

Higher loan shark interest hurting firms

Black market rates of up to 10 per cent monthly in Zhejiang province offer evidence of reluctance to lend to struggling privately-owned businesses

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Black market interest rates in China's Zhejiang province have surged to 10 per cent monthly, a fresh sign that privately-owned companies are grappling with a worsening business climate due to Beijing's monetary tightening.

The interest rate charged by loan sharks translates into nearly 20 times the benchmark target rate of an annualised 6.56 per cent set by the central bank.

Nonetheless, three Zhejiang entrepreneurs who use underground banking loans to fund their businesses said it was becoming increasingly difficult for them to access these expensive credit lines even though they were willing to accept the sky-high interest rates.

"The 10 per cent interest rate on a monthly basis doesn't necessarily mean you can easily borrow money from the loan sharks," said one of the Ningbo-based businessmen. "They are now aware of the default risks and reluctant to lend to struggling businesses."

Zhejiang, known as the mainland's capital for privately-owned businesses, abounds with underground banks, efficient lending machines for cash-hungry small businesses. It has been reported that up to 600 billion yuan (HK\$727 billion) flows through the province's underground banking system.

Such lending has played a strategically important role in funding the boom in Zhejiang's private businesses. Last year, the loan sharks charged as much as five per cent monthly.

"Few businesses could now afford the 10 per cent interest rate since they would have to generate monthly returns of more than 10 per cent," said Li Youhuan, a professor at the Guangdong Academy of Social Sciences and the mainland's most renowned expert on fund flows.

"The figure shows that private businesses in Zhejiang are facing a kind of do-or-die situation now," he added.

Some entrepreneurs say they might resort to using loan sharks when suffering cash flow problems if they felt the money could be used to fund a highly profitable deal.

Others have drawn the line at paying such rates. "I would rather shut down my factory and lease the land to other people to collect rent now that the business environment is so bad," said an entrepreneur who runs a hand tool factory.

"It is a critical situation for many Zhejiang private businesses now."

Beijing's flagship newspaper *People's Daily* reported that more than 7,300 companies in Zhejiang were forced to close over the period January to April this year, falling victim to Beijing's monetary tightening.

Most of the mainland's small companies are unable to obtain credit offered by commercial banks as those lenders prefer to grant loans to state-owned firms and local government-backed financing vehicles based on a belief that their projects are safe and profitable.

Beijing started to roll out austerity measures, including increasing interest rates and raising the reserve requirement ratio, to combat stubborn inflation and avoid a hard economic landing this year.

The tightened monetary policies have exacerbated the financing difficulties facing small firms as loan sharks have become more cautious in extending credit to privately-owned businesses.

"Business people here are still doing their utmost to survive the tightening," said the chief of the Wenzhou division of the Zheshang Research Association, most of whose members are Zhejiang-based entrepreneurs.

"People are uncomfortable about using the term 'close-down,' but we all know the outlook is very bearish and hope there will be a big policy change some time soon."