

# Slowing loan growth weighs on cautious Chinese banks

Credit growth continued to slow in December, despite China's central bank loosening monetary policy



The Chinese New Year starts on February 1st

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## Weak loan growth comes from the real estate sector

New bank lending in China fell more than expected in December, with aggregate finance dropping from CNY2.61 trillion in November to CNY2.37 trillion in December, and new yuan loans falling from CNY1.27 trillion in November to CNY1.13 trillion last month. While year-end credit tends to grow slower, the figures are surprising given the People's Bank of China, China's central bank, cut the reserve requirement ratio (RRR) by 0.5 percentage points last month, and interest rates by 5 basis points.

For the corporate sector, demand for loans is mostly affected by real estate and companies along the supply chain.

M2 has risen to 9% Year-on-Year, from 8.5% Year-on-Year in December, which is as expected as companies get cash ready for bonuses and repayments ahead of the Chinese New Year.

## Relaxing monetary policy may not work if banks are concerned about credit quality

This month's small growth in credits shows that despite cuts to RRR and interest rates, banks are reluctant to lend as their concern is more about credit quality. This is because several big corporates have recently defaulted. Though the default entities are mostly real estate developers, the risk is increasing to the suppliers, mostly in the industry of construction materials.

In fact, this is exactly the result of the deleveraging reform, which is a reduction in debts. But if loans continue to experience a monthly decrease, the central government may need to send out a clearer message to banks. If risk awareness is on the top of the list of banks' concerns, then further RRR and interest rate cuts may not yield a result of more credits. That means that even a loosening monetary policy may not boost economic activity.

We may also see a return to the old days when banks lent to State-owned Enterprises (SOEs), which are supposed to be better in terms of repayment ability.