NOMURA

Global Markets Research
25 August 2026

Asia Insights

Economics - Asia ex-Japan

China: An update on the RMB10trn debt swap

Research Analysts

Asia Economics

Harrington Zhang - NIHK
harrington.zhang@nomura.com
+852 2252 2057

Ting Lu - NIHK
ting.lu@nomura.com
+852 2252 1306

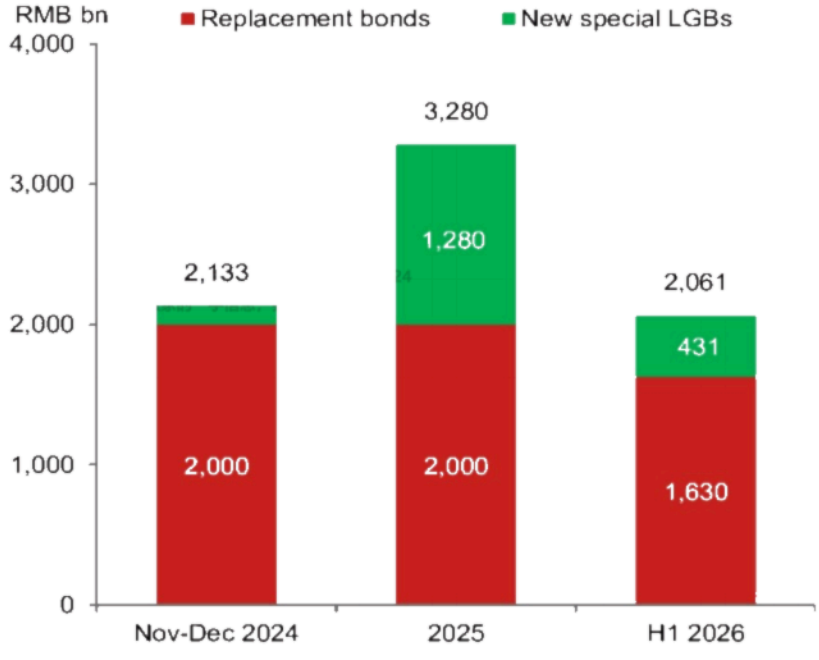
Beijing's RMB10trn local government debt swap has been running for 20 months. In this report, we answer two questions. Where have the proceeds of the swap bonds gone? And how much of the bank loan growth slowdown can the swap explain? Of the RMB7.5trn issued under the RMB10trn package to end-June 2026, we estimate that half has removed bank loans and around 13% has retired existing LGFV bonds, with the remainder going to non-standard debt, especially for the clearance of government arrears. The debt swap lowered headline loan growth by 1.1pp in Q3 2025, but the impact has halved to 0.5pp in Q2 2026. Even considering this drag, China's loan growth has still slowed significantly over the past couple of years, suggesting weaker credit demand amid the property collapse.

The debt swap programme and where the proceeds have gone

Beijing's local government debt swap programme, approved and announced by the NPC Standing Committee in November 2024, combined a one-off increase of RMB6trn in the local government debt ceiling, issued at RMB2trn a year between 2024 and 2026, with a further RMB4trn drawn from the RMB800bn annual new special local government bond (LGB) allocation between 2024 and 2028.

20 months into the programme, RMB7.5trn of bonds have been issued under the package (Figure 1). The largest single instrument is the dedicated hidden debt replacement bond, of which RMB2trn was issued in late 2024, with a second RMB2trn issued in 2025 and RMB1.63trn in H1 2026, equivalent to 81% of this year's allocation. This means the RMB6trn three-year quota is roughly 94% used, with two quarters still to run, so the instrument that has done most of the work is close to being exhausted. The second pillar, new special LGBs for debt resolution, contributed RMB133bn in the closing two months of 2024, RMB1.28trn in 2025 and RMB431bn in H1 2026, of which June alone accounted for RMB228bn, as issuance accelerated.

Fig. 1: Progress of the RMB10trn local government debt swap programme



Source: Wind, Nomura Global Economics

Production Complete: 2026-08-25 07:18 UTC

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

The two tranches cover different types of debt

The two tranches of the debt-resolution package are defined quite differently in the official documents, and that difference governs what each of them can pay for.

- The RMB6trn of replacement bonds (置换存量隐债再融资专项债) is confined to official hidden debt, meaning the borrowing that local governments took on outside their budgets and that is registered in the MoF monitoring system, a stock that sits overwhelmingly with the financing platforms and consists of bank loans, LGFV bonds and non-standard borrowing from trust and leasing companies.
- The RMB4trn of new special LGBs (化债新增专项债) is drawn much more widely, as it is designated to "supplement local government fund budget resources" in support of both the resolution of existing debt risk and the clearance of arrears owed to corporates. Because arrears are not officially entered in the MoF monitoring system, they can be settled only from this RMB4trn allocation.

Of the RMB7.47trn issued to end-June 2026, the RMB6trn quota accounts for 75% and the RMB4trn quota for the remaining 25%, so the clearance of arrears is competing within that quarter of the money raised against other existing debt that the same allocation is also meant to address.

The drag on headline loan growth has halved over the past year

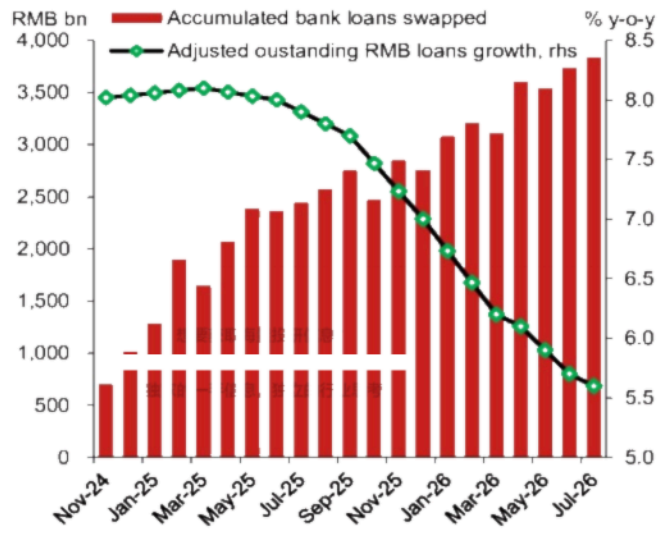
The programme has caused material distortions to RMB loan data since early 2025. Because bank loans are both the largest destination for swap funds and the only category that the authorities publish as an adjusted series, they are the natural place to begin.

The authorities have disclosed a swap-adjusted loan growth series at most quarter-ends since early 2025, and the wedge between that series and the headline rate offers the cleanest available measure of the distortion. Headline growth of 7.4% at end-Q1 2025 compared with a restored rate above 8%, and by Q3 2025 the gap had widened to 1.1pp, with 6.6% against 7.7%, before narrowing to 0.6pp at end-2025 and to 0.5pp in Q1 2026. What matters for the interpretation of the credit data is that even on a restored basis, loan growth has fallen by more than 2pp since the debt swap programme started in late-2024 (Figure 2), and the slowdown therefore cannot be dismissed as a statistical artefact. No restored figure was offered for end-Q2, which leaves the most recent quarter without an official adjustment, and we assume the end-Q2 2026 wedge remained the same as at end-Q1 2026 (0.5pp) for our following calculations.

We estimate a total of RMB3.7trn in bank loans had been swapped by mid-2026

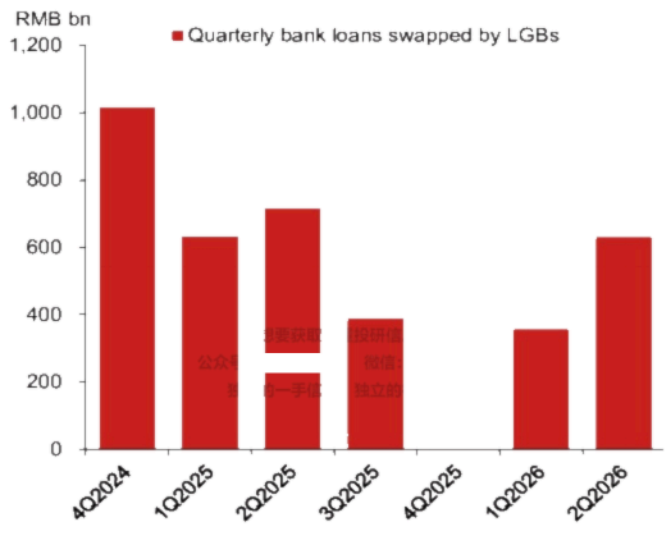
To calculate the total amount of bank loans so far swapped by various types of local government bonds, we apply PBoC-reported RMB loan growth adjusted for debt swaps to outstanding RMB loans. Converting these growth rates into volume figures requires compounding the restored rate on the previously adjusted base rather than on the reported one, because loans removed in earlier periods would themselves have supported larger outstanding stock thereafter. On that basis, and taking October 2024 as the last undistorted month, we estimate that the swap had removed approximately RMB3.7trn of loans from bank balance sheets by June 2026, or half of the funds deployed under the package (Figure 2). More telling than the level is the profile, because the quarterly pace has not faded as the growth wedge has narrowed this year, and Q2 2026 removed RMB628bn, close to the RMB715bn peak recorded in Q2 2025 (Figure 3).

Fig. 2: A total of RMB3.7trn of bank loans have been swapped into LGBs



Source: PBoC, Wind, Nomura Global Economics

Fig. 3: Quarterly profile of loan-to-debt swap progress



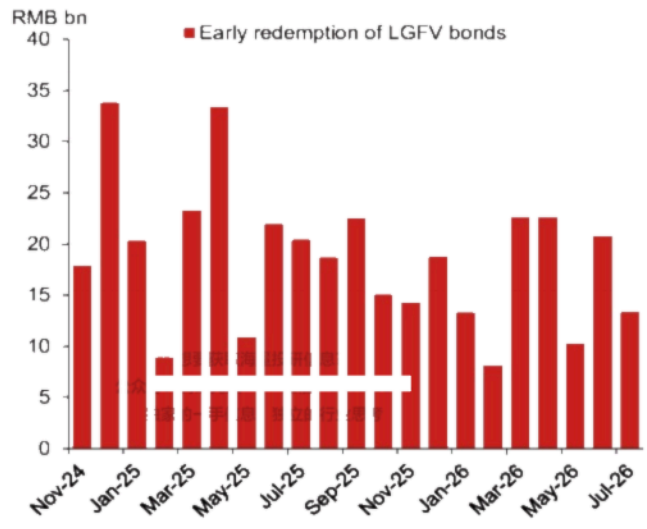
Source: PBoC, Nomura Global Economics

The bond channel is harder to see but accounts for 13%

Bank loans are not the only destination. Measuring the bond category is harder, because a bond retired with swap proceeds looks identical to one that simply matured, and the source of the funds is never disclosed. Two measures provide the answer. Early redemption is the visible signature, as retiring a bond before maturity requires a bondholder meeting and leaves a public record, and it amounted to RMB377bn from November 2024 to June 2026, or 6.2% of all repayments, according to our calculations based on data from Wind (Figure 4). We view this figure as a floor rather than a direct estimate, because the more common route is simply to repay at maturity and not refinance, which leaves no trace beyond the net financing line.

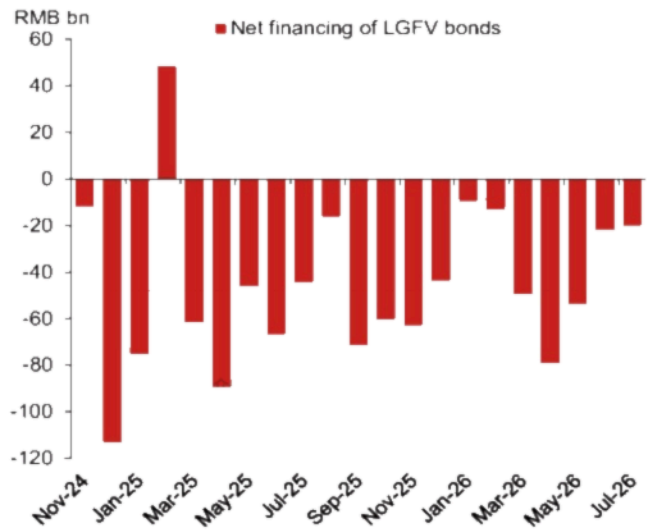
The refinancing gap may be viewed as the upper bound. LGFV bond issuers repaid RMB6.1trn over the period, while issuing RMB5.1trn, so RMB941bn of repayment was funded from outside the bond market (Figure 5), based on our calculations on data from Wind. As LGFVs now generate little free cash flow and new issuance is increasingly constrained, swap proceeds are the dominant means for financing that gap, and we therefore use net financing rather than early redemption. That gap, which we carry into the decomposition, amounts to 13% of the funds deployed, roughly double what the early redemption record alone would suggest.

Fig. 4: Monthly early redemption of LGFV bonds



Source: Wind, Nomura Global Economics

Fig. 5: Monthly net financing of LGFV bonds



Source: Wind, Nomura Global Economics

The remainder is non-standard debt and, more importantly, arrears

Loans and bonds together account for 63% of the funds deployed, leaving RMB2.8trn, or 37% of the total, in categories that public data cannot easily separate. Part of that residual is simply timing, because bond issuance runs ahead of deployment and proceeds raised late in a period are applied to the underlying debt only in the months that follow, hence, both the loan and the bond figures could well understate the eventual response to funds already raised. The rest is divided between two categories. The first is non-standard debt, the trust and leasing obligations that carry the highest interest costs and have been prioritised accordingly. No official series is available for this measure, and we make no attempt to estimate it in this report. The second is government payables owed to corporates, and that is where the more consequential story lies.

Arrears differ from the rest of the programme in a way that is easy to overlook. Replacing a loan with a bond leaves the obligation intact and merely lowers its cost. Settling a payable converts a liability that carries no interest, no maturity and no entry in the debt system into a formal bond obligation with all three. The relief to the contractors is genuine, but the fiscal arithmetic runs in the opposite direction to the rest of the swap – an effective increase in local governments' costs.

Policy has nonetheless moved decisively in this direction. The Central Economic Work Conference (CEWC) held in December 2025 called for accelerated clearance of corporate arrears in 2026, the 2026 special LGB of RMB4.4trn explicitly supports both major project construction and the resolution of government arrears, and a further RMB300bn of debt headroom – from the previously approved but unused LGB quota – activated in October 2025, which sits outside our perimeter, was directed at resolving existing project debt and clearing arrears. Disclosure at the provincial level remains patchy, but budget adjustments during 2025 provided some information. Whether this is working is open to debate. According to the NBS, industrial receivables reached RMB28.6trn in H1 2026, up 7.2% y-o-y, with the average collection period lengthening to 71.7 days at end-H2 2026 from 67.9 days at end-2025, thus, arrears are likely still accumulating faster than they are being settled.

Together these three categories exhaust the funds raised, but the accounting provides no explanation for why credit growth has continued to weaken even after the distortion is stripped out. In our view, the slump in recent quarters can no longer be attributed to the swap, and instead, in our view, reflects genuine weakness in credit demand, particularly in the corporate and household sectors.

The undistorted aggregate financing data

The PBoC's aggregate financing (AF) data cover all financing via financial channels including bank loans, corporate bonds, government bonds and stock markets, hence, AF data are not distorted by the debt swap programme. Outstanding AF growth fell to a record low of 7.4% in June 2026 from 8.9% in June 2025. Some may blame this slowdown

人在草木间

on sluggish government bond issuance in H1. Indeed, net government bond financing did slow, to RMB6,440bn from RMB7,656bn, but that largely reflects the high base created by front-loaded government bond issuance in 2025, and AF excluding government bonds still fell by a sizeable RMB799bn in H1. The slowdown is therefore difficult to reconcile with the view that it is largely an accounting issue, and the decline of new AF excluding government bonds also points to weak credit demand from the private sector (we return to this below).

Corporate loan demand is significantly weaker than the headline suggests

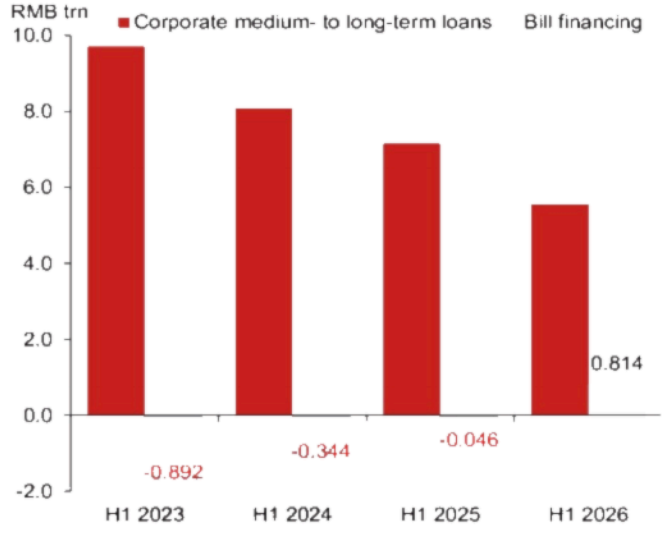
New corporate loans declined only modestly, to RMB11,130bn in H1 2026 from RMB11,570bn a year earlier, but the composition deteriorated sharply. Medium- to long-term loans fell to RMB5,550bn from RMB7,170bn, while bill financing swung to a positive RMB814bn from minus RMB46bn (Figure 6). As bills are an inverse indicator of real corporate appetite for credit, their abrupt turn suggests that banks were meeting lending quotas or directives rather than funding capital expenditure, making the seeming resilience of the corporate aggregate misleading.

Even on the PBoC's preferred metric, the picture does not improve

PBoC officials have argued that bank loans alone no longer capture financing conditions owing to the evolving funding structure of China's corporates. PBoC Monetary Policy Department head Xie Guangqi has recommended that loans and bonds should be observed together, while Governor Pan Gongsheng noted in June that bond and equity financing accounted for 47% of new aggregate financing in 2025 against 45% for loans, overtaking loans for the first time.

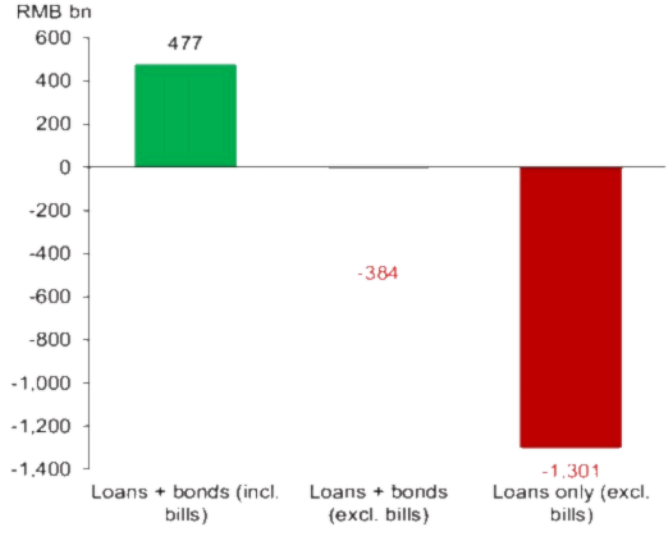
Applying these accounting methods, corporate bond issuance of RMB2,068bn lifts total corporate financing to a gain of RMB477bn in H1 2026. This improvement is entirely a result of bill financing; however stripping bill financing out, corporate loans plus bonds fell by RMB384bn from a year earlier, and corporate loans alone fell by RMB1,301bn (Figure 7). Corporates, in other words, have been borrowing for working capital and refinancing cheaply in the bond market, but not to invest.

Fig. 6: Headline corporate loan numbers are significantly inflated by bill financing



Source: PBoC, Wind, Nomura Global Economics

Fig. 7: Growth of corporate financing in H1 2026 over H1 2025 – adjusted for bill financing distortions



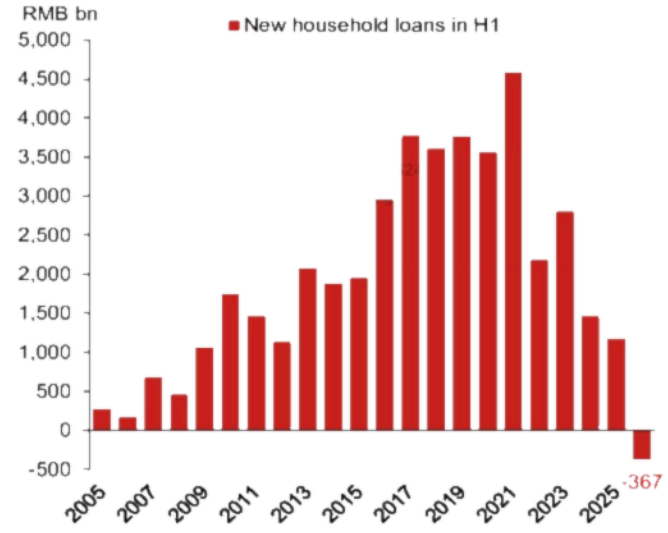
Source: PBoC, Wind, Nomura Global Economics

Household deleveraging is the defining feature of the 2026 data

Without any debt swap, household loans could present a clear picture. Household loans contracted by RMB367bn in H1 2026 (Figure 8), a marked reversal from RMB1,170bn growth a year earlier and the RMB4,580bn peak of H1 2021, with short-term lending turning negative at -RMB588bn in H1 2026 from roughly zero a year earlier, as consumer credit shrank outright. Medium-to-long-term lending, which accounted for essentially all of that increase, collapsed to just RMB221bn, as mortgage demand all but disappeared amid the persistently contracting property sector. Because households are unaffected by any debt swap programme, this contraction cannot be explained as a shift between financing

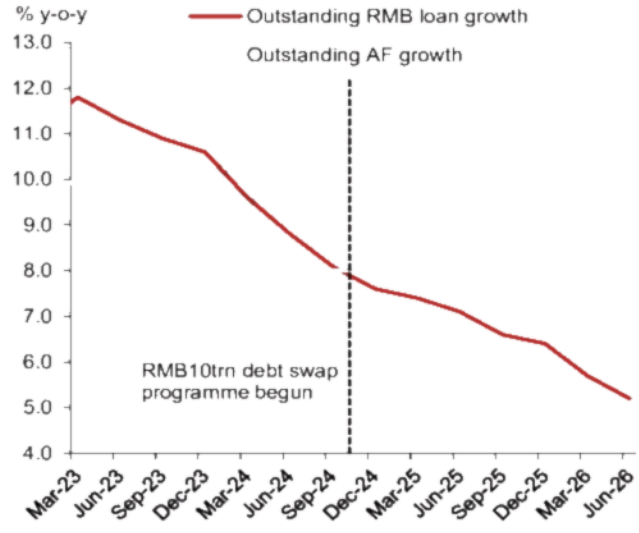
channels in the way that corporate lending partly can, and it therefore constitutes unambiguous household balance sheet repair which, as we have long argued, could continue to suppress personal consumption for as long as income expectations remain subdued and the property market keeps falling.

Fig. 8: New household loans turned negative for the first time on record in H1 2026



Source: PBoC, Wind, Nomura Global Economics

Fig. 9: RMB loan growth slowed sharply since late 2024 while AF growth also started to drop quickly since 2026



Source: PBoC, Wind, Nomura Global Economics

Issues experienced during the debt swap programme

The effect on the credit aggregates is only one dimension of the programme, because its execution has produced a second set of problems that official audits have begun to document. Because a reduction in debt risk cannot be observed directly, the programme was made operational through three measurable proxies, namely the clearance of hidden debt, the reduction in the number of financing platforms and the pace of replacement bond issuance, and local authorities have responded by optimising the proxies rather than the objective they were meant to represent.

The National Audit Office, having examined 10 provinces, found that of the 142 platforms withdrawn across 50 sampled counties, nine had been deregistered without satisfying the conditions for exit, two of which discharged RMB149mn of hidden debt, only by drawing illegal new bank loans and diverting special bond proceeds, while a further seven exited with RMB2.15bn of illegally incurred new debt still outstanding. The Ministry of Finance has separately conceded that new hidden debt and false resolution continue to occur, and its subsequent requirement that replacement proceeds be held in ring-fenced accounts is itself an admission that funds have been diverted.

Banks have shifted into bonds and are managing reported growth

Banks were the involuntary counterparty to this process rather than participants in it, because the replacement of LGFV loans removed higher-yielding assets from their books at a point when the average interest cost of the debt being swapped fell by the 2.5pp noted earlier, a transfer that came directly out of already compressed profit margins. Their behavioural response has been twofold. They have reallocated towards investing in bonds, so that loans and bank bond holdings together have grown at around 8% against loan growth of 5% to 6%, and they have managed the structure, with the PBoC observing that banks have been actively recalling loans extended on a lend-and-recall or deposit-first basis, which distorts reported growth at particular reporting dates. This is the kind of distortion that the swap-adjusted series discussed earlier is designed to strip out, which is one reason why the absence of an official adjustment for the latest quarter matters.

The replacement quota is nearly exhausted

The programme now confronts an arithmetic constraint of its own making. The RMB6trn replacement quota, which has done most of the work, will be fully used by the end of this year, leaving only the RMB800bn annual new special LGB allocation to carry the programme through 2027 and 2028, and that allocation must also fund the clearance of

arrears. Additional resources have been found before, through the activation of unused debt headroom in Q4 of both 2024 and 2025, and something similar will probably be required again. Absent that, the pace of replacement should slow markedly from next year. That would lift the statistical drag from the loan data, but it would also clearly show how little the current weakness was ever about the swap.