Lianhe Global Expects China to Ensure a Suitable Monetary and Financial Environment to Support the Economic Growth

Private enterprises, especially micro and small-sized enterprises, generally face greater difficulties in accessing credit facilities compared with state-owned entities in China. The challenges have become more prominent since 2018 due to the complicated economic condition with slowed growth momentum, while the People's Bank of China ("PBOC") has proactively imposed new policies and measures in particular to help private enterprises solve their financing problems.

China's economic growth reversed the downward trend and showed a sign of stabilisation in 1Q 2019 with a year-on-year GDP growth rate of 6.4%, same as the level in 4Q 2018. However, the Chinese economy still faces challenges especially given the uncertainties of the trade war with the United States. As a result, we expect that the PBOC will continue to ensure a suitable monetary and financial environment through selective vehicles for target industries/sectors, although a massive supply of liquidity would be less likely.

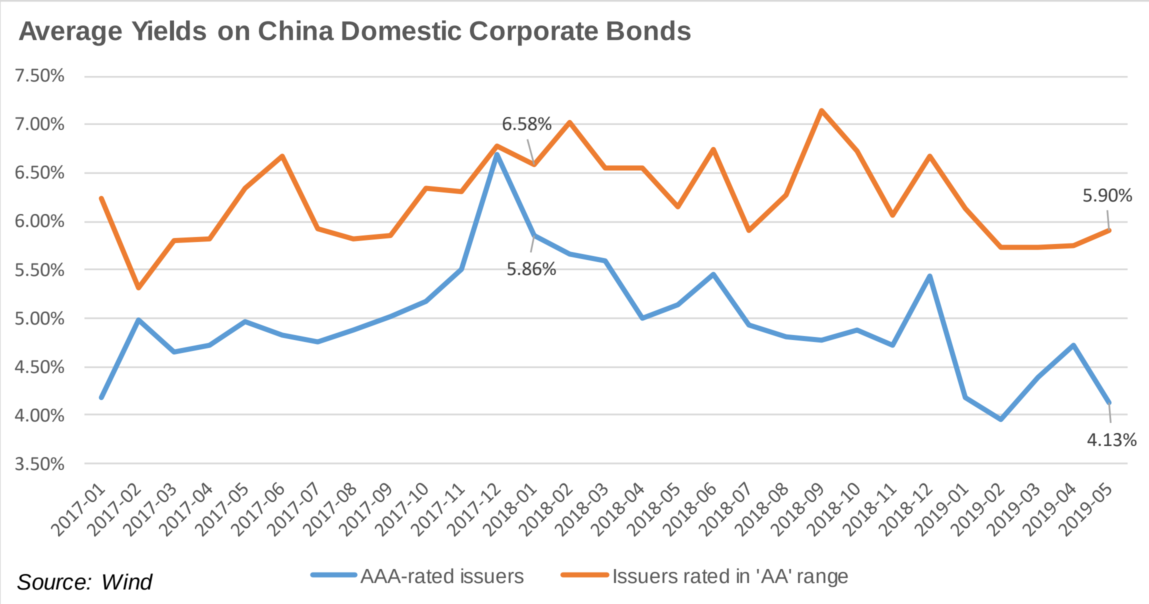
Multiple Policy Measures Have Been Taken

Chinese authorities have introduced multiple policies and measures in easing the financing environment, particularly for assisting private enterprises facing financing difficulties. The PBOC has lowered the required reserve ratio ("RRR") five times since the beginning of 2018, releasing about RMB5.15 trillion worth of liquidity. Another RRR cut on 15 May 2019 with about RMB280 billion funding released is only applicable to small and medium-sized banks for offering loans to micro and small-sized enterprises. The PBOC also increased the quotas of relending and rediscount to financial institutions by RMB400 billion in 2018. Another RMB200 billion and RMB100 billion quotas of rediscount and standing lending facility were issued respectively on 14 June 2019.

Aiming to further ease the financing difficulties of private enterprises, the PBOC rolled out targeted medium-term lending facility in December 2018, with one-year interest rate of 3.15%, 15 basis points lower than the rate of general medium-term lending facility. In addition, the PBOC has established bond-financing support tools by offering some capital for credit enhancement from October 2018 to help private enterprises with good prospects and competitiveness but in temporary liquidity difficulties.

The Eased Polices Bring Effect

The overall financing activities have recovered following the rollout of these relaxation measures. For the first four months in 2019, the flow of aggregate financing to the real economy (including RMB loans, net financing of non-financial enterprise bonds, and entrusted loans) has increased 25.3% year on year to approximately RMB9,558.1 billion and the net financing of non-financial enterprise bonds has increased by RMB1,283.3 billion with a year-on-year growth rate of 35.8%. According to the PBOC, private enterprises issued RMB66.1 billion bonds in April 2019 with an increase of 10% compared with the previous month and the bond issuances by private enterprises surpassed bond repayments (by RMB15.9 billion) for the first time in 2019.



Average yields on corporate bonds for issuers rated ‘AAA’ and in the ‘AA’ range have both declined since 2018 though with fluctuations. The average yield of corporate bonds with ‘AAA’ rating fell 1.73% to 4.13% from January 2018 to May 2019. The decrease was more moderate at 0.68% to 5.9% in May 2019 for corporate bonds rated in the ‘AA’ range. Private companies issued bonds at a weighted average yield of 5.56% in April 2019, 64 basis points lower than that in January 2019.

With the help of bond-financing support tools, 61 debt instruments involving RMB28.5 billion had been issued in 13 provinces including Zhejiang, Jiangsu and Guangdong till end-January 2019. The weighted average interest rates of bonds with the support tools issued by private enterprises with ‘AA+’ and ‘AA’ ratings were 5.65% and 6.52% respectively, 60 to 70 basis points lower than those bonds with the same ratings but without support tools.

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