

The Current Status and Challenges for Urban Commercial Banks in Northeastern China

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Summary

This paper analyzes the actual situation of the management of urban commercial banks, one category of Chinese banks, taking as its target northeastern China (Liaoning Province, Jilin Province, and Heilongjiang Province). The urban commercial banks were established under the auspices of local governments, as the entities taking over the restructuring of the urban credit cooperatives which had fallen into management difficulties with the problem of non-performing loans at the start of the 1990s. After the restructuring, receiving the support of local governments, they aimed for the reform of management, and from 2010 and into 2011 they combined high growth and yield with soundness, and became the star pupils of the Chinese banking sector.

In 2012, however, an adverse wind also began blowing on the urban commercial banks, which had been enjoying plain sailing. Accompanying the economic slowdown, the "reserve forces" of the non-performing loans have increased, and the increase in the cost of credit will also be of concern in the future. Against such circumstances, the urban commercial banks within the region are making their lending behavior passive, and in place of lending to firms and individuals are increasing their lending to financial institutions and securities operations. On the other hand, accompanying the progress of the liberalization of interest rates, the cost of capital procurement has risen greatly, and the profit margins of urban commercial banks within the region have definitely grown slim. For that reason, in the future the skillfulness of cost management and credit risk management will have an even stronger influence in the area of revenue.

Vis-à-vis this problem, although an economy-of-scale handling is conceivable which further promotes the development of the greater region, the competition among banks in the principle cities where the market scale is large is already fierce, and trying their luck in the same arena where the urban commercial banks have a priority business status is difficult. If they advanced the development of the greater region further, the possibility would also be high of diluting the connections with the regions and not being able to maintain a high gross-profit-margin ratio. In contrast to superficial rapid growth, the urban commercial banks of northeastern China can be said to now be standing at a major crossroads.

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