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Chinese Lending Poised to Continue to Surge

The start of the National People's Congress on Friday saw the central government announce that no GDP growth target will be set for this year. This announcement was largely viewed as a negative development and led to commodity prices falling on Friday. However, we believe that the markets have misinterpreted what the government is signaling. While no GDP growth target has been set for this year (quite frankly we have long viewed exact Chinese GDP figures as nonsensical), the government also announced on Friday that this year's quota for special local government bonds will be 3.75 trillion yuan. This would mark an increase of 74% from last year. Also of note is that 100% of this special bond quota has officially been earmarked for infrastructure spending. In comparison, 70% of last year's special local government bonds were used for land sales.

The government on Friday also announced that this year's deficit-to-GDP ratio will exceed 3.6%. Last year, it reached only 2.8%. Overall, China's government is signaling that lending will continue to surge and that significant capital will be spent on new infrastructure projects. As we discussed in last week's Weekly China Report, the first four months of this year have already seen lending grow year-on-year by 26% (which dwarfs the 4% growth in lending that was seen during all of last year). As we also discussed in last week's Weekly China Report, outstanding loan growth has finally begun to rise as well. Outstanding loan growth in April came in at 13.1%, which has marked a second straight increase and is the largest growth since May 2019. It remains very encouraging that the Chinese government is no longer extremely concerned about debt and instead is now primarily focused on supporting the economy. This continues to mark a very significant change from last year.

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