



# CHINA RAPID RESPONSE

## Bank Lending & Broad Credit (Sep.)

Credit growth has stabilised

- After slowing sharply in Q2, broad credit growth edged up in August and held steady last month. Although a sharp rebound seems unlikely, we do think credit growth could pick up somewhat over the coming quarters, especially if policy support succeeds in driving a cyclical rebound in home sales. At the very least, increased fiscal support should prevent credit growth from slowing again in the near-term.
- China’s banks extended RMB2,310bn in new local currency loans in September on a net basis, less than most people had expected (the Bloomberg median was RMB2,500bn and our forecast was RMB2,700bn). But that didn’t prevent aggregate financing (AFRE), the PBOC’s measure of broad credit, coming in above consensus expectations, rising by RMB4,120bn (Bloomberg RMB3,800bn, CE RMB4,100bn).
- 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 slowed, from 11.1% y/y to 10.9%**. Lending to households accelerated by the most in six months, helped by a pick-up in car sales and some improvement in the housing market. But lending to corporates continued to cool. (See Chart 1.)
- **The slowdown in banking lending last month was offset by stronger non-bank borrowing. Government bond issuance remained a bright spot**, with local governments rushing to use up their annual quotas for special bonds before the end-September deadline. But shadow credit also picked up. (See Chart 2.) **As a result, broad credit growth held steady at 9.0% y/y.** (See Chart 3.)
- Meanwhile, growth in household and corporate deposit balances continued to decelerate last month. This implies that the movement of funds from riskier assets into deposits has diminished, possibly signalling that consumers and businesses are turning less cautious. (See Chart 4.)
- The housing market appears to have stabilised recently thanks to the latest round of [property easing measures](#), and **we expect a modest recovery in home sales and mortgage demand in the coming months.** The PBOC has also hinted that **additional monetary support is on its way**, which [may include](#) tapping its Pledged Supplemental Lending (PSL) program to offer funding for policy banks to finance infrastructure investments. In addition, policymakers are reportedly considering the issuance of at least 1 trillion yuan of additional sovereign debt by year-end. **These measures will help to shore up near-term credit growth, which in turn should underpin a partial economic recovery over the coming quarters.**

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

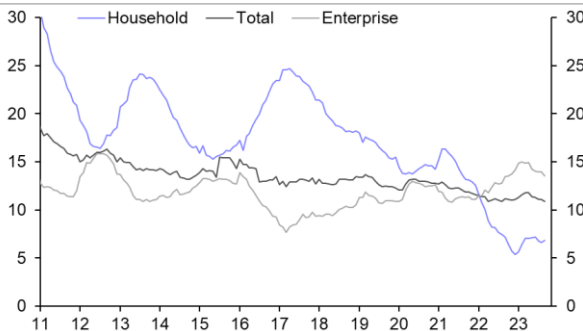
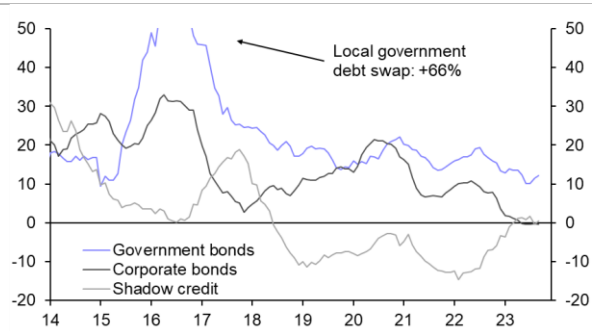


Chart 2: Aggregate Financing (Outstanding, % y/y)



Sources: CEIC, Capital Economics

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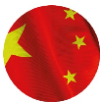


Chart 3: Growth of Outstanding Credit (% y/y)

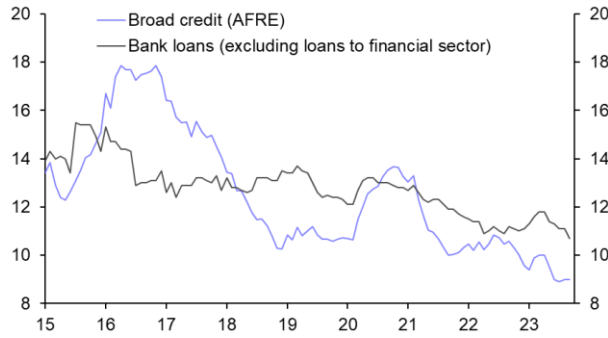
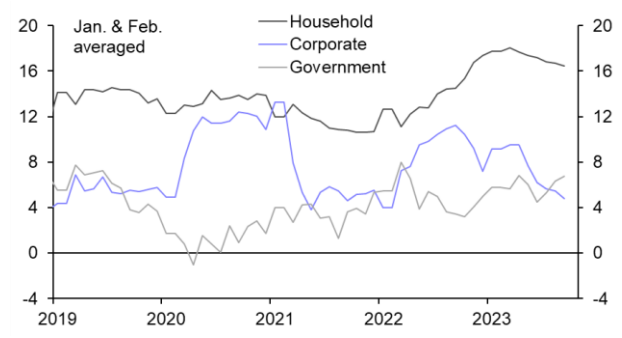


Chart 4: Deposits Outstanding (% y/y)



Sources: CEIC, Capital Economics



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