

# Challenges for Policy Makers

Benhua Wei

Advisor To Governor

The People's Bank of China

Mar 4, 2008,

Santiago, Chile



北京旅游网  
[www.bjlyw.com](http://www.bjlyw.com)



中国民声网

[www.minsheng.org.cn](http://www.minsheng.org.cn)

# Basic Information of China

Area: 9.6 million square kms;

Population: 1.3 billion;

Urban Population: 44%;

Nationalities: 56;

Undergraduates: 5 million in 2007;

Annual Urbanization: 20 million population;

GDP: RMB 24.7 trillion for 2007;

GDP per capita: USD 2000;

Trade Volume: USD 2.17 trillion for 2007;

Export: USD 1.22 trillion;

Import: USD 956 billion;

Trade surplus: USD 262 billion;

Reserve: USD 1.53 trillion;

Brief history of the Chinese economic development since the government adopted the reform and opening policy in 1978:

- Economic growth at over 10% annually over the past thirty years.
- Feeding 1.3 trillion population on only 7% of the land;
- Personal Income increased by 1000%;

# Financial Sector-Central Bank and Regulatory Bodies

- Central Bank: The People Bank of China (PBOC);
- Three regulatory commissions:
  - For Banking industry:  
China Banking Regulatory Commission (CBRC);
  - For Security industry:  
China Securities Regulatory Commission (CSRC);
  - For Insurance industry:  
China Insurance Regulatory Commission (CIRC);

# Financial Sector- Banking Industry

## ➤ Domestic Banking Institutions:

- 3 Policy Banks:  
China Development Bank;  
Exim Bank of China;  
Agricultural Development Bank of China;
- 5 Largest Commercial Banks:  
BOC, ICBC, CCB, ABC, BOCOM (Bank of Communication);
- 12 National Joint-Stock Banks;
- 113 City Commercial Banks;
- 1 Postal Saving Bank;
- 80 Rural Cooperative Banks;
- 54 Trust Companies;
- 70 Corporate Finance Companies;
- 4 Financial Asset Management Companies;
- 14 Rural Commercial Banks;
- 19,800 Rural Credit Cooperatives;

# Financial Sector- Banking Industry

- Domestic Banking in total:
  - Overall, there are 20, 000 local banking institutions in China, which has more than 180,000 outlets employing 2.7 million staff;
  - Key Indicators:  
Total Assets: RMB 52.6 trillion;  
NPL: 8%;

# Financial Sector- Banking Industry

- Foreign Banks in China:
  - 74 foreign banks;
  - 200 branches in 25 cities;
  - 14 locally incorporated subsidiaries;
  - Total assets: RMB 1 trillion;

## Total Assets of the Banking Institutions (2003-2006)

Unit: RMB 100 million

Institutions\Year	2003	2004	2005	2006
<b>Banking Institutions</b>	<b>276,394.5</b>	<b>315,989.8</b>	<b>374,696.9</b>	<b>439,499.7</b>
Policy Banks	21,247.0	24,122.5	29,283.2	34,732.3
State-owned Commercial Banks	160,511.7	179,816.7	210,050.0	242,363.5
Joint-stock Commercial Banks	29,598.6	36,476.0	44,654.9	54,445.9
City Commercial Banks	14,621.7	17,056.3	20,366.9	25,937.9
Rural Commercial Banks	384.8	565.4	3,028.9	5,038.1
Rural Cooperative Banks	—	—	2,750.4	4,653.6
Urban Credit Cooperatives	1,468.3	1,786.8	2,032.7	1,830.7
Rural Credit Cooperatives	26,509.2	30,767.0	31,426.7	34,502.8
Non-Bank Financial Institutions	9,100.0	8,726.8	10,161.9	10,594.1
Post Savings Bank	8,984.4	10,849.6	13,786.8	16,122.0
Foreign Banks	3,969.0	5,822.9	7,154.5	9,278.7

# Financial Sector-Security Industry

## Exchanges:

- Two Stock Exchanges (Market Value: RMB 32 trillion)
  - Shanghai Stock Exchange: USD 3.75 trillion
  - Shenzhen Stock Exchange: USD 796 billion
- Three Commodity Future Exchanges:
  - Shanghai Futures Exchange;
  - Dalian Commodity Exchange;
  - Zhengzhou Commodity Exchange;
- One Financial Future Exchange:
  - China Financial Future Exchange;

# Financial Sector- Security Industry

- Market Structure up to the end of 2007:
  - Market Value for Shanghai and Shenzhen Exchange: RMB 32 trillion;
  - Future Trading Volume: RMB 41 trillion;
  - 1558 listed companies;
  - 136 million investors;
  - 104 security companies;
  - 59 fund management companies;
  - 45 future brokerage companies;
  - 105 investment consulting companies;
  - 107 representative offices of foreign security companies;
- Dividends: RMB 117 billion by the end of 2006;

# Financial Sector- Insurance Industry

## ➤ Market Structure

- Insurance Companies:

	Local	Foreign	Total
Life	27	32	59
Casualty&Property	26	18	44
Reinsurance	2	4	6
Total	55	54	109

- Other entities:

8 holding group companies

9 insurance asset management companies

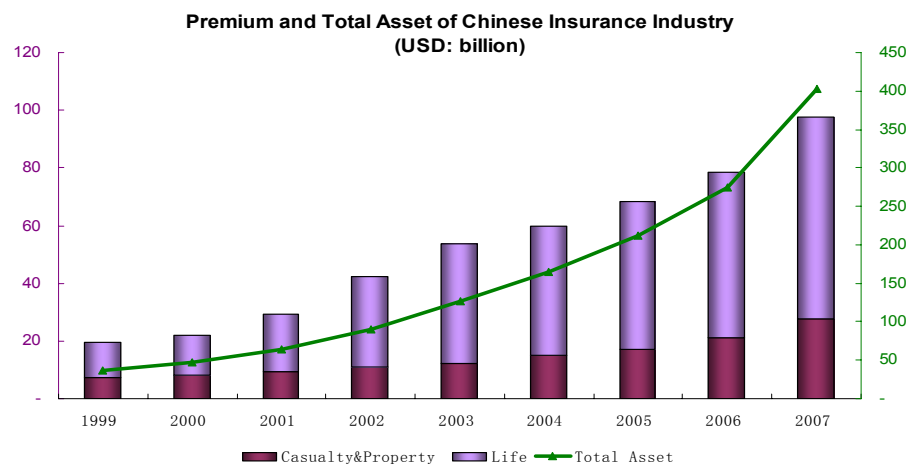
139 representative offices of foreign companies

2327 broker companies

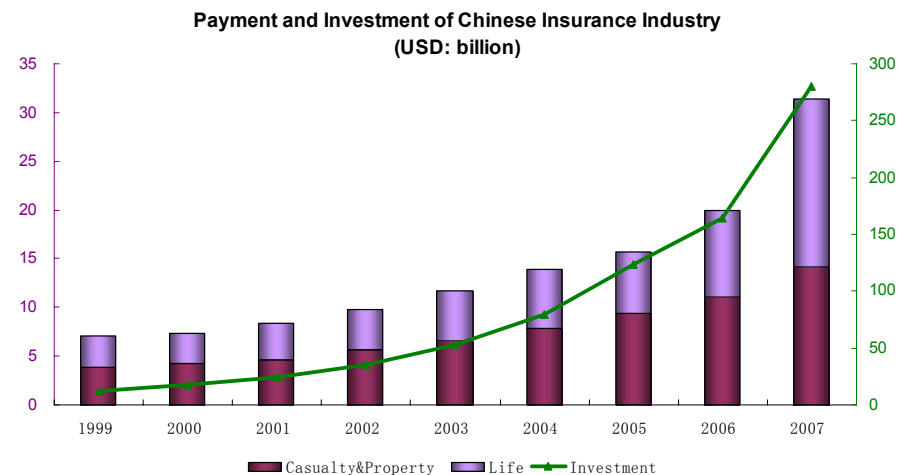
# Financial Sector- Insurance Industry

## ➤ Industry Development

- In recent years, Chinese insurance industry has been taking on significant growth pace



Datasource: China Insurance Regulatory Commission



# Issues and Challenges

- Overheating? Real estate sector;
- Inflation: 4.8% for 2007, and 7.1% for Jan.,2008;
- Employment: 12 million new jobs need to be created each year;
- Environmental protection;
- Stable supply of energy and minerals;
- Surplus for Balance of Payments;

# Balance of Payment

## ➤ Main issues:

- Current Account surplus;
- Capital Account surplus;
- Reserve soaring: USD 1.53 trillion;

# Balance of Payment

## ➤ Policies to liberalize capital account:

- QFII

By the end of 2007, 52 QFII approved with a total quota of USD 10 billion;

- QDII

By the end of 2007, 50 QDII approved with a total quota of USD 65.4 billion;

- Encouraging Chinese companies to invest abroad;

- Developing foreign exchange market;

# Chinese Reserve Management

- Amount: USD 1.53 trillion for the end of 2007;
- Principle to manage foreign exchange reserve:
  - Liquidity, Safety and Profitability;
- Factors affecting reserve management:
  - To meet import needs;
  - To repay external debt: USD 370 billion at the end of 2007;
  - To repatriate profits arising from FDI: USD 570 billion;
  - To maintain financial stability;

# Policies to Meet the Challenges

- Macroeconomic policies:
  - All policies aiming at reducing the growth rate;
- A tight monetary policy:
  - Deposit requirement ratio has reached 15%;
  - Interest rate increased for 6 times in 2007 and the one-year lending rate reached to 7.47%;
  - Sterilization;
  - Window persuasion;

**Thank you!**

**谢谢大家！**