

2023 to be the year of re-leveraging in China

China loans grew faster than expected in December. Government bond issuance continued to increase in the last month of 2022. Both reflect the urgency of government policy to support economic growth. As such, 2023 will be a year of re-leveraging



Loans grew faster mainly from long term corporate loans

New yuan loan increased CNY1400 billion, more than the consensus expectation of CNY1200 bn, in December. This increase is special as banks usually defer loan growth in the last month of the year to the first month of the next year.

The increase was mainly in the medium to long-term corporate loans, at CNY1209 bn, higher than CNY737 bn in the previous month. This echoes the government policy to increase financing channels for real estate developers. Mortgages did not record an obvious increase in the month.

Quiet corporate bond in contrast with busy government bond issuance

Almost all the rest of the loan and credit data are not eye-catching. The exception is that

government bonds, including local government bonds, continued to increase while corporate bonds recorded a fall in net issuance.

Government bond net issuance increased CNY278 bn while corporate bond net issuance decreased CNY270 bn. This contrast highlights that the government kept getting funding for fiscal spending in the last month of the year.

2023 will be a year of releveraging

In 2022, government bond net issuance increased CNY7.12 trillion while corporate bond net issuance increased only by CNY2 tn. This difference highlights the bad economic environment and deleveraging reform in 2022.

We expect this is going to change in 2023. Corporate bond issuance should climb when the economic environment improves. This does not squeeze out government bond issuance as local governments would need funding for continual construction of uncompleted home projects and infrastructure investments.

Loan growth could be strong in 2023 if the government relaxes "the three red lines" financial leverage indicators for real estate developers.

In short 2023 will be a year of re-leveraging.