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PRESS RELEASE

Tychos Analytics Group

Dan McShane

Dan.McShane@tychosgroup.org

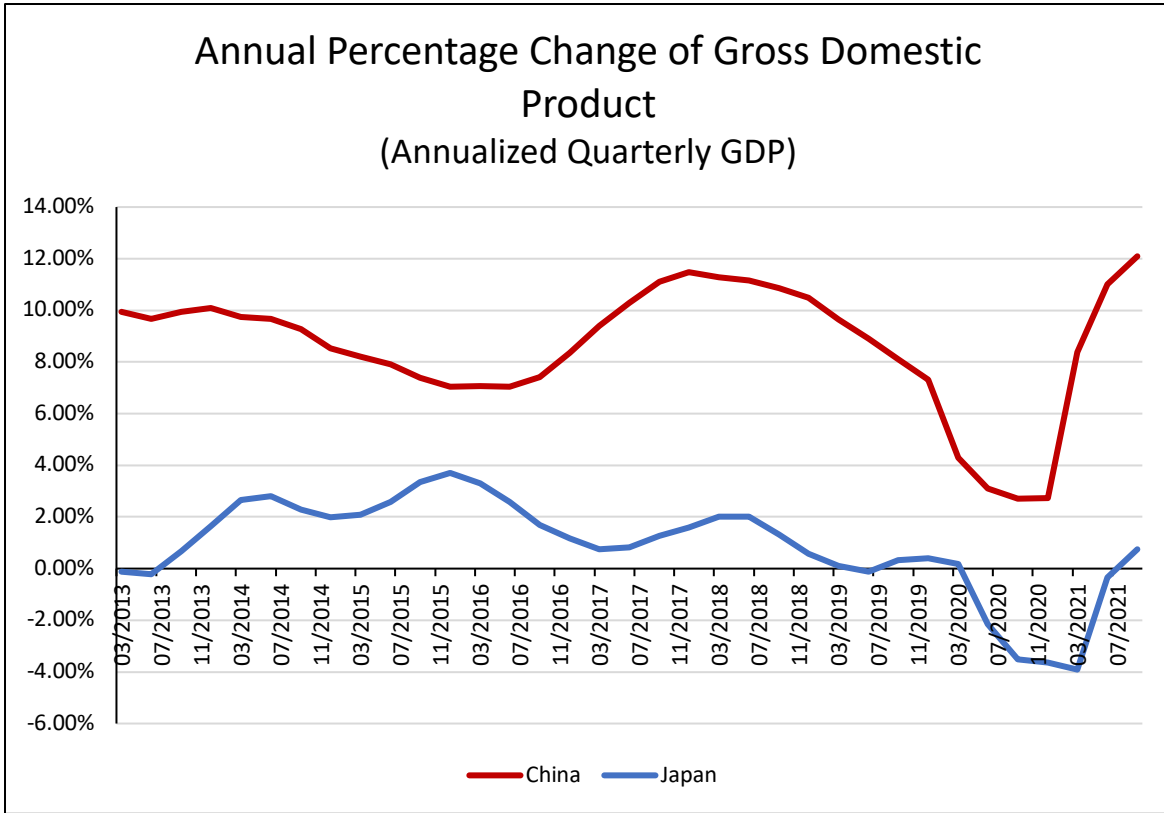
January 28, 2022

Small Business Loans Surge in Asia's Two Largest Economies *Household Debt Remains Driving Force Behind China's Economic Growth*

China and Japan continue to increase financing for micro and small businesses in the wake of the global pandemic. Growth in loans to these small enterprises warrant increased attention due to the rising credit risk concerns.

Gross Domestic Product

Japan observes marginal GDP expansion, while India and China once again displayed consistent growth. The global pandemic continues to slow domestic consumption in Japan, causing GDP to increase a mere 0.8 percent from September of 2020 to September of 2021. In contrast, China's GDP in that same period increased 12.1 percent (See Chart). Growth in China can be attributed in large measure to the rapid rise of household debt, with attendant risk to household financial stability. This data will be updated next on 03/2022.

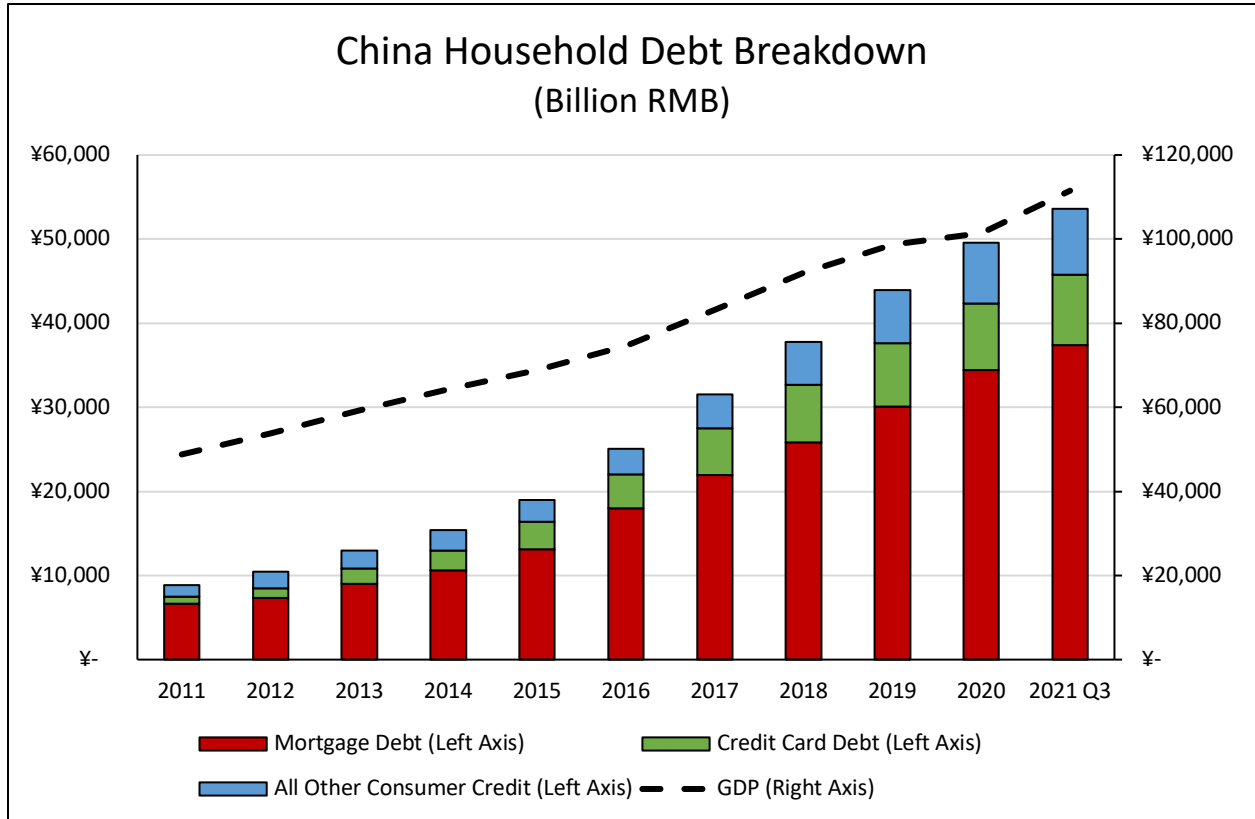


China

China’s five-year growth in household debt to GDP has increased a brisk 48 percent, while business debt to GDP declined 5 percent in that same period, continuing the remarkable shift to household debt as the driver of China’s economy.

Mortgage Debt:

Residential mortgage debt in China has reached CN¥37.4 trillion as of 9/30/2021, 11 percent higher on an annualized basis than the level of CN¥33.6 trillion on 09/30/2020. Making up nearly 70 percent of China’s household debt, mortgage debt growth is a key area for analytical attention (See Chart).



Margin Debt:

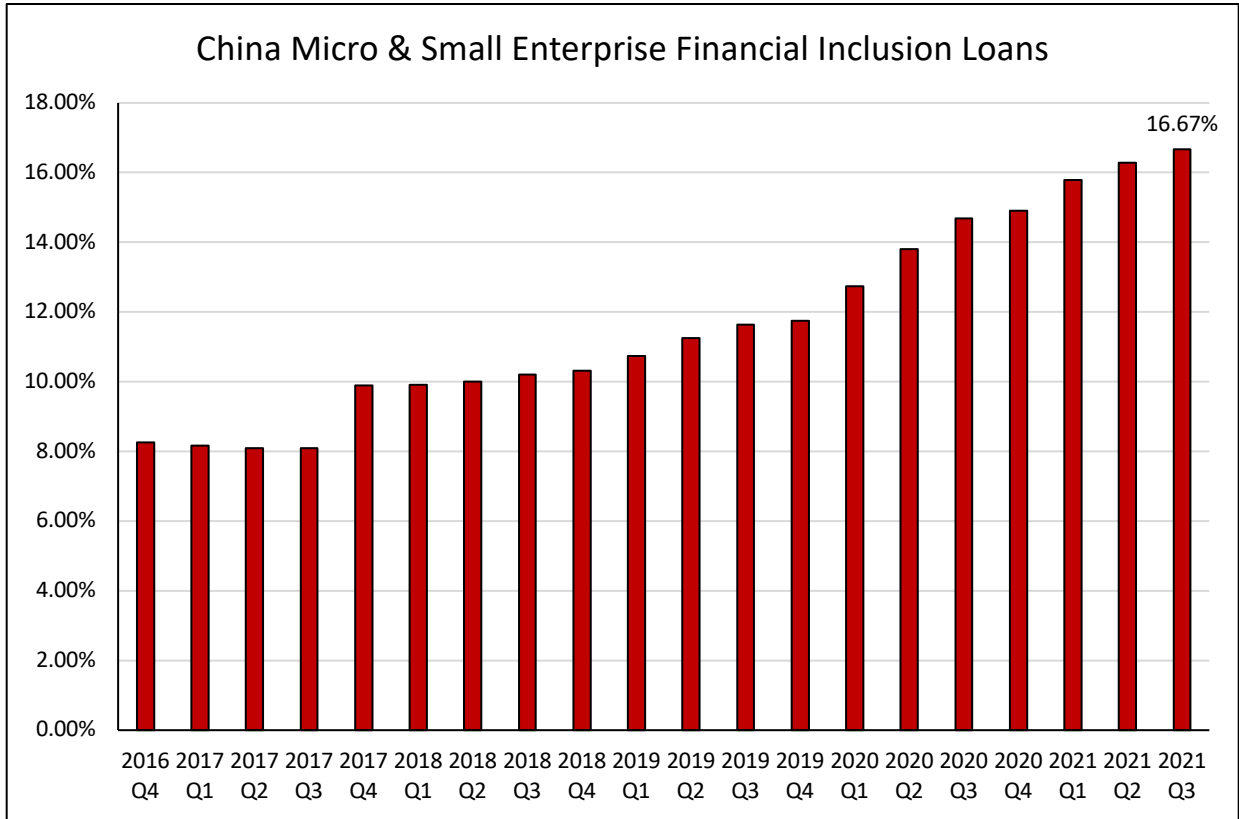
According to China's Shanghai and Shenzhen Stock Exchanges, margin debt is on the rise again following the peak of CN¥2 trillion in June of 2015. As of 09/30/2021, margin debt has reached CN¥1.84 trillion, 27% higher on an annualized basis than the level of CN¥1.47 trillion on 09/30/2020 (See Chart). Current forecasts show margin debt down at a level of CN¥1.83 trillion on 12/30/2021.



Overall five-year non-financial business debt growth to GDP in China declined 5 percent, up from the 3 percent decline in the prior quarter and down from 23 percent growth in 2017. Preliminary 2021 third quarter data was released on 12/18/2021, and 2021 fourth quarter preliminary data will next be updated on 03/18/2022. Complete data through the second quarter was released on 12/01/2021 and will next be updated on 03/01/2022.

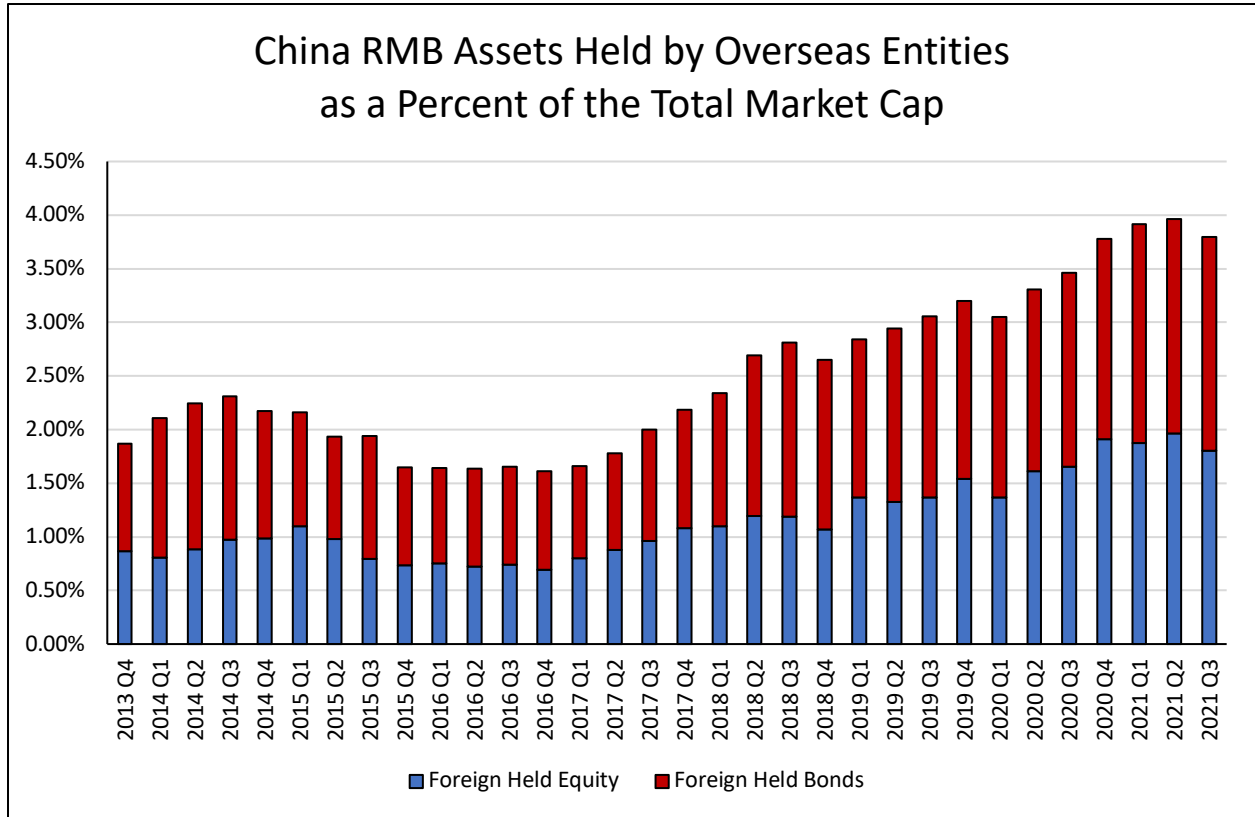
Financial Inclusion Loans to Small & Micro Businesses:

As reported by the People’s Bank of China, financial inclusion loans continue to soar. As of 09/30/2021, financial inclusion loans to small and micro businesses have reached 17 percent of GDP, 14% higher on an annualized basis than the level of 15 percent of GDP on 09/30/2020 (See Chart). Financial Inclusion refers the delivery of financial services at affordable costs to disadvantaged and low-income segments of society. Growth in these loans presents a concern for credit risks of small and micro enterprises in China.



Cross Border Risk:

As reported by the People’s Bank of China, foreign investment of China’s domestic RMB assets has increased rapidly in recent years. Foreign equity and bond asset holdings as a percentage of the total market sits at 3.8 percent this quarter, slightly down from the all-time high of 3.9 percent on 06/30/2021 (See Chart). While still a small percentage, foreign held asset growth presents a concern for capital flight within China, which could lead to turmoil in their stock and bond markets. This data was released on 11/30/2021 and will next be updated on 2/28/2022.

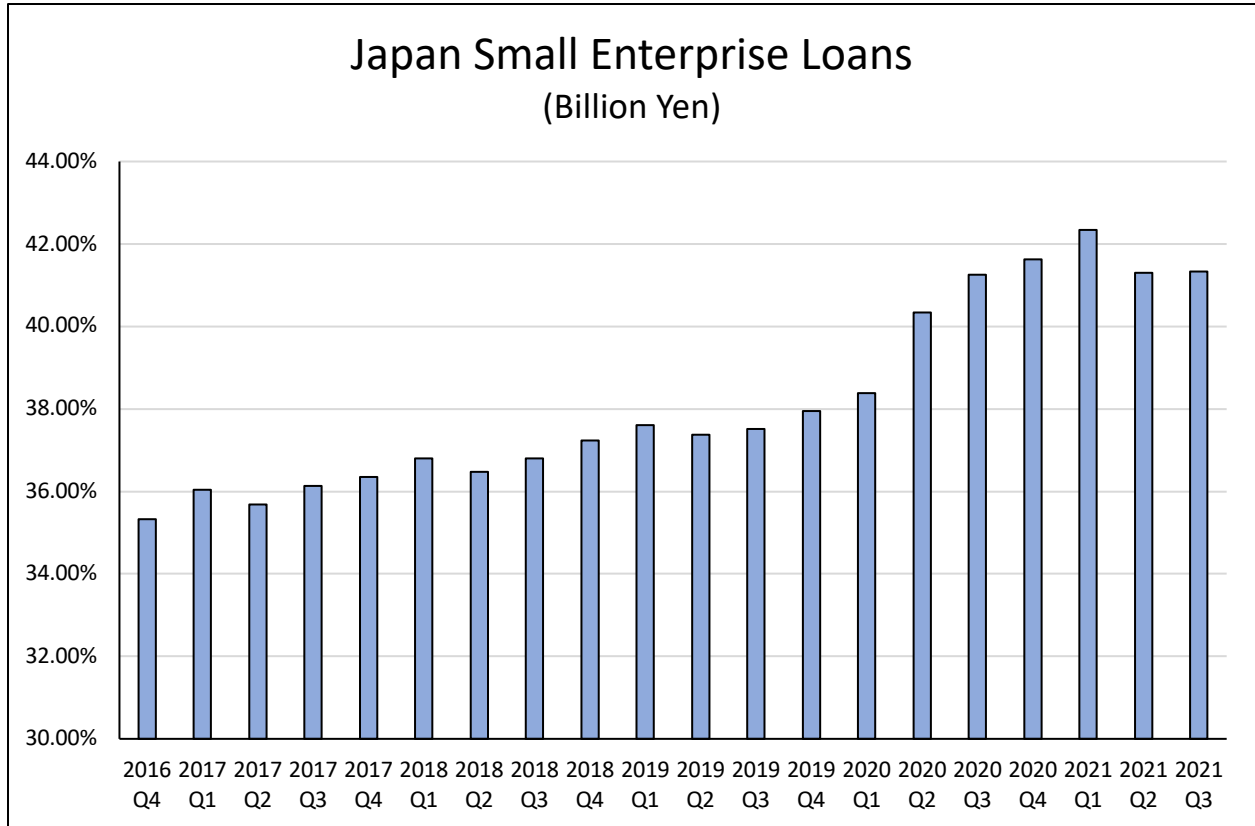


Japan

In Japan, overall five-year country-level private debt growth to GDP increased to 19%. Sector areas of heightened concern include Transportation Equipment, Real Estate, Transport, Commodity Lease, Utilities, Construction and Small Business Enterprises. This data was released on 12/18/2021 and will next be updated on 03/18/2022.

Small Enterprise Loans:

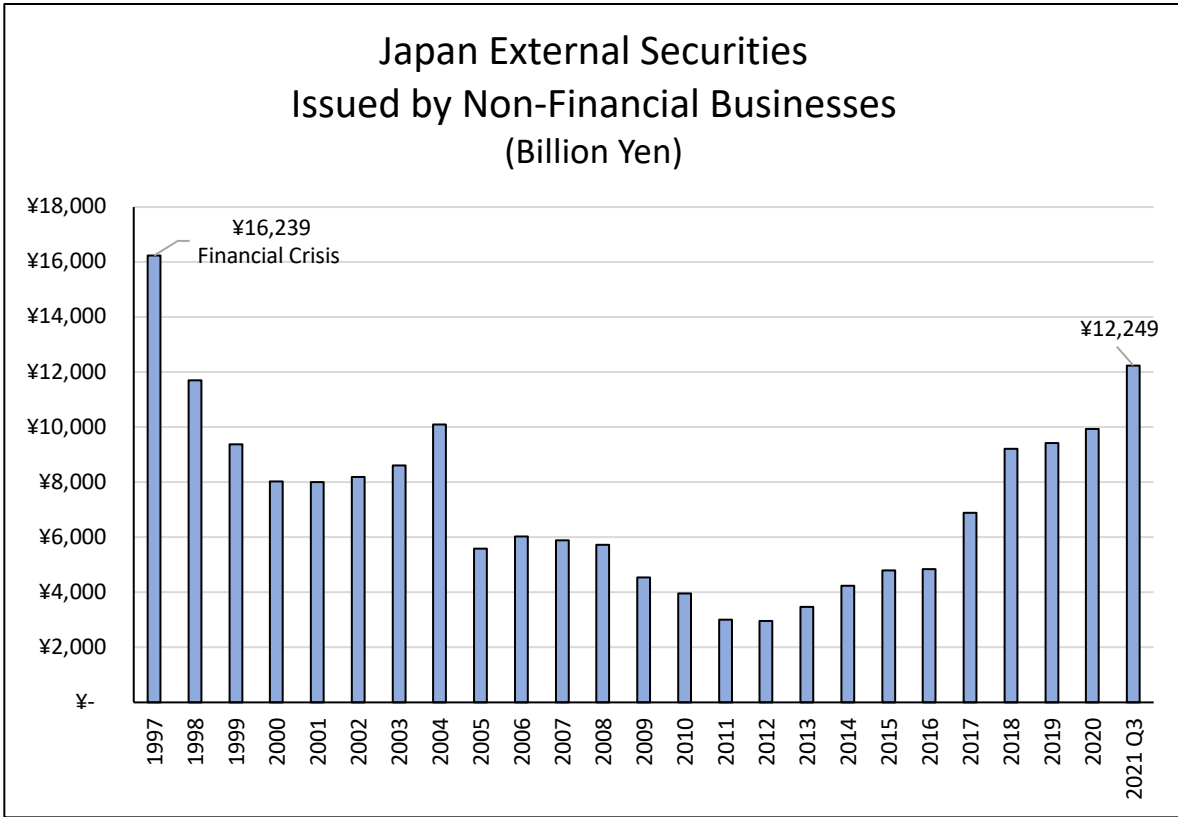
As reported by the Bank of Japan, loans to small enterprises are on the rise again, reaching 41.3 percent of GDP as of 09/30/2021, 19 percent higher on annualized basis than the level 34.8 percent of GDP on 09/30/2016. The previous peak of 51.7 percent of GDP occurred leading up to the financial crisis in Japan in the 1990s (See Chart).



This is based on information as of 2021 Q3 that became publicly available on 12/10/2021. The next update from the BOJ on this information will 03/2022.

External Securities Issued by Non-Financial Businesses:

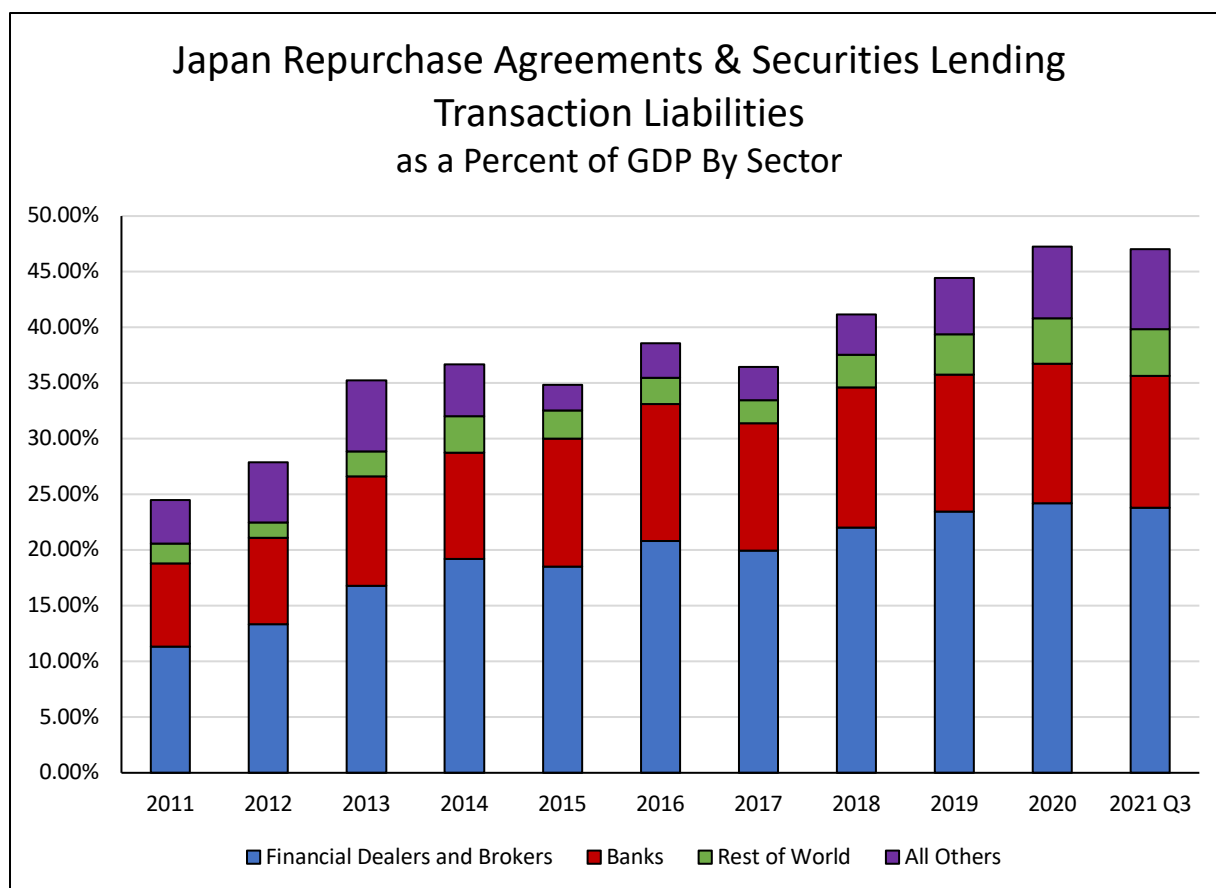
As reported by the Bank of Japan's Flow of Funds Accounts, external securities issued by non-financial businesses has reached 12.25 trillion Yen as of 09/30/2021, 17 percent higher on annualized basis than the level of 10.49 trillion Yen on 06/30/2020 (See Chart). A potential drop in the value of the yen could present a repayment risk for bond issuers, thus warranting continued observation.



External securities are bonds issued in overseas markets by Japanese non-financial businesses. This is based on information as of 2021 Q3 that became publicly available on 12/10/2021. The next update from the BOJ on this information will be 03/2022.

Repurchase Agreements and Securities Lending Transactions:

Japan’s repurchase agreements and securities lending transaction liabilities remain at 255 trillion Yen, or 47 percent of GDP, as compared to 10 percent of GDP for equivalent liabilities in the United States. Financial Dealers and Brokers, Banks and Rest of World sectors hold a significant majority of the debt (See Chart). An increase in defaults or valuation of the underlying securities used for collateral make this an area for increased analytical attention.



Repurchase agreements and securities lending transactions refers to those repurchase agreements and securities lending transactions that can be regarded as credit facilities backed by bonds and other instruments. Bonds and other instruments are sold or lent in real transactions. More specifically, they include bond gensaki (sale and repurchase) transactions in central government securities and treasury discount bills, and bond lending transactions with cash collateral.

This is based on information as of 2021 Q3 that became publicly available on 12/18/2021. The next update from the BOJ on this information will be 03/18/2022.

About Tychos

Tychos is a not-for-profit data analytics firm specializing in private sector credit and derivative information. Historically, a rapid buildup in credit in a given sector has led to credit related issues in that sector, and Tychos analyses are designed to monitor these types of trends. Tychos examines data for the largest seven economies in the world, namely the United States, China, Japan, Germany, France, the United Kingdom, and India, which collectively represent over 60 percent of global GDP.

For additional details, including commentary on recent U.S. trends, please visit www.tychosgroup.org.