China Debt Dynamics
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The Paradox of High Private Credit Returns in China’s Low-rate Environment

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Key Findings

- Low headline rates in China’s banking system do not necessarily reach borrowers that fail rigid regulatory or social-credit screening requirements.
- A meaningful group of profitable private companies can be unable to borrow from banks at any price despite robust cash flow and collateral.
- The retreat of foreign distressed investors and the collapse of much domestic shadow banking have left China’s private credit market chronically underserved.

China’s interest rates are scraping historic lows, and yet private credit opportunities in the country are among the best in the world. Such a paradoxical situation is the consequence of overinclusive credit-screening regulations and an underserved market.

The reason cheap credit at the top of China’s banking system doesn’t translate into cheap credit for every borrower is that access, not price, is the real constraint. Capital doesn’t move freely or efficiently between pools of the financial system, so low rates in one segment don’t necessarily reach another. A meaningful segment of otherwise creditworthy private companies in China simply cannot borrow from banks at any price, because they fail to check a box involving a regulatory or social credit requirement that has little to do with their actual creditworthiness. That gap between rate and access is where ShoreVest operates, and it creates a unique opportunity that few investors are positioned to seize.

Cheap Creditâƒ For the Few

China’s own credit data shows just how wide that gap has become.

The People’s Bank of China (PBoC) has barely touched its policy rate in recent years. The last cut was 10 bps in May 2025, but weak credit demand among the segment of borrowers with access is driving real rates down.

In May, total social financing (Beijing’s measure of total credit in the economy) grew by only 7.7% y/y, the slowest pace since the measure was introduced almost a decade ago. Bank lending was even slower, growing only 5.5%. Meanwhile, a surge in household savings since the pandemic means banks are awash with deposits they don’t need. Banks would ideally like to cut deposit rates, but they’re limited by the regulatory regime. Instead, many are striving to deter depositors and reduce their funding costs by offering fewer longer-tenor (three-years and up) fixed-term deposits or not offering them at all.

Fixed-income yields have also been declining, prompting many firms to issue bonds and use the proceeds to repay bank loans. To compete with both the bond market and each other for the segment of borrowers with access (i.e. who check all boxes), banks have been making loans at progressively lower interest rates. At the end of March, 48.8% of all bank loans had been lent out at below the loan prime rate (LPR), up from 42.4% at the beginning of 2024. The loan prime rate is supposed to be the rate banks offer their best clients, and yet almost half of their new loans are now below that level.

In such an environment, one would imagine that returns on private credit deals would have fallen to increasingly unappealing levels. That's what happened in the US where loose monetary conditions resulted in gobs of cash flooding into private credit, driving down returns and prompting fund managers to seek riskier deals in their search for yield.

And yet, that's not the case in China.

Because credit is not flowing efficiently to all segments in China, experienced credit solution providers like ShoreVest can target far higher returns, and better downside protection, than those seen in more saturated markets.

Failing to Check Boxes

China's banking system and bond markets have long failed to meet the needs of much of China's economy, due to how inefficiently that credit is allocated. Traditionally it was private sector companies that were locked out, forced to tap friends and family and later shadow banking institutions for funding at significantly higher interest rates than what banks provided state-owned firms. These days, although private sector companies can borrow from the banks, overinclusive credit-screening rules have resulted in a set of rigid boxes to check that still severely limit access.

One example is the â social creditâ system. China first started building its social credit system in 2014, but it was only in 2021 that implementation shifted from localized testing toward widespread enforcement. The system is mostly used to enforce legal judgements and corporate regulations rather than policing everyday morality, which is how it's often portrayed in the international media.

People who fall foul of the system may face restrictions on luxury spending or be banned from purchasing high-speed train or plane tickets. Or they may find that firms they're affiliated with can no longer borrow from banks.

Even outside of the social credit strictures, China's banking system is highly bureaucratic, and bankers are acutely sensitive to allocating credit in ways that might run afoul of a strict interpretation of regulations. Consequently, they err on the side of caution, even if their decisions cause them to miss out on lending to certain successful and financially sound businesses. Such firms often have robust cash flow and ample assets to offer as security, making them ideal candidates for ShoreVest's private credit activities.

The Credit Solution Opportunity

The current private credit opportunity lies in providing credit solutions to quality private sector firms that have fallen victim to overinclusive credit-screening regulations.

Such was the experience of one ShoreVest client, a successful supplier of water purifiers to Chinese hotels and schools (Company A). While Company A had no creditworthiness issues, and was highly profitable, its founder invested in another unrelated company (Company B), which had taken out three loans he personally guaranteed, and which later defaulted. Because Company Aâ s founder was a personal guarantor on Company Bâ s nonperforming loans, this triggered an effective cross-default and Company A could no longer borrow. That's when ShoreVest stepped in, providing bridge loans and helping the founder get off the credit blacklist. Although ShoreVest charged a high cost of capital, our involvement solved Company

A and its founderâ s issues, resulting in banks being willing to lend again, this time at an interest rate of around 2%.

ShoreVest is exposed to a steady flow of such opportunities, but private credit in China is a chronically underserved space.

Over the past decade, foreign private credit and distressed debt investors have mostly left China. To the extent they seek China exposure, it’s mostly limited to Hong Kong.

Meanwhile, domestic sources of Chinese private credit collapsed in 2017 when Beijing launched its deleveraging campaign, resulting in shadow banking being scaled back to a fraction of its former size. By some measures, the gap left by shadow bankingâ s decline is about US$ 5 trillion in underserved space. But investors in private credit remain small in scale and fragmented.

Furthermore, private credit in China requires skills to structure deals, a network to source opportunities, and experience in navigating the nuances of China’s economy. Few managers have all three. So, the paradox holds: China’s cheapest credit and its highest returns coexist, not despite each other, but because of the barriers standing between them. This leaves ShoreVest relatively unchallenged in a lucrative corner of China’s financial system.