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Chinese Banks Have Resources to Manage Local Loans, Brookings' Prasad Says

By Kelvin Wong and Susan Li - Jul 26, 2010

Chinese banks have enough resources to deal with loans awarded to local government projects, said Eswar Prasad, a senior fellow at the Brookings Institution and a former head of the China division at the International Monetary Fund, in a Bloomberg television interview.

"The fundamental problems with Chinese banks are really with the risk management side," he said from Washington today. Prasad said the "numbers certainly sound and look very bad," referring to a July 23 report by Bloomberg that said Chinese banks may struggle to recoup about 23 percent of the 7.7 trillion yuan they've lent to finance local government infrastructure projects, according to a person with knowledge of data collected by the nation's regulator.

Lenders in China have been ordered to set aside provisions, giving them "a fair amount of room to manage" losses from bad debt, he said.

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