

CHINA ECONOMICS RAPID RESPONSE

China Bank Lending & Broad Credit (Feb.)

 10th March 2023

Credit growth benefiting from reopening boost

Bank loan growth jumped to a 14-month high in February. And broad credit growth accelerated for the first time since September. This rebound should continue in the near-term thanks to a reopening revival in credit demand. But the relatively restrained policy settings announced at the NPC mean that the boost will likely fizzle out by the second half of the year.

Chinese banks extended a net RMB1,810bn in new local currency loans in February, which was above most expectations (the Bloomberg median and our forecast were RMB1,500bn). Aggregate financing (AFRE), the PBOC's measure of broad credit, also exceeded consensus expectations, rising RMB3,160bn (Bloomberg RMB2,250bn, CE RMB2,000bn).

Year-on-year growth in the outstanding amounts offers a better guide to underlying trends than the net increase numbers published by the PBOC, which are highly seasonal. Based on this, bank loan growth accelerated from 11.3% y/y to 11.6%, the highest since December 2021. This was despite the PBOC reportedly telling some banks to slow their lending in February. Much of the acceleration was driven by faster lending to households thanks to the recent uptick in property sales. In addition, lending to corporates continued to accelerate as business sentiment brightened thanks to the pivot away from zero-COVID.

Other forms of lending also picked up last month. In particular, the pace of contraction in shadow credit is the narrowest since July 2018. Net government bond issuance rose, supported by a [ramp up](#) in fiscal support by local governments, who were allocated large special bond quotas for Q1. These more than offset a slight decline in corporate bond issuance. Taken together, growth in outstanding broad credit accelerated for the first time since last September, from 9.4% y/y to 9.9%.

We expect credit growth to pick up further over the coming months. A cyclical upswing in housing demand is already underway and the NPC promised further measures to bolster housing demand. And with business confidence recovering and financing constraints on real estate developers being eased, investment spending should also rebound. That said, this credit cycle will not receive much of a tailwind from policy easing – the NPC [signalled](#) a stable fiscal stance and little in the way of additional monetary support. As such, the rebound in credit growth may fizzle out later in the year once the initial reopening boost has run its course.