

China credit shrinks for first time

Credit contracts as government bonds record net repayment

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China's credit in April shrank for the first time as government bond sales slowed, while loan expansion was worse than expected in a sign of weak demand.

Aggregate financing, a broad measure of credit, decreased by almost 200 billion yuan (\$27.7 billion) in April from the previous month, according to *Bloomberg* calculations of data released by the People's Bank of China on Saturday. That's the first time the measure has declined since comparable data began in 2017, reflecting a contraction in financing activity.

Looking back further, using a smaller data set that excludes things like government funding, it was the first decrease since October 2005, according to *Bloomberg* Economics.

A breakdown of the data shows

that more government bonds were repaid than sold in the month, contributing to the decline. Financing from shadow banking — which refers to activities outside the formal banking system — also recorded a drop, weighing on overall credit.

Financial institutions offered 731 billion yuan of new loans in April, lower than a projected 916 billion yuan. The year-on-year growth rate of outstanding loans edged down to 9.1 per cent from 9.2 per cent in March.

"The volatility in this month's data is tolerable because the government will issue ultra-long government bonds soon, so credit expansion in May and June may make up for it," said Bruce Pang, chief economist for Greater China at Jones Lang LaSalle Inc. The government has sold bonds at a slower-than-expected pace so far this year, helping fuel a rally in sovereign bonds as demand outpaced

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supply. China's top leaders at a Politburo meeting last month called for faster issuance of special sovereign and local government special bonds — a major source of funding for infrastructure projects. Beijing plans to issue 1 trillion yuan worth of special sover-

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eign bonds this year.

Pang said the drop in shadow financing shows authorities' focus on preventing risks, as the PBOC has stressed in recent months its intention to avoid money idling in the financial

system. April is typically a slow month of borrowing activity, as banks are not in a rush to meet their quarterly lending targets. The PBOC has also refrained from easing monetary policy in recent weeks, to avoid putting more depreciation pressure on the yuan and adding fuel to a government bond rally that's raised concerns.

The PBOC has emphasized that markets shouldn't look at the absolute growth rate of credit over the past few months, citing reasons including improving structure of credit that allows emerging industries to get more financial support. The central bank said that slower credit expansion is still sufficient to support the economy. In a sign of sluggish business activity, the money supply measure M1 — which includes cash in circulation and some corporate demand deposits — fell 1.4 per cent in April from a year earlier, the first time it has dropped in more than two years. Household medium and long-term loans, a proxy for mortgages, shrank in April in a reflection of weakness in the property market.