

Regulator asks banks to keep tabs on risky loans

Chinese banks should strengthen their financial and risk management while further supporting the nation's economic growth, the country's banking watchdog said, as there are mounting concerns that the credit explosion may pose risks for the financial sector.

In a guideline jointly released by the China Banking Regulatory Commission and Ministry of Finance on Sunday, Chinese banks have been urged to enhance the capabilities to identify and tackle risks, closely monitor borrowers' financial conditions and carefully assess risks when extending loans for mergers and acquisitions.

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The call comes after Chinese banks extended record high new loans to help finance the government-led stimulus projects, indicating that policymakers are increasingly feeling the potential risks of galloping credit growth, analysts said.

China's new yuan loans totaled 5.17 trillion in the first four months, sparking concerns that bad loans may start to pile up.

In a bid to spur private investment, the nation last week relaxed the minimum financial requirement for starting a raft of fixed asset projects, including commercial property, which

means banks may be exposed to more risks as they are now allowed to finance projects with less initial capital than before.

"It is necessary to pay close attention to the risk accumulated from the burst of lending and regular checks must be conducted to ensure that loans are not misused," said Zhao Xijun, financial professor with the Renmin University of China.

In another guideline issued yesterday, CBRC required commercial banks to set up a sound mechanism to identify, supervise and control potential information technology risks and safeguard customer data security.

Analysts said the banking regulator's call is far from foretelling a tightened bank lending policy, though the momentum of lending has eased recently.

In April, Chinese banks extended 591.9 billion yuan in new loans, a drastic slowdown from the more than 1 trillion yuan in each of the first three months. Analysts expect new bank loans in May to touch 500 billion yuan at the most.

"The surging credit growth in the first quarter is not sustainable, and the new loan growth in May will be broadly in step with that of April," said Zhao.

Guo Tianyong, professor with China's Central Finance University, said the relaxed monetary policy environment has not changed.

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