

## Chinese credit keeps growing to support infrastructure investments

The growth in Chinese credit tells us that the government has continued to issue local government bonds to finance infrastructure projects to support growth in 3Q19. How long will this debt accumulation continue?



Source: istock

### China credit expands - again

M2 - a widely used gauge of credit expansion, increased to 8.4% year on year in September from 8.2% a month ago. Renminbi loans grew by CNY 13.9 trillion in the third quarter, which is equivalent to around 14.5% of nominal GDP for the four quarters from 3Q18 to 2Q19.

### What's behind the credit growth?

Of all the items, the most eye-catching is the CNY 2 trillion increase in local government special bonds in the third quarter used to finance infrastructure projects. The quota for these bonds was only CNY 2 trillion, with this entire amount used in 3Q alone.

The substantial increase in local government bonds suggests that the economy has relied on

infrastructure investments to support GDP growth.

### **Will debt continue to pile up?**

We expect there will be another CNY 1 trillion increase in local government special bonds in the fourth-quarter, with the central government having allowed local governments to borrow next year's issuance quota.

This is why we think China will continue to accumulate debt until the US-China trade war ends and during this time infrastructure investments will continue to be the main pillar of economic growth.