China Financial Services

Addressing investor questions on announced package of financial policy easing measures

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In a joint press conference convened by China's financial regulatory authorities, PBOC Governor Pan Gongsheng announced a broad set of policy easing measures on Wednesday morning, including a 10bp policy rate cut, a 50bp RRR cut, and more relending quotas with lower rates to support both the real economy and the capital market – see our economists' note: PBOC unveils a comprehensive easing package to stabilize economy and market expectations. In this note we discuss our thoughts on the implications for our coverage, addressing investor questions.

Overall, we see positive implications for the banking and securities sectors, mainly reflected in: 1) loan growth remains within a reasonable range of around 8-9%; 2) stable 10-year government bond yields and exchange rates reduce earnings volatility for banks; 3) our NIM forecast for banks has already over-reflected the impact of the policy rate cut; 4) loan support for exports, technology, and property sector can defer and mitigate risks, providing room for banks to lower credit costs in the short term; and 5) combining the two capital market support tools reduces market risks for non-bank financial institutions, improves policy implementation effectiveness, and benefits brokers. In terms of stock selection, we highlight our Buy ratings on **CMB**, **BONB**, **GFS (A)**, and **CICC (H)**.

1. What are the implications of the PBOC's mention of a 7.4% net loan growth rate in Q1 and an actual loan growth rate of 8% after excluding the impact of local government debt swaps?

We believe this indicates that banks' projected loan growth rate for 2025 will be around 8-9%. This can be observed from the 1Q25 results, where most large SOE banks reported loan growth of only 8%, below market expectations but in line with current loan demand. Looking ahead, based on banks' loan disbursement pace, new loans in Q1 typically account for about 40% of the full year, meaning that the Q1 loan growth rate has a significant impact on the full year. Therefore, even considering the subsequent impact of tariffs, we believe that the full-year loan growth rate for large banks will stabilize at 9%. We have also revised down our full-year credit growth forecast in our recent report (see here).

Exhibit 1: Even considering the subsequent impact of tariffs, we believe that the full-year loan growth rate for large banks will stabilize at 9%

Loan growth						
	2020	2021	2022	2023	2024	2025E
ICBC	11%	11%	12%	12%	9%	9%
BOC	9%	11%	12%	14%	8%	9%
CCB	12%	12%	13%	13%	8%	9%
ABC	14%	13%	15%	14%	10%	11%
PSBC	15%	13%	12%	13%	9%	10%
CMB	12%	11%	9%	8%	6%	7%
Industrial	15%	12%	13%	10%	5%	6%
PAB	15%	15%	9%	2%	-1%	5%
HuaXia	13%	5%	3%	2%	2%	3%
BONB	30%	25%	21%	20%	18%	17%
BONJ	19%	17%	20%	16%	14%	14%

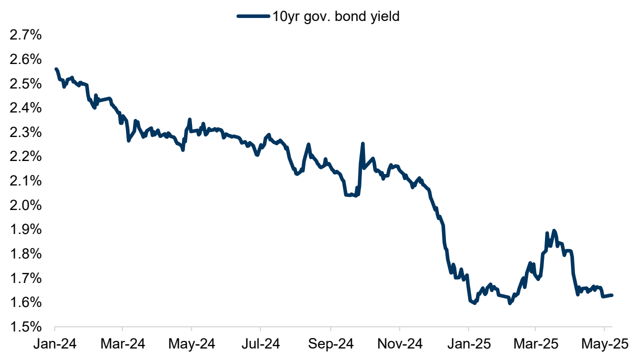
Source: Company data, Goldman Sachs Global Investment Research

2. PBOC mentioned that the recent 10-year government bond yield is around 1.65%, while the RMB exchange rate against the US dollar has rebounded to around 7.2 after a slight depreciation. Does this mean that there is limited room for bond yields to decline, and financial institutions are facing pressure from foreign exchange gains and losses?

Bond yield movements are influenced not only by economic fundamentals and capital flows but also by bond supply and demand. Based on other policy actions by the central bank, such as lowering the reserve requirement ratio by 0.5pp, releasing Rmb 1tn in liquidity, the issuance of new government bonds looks set to accelerate. This will be reflected in banks' operating results as follows: after experiencing a year-on-year decline in 1Q25, bond investment income should recover in 2Q25 due to declining bond yields. However, with the continued increase in bond supply, it will be difficult for banks to achieve strong bond investment income similar to 2024. We expect banks' bond investment income to experience single-digit year-on-year negative growth in 2025.

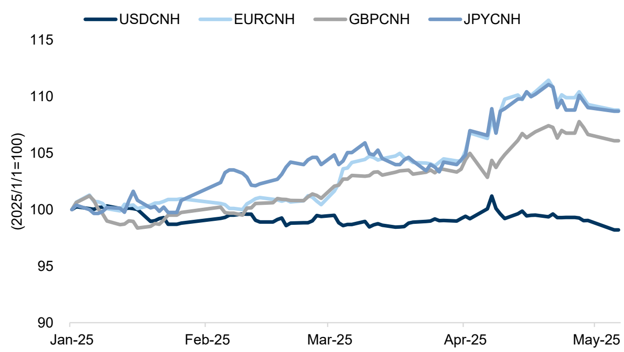
The impact of RMB appreciation due to USD depreciation on the foreign exchange gains and losses of Chinese financial institutions is limited. This is because most of the assets and liabilities of Chinese financial institutions are denominated in RMB, and there is no meaningful currency mismatch exposure on both sides of the balance sheet. Moreover, if we look at the offshore RMB exchange rates against a basket of global reserve currencies, including the British pound, euro, Japanese yen, and US dollar, the offshore RMB has depreciated rather than appreciated since the beginning of the year. Therefore, it is unlikely to experience operating fluctuations similar to those caused by the appreciation of the New Taiwan dollar against the US dollar (see our Taiwan financial team report).

Exhibit 2: After experiencing a year-on-year decline in 1Q25, bond investment income should recover in 2Q25 due to declining bond yields. However, with the continued increase in bond supply, it will be difficult for banks to achieve strong bond investment income similar to 2024



Source: Wind

Exhibit 3: The offshore RMB has depreciated rather than appreciated against a basket of global reserve currencies since the beginning of the year



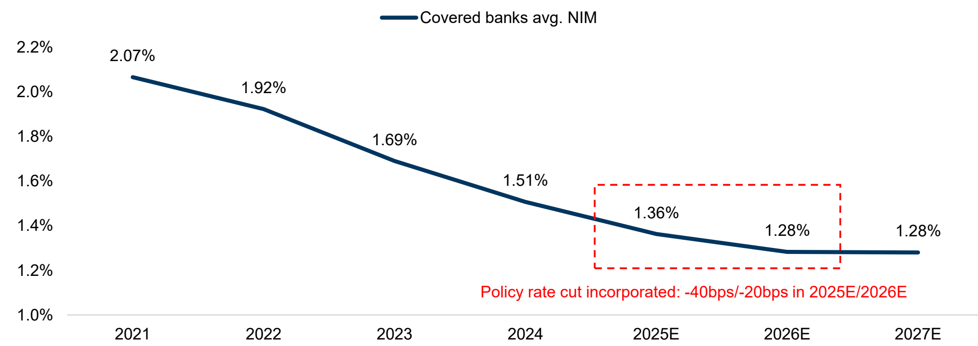
Source: Wind

3. PBOC mentioned a 10bp cut in policy rates and a 25bp reduction in housing provident fund loan rates. Will this accelerate the decline in banks' NIM?

We believe it may not. This is because in our calculations, we have already factored in our economists' prior forecasts of a 40bp cut in the policy rate in 2025 and a 20bp cut in 2026, and found that banks' NIM can stabilize at 1.3% in 2026. It can be considered that we have already incorporated a 60bp policy rate adjustment into our calculation framework. This means that the effective interest rate cut on banks would be less than 25bp which considers both policy rate adjustments. And our economists team also revised down the total policy rate cut forecast to 50bp from the prior 60bp in 2025-26E (see here).

The central bank also mentioned that the policy rate adjustment starts with a 10bp cut in the 7-day repo rate and a corresponding 10bp adjustment in the LPR, and we expect interbank funding costs to decline, leading to a decrease in banks' overall funding costs. Even though we believe that there is limited room for banks to further lower deposit costs, our NIM calculation already includes the downward impact of this interest rate adjustment. Subsequently, we need to observe the magnitude and pace of policy rate adjustments. For example, if the expected policy rate adjustments lag, this may provide upward support for the short-term stabilization of banks' NIM.

Exhibit 4: We have already incorporated a 60bp policy rate adjustment into our calculation framework and found that banks' NIM can stabilize at 1.3% in 2026



Source: Company data, Goldman Sachs Global Investment Research

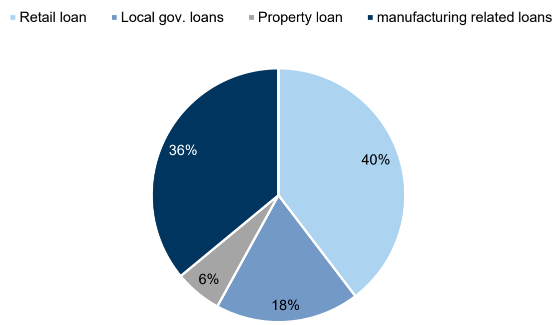
4. PBOC, NFRA, and CSRC all mentioned that new loans will be tilted towards the export-related, technology, and property sectors. What does this mean?

We believe that 1) the loan structure will further improve, and we will see an increase in the proportion of loans to export-related and technology sectors. According to our calculations, if government debt, property loans, and consumer loans are deducted from banks' loans, the remaining portion, which covers export-related, technology, and other manufacturing loans, accounts for ~40% of total loans. The current concern for investors may be the potential losses on these loans due to tariffs and the timing of these losses being reflected on banks' balance sheets. We believe that with the gradual implementation of policies, the proportion of these loans will not decline, so the recognition of credit losses may be delayed, providing room for banks to adjust credit costs.

2) At the same time, according to the meeting, the balance of property loans (including mortgage) increased by Rmb 75bn, with new mortgage loans registering the largest quarterly growth since 2022. This supports our view that property risks are marginally converging, and we believe that when housing prices stabilize and mortgage growth increases, the mortgage asset quality will improve after 2025. According to banks' guidance for property loan provisioning this year, under the condition of overall stable property financing, we may also see that the asset quality pressure on banks from the property sector will not be greater than 2024 and before.

However, overall, compared to our view on the 2025 banking investment outlook in January (see here), we have a more conservative view on the improvement in banks' asset quality, mainly due to the impact of tariff shocks. We have raised credit costs in our latest forecast. However, regarding the policy guidance from this meeting, we believe it will provide room for banks to release provisions in the short term.

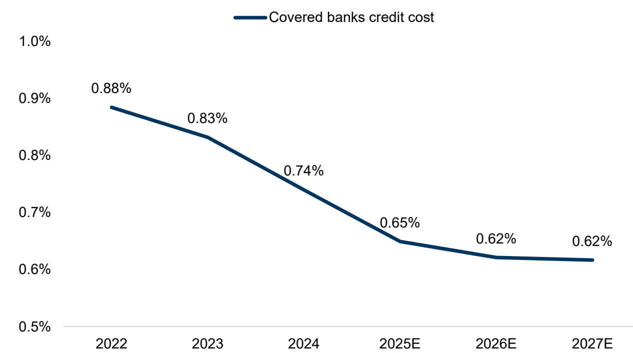
Exhibit 5: If government debt, property loans, and consumer loans are deducted from banks' loans, the remaining portion, which covers export-related, technology, and other manufacturing loans, accounts for ~40% of total loans
As of 1H24



Average of covered banks

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: Compared to our view on the 2025 banking investment outlook in January, we have a more conservative view on the improvement in banks' asset quality, mainly due to the impact of tariff shocks. We have raised credit costs in our latest forecast. However, regarding the policy guidance from this meeting, we believe it will provide room for banks to release provisions in the short term

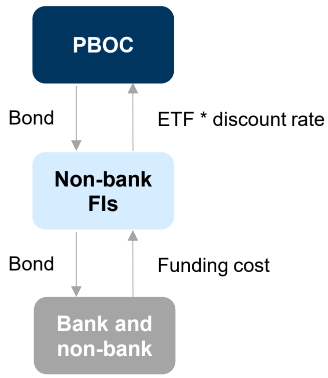


Source: Company data, Goldman Sachs Global Investment Research

5. PBOC mentioned two tools to support the capital market: a Rmb 500bn swap facility and a Rmb 300bn repurchase quota for increasing stock holdings, which will be used in combination. Does this mean more policy support for the capital market, and what is the impact on financial institutions?

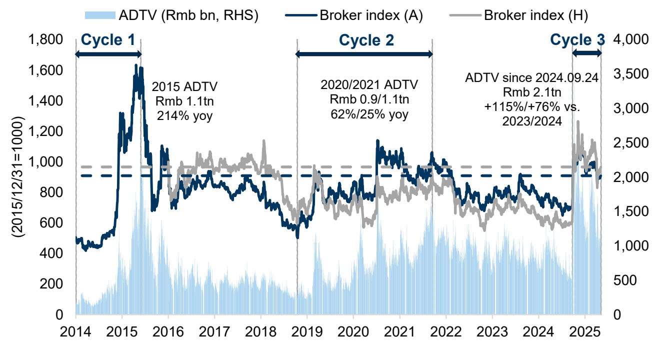
According to the central bank's announcement, the Rmb 300bn loan repurchase quota for increasing stock holdings has been fully utilized, and Rmb 105bn of the Rmb 500bn swap facility has been used. Combining the two quotas, even if the total amount of policy support for the capital market remains unchanged at Rmb 800bn, from the implementation of the tools, the Rmb 300bn loan quota for stock repurchases has been fully used, and as we analyzed in our previous report (see here), the participation of non-bank financial institutions in the swap facility established by the central bank involves issues such as financing costs, leverage levels, and capital management, which restrict the use of the quota. Therefore, combining the two quotas will improve the policy effectiveness to a certain extent. For non-bank financial institutions, such as brokers, it can share risks, reduce capital and leverage consumption, and free up balance sheet space for other higher ROE operating businesses. For banks, even if the entire Rmb 800bn loan is used for non-financial enterprise stock repurchases, it accounts for a low proportion of industry loans, although we also believe that individual banks face different risk exposures. Therefore, if the policy gets implemented gradually, it may have a positive impact on ADTV, marginally benefiting brokers' earnings.

Exhibit 7: The PBOC swap line



Source: Goldman Sachs Global Investment Research

Exhibit 8: Combining the two quotas of Rmb 500bn swap facility and Rmb 300bn repurchase quota may have a positive impact on ADTV, marginally benefiting brokers' earnings



Source: Wind

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Reg AC

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