Financial Reform in China: Obstacles to Change

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#ChinaFR    #中国金融改革#
China, the Forbidden City: unconsolidated and siloed

- JV mutual fund cos.
- Foreign Banks
- JV Security Cos.
- The State Banks
- Insurance Regulator
- Bank Regulator
- Central Bank
- SAFE Investment Co.
- Mutual Fund Cos.
- Ministry of Railways
- Guangdong Gov’t
- Insurance Cos.
- PetroChina
- Securities Regulator
- Policy Banks
- Politburo
- Provincial Banks
- Planning Commission
Banks are China’s financial system: corporate capital raised, 1993-2011

Source: PBOC
Too Big to Fail: state controlled banks are the economy

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Large scale banks</th>
<th>Medium scale banks</th>
<th>Small scale banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOF bonds</td>
<td>67%</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>PBOC bills</td>
<td>99%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Inter-bank loans</td>
<td>87%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Non-bank loans</td>
<td>93%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Corporate loans/bonds</td>
<td>89%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Retail</td>
<td>85%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: PBOC 2011
Note: Large scale banks = Big 5 banks, 3 policy banks and Postal Savings Bank; Medium scale banks = 12 shareholding banks; Small scale banks = city and rural commercial banks
1978 - (1994) - 1997: Banking system was reorganized but ...

Until 1998 banks have always been unconsolidated agglomerations of provincial entities controlled by provincial party secretaries
More importantly the foundation of bank corporate governance changed, 1998 – present?

The Central Committee

The Organization Department

Peoples Bank of China

CCP Central Committee Banking Work Commission

Banks

Policy Banks

31 Provincial Party Secretaries

Provincial Bank Branches
30 years, 3 crises, 3 sets of leaders, 2 different results

Source: Wind Information; State Bureau of Statistics
The Party + Geography: 2008 RMB4 trillion stimulus package

Credit created > 30% of GDP 2009 - present

2008-2012 Credit Growth
CAGR = 23%

Source: PBOC/Wind Information. Note the years 1993-2001 show only RMB lending for illustrative purposes, the Total Societal Financing measure was initiated only to 2002.
It’s not surprising that since 2003 investment brings less bang for the buck
1999-2005 RMB3 trillion in bad loans on a GDP of RMB 13.5 trillion

2009-2011 assume RMB10+ trillion in bad loans on a GDP of RMB47 trillion and total bank capital of RMB3 trillion
China’s national debt is piling up: 2 views

China Narrow = MOF + policy banks + Ministry of Railways + bank sub debt
China Wide adds local gov’t debt + estimated NPLs

Source: EuroStat; IMF; China Bond; Wind Information; see Walter and Howie, Table 8.1
State Net Worth: the state sector approaches bankruptcy

Based on Holz 2001 and Walter update

Equity sell offs, debt issues and malinvestment