

## Special Comment

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## Pro-consumption policies have positive impacts on the credit of

### consumer finance and auto finance companies

The three-year epidemic has had a certain impact on domestic employment and residents' income, resulting in residents' weak willingness to consume and weak consumption of commodities. Consumption has also become a shortcoming in the recovery of the domestic economy after the epidemic. In order to boost consumption and give full play to the basic role of consumption in driving economic growth, the State Council has issued several relevant consumption-promoting policies, covering commodities consumption, emerging consumption, service consumption, rural consumption, consumption facilities, consumption environment and other aspects. CCXAP believes that consumption promotion policies focus on household consumption to expand domestic demand, which will help non-bank financial institutions optimize market financing channels and financing structures, reduce endogenous credit risks, and enhance credit supply capabilities.

**Multiple departments will take measures to promote commodities consumption, benefiting consumer finance and auto finance companies and improving the credit fundamentals of the industry.** On the whole, multiple departments have issued documents to appropriately reduce provision regulatory requirements, to broaden market financing channels, to support relevant non-bank financial institutions to carry out credit business, and to increase capital replenishment methods. Consumer finance and auto finance companies broaden financing channels and reduce financing costs, thereby revitalizing existing assets and expanding loan scale. At the same time, it is convenient for the industry to take advantage of the current opportunity of low financing costs to optimize the debt structure, ultimately reducing the industry's credit risk and enhancing credit fundamentals.

**The policies will help consumer finance and auto finance companies expand direct financing channels, especially in the issuance of financial bonds and credit ABS products.** In October 2020, the China Banking and Insurance Regulatory Commission issued the "Notice on Promoting Consumer Finance Companies and Auto Finance Companies to Enhance Sustainable Development Capabilities and Improve the Quality and Efficiency of Financial Services" (《关于促进消费金融公司和汽车金融公司增强可持续发展能力、提升金融服务质效的通知》). For the non-bank financial institutions listed in the notice, the first requirement is to create core competition to improve the quality and efficiency of serving the real economy, and the second is to increase regulatory policy support and enhance sustainable development capabilities. In April 2022, the General Office of the State Council issued the "Opinions on Further Releasing Consumption Potential and Promoting the Sustained

Recovery of Consumption"(《关于进一步释放消费潜力促进消费持续恢复的意见》), proposing that consumption is the final demand, the key link and important engine for smoothing the domestic cycle, and has a lasting driving force for the economy. It needs to comprehensively implement policies to release consumption potential and promote the sustained recovery of consumption. In July 2023, the General Office of the State Council forwarded the National Development and Reform Commission's "Notice on Measures to Restore and Expand Consumption"(《关于恢复和扩大消费措施的通知》), which proposed "stabilizing commodities consumption" including increasing financial support for automobile consumption, and emphasized strengthening financial support for the consumer sector. On July 14, 2023, the State Administration of Financial Supervision issued the revised "Administrative Measures for Auto Finance Companies"(《汽车金融公司管理办法》) to give auto finance companies more support in terms of financing. The first is to appropriately expand the scope of shareholder deposits of auto finance companies and cancel the period requirements for time deposits. The second is to allow auto finance companies to carry out foreign currency business, including accepting overseas deposits from shareholders and issuing overseas bonds. The third is to further clarify that auto finance companies can issue capital instruments upon approval. In August 2023, CCTV News reported that the central bank planned to vigorously support consumer finance and auto finance companies in issuing financial bonds and credit asset-backed securities (ABS), and raise funds to actively develop specialty consumer credit products to meet residents' consumption upgrade needs. As of now, among consumer finance companies, only Industrial Consumer Finance and China Merchants Union Consumer Finance still have financial bonds, with balances of 3.3billion yuan and 8.5billion yuan respectively. As for overseas debt, no consumer finance company has yet issued overseas debt, and the overseas debt market needs to be enriched urgently. Among auto finance companies, companies that issue financial bonds and overseas debts are mainly wholly foreign-owned enterprises and sino-foreign joint ventures. They have relatively high credit ratings and low issuance interest rates.

**The problem of relatively single financing structure of non-bank financial companies still exists, and seizing policy opportunities will improve business competitiveness.** Low-cost diversified financing channels are necessary to enhance the core competitiveness of non-bank financial institutions. However, the financing costs of non-bank financial institutions have continued to remain at a high level in the past two years. In addition, with the risk fluctuations on the asset side, there is an urgent need to supplement stable and cost-controllable funds.

Direct financing channels for consumer finance companies mainly include the issuance of financial bonds and credit ABS in the inter-bank market. However,

the overall industry is still dominated by indirect financing, and the scale of direct financing is relatively small. The main pain point in the industry is that except for the leading institutions, most consumer finance companies have small registered capital, insufficient risk control capabilities, and average customer quality, resulting in slow business development, difficulty in financing, and high costs. The issuance of financial bonds is an important sign that consumer finance companies have market recognition. Driven by relevant policies, consumer finance companies are approved to issue financial bonds, which helps expand financing channels and supplement medium and long-term funds at lower financing costs. And it's also conducive to optimize the maturity structure of assets and liabilities to further promote the development of main business.

Traditional auto finance companies are currently facing competition in financing. Commercial banks, financial leasing companies, Internet finance platforms, etc. have all increased their presence in the auto finance field. Commercial banks, in particular, have larger capital volumes, lower financing costs and stronger pricing power than traditional auto finance companies. At present, auto finance companies have relatively narrow financing channels and a relatively simple structure. Policy promotion has provided a good external financing environment for the development of the industry, which will help auto finance companies further leverage their direct financing advantages, especially the issuance of credit ABS products to obtain low-cost financing, thereby improving business competitiveness.

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