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New credit remained soft in May; higher interbank rate not a sign of policy shift

Economics

China

Jennifer Zhong
Economist
jennifer-a.zhong@ubs.com
+86-105-832 8324

Yu Song
Economist
S1460526010002
yu-za.song@ubs.com
+86-10-5832 8508

Grace Wang
Economist
S1460524050003
grace-zc.wang@ubs.com
+86-105-832 8335

William Deng
Economist
william-w.deng@ubs.com
+852-2971 6765

New credit remained soft despite policy effort

New RMB loans printed RMB 520bn in May, modestly softer than a year ago (RMB -100bn YoY) but still above market expectations (Bloomberg: RMB 450bn). Both M&L household loans and M&L corporate loans continued to contract, remaining below last May's levels. Meanwhile, bill financing recorded another solid reading of RMB 557bn (RMB +482bn YoY) likely as banks were pressured to increase bank lending. Nonetheless, it was not enough to offset weakness elsewhere. New TSF recorded RMB 2trn in May, RMB 261bn lower than a year ago, yet modestly better than expected. Outside of loans, government bond issuance was weaker YoY (RMB -236bn), while shadow credit and corporate bonds were largely flat from last year. The reading reveals soft credit demand, lasting impact from debt swap, and slow pace of government bond issuance.

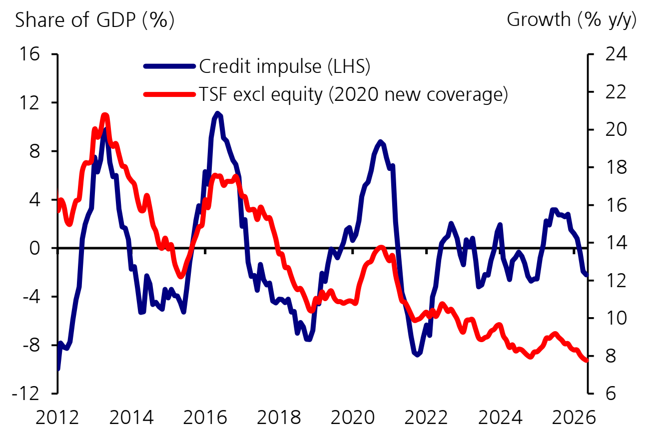
Credit growth recovered sequentially but slowed YoY

We estimate the sequential growth momentum of official TSF recovered modestly to 7.4% MoM Saar from 4.5% previously, and new loans rebounded to 5.1% MoM Saar from -0.4% previously. Seasonally-adjusted new credit flows rallied to 20% of GDP in May (vs 15% in April). That said, on a YoY basis, the official TSF growth slowed by 0.1ppt to 7.7% YoY. Our credit impulse turned more negative to -2.2% of GDP (vs -1.9% in April). M1 growth accelerated (5.5% YoY, 7.3% MoM Saar). M2 growth held stable on YoY basis while softened sequentially (8.6% YoY, 7% MoM Saar).

We see no change in monetary policy stance despite higher interbank rates

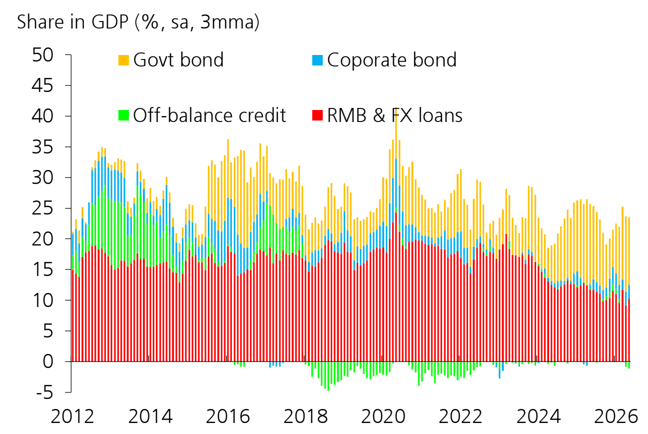
Interbank liquidity conditions were loose in April and May, with DR007 holding below the operation rate of 1.4% even as PBC withdrew liquidity. That changed recently when DR007 began to inch up to 1.44% this week, and it may rise further into late June due to seasonal liquidity demand. However, the current rate remains at the lower range of the interest rate corridor, and we don't interpret it as a sign of a shift in the PBC's monetary policy stance. Considering weak economic data in April and soft credit data in May, we believe the PBC will maintain accommodative liquidity conditions. Interbank rates are unlikely to rebound significantly and we expect some normalization into Q3.

Figure 1: Credit growth softened YoY, credit impulse turned more negative in May



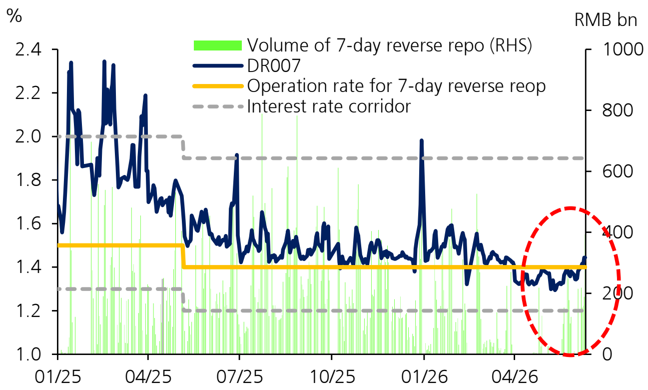
Source: CEIC, UBS estimates

Figure 2: New credit flow recovered sequentially in May though softened on 3mma basis



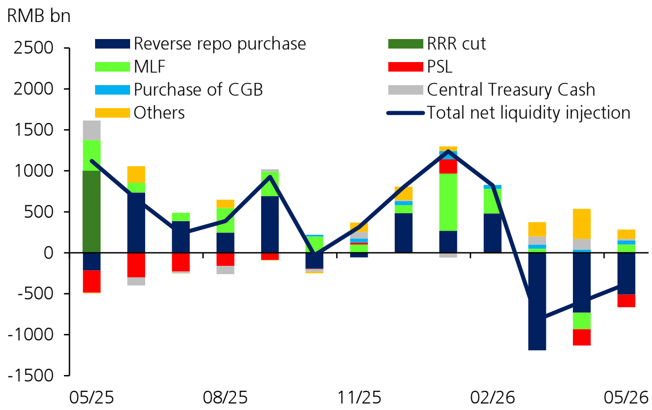
Source: CEIC, UBS estimates

Figure 3: DR007 inched up to 1.44% this week



Source: CEIC, UBS estimates

Figure 4: PBC withdrew liquidity since March



Source: CEIC, UBS estimates