

# China Policy

## Credit growth continues to rebound into 2024

China's total social financing recovered to RMB2.45trn in Nov thanks to the acceleration in government bond issuance, a trend that has persisted over the past few months. Meanwhile, corporate confidence remained subdued as loans to enterprises edged down, especially the medium- and long-term loans. The share of M1 as % of M2 dropped to a historic low as business activity remained weak. On the bright side, household borrowing marginally recovered since both short-term and long-term loans rebounded. Looking forward, credit growth may gradually recover in 2024 with continuous easing monetary policy, more expansionary fiscal policies and slow improvement of business and consumer sentiment. We anticipate a mild increase of broad fiscal deficit and additional cuts in RRR, LPRs and deposit rates in 2024. We maintain our forecast of the GDP growth at 5.3% in 2023 and 4.8% in 2024.

- Social financing continued to recover driven by government bond issuance.** Social financing flow rose 23.5% YoY (all in YoY terms unless otherwise specified) to RMB2.45trn in Nov after increasing 102% in Oct, mostly in line with market expectation. The growth of social financing flow was mainly driven by the government bond financing, a trend that has persisted over the past few months. Net government bond financing grew 76.4% YoY to RMB1.15trn in Nov, thanks to the increase of fiscal deficit by RMB1trn for 2023 and the launch of provincial government refinancing bonds. Meanwhile, shadow financing continued to phase out, with almost no YoY increase this month. The new entrusted loans further dropped to -RMB38.6bn from -RMB8.8bn in the previous year, and -RMB4.29bn in the previous month. New trust loans grew by RMB19.7bn while new undiscounted banks' acceptance increased RMB20.3bn. New RMB loans to the real sector dropped 3% after rising 9.2% in Oct, as the lower base effect faded. The decline of new foreign currency narrowed from 121% to 45%, as renminbi rebounded against the US dollar. Corporate bond financing increased 120.2% in Nov. M2 grew by 10% in Nov while M1 slowed down to 1.3% from 1.9% in Oct. The continued drop of M1 as % of M2 indicates business activities remained weak.
- New RMB loans softened as business and household confidence remained subdued.** The growth of new RMB loans declined to 9.9% from 20% in Oct. New loans to business remained dampened as it slightly decreased to RMB822bn from year-ago level of RMB884bn. New medium- to long-term loans to enterprises further dropped 39.5% in Nov after dropping 17.2% in October. New short-term loans to enterprises reached RMB170.5bn, up from October's -RMB177bn and exceeding last year's -RMB41.6bn. The bill financing to enterprises increased 35.1% to RMB209.2bn. The continued decline of medium- and long-term loans indicates business confidence and capex demand remained weak. On the bright side, new loans to households recovered as short-term loans to households rebounded to RMB59.4bn from -RMB105.3bn in Oct. New medium- and long-term loans to households also resurged to RMB233.1bn from RMB70.7bn in Oct with 10.8% YoY growth. The marginal improvement in mortgage loans may be mainly due to an improvement in the second-hand housing sales.
- We expect a mild recovery in credit growth in 2024 with continuous loosening monetary policy.** We expect social financing and new RMB loans

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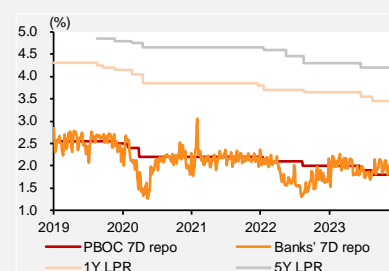
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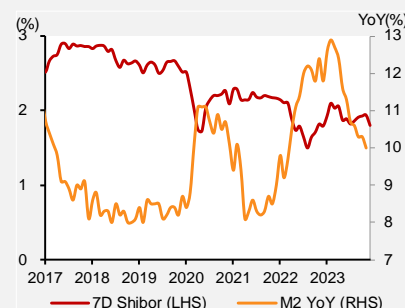
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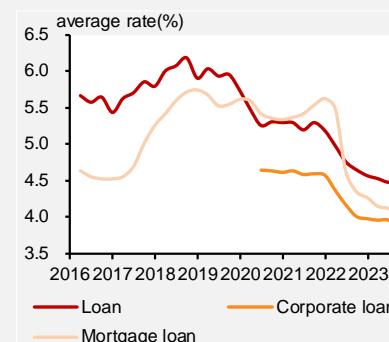
frankliu@cmbi.com.hk



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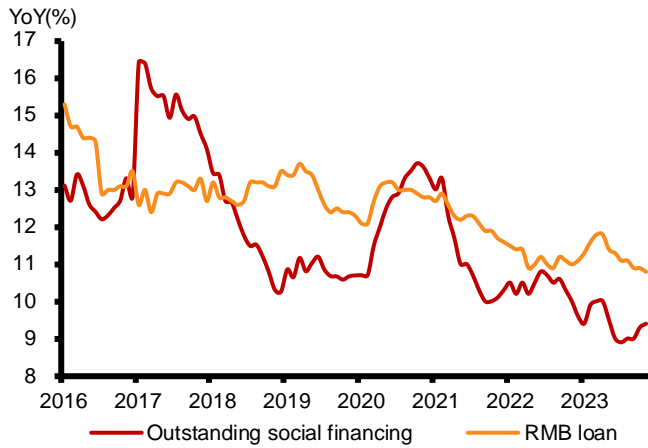
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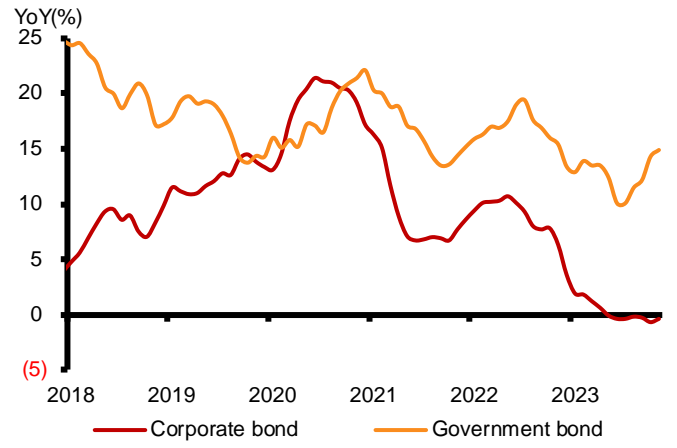
to respectively increase 11% and 14% in 2024 thanks to continuous monetary policy loosening. The PBOC may cut RRR by 50bps, 1-year LPR by 10bps and 5-year LPR by 20bps in 2024. Due to base effects and a decline in the propensity to save, there will be a deceleration in M2 growth. We maintain our forecast of the GDP growth at 5.3% in 2023 and 4.8% in 2024.

**Figure 1: Growth of outstanding social financing**



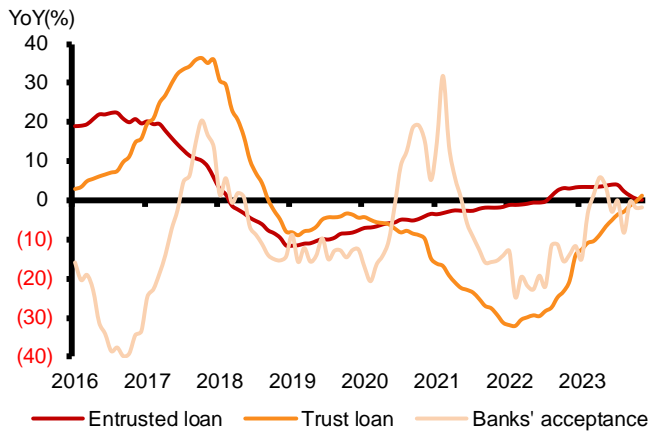
Source: Wind, CMBIGM

**Figure 2: Growth of outstanding bond financing**



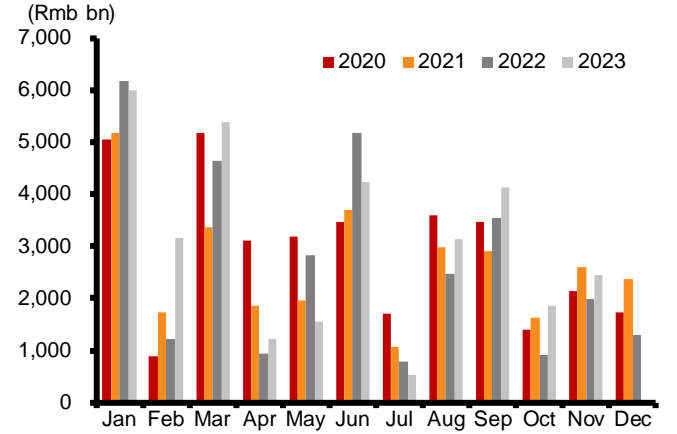
Source: Wind, CMBIGM

**Figure 3: Growth of outstanding OBS financing**



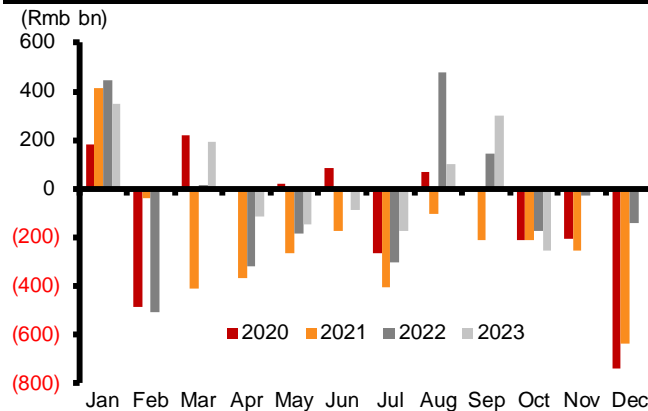
Source: MoF, CMBIGM

**Figure 4: Total social financing**



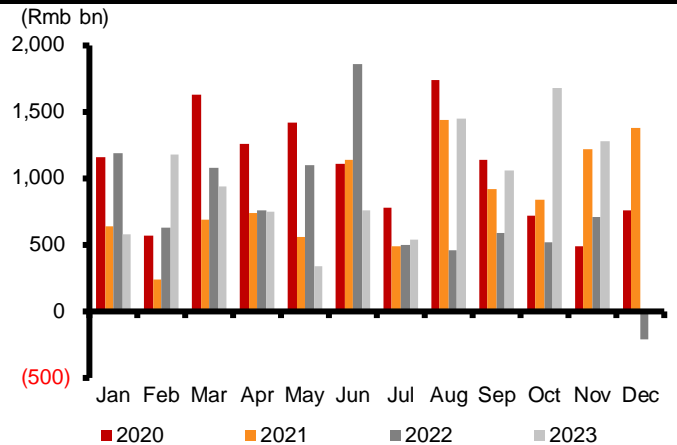
Source: MoF, CMBIGM

**Figure 5: OBS financing**



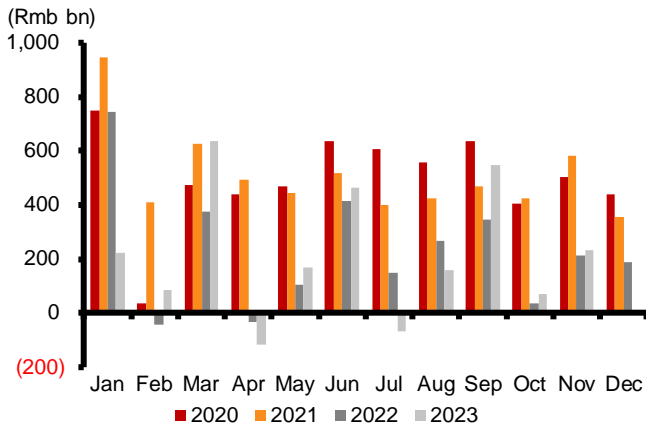
Source: Wind, CMBIGM

**Figure 6: Bond financing**



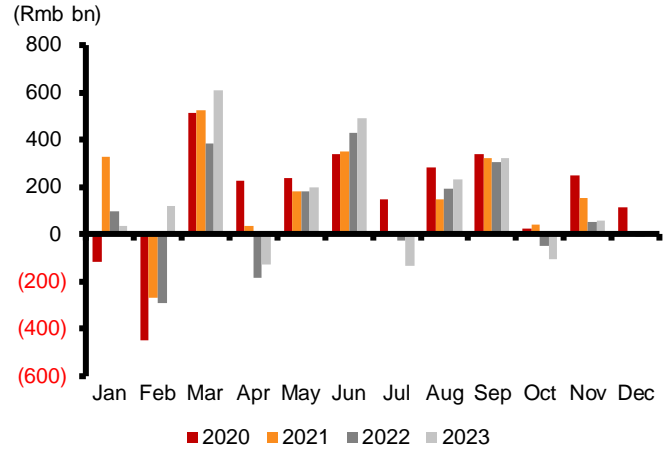
Source: Wind, CMBIGM

**Figure 7: New M&L term loans to households**



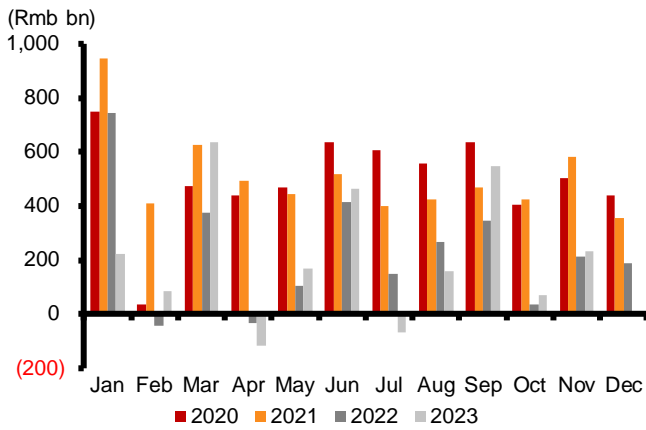
Source: Wind, CMBIGM

**Figure 8: New short-term loans to households**



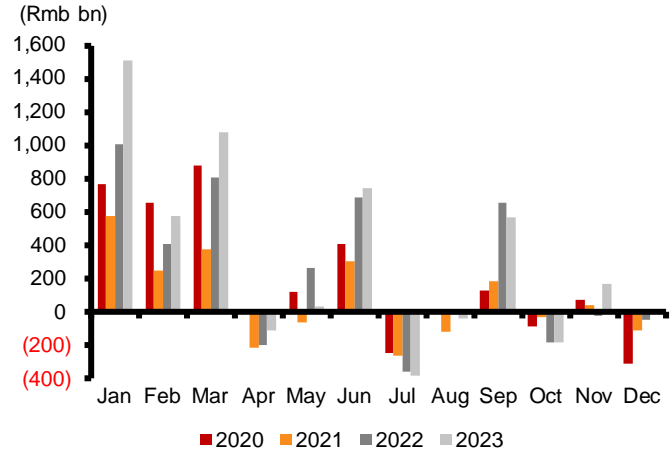
Source: Wind, CMBIGM

**Figure 9: New M&L term loans to enterprises**



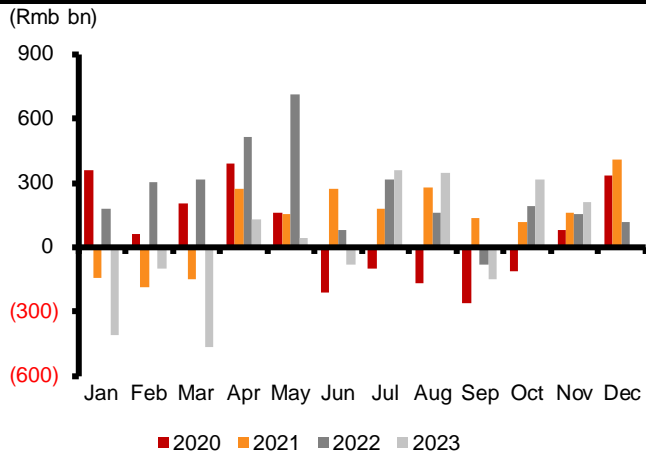
Source: Wind, CMBIGM

**Figure 10: New short-term loans to enterprises**



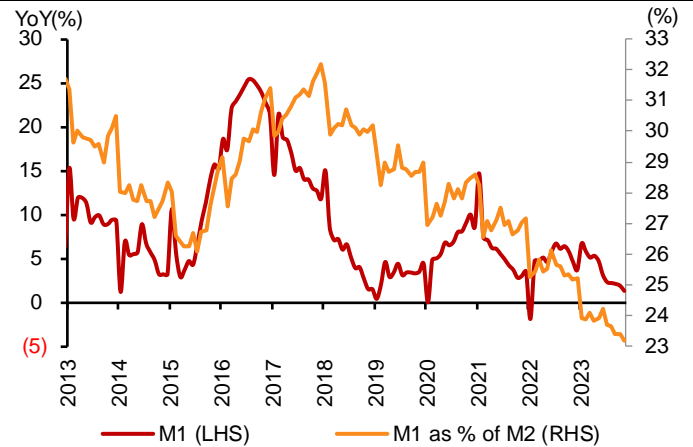
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**



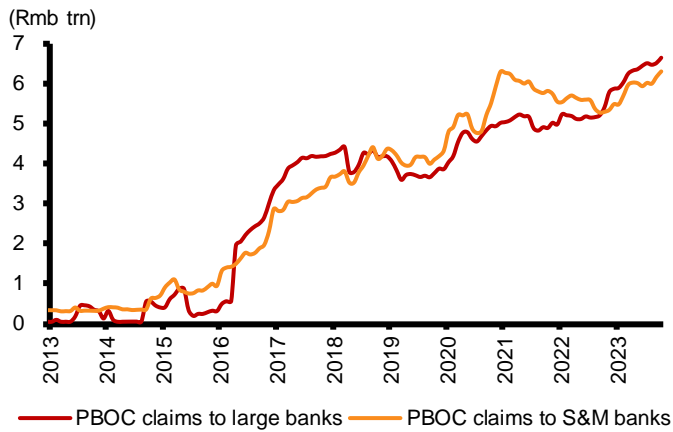
Source: Wind, CMBIGM

**Figure 12: M1 growth & M1 as % of M2**



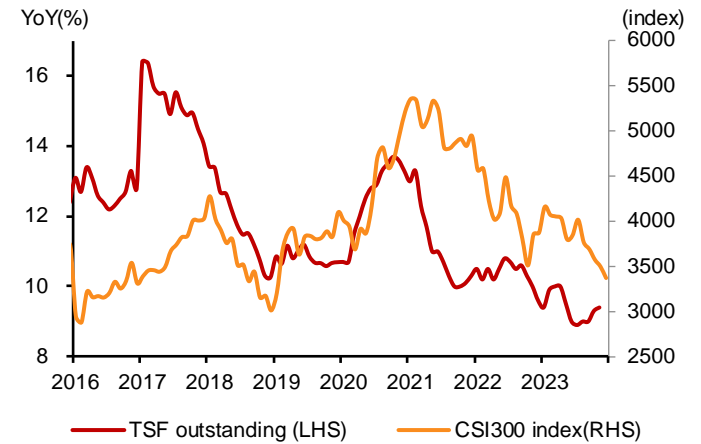
Source: Wind, CMBIGM

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



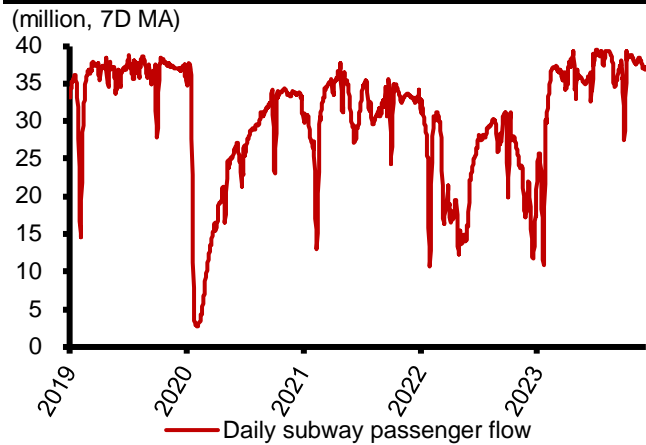
Source: Wind, CMBIGM

**Figure 14: Total social financing & CSI300 index**



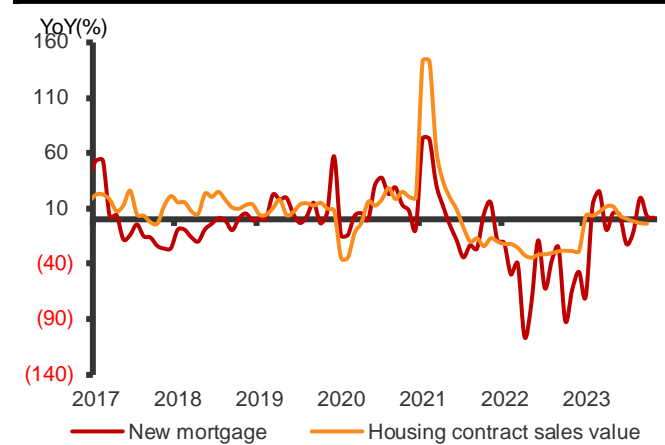
Source: Wind, CMBIGM

**Figure 15: Daily domestic traffic flow in tier-1 cities**



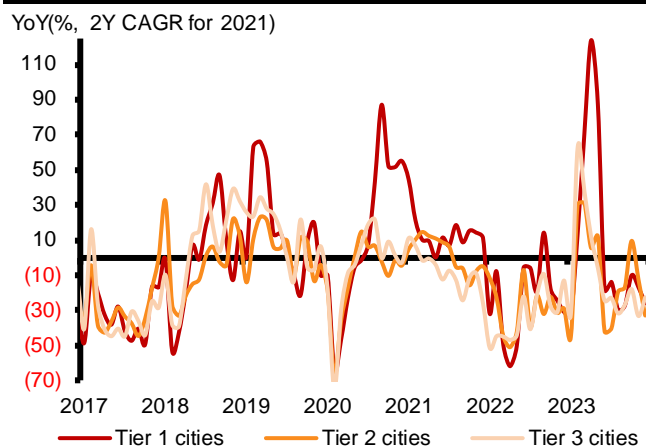
Source: Wind, CMBIGM

**Figure 16: New mortgage & housing sales**



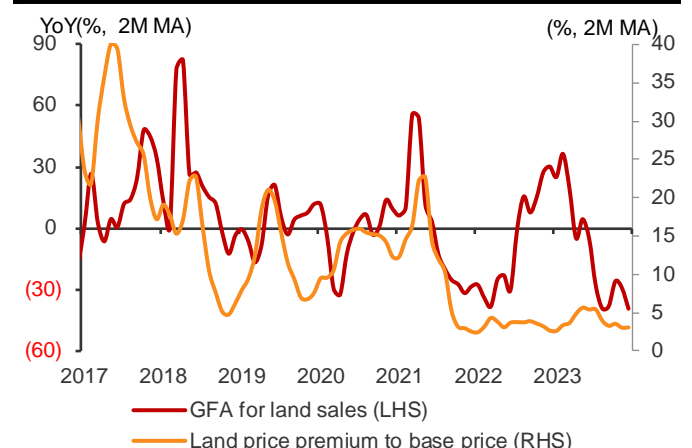
Source: Wind, CMBIGM

**Figure 17: Growth of housing sales by cities**



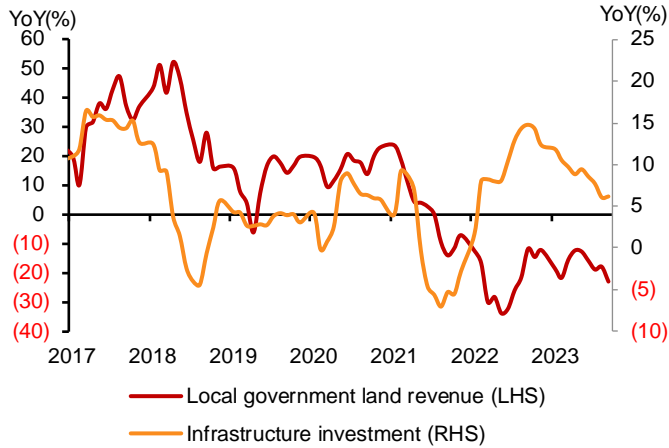
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**



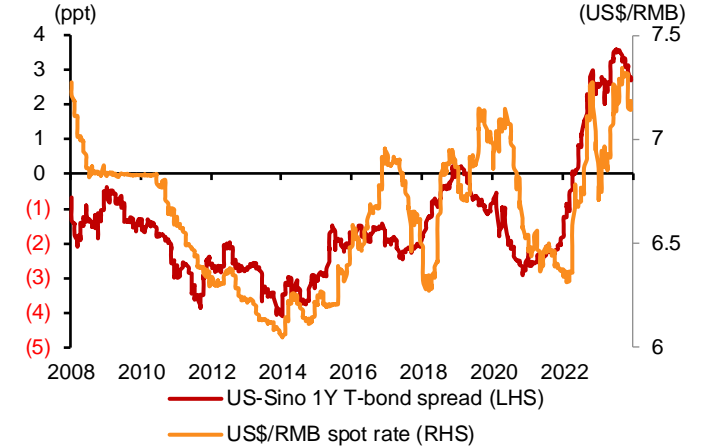
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**



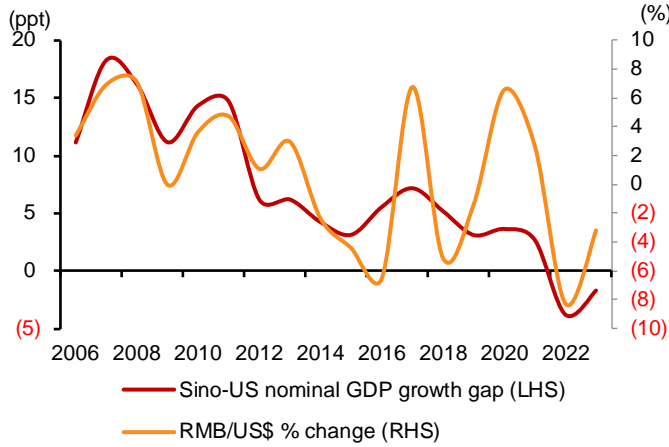
Source: Wind, CMBIGM

**Figure 20: US-Sino interest spreads**



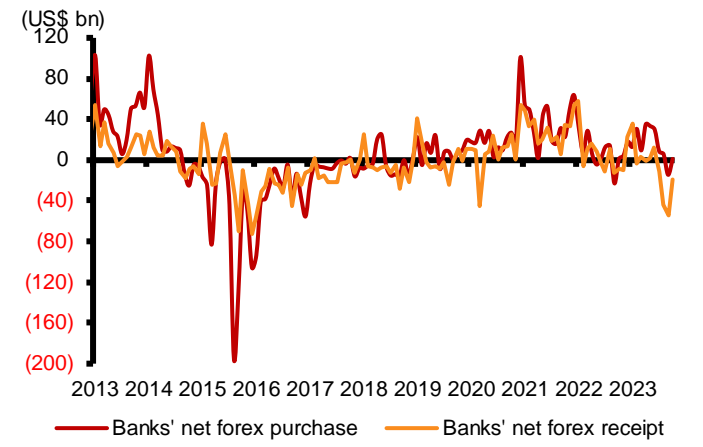
Source: Wind, CMBIGM

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



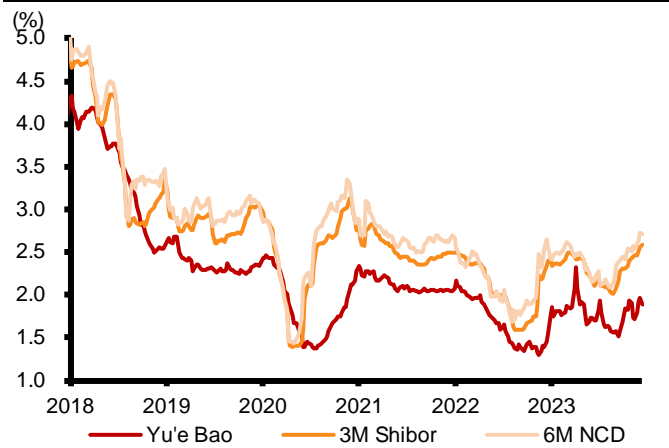
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**



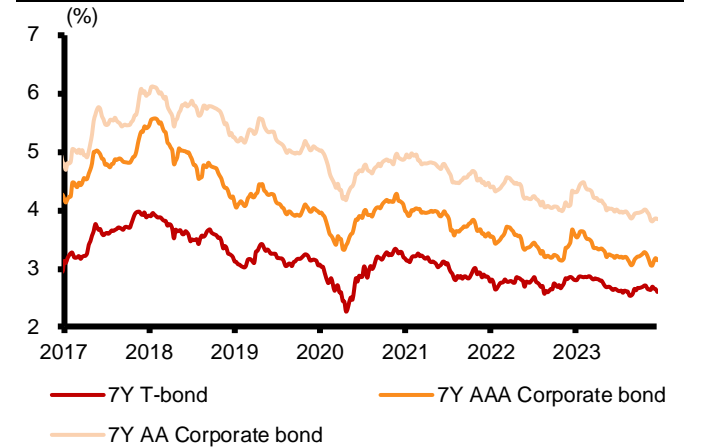
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**



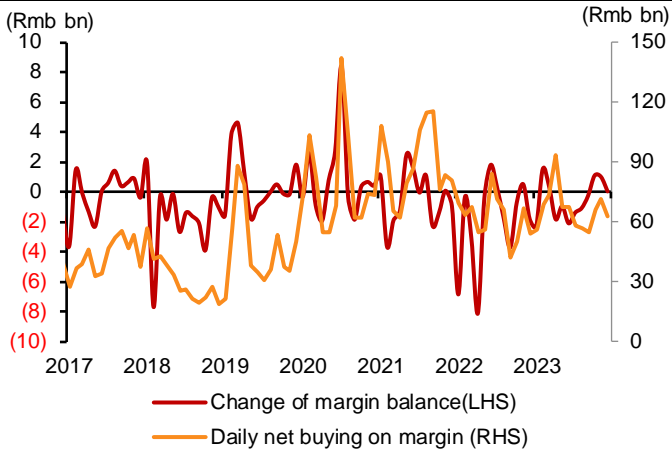
Source: Wind, CMBIGM

**Figure 24: Bond market rates**



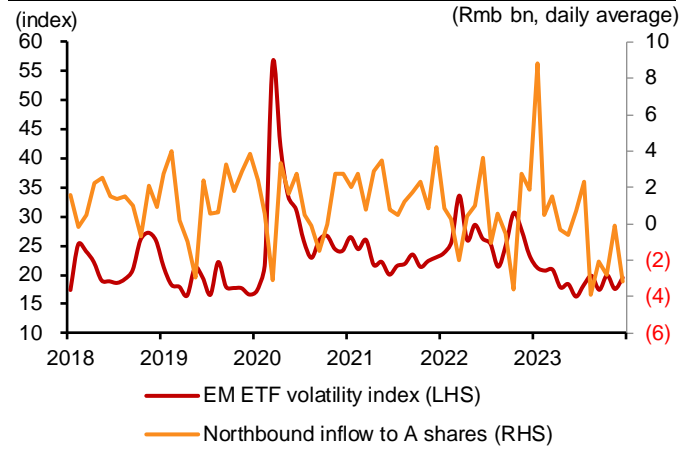
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

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