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# Regulator cautions banks on bad loans

By Wang Bo (China Daily)
Updated: 2009-12-17 08:02

China's top banking regulator yesterday warned banks of the potential risk in focusing lending only on certain industries, in an indication that bad loans could return to haunt Chinese banks in the next couple of years.

Far too many loans were extended to the infrastructure, energy, real estate and transportation sectors this year, Wang Huaqing, disciplinary commissioner of the China Banking Regulatory Commission, said at an international seminar on syndicated loans in Beijing yesterday.

Loans to large customers, which have credit lines of more than 50 million yuan ($7.32 million), accounted for 66.9 percent of total advances at the nation's 19 biggest banks by the end of October, Wang said.

Chinese banks lent a mammoth 9.21 trillion yuan in the first 11 months, double the lending seen during the same period last year, and the new loans total could touch 9.6 trillion yuan by the end of the year, Wang said.

The banks are likely to maintain a relatively rapid lending pace in the coming year to keep the economy growing at a fast clip.

"It is essential to pay attention to banks' aggregated exposure, as Chinese banks tend to have pretty similar profiles and the concentration in their loan portfolio is bigger than people had realized," Charlene Chu, head of China bank ratings at Fitch Ratings (Beijing) Ltd, said in an interview.

For instance, the property sector absorbed 25 to 30 percent of the total loans extended by Chinese banks, but a lot of lending to industries like manufacturing was indirectly channeled into property development, making real lending to the property sector much higher than what banks disclosed, he said.

"Even though the disclosed exposure is not that high on an international basis, a big deterioration in lending to that area will definitely hurt Chinese banks," Chu said, adding that there was a disconnect between the seemingly buoyant property market and the empty commercial buildings seen in many cities across the country.

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The State Council announced on Monday that it would consider policies and measures, including financial means, to cool soaring house prices in some cities, causing speculation that lending related to the property industry, especially mortgage loans, would be scaled back.

"The government will ask banks to implement stricter credit rules on second home purchases, but that does not mean banks will tighten lending to property developers, as increasing the supply of homes is still important to ease surging house prices," said Chen Xi, a banking analyst at First Capital Securities.

Analysts agreed that a commensurate rise in banks' bad debts is not likely in 2010, but it could be a big concern for Chinese banks in the medium term.

"Even though the bad loan problem will not show up very soon, it has definitely imposed a downward pressure on the prospects of Chinese banks," Chen said.

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