

China Economy

Credit weakness awaiting policy support

China's credit market continued to be driven by government-led borrowing, while the private sector demand continued to lag. Outstanding social financing continued to recover in May, as government bond issuance ran faster than the average pace for the debt quota over the year. Meanwhile, the new RMB loans continued to dip, as tariff shocks hurt consumer demand and business capex through the confidence channel. China has to launch additional policy support to revive the recovery momentum especially in the private sector. In 2H25, we expect a further 10 bps LPR cut, along with a possibly moderate increase in the broad fiscal deficit. The central bank is likely to maintain ample liquidity, support steady credit growth, and facilitate a recovery in the property sector to cushion the economic impact of tariff shocks. If a trade deal with the US can be reached, China might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction.

■ **Social financing flows moderated as tariff shocks dampened confidence and credit demand.** Outstanding social financing (SF) stayed flat at 8.7% in May (all in YoY terms unless otherwise specified), while the SF flow expanded by RMB2.29trn, stronger than market expectation at RMB2.05trn. Government bond issuance remained the major driver, rising 19.3% to RMB1.46trn in May compared to RMB972bn in Apr. The issuance pace was 9% ahead of the average pace to meet the full-year target of RMB13.9trn incremental debt quota, indicating that there will be either a slowdown in fiscal support or additional debt quota in 2H25. RMB loans to the real economy under SF notably dropped 27.3% to RMB596bn in May, as non-government sector's credit demand remained subdued. Corporate bond issuance eased to RMB149bn in May compared to RMB234bn in Apr, while notably growing over 400% YoY. The M1 supply rose to 2.3% in May from 1.5% while M2 edged down to 7.9% in May from 8%.

■ **New RMB loans continued to deteriorate.** Growth of outstanding RMB loans edged down to 7.1% in May from 7.2%, marking another historical low, as the new RMB loans notably slumped by 34.7% to RMB620bn in May, missing market expectations at RMB802bn. Credit demand of household sector remained lethargic with total loan flows dropping 28.7%. Consumers were reluctant to spend as ST loan flow saw a negative flow of -RMB20bn in May. M&L term loan flows rebounded 45.1% to RMB74.6bn in May compared to -26.1% in Apr; however, sales in the property sector continued to soften in May and early June. Corporate sector also dropped 28.4% in loan flow to RMB530bn in May compared to 29.1% in Apr. ST loans recovered to RMB110bn in May from negative flows a year earlier while M&L term loans dropped 34%, as the RMB2trn debt swap program continued to reduce the LGFVs' outstanding bank loans.

■ **China has to launch additional policy support to revive recovery momentum especially in private sector.** The credit market continued to be driven by government-led borrowing, while the private sector demand continued to lag. China has to launch additional policy support to revive recovery momentum especially in the private sector. In 2H25, we expect a further 10 bps LPR cut, along with a possibly moderate increase in the broad fiscal deficit. Maintaining stability in the equity market and exchange rate, which are considered as the key indicators of economic resilience, remains a primary objective of financial policy. The central bank is likely to maintain ample liquidity, support steady credit growth, and facilitate a recovery in the property sector to cushion the economic impact of tariff shocks. If a trade deal with the US can be reached, China might focus on economy rebalancing with stronger fiscal expansion, additional consumption stimulus and faster overcapacity reduction.

Frank Liu

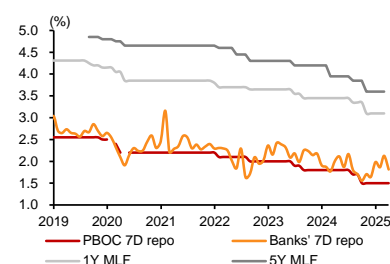
(852) 3761 8957

frankliu@cmbi.com.hk

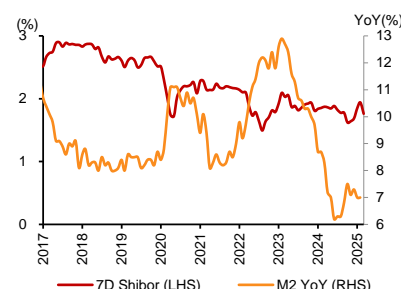
Bingnan YE, Ph.D

(852) 3761 8967

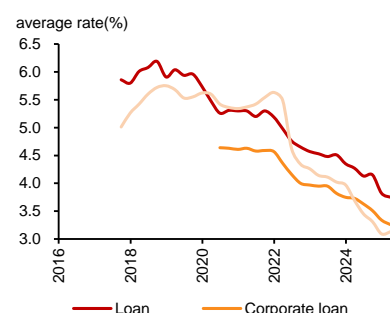
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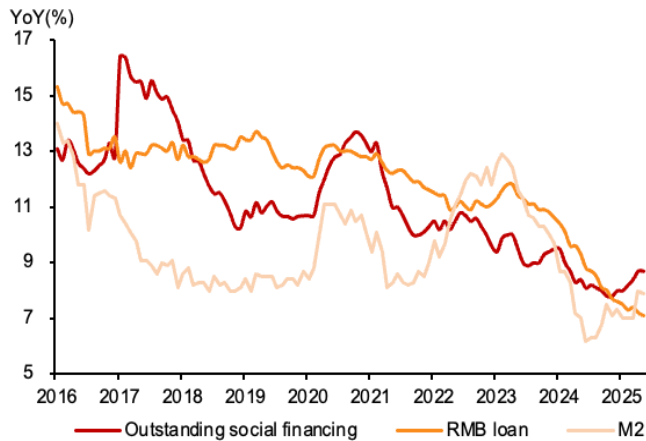
Source: Wind, CMBIGM



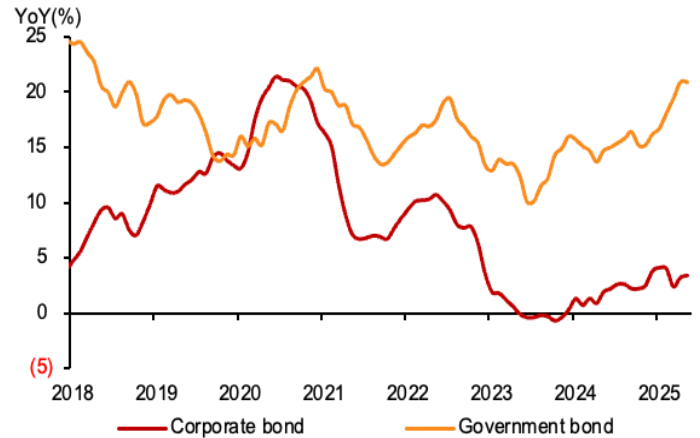
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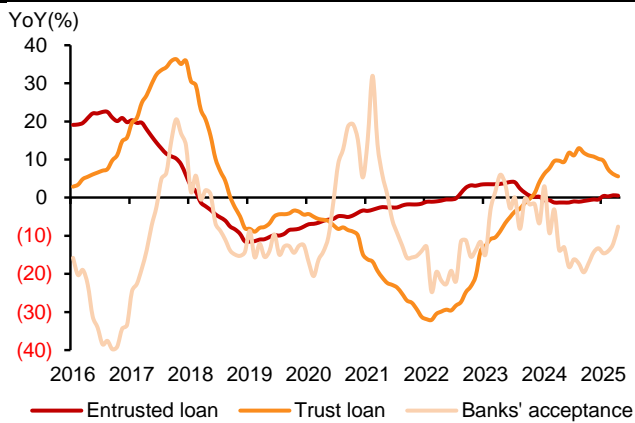
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing

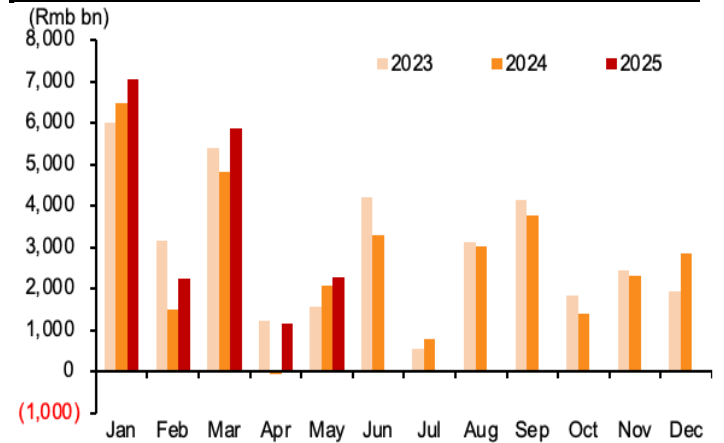
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

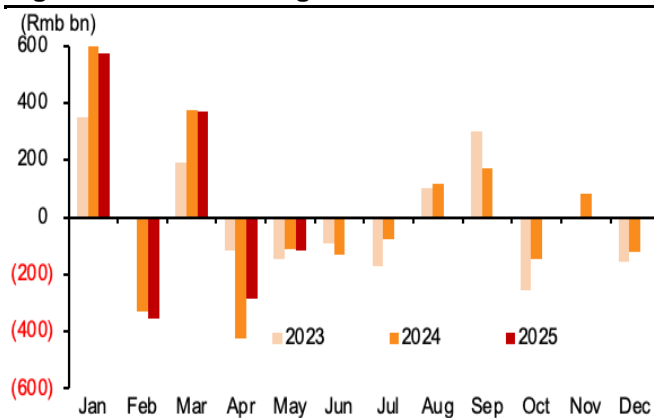
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

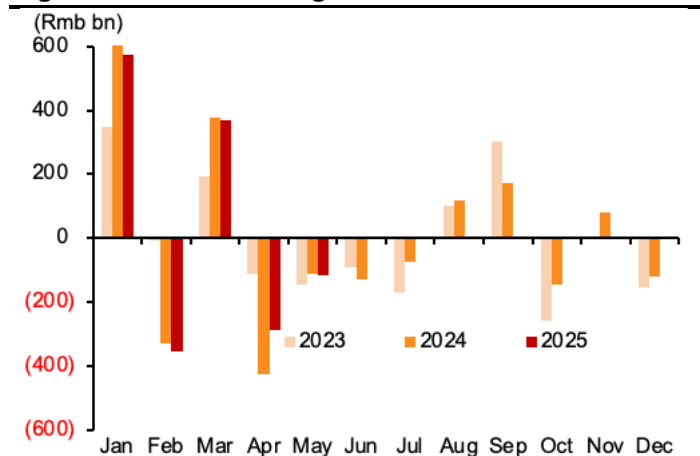
Source: MoF, CMBIGM

Figure 4: Total social financing

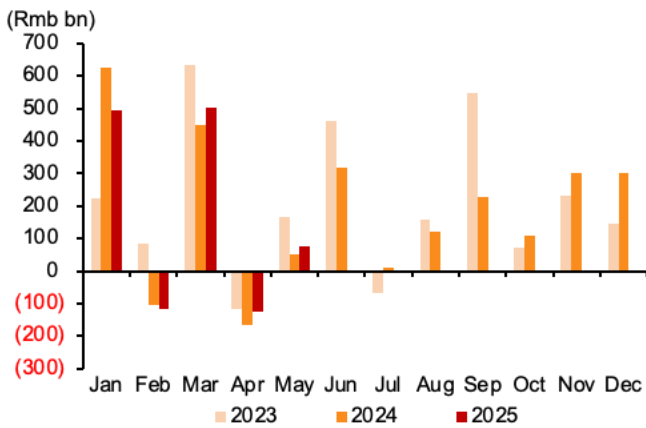
Source: MoF, CMBIGM

Figure 5: OBS financing

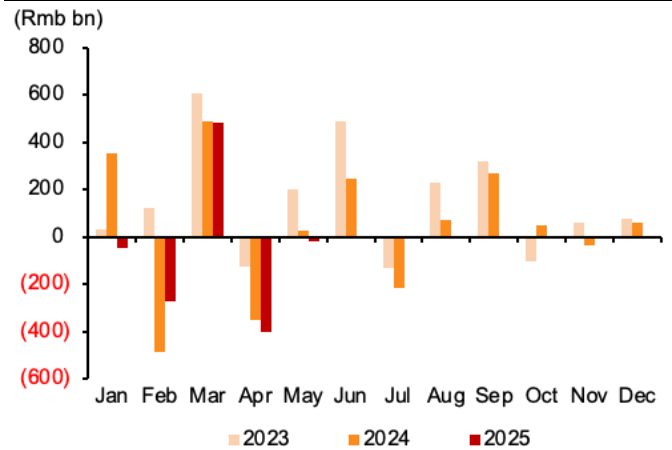
Source: Wind, CMBIGM

Figure 6: Bond financing

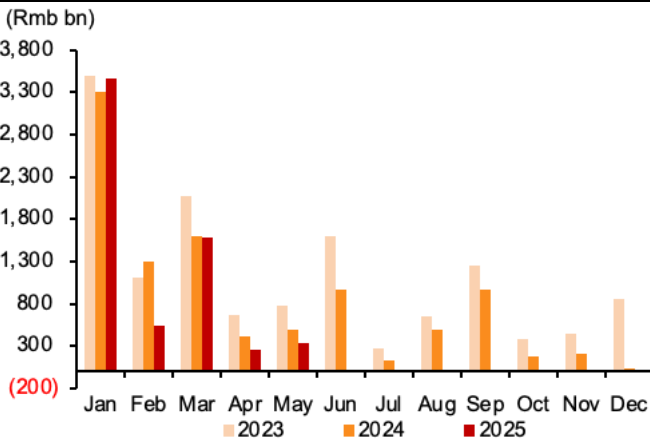
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

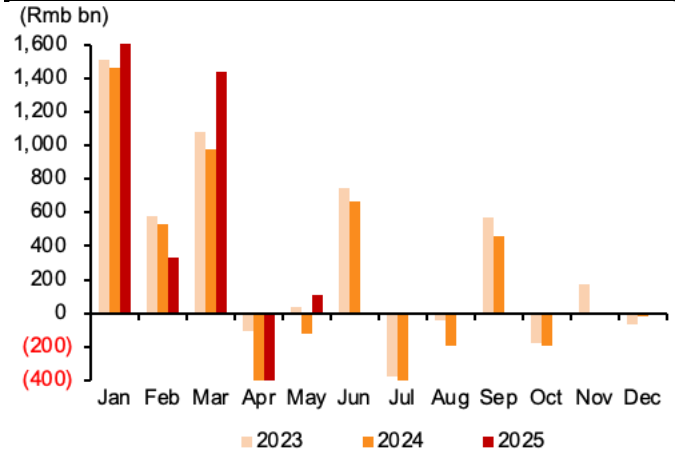
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

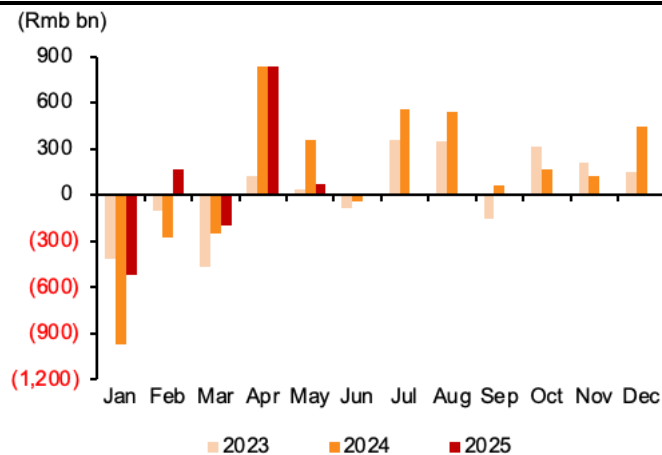
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

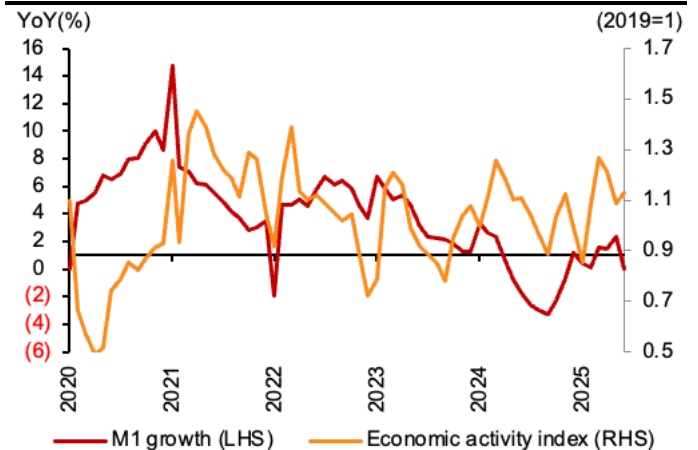
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises

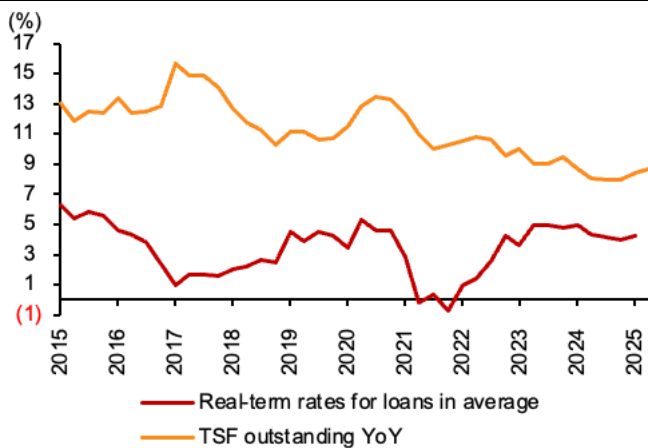
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises

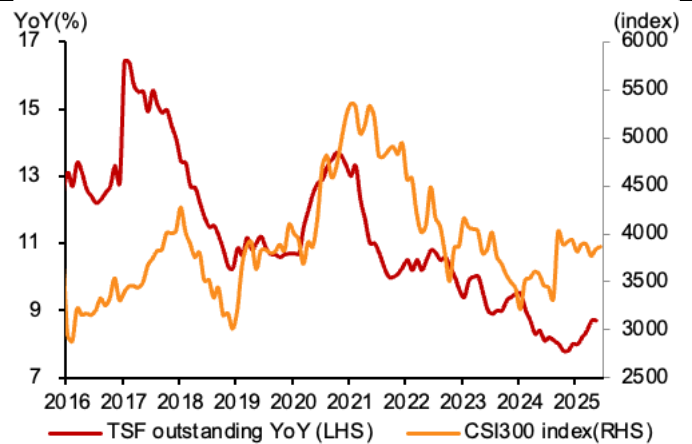
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index

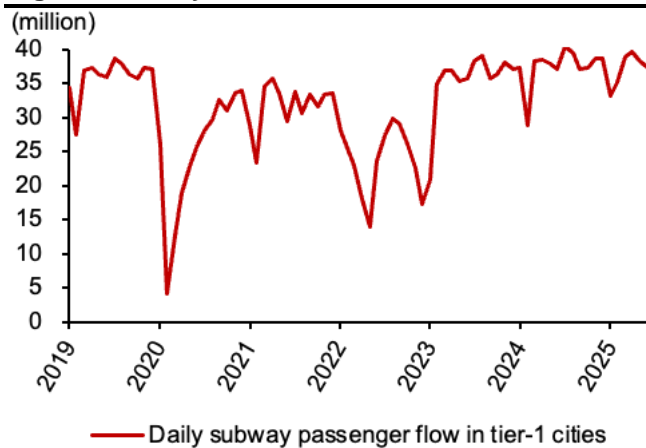
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth

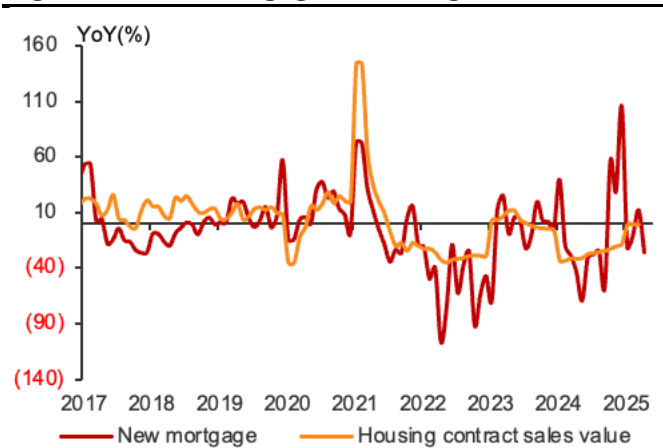
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index

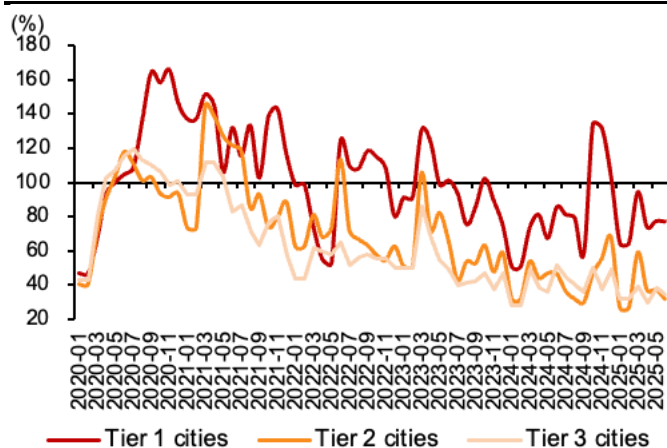
Source: Wind, CMBIGM

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

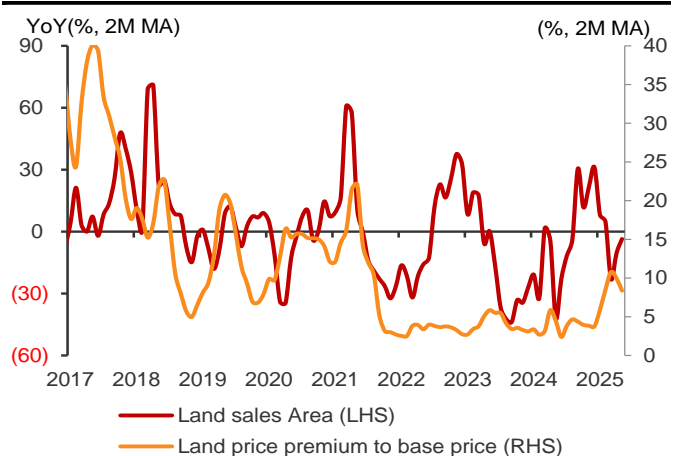
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

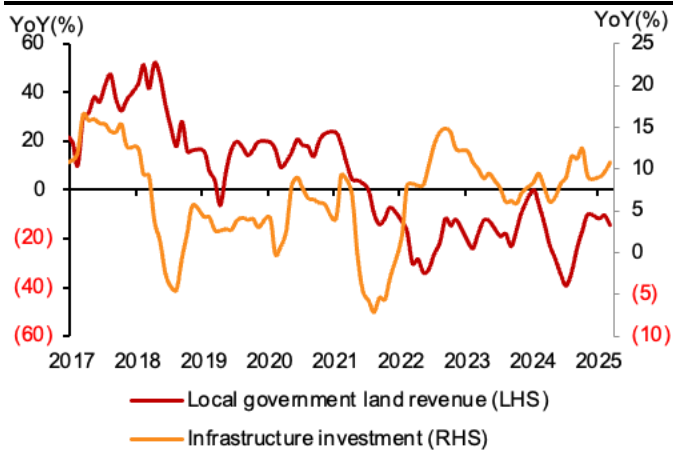
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019

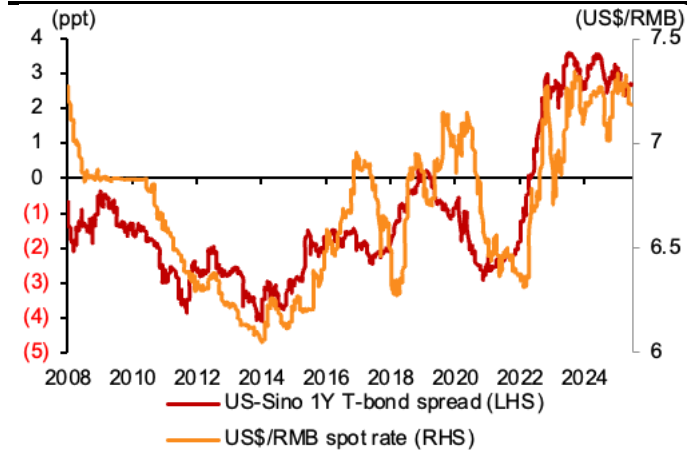
Source: Wind, CMBIGM

Figure 18: Growth of land sales

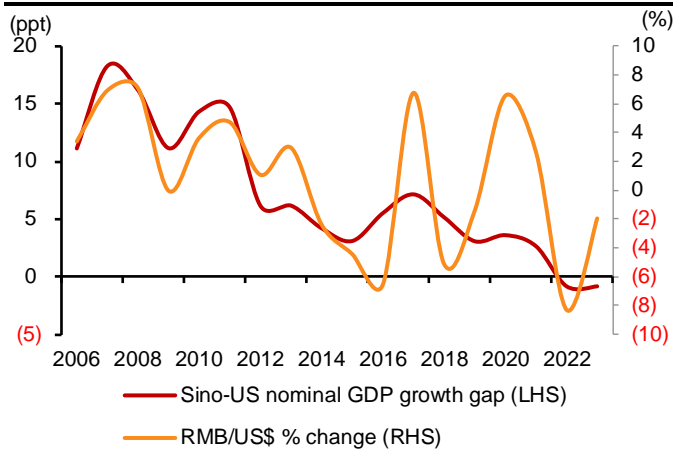
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

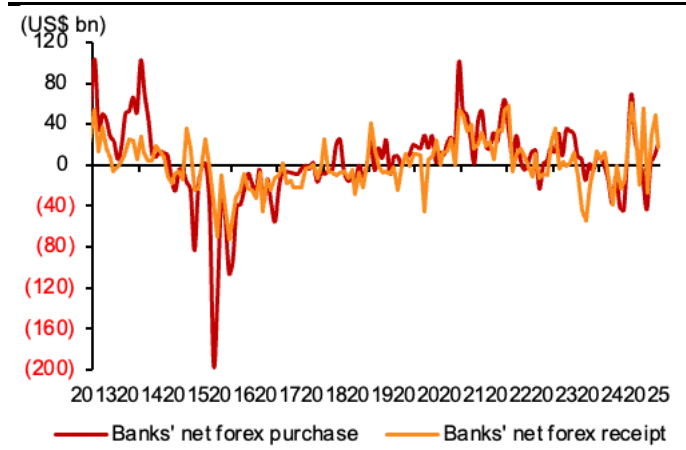
Source: Wind, CMBIGM

Figure 20: US-China interest spreads

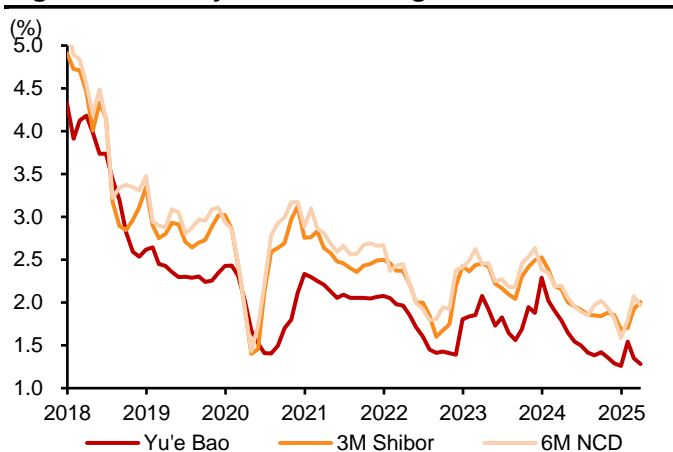
Source: Wind, CMBIGM

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

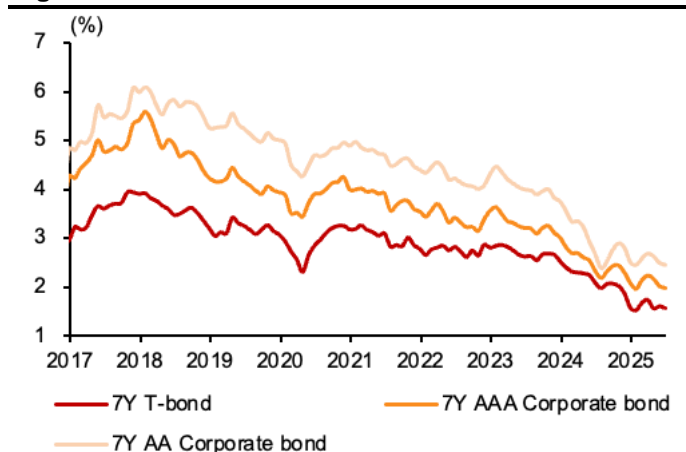
Source: Wind, CMBIGM

Figure 22: Net forex inflow

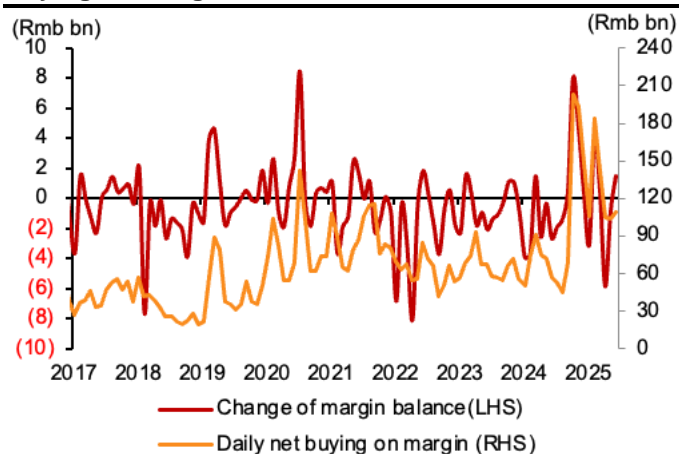
Source: Wind, CMBIGM

Figure 23: Money market funding cost

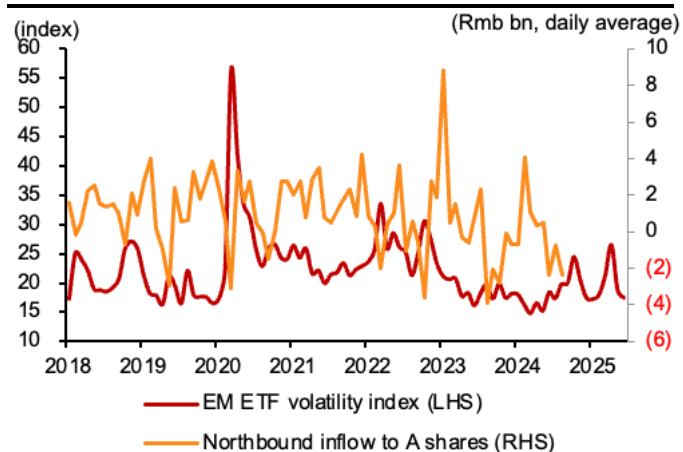
Source: Wind, CMBIGM

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-shares


Source: Wind, CMBIGM

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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