15 Dec 2025

CMB International Global Markets | Equity Research | Economic Perspectives

China Economy

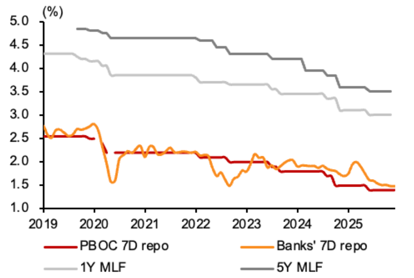
Uneven credit recovery

Social financing flows rebounded above market expectation in November largely driven by off-balance-sheet financing and corporate bond issuance, while government bond issuance stabilized after a sharp slowdown in October. Credit demand remained weak as RMB loans to the real economy continued to contract. The household sector saw the first contraction in history, reflecting ongoing stress in the property market and cautious consumption. Corporate financing improved but tilted toward short-term liquidity management rather than capex expansion as M&L-term loans remained subdued. The recovery in credit data flows appears more financial than real-economy driven. Looking ahead, the continued deceleration in money and credit growth points to soft underlying momentum, reinforcing expectations that the central bank will prioritize policy transmission while retaining easing optionality. We expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26, followed by an additional 10bp LPR cut in 3Q26.

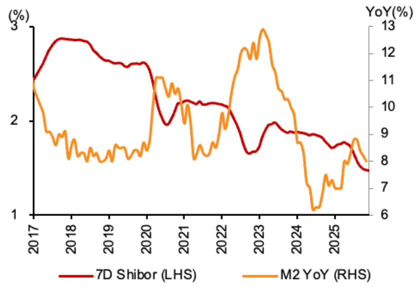
- **Social financing flows rebounded driven by off-balance-sheet financing.** Outstanding social financing (SF) growth was unchanged at 8.5% YoY in Nov, following a decline from 8.7% in September, highlighting continued moderation in aggregate financing. SF flow rose 6.9% YoY to RMB2.49tn, beating market expectations of RMB2.02tn, driven mainly by stronger off-balance-sheet financing and corporate bond issuance while RMB loans remained soft. Off-balance-sheet financing was the major driver as new trust loans and new undiscounted bankers' acceptances rose 63.7% and 827.5% to RMB84.4bn and RMB149bn, **reflecting the substitution amid weak on-balance-sheet loan demand and corporates' preference for short-tenor liquidity management.** Corporate bond issuance remained solid at RMB417bn in Nov, up 75% YoY. Government bond issuance narrowed the decline to 8% to RMB1.20tn, a notable improvement from October's sharp contraction at -54%, suggesting fiscal drag due to front-loading eased at the margin. RMB loans to the real economy under SF fell 22.3% YoY to RMB405bn in Nov, underscoring persistently weak bank credit demand. M1 growth slowed further to 4.9% from 6.2%, while M2 eased to 8.0%, pointing to weakening business activities and declining money velocity.
- **New RMB loans remained weak, led by household deleveraging.** Growth of outstanding RMB loans edged down further to 6.4% YoY in Nov, marking another record low. New RMB loan issuance dropped 32.8% to RMB390bn, below market expectations of RMB504bn. Household loans contracted RMB206bn in Nov, marking the first contraction of household loans in history, as short-term loans contracted by RMB215.8bn in Nov, reflecting fragile confidence in consumption. M&L-term loans dropped 96.7% to RMB10bn in Nov, as housing demand remained weak. Corporate loan rose 144% in Nov to RMB610bn compared to 169% in Oct, but M&L-term loans remained soft dropping 19%, while ST loans and bill financing rebounded sharply, suggesting firms continued to favor short-term liquidity tools over long-term investment commitments.
- **Recent data developments reflected moderating demand shock in economy.** With household credit still contracting and corporate borrowing skewed toward bill financing and off-balance-sheet financing, the recovery in credit data flows appears more financial than real-economy driven. Absent a clearer stabilization in property and consumption, underlying growth momentum is likely to remain soft, keeping the door open for further policy easing should downside risks intensify. The Central Economic Work Conference outlined the monetary policy stance for 2026, removing explicit targets for social financing or money supply growth, suggesting a policy shift toward optimizing credit structure rather than pursuing broad-based aggregate expansion and quantitative target going forward. Looking

Frank Liu
(852) 3761 8957
frankliu@cmbi.com.hk

Bingnan YE, Ph.D
(852) 3761 8967
yebingnan@cmbi.com.hk



Source: Wind, CMBIGM



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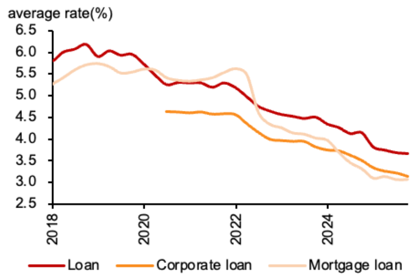
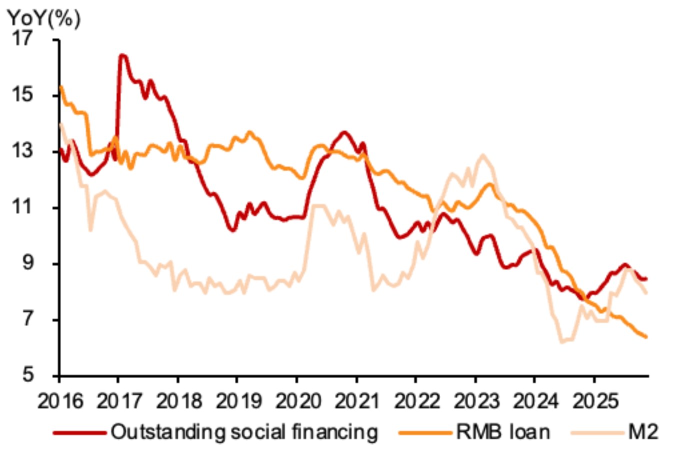


Source: Wind, CMBIGM

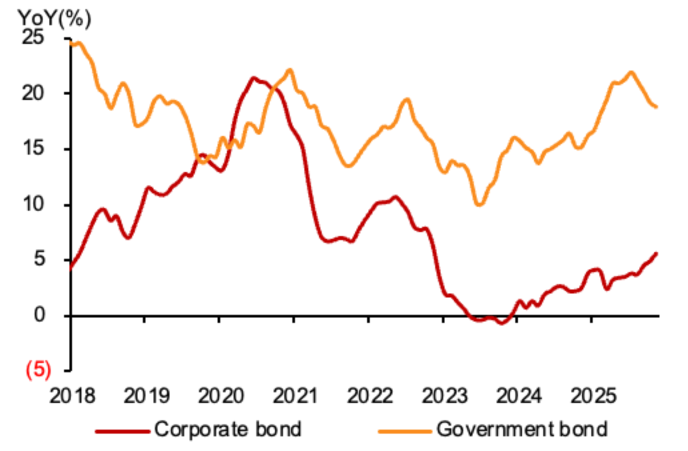
forward, we expect a 50bp cut in RRR and a 10bp cut in LPR in 1Q26 followed by an additional 10bp LPR cut in 3Q26.

Figure 1: Growth of outstanding social financing



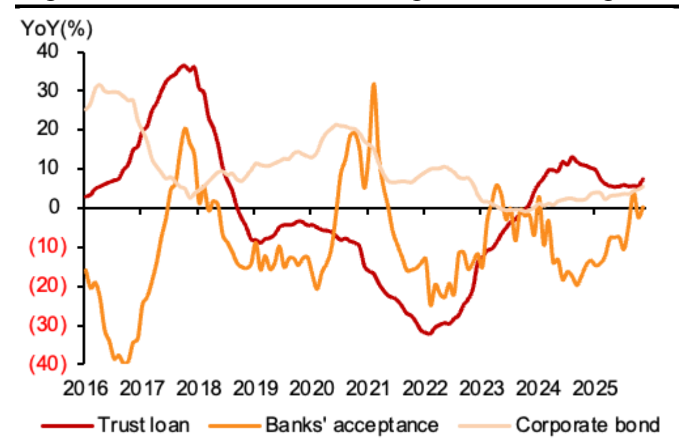
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



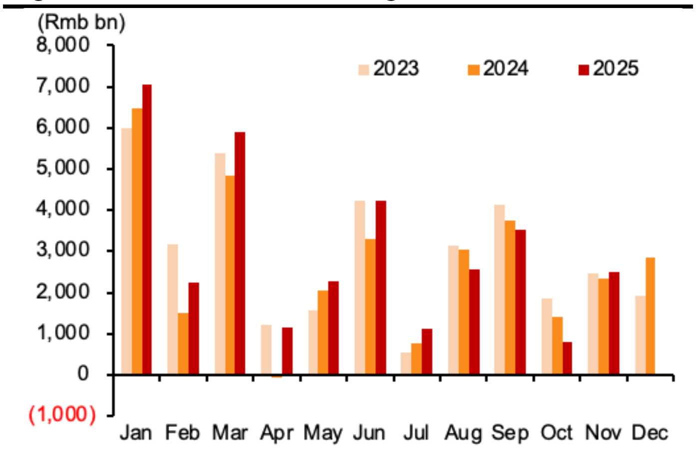
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



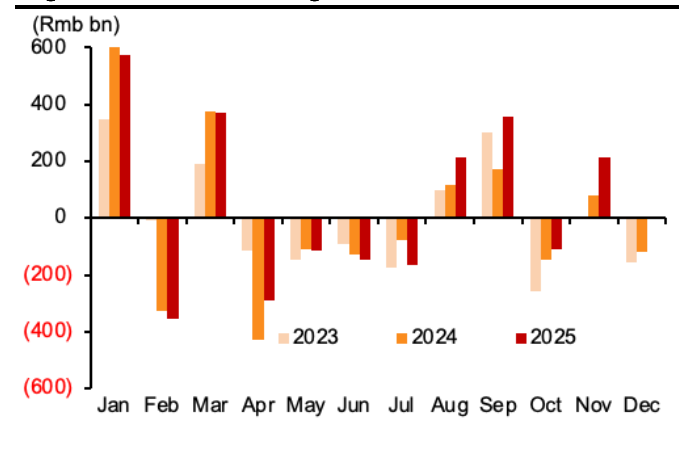
Source: MoF, CMBIGM

Figure 4: Total social financing



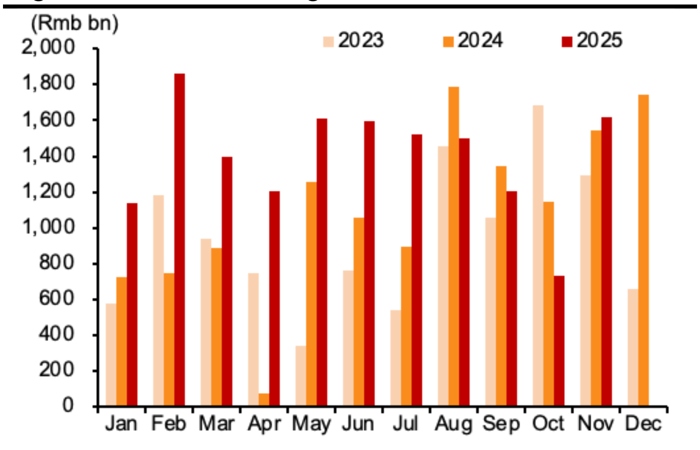
Source: MoF, CMBIGM

Figure 5: OBS financing



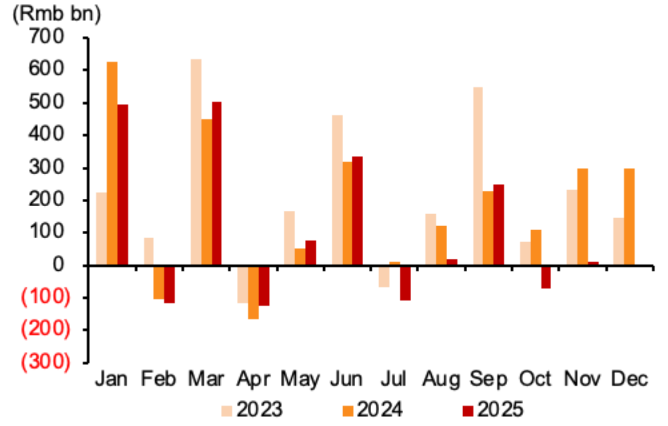
Source: Wind, CMBIGM

Figure 6: Bond financing



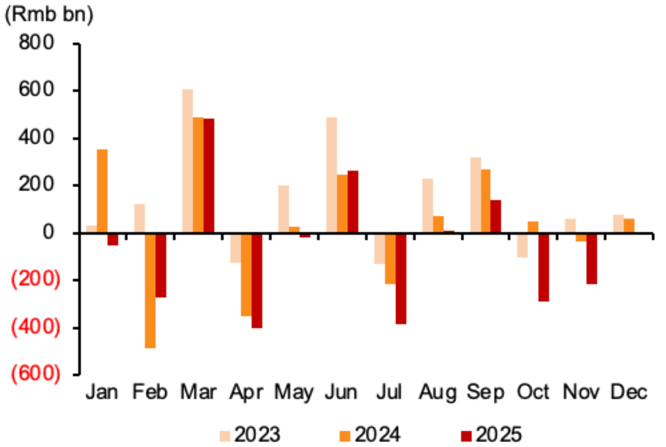
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



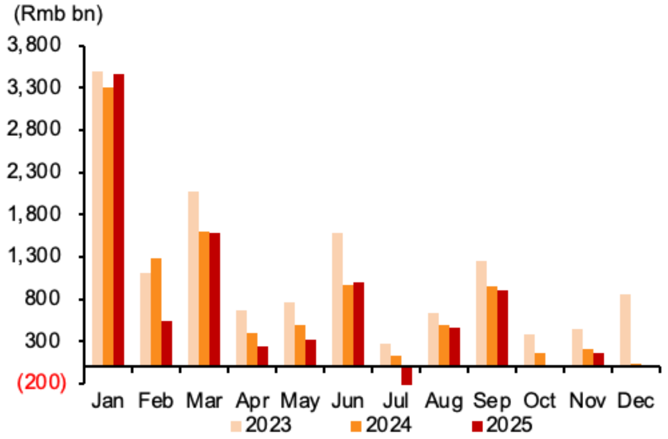
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



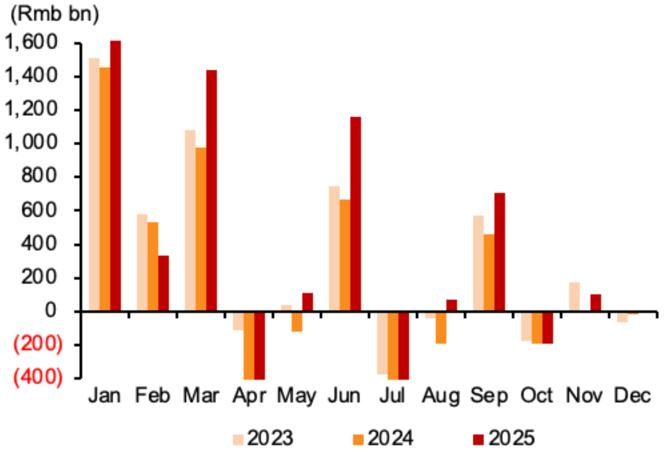
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



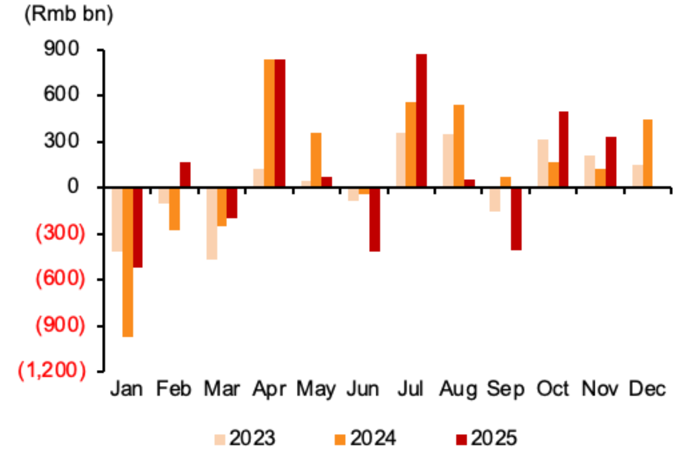
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



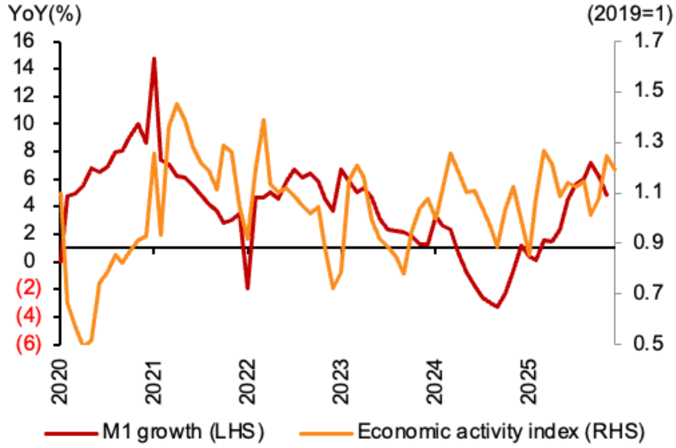
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



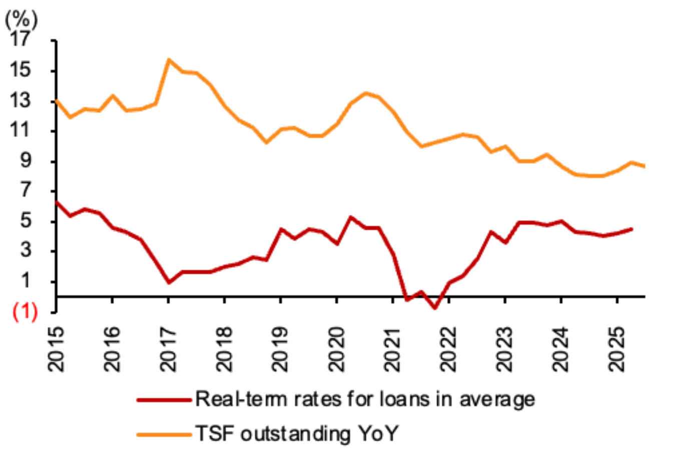
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index



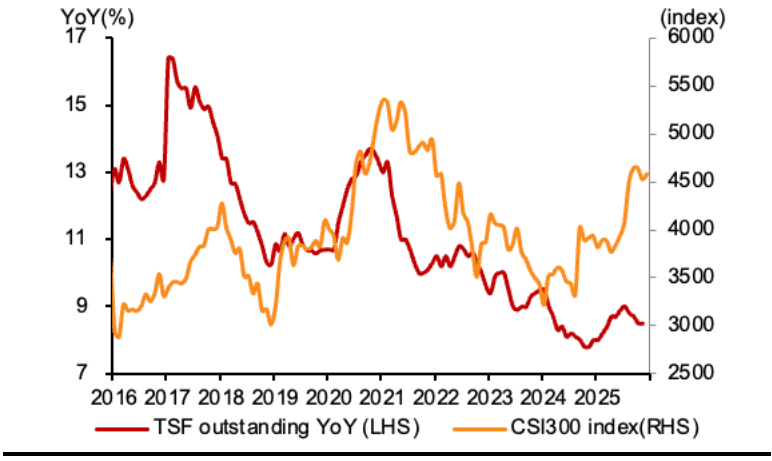
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



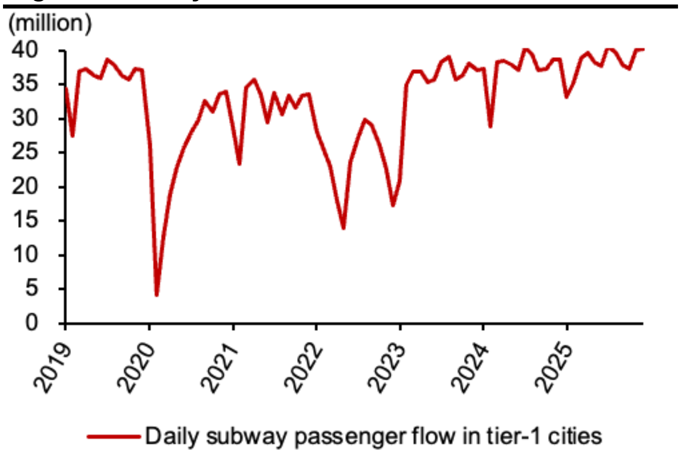
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index



Source: Wind, CMBIGM

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

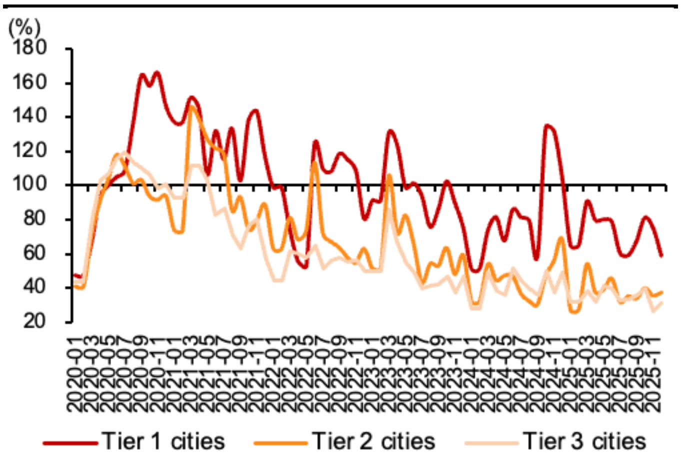


Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

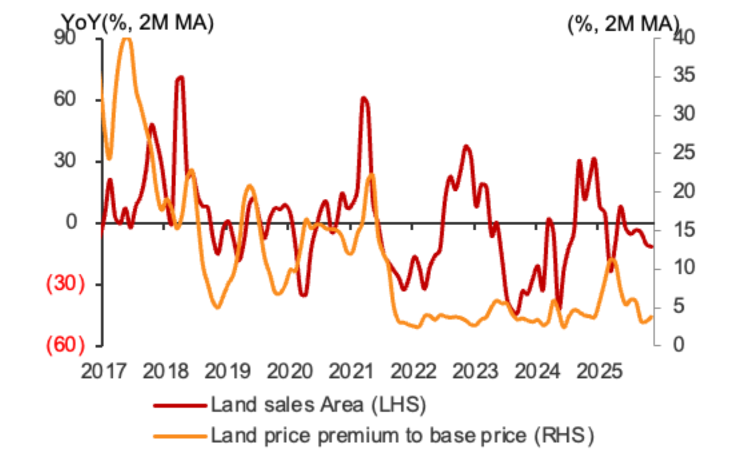
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



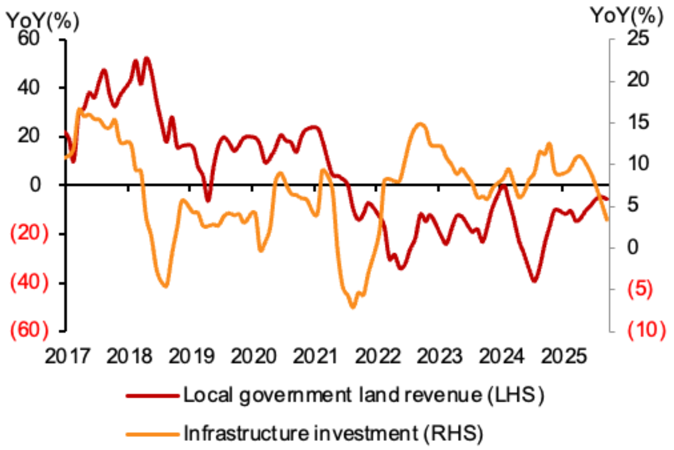
Source: Wind, CMBIGM

Figure 18: Growth of land sales



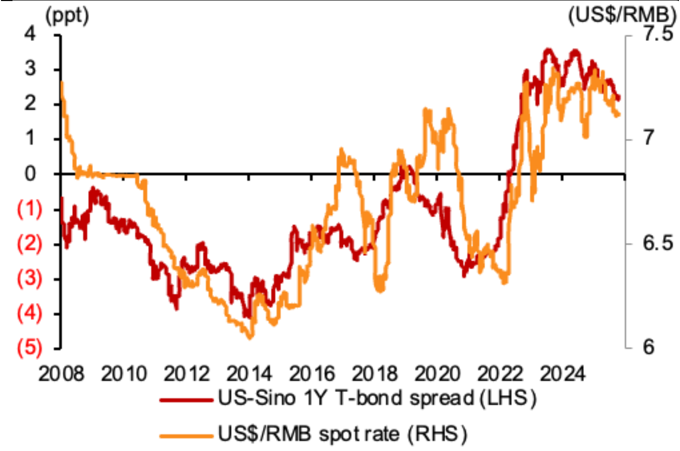
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



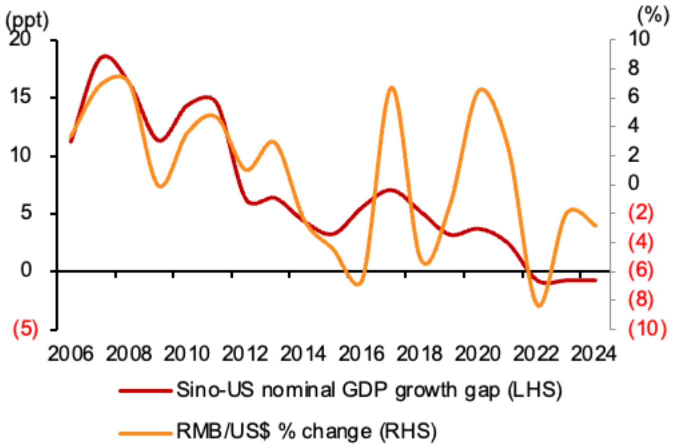
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



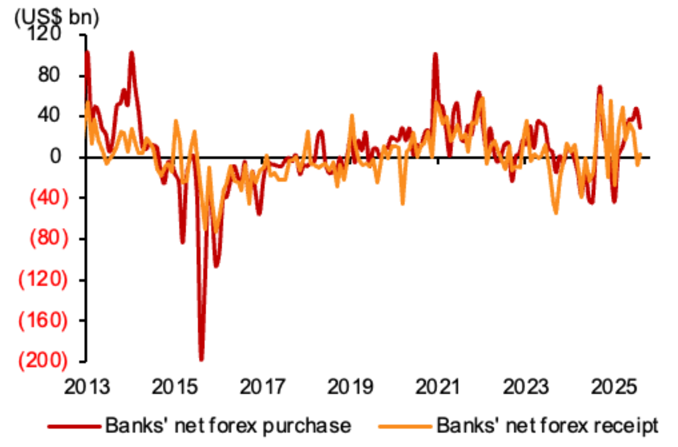
Source: Wind, CMBIGM

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



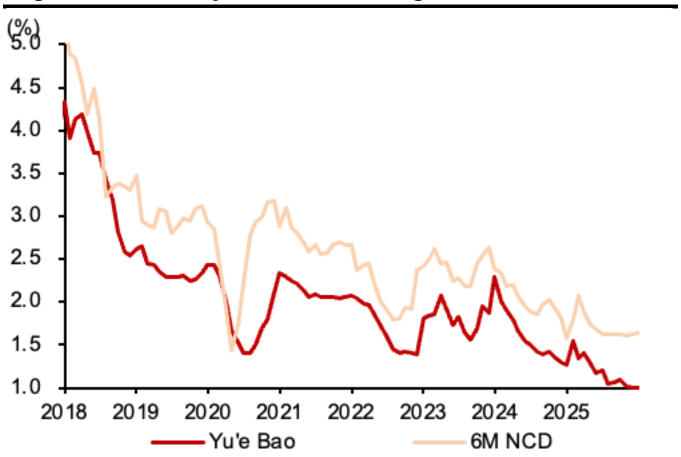
Source: Wind, CMBIGM

Figure 22: Net forex inflow



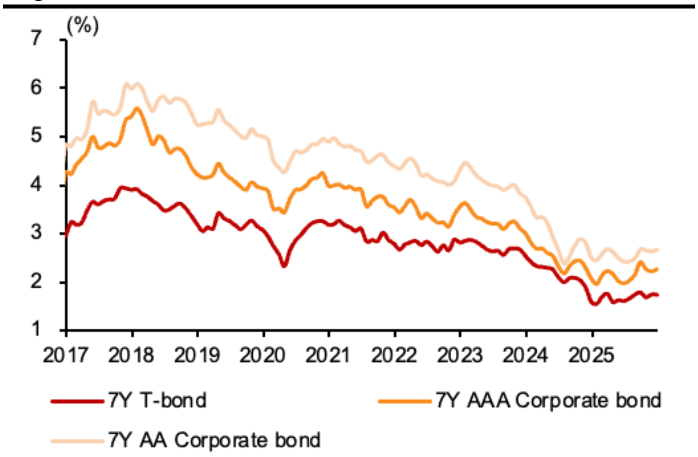
Source: Wind, CMBIGM

Figure 23: Money market funding cost



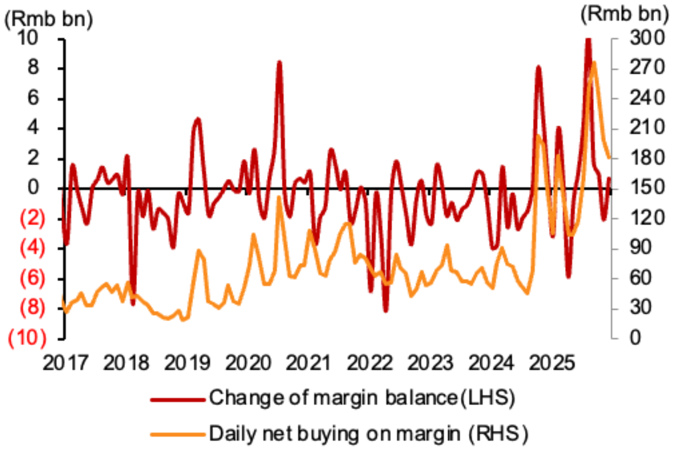
Source: Wind, CMBIGM

Figure 24: Bond market rates



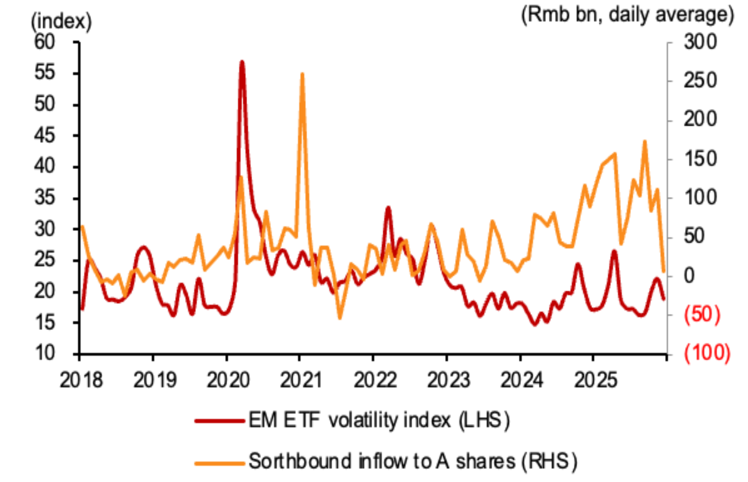
Source: Wind, CMBIGM

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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CMB International Global Markets Limited

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

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