

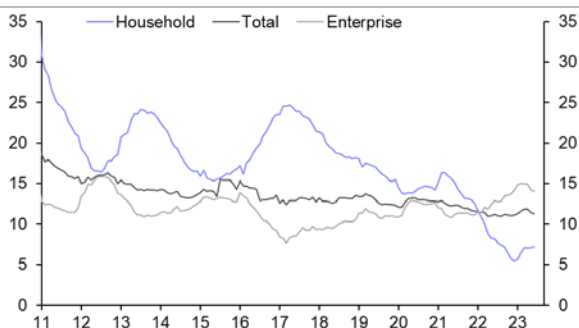
CHINA RAPID RESPONSE

Bank Lending & Broad Credit (Jun.)

Stronger than expected but still relatively weak

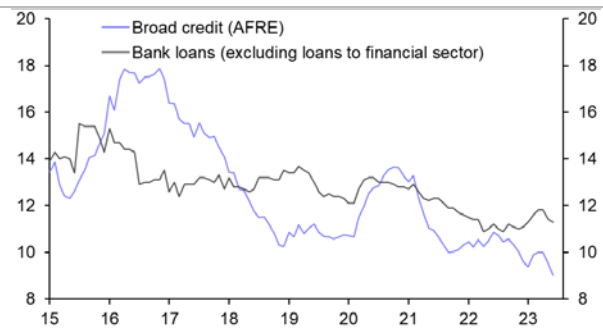
- **Although stronger than most had expected, bank loan growth still fell to its lowest in five months in June, while broad credit growth dropped to a record low. The continued deceleration adds to the headwinds to the economy in the second half of the year. Further policy support is probably on the way, but we doubt this will drive much of a pick-up in credit growth given the weakness of demand.**
- China's banks extended RMB3,050bn in new local currency loans in June on a net basis (the Bloomberg median was RMB2,300bn and our forecast was RMB1,900bn). Aggregate financing (AFRE), the PBOC's measure of broad credit, rising by RMB4,220bn (Bloomberg RMB3,000bn, CE RMB2,600bn).
- This was a rare recent example of data from China beating expectations. But the positive surprise still wasn't big enough to shift the downward trajectory. We focus on y/y growth in outstanding credit to cut through the seasonality of the monthly net increase numbers. Based on this, **bank loan growth edged down from 11.4% y/y to 11.3%, its lowest since February.** (See Chart 1.) This was mainly driven by a slower expansion in lending to corporates. Lending to households lifted slightly, perhaps supported by the lagged impact of the earlier increase in home sales on mortgage disbursements.
- Looking at the broader measure of credit, government bond issuance accelerated, but this was more than offset by slower corporate bond issuance. All told, broad credit growth slowed from 9.5% y/y to 9.0%. (See Chart 2.)
- **The key constraint on credit growth at the moment is simply the weakness of demand, with loan demand now close to the subdued levels it was at when virus and zero-COVID disruption was damaging appetite for borrowing.** The PBOC lowered its policy rates by 10bp last month, and we expect another 10bp cuts to come before long. But these tiny moves will do little to revive loan demand.
- **The leadership may signal plans for more substantial policy easing at the Politburo meeting this month, which could have a greater impact on credit growth.** Nonetheless, the resulting impact on broad credit growth is likely to be modest compared to previous easing cycles.

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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