

Economic Analysis

China | Pickup in bond issuance and shadow banking activities helped to boost December credit outturns

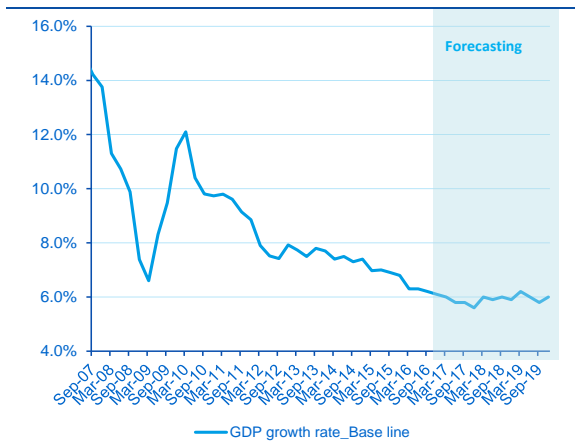
Jinyue Dong / Le Xia

The People's Bank of China (PBoC) today announced a batch of monetary and credit indicators for December, among which, both M2 growth and new RMB loans fell below market expectations and their previous readings, while the total social financing (TSF), an indicator gauging the broader credit condition including bank loans, bond and equity issuance as well as certain types of shadow banking activities, surged up significantly in the same month. It reflects that firms are increasingly reliant on the shadow banking sector and capital market to meet their financing needs as banks have become more conservative in extending credit against the backdrop of persistent growth deceleration. For the positive side, the better-than-expected credit growth will serve to stabilize the short-term growth and alleviate investors' fear of a hard-landing, which have amplified by recent turbulences in China's equity and currency markets. We therefore maintain growth projections of 6.9% and 6.2% for 2015 and 2016, respectively (Figure 1). However, the downside risk has risen compared to three months ago when we finalized the previous forecasts.

- **The credit outturns indicate that banks have become more conservative in extending credit against the backdrop of persistent growth deceleration.** The total social financing, a broad gauge of credit including bank loans, bond issuance and shadow banking activities, surged to RMB 1820.0 billion from RMB 1018.1 billion in November (Consensus: RMB 1150.0 billion). Among which, the off-balance-sheet lending increased significantly, including trust loan, entrusted loan; so did the direct financing such as corporate bond. (Figure 2) However, the traditional bank loans (indicated by new RMB loans) declined significantly to RMB 597.8 billion (Consensus: RMB 700.0 billion) from RMB 708.9 billion of the last month. In addition, M2 growth dropped to 13.3% y/y (Consensus: 13.6% y/y) from 13.7% y/y in November. (Figure 3)
- **The large performance discrepancy between the M2, new RMB loans and total social financing suggests that company turns to off-balance-sheet lending.** Under the economic slowdown circumstance, banks are reluctant to lend, no matter how loosening the monetary policy is, which significantly weakened the transmission channels from the easing policy to the real economy. However, positively, the companies' strong desire to borrow from the alternative resources actually display that the economy is gradually stabilizing, kind of avoiding the adverse spillover from stock market crash and RMB sharp devaluation in the beginning of the new year.
- **Among the categories off-balance-sheet lending, FX loans decelerated significantly due to sharp RMB depreciation.** December FX loans decreased by 10.4 billion USD, which is the fifth month consecutive decreasing. Altogether, FX loans declined by 50.2 billion USD in 2015, and decreased further by 106.5 billion USD after the 2015 August 11 RMB exchange rate reform. The reason for the sharp decreasing of FX loan is mainly because of the RMB depreciation trend after the August reform which made enterprises have higher financial costs to repay the FX loans; moreover, the domestic low interest rate environment makes firms prefer RMB loans. (Figure 4) On the other hand, the only positive side on FX loan deceleration is that the recent sharp decreasing of foreign reserves could be partly explained by the FX loan

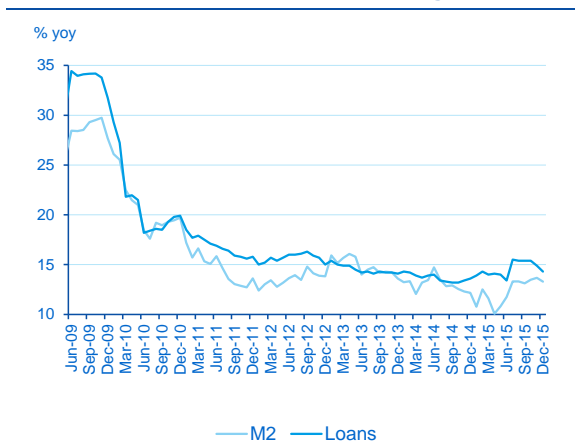
repayment by enterprises, as they may expect that financial pressure might become significantly large as RMB depreciate further in the future, thus speed up their repayment procedures.

Figure 1
We maintain our 2015 growth forecasting at 6.9%, and 6.2% for 2016



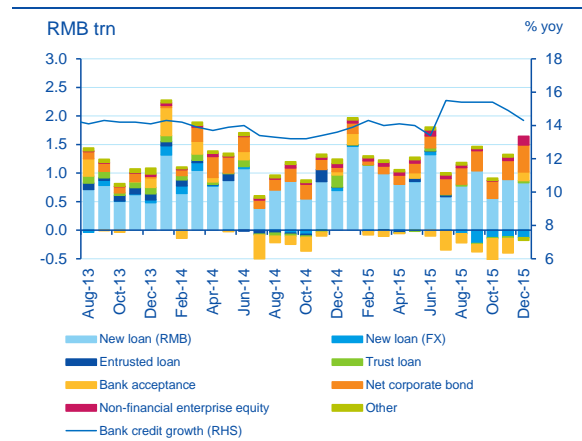
Source: CEIC and BBVA Research

Figure 3
Bank loans and M2 are below market expectations and the previous readings



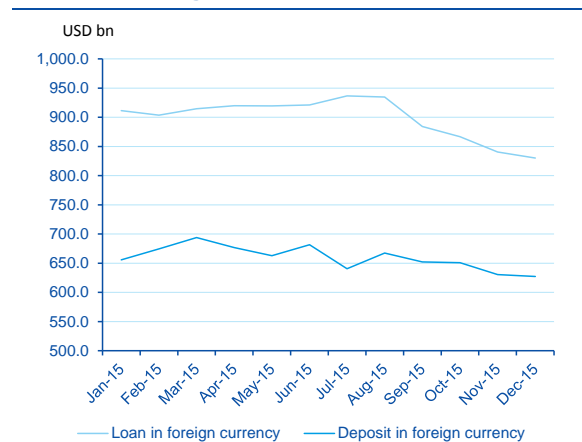
Source: CEIC and BBVA Research

Figure 2
Shadow bank lending increased significantly in December, indicating firms desire to borrow



Source: CEIC and BBVA Research

Figure 4
FX loans decreased significantly after the August 11 RMB exchange rate reform



Source: CEIC and BBVA Research

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