CBRC to try to rein in risk

BEIJING, April 13 -- China's banking regulator said it will step up efforts to control risk management in Chinese banks as domestic lending continued to grow in March.

Chinese banks reportedly extended a whopping 1.87 trillion yuan worth of new loans in March, following record-setting lending growth in the first two month of this year.

The China Banking Regulatory Commission (CBRC) lifted annual lending quotas on domestic banks last November to boost economic growth amid the global financial crisis. Lending in Chinese banks has skyrocketed ever since.

The rise in March would bring the first-quarter figure for new loans to about 4 trillion yuan, close to the 5 trillion yuan lending target Premier Wen Jiabao announced at the National People's Congress.

World leaders vowed at the London G-20 Summit to regulate financial firms more strictly in the wake of the global financial crisis. Although Chinese banks have largely been left untouched compared to their western peers, it doesn't mean they're in a risk-free haven, analysts said.

This year's lending by Chinese banks has included a high proportion of discounted bill financing, generally used to meet companies' short-term cash needs, fuelling speculations that much of the surge in loans may be funding stock market speculation rather than business operations or investment.

Chinese media reported earlier that the CBRC had begun auditing lending growth in Chinese banks to learn where the new loans actually ended up.

Authorities have forbidden commercial banks from transferring funds raised from discounted bills into deposit accounts, China Securities Journal reported. The paper also quoted a regulatory official as saying that the current increase in credit basically reflected the demands of the real economy.

Liu Mingkang, chairman of the CBRC, said that capital adequacy ratio and provision coverage ratio in Chinese banks has to meet the latest regulatory requirement, when speaking at a meeting held at the Chinese Academy of Social Sciences.

According to latest regulations from the CBRC, capital adequacy ratio in major domestic banks has to be higher than 12 percent while provision coverage ratio in those banks need to be improved to 150 percent by the end of 2009.

As at the end of 2008, capital adequacy ratio in the country's top three State-controlled banks, Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB) and Bank of China (BOC), met the CBRC's 12 percent requirement. But both ICBC and CCB have to raise their provision coverage ratio by about 20 percentage points to keep in line with the CBRC's new regulation, while BOC's provision coverage ratio has to be boosted by about 30 percentage points.

In addition, China will ask foreign investors to commit to a lockup period of five years or more when they acquire stakes in Chinese banks, as an effort to shield domestic banks from the impact of stake sales by overseas investors.

CBRC chairman Liu mentioned the new policy for the first time last week without giving details on when it would be implemented. In recent months, several foreign banks have sold stakes in Chinese banks to raise cash amid the global financial crisis, causing share prices of Chinese banks to fluctuate.

(Source: China Daily)
