China Banks May Miss Loan Target for 2012, Officials Say

China’s biggest banks may fall short of loan targets for the first time in at least seven years as an economic slowdown crimps demand for credit, three bank officials with knowledge of the matter said. A decline in lending in April and May means it’s likely the banks’ total new loans for 2012 will be about 7 trillion yuan ($1.1 trillion), less than an estimated government goal of 8 trillion yuan to 8.5 trillion yuan, said one of the officials, declining to be identified because the person isn’t authorized to speak publicly. Banks are relying on small and mid-sized companies for loan growth after demand from the biggest state- owned borrowers dropped, the people said. The drying up of loan demand attests to the severity of China’s slowdown and may add pressure on Premier Wen Jiabao to cut interest rates and expand stimulus measures. The economy may grow in 2012 at its slowest pace in 13 years, a Bloomberg News survey showed last week, as Europe’s debt crisis curbs exports, manufacturing shrinks and demand for new homes wanes. “The authorities are on the case of slowing growth and we expect them to continue to roll out fine-tuning stimulus measures,” Tim Condon, chief Asia economist for ING Financial Markets in Singapore, said in a note to clients today. The one- year lending rate in China may be cut by 25 basis points, he forecast. Stocks Slide U.S. stocks dropped on concern that China’s economy is showing strains, with Standard & Poor’s 500 Index slipping as much as 0.6 percent before recovering to close 0.1 percent higher. Chinese banks’ American depositary receipts slid in the U.S., while the Dollar Index touched a 20-month high. Press officials at the three largest lenders -- Industrial & Commercial Bank of China Ltd., China Construction Bank Corp. (939) and Bank of China Ltd. (3988) -- declined to comment. Press officials at Agricultural Bank of China Ltd. (601288) weren’t immediately available. New bank loans last month dropped 33 percent from March to 681.8 billion yuan, missing the 780 billion yuan median forecast of economists surveyed by Bloomberg News. A third of April’s new credit was also so-called discounted bills, or short-term loans often used by banks to pad the total figure. Getting Worse This month may be worse. The four biggest banks -- which account for about 40 percent of lending -- had advanced only 34 billion yuan as of May 20, Liu Yuhui, a director at the government-backed Chinese Academy of Social Sciences, said in an interview this week, without saying where he got the data. The lenders may rush to boost credit in the last few days, mainly through short-term notes, he said. China hasn’t officially announced the quotas set for each bank or the total loan target for 2012. Still, as recently as last month, policy makers were indicating the target was 7.5 trillion yuan to 8 trillion yuan. Lenders in China’s eastern province of Zhejiang, for instance, will aim to increase new loans to about 670 billion yuan, accounting for 8.4 to 8.9 percent of the nation’s total increase, the government-backed Securities Times newspaper reported on April 26, citing Liu Renwu, head of the PBOC’s Hangzhou branch. Failing to meet the annual loan target would mark a turning point for Chinese banks, which have reached or exceeded the central bank’s goal every year that such quotas have been in place since at least 2006. The banks are also grappling with the fallout from a record credit expansion in 2009 and 2010. That loan growth, a key part of the government's economic stimulus measures, fueled inflation and triggered concern that local governments' financing vehicles will be unable to repay debts. Understated Bad Loans Bad loans at Chinese banks rose by 10.3 billion yuan in the first three months to 438.2 billion yuan as of March 31, the nation's banking regulator said this month. Fitch Ratings warned last week that China's non-performing debt and special-mention loans were "vastly understated" and banks' cushions are "thinning as deposit growth slows and forbearance reduced loan repayments." The lending slowdown this year reflects the faltering economy. China's gross domestic product expansion, which dropped to 8.1 percent in the first quarter, may further slip to 7.9 percent in the three months ending in June, according to a Bloomberg News survey last week. That would be the sixth quarterly deceleration. April's weak trade and industrial-output data prompted the central bank on May 12 to announce the third cut in the amount that banks must set aside as reserves since November. 'Fine Tuning' The Chinese government this week signaled a bigger focus on bolstering growth, saying in a statement it will intensify "fine-tuning" of policies "for stable and relatively fast economic growth." The nation will start a series of "key infrastructure projects that are vital to the overall economy and can facilitate growth," and speed up construction of existing railway, environmental protection and rural projects, the government said on May 23, summarizing a meeting of the State Council, or Cabinet. Still, Morgan Stanley this week joined banks including Goldman Sachs Group Inc. in lowering its estimate for China's economic growth for the year. The annual GDP forecast was cut to 8.5 percent, from an earlier 9 percent goal, to "reflect the worse-than-expected slowdown" in the first four months, chief economist Helen Qiao said in a note to clients on May 21. Interest Rates "Since the policy constraints on credit easing have remained in place for too long, loan demand has been weakening further," Hong Kong-based Qiao wrote that day. "The low volume of bank loans now reflects weak demand and lack of policy support from government-driven projects." Policy makers in China may cut interest rates twice this year and further reduce the reserve requirements for banks, Qiao forecast. The waning demand for loans is also reflected in the three- month Shanghai interbank offered rate, or the rate at which Chinese banks say they can borrow from one another. The so- called Shibor has fallen every day since March 27, sliding 65 basis points to 4.30 percent, according to data compiled by Bloomberg. The outlook for China's economy may be even worse if Greece exits the euro and local policy makers don't increase the stimulus, China Investment Capital Corp., the nation's biggest investment bank, forecast this week. Economic expansion may drop to 6.4 percent in 2012 in that case, Beijing-based Peng Wensheng, CICC's chief economist, said in a May 23 report. That would be the worst performance for China since 1990, the year after the Tiananmen Square protests.