

## China: Credit jumps, hidden risk increases

Though shadow banking continued to shrink in November, which is good for the economy in the long term, we are starting to worry about the risks surrounding the large issuance of government bonds this year, which will become more obvious when this round of deleveraging reform, which only focuses on corporate credit (state-owned or not), is completed



Dollars surrounded by Chinese yuan

### More credit to support economic growth

Credit growth was strong in November. In addition to the strong growth in yuan loans of CNY 1.43 trillion, there was a CNY 400 billion increase in government bond issuance, which includes both central and local government issuance.

Long-term household and corporate loans made up most of the yuan loans. We believe that these loans are either mortgages or long-term loans for business expansion.

In contrast, due to the restart of the deleveraging reform, new corporate bond issuance was a mere CNY 86.2 billion, which represented a fall of CNY 228.4 million on a year-on-year basis.

## Hidden risk is not only in corporate credit

The market has homed in on the delayed payments of China's corporate bonds and their restructuring plans, but this is just part of the risk story in China's credit market with both state-owned and private-owned issuers. It's a short-term risk.

However, there is a hidden long-term risk, which comes from the issuance of government bonds, amounting to CNY 7.62 trillion from January to November 2020, which is 161% of 2019's issuance of CNY 4.72 trillion.

We understand that there is a need to deliver more fiscal stimulus projects to keep the economy running, but we also worry that some of this fiscal money is not being well spent. Separately, there is also some local government bond issuance related to investment in advanced technology projects, some of which may not yield a fruitful result. How will investors be paid back in three to five years from now? This is a long-term issue that the government has some time to think through. Otherwise, another round of deleveraging reform will be needed in a few years' time.