

China: Credit growth surprised to the upside in May, but details show weak credit demand

Bottom line:

May credit data came in above market expectations, mainly due to stronger-than-expected bank loans extension. Shadow banking credit also increased from April to May after seasonal adjustment. However, the decline in household loans and the rise of short-term financing in corporate loan extension suggest the loan demand of the real economy remained weak. In year-over-year terms, M2 growth remained unchanged in May, while M1 growth accelerated, likely due to a faster pace of fiscal spending compared to a year ago.

Key numbers:

New RMB loans (flow, reported): RMB +520bn in May (RMB loans to the real economy: RMB 500bn) vs. GS forecast: RMB 400bn, Bloomberg consensus: RMB 450bn.

Outstanding RMB loan growth: 5.5% yoy in May (+5.0% mom sa ann, estimated by GS); April: 5.6% yoy (+4.7% mom sa ann).

Total social financing (TSF flow, reported): RMB 2030bn in May, vs. GS forecast: RMB 1700bn, Bloomberg consensus: RMB 1700bn.

TSF stock growth: 7.7% yoy in May, vs. 7.8% in April. The implied month-on-month growth of TSF stock: 7.2% in May (seasonally adjusted annualized rate), vs. 8.0% in April.

M2: 8.6% yoy in May (6.9% mom sa ann estimated by GS) vs. GS forecast: 8.6% yoy, Bloomberg consensus: 8.5% yoy. April: 8.6% yoy (10.1% mom sa ann).

Main points:

1. May total social financing (TSF) flows came in above consensus expectations, mainly due to stronger-than-expected bank loans extension. After seasonal adjustment, TSF flows rose from April to May mainly on increased shadow banking credit and faster bank loan extension: shadow banking credit increased to RMB 20bn in May (vs. an RMB 186bn contraction in April), and bank loan extension increased to RMB 1145bn (vs. RMB 945bn in April), after seasonal adjustment ([Exhibit 1](#)). In year-over-year terms, TSF stock growth edged down to 7.7% yoy in May (vs. 7.8% yoy in April).

2. New RMB loans also beat market expectations in May. The outstanding RMB loan growth slowed to 5.5% yoy in May (vs. 5.6% yoy in April). The decline in household loans and the composition of corporate loan extension suggest both corporate and

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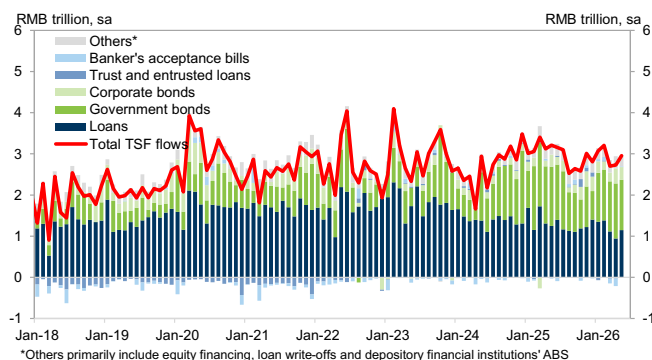


household demand remained weak. In non-seasonally adjusted terms, household loan stock declined by RMB 141bn in May (vs. an RMB 54bn increase a year ago). Outstanding corporate loans expanded by RMB 640bn in May (vs. an RMB 530bn extension a year ago). However, the loan extension was primarily driven by short-term financing (RMB 557bn from bill financing and RMB 100bn from short-term loans). Mid-to-long term corporate loans declined by RMB 20bn in May (vs. an RMB 330bn expansion a year ago).

3. M1 growth increased to 5.5% yoy in May (vs. 5.0% yoy in April; [Exhibit 2](#)), while M2 growth remained unchanged at 8.6% yoy in May. That said, fiscal deposits increased by RMB 710bn in May, about RMB 170bn lower than the rise a year ago, suggesting a faster pace of fiscal spending. This likely contributed to the increase in year-over-year M1 growth.

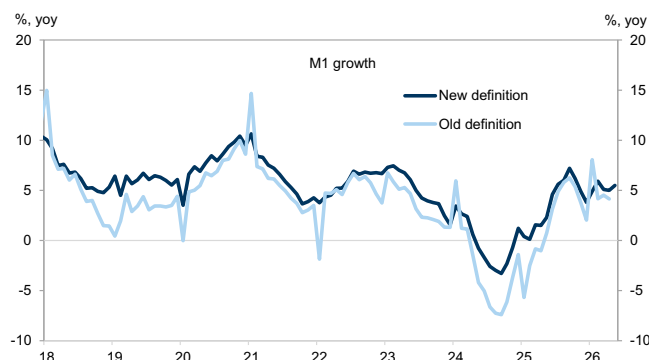
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Exhibit 1: TSF flows rose from April to May after seasonal adjustment



Source: PBOC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: M1 growth edged up in May



New M1 data before 2024 are GS estimates. The PBOC only published 2024-25 data. New M1 = Old M1 + household demand deposits + reserve funds of non-bank payment institutions.

Source: CEIC, Goldman Sachs Global Investment Research

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