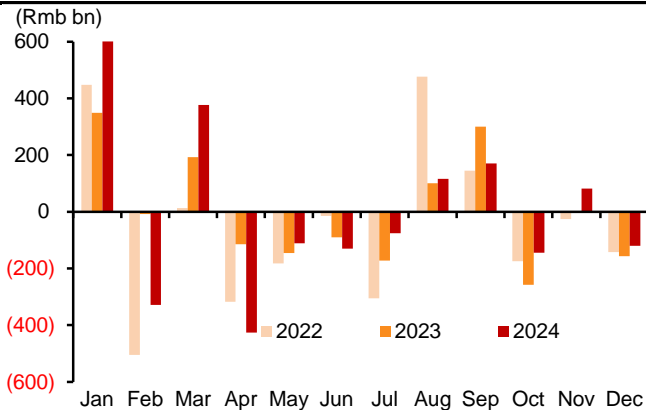
Source: MoF, CMBIGM
Note: OBS – off-balance sheet

Figure 4: Total social financing flow



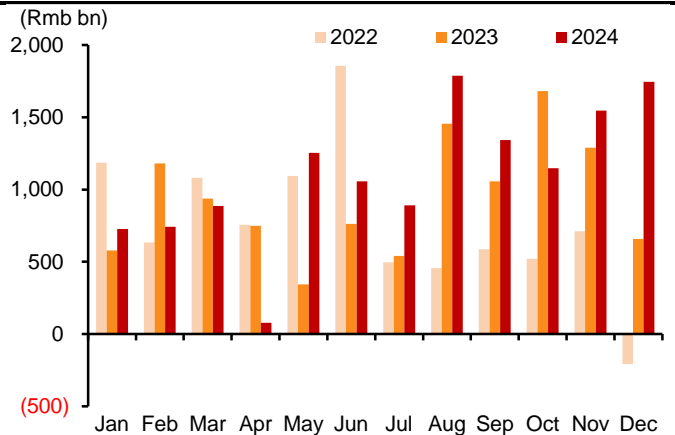
Source: MoF, CMBIGM

Figure 5: OBS financing flow



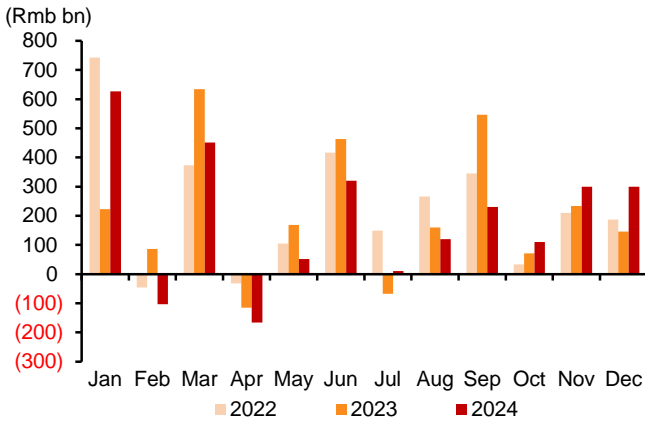
Source: Wind, CMBIGM

Figure 6: Bond financing flow



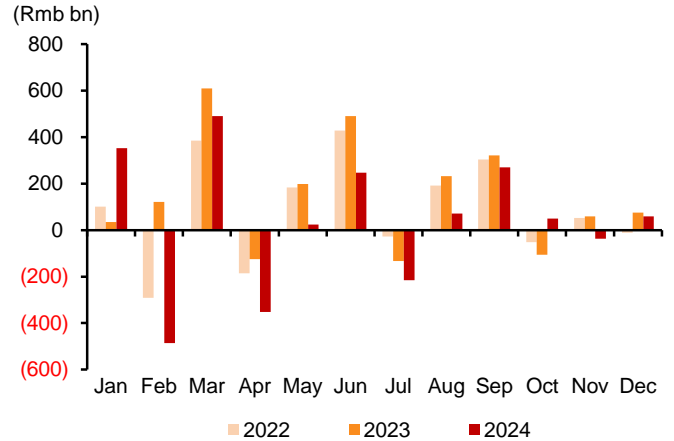
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



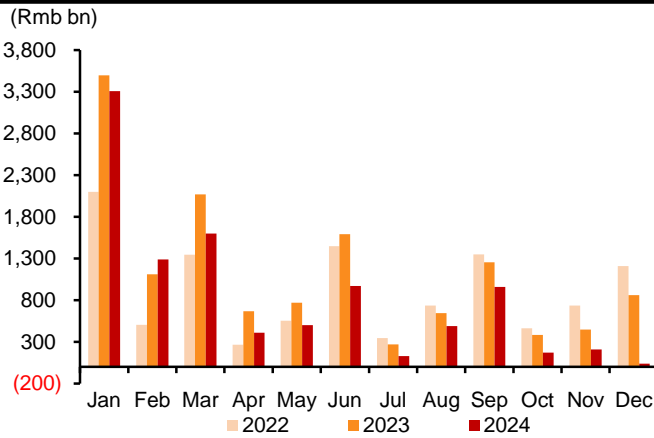
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



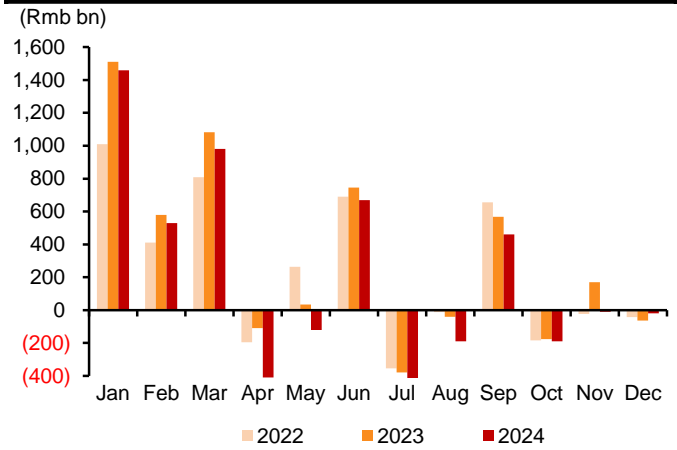
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



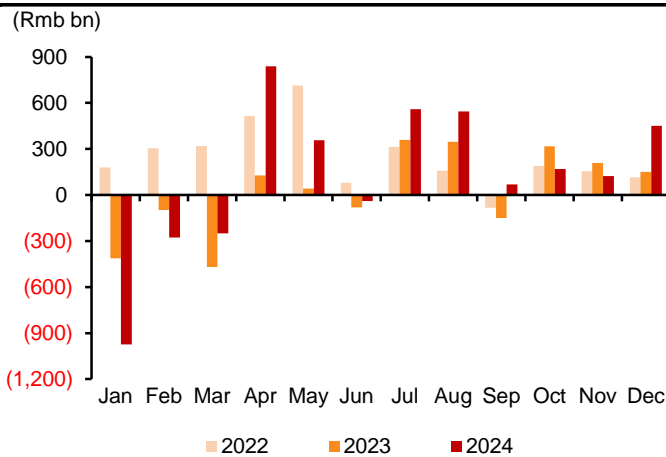
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



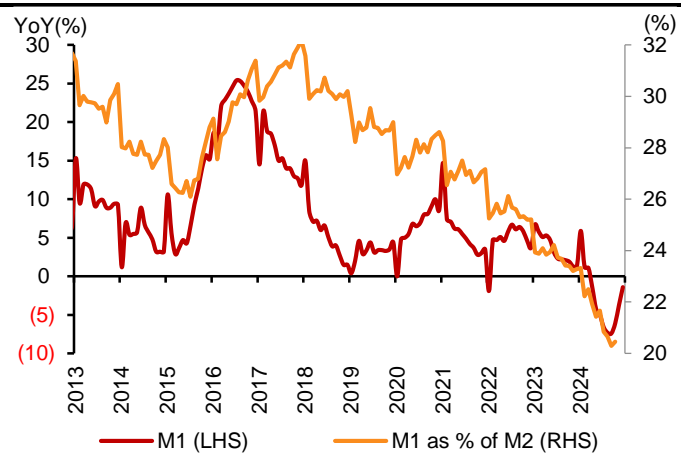
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



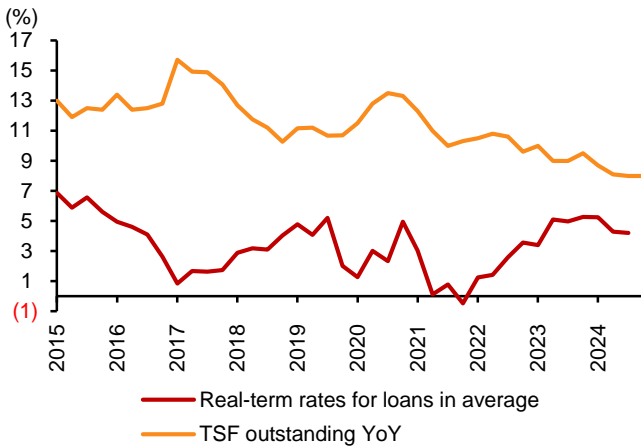
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



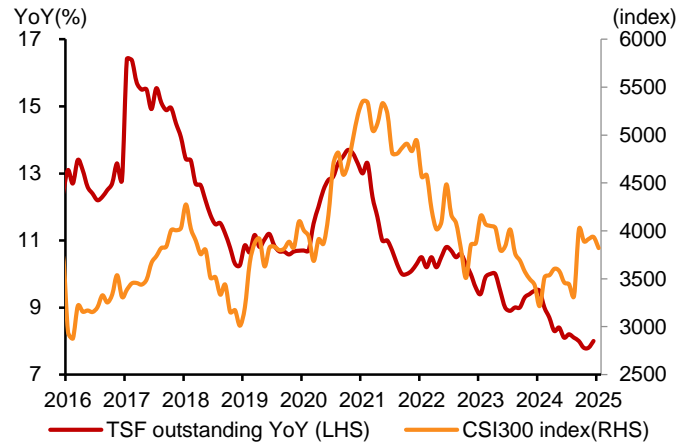
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



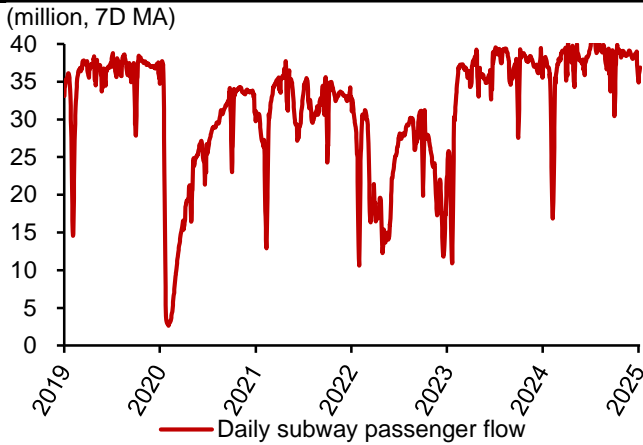
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index



Source: Wind, CMBIGM

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



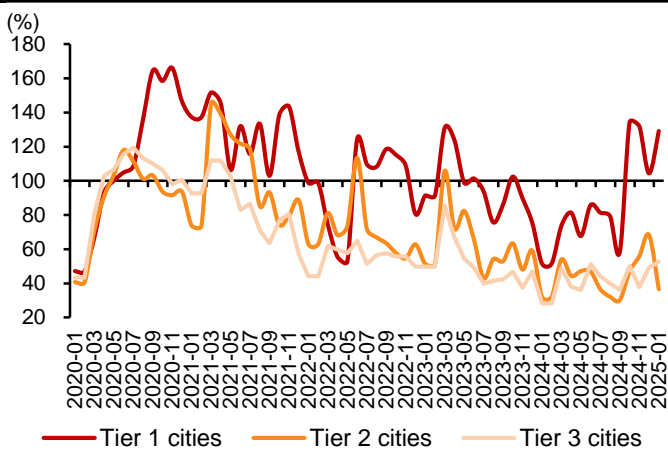
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



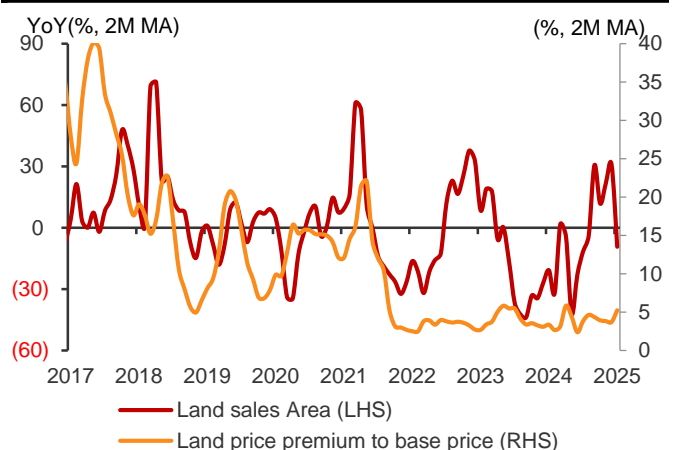
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



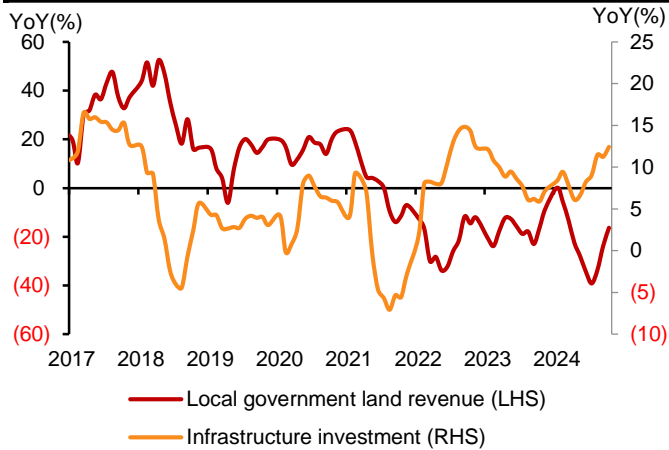
Source: Wind, CMBIGM

Figure 18: Growth of land sales



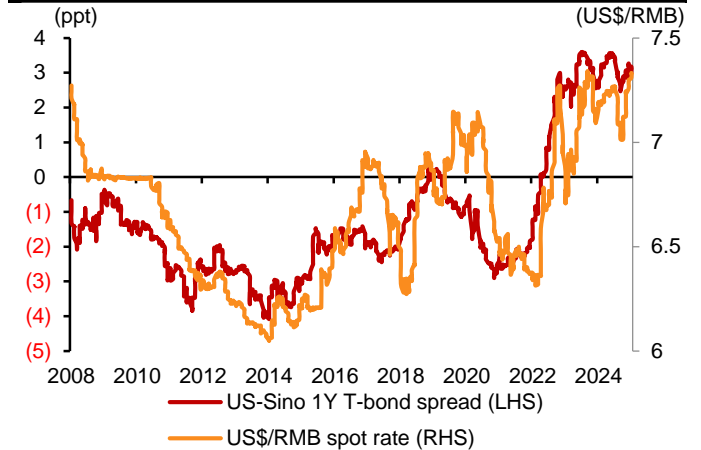
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



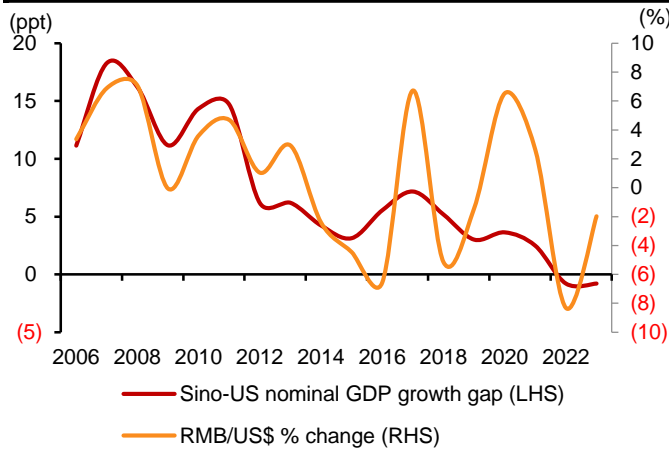
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



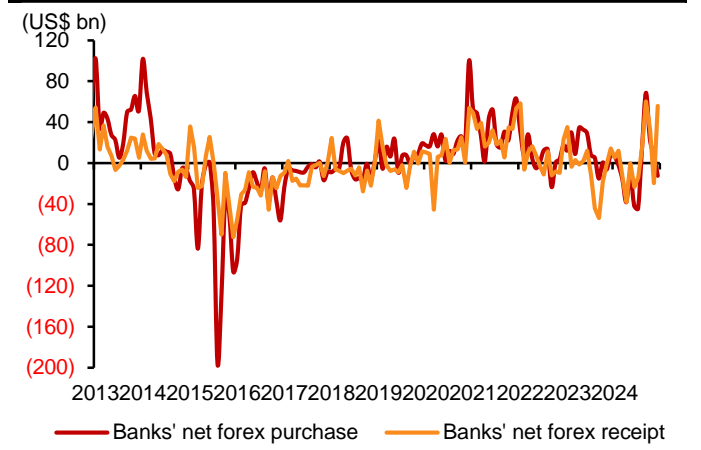
Source: Wind, CMBIGM

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



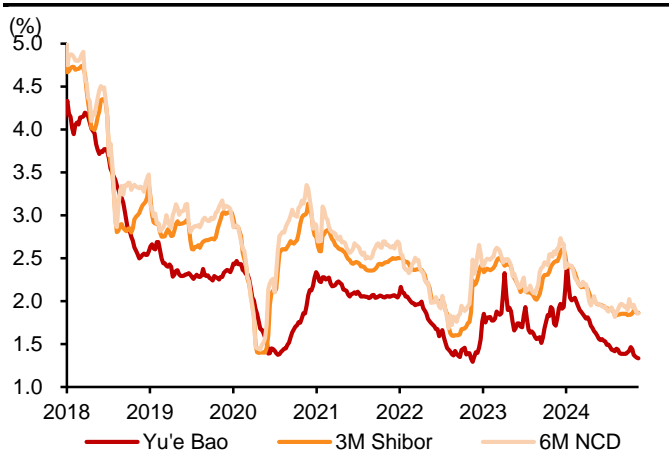
Source: Wind, CMBIGM

Figure 22: Net forex inflow



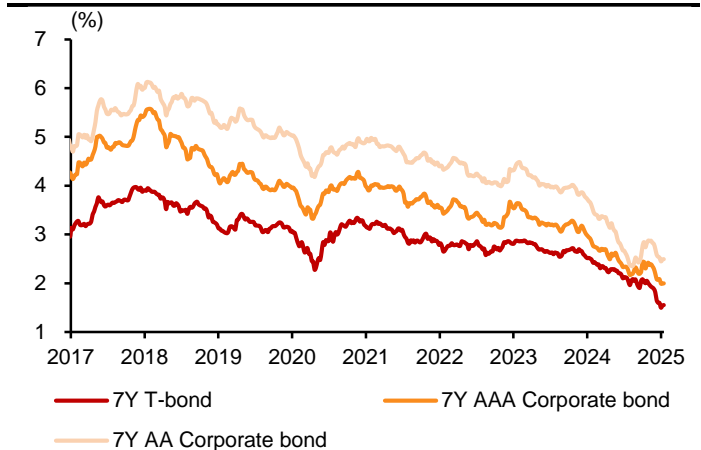
Source: Wind, CMBIGM

Figure 23: Money market funding cost



Source: Wind, CMBIGM

Figure 24: Bond market rates



Source: Wind, CMBIGM

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