CAPITAL ECONOMICS 凯投宏观

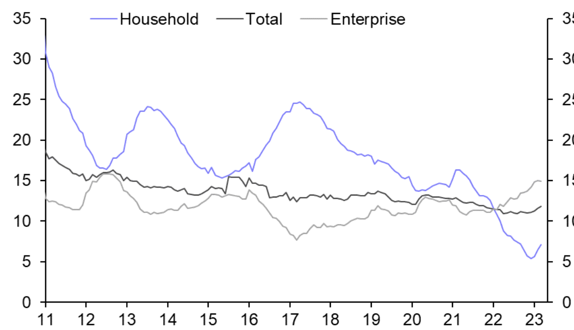
CHINA DATA RESPONSE

Bank Lending & Broad Credit (Mar.)

Credit growth still strengthening

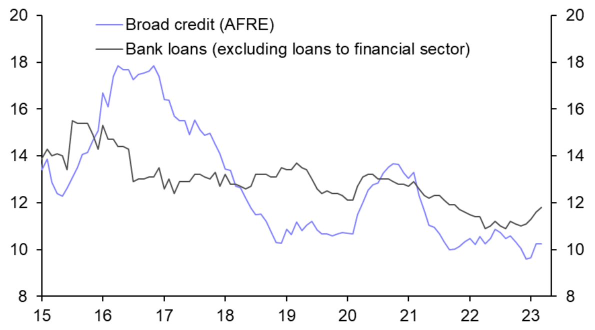
- **Bank loan growth jumped to a 17-month high in March. And broad credit growth rose to its highest since December. Both were stronger than most anticipated. We expect broad credit growth to accelerate a little further as demand remains robust and base effects become more favourable in the next few months. But this upward trend may not be sustained in the second half of the year, due to regulatory restrictions on lending, linked to concerns about financial risk, and the restrained policy settings announced at the National People's Congress last month.**
- Chinese banks extended a net RMB3,890bn in new local currency loans in March, well above expectations (the Bloomberg median was RMB3,300bn and our forecast was RMB3,200bn). Aggregate financing (AFRE), the PBOC's measure of broad credit, also surpassed expectations, rising by RMB5,380bn, (Bloomberg RMB4,565bn, CE RMB3,900bn).
- 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 11.6% y/y to 11.8%, the highest since November 2021.** This is in line with the PBOC Q1 survey released last week, which suggests that loan demand increased the most last quarter in over a decade. Much of the acceleration was driven by faster lending to households as the recent increase in property sales drove demand for mortgages. (See Chart 1.)
- **The acceleration in bank lending was partially offset by slower growth in other forms of lending.** Issuance of government and corporate bonds both slowed. Taken together, **growth in outstanding broad credit continued to accelerate from 9.9% y/y to 10.0%, its highest in four months.** (See Chart 2.)
- **We expect broad credit growth to accelerate further over the coming months, driven by a recovery in the real estate sector and improved business confidence thanks to reopening.** In addition, base effects will become more favourable – credit demand weakened considerably last year due to the Shanghai lockdown in April and May.
- **But credit growth may slow from the middle of the year.** Lending will bump up against regulatory constraints. And with activity and credit demand bouncing back after the abandonment of zero-COVID, the focus of the PBOC seems to have shifted to defusing financial risks. Admittedly, it recently cut reserve requirements, but that looks to have been aimed at ensuring banks had ample liquidity rather than to support the wider economy.

Chart 1: Growth of Outstanding Bank Loans (% y/y)



Sources: CEIC, Capital Economics

Chart 2: Growth of Outstanding Credit (% y/y)



Sources: CEIC, Capital Economics

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