

## China's loan growth jumped in January

January usually sees a big increase in loan growth from December, as Chinese banks tend to book loans at the beginning of the year. But this year's jump is significant even on a year-on-year basis. This indicates that underlying economic activity is stronger than last year



Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

### Loan growth jumped

Yuan loan growth increased 11.5% YoY to CNY3.98 trillion, which means loans outstanding were CNY196.65 trillion by the end of January. Most of the loan growth came from corporate longer-term loans.

These corporate loans signal growth in corporate investment. This matches our expectation that investment in semiconductors, telecommunications, healthcare, data privacy and hardware infrastructure projects started in January. The increase in loan growth indicates positive momentum in investment in the first and second quarters. We should see an increase in services and manufacturing activity in the area of IT and processing of building materials in a couple of months.

### Main bond issuer was the government

In terms of bond issuance, the biggest issuers are local and central government, where the net

issue amount was CNY6.026 trillion, bigger than the corporate issuance of CNY5.799 trillion. One explanation is that infrastructure funding needs to come partially from local governments. Another factor is that credit premiums for corporates are still high due to the potential high default risk from real estate developers.

## Shadow banking continued to slow

Entrusted loans and trusted loans contributed to a relatively small portion of overall credit growth, which is what the People's Bank of China intended. But we have still seen an increase in undiscounted bills of CNY4.731 trillion. Recently, the PBoC stated that the issuance and usage of these undiscounted bills should be based on genuine trade from corporates. According to some in the media, banks are receiving deposits in the undiscounted bills businesses. The statement from the PBoC means that banks will issue fewer bills. This will affect the volume of new deposits, and the deposit rate might have to increase. This increase in the deposit rate should be offset, in our view, by cuts in the Loan Prime Rate in 2022, and these cuts are expected to be front-loaded in the first half of the year. So netting out the rate cut effect, the deposit rate in China could be flat.

## Loan growth should continue in 1Q

Banks might not have fulfilled their loan growth target in January and as such, further loan growth in 1Q is highly possible. We expect 13% loan growth, and 5.4% GDP growth for 2022, with the main engine of growth coming from software and hardware infrastructure investment.