

## China's loan growth shrinks

Loan growth shrank on a monthly basis, but that's a seasonal phenomenon, and it still rose year-on-year. Shadow banking continues to shrink on a yearly basis, which is good news for the financial sector



A woman walks by a money exchange shop decorated with different countries' currency banknotes in Hong Kong

### Don't worry about the small loan growth

Although the monthly change in loan growth may look worrying, it is no cause for alarm. It's actually quite normal to see small loan growth in October - the beginning of the fourth quarter. Yuan loans increased CNY689.8 billion in October after an increase of CNY1.8957 trillion in September. Though falling on a monthly basis, the increase was 4.1% year-on-year.

We should see a large increase in loan growth again at the beginning of 2021 which, again, is a seasonal phenomenon.

### We are still positive about China's outlook

So we are still comfortable with this small loan growth in October.

We see a better recovery in activity data in October, especially in the domestic economy, as there was a long holiday in the month. We expect retail sales to rise 2.2% YoY though this is slower than the previous month's 3.3% increase due to some limitations on travel activities from Covid, and the

high base effect from last year.

Industrial production in October should be slightly lower, at 6.7% YoY growth from 6.8% in September. Export orders were weaker as the pandemic weighed on foreign demand in the US and Europe. Technology production for exports should also slow down because there has been more resistance in the US and Europe to using Chinese technological products.

Fixed asset investment should rise faster, at 1.1% YoY in October from 0.8% a month ago. Foreign demand does not affect investment in China as most of the fixed asset investment comes from government stimulus projects, which echoes the fast increase in government bond issuance. These projects include investment in technological self-reliance, which means building up the whole vertical chain of production, including parts and equipment. We are also likely to see projects for reconstruction after recent flooding.

## Shadow banking continued to shrink

Shadow banking items continued to shrink, trust loans, entrusted loans and undiscounted bills all contracted on a yearly basis. This shows that the central bank's policies to reduce shadow banking activities have been effective so far.

### Where is the risk then?

We saw a jump in the net issuance of government bonds of CNY493.1 billion, an increase of 62% YoY. Though the scale is still small, it shows that the Chinese government has continued with its fiscal stimulus, with some of the money coming from the issuance of government bonds. In this first data release, we can only see the headline number of government bond issuance, which does not break down into central and local government bonds.

Our worry is about local government bond issuance which supports infrastructure programmes. Local governments are keen to contribute to the economic recovery but they may end up investing in projects which do not yield a sustainable return. The risk is not here yet but it is a concern for the years to come.