

China: loan growth soars in September

Loan growth in China rose rapidly in September, as did government bond issuance. This has set the trend for the remaining months of 2022



The People's Bank of China is the central bank of China

China's new yuan loan increased by CNY2.47 trillion in September, almost double the amount in August. At the same time, total social financing jumped to CNY3.53 trillion in the month from CNY 2.43 trillion in August.

This faster-than-expected loan growth in China is quite surprising as loan demand should have weakened, even though the economy has picked up slightly from more relaxed Covid measures. But there are very few details from the central bank on where the loans went.

One thing of note is that among all the items in total social financing, government bond net issuance jumped. This should help local governments experiencing financial pressures to push forward with completing unfinished residential projects, achieving the target of infrastructure investments this year. We also believe that some of these funds will continue to go toward Covid-19 testing. If all the funds from government bond issuance will be spent this year, it will support GDP growth via government spending.

This also means that the fiscal deficit as percentage of GDP should have increased steeply to over 5.3% in September, and we project that the number could reach 6-7% by the end of this year.

We expect the trend of faster credit and more government bond issuance to continue for the rest of the year. The economy is weak due to continuing Covid measures, the real estate crisis, and emerging weakness in external demand. That suggests government spending should continue to increase in order to provide enough job stability to ensure a soft landing.