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Asia Insights

Global Markets Research
14 October 2026

Economics - Asia ex-Japan

China: Credit growth sinks to a new record low in September as private demand stays weak

New aggregate financing (AF) in September came in slightly above market expectations, but outstanding AF growth slowed to a fresh record low of 7.1% y-o-y. Within AF, new RMB loans remained the primary drag and government bond financing regained momentum, while corporate bond financing turned negative. Outstanding RMB loan growth fell further to a record low of 4.8% y-o-y. Household borrowing remained extremely weak across both short- and long-term loans, which suggests depressed consumer confidence and the prolonged property downturn continue to weigh on credit demand. Corporate loans rose above their year-ago level, but only because of stronger bill financing, which is hardly a positive sign, as both short- and medium- to long-term borrowing remained subdued. Government bond financing finally gained momentum, recording its highest monthly reading in well over a year. By contrast, and against recent trends, corporate bond financing turned negative for the first time since March 2025. Combined with weak corporate loans, this reinforces our view that private-sector credit demand remains very weak and that credit expansion is increasingly reliant on the public sector.

Targeted easing underscores a reluctance to cut policy rates or the RRR

Against the persistent slowdown in credit growth, on 29 September, *the PBoC cut* the 1-year PSL rate by 25bp to 1.50%, expanded PSL eligibility to "Six Networks" construction and increased targeted re-lending quotas by a combined RMB700bn. Compared with *the January round,* the package relies on the same *low-profile, targeted toolkit* but is narrower in both pricing and size, while again avoiding policy rate and RRR cuts. In our view, the move shows that the PBoC intends to stabilise growth and offset weakening credit demand by channelling cheaper funding towards policy banks and select sectors, rather than pursuing broad-based monetary easing. It therefore reinforces our view of no cut to the policy rate or the RRR for the rest of the year.

Faster NPFT deployment could help AF growth find a floor

Deployment of the RMB800bn in new policy financing tools (NPFT) has accelerated markedly since early September. In addition to RMB150bn deployed earlier to support Q1 investment, the three policy banks have injected over RMB100bn into around 400 projects since September, taking cumulative deployment to about 31% of the annual quota. China Development Bank alone has deployed RMB60.85bn across 153 projects involving total investment of RMB1.4trn. Policy-bank bonds issued to fund the NPFT are not themselves included in AF; however, capital injected through shareholder loans is recorded as entrusted loans, while the bank financing subsequently mobilised appears under RMB loans. The September data already show some initial signs of this transmission, with new entrusted loans rising to their highest level since October 2025. With most of the NPFT quota still to be deployed, alongside the RMB550bn in newly directed unused local-government debt quota, we expect these public-sector funding channels and their associated lending to help AF growth show signs of stabilisation in coming months.

A review of September's credit data

- New aggregate financing (AF) totalled RMB3,549bn in September, modestly above market consensus (Consensus: RMB3,330bn; Nomura: RMB3,361bn; September 2025: RMB3,530bn). Growth of outstanding AF dropped to 7.1% y-o-y from 7.2% August, marking a fresh historical low.
- New RMB loans totalled RMB1,080bn in September, above the consensus estimate but below our forecast (Consensus: RMB1,047bn; Nomura: RMB1,118bn; September 2025: RMB1,290bn). Growth of outstanding RMB loans slowed to 4.8% y-o-y from 4.9% in August, also a fresh historical low.
- M2 growth fell to 7.2% y-o-y in September from 7.5% in August, while M1 growth also

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Production Complete: 2026-10-14 12:16 UTC

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dropped to 3.2% in September from 4.1% in August.

Still broad weakness in new RMB loans

New RMB loans came in at RMB1,080bn in September, below the year-ago level of RMB1,290bn. The household sector remains a heavy drag, and the corporate sector is also tepid if bill financing is excluded. The deceleration in outstanding loan growth has continued, with a new low of 4.8% y-o-y in September, down from 4.9% in August.

A breakdown of bank loans

New RMB loans to the corporate sector increased slightly to RMB1,290bn in September from RMB1,220bn a year earlier, while the increase was purely boosted by a smaller decline in new billing financing to -RMB50bn from -RMB403bn. Both new short-term and medium- to long-term corporate loans moderated in September to RMB460bn and RMB890bn, respectively, from RMB710bn and RMB910bn a year earlier. This suggests actual corporate loan demand could be much weaker than the headline number indicates.

New RMB loans to the household sector dropped to zero from RMB389bn a year earlier. Both new short-term and medium- to long-term loans fell in September, to -RMB90bn and RMB87bn, respectively, from RMB142bn and RMB250bn a year earlier.

The deleveraging of the household sector this year has been unprecedented. In the first nine months, new medium- to long-term household loans totaled only RMB106bn, which is the lowest since 2004 and far below the historical high of RMB4,720bn in 2021. This significant deleveraging has recently triggered policy responses from authorities, including the extension of the maximum mortgage terms to *40* from 30 years and the 1% of *mortgage interest subsidy* to certain homebuyers. However, we see a limited impact from these measures, as they are either small in scale or will likely fail to effectively address the real barriers.

Details of the new AF data

New aggregate financing (AF) totalled RMB3,549 bn in September, modestly above market consensus (Consensus: RMB3,330bn; Nomura: RMB3,361bn; September 2025: RMB3,530bn). Growth in outstanding AF slowed to 7.1% y-o-y in September from 7.2% in August, marking a fresh historical low. Bank loans remained the major cause of the slowdown in AF growth, and against recent trends, corporate bond issuance turned to a drag on AF growth, while government bond financing became a driver of AF growth.

A breakdown of new AF

New RMB loans included in AF (excluding loans to financial institutions) dropped to RMB 1,274bn in September from RMB1,608bn a year earlier. Net government bond financing increased to RMB1,533bn in September from RMB1,189bn a year earlier. For other key components, net corporate bond financing turned negative at -RMB43bn in September, down from RMB14bn a year earlier. Net financing from undiscounted bankers' bills dropped to RMB215bn in September from RMB323bn a year earlier. Shadow financing, including new trust loans and entrusted loans, moderated to RMB32bn in September from RMB35bn a year earlier.

M1 and M2 growth dropped in September

M1 growth dropped again to 3.2% y-o-y in September from 4.1% from August. M2 growth declined to 7.2% y-o-y in September from 7.5% in August, partly due to a smaller decrease in fiscal deposits. Fiscal deposits decreased by RMB430bn in September, smaller than the RMB840bn increase recorded a year earlier.

Liquidity conditions loosened further in September, with the daily average DR007 (interbank repo rates between banks only) ticking down to 1.345 % from 1.399% in August, below the PBoC's 7-day reverse repo rate of 1.40%. The monthly average yield on the 10-year CGB dropped to 1.676% in September from 1.682% in August. For long-term liquidity management, the PBoC net injected RMB199bn from the banking system in September (ORR: none; MLF: RMB200bn; PSL: -RMB1.4bn).



Fig. 1: Major money and credit indicators

Major money and credit indicators	Sep 26	Aug 26	Sep 25	H1 26	H2 25	H1 25	2025	2024
New RMB loans (RMBbn)	**1,080**	**60**	**1,290**	**10,720**	**3,350**	**12,920**	**16,270**	**18,090**
to the corporate sector	1,290	260	1,220	11,130	3,900	11,570	15,470	14,330
short-term loans	460	-160	710	4,590	510	4,300	4,810	2,610
medium- to long-term loans	890	320	910	5,550	1,650	7,170	8,820	10,080
bill financing	-50	100	-403	814	1,706	-46	1,660	1,570
to the household sector	0	-203	389	-367	-728	1,170	442	2,720
short-term loans	-90	-122	142	-588	-835	0	-835	473
medium- to long-term loans	87	-82	250	221	110	1,170	1,280	2,250
to the non-bank financial institutions	-149	-44	-235	-422	-143	33	-110	286
Aggregate financing (AF; RMBbn)	**3,549**	**1,658**	**3,530**	**20,846**	**12,745**	**22,859**	**35,603**	**32,256**
New RMB loans	1,274	55	1,608	10,761	3,178	12,736	15,915	17,050
Entrusted loans	80	23	28	-79	172	-51	120	-58
Trust loans	-48	-23	6	-45	224	144	368	398
Undiscounted bankers' acceptance	215	38	323	-126	67	-56	11	-330
Corporate bond	-43	271	14	2,068	1,241	1,151	2,392	1,909
Government bond	1,533	1,010	1,189	6,440	6,181	7,656	13,837	11,296
M1 growth (% y-o-y)	**3.2**	**4.1**	**7.2**	**4.0**	**3.8**	**4.6**	**3.8**	**1.2**
M2 growth (% y-o-y)	**7.2**	**7.5**	**8.4**	**8.0**	**8.5**	**8.3**	**8.5**	**7.3**
Outstanding RMB loan growth (% y-o-y)	**4.8**	**4.9**	**6.6**	**5.2**	**6.4**	**7.1**	**6.4**	**7.6**
Outstanding AF growth (% y-o-y)	**7.1**	**7.2**	**8.7**	**7.4**	**8.3**	**8.9**	**8.3**	**8.0**

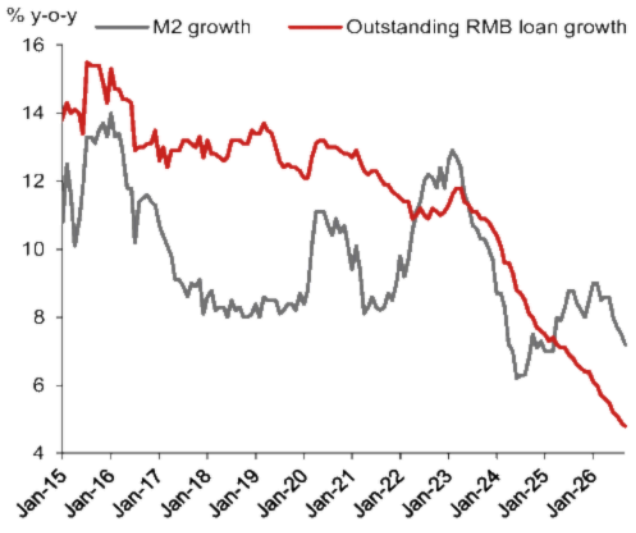
Source: PBoC, Wind, Nomura Global Economics.

Fig. 2: Outstanding AF growth vs nominal GDP growth



Source: PBoC, NBS, Wind, Nomura Global Economics.

Fig. 3: M2 growth and outstanding RMB loan growth



Source: PBoC, Wind, Nomura Global Economics.