

China's weak loan growth came from policy hit

Loan growth was still weak in August, which is not associated with historic seasonality. The policy clampdown has hit businesses. The 14th Five Year Plan could help businesses to reorganise their business plans



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

Weak loan demand

Overall yuan loan growth was CNY1.22 trillion in August, a very small rebound from July's 1.08 trillion, and July was a month when the loan amount was smaller than June. Moreover, this August's rebound was smaller than that seen in the same month of 2020 and 2019. In short, loan demand has been weaker than 2020 since July.

And this weakness is in the corporate sector, not households.

Policy clampdown could be a factor in weak loan demand

There could be two reasons for this weak loan demand. One is that corporates don't need cash, perhaps because they don't have any investments or the operational need for loans. Another is that banks are not lending to them.

Both appear to be true from August's data.

There was an increase in savings from corporates, which shows that some corporates don't need to take out loans as they have more cash from a month ago.

Other corporates have to rely on entrusted loans, which increased in August. This shadow banking business has not recorded growth since 2018. The only exception was in January 2020 which saw a CNY9.1bn increase. In August, this grew by CNY17.7bn, a year-on-year increase of CNY59.2bn. Entrusted loans are used when banks aren't willing to take credit risk. Banks match two companies, one as the lender, the other the borrower. When entrusted loans rise, it means that banks are not willing to take on the loan.

We believe that some corporates are in a difficult situation and are suffering from the policy clampdown, which means 1) they don't want to invest at the moment and are reconsidering their business plans; 2) some need money because of the sudden policy clampdown, but banks don't want to take the credit risk, therefore leading to an increase in entrusted loans.

The 14th Five Year Plan is the roadmap for corporate investment

Businesses do not like uncertainty. So a clear roadmap is better for corporate investment and economic growth.

We believe that the government will stick to its [14th Five Year Plan](#) as the economic growth roadmap, and corporates may need to connect their business plans with it. This hiccup in investment sentiment should then fade out.

One suggestion we made in November 2020 was for China to raise its investment in green policies.

The latest plan also targets a "green" living style as part of its ambitions for high-quality growth. The plan's objective is to speed up low carbon economic development and increase efficiency in the use of resources.

We have therefore written a note on China's investment amount needed for zero carbon emission of the transportation sector, which is [here](#), and this is the [full report](#) for China, Japan, South Korea, altogether.

We maintain our forecast of 8.9% GDP growth forecast for 2021.

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