

# Die Reform des chinesischen Finanzsektors als entscheidender Faktor für die Modernisierung der chinesischen Volkswirtschaft

 **Frankfurt School**  
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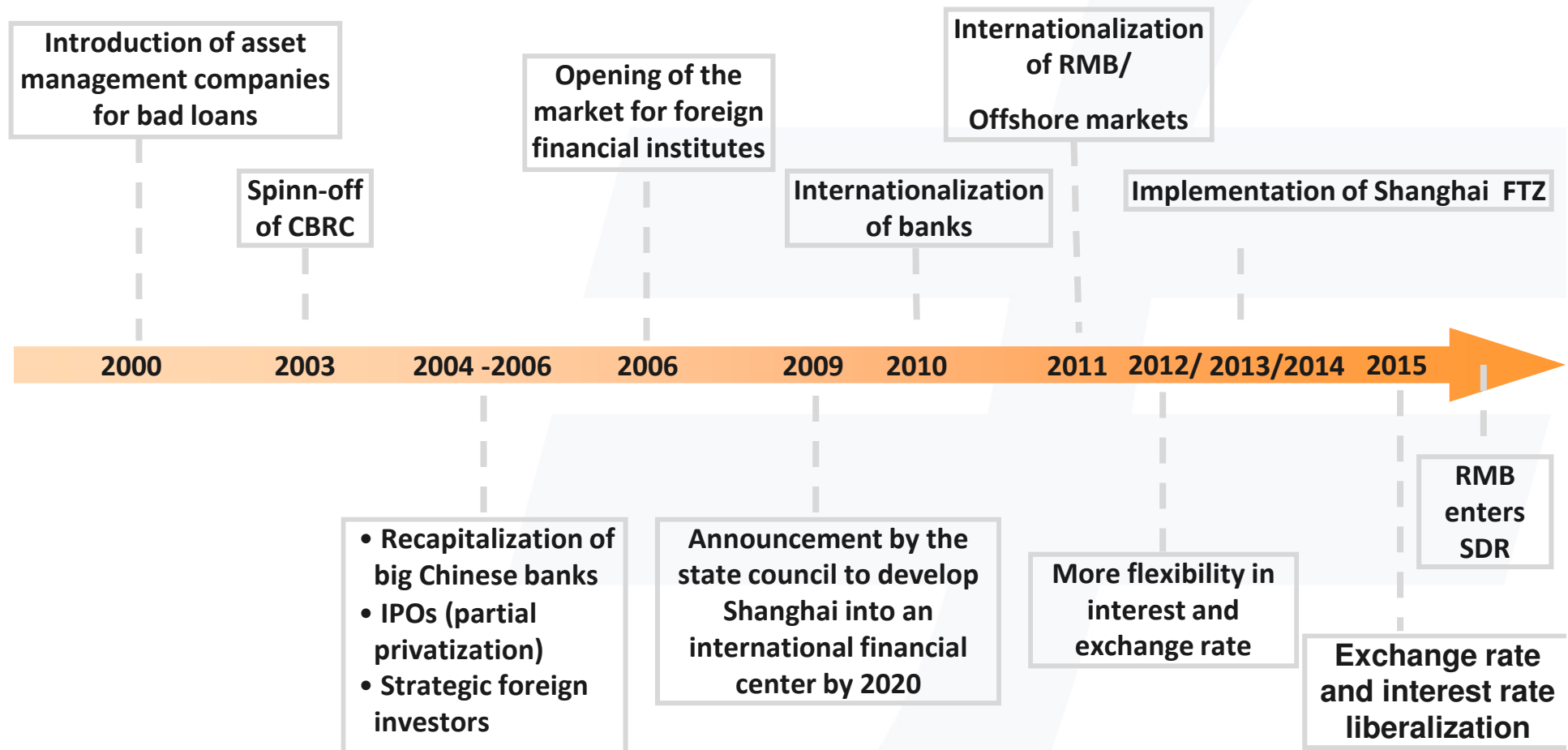
- China's Financial System
- China's Banking Industry
- The Internationalisation of the Renminbi

- China's Financial System

# China's Financial System in International Comparison

- High intermediation level (disintermediation under way)
- Big State-owned banks dominate (declining market share)
- Segregate banking system (universal banks under way)
- Strong regulation and supervision (gradual liberalisation especially with regards to the interest rate)
- Still low internationalization level (internationalization under way)
- Managed exchange rate system and capital controls (Renminbi internationalization under way)
- Still underdeveloped capital markets(esp. bond market under development)

# China's Financial Sector Reform: The Last Fifteen Years



# The Main Challenges for China's Financial System

- Further internationalization of RMB and liberalization of exchange rate mechanism and capital account
- Further development of a market driven financial system
- Further upgrade of capital markets
- Development of universal banking business model including investment banking
- Internationalisation of banks
- Further opening-up for foreign and private financial institutions



- China's Banking Industry

- Commercial banking driven
- Mainly domestically oriented
- Profitability driven by comparatively high interest rate spread and strong loan growth
- Comparative cost advantages, esp. in staff expenditures compared to Western peers
- Still highly regulated market
- Comparative low competition from foreign banks



# The Business Model of Big Chinese Banks in International Comparison (2006-2014)

	Size	Profit	Profitability		Lending business		Loan portfolio			Refinancing		Cost control		Business diversification	Capital strength	
			Total asset (million USD)	Pre profits million USD	ROAA (%)	ROAE (%)	Net interest margin (%)	NPL-ratio (%)	Residential mortgage loans/gross loans (%)	Corporate and commercial loans/ gross loans (%)	Other loans/ gross loans (%)	Loans/ customer deposits (%)	Customer deposits/ total funding (%)		Cost income ratio (%)	Personnel expenses/ total assets (%)
<b>Big four Chinese banks Average</b>	1.492.035	24.053	1,13	16,23	2,66	2,95	15,45	79,18	5,37	61,71	90,32	35,50	0,59	18,75	10,08	5,30
<b>International peers Peer average</b>	1.608.557	6.209	0,34	6,93	1,41	3,54	35,85	25,44	34,45	103,33	54,58	66,74	0,84	44,49	10,80	4,97

# SWOT ANALYSIS of Chinese Banks

## Strengths

- Large customer base
- Highly profitable
- Low CIR
- Regulated market

## Weaknesses

- Immature risk management and small product portfolio (commercial banking)
- Corporate governance (ownership)
- Organisational design (horizontal integration)

## Opportunities

- Universal banking business model including asset management and investment banking
- International business expansion (trade finance)
- Loan business with SME's

## Threats

- Lower asset growth
- Decling interest rate spread
- Disintermeditation and Digitalisation

# The Challenges For Banking in China in the Future

**Lower macroeconomic growth:** Lower asset growth  
Higher NPL - ratio

**Liberalisation of interest rate:** Lower NIM  
Declining profitability

**Disintermediation:** Fin Techs  
Shadow banking  
Capital Markets

- Diversification of revenue sources towards fee income
- Stronger business units in asset management (private banking and wealth management), investment banking, and international transaction banking
- Refocus of corporate banking towards SMEs

*Convergence ahead between global banking business models?*

- The Internationalisation of the Renminbi

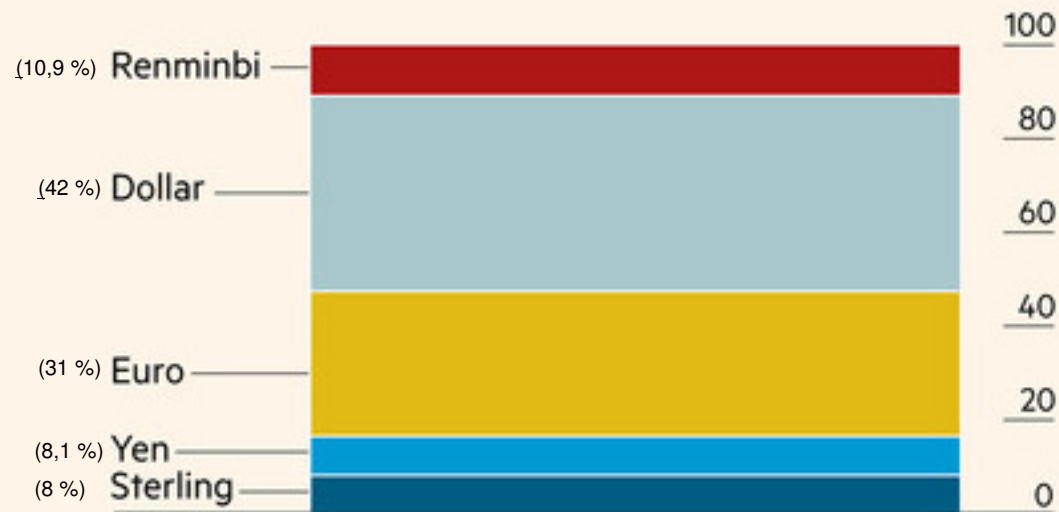
# The Internationalization of China's Financial System After the Financial Crisis

- 2008 Becoming a member of the Basel Committee and the FSB
- 2009 Up-grade in IMF in terms of positions and voting power
- 2009 Developing Shanghai as an international financial centre until 2020
- 2010 Launching the RMB as an international trade settlement currency
- 2010 Establish Hong Kong and other global financial centers as off-shore markets for the RMB as an investment currency
- 2012 Set up a free trade zone in Shanghai
- 2014 Shanghai and Hong Kong stock market connection
- 2015 Liberalise the exchange rate mechanism of the RMB
- 2015 RMB enters the SDR of IMF as a reserve currency

# The Renminbi in the SDR

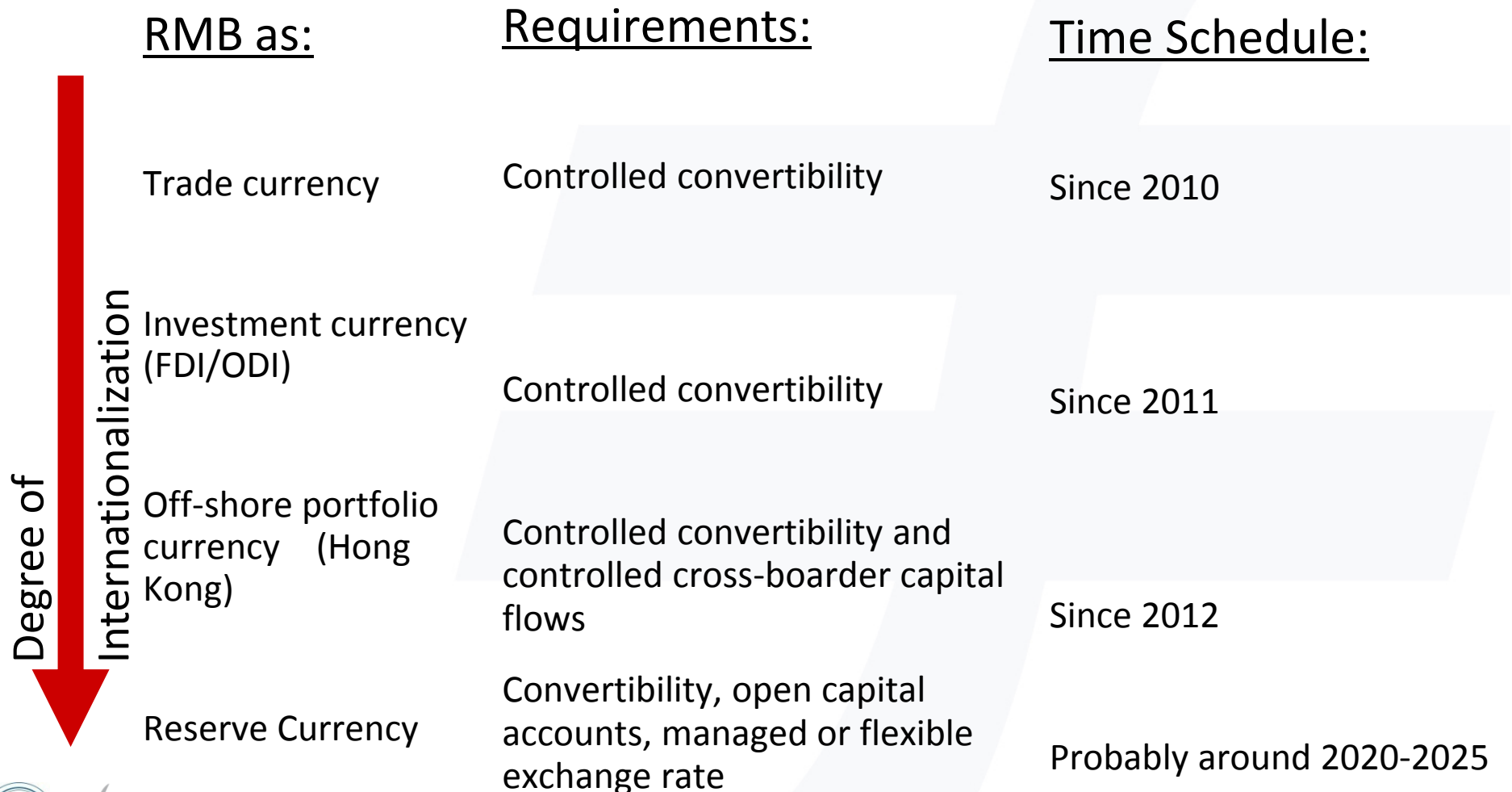
## Acceptance into the IMF's basket of reserve currencies was hugely significant

Currency allocation of Special Drawing Right (%)



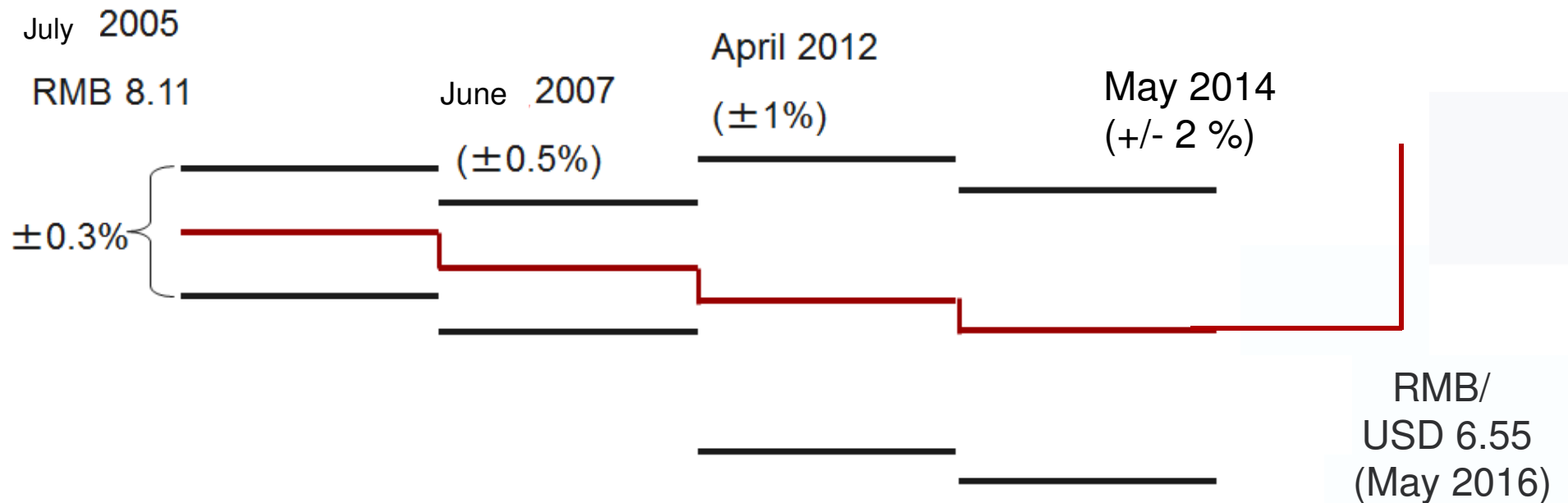
Sources for slideshow: Thomson Reuters Datastream; IMF; SWIFT; Standard Chartered; BIS; HSBC

# Road Map of the Internationalization of the RMB





# China's Managed Exchange Rate System



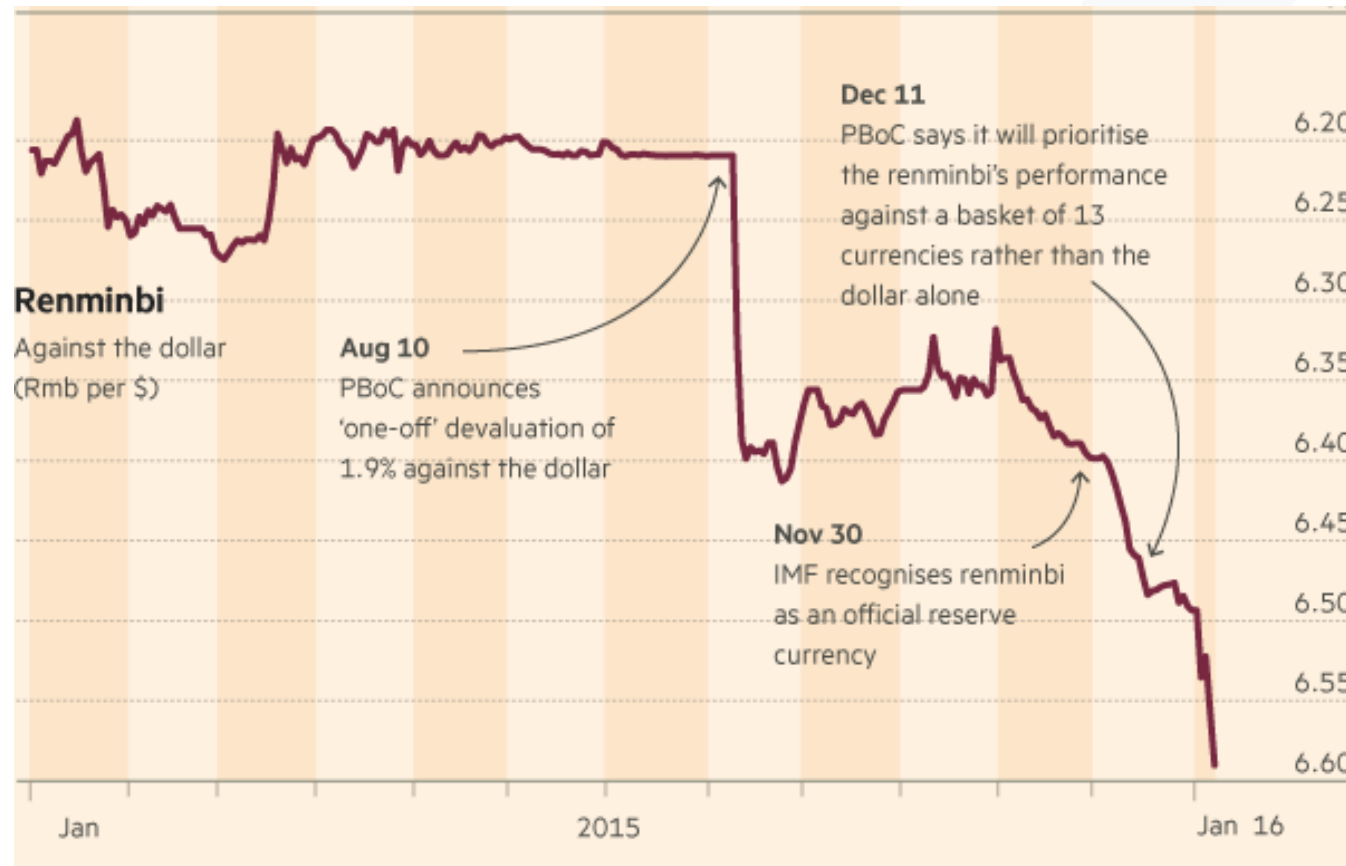
# A Long Policy of Renminbi Appreciation Followed...



Financial Times, 30 November 2015



# ...By Recent Depreciation Pressure That...



# ...Leads to Capital Outflows

## China capital flows



Sources: People's Bank of China; CEIC

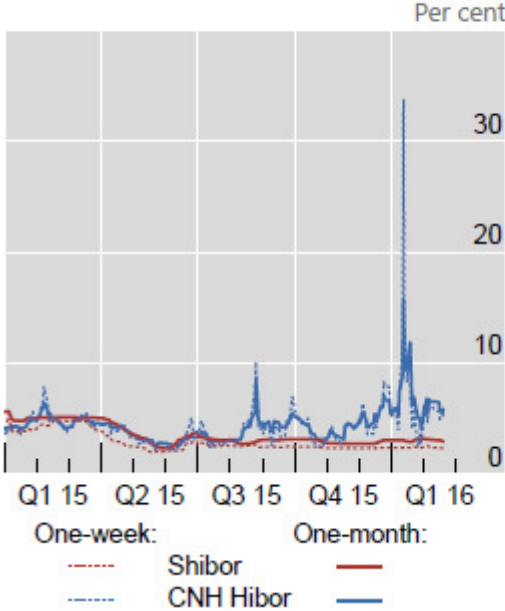
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Source: Financial Times, November 15, 2015

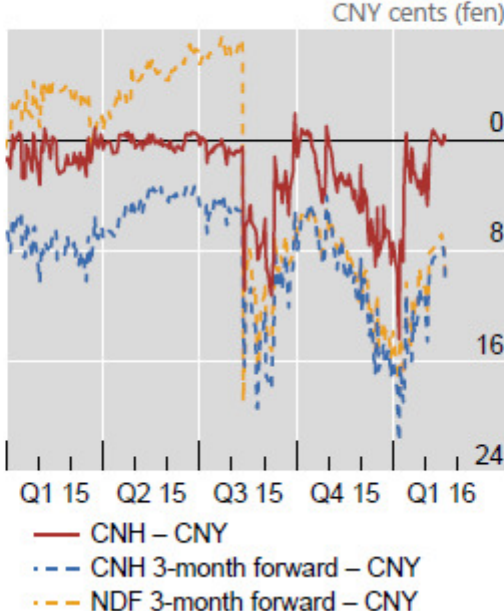


# Tensions Between On- and Offshore Renminbi Exchange Rate

Offshore renminbi money rates spike



Onshore and offshore renminbi/dollar rates diverge<sup>1</sup>



Nominal effective rate of renminbi



# The Currency System of the Future?



## Open questions:

- Reform pace in China?
- Future of the Euro?

“The 19th century belonged to England, the 20th century belonged to the US and the 21st century belongs to China. Invest accordingly”

Warren Buffet, 2007