MEDIO: THE NEWS
SECCIÓN: BUSINESS
PÁGINA: 15
FECHA: 11/JUNIO/2013

Fitch: China loans 'risky'

Lack of regulation in non-bank sector is dangerous

REUTERS

FRANKFURT – China's unregulated shadow banking sector poses an increasing risk to the country's financial stability that could spread to other countries, credit rating agency Fitch said on Monday.

China has tens of thousands of non-bank lenders that are providing increasing amounts of credit to businesses and government outside the mainstream, regulated banking sector, a situation that is stoking systemic risk, Fitch said.

There is little visibility on where the money is going, who is lending it or what the credit quality of assets is, meaning traditional warning signs of trouble will not function properly.

"It is a wild west atmosphere in many respects and that is one of the reasons why we are so worried," Fitch Senior Director Charlene Chu told a conference in Frankfurt.

Regulators had little insight into the non-bank sector.

"It is a material risk because a growing amount of credit is being extended through channels that they don't have transparency or control over," Chu said.

Chinese authorities have been working to improve transparency in the financial sector, but Fitch said it was hard to get a handle on the problem, which hurts the effectiveness of monetary policy, will complicate the winding down of any institutions that fail and could also eventually put downward pressure on China's sovereign rating.

The country's bank regulator, the China Banking Regulatory Commission (CBRC), publishes statistics on non-performing loans, for example, but this is of limited use, Chu said.

"A 1 percent NPL ratio has little signaling value when 36 percent of all outstanding credit resides outside Chinese banks' loan portfolios," she said.

Banks are likely to be on the hook for bailing out non-banks in trouble, because the only efficient way to deal with shadow bank exposures is to transfer the risks to the formal banking sector, Chu said.

The country was already seeing defaults in trust and wealth management products that could be an early sign of trouble.

"Stress will appear in the weakest parts of the financial sector, which tend to be non-bank financial institutions on the fringe of the system — and gradually work its way inward," she predicted.

Chu: Banks are likely to be on the hook for bailing out non-banks.

While there are some factors mitigating the situation, such as China's closed capital account, deep central bank reserves, the fact that funding is largely domestic and the main borrowers and banks are state-owned, there was still a potential for contagion, Chu said.

The foreign owners of stakes in Chinese banks already saw big write-downs on those stakes in the 2008 financial crisis and this could happen again, she pointed out.

There is also about $1 trillion in credit exposure by foreign banks to Chinese banks and corporations but this was also manageable.

"The bigger issue is what is it going to mean for growth and confidence, which could play out in a very negative way because China has been so important to the global growth story," she said.