Shadow banking won't lead to collapse: IMF official

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China's shadow banking issue is a concern, Zhu Min, deputy managing director of the IMF, said Friday at the Summer Davos Forum, held in Dalian, Northeast China's Liaoning Province, urging more tangible moves from the government to facilitate financial reforms, of which the shadow banking sector has been under the spotlight.

"We should not underestimate the risk of shadow banking," Zhu, also a former deputy governor of the country's central bank, the People's Bank of China, told a session of the Summer Davos, which ran from Wednesday till Friday.

However, he added that shadow banking will not cause a collapse in the system.

With no clear definition of the country's shadow banking system, there has yet to be consensus on its scale.

According to a report from the Financial Stability Board published in November 2012, the size of the country's shadow banking system was measured at $400 billion.

However, the ANZ Bank released a report in December last year saying that the size of the shadow banking market in China stood at 15 trillion to 17 trillion yuan ($2.45 trillion to $2.78 trillion), which was 12 to 13 percent of the size of the regulated banking system or about one-third of the country's GDP.

The China Banking Regulatory Commission said the shadow banking sector's share of banking assets was reduced to only 13 percent in July, compared with the much higher 54 percent in the first quarter of this year, an improvement partly attributed to efforts made by the authorities to strictly regulate most trust and wealth management products and control the risks of shadow banking.

Estimating that the size of the shadow banking market has reached between 20 and 30 trillion yuan, Zhang Yichen, chairman and CEO of Hong Kong-based CITIC Capital, said at the same session that the risk would be easy to contain, downplaying fears over the issue.

"Few people talk about shadow banking on the asset side," Zhang said. "Western governments don't have assets other than the buildings they own, but in China the governments own all the land and State-owned enterprises which are worth somewhere around $10 trillion."

A comparison between the scale of debt and huge amount of assets owned by the government would make it clear that "the shadow banking issue needs to be corrected, but it's not going to overwhelm the system and make it collapse."

Agreeing with Zhang's description of the system, Richard I. Lesser, president and CEO of The Boston Consulting Group, told the Global Times Friday that "the shadow banking system will be the main hope as part of a broader financial reform package, because part of the shadow banking system helps fund smaller companies."

"The shadow banking market offers diversified products to private companies and personal investors. The financial authorities need to bring the market outside of the shadows by regulating the financial institutions more efficiently and preventing corruption from happening," Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges, told the Global Times Friday, speaking of the role of the shadow banking system that has to some extent facilitated the market economy.

Pushing forward financial reforms has been one of the top priorities of the reform agenda under the new leadership, which approved a massive pilot free trade zone in Shanghai on August 22 as a spearhead of financial sector reform.

"The biggest challenge for China is resolving financial risks while driving through reforms," Chinese Premier Li Keqiang said at the opening ceremony of the forum on Wednesday, naming local government debt and shadow banking as the most concerning.

Li said the marketization of interest rates should be furthered and capital market diversification should be moved forward, reiterating the new leadership's reform pledge.

A deposit insurance system should be established in the country, IMF's Zhu told reporters on the sidelines of the forum after the session, noting that a market-oriented interest rate formation mechanism is also of great importance.