



## INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Analysis and insight into trends in money and banking,  
and their impact on the world's leading economies

### China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2014	<b>20.3</b>	<b>15.8</b>
2010 - 2014	<b>15.2</b>	<b>12.8</b>
Year to September 2016	<b>11.6</b>	<b>n/a</b>
Three months to September 2016 at annualised rate	<b>12.9</b>	<b>n/a</b>

Sources: People's Bank of China for M2 and International Monetary Research Ltd. estimates



## Broad money growth continues at a respectable level

**Summary:** In the third quarter of 2016 China's M2 expanded by 3.2% or at an annualised rate of 12.9%. Although down on the 13.5% recorded in the three months to August, it is still the second highest figure so far this year. The seasonally adjusted annual M2 growth rate rose slightly from 11.3% to 11.6% after growing by a mere 10.5% in the year to July, the lowest figure in over a decade. The Chinese government has set a target of 13% annual broad money growth. This could be more or less met in 2016, if with a small shortfall. The People's Bank of China seems comfortable with the figures. Influential members of the ruling Communist Party continue to fret about too much debt.

China's leaders will unquestionably act if they feel the economy is slowing too much, as they do not want a recession. Last year China's GDP grew by just under 7%, the lowest figure in over 25 years. Growth for each of the first three quarters of 2016 has been lower still, at a reported 6.7%. Annual consumer price inflation rose to 1.9% in September after falling to 1.3% in August. But September saw the producer price index emerge from negative territory for the first time since January 2012. Nonetheless, with the CPI increase still well below the official 3% target, there is scope for further monetary loosening if the Chinese authorities decide in favour.

Counselling against further monetary loosening is the strong growth in the housing market. Property prices in the 70 largest Chinese cities rose by an average of 11.2% in the year to September, with Beijing and Shanghai recording price growth of 27.8% and 32.7% respectively. This is the largest rise in property prices on record. The government has imposed curbs on mortgage lending in 20 cities due to concerns about the market overheating. Its concerns are justified. House prices rose by a mere 0.1% in the year to October 2015. By July, the annual growth rate was 7.9%, followed by 9.2% in the year to August. The number of new car registrations also shot up in September, rising from 1,795,500 in August to 2,268,300, not far below December 2015's peak of 2,442,100. Overall growth in bank lending to the private sector remains unchanged, however, at 13%.

China's leaders had much to discuss during their four-day plenum in Beijing in late October. On the surface, the transition from less investment and more consumption seems to be working. Recent lay-offs in heavy industry do not seem to have had a major impact on the unemployment rate, which stands at barely 4%. Areas of concern persist, from booming property prices on the one hand to non-performing loans on the other. Estimates of the percentage of non-performing loans range from 15% to 25% of the total of all banks loans. With most major Chinese banks being owned by the state, there is no question of these banks being allowed to collapse. The recent money figures suggest that in spite of these concerns, a "hard landing" looks unlikely.

John Petley  
25<sup>th</sup> October, 2016

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	<b>20.3</b>	<b>15.8</b>
2001 - 2010	<b>15.2</b>	<b>12.8</b>
Four years to 2014	<b>14.1</b>	<b>11.6</b>