China Economic Perspectives

Weak August Credit Data, Gradual Recovery Expected

Economics

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Another weak credit reading in August

New RMB loans totalled RMB 60bn in August, remaining below both last year's level (RMB -530bn YoY) and market expectations (at RMB 403bn). Household M&L loans stayed in contraction and below last August level (RMB -102bn YoY), while corporate M&L loans were also weaker than a year ago (RMB -150bn YoY). Reflecting policy support, bill financing rose modestly (RMB +47bn YoY), but not enough to offset weakness elsewhere.

New TSF came in at RMB 1.662trn, significantly below both last year's level (RMB -904bn YoY) and market expectations (at RMB 2.1trn). Outside of loans, government bond issuance and shadow credit expansion were weaker than a year ago. Corporate bond issuance increased modestly YoY, partly as lower yields made bond financing relatively more attractive than bank loans. Even so, combined corporate M&L loans and bond financing remained RMB 15bn below last year's level.

Credit momentum softened across the board

We estimate TSF stock growth momentum slowed to 6.5% SAAR in August from 8.8% in July, while that of combined corporate M&L loans and bond financing eased to 3.7% MoM SAAR from 7.1%. The 3M/3M sequential momentum of both measures moderated. Seasonally adjusted new credit flows fell to 18% of GDP in August from 20% in July.

On a YoY basis, TSF stock growth softened to 7.2% from 7.4% in July. Our credit impulse weakened further to -4.1% of GDP from -3.8%.

M1 growth decelerated on a sequential basis to 4.7% SAAR from 5.2% in July, although it edged up slightly to 4.1% YoY from 4.0%. M2 growth slowed on both measures, to 5.9% SAAR from 7.6% and to 7.5% YoY from 7.7%.

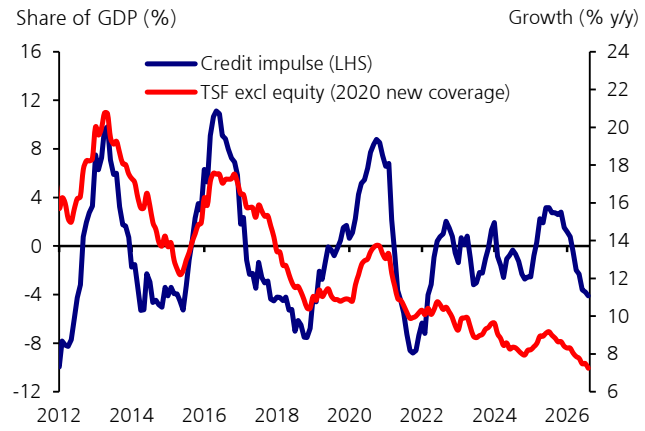
Credit Growth May Gradually Recover Through the Rest of 2026

Credit growth has been on a downtrend since mid-2025, while the credit impulse has remained in contraction territory since March 2026. Loan growth slowed to below 5% YoY by August. The recent weakness since 2Q has been driven largely by a tightening administrative policy stance. Structural shifts from credit-intensive old-economy sectors toward new-economy sectors that rely more on equity financing, or internal funding have also weighed on credit growth.

Credit growth may show some signs of stabilization in the rest of the year as policy stance turns more pro-growth. A pickup in government bond issuance, following the MoF's announcement of special Treasury bonds for bank recapitalization, should provide near-term support. The RMB 800bn policy bank financing tools have also been rolled out and, as these funds can be used as equity capital, should lever up some bank lending. Meanwhile, we expect economic activity to strengthen sequentially in September, particularly in policy-supported sectors, which should help support corporate credit demand. Overall, we expect TSF growth to rise gradually from 7.2% YoY in August to 7.5-7.6% by end-2026.

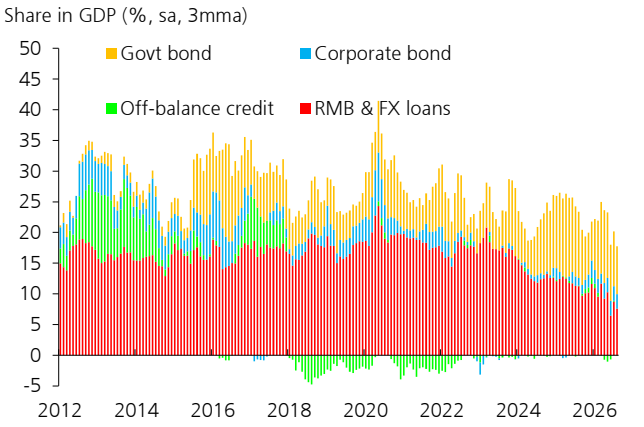
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Figure 1: Credit growth softened YoY in August, credit impulse turned more negative



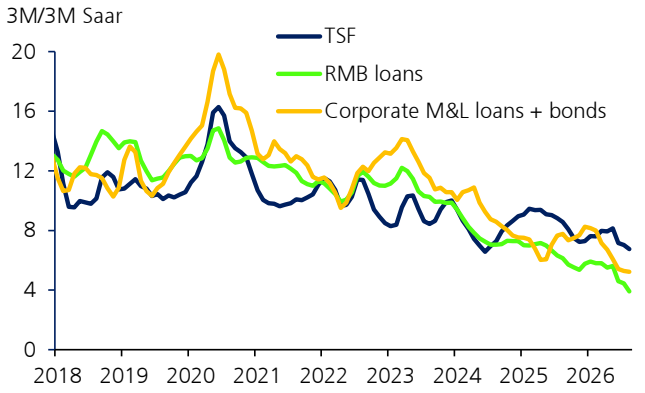
Source: CEIC, UBS estimates

Figure 2: New credit flow weakened



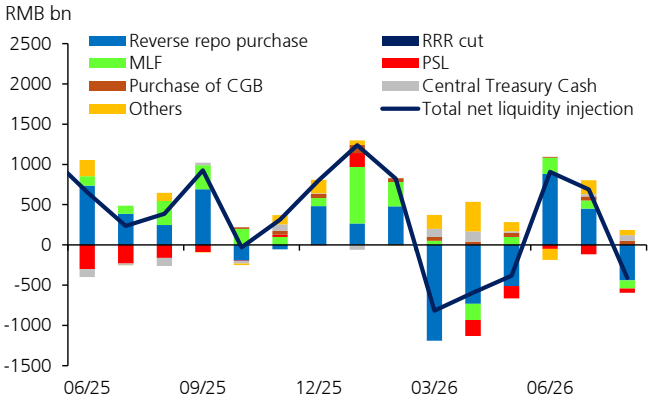
Source: CEIC, UBS estimates

Figure 3: Sequential slowdown extended in August



Source: CEIC, UBS estimates

Figure 4: PBoC withdrew liquidity in August



Source: CEIC, UBS estimates

Valuation Method and Risk Statement

N/A