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Cyclical Downturn or Structural Transition? Evidence from China's Household Credit Retrenchment, 2015–2025

Weixiang Gan ^{a,*}^a Post-Doctoral Researcher, Lincoln University College, 47301 Petaling Jaya, Malaysia; E-mail: Gabriel1995@qq.comShashi Kant Gupta ^b^b Lincoln University College, 47301 Petaling Jaya, Malaysia; E-mail: shashigupta@lincoln.edu.myMengfei Xiao ^c^c Post-Doctoral Researcher, Lincoln University College, 47301 Petaling Jaya, Malaysia;E-mail: pdf.Mengfei@lincoln.edu.myJialin Liu ^d^d School of Management and Marketing, Faculty of Business and Law, Taylor's University, No. 1, Jalan Taylor's,47500 Subang Jaya, Malaysia; E-mail: 0369112@sd.taylors.edu.my

Abstract: This study reassesses whether the post-2021 weakening of China's household credit is a temporary downturn or evidence consistent with a more durable transition. It combines release-audited People's Bank of China lending flows, NIFD leverage stocks, National Bureau of Statistics property and household accounts, and a harmonised BIS cross-country measure for 2024 Q4. In addition to descriptive flow-stock-burden indicators, the revision applies an annual Hodrick–Prescott filter ($\lambda = 6.25$), a Chow-style break test at 2022, and small-sample bivariate correlations. New household lending fell from RMB 7.92 trillion in 2021 to RMB 441.7 billion in 2025, while its share of new renminbi loans declined from 39.7% to 2.7%. The break test rejects a common linear path around 2022 ($F(2,7) = 23.75$, $p = 0.0008$); however, positive cyclical deviations in 2023–2024 caution against treating the contraction as irreversible. On a consistent BIS basis, China's household credit was 60.0% of GDP in 2024 Q4. Mortgage-related lending and residential sales move closely in both levels ($r = 0.969$) and annual changes ($r = 0.911$), and new lending is negatively associated with the deposit–loan gap ($r = -0.906$). These aggregate associations cannot identify credit supply separately from credit demand or establish household-level causality. Taken together, the evidence is consistent with a structural transition from rapid mortgage-led leveraging toward persistent credit retrenchment, not proof that household borrowing has permanently ended. Policy should therefore support income security, orderly property adjustment, and existing-borrower cash flow while recognising fiscal-capacity and moral-hazard trade-offs.

Keywords: Household Credit; Deleveraging; Structural Break; Trend–Cycle Decomposition; Property Adjustment; Precautionary Saving

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1. Introduction

Since the global financial crisis of 2008, household borrowing became an important part of China's credit expansion. Accommodative financial conditions, rapid housing-market development, and the spread of mortgage finance reinforced one another. Annual new household lending rose from RMB 3.87 trillion in 2015 to RMB 7.92 trillion in 2021, while the NIFD household-leverage ratio increased from 17.9% in 2008 to about 62% in 2020. The subsequent plateau is therefore a marked change from the preceding decade, but a plateau alone does not establish that borrowing has permanently ended.

The 2025 flow data show an unusually sharp retrenchment. Renminbi loans increased by RMB 16.27 trillion, but household loans accounted for only RMB 441.7 billion, 83.8% below 2024 and 94.4% below the 2021 peak; the household share of new renminbi loans was 2.7%. Short-term household loans declined by RMB 835.1 billion, whereas medium/long-term household loans still increased by RMB 1.28 trillion. Household loans fell by RMB 206.3 billion in November 2025. Because negative monthly

household-loan readings occurred earlier, including April 2022, November is described here as an unusually large monthly contraction rather than the first net repayment since 2007. Enterprise loans increased by RMB 15.47 trillion in 2025, indicating a pronounced redirection of credit flows toward firms rather than the disappearance of aggregate credit creation.

The central question is consequently probabilistic rather than binary: how much of the post-2021 contraction reflects the property cycle, and how much is consistent with a durable change in household borrowing behaviour? A cyclical explanation would predict recovery as property transactions, incomes, and confidence normalise. A structural-transition interpretation would predict a persistently lower trend because demographic change, housing saturation, balance-sheet repair, and expectations have altered the demand for leverage. The analysis evaluates these interpretations without claiming a formal causal decomposition.

International scholarship supplies a firm analytical footing. The credit-driven household demand channel of Mian and Sufi (2014, 2018) holds that demand booms financed by household debt tend to be unsustainable and that they amplify the downturn during deleveraging; Mian et al. (2017) confirm on a cross-country panel that rapid rises in household debt predict subsequent slowdowns in medium-term growth. Drawing on Japan, Koo (2011, 2014) distilled the concept of a balance-sheet recession, in which the transmission of monetary policy is badly impaired once the private sector turns from profit maximisation to debt minimisation. Fisher's (1933) debt-deflation mechanism, Minsky's (1986) financial instability hypothesis, and the modern treatments of deleveraging and the liquidity trap by Eggertsson and Krugman (2012) and Guerrieri and Lorenzoni (2017) together map the macro risks that surface when a debt cycle turns from expansion to contraction. Figure 1 sketches the transmission mechanism that organises the analysis that follows.

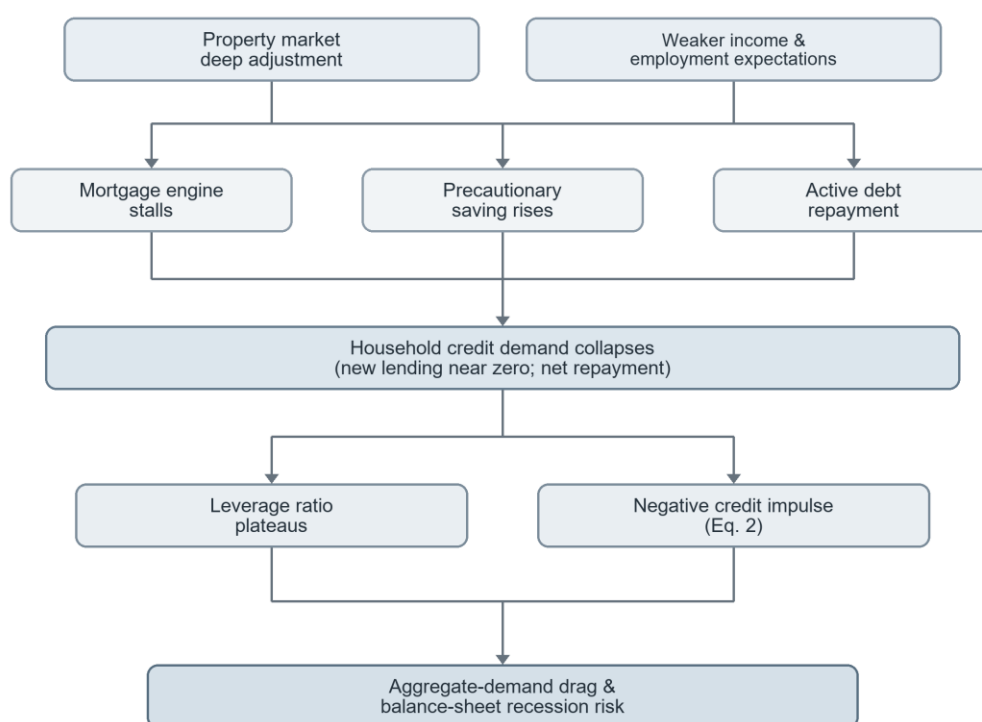


Figure 1. Transmission mechanism of household-sector deleveraging. (Source: Author)

The paper's contribution is empirical organisation and diagnostic transparency rather than a new causal theory. First, it constructs a release-audited 2015–2025 account of household-credit scale, maturity, and sectoral share, correcting unit and denominator inconsistencies in earlier drafts. Second, it jointly reads flows, stocks, debt-service burden, and saving behaviour and adds trend-cycle and break diagnostics. Third, it replaces mixed international sources with one BIS definition and reference quarter and explicitly separates leverage exposure from repayment capacity. Fourth, it uses limited bivariate evidence to assess whether the proposed property, balance-sheet, and expectations mechanisms are consistent with the aggregate data, while stating where supply–demand separation and household heterogeneity remain unidentified. Sections 2 and 3 set out the literature and methods; Sections 4–6 present the evidence; Section 7 adapts the balance-sheet-recession lens to China's institutions and develops policy trade-offs; Section 8 concludes.

2. Literature and Analytical Framework

2.1. Household Debt and the Business Cycle

The link between household debt and macro fluctuations is among the central themes of macro-finance over the past two decades. Surveying seventeen advanced economies across nearly a century and a half, Jordà, Schularick, and Taylor (2016) document the great mortgaging: modern bank credit has tilted increasingly toward housing collateral, so the expansion of mortgage credit is at once a product of financial deepening and a source of fragility. Schularick and Taylor (2012) show that credit booms are a robust leading indicator of financial crises, and Jordà, Schularick, and Taylor (2013) find that credit-fuelled booms tend to be followed by deeper recessions and slower recoveries, a pattern they call credit biting back. On the household side, Mian, Sufi, and Verner (2017) provide direct evidence: a rising household-debt-to-GDP ratio lifts growth in the short run but weighs on output and employment over the medium term.

2.2. Deleveraging and the Balance-Sheet Recession

When a debt cycle turns from expansion to contraction, debt repair can weaken the normal credit channel. Fisher's (1933) debt-deflation mechanism, Koo's (2011, 2014) balance-sheet-recession account, and the models of Eggertsson and Krugman (2012) and Guerrieri and Lorenzoni (2017) explain why indebted agents may prioritise repayment and precautionary saving even after interest rates fall. Minsky (1986) supplies a complementary account of how balance-sheet fragility accumulates during an expansion. These mechanisms are useful benchmarks, but their Japanese or advanced-economy versions cannot be transferred mechanically to China; Section 7 distinguishes the roles of state-owned banks, credit guidance, capital controls, and central vs. local fiscal capacity.

2.3. Debt, Consumption, and Precautionary Saving

How debt affects consumption is the key link between finance and the real economy. Dynan (2012) and Mian, Rao, and Sufi (2013) document debt-overhang and housing-wealth channels, while the life-cycle, permanent-income, and buffer-stock models emphasise consumption smoothing and precautionary saving (Modigliani and Brumberg, 1954; Friedman, 1957; Carroll, 1997). Recent China evidence adds important heterogeneity. Mortgage debt changes the consumption response to monetary policy, especially among liquidity-constrained borrowers (Agarwal et al., 2022; Funke et al., 2023), and income stagnation combined with debt overhang can tighten household liquidity constraints (Ning and Wang, 2022). These studies caution against inferring an average household response from aggregate lending alone.

2.4. Housing Finance, Leverage, and the Chinese Setting

Housing is the principal collateral and use of long-term household credit in China. Cross-country research links mortgage-financed property booms to subsequent vulnerability (Cerutti et al., 2017; Jordà et al., 2016), and general-equilibrium work formalises household leveraging and deleveraging dynamics (Justiniano et al., 2015). China-specific research describes the preceding housing boom and shows that housing wealth, income uncertainty, and credit constraints interact in shaping consumption and saving (Chen and Wen, 2017; Painter et al., 2022; Qi et al., 2023). The debt-service channel also implies that repricing existing mortgages can affect consumption even without new borrowing (Agarwal et al., 2022). Against this background, the fall in property transactions is relevant not because every household is equally exposed, but because it simultaneously weakens new mortgage demand, collateral expectations, and local-government land-related revenues.

2.5. Post-2020 Evidence on Mortgage Transmission, Digital Credit, and Saving

Post-2020 evidence substantially refines the Chinese case. Using bank data, Agarwal et al. (2022) show that mortgage-rate changes affect spending through existing borrowers' debt service, while Funke et al. (2023) find that housing-related indebtedness weakens monetary-policy transmission to consumption. A recent loan-level working paper links the 2021–2023 prepayment wave to the gap between contract and current mortgage rates and to precautionary balances (Gao et al., 2024). These findings imply that lower policy rates can produce heterogeneous responses: cash-flow relief for some borrowers, prepayment for others, and limited new borrowing when housing expectations remain weak.

The credit-access literature adds a supply-side counterpoint. Digital financial inclusion has expanded formal household debt, especially bank and urban borrowing (Li et al., 2023), so the recent aggregate retreat cannot be attributed simply to a long-run disappearance of credit access. Housing-wealth effects are also heterogeneous: Chinese households' consumption response depends on income uncertainty, property holdings, and credit constraints (Painter et al., 2022; Qi et al., 2023). Recent estimates attribute 15%–25% of urban wealth accumulation to precautionary saving on average, with meaningful variation across household groups (Zhang et al., 2026).

Institutional studies point to slower income expectations, unequal social protection, population ageing, and the property correction as interacting forces rather than one dominant driver (International Monetary Fund, 2022, 2024, 2025; United Nations, 2024; World Bank, 2024, 2025). This literature motivates the mechanisms assessed below, but it also reinforces the need to distinguish aggregate consistency from household-level identification.

2.6. Assessment and Positioning

The recent literature establishes several mechanisms but leaves a measurement gap. Micro studies identify heterogeneous housing-wealth, debt-service, digital-credit, liquidity, and precautionary-saving effects, while institutional reports document the property adjustment, ageing, and social-protection constraints. What remains useful is a transparent reconciliation of the aggregate turning point across flow, stock, and burden measures, coupled with modest formal diagnostics and an explicit statement of inferential limits. This paper fills that narrower gap. It does not label the episode voluntary for all households, does not treat correlations as drivers in a causal sense, and does not claim that the old leveraging model cannot reappear.

3. Data and Method

3.1. Data

The analysis uses public sources with distinct roles. Annual household, enterprise, and total renminbi loan flows and household deposits come from the People's Bank of China's Financial Statistics Data Reports; 2025 figures refer to the report released on 15 January 2026 (People's Bank of China, 2026). Residential sales and household income and consumption come from the National Bureau of Statistics releases of 19 January 2026 (National Bureau of Statistics, 2026a, 2026b). The domestic leverage path is reported on the NIFD basis (National Institution for Finance and Development, 2025), while the international comparison uses only the BIS total-credit series for households and NPISHs, all lenders, market value, percentage of GDP, adjusted for breaks, at 2024 Q4 (Bank for International Settlements, 2026). Appendix A records release titles, identifiers, dates, and URLs. Figures rounded from source data are reconciled before ratios are calculated.

3.2. Core Measures

To capture leverage dynamics on several margins, the paper adopts four widely used measures. First, the household leverage ratio is the ratio of household debt to nominal GDP, as in Equation (1):

$$\text{LEV}_t = \frac{D_t^h}{\text{GDP}_t} \times 100\% \quad (1)$$

Here the subscript t denotes the year, the numerator is household debt outstanding, and the denominator is nominal gross domestic product. This indicator measures the stock intensity of debt.

Second, to capture how changes in the credit flow bear on aggregate demand at the margin, the analysis uses the credit impulse. Following Biggs et al. (2010), it is the change in the new credit flow scaled by GDP, as in Equation (2):

$$\text{CI}_t = \frac{\Delta F_t - \Delta F_{t-1}}{\text{GDP}_{t-1}} \quad (2)$$

Here ΔF is the new credit flow in a given period, proxied by new household loans, and t and $t-1$ are adjacent years. What drives the growth of aggregate demand is neither the stock of credit nor the flow itself, but the change in the flow, so the credit impulse can turn negative even while new lending remains positive.

Third, to gauge the repayment burden, the paper uses the debt service ratio (DSR) of Drehmann and Juselius (2012), the share of debt-servicing payments in disposable income, whose annuity form is given in Equation (3):

$$\text{DSR}_t = \frac{i_t D_t}{(1 - (1 + i_t)^{-s_t}) \times Y_t} \quad (3)$$

Here i is the average interest rate on debt, D is debt outstanding, s is the remaining weighted maturity, and Y is disposable income. By bringing in the interest rate and the maturity, the DSR explains why falling mortgage rates can ease households' cash-flow pressure even as the leverage ratio holds flat.

Fourth, to describe the shift from debt-financed consumption toward saving, the analysis defines the average propensity to consume (APC) and the saving rate (SR), as in Equation (4):

$$\text{APC}_t = \frac{C_t}{Y_t^d}, \text{SR}_t = 1 - \text{APC}_t \quad (4)$$

Here the numerator is per capita consumption and the denominator is per capita disposable income. A lower APC is consistent with more saving, but it is not by itself proof of a precautionary motive because demographic composition, relative prices, and measurement can also change the ratio.

3.3. Trend–Cycle, Break, and Bivariate Diagnostics

To distinguish persistent movement from short-run deviation, annual new household lending is decomposed with a Hodrick–Prescott filter using $\lambda = 6.25$, the annual-data scaling recommended by Ravn and Uhlig (2002). A Chow-style test compares linear lending paths before and from 2022. The date is motivated by the abrupt property and lending adjustment, but because it is evaluated in the same short sample, the result is treated as a diagnostic rather than proof of an exogenous regime change.

The mechanism section reports Pearson correlations for mortgage-related lending and residential sales in levels and first differences, new household lending and the deposit–loan gap, and new lending and the average propensity to consume. Two-sided p -values are shown without multiple-testing adjustment. With 6–8 annual observations, these statistics are exploratory: they neither identify structural parameters nor distinguish credit supply from demand.

4. The Rise and Retrenchment of Household Credit: Stylised Facts

4.1. New Lending: From a Seven-Trillion Peak to a Historically Low Flow

Figure 2 plots annual new household loans from 2015 to 2025. Lending rose from RMB 3.87 trillion in 2015 to RMB 7.92 trillion in 2021, fell to RMB 3.83 trillion in 2022, recovered to RMB 4.33 trillion in 2023, and then declined to RMB 2.72 trillion in 2024 and RMB 0.44 trillion in 2025. The 2025 flow was 94.4% below the 2021 peak and 83.8% below 2024. This is a historically large contraction in annual flow, but a positive annual total is not equivalent to economy-wide net debt repayment.

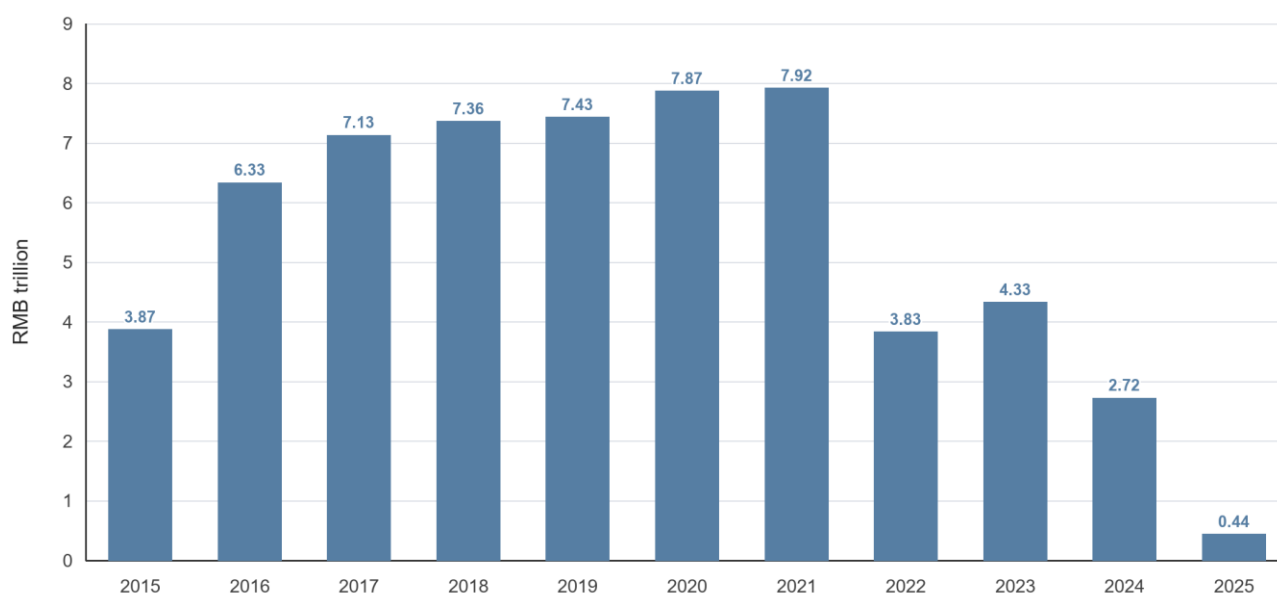


Figure 2. Annual new household loans, 2015–2025. (Source: Author)

Table 1 reports the release-audited scale, maturity structure, year-on-year change, and share of new renminbi loans. The 2015 household share is 33.0%, not 14.9%; the 2022 short-term increment is RMB 1.08 trillion, not RMB 108 billion; and the 2015–2016 maturity components have been corrected to the values reported in the corresponding annual releases. The household share peaked at 52.7% in 2017 and fell to 2.7% in 2025.

Table 1. Release-audited new household loans and maturity structure, 2015–2025. (Source: Author)

Year	New Household Loans (RMB bn)	Short-Term (RMB bn)	Medium/Long-Term (RMB bn)	YoY Change (%)	Share of New RMB Loans (%)
2015	3870.0	819.9	3050.0	n.a.	33.0
2016	6330.0	649.4	5680.0	63.6	50.0
2017	7130.0	1830.0	5300.0	12.6	52.7
2018	7360.0	2410.0	4950.0	3.2	45.5
2019	7430.0	1980.0	5450.0	1.0	44.2
2020	7870.0	1920.0	5950.0	5.9	40.1
2021	7920.0	1840.0	6080.0	0.6	39.7
2022	3830.0	1080.0	2750.0	−51.6	18.0
2023	4330.0	1780.0	2550.0	13.1	19.0
2024	2720.0	473.2	2250.0	−37.2	15.0
2025	441.7	−835.1	1280.0	−83.8	2.7

Source: People's Bank of China, annual Financial Statistics Data Reports; see Appendix A. Amounts are rounded as reported. Share = household-loan increment / total renminbi-loan increment; components may differ slightly from totals because of source rounding.

By Equation (2), changes in the credit flow can affect the marginal growth of demand. The household credit impulse fell from 3.57% of GDP in 2016 toward zero in 2021, reached −3.56% in 2022, turned briefly positive in 2023, and became negative again in 2024–2025 (Figure 3). This pattern is consistent with the credit-driven household-demand channel operating in reverse, but the aggregate calculation does not estimate a causal consumption multiplier.

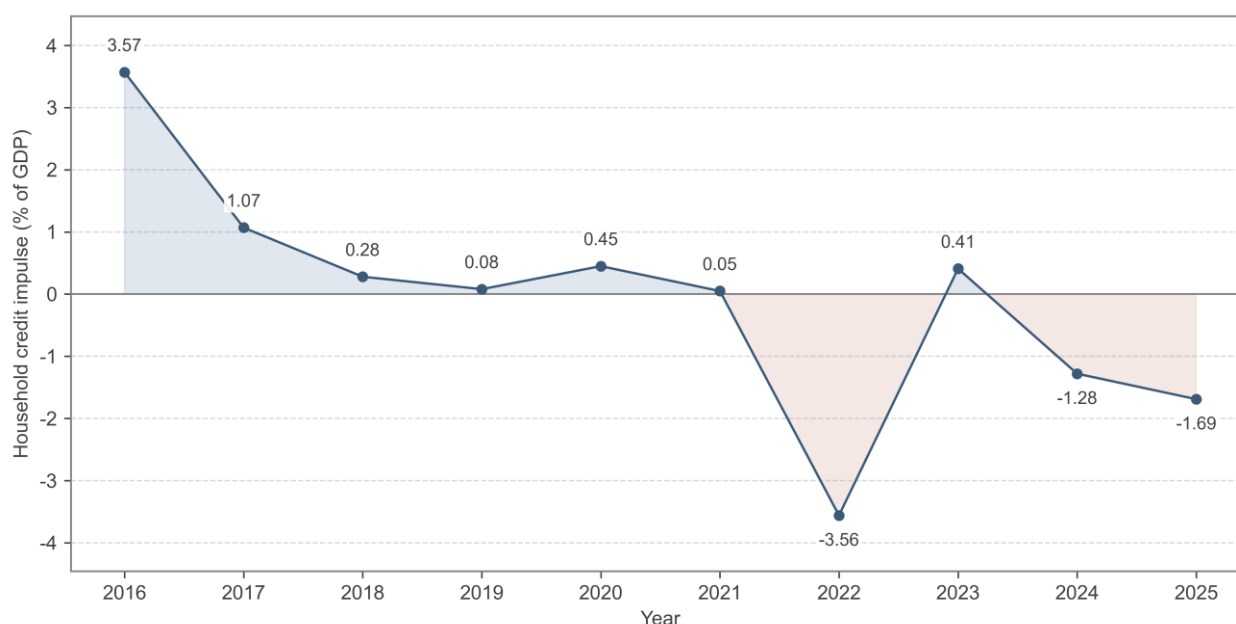


Figure 3. Household credit impulse, 2016–2025. (Source: Author)

4.2. Maturity Structure: From Long-Term Dominance to Short-Term Net Repayment

Figure 4 shows the corrected maturity components. Medium/long-term lending, dominated by mortgages, peaked at RMB 6.08 trillion in 2021 and fell to RMB 1.28 trillion in 2025. Short-term household loans declined by RMB 835.1 billion in 2025. The coexistence of a positive long-term flow and a negative short-term flow is consistent with active repayment and weak consumer-credit demand, but it does not identify how much came from borrower demand, bank underwriting, or loan reclassification.

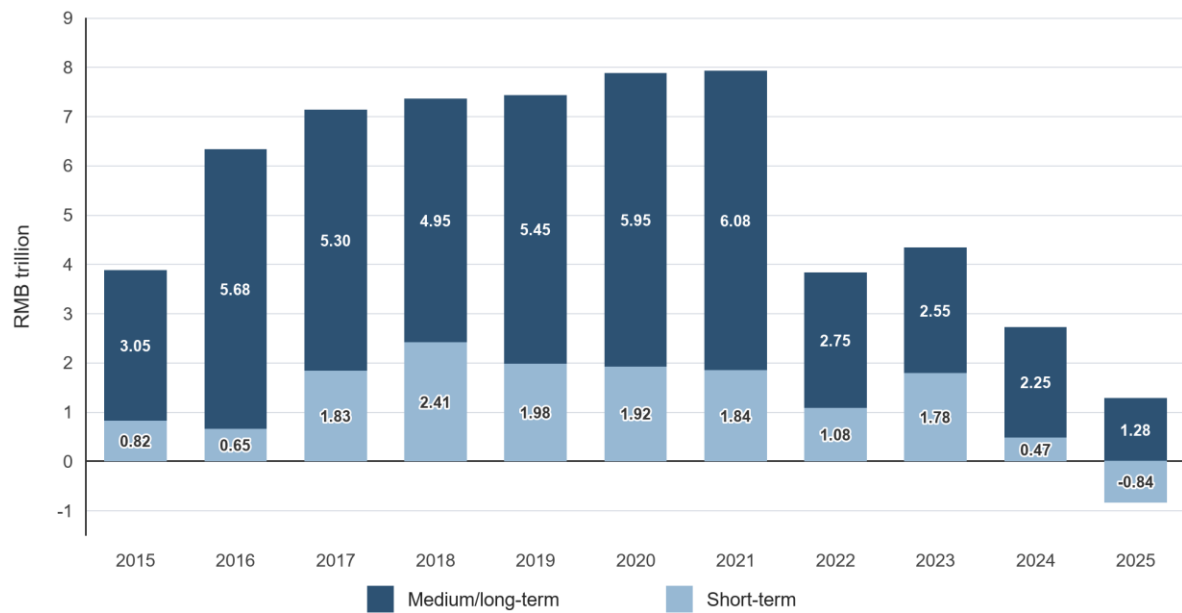


Figure 4. Corrected maturity structure of new household loans, 2015–2025. (Source: Author)

4.3. Sectoral Rebalancing: Households Give Way to Firms

The sectoral composition of credit expansion has changed sharply. Figure 5 compares household and enterprise flows using the same annual People's Bank of China releases. Household and enterprise lending were closer in scale through 2021. From 2022, enterprise lending remained high while household lending weakened; in 2025 enterprise loans increased by RMB 15.47 trillion and household loans by RMB 441.7 billion. This is a redirection of new credit toward firms, not evidence that aggregate credit creation has ceased.

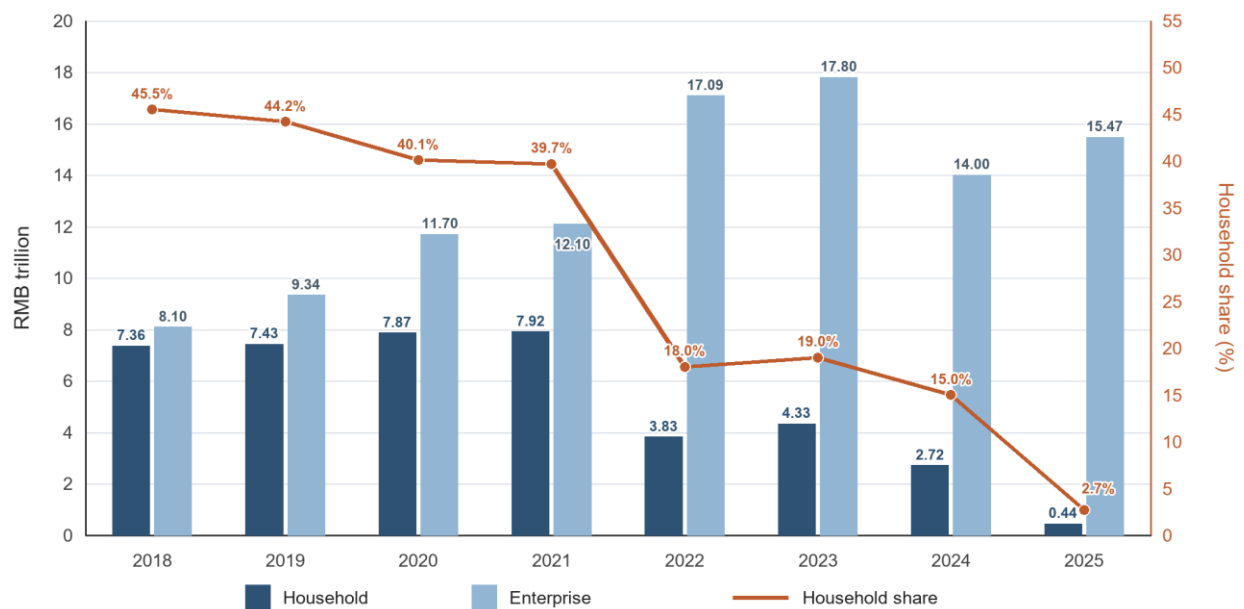


Figure 5. New household and enterprise loans and the household share, 2018–2025. (Source: Author)

4.4. Trend–Cycle and Break Diagnostics

Figure 6 separates the annual lending series into a smoothed trend and a cyclical component. The filtered trend peaked near RMB 7.48 trillion in 2019 and then declined to about RMB 1.00 trillion in 2025. Actual lending was RMB 1.53 trillion below trend

in 2022 and RMB 0.56 trillion below trend in 2025, but slightly above trend in 2023 and 2024. The endpoint-sensitive filter therefore supports a persistent downward trend while preserving evidence of short cyclical rebounds.

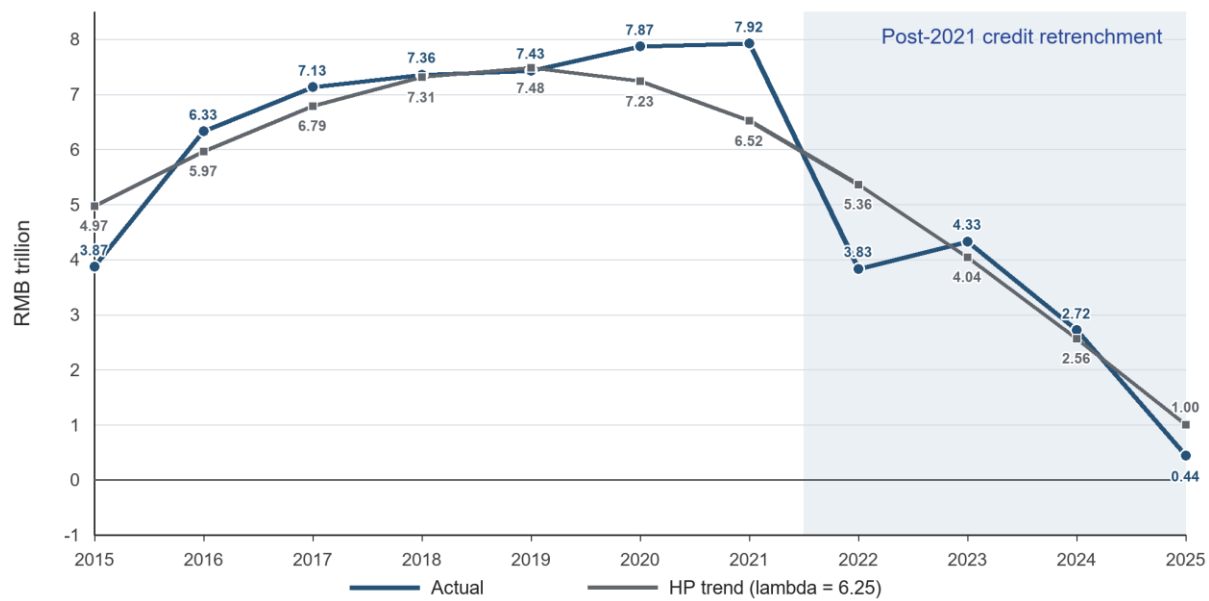


Figure 6. Annual new household loans and HP-filtered trend, 2015–2025. (Source: Author)

A Chow-style test at 2022 rejects a common linear path ($F(2,7) = 23.75$, $p = 0.0008$; see Table 2). The test is consistent with a structural break but cannot by itself identify its cause, and its small-sample p -value should be interpreted alongside the economic timing and robustness cautions in Section 3.3.

Table 2. Exploratory trend, break, and bivariate diagnostics. (Source: Author)

Diagnostic	Sample	Statistic	Two-Sided p	Interpretation
HP cycle	2015–2025 ($n = 11$)	2022: -1.53 ; 2025: -0.56 trn	n.a.	Below-trend episodes; endpoint-sensitive
Chow break at 2022	2015–2025 ($n = 11$)	$F(2,7) = 23.75$	0.0008	Rejects one common linear path
Mortgage loans vs property sales	2018–2025 ($n = 8$)	$r = 0.969$	<0.001	Strong level co-movement
Annual changes of same series	2019–2025 ($n = 7$)	$r = 0.911$	0.004	Co-movement survives differencing
New loans vs deposit–loan gap	2020–2025 ($n = 6$)	$r = -0.906$	0.013	Consistent with balance-sheet repair
New loans vs APC	2020–2025 ($n = 6$)	$r = -0.270$	0.604	No aggregate support in short sample

Notes: HP $\lambda = 6.25$. Monetary amounts are RMB trillion. Correlations are Pearson coefficients. p -values are exploratory because samples are small and the break date is evaluated in-sample; none of the tests establishes causality.

5. Leverage and International Comparison

5.1. The Climb, Plateau, and Modest Decline

A sustained weakening in flows eventually affects the debt stock. Figure 7 shows that the NIFD household-leverage ratio rose from 17.9% in 2008 to 62.2% in 2020, remained near 62% through 2023, and eased to 61.4% in 2024 and 61.1% in 2025 Q2. The plateau indicates that household debt ceased rising materially faster than nominal GDP. It is better described as a modest stock adjustment occurring alongside a much sharper contraction in annual credit flows.

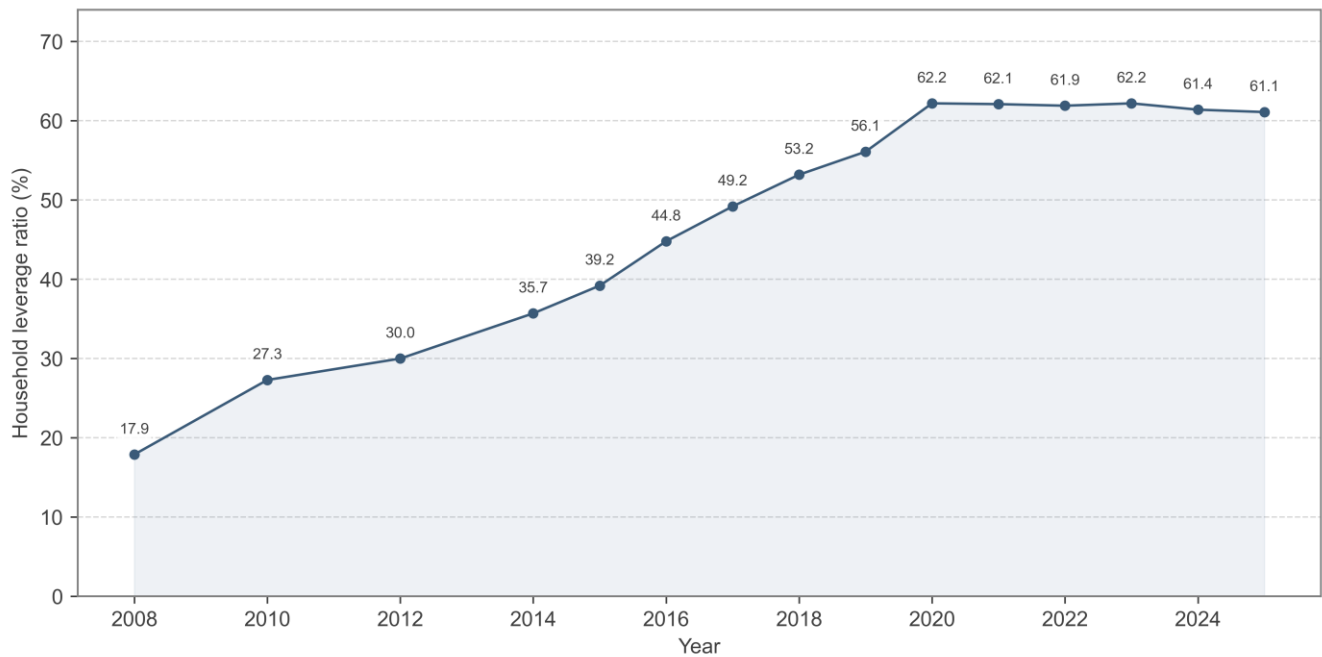


Figure 7. China's household leverage ratio, 2008–2025. (Source: Author)

5.2. China in the Cross-Country Distribution

Figure 8 and Table 3 use a single BIS definition and reference quarter: total credit from all sectors to households and NPISHs, at market value, as a percentage of GDP, adjusted for breaks, at 2024 Q4. China was 60.0%, close to France (60.5%) and Japan (62.1%), above Germany (49.6%), and below Korea (89.6%), Canada (100.5%), Australia (112.0%), and Switzerland (121.1%). The earlier world average and ad hoc leverage tiers have been removed because they were not constructed from a documented common sample.

Debt/GDP measures exposure, not repayment capacity. Cross-economy sustainability also depends on household assets and net worth, mortgage structure, homeownership, income growth, and social insurance. A harmonised debt-to-net-worth series is unavailable for China and the full BIS sample, so the revision does not splice incompatible national sources. China's high owner-occupation and concentration of wealth in housing make property prices particularly relevant, while uneven and imperfectly portable social protection can strengthen precautionary saving (Painter et al., 2022; International Monetary Fund, 2024; World Bank, 2024).

The comparison therefore supports a restrained inference: China was not an international outlier by debt/GDP in 2024 Q4, but its leverage was high enough for a housing and income shock to matter. Similar debt ratios can imply different vulnerabilities, and the lower ratio relative to Korea or Canada should not be read as mechanical room for renewed borrowing.

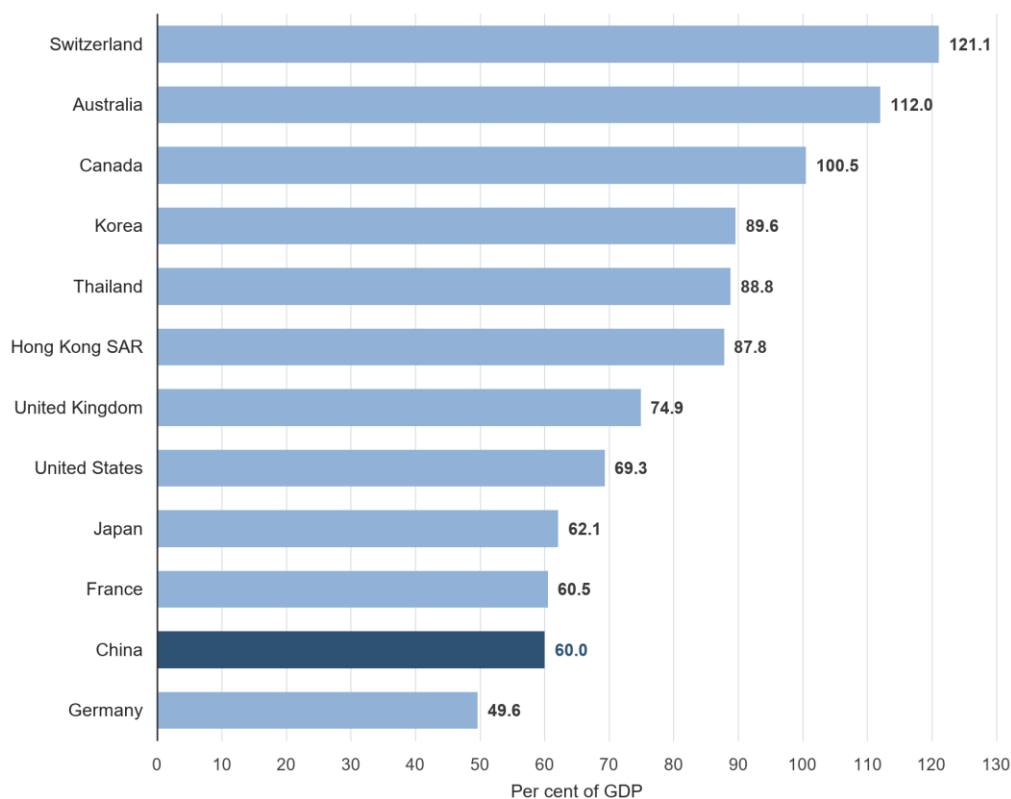


Figure 8. BIS-consistent household credit to GDP across major economies, 2024 Q4. (Source: Author)

Table 3. BIS-consistent household credit to GDP across major economies, 2024 Q4. (Source: Author)

Economy	Household Credit/GDP (%)	Difference from China (pp)	BIS Series Code
Switzerland	121.1	+61.1	Q.CH.H.A.M.770.A
Australia	112.0	+52.0	Q.AU.H.A.M.770.A
Canada	100.5	+40.5	Q.CA.H.A.M.770.A
Korea	89.6	+29.6	Q.KR.H.A.M.770.A
Thailand	88.8	+28.8	Q.TH.H.A.M.770.A
Hong Kong SAR	87.8	+27.8	Q.HK.H.A.M.770.A
United Kingdom	74.9	+14.9	Q.GB.H.A.M.770.A
United States	69.3	+9.3	Q.US.H.A.M.770.A
Japan	62.1	+2.1	Q.JP.H.A.M.770.A
France	60.5	+0.5	Q.FR.H.A.M.770.A
China	60.0	+0.0	Q.CN.H.A.M.770.A
Germany	49.6	−10.4	Q.DE.H.A.M.770.A

Source: Bank for International Settlements, Total Credit to the Non-Financial Sector, series Q.<country>.H.A.M.770.A, 2024 Q4; downloaded 21 July 2026. Values are percentage of GDP, market value, adjusted for breaks. pp denotes percentage points.

6. Correlates and Plausible Mechanisms of the Retrenchment

The aggregate data are consistent with three connected mechanisms—property adjustment, balance-sheet repair, and weaker income expectations—but cannot apportion causality among them. Each subsection therefore combines descriptive timing with limited bivariate evidence and treats credit-supply restrictions, borrower demand, and common macro shocks as unresolved alternatives.

6.1. A Deep Property Adjustment: The Mortgage Engine Stalls

Mortgages are the largest component of long-term household debt, so property sales and new medium/long-term household loans move closely. Residential sales value fell from RMB 18.19 trillion in 2021 to RMB 8.39 trillion in 2025, while medium/long-term household loans fell from RMB 6.08 trillion to RMB 1.28 trillion (Figure 9). Across 2018–2025, their level correlation is 0.969 ($p < 0.001$), and the correlation of annual changes is 0.911 ($p = 0.004$). The first-difference result reduces, but does not eliminate, the concern that a shared trend drives the level association. Evidence on housing wealth and credit constraints provides plausible

mechanisms (Painter et al., 2022; Qi et al., 2023), while the long property adjustment documented by Rogoff and Yang (2021, 2024) makes a persistent mortgage-demand effect credible. The correlations remain non-causal and may also reflect bank-supply responses to the same property shock.

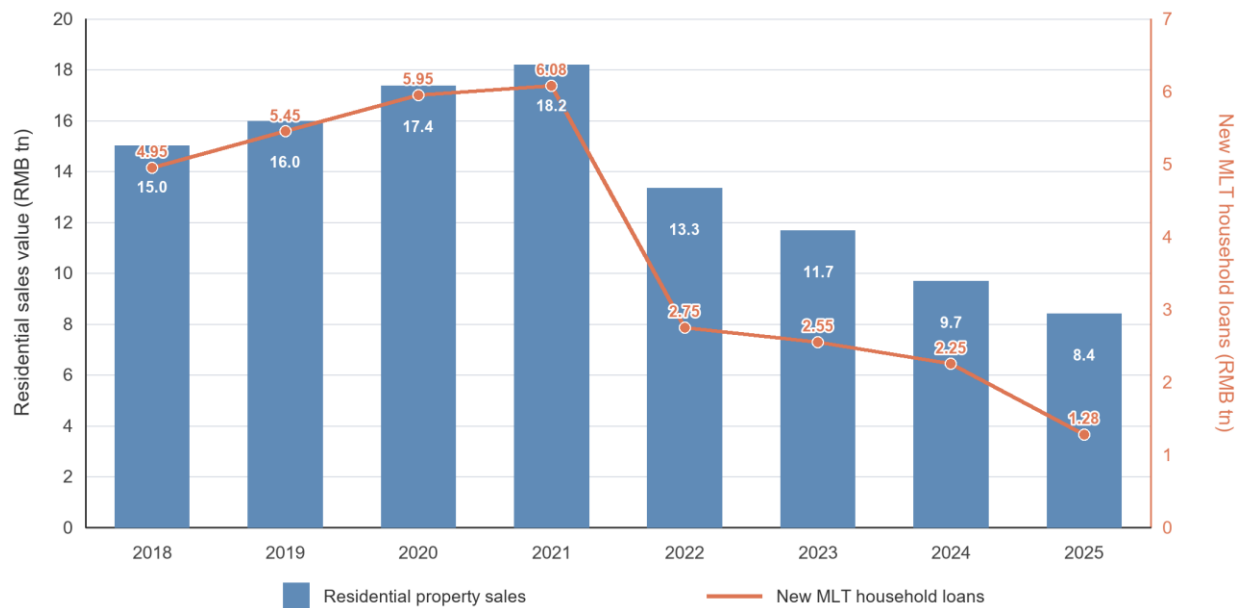


Figure 9. Residential property sales and new household medium/long-term loans, 2018–2025. (Source: Author)

6.2. Balance-Sheet Contraction: More Saving, Less Borrowing, and Early Repayment

Balance-sheet repair appears in the widening gap between household deposits and new loans. In 2025 deposits increased by RMB 14.64 trillion while household loans increased by RMB 441.7 billion (Figure 10). Across 2020–2025, new lending is negatively correlated with the deposit-minus-loan gap ($r = -0.906$, $p = 0.013$). China-specific loan-level research reports that the 2021–2023 mortgage-prepayment wave was associated with mortgage-rate gaps, precautionary balances, and lower consumption, although that evidence remains a working-paper estimate (Gao et al., 2024). Falling rates can lower debt service and support cash flow, but if existing borrowers face slow repricing or weak asset and income expectations, easing may prompt refinancing or repayment rather than new borrowing. The aggregate correlation cannot determine whether deposits and loans reflect the same households.

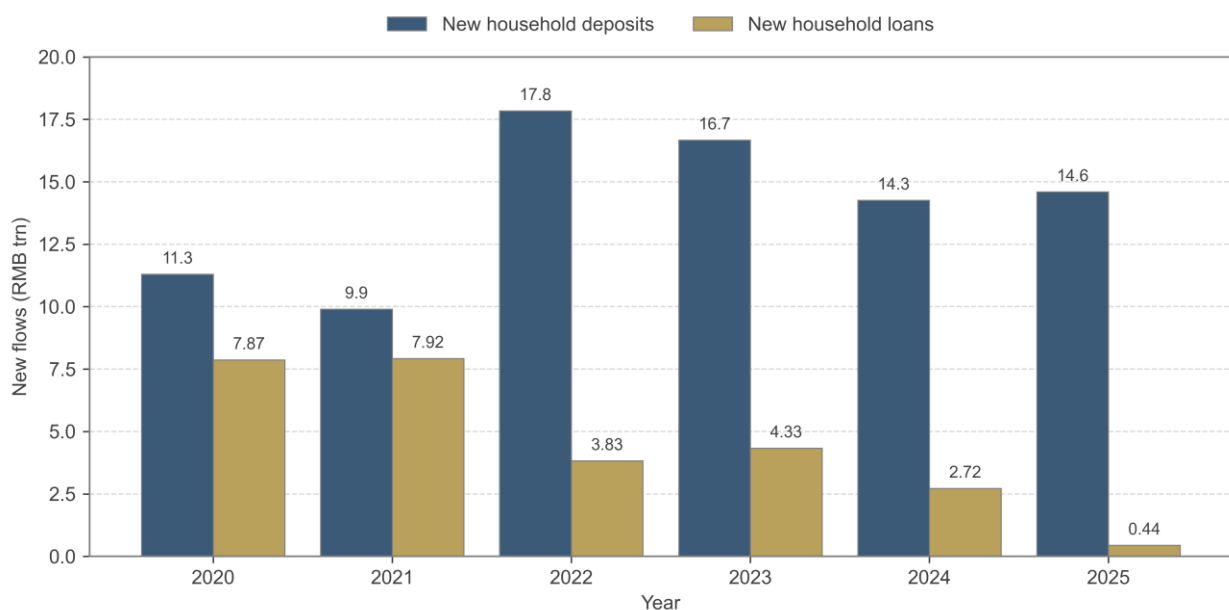


Figure 10. New household deposits vs. new household loans, 2020–2025. (Source: Author)

6.3. Income Expectations and Precautionary Saving: A Falling Propensity to Consume

Income expectations are a plausible third mechanism, but the aggregate evidence is weaker than the narrative in the earlier draft implied. In 2025 real disposable income grew by 5.0% and real consumption by 4.4% (Figure 11). Over 2020–2025, the correlation between annual new household loans and the average propensity to consume is -0.270 ($p = 0.604$), which is not statistically distinguishable from zero in this six-observation sample. Precautionary saving remains plausible in light of household-level evidence on income uncertainty and liquidity constraints (Ning and Wang, 2022; Zhang et al., 2026) and institutional assessments of China's high saving (International Monetary Fund, 2022, 2025), but the aggregate series does not independently establish it.

Adjacent labour-market evidence helps specify the expectations channel without being treated as direct household-finance evidence. Firm-expansion research cautions that growth in corporate activity does not mechanically generate better job quality (Gan et al., 2026a). Work on credential devaluation highlights mismatch and more uncertain early-career returns (Gan et al., 2026b). Survey evidence on graduates identifies perceived job security as a major determinant of private-firm attractiveness (Gan et al., 2026c). These three studies are cited only to motivate how job quality and perceived security may enter income expectations; none estimates household borrowing or the macro effect reported here.

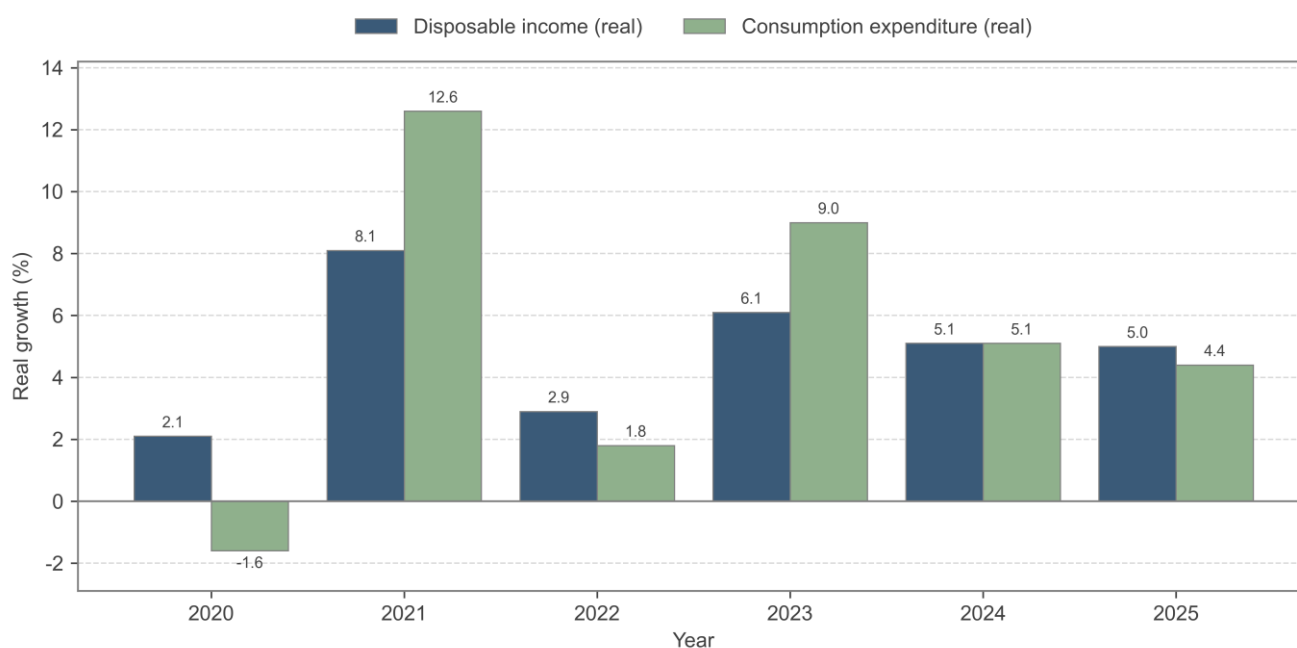


Figure 11. Real growth of per capita disposable income and consumption, 2020–2025. (Source: Author)

Table 4 compares the 2021 peak with 2025. New household lending fell by 94.4%, residential sales area by 50.9%, residential sales value by 53.9%, and the household share of new loans by 37.0 percentage points, while new household deposits rose by 47.9%. The joint pattern is consistent with substantial sectoral rebalancing; it is not a household-level causal decomposition.

Table 4. Household-sector key indicators: 2021 peak vs. 2025. (Source: Author)

Indicator	2021 (Peak)	2025	Change
New household loans (RMB bn)	7920	441.7	−94.4%
Residential sales area (mn sq m)	1794	881	−50.9%
Residential sales value (RMB bn)	18,193	8393.7	−53.9%
Household share of new loans (%)	39.7	2.7	−37.0 pp
Household leverage ratio (%)	62.1	61.1	−1.0 pp
New household deposits (RMB trn)	9.90	14.64	+47.9%

Source: People's Bank of China, National Bureau of Statistics, NIFD, and BIS; see Appendix A. pp denotes percentage points. The 2025 domestic leverage observation is NIFD 2025 Q2; the cross-country-comparable BIS China value is 2024 Q4 and is reported separately in Table 3.

7. Macro Implications and Policy Discussion

7.1. Adapting the Balance-Sheet-Recession Lens to China

The balance-sheet-recession lens is useful in China to the extent that property losses, debt service, and weak expectations make households prioritise balance-sheet repair despite lower policy rates. This can weaken the household credit and consumption channels and is consistent with the negative post-2021 credit impulse. The analogy should nevertheless be narrowed: the evidence here concerns one sector and does not show that all Chinese firms or the entire private sector are collectively minimising debt.

China also differs institutionally from Koo's Japan. State-owned banks and credit guidance can maintain enterprise lending even when household borrowing weakens; capital controls keep a large share of domestic saving within the financial system; and the central government's fiscal balance sheet is stronger than that of many local governments. At the same time, local governments depend heavily on land-related revenue and face debt constraints. The relevant risk is therefore not an economy-wide cessation of credit, but impaired transmission from state-supported credit to household income and consumption, alongside a redistribution of leverage toward firms and government.

7.2. Policy Mechanisms, Magnitudes, and Trade-offs

The first policy priority is income security rather than a numerical target for household borrowing. More portable health, pension, and unemployment protection, alongside hukou-linked service reform, can reduce precautionary motives and support consumption among households with high marginal propensities to consume. IMF model simulations—not forecasts—suggest that a major expansion of rural social spending could raise consumption by about 2.4% of GDP over five years (International Monetary Fund, 2025). The trade-off is fiscal cost and implementation capacity; transparent central transfers are more credible than assigning new mandates to local governments already exposed to falling land revenue.

The second priority is an orderly property adjustment. Funding completion of viable pre-sold projects and expanding well-targeted rental and social housing can reduce confidence shocks without defending every developer or price level. The central–local allocation matters: central funding or transparent transfers can prevent obligations from being shifted to land-revenue-constrained local governments. Blanket developer bailouts would weaken market discipline and create moral hazard; excessively rapid liquidation could deepen collateral losses and buyer distrust.

Third, mortgage policy should distinguish existing-borrower cash flow from new leverage. Faster pass-through of benchmark cuts, voluntary repricing, and temporary maturity extension can ease debt service, especially for liquidity-constrained borrowers, but can compress bank margins, delay loss recognition, and encourage strategic refinancing. Borrower-based macroprudential limits should therefore be relaxed only selectively and should remain tied to repayment capacity rather than property-price support.

Finally, enterprise and public borrowing should be judged by transmission to wages, secure employment, and productive capacity, not by credit volume alone. Credit redirected to low-return projects may sustain the aggregate flow while doing little for household confidence. Policy evaluation should report job quality, disposable-income effects, project completion, and fiscal incidence alongside lending totals.

7.3. Interpretation and Limits

The evidence supports a qualified conclusion. The post-2021 lending path contains a statistically detectable break, a declining filtered trend, weaker mortgage-related flows, and a large deposit–loan divergence. Yet positive cyclical deviations in 2023–2024, the still-positive 2025 medium/long-term flow, and the absence of household micro data rule out a definitive claim that the leveraging era has ended. The defensible interpretation is that China has entered a persistent household-credit retrenchment that is consistent with structural transition but remains capable of cyclical rebounds.

Several limitations remain. First, the annual sample is short; the 2022 break date is economically motivated but evaluated in-sample, and the HP filter is sensitive to end points. Second, correlations with eight or fewer observations have low power and do not separate loan supply, borrower demand, reverse causality, or common shocks. Third, aggregate series cannot reveal heterogeneity by income, age, city tier, homeownership, or mortgage vintage. Fourth, NIFD and BIS leverage measures have different coverage, and a harmonised debt-to-net-worth series is unavailable for China and the full comparison sample; incompatible sources are therefore not spliced. Fifth, some 2025 values are recent releases subject to later revision. Household-panel and loan-level work with quasi-experimental identification is needed before assigning magnitudes or causal policy effects.

8. Conclusions

Using release-audited Chinese data and a harmonised BIS comparison, this study documents a sharp household-credit retrenchment after 2021. Annual new household loans fell from RMB 7.92 trillion in 2021 to RMB 441.7 billion in 2025, the household share of new renminbi loans declined to 2.7%, and the domestic leverage ratio plateaued before edging down. A 2022 break test, a

declining HP trend, close mortgage–property co-movement, and a widening deposit–loan gap are consistent with a durable transition away from rapid mortgage-led leveraging. They do not prove a permanent end to household borrowing or identify a single cause. On a consistent 2024 Q4 BIS basis, China’s household credit was 60.0% of GDP; this exposure measure must be read alongside asset composition, income growth, safety nets, and institutional structure. China’s state-directed financial system can redirect credit toward firms and government even while household transmission weakens, so Koo’s economy-wide analogy requires modification. Policy should protect existing-borrower cash flow, complete viable housing projects, expand portable social protection, and fund local obligations transparently, while avoiding blanket bailouts and indiscriminate encouragement of new leverage. The appropriate conclusion is therefore evidence of persistent credit retrenchment and structural transition, not proof that the household-leveraging era has irreversibly ended.

Appendix A. Source and Release Audit Trail

Table A1 identifies the precise data vintage used in the revision. The observation year and publication date are kept distinct; calculations in Tables 1–4 use the displayed source values before rounding.

Table A1. Data sources, releases, identifiers, and access links. (Source: Author)

Variable	Source	Release/Series Identifier	Coverage/Use	URL
Household, enterprise, total RMB loans; deposits	People’s Bank of China	Financial Statistics Data Reports, observation years 2015–2025; 2025 report released 15 Jan 2026	Tables 1, 2, 4; Figures 2–6 and 10	https://www.pbc.gov.cn/goutongjiaoliu/113456/113469/index.html
Residential sales area and value	National Bureau of Statistics	National Real Estate Market in 2025, released 19 Jan 2026	2018–2025; Table 4; Figure 9	https://www.stats.gov.cn/sj/zxfb/202601/t20260119_1962324.html
Disposable income and consumption	National Bureau of Statistics	Income and Consumption Expenditure in 2025, released 19 Jan 2026	2020–2025; Figure 11	https://www.stats.gov.cn/sj/zxfb/202601/t20260119_1962321.html
Domestic household leverage	NIFD	China Macro Leverage Ratio Database; household sector	2008–2025 Q2; Figure 7; Table 4	http://114.115.232.154:8080/
International household credit/GDP	BIS	Total Credit, Q.<country>.H.A.M.770.A; 2024 Q4; downloaded 21 Jul 2026	12 economies; Table 3; Figure 8	https://data.bis.org/topics/TOTAL_CREDIT/data

Notes: PBC historical annual releases are retrieved from the official communication archive. BIS codes denote quarterly frequency, country, household/NPISH borrower, all lenders, market value, percentage of GDP, and break-adjusted series. Table 2 and Figure 6 are authors’ calculations using $\lambda = 6.25$, a 2022 break, and two-sided Pearson p -values. URLs were checked on 21 July 2026 and re-verified on 25 August 2026.

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