Snap | 12 April 2019

China: RRR cut needed to sustain credit growth

China's aggregate financing, which includes loans and other credit channels, amounted to CNY2.86 trillion in March alone. Loans comprised only a part of this, with the rest coming from the debt market. The central bank wants credit creation to support the economy. We believe a cut in the reserve requirement ratio is needed to maintain strong credit growth

Source: Shutterstock

A very high credit growth

Aggregate financing at CNY2.86 trillion, as a measure of China's credit growth, was up 80.28% YoY in March. 1Q19 total credit created was near CNY8.20 trillion, up 40.% from 1Q18.

Though it is usual to have high credit growth in the first quarter of the year in China, the growth is surprisingly high and a clear sign to us that this is to support the economy. Another sign that the central bank is supporting the economy is that the interest rate bid has remained low, as shown by 3M SHIBOR.

Source: ING, Bloomberg

Yuan loans likely went to small exporters

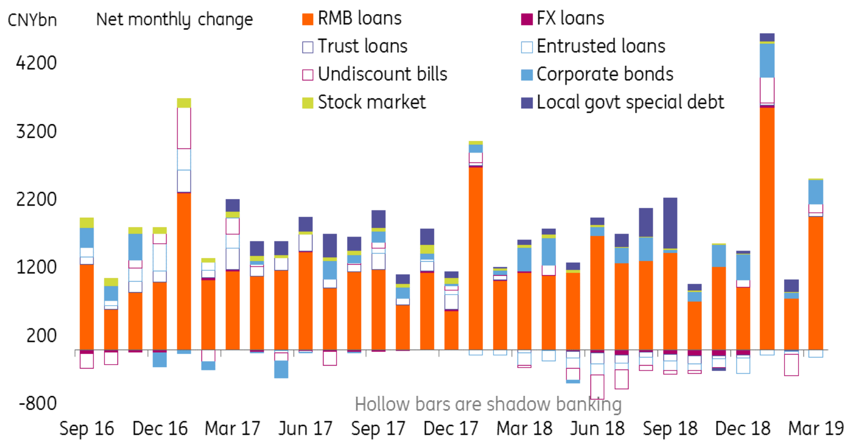
RMB loans from banks are still the largest contribution of total credit for the economy.

This is likely the result of central bank efforts to help small private firms to get funding from banks. Some of these private firms have been hurt by the trade war. As such, the credit diversion to small private firms should reduce the risk of a slump in the job market. We are not sure how these funds will be used if small exporters face weaker global growth.

Debt market serviced local government infrastructure projects

The second largest credit creator was the debt market, facilitating fundraising for infrastructure through the issue of local government special bonds.

This funding will go directly into project finance, and so boost the mining, commodities, energy and transportation sectors. Most of the infrastructure spending is for new metro lines, new toll roads and water management systems.



Source: ING, Bloomberg

Rapid yuan loan growth means an RRR cut is needed

As trade war uncertainties linger on, there is a need to keep the fast yuan loan growth to help small private firms survive. An RRR cut is needed to facilitate fast credit growth.

China may not need such fast ongoing credit injection into small private firms. That said, we believe that the central government will allow speedy credit growth to continue for some time, at least until it is satisfied that the job market is stable.

RRR cut in April still on the cards

Liquidity seems to be ample, as shown by 3M SHIBOR. However, by 17 April a sizeable liquidity injection expire and there will be tax payments around mid-April . Usually, this would create some tightness in the interbank market. This should allow the central bank to cut RRR by 0.5 percentage points to 13.0%.