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Top economic body mulls bank for SMEs

The government is mulling a bank specializing in lending to small and medium-sized enterprises (SMEs) in an effort to broaden their sources of finance, especially at a time when the monetary policy is being tightened to rein in inflation.

The National Development and Reform Commission (NDRC) will take charge of the planning, according to reports quoting an NDRC official saying so at a recent forum held in Guangzhou.

The official also reportedly called on domestic commercial banks to increase their credit lines to SMEs at a rate close to or equal to that of the national credit expansion.

The official said the government would continue to lend support to SMEs by providing subsidies to pay for the service of loan guarantee agencies in securing bank loans and improve the credit guarantee system for SMEs.

Greater efforts would also be needed to increase the total amount of technology innovation funds for SMEs to help them climb the value chain.

The funds, started with allocation from the treasury, amounted to 3.5 billion yuan last year.

Economists and industry experts said domestic enterprises still rely too heavily on bank loans to finance growth. This reliance has seriously hobbled the growth of many SMEs because banks traditionally prefer to lend only to large State-owned enterprises.

Total lending by commercial banks in the first quarter of this year amounted to 2.2 trillion yuan, of which only 300 billion yuan of credit was extended to SMEs, accounting for 15 percent of the total.

The loans obtained by SMEs in the first quarter of 2008 dropped by 30 billion yuan from the previous year, according to figures released by the China Banking Regulatory Commission.

Zhao Xijun, a professor of finance at Renmin University of China, said it would be good news for SMEs that are troubled by a credit crunch resulting from a combination of factors, including tightening monetary policies, rising material costs and mounting pressure from global recession.

According to latest statistics from the NDRC, in the first six months of 2008, about 10 percent of SMEs in the country realized a mere 30 percent increase in industrial added value, down 15 percentage points from the six months to June 30, 2007.

During the same period, 67,000 SMEs went out of business. The hardest hit were those in the labor-intensive sector such as textile and garments. In the first half of this year, about 10,000 textile factories have closed down and nearly two-thirds of textile manufacturers were on the brink of bankruptcy.

"But whether the proposed bank can fulfill its function of providing loans to SMEs would depend on how much the government is prepared to put up as initial capital and what kind of preferential treatment such a bank would receive," said Zhao of Renmin University of China.

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