



## China Asks Some Banks to Limit Lending on Insufficient Capital

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By Bloomberg News



Jan. 20 (Bloomberg) -- China has told some banks to limit lending and will restrict overall credit growth in the nation to 7.5 trillion yuan (\$1.1 trillion) this year, banking regulator [Liu Mingkang](#) said.

Some lenders failed to meet regulatory requirements including those for capital and were asked to rein in credit, Liu, chairman of the [China Banking Regulatory Commission](#), said in an interview today in Hong Kong. The regulator hasn't asked all Chinese banks to limit lending, he said without identifying those that had been told to do so.

"We have a number of regulatory requirements to ensure prudent supervision," Liu said. "For those that failed to meet these standards, we told them to limit lending." Liu, 63, was in Hong Kong to attend the Asia Financial Forum.

Premier [Wen Jiabao](#) said yesterday China will "well manage" the pace of credit growth after a record 9.59 trillion yuan of new loans were doled out in 2009, stoking concerns of asset bubbles and worsening credit quality. China's central bank last week raised the proportion of deposits banks must set aside as reserves for the first time in 18 months.

"It's a game that banks play with the China Banking Regulatory Commission," said [May Yan](#), an analyst at Nomura International HK Ltd. "Banks speeded up loan extensions with the knowledge that the government will tighten credit in 2010," said Yan, who recommends investors buy shares of [Industrial & Commercial Bank of China Ltd.](#), [Bank of China Ltd.](#) and [China Construction Bank Corp.](#)

### Bank Shares Fall

ICBC, the world's most profitable bank, fell **2 percent** to HK\$5.93 at the Hong Kong trading 12:30 p.m. trading break. Bank of China slumped **2.9 percent** to HK\$3.97, extending this year's decline to 5.5 percent. China Construction Bank, the nation's second-largest lender, declined **2.7 percent**.

China's banks are monitored on more than 10 indicators, Liu said. "If you fail one of them, your loan expansion will be limited. That said, financing for good existing projects will be guaranteed."

New loans in the first 10 days of this year were "relatively high," Liu said in a speech delivered at the Hong Kong forum today. That growth will "ease very soon," he said, according to a transcript of his speech posted on the CBRC's Web site.

"We will continue this year to control the pace and amount of credit supply," which will "come down to 7.5 trillion yuan this year," Liu said. That would represent a 22 percent decline on last year.

"The [market](#) isn't really surprised by this measure because it's obvious that the government will tighten loan growth this year," Nomura's Yan said.

### Lending Halt

Major Chinese commercial banks received verbal orders from authorities to halt new lending for the remainder of January after credit was reported to have already exceeded 1 trillion yuan, the [China Securities Journal](#) reported today, citing unidentified people in Beijing and Shanghai.

ICBC, [Bank of China](#) and other lenders have effectively stopped granting new loans after the banking system extended about 1.5 trillion yuan in new credit during the first two weeks of this month, Market News International reported today, citing industry and government sources it didn't identify.

Bank of **China's** new lending in the first 20 days of January was "relatively large," according to an e-mailed statement from the lender today. The company said it will try to balance loans between months and quarters and that it needs to pay more attention to loan structure.

#### Strained Capital

The CBRC will impose new leverage and liquidity ratios on the nation's banks, Liu said today without providing details. The watchdog prohibits banks from guaranteeing corporate bonds and forbids lenders from counting cross-holdings of subordinate bonds as Tier 2 capital, he said. Tier 2 capital refers to banks' supplementary capital including funds raised from convertible bonds and preferred stock.

Fitch Ratings said on Dec. 17 that Chinese banks' capital strength is probably more "strained" than it appears as lenders use more off-balance sheet transactions to make room for loan growth.

The People's Bank of China on Jan. 12 unexpectedly raised reserve requirements to cool the world's **fastest-growing major economy**. The ratio for big banks was raised Jan. 18 by 50 basis points to 16 percent.

The central bank may ask different lenders to set aside differing percentages of deposits as reserves, depending mainly on their lending performance in January, the 21st Century Business Herald reported today, citing an unidentified executive at a commercial bank. China's central bank may institute the measure as a way to slow loan growth, the newspaper said.

Liu's commission on Jan. 18 said banks' lending plans are determined by their company boards, denying an Apple Daily report in Hong Kong that Bank of China was told to cut new lending to no more than 650 billion yuan this year.

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