

Bad 'plastic' debt hits 10 billion yuan

After an extra 45 million credit cards are issued to consumers on the mainland this year, the central bank is forced to warn lenders about the growing problem

Daniel Ren in Shanghai
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Overdue credit card debt on the mainland has passed the 10 billion yuan (HK\$12.2 billion) mark for the first time, prompting the central bank to warn lenders about the unbridled growth of bad debt from plastic.

A report by the People's Bank of China showed that 10.6 billion yuan of credit card debt was at least six months overdue at the end of September, 723 million yuan more than the previous quarter.

The central bank added that the growth in bad debt came faster than it expected, though it did not elaborate on what measures it would take to tackle the problem.

In the first nine months of this year, a total of 3 billion yuan of overdue debts involving the misuse of credit cards was added as commercial banks actively expanded their business and vied for a bigger share of the fast-growing market.

An official with China UnionPay, the mainland's sole domestic interbank card operator, said the hefty increase in bad credit card debt reflected the central bank's ineffectiveness in cracking down on problems in the past year. Beijing became aware of increasing fraud involving credit cards in 2009 and the central bank launched a probe into suspicious deals early last year.

It also cautioned banks not to issue cards to clients who were not credit worthy.

However, mainland banks still distributed an additional 45 million credit cards this year, bringing the total number to 268 million.

Mainland banks normally offer gifts to attract people to use credit cards, hoping to create a new growth engine to capture the rising affluence of mainlanders. But reckless expansion into the credit card business has resulted in a rapid rise in default rates. The central bank said the default

rate of credit cards stood at 1.5 per cent by the end of September.

Top mainland law-enforcement authorities issued an edict at the end of 2009, saying those cardholders who refused to pay their debts after receiving notification letters from banks could face criminal charges.

The efforts appear to have been unsuccessful, based on the ever-increasing amount of overdue debt.

"The central bank is now focusing on the massive bad-loan problem involving the easy credit to infrastructure constructors," said the UnionPay official.

"They loosened the oversight on the credit card businesses because it was still a relatively small amount," the official said.

About 70 per cent of the 9 trillion yuan in loans granted to the local government financing vehicles are unlikely to be repaid by the projects they have funded, according to the China Banking Association.

But the rapid growth of credit cards heightened fears of another potentially severe bad-loan problem facing mainland banks.

By the end of September, commercial banks had granted a total 2.45 trillion yuan to credit card holders.

More than a third of retail sales on the mainland last year were conducted using bank cards as electronic banking services expanded rapidly.

"The credit card default problem is not having a huge impact on the banking system now," said Zhongde Securities analyst She Minhua. "But it is advisable for the authorities to take measures against the problem before it becomes too serious to tackle."

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