Aggregate financing strength masks weak credit demand in China

At first glance, a 27.3% YoY YTD uptick in aggregate financing looks like cause for celebration, but a closer look shows that this is primarily driven by increased government bond issuance. A much more modest 2.3% YoY uptick in new RMB loans shows that credit demand has remained sluggish despite rate cuts amid weak confidence and heightened uncertainty

Government bond issuance and resumption of IPOs boosted aggregate financing

China's new aggregate financing rose 27.3% YoY in the first half of the year, up to RMB 22.83tr.

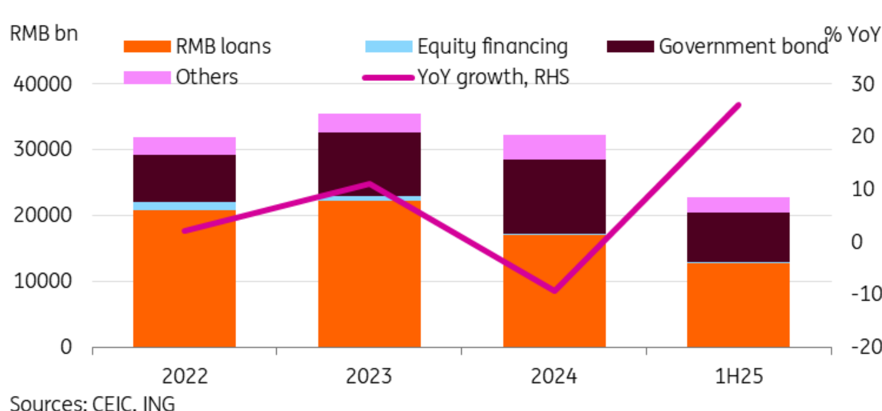
While the aggregate financing growth looks quite impressive at first glance, it is mainly base effect driven, caused by a particularly weak 2024, as well as being tied to an uptick in bond issuance and IPO activity, while credit demand continued to be lacklustre despite the September 2024 and May 2025 rate cuts.

Government bond issuance contributed the majority of the aggregate financing growth, up

129.4% YoY in 1H25. Of the total RMB 4732bn uptick between 1H24 and 1H25, the uptick in government bond issuance accounted for RMB 4321bn, or 91% of the total increase. Given more aggressive fiscal targets set in March, including hiking targets for special local government bond issuance, the ultra-long-term bond issuance, as well as the fiscal deficit target, we are likely to continue to see a fairly rapid pace of bond issuance in the second half of the year.

Additionally, IPO activity has also picked up, with non-financial enterprise equity financing rising 40.6% YoY in 1H25, though this is not a substantial contributor to aggregate financing, with just RMB 170.7bn in the year-to-date.

Aggregate financing growth primarily tied to faster government bond issuance



Sources: CEIC, ING

However, loan demand remains weak amid soft sentiment

The other components of China's aggregate balance leave more to be desired.

Most importantly, new RMB loans have not matched the overall aggregate financing growth, with growth of just 2.3% YoY year-to-date to reach RMB 12.74tr in the first half of 2025. While this is better than the -23.3% YoY contraction we saw in 2024, it nonetheless is a very sluggish rebound, especially considering the favourable base effect.

We also saw a slower rate of corporate bond issuance, down -18.3% YoY to RMB 1.15tr in 1H25.

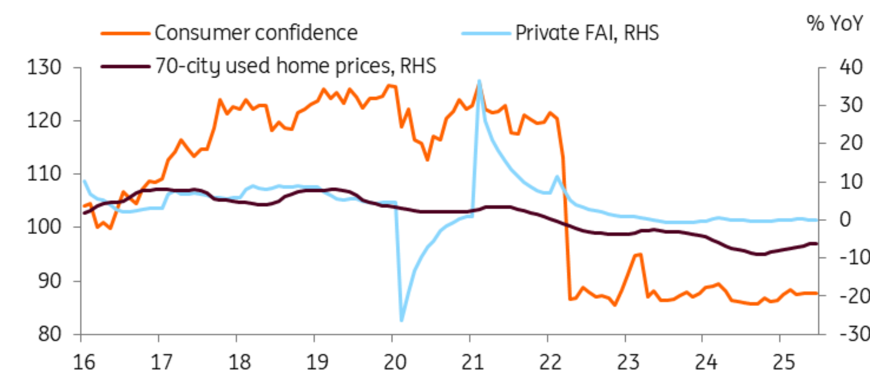
Overall, both corporate and household credit demand have been weaker.

On the corporate side, this is not necessarily a China-specific phenomenon, but a global trend, as uncertainty caused by the tariff environment has caused many companies to hold off on new investments, which has in turn limited the demand for new loans and bond issuance. This data is backed up in China with weak private sector fixed asset investment data year-to-date.

On the household side, despite the uptick in retail sales indicating a recovery of consumption, household confidence remains much closer to historical lows than historical averages, which may be limiting households' appetite for credit-fuelled consumption. While we had a few months of encouraging data earlier in the year, the housing market has softened further in the second quarter, and prospective homebuyers may also be in wait-and-see mode, limiting mortgage demand as well.

Moving forward, further monetary easing will help support private sector and household credit demand on the margins, but a broader turnaround continues to hinge on restoring confidence. With policymakers signalling a so-called "anti-involution" push in recent weeks to tackle China's excessively competitive environment, this could mark the start of addressing difficult issues, but the road ahead will likely remain challenging.

Weak consumer confidence, property market decline, and private sector investment appetite led to limited credit demand



Sources: CEIC, ING

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