Chinese economy

China struggles to disperse cheap loans to businesses in economic slowdown

Banks' credit fears and companies' reluctance to take on debt undercut targeted stimulus strategy

China's central bank has argued that targeted lending differs from broad western-style monetary easing by channelling cheap credit into strategic areas while avoiding stoking inflation © Qilai Shen/Bloomberg

Sun Yu in Beijing DECEMBER 31 2023

Chinese authorities have struggled to disperse $740bn in cheap loans to businesses, as banks raise concerns about credit risk and companies are loath to take on more debt in a slowing economy.

The targeted lending programme has been a critical part of Beijing's stimulus effort since the coronavirus pandemic and as authorities have tried to kick-start a sagging economy this year. But commercial banks have found it difficult to identify eligible borrowers in the industries prioritised by the government.

Official data shows half of the 14 People's Bank of China loan programmes, which range in focus from nursing homes to distressed real estate developers, have deployed less than 50 per cent of their quota since they began in 2020. The remaining programmes, or "structural monetary policy instruments", have disbursed between 62 and 87 per cent of their lending quotas.

The slow take-up underscores the challenges faced by Chinese policymakers to revive the country's ailing economy, battered by a real estate meltdown and a lack of private sector confidence.

"China's [financial regulators] are quite aware of the fact that using these targeted measures goes against their attempts to commercialise the banking system and stop interfering in credit allocation," said Eswar Prasad, an economics professor at Cornell University and the former head of the IMF's China division.

"But I think they have decided that targeted credit allocation may be the lesser of two evils, with a larger evil being broad monetary stimulus that could raise all sorts of medium-term financial and other risks."

China already had a long history of wielding targeted loans to achieve policy goals. But authorities increasingly relied on the strategy to support the economy following the outbreak of Covid-19, with the PBoC rolling out more than a dozen short-term, low- or zero-interest lending programmes worth more than Rmb5.3tn ($744n).

Targeted lending differs from broad western-style monetary easing, according to the central bank, by channelling cheap credit into strategic areas to boost the economy without stoking inflation.

However, the strategy has only partially paid off, with some newer programmes suffering even lower adoption rates.

Three targeted lending facilities launched in January to allocate as much as Rmb230bn to social housing companies, distressed real estate developers and private companies were not exhausted by the end of September. Two funds backed by the PBoC to funnel Rmb240bn into stalled property projects and affordable nursing homes have deployed only Rmb7.2bn since beginning in June.

Another state-backed loan programme for logistics, launched at the end of last year, has dispersed less than half of its Rmb100bn quota.

Four bankers said they were reluctant to participate in the programmes, which focus on industries with considerable credit risks. Nursing homes, for example, typically rent buildings and land, and so have no collateral to offer lenders.

"I would have received bank loans a long time ago if I had owned the land," said Xu Liang, an owner of a nursing home in the northern Hebei province. Xu applied for a loan in August but was turned down over insufficient collateral.

Demand for credit is also weak. Official data shows a Rmb40bn PBoC-backed fund for small business loans has dispensed only Rmb22bn since its launch in March.

“Business owners are scared of increasing leverage because of the huge economic uncertainty,” said an official at Zhongyuan Bank.

Despite the weak uptake, Beijing is pushing on with the programme. The central bank’s monetary policy department said targeted lending had helped “effectively . . . revitalise the economy” and “boost new growth engines”, according to state media.

But even China’s officials are not convinced.

“China’s economic regulators are obsessed with the idea of targeted monetary policy even though there is a lot of debate on whether it really works,” said an adviser to the central bank.

Even with authorities’ encouragement and the central bank’s backing, banks are not ready to relax their lending criteria.

“We make lending decisions based on whether borrowers can repay the loan rather than how low our cost of funds can be,” said an executive at China Construction Bank, one of the country’s largest banks. “We cannot promote public interest at the expense of our own.”