

## China: Soft credit growth means slower activity growth

China's credit growth, including loan growth, was softer than expected. Shadow banking activities shrank, which implies funding for infrastructure projects mainly came through local government special bonds - likely to limit the overall activity growth of the economy



A broad measure of credit and liquidity, total outstanding social financing in China grew to CNY 1.4 trillion from 1.36 trillion in April according to data from the People's Bank of China. This was less than our expectation of CNY 1.9 trillion.

In May, Chinese banks loaned CNY 1.18 trillion, which was higher than April but still fell short of our expectations of CNY 1.45 trillion. Local government special bonds, which is a funding channel for infrastructure investments, increased by CNY 1.25 trillion. Surprisingly, shadow banking activities shrank.

The data leads us to believe that most infrastructure investments were funded by local government special bonds and other economic activity was funded via bank loans.

## Investment growth could only be modest

The data implies that investment activity was quite modest in May and most investment growth should come from infrastructure investments.

This is in line with our view that the Chinese economy is currently a stimulus-driven economy but regular economic activity has slowed down.

## More infrastructure investment expected

The Chinese government issued a document on 10th June 2019 to promote issuance and investments of local government special bonds as an important funding source for infrastructure projects.

To us, this indicates fiscal stimulus could increase and will mainly be through speeding up existing infrastructure investment as planned as well as adding new infrastructure projects if trade and technology wars escalate.

### Don't worry about GDP growth

This is the reason why we're not concerned about GDP growth being lower than the 6% lower bound target. But this shows that the Chinese economy has suffered from the trade and technology war.

Therefore, we maintain our GDP forecast at 6.3% for 2019.