



CHINA RAPID RESPONSE

Bank Lending & Broad Credit (Aug.)

Turning a corner thanks to policy support

- China’s bank loan growth stabilised in August after declining for three consecutive months, and broad credit growth edged up from July’s record low. We think that policy easing could drive a modest cyclical rebound in home sales and mortgage demand, contributing to a partial recovery in credit growth in the coming months.
- China’s banks extended RMB1,360bn in new local currency loans in August on a net basis, higher than most people had expected (the Bloomberg median was RMB1,050bn and our forecast was RMB1,500bn). Aggregate financing (AFRE), the PBOC’s measure of broad credit, was also above consensus expectations, rising by RMB3,120bn (Bloomberg RMB2,375bn, CE RMB3,100bn).
- The simplest way to cut through the seasonality of the net increase numbers is to look at y/y growth in outstanding credit. On this basis, **bank loan growth held steady at 11.1% y/y, ending a three-month string of declines.** (See Chart 1.) Both lending to corporates and households were broadly unchanged, with downward pressure on the latter easing thanks to a smaller decline in home sales and therefore mortgage demand.
- Turning to non-bank borrowing, the main bright spot was a sharp pick-up in government bond issuance, reflecting the recent push to accelerate fiscal spending. Corporate bond issuance also accelerated, though shadow credit dropped back, likely due to the recent turmoil in the trust sector. (See Chart 2.) All told, **broad credit growth edged up from 8.9% y/y to 9.0%, the first acceleration since March.** (See Chart 3.)
- Meanwhile, growth in household and corporate deposit balances continued to slow. (See Chart 4.) This suggests that flows from risky assets into deposits have eased, a sign consumers and firms may be turning less cautious.
- **The latest round of property easing measures could provide support for a gradual recovery in home sales and mortgage demand in the coming months.** And government borrowing could pick up further, as local officials have been instructed to fully utilize their annual quotas for special bonds by the end of this month. This could drive a partial recovery in credit growth in the near-term.

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

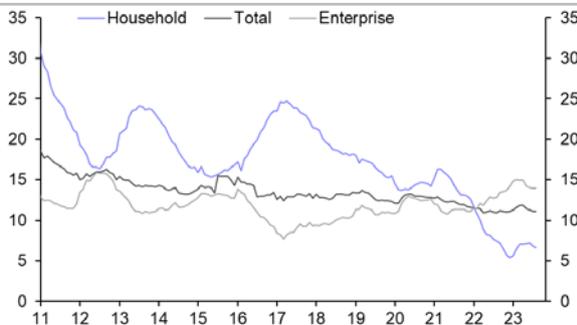
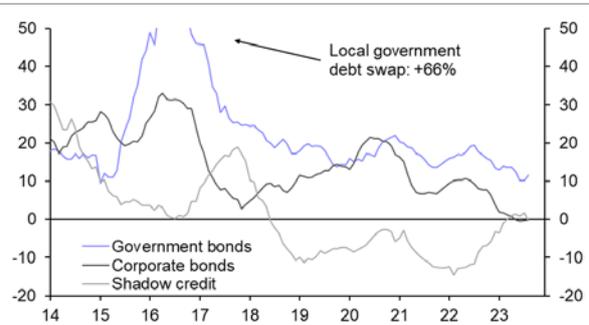


Chart 2: Aggregate Financing (Outstanding, % y/y)



Sources: CEIC, Capital Economics

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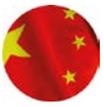


Chart 3: Growth of Outstanding Credit (% y/y)

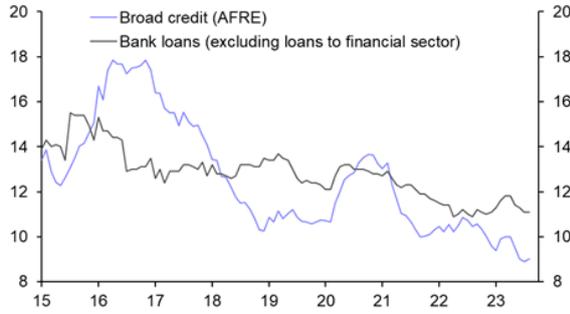
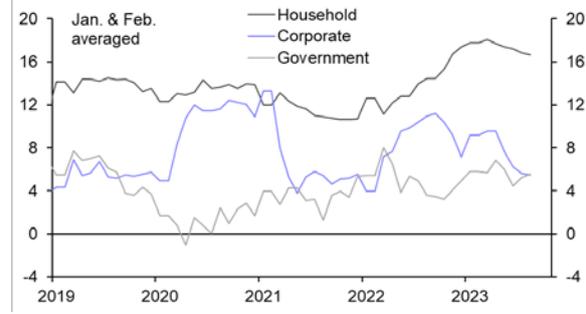


Chart 4: Deposits Outstanding (% y/y)



Sources: CEIC, Capital Economics



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