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## China Economics Update: Credit growth in Feb is consistent with a modest economic recovery

### 中国经济评论: 2月信用增速放缓, 但仍符合温和经济复苏

**Credit growth reflected divergent sectoral trends and a soft start of government bond issuance.** Medium- to long-term (ML) corporate loans increased notably in Feb. We expect ML corporate lending to benefit from the capex wave from large-scale equipment upgrades. On the other hand, ML lending to households is unlikely to turn around quickly, despite continued policy easing in the property sector. As policymakers balance supporting high-quality growth and curbing growing debt risk, we expect TSF growth to slow to 9% in 2024, which remains supportive of China's 2024 growth target of 5%.

**We expect government bond issuance to pick up.** Government bond supply had a soft start to the year after strong momentum in 4Q 2023. However, proactive fiscal policy suggests government bonds will remain a key driver of credit growth.

**We expect monetary conditions to stay accommodative.** Much of the upside inflation surprise is likely to unwind in the near-term as seasonal demand for food and travel fades. However, both CPI and PPI inflation are likely to pick up later in the year amid a continued recovery. Monetary policy settings will stay accommodative to support domestic demand. We expect a 25bp cut to the Required Reserve Ratio (RRR) and a 10bp cut to policy rates in 2Q.

**信贷增速受行业差异影响, 政府债券年初发行较慢则拖累社融总体增长。**中长期企业贷款2月增加显著。我们预计中长期企业贷款可能将受益于大规模设备升级的资本支出浪潮。另一方面, 尽管房地产行业政策持续宽松, 但居民住房贷款增速预计仍在低位。随着政策制定者希望在支持高质量增长和遏制日益增长的债务风险之间取得平衡, 我们预计2024年社融存量增速将放缓至9%。但这样的信用扩张步伐仍将支持今年5%的增长目标。

**我们预计政府债券发行步伐未来将提速。**继2023年四季度的强劲发行势头之后, 政府债券供应在年初放缓。但积极的财政政策表明政府债券仍将是信贷增长的主要驱动力。

**我们预计货币政策将保持宽松。**随着食品和旅行的季节性需求消退, 大部分通胀上行的惊喜可能会在短期内消退。但随着经济持续复苏, CPI和PPI通胀可能会在今年晚些时候回升。货币政策将保持宽松, 以支持内需。我们预计二季度存款准备金率(RRR)将下调25个基点, 政策利率将下调10个基点。

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## Total social financing (TSF) growth slowed in Feb

After some acceleration in 4Q 2023, growth in TSF decelerated for the second straight month to 9% YoY in Feb, the softest pace on record (Fig 1). Deceleration in loan growth and government bond issuance at the start of the year were the drivers.

- **New RMB loans increased RMB1.45t in Feb, below the Bloomberg estimate of RMB1.55t.** Seasonality has contributed to softness in the data. Loan expansion normally slows in Feb after a strong Jan print. The breakdown suggests medium- to long-term (ML) corporate loans contributed to the majority of new RMB loans. ML corporate loans grew by RMB1.3t, the largest Feb increase on record, suggesting favourable credit policy. ML lending to households fell by RMB103.8b, probably reflecting some payback after the strong increase in Jan.
- **Outstanding corporate bonds increased RMB120b.** Improved liquidity conditions and the onshore bond rally have increased demand for corporate bonds.
- **Outstanding government bonds increased RMB600b in Feb, a small uptick from Jan.** Government bond issuance has been the impetus behind accelerating TSF growth in 4Q 2023. Growth in outstanding government bonds slowed for the second month to 15.1%YoY in Feb, but remaining the third-fastest monthly pace since Nov 2022.

## Consumer inflation accelerated on seasonality, while PPI deflation persisted

Headline consumer inflation jumped from -0.8%YoY in Jan to 0.7% YoY in Feb, well above the Bloomberg estimate for a 0.3% YoY rise. Sequentially, consumer prices rose 1.0% MoM thanks to seasonal demand for food and travel during Chinese New Year (CNY). Core inflation, excluding food and energy, picked up to its highest rate of 1.2% YoY since Feb 2022, driven by the shifting timing of CNY in 2024 relative to 2023.

More specifically:

- **Seasonal demand during the holidays pushed food prices up strongly.** Food prices rose 2.2% MoM in Feb, contributing 0.7ppt to sequential CPI inflation (Fig 3).
- **Non-food inflation was boosted by strong travel demand during CNY.** Travel-related prices jumped by 13.1% MoM in Feb. As a result, education, culture & entertainment contributed 0.2ppt to overall sequential CPI inflation. Furthermore, fuel prices increased 1.9% MoM in Feb along with higher global oil prices.
- **Outside food, travel and fuel prices, overall inflation remains soft.** Smoothing out the distortions from seasonality, core goods and services inflation was up slightly in Jan-Feb (Fig 4).

PPI deflation eased to 2.7% YoY in Feb, softer than the consensus estimate of 2.5% YoY. Sequentially, PPI inflation fell for the fourth consecutive month by 0.2% MoM, driven by lower global commodity prices, such as iron ore prices.

We expect much of the strength in the Feb CPI figures to be unwound as it was driven by seasonal demand during the first Covid-free CNY. Indeed, prices of pork and fresh vegetables already eased by early Mar. Having said that, we still expect a modest pick-up in both CPI and PPI inflation this year amid the unfolding recovery.

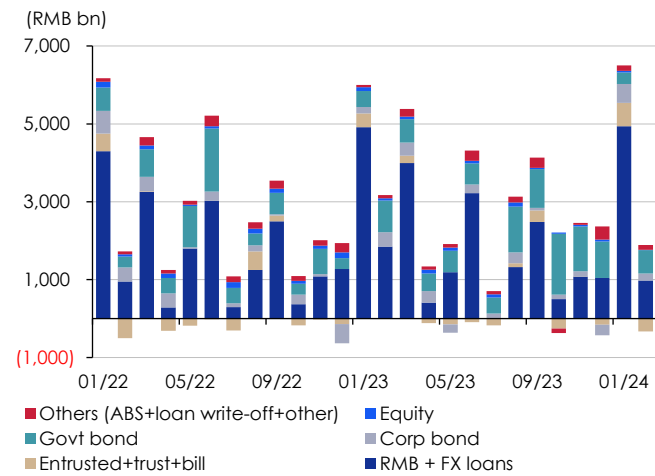
## Our view

**Credit growth reflects divergent sectoral trends.** Despite continued policy easing in the property sector, property sales are unlikely to turn around quickly, in our view. Hence, growth in ML lending to households is likely to stay in the single digits at best, in contrast to the strong pace in early years (Fig 2). Nevertheless, ML corporate borrowing has been solid. The government has recently been urging businesses to upgrade old equipment. ML corporate lending could benefit from this capex wave for large-scale equipment upgrades. As policymakers shift to maintain high-quality growth while curbing growing debt, we [expect](#) TSF growth to slow to 9% in 2024F, which remains supportive to the 2024 government growth target of 5%.

**We expect government bond issuance to pick up and remain the key factor driving solid credit growth.** Government bond supply had a soft start to the year following strong momentum in 4Q 2023. However, the *Government Work Report* unveiled a proactive fiscal stance to support the continued recovery (read [here](#) for details). We expect government bond supply to pick up later this year and buttress TSF growth.

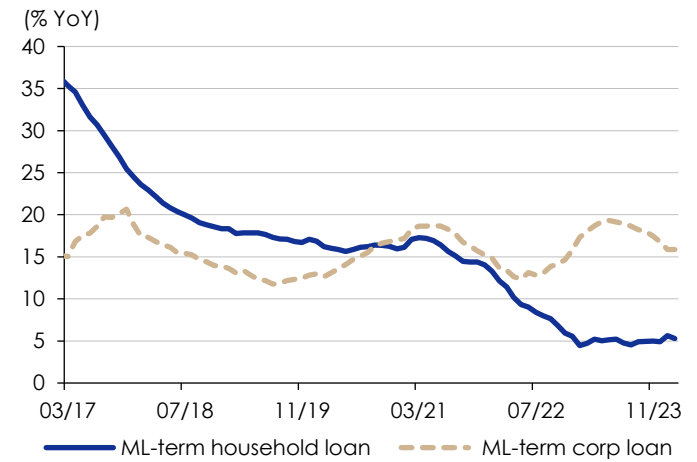
**We expect monetary conditions to stay accommodative.** We expect monetary policy settings to stay accommodative to support domestic demand. Specifically, we expect a 25bp cut to the RRR and a 10bp cut to policy rates in 2Q.

**Fig 1: Lackluster loan demand and a soft start to the year for government bond issuance**



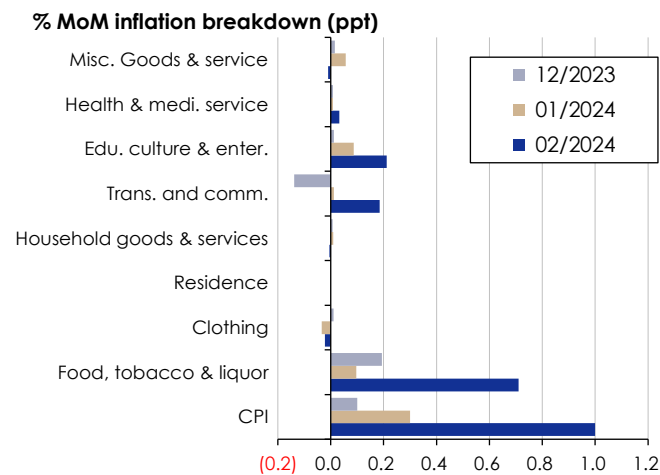
Source: CEIC, CCBIS

**Fig 2: Housing mortgage demand stabilized**



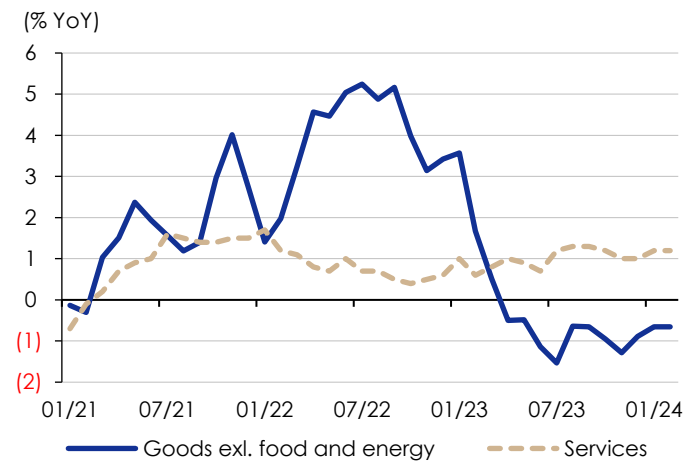
Source: CEIC, CCBIS

**Fig 3: Food and travel prices lifted inflation**



Source: CEIC, CCBIS

**Fig 4: Core goods and services prices rose slightly in early 2024**



Source: CEIC, CCBIS

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