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## China considers regulations on informal lending

(Xinhua)

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China is considering formulating regulations on informal lending to better regulate the country's financial market, said Jiang Dingzhi, vice chairman of the China Banking Regulatory Commission (CBRC) Friday.

To lay down relevant regulations together with other relevant ministries is conducive to the country's financial stability, especially in the countryside and providing better financial services there, said Jiang at the 2007 China Rural Finance Forum.

Informal lending means lending between individuals, between enterprises, and between individuals and enterprises, as opposed to lending by financial institutions, explained Luo Yuzheng, an official in charge of loans business from eastern China's Ningbo branch of Bank of China.

"For example, a township enterprise needs to pay a 7.29 percent interest rate to get loans from the bank and it also needs mortgages and some surety. If the enterprise doesn't have good credit, the interest rate may also float upward," added Luo.

Against the background of the country shifting its monetary policy from "prudent" to "tight", it may become more difficult for those enterprises with low credit to get loans from the bank, he said.

Access for Chinese farmers and rural enterprises to raise funds for their businesses is still limited. Some farmers and enterprises may turn to informal lending due to a more favourable interest rate or simply wanting to avoid procedures of being granted the loans from banks.

Official figures show Chinese farmers rarely obtain loans of more than 5,000 yuan (US\$675) from banks, leading to the existence of some underground banks and usurious loans, especially in the rural areas.

Figures from the State Administration of Foreign Exchange showed that more than 70 underground banks and illegal foreign exchange swap centers were uncovered in 2006.

"In the rural areas, people's awareness of risk of lending is weaker than that of urban dwellers and people are less likely to move around for new jobs compared with cities, so informal lending outside the banks is more common," said Ou Minggang, the Deputy Chief Editor of the Chinese Banker magazine.

This move of the industry watchdog on the one hand is to strengthen financial supervision for informal lending, especially in rural areas, and on the other hand to regulate the alternative financing channel to the loans from banking institutions, added Ou.

"The existence of informal lending is necessary, because it can reduce the cost of both the lenders and borrowers and it is efficient. However, this practice needs to be regulated and carried out in an legitimate way," commented Ou.

The CBRC didn't reveal the timetable of when the regulation would be implemented out

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