

China: loan growth shows deleveraging started in December

Loan growth and aggregate financing grew less than expected, a sign that the deleveraging reform started in December. We expect more deleveraging policies in 2021



Total financing grew but smaller than expected

The increase in total financing was only CNY1.72 trillion, which was only 80% of the increase in November. We believe this shows that deleveraging reform started in December. In the same month, yuan loans grew CNY1.26 trillion, corporate bond net issuance also grew less at CNY 44.2 billion. Shadow banking activities continued to shrink in December.

Deleveraging reform starts in the property sector and there will be more

As Covid is largely under control, albeit areas around Beijing have more Covid cases (but a really small number compared to the US and Europe), the central government has moved to continue its policy mandate set in 2019. Deleveraging reform is part of that.

The [People's Bank of China](#) has tightened bank lending to the property sector. This is the first

official signal of the deleveraging reform. We believe that there will be more lending or bond issuance restrictions on the construction sector as well as other over-leveraged corporates, including state-owned enterprises, in 2021.

We have also seen that the central government has used more market-based measures to control risks in the financial markets, e.g. penalising rating agencies when ratings do not reflect the issuer's risks.

Still expect high loan growth in January

It is industry practice to book loans in the first three months of the year in China. We therefore expect high loan growth in January when monetary policy will be fairly stable. We expect no change in policy interest rates. But liquidity will be micro-managed by the central bank.

Watch out for more deleveraging policies in 2021.