

China Policy

Credit growth is expected to rebound in 2023

China's new loans beat expectations in January as the authority required banks to front load credit supply and local governments & SOEs sought a good start amid the pro-growth shift this year. However, credit demand in households and SMEs remained weak as it may take longer for the private sectors to restore their confidence. To boost confidence and growth in the private sector, China has to continue to send market-friendly signals and maintain accommodative liquidity & credit policy this year. The PBOC may launch additional RRR and LPR cuts to boost the credit growth. New RMB loans and total social financing are expected to increase by 12% and 10% in 2023 after rising 5% and 2.1% in 2022.

- New loans beat expectations in January as PBOC required banks to front load credit supply.** New RMB loans reached RMB4.9trn in January, much higher than RMB3.98trn in the same period last year. Total social financing dropped 3.2% YoY in January after dropping 36.1% in 4Q22. Specifically, new RMB loans to real sector rose 17.4% YoY in January. However, foreign currency loans continued to decline amid exchange rate uncertainty. Off-balance sheet (OBS) financing decreased by 22.2% YoY in January as risk aversion sentiment towards property projects remained. Corporate bond financing dropped 74.5% YoY in January after plunging 122.2% YoY in 4Q22 as the cautious sentiment in bond market remained.
- Credit demand in SOEs was strong while that in households and SMEs remained weak.** As Chinese policymakers shifted their focus from Covid control to economic growth, local governments and SOEs showed stronger willingness to increase debt for expansion. Credit demand in local government financing vehicles and SOEs seemed to rebound noticeably. New medium and long term loans to corporate sector increased by 66.7% YoY to RMB3.5tn in January as most of those loans should have been allocated to projects of local governments and SOEs. However, credit demand in the private sector remained weak as it should take longer for households and SMEs to restore their confidence. We note new loans to household sector dropped 69.5% YoY and bill discount financing was negative in January.
- Housing market and consumption may recover in a gradual manner.** Housing sales may have remained weak in January as new medium to long term loans to household sector dropped 69.9% YoY after decreasing 68.4% last December. Meanwhile, consumption mildly improved as new short-term loans to household sector declined 66.1% YoY in January after dropping 104.8% YoY last December. Looking forward, housing market and durable consumption may gradually improve. The economic reopening should boost employment, income and confidence, which is positive for housing market and durable consumption. In addition, credit policy should remain accommodative, which can facilitate the recovery of demand for housing and durables.
- Liquidity and credit policy should remain accommodative.** The pandemic and housing market slump severely hurt consumer confidence last year. It needs some time to resume employment, income and confidence. Both housing market and durable consumption may recover in a gradual manner. The GDP growth should remain below potential growth with the reflation risk under control in 2023. The liquidity and credit policy should remain

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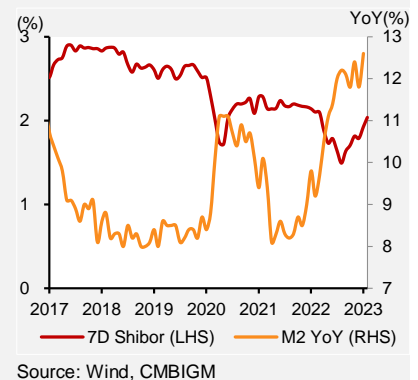
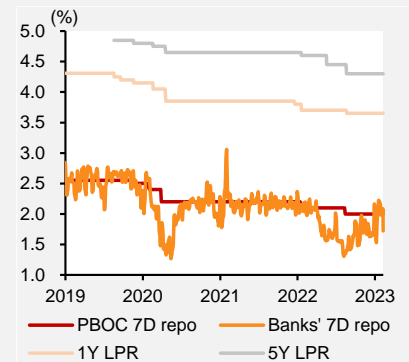
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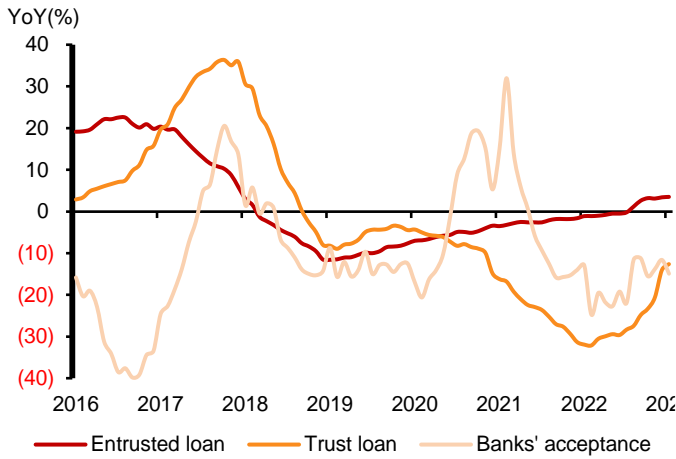
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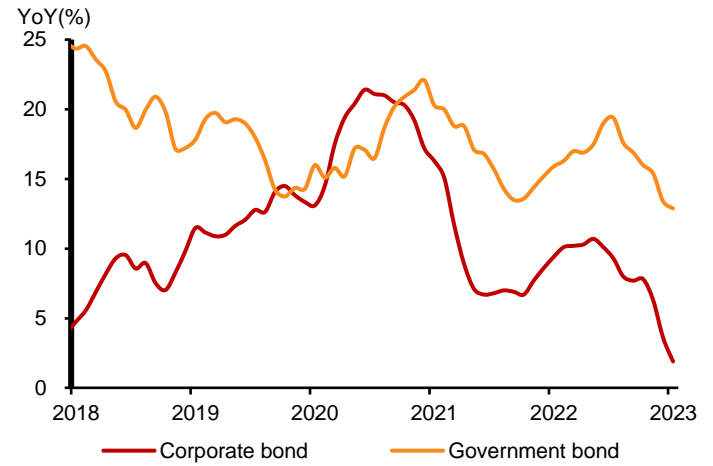
accommodative this year. We expect the PBOC may cut the RRR for 50-100bps this year to meet higher liquidity demand due to rebounding risk appetite and credit demand. The central bank may also cut LPRs for 10-15bps to lower financing costs to households and private business. In 2022, many households repaid their mortgage loans in advance as mortgage rates were still quite high. Mortgage rates were even higher than the rates of individual business loans and consumer credit, which is unreasonable. This should increase the possibility for additional moderate cuts in 5Y LPRs. To alleviate banks' NIM pressure and boost consumption, the authority may also moderately lower deposit rates.

Figure 1: Growth of outstanding OBS financing



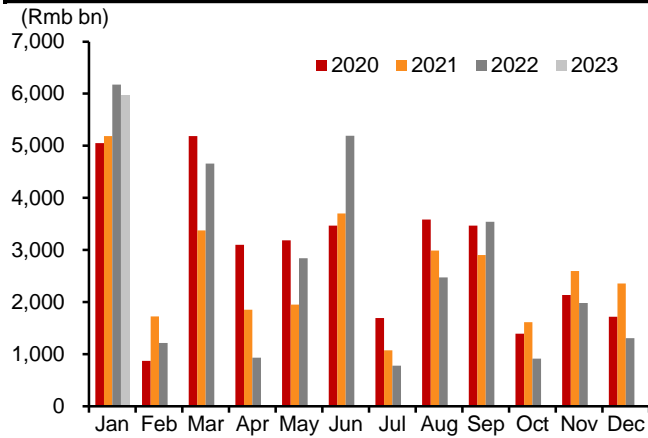
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



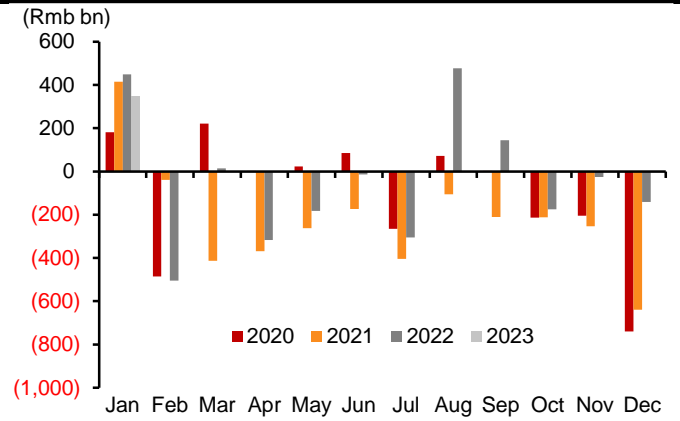
Source: Wind, CMBIGM

Figure 3: Total social financing



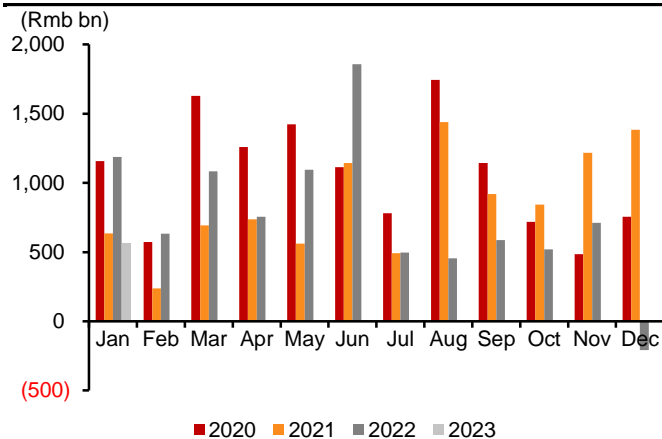
Source: MoF, CMBIGM

Figure 4: OBS financing



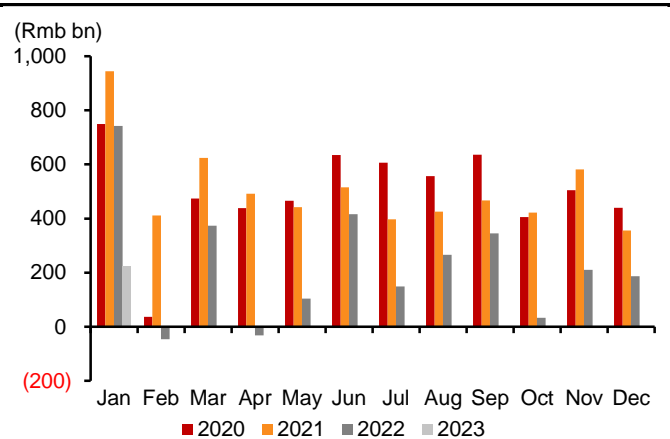
Source: MoF, CMBIGM

Figure 5: Bond financing



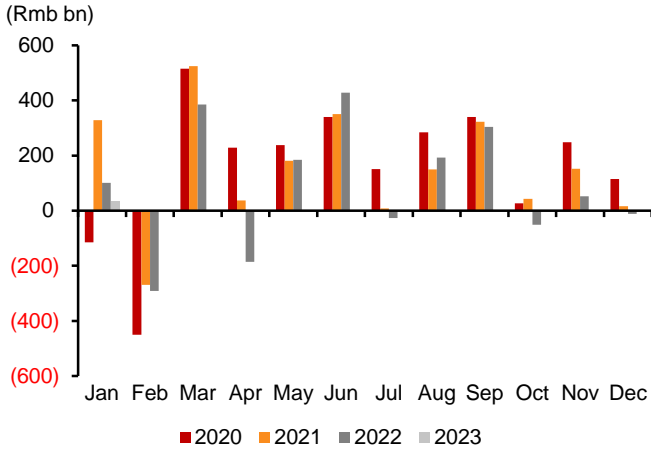
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



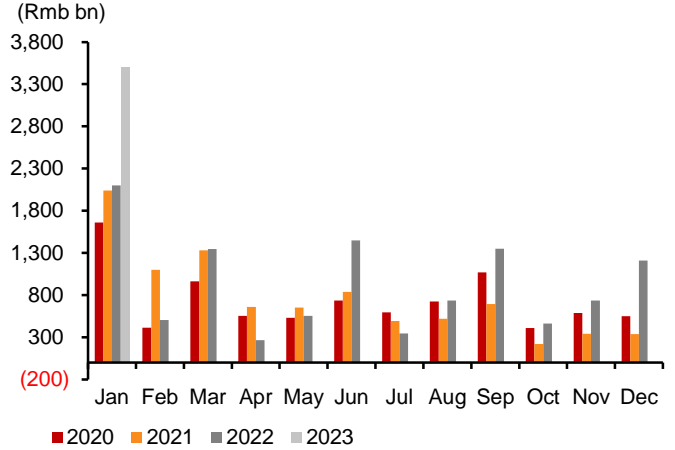
Source: Wind, CMBIGM

Figure 7: New short-term loans to households



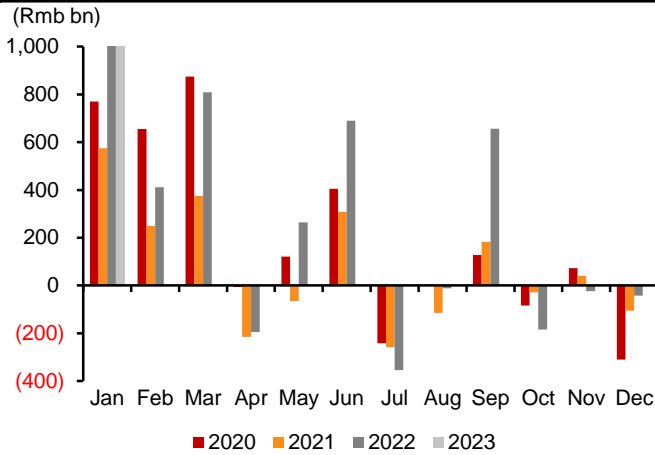
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



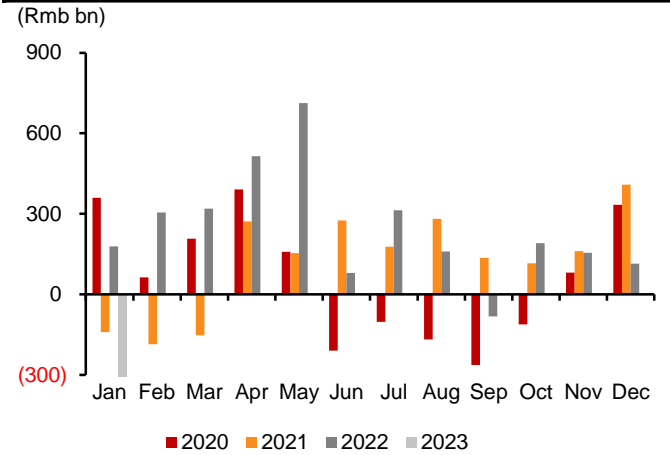
Source: Wind, CMBIGM

Figure 9: New short-term loans to enterprises



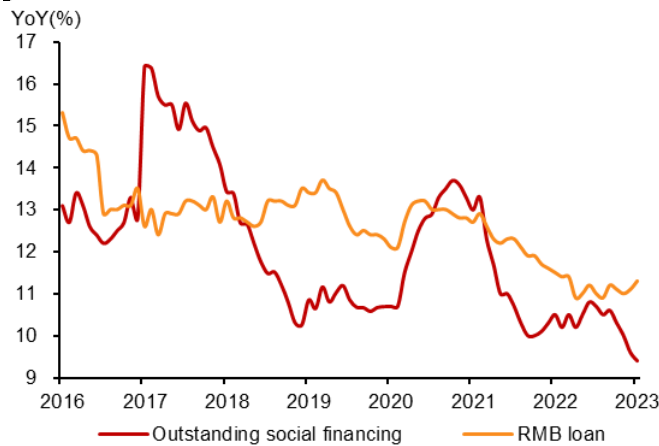
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



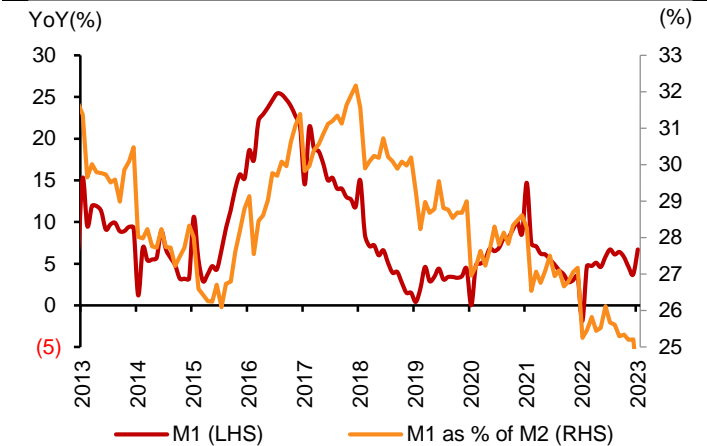
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



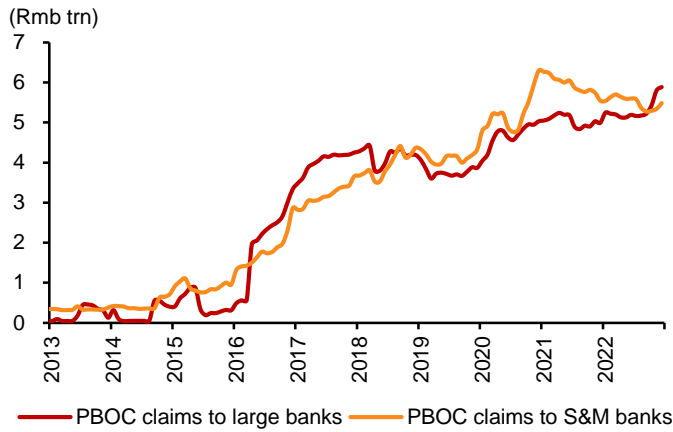
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



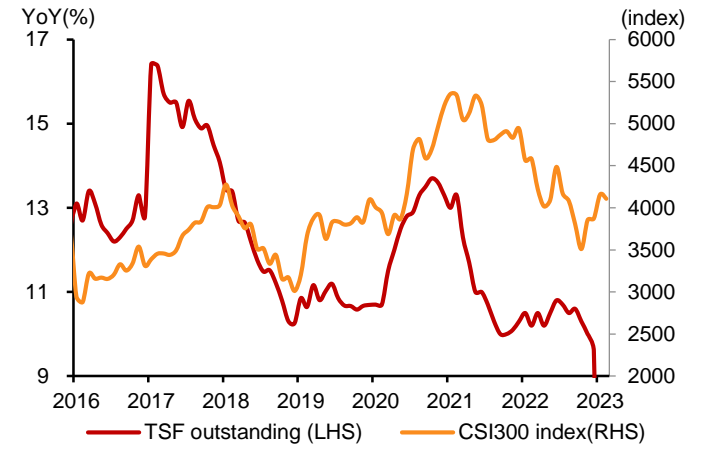
Source: Wind, CMBIGM

Figure 13: PBOC claims to large and S&M banks



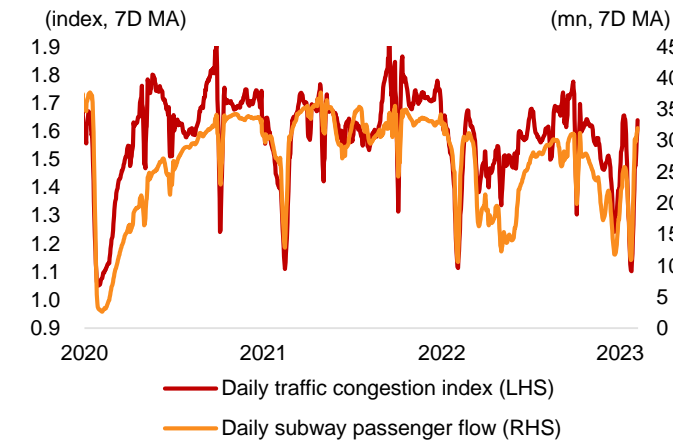
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



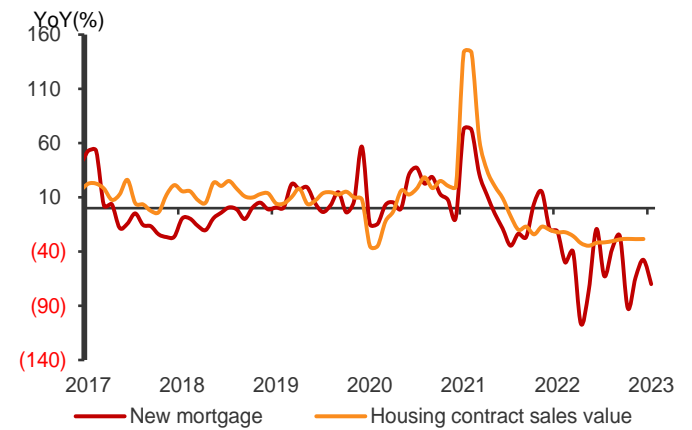
Source: Wind, CMBIGM

Figure 15: Daily domestic traffic flow



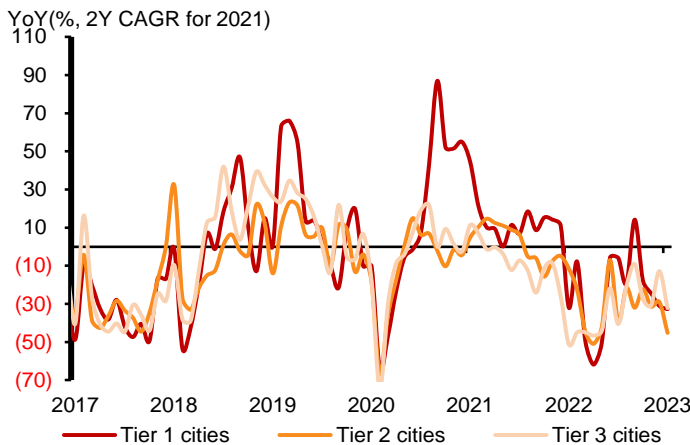
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



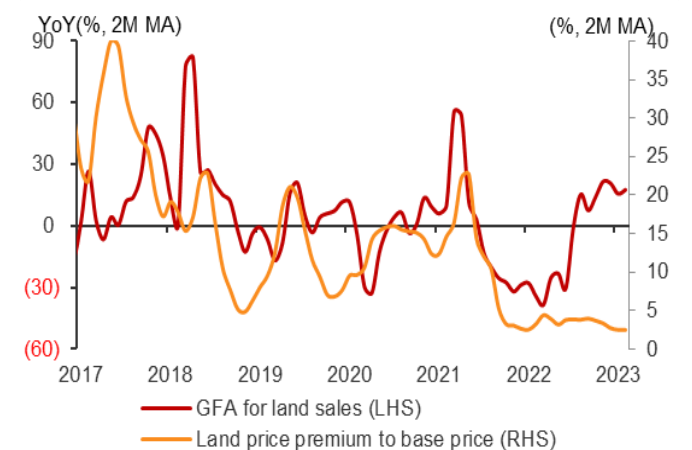
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



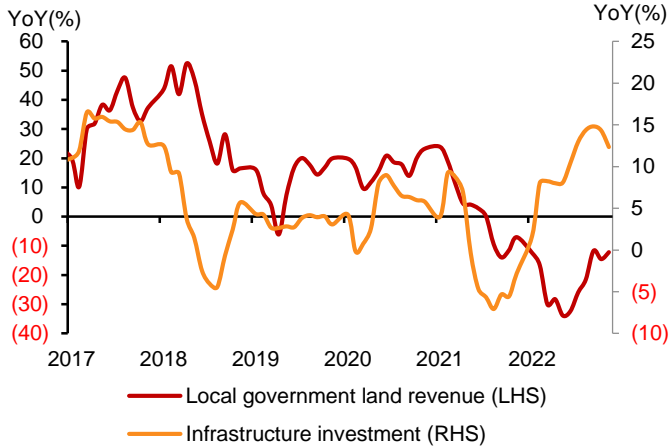
Source: Wind, CMBIGM

Figure 18: Growth of land sales



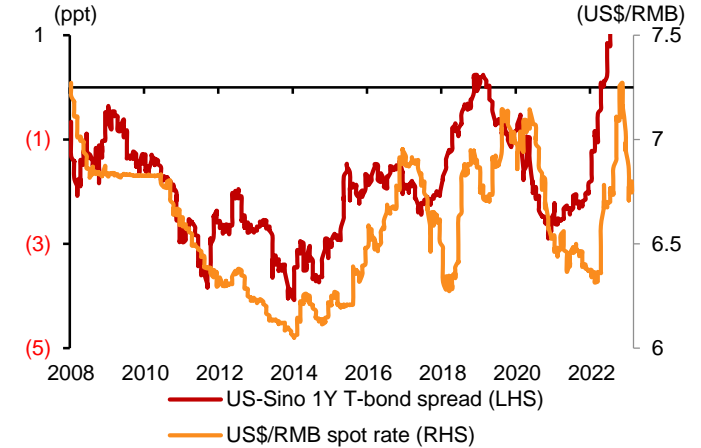
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



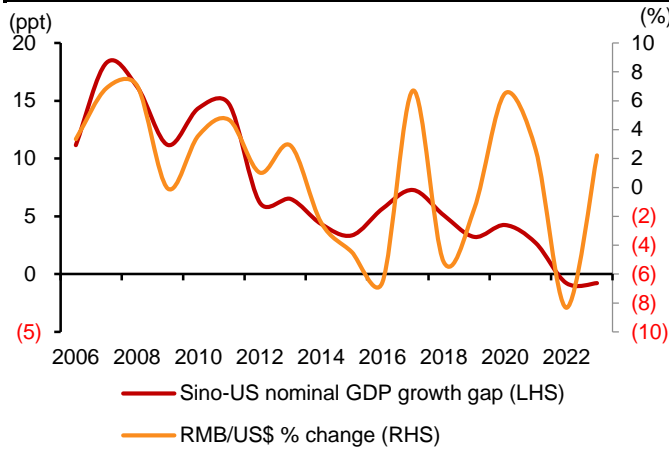
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



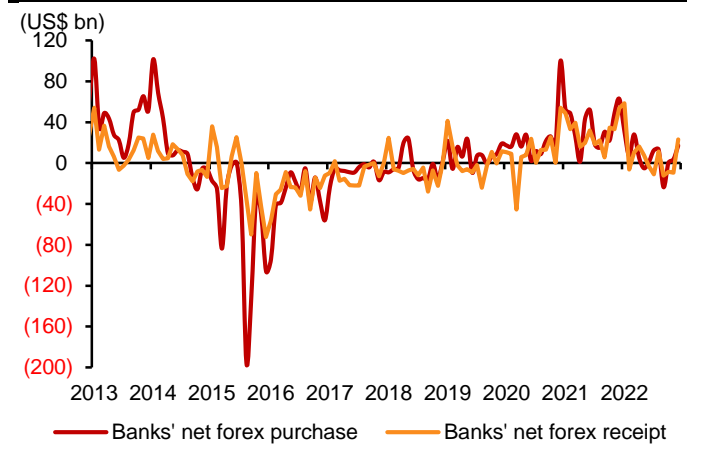
Source: Wind, CMBIGM

Figure 21: Sino-US growth gap & RMB/US\$ change



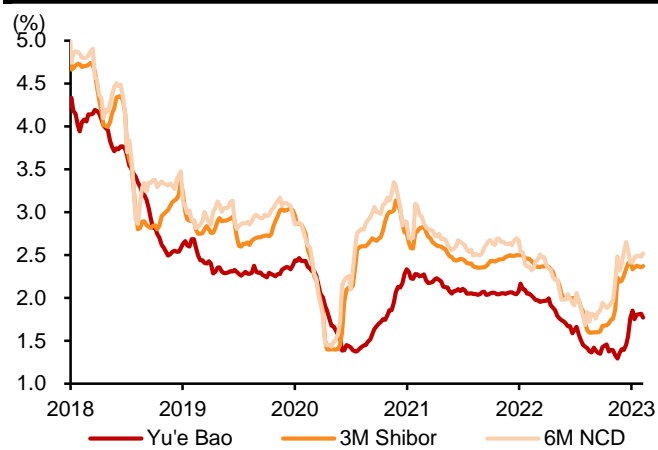
Source: Wind, CMBIGM

Figure 22: Net forex inflow



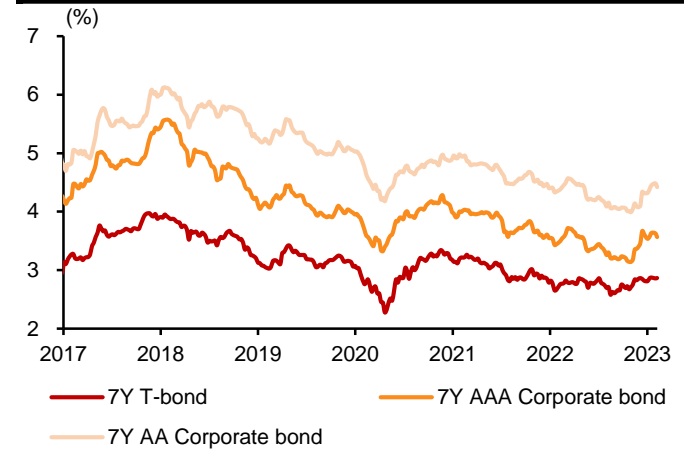
Source: Wind, CMBIGM

Figure 23: Money market funding cost



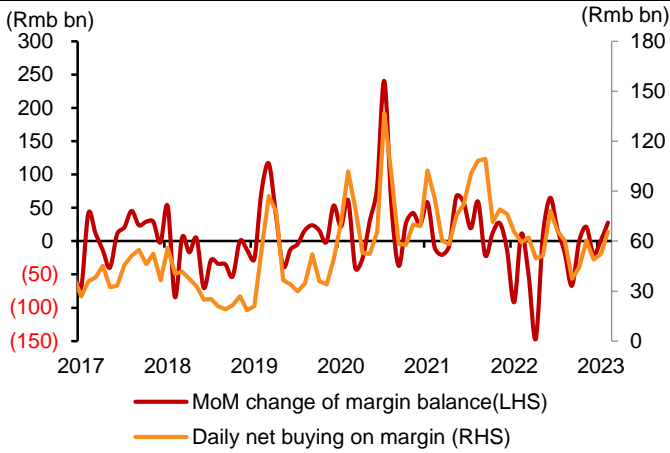
Source: Wind, CMBIGM

Figure 24: Bond market rates



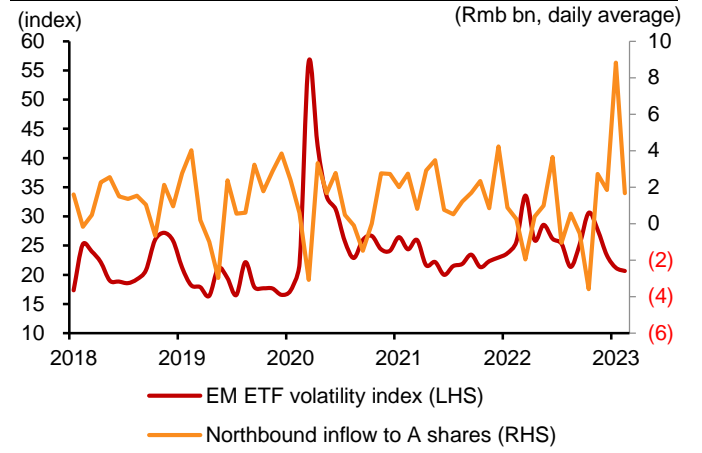
Source: Wind, CMBIGM

Figure 25: Change of margin balance and daily net buying on margin



Source: Wind, CMBIGM

Figure 26: EM ETF volatility and northbound flow to A-share



Source: Wind, CMBIGM

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