

# Financial Reform in China: Obstacles to Change

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#ChinaFR



#中国金融改革#

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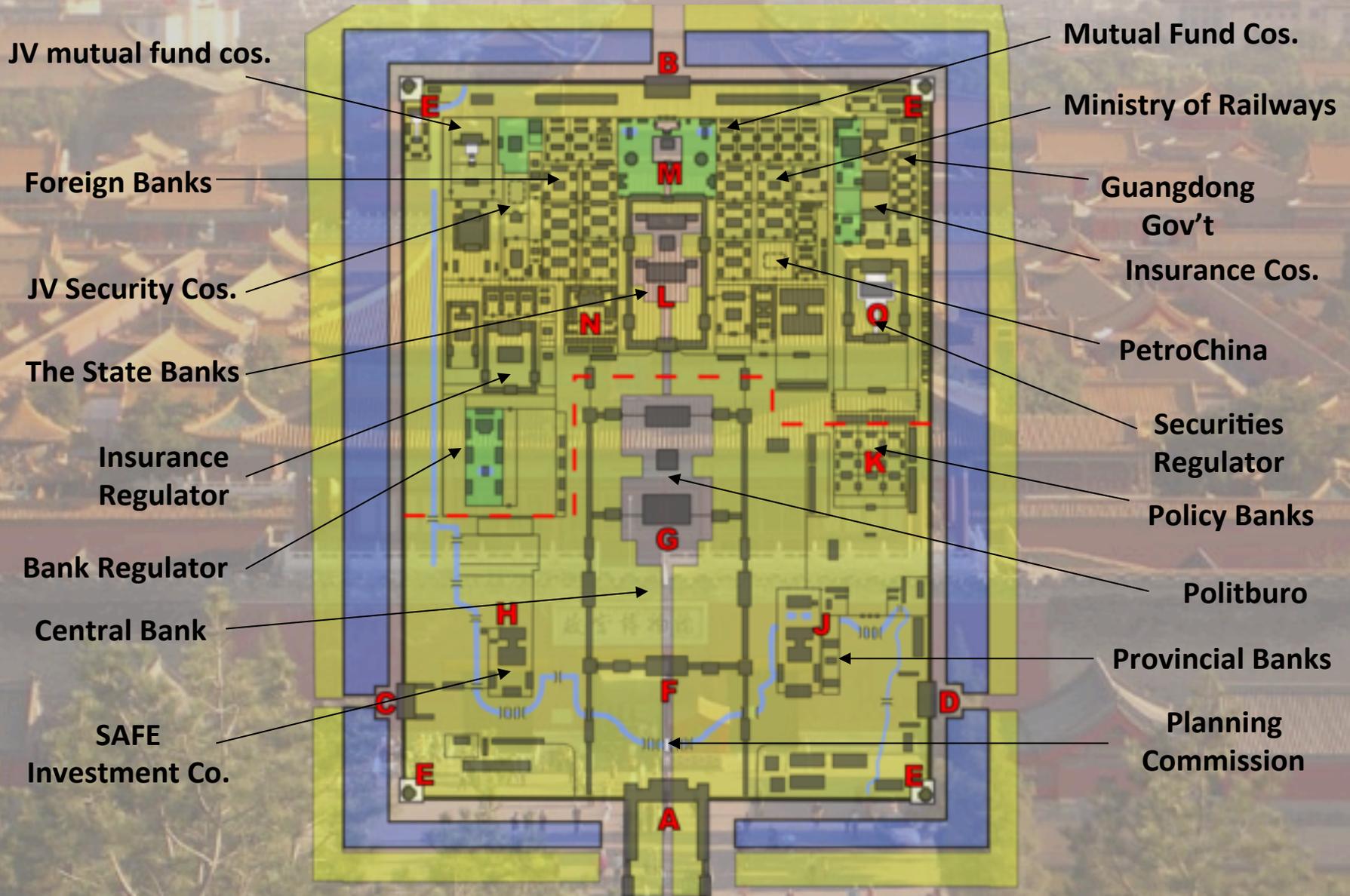


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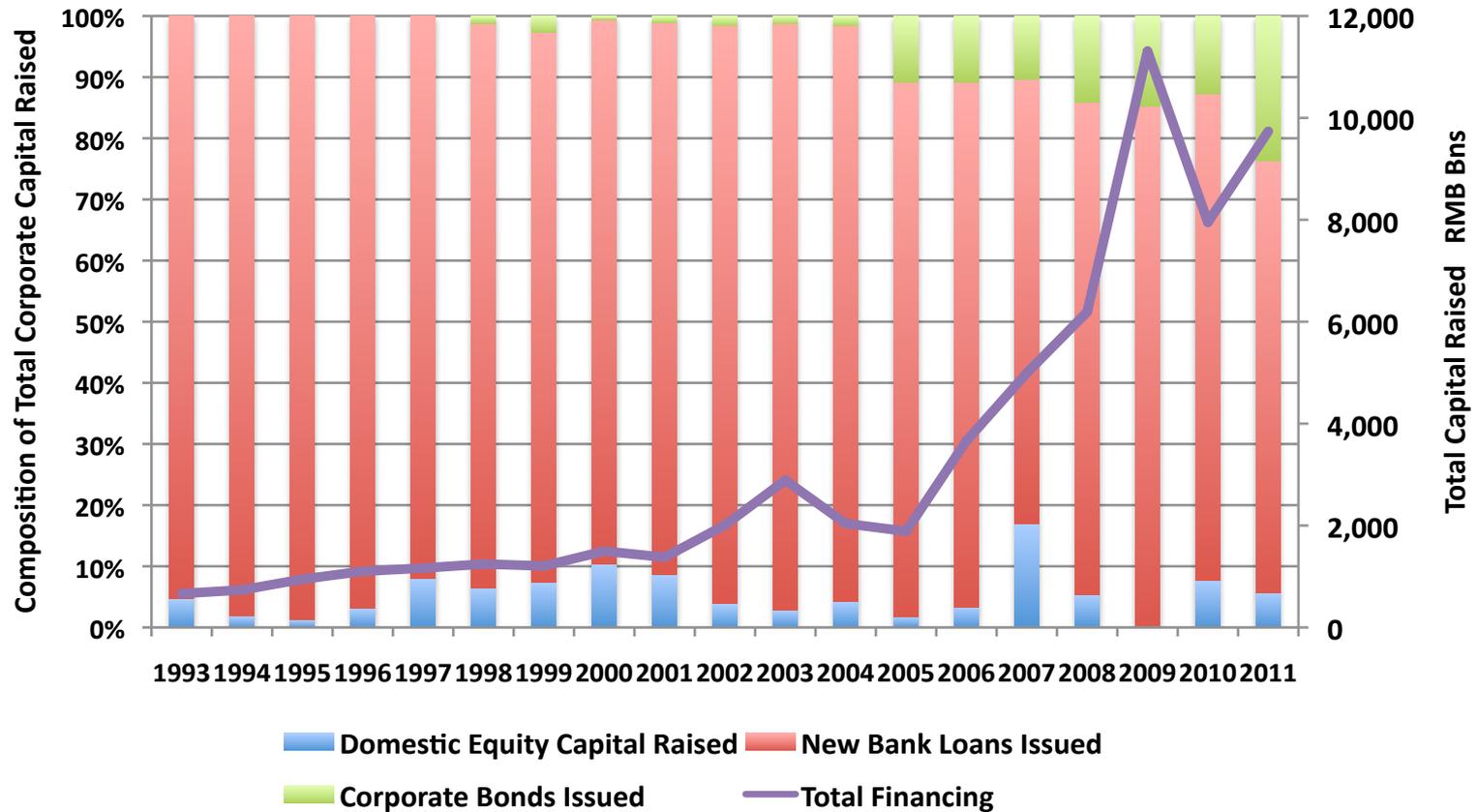
**CHINA 2.0**

# China, the Forbidden City: unconsolidated and siloed



# Banks are China's financial system: corporate capital raised, 1993-2011

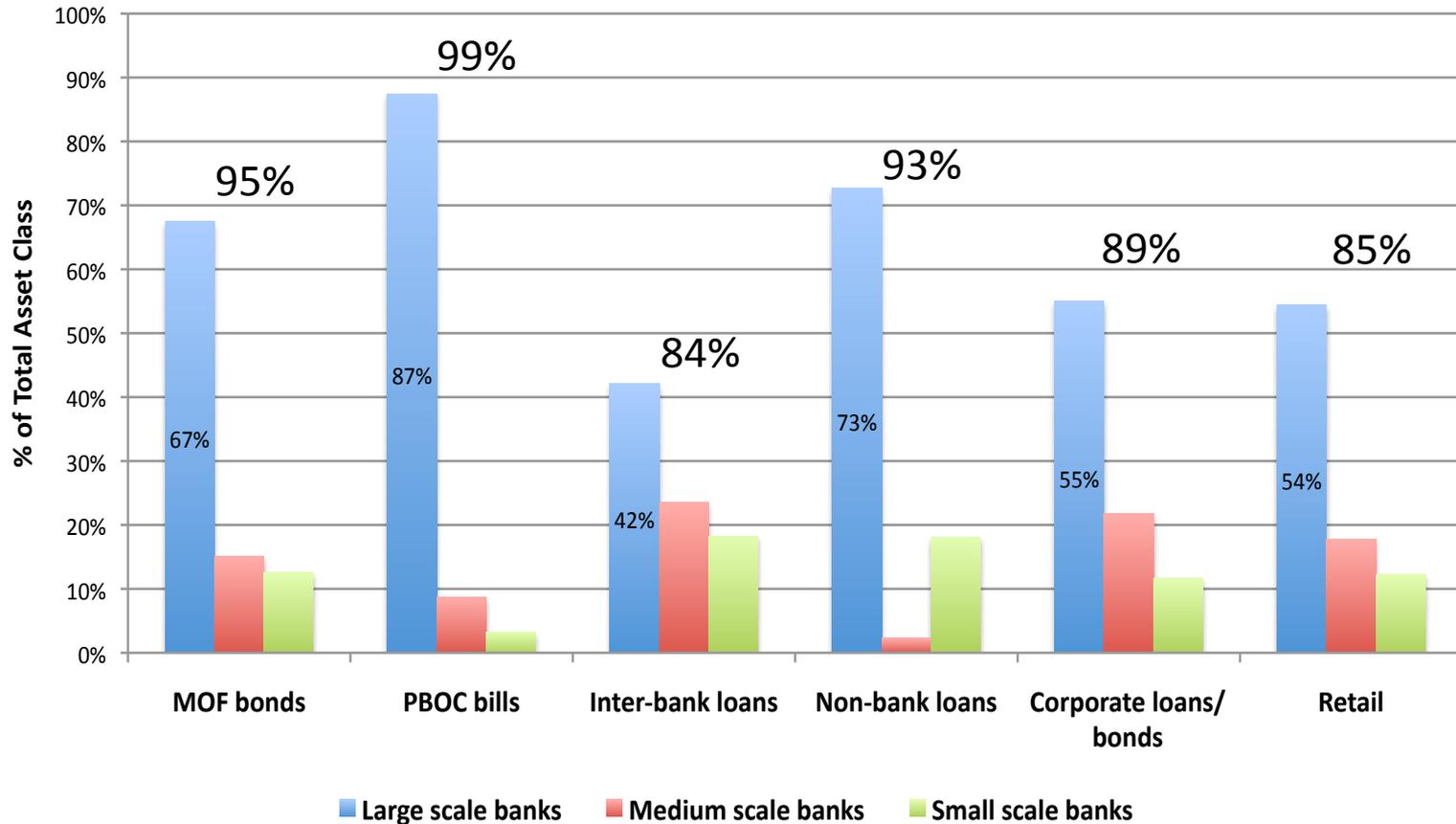
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Source: PBOC

# Too Big to Fail: state controlled banks are the economy

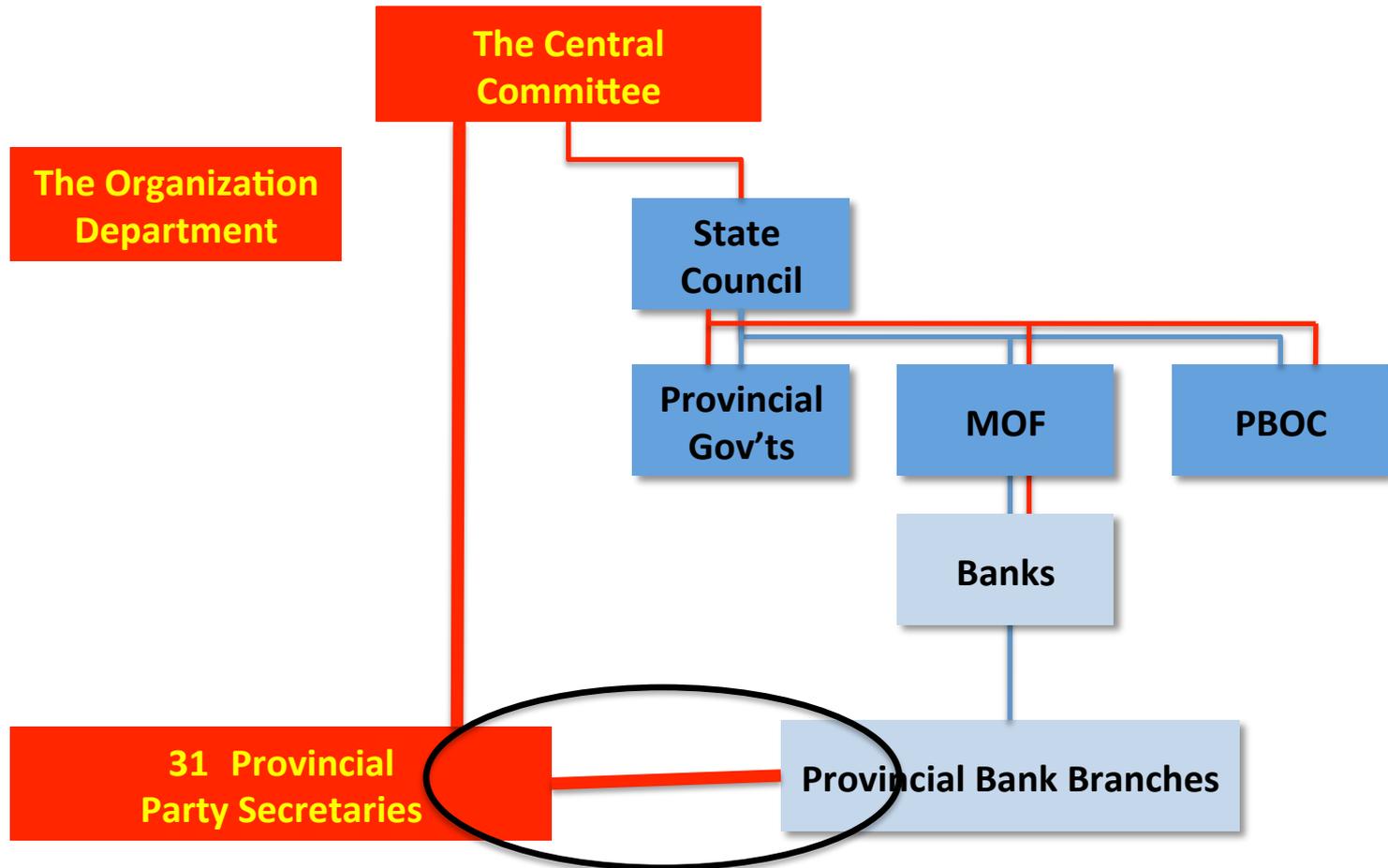
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Source: PBOC 2011

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

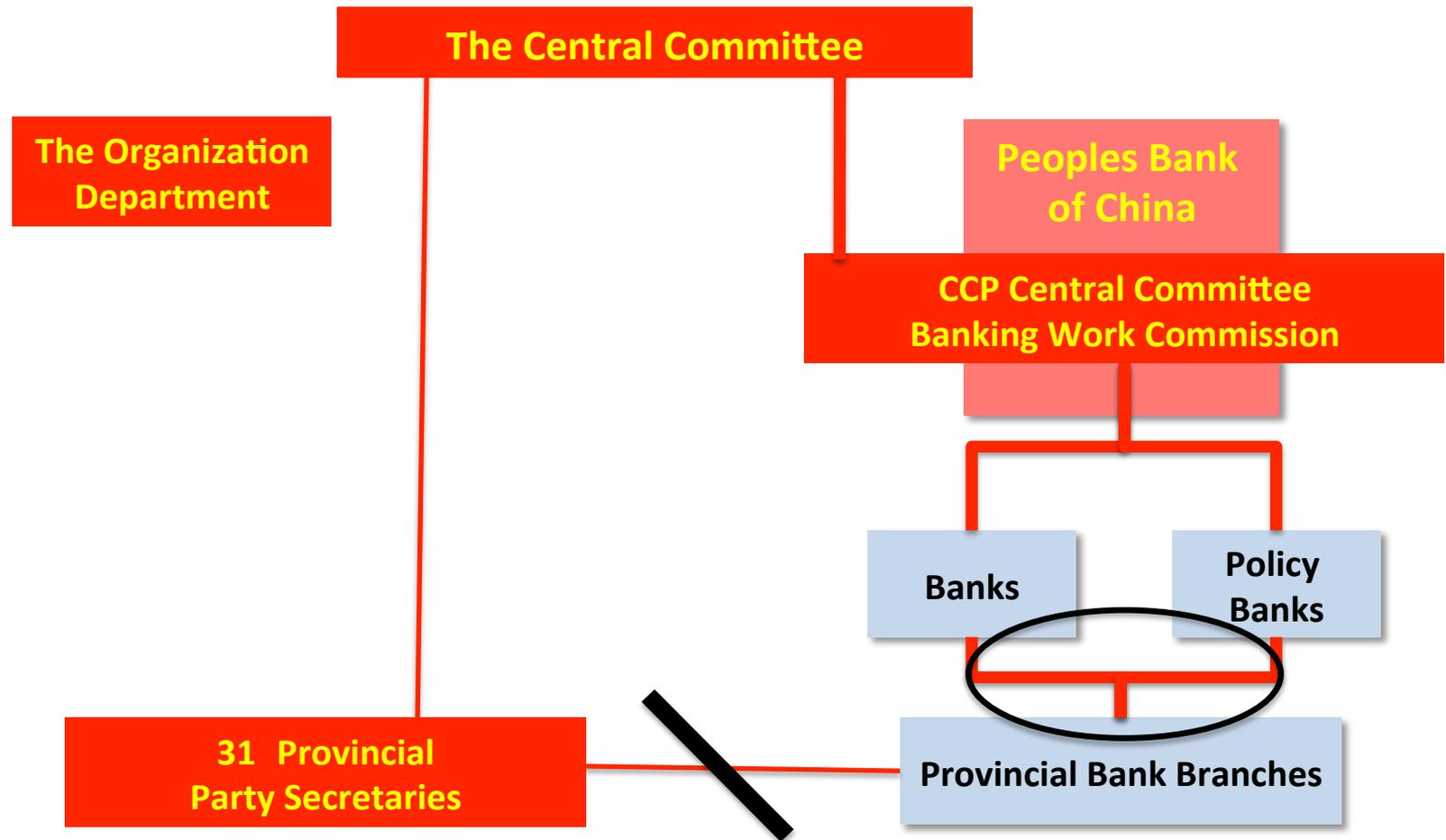
# 1978 - (1994) - 1997: Banking system was reorganized but ...



Until 1998 banks have always been unconsolidated agglomerations of provincial entities controlled by provincial party secretaries

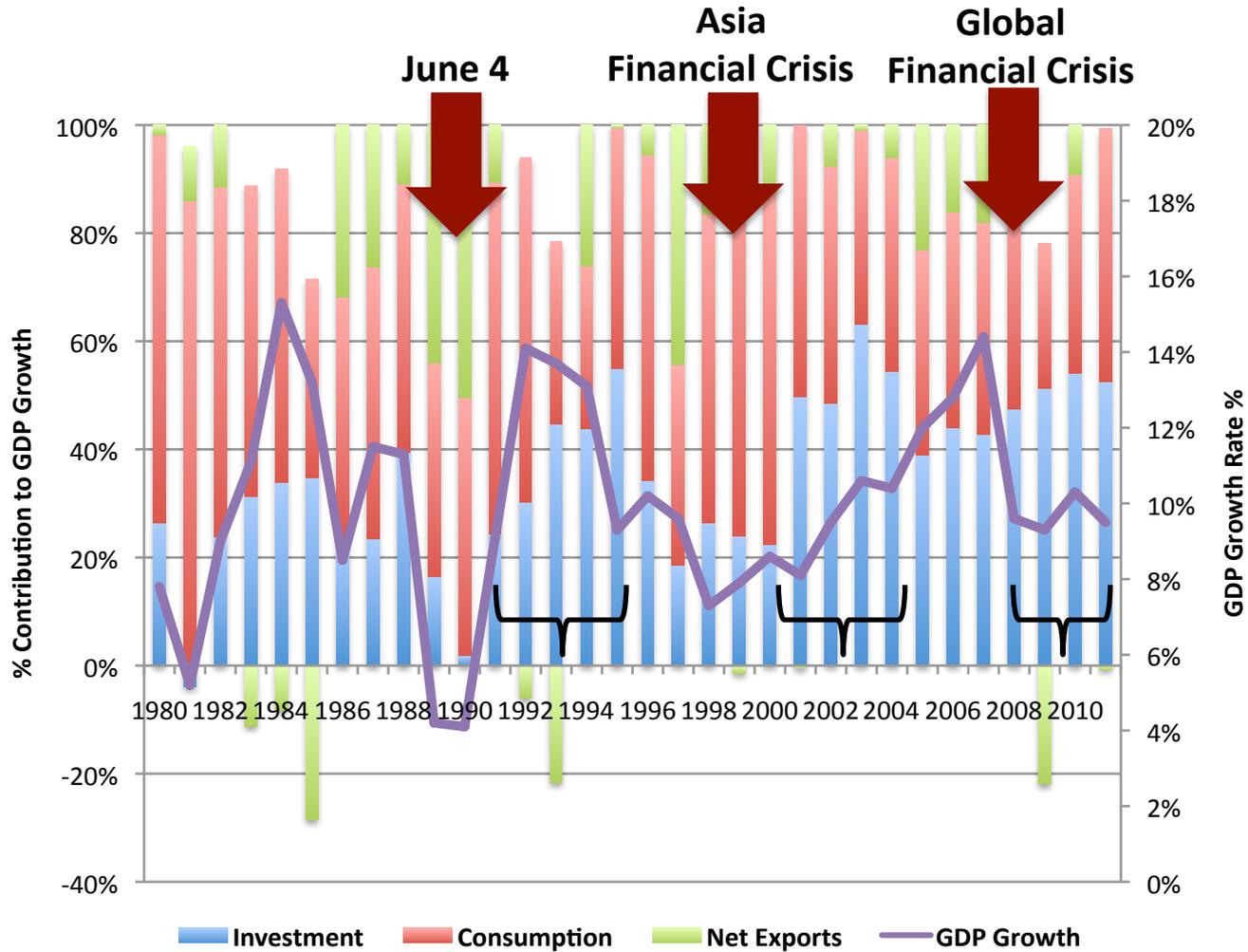
# More importantly the foundation of bank corporate governance changed, 1998 – present?

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# 30 years, 3 crises, 3 sets of leaders, 2 different results

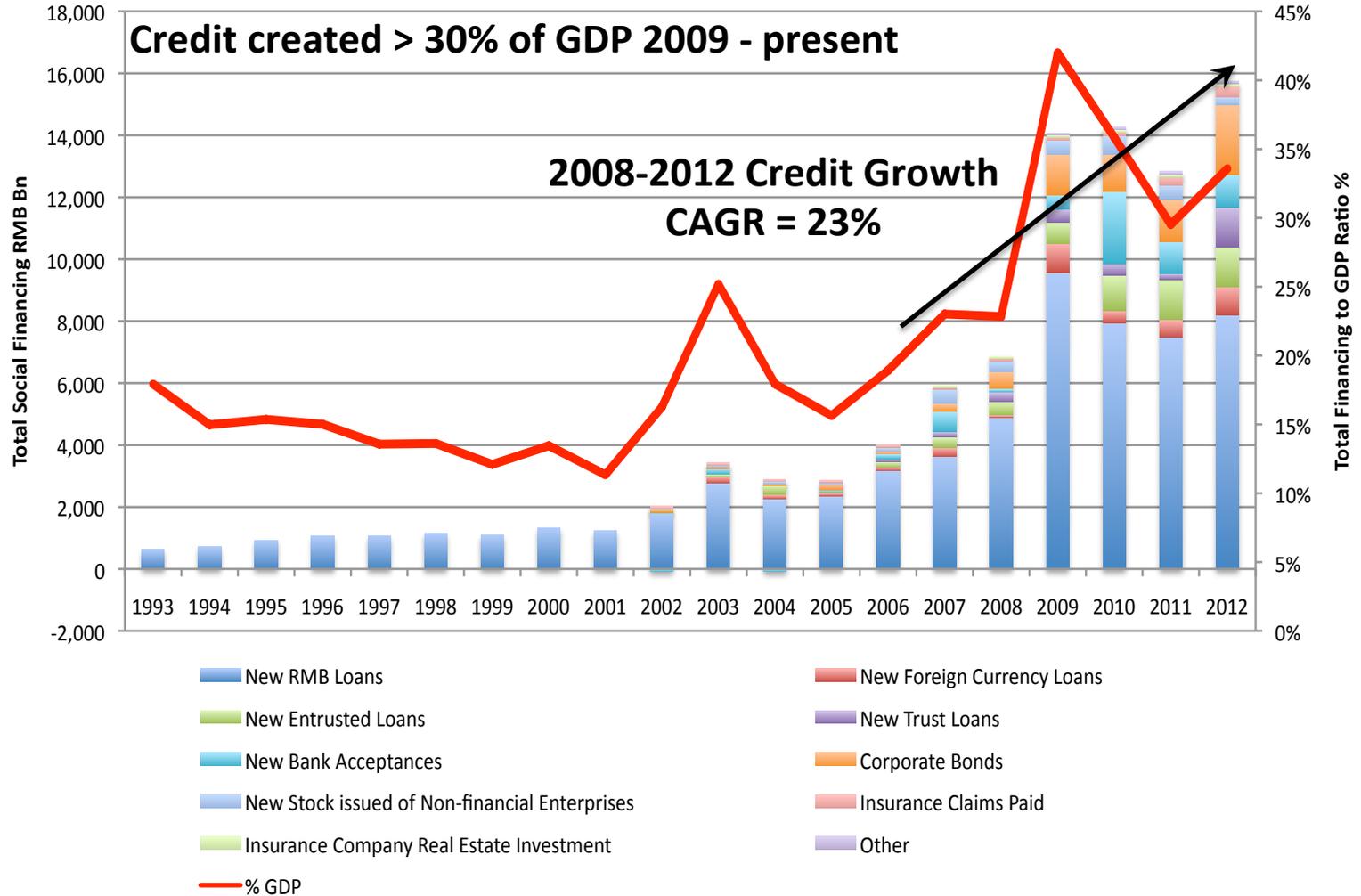
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Source: Wind Information; State Bureau of Statistics

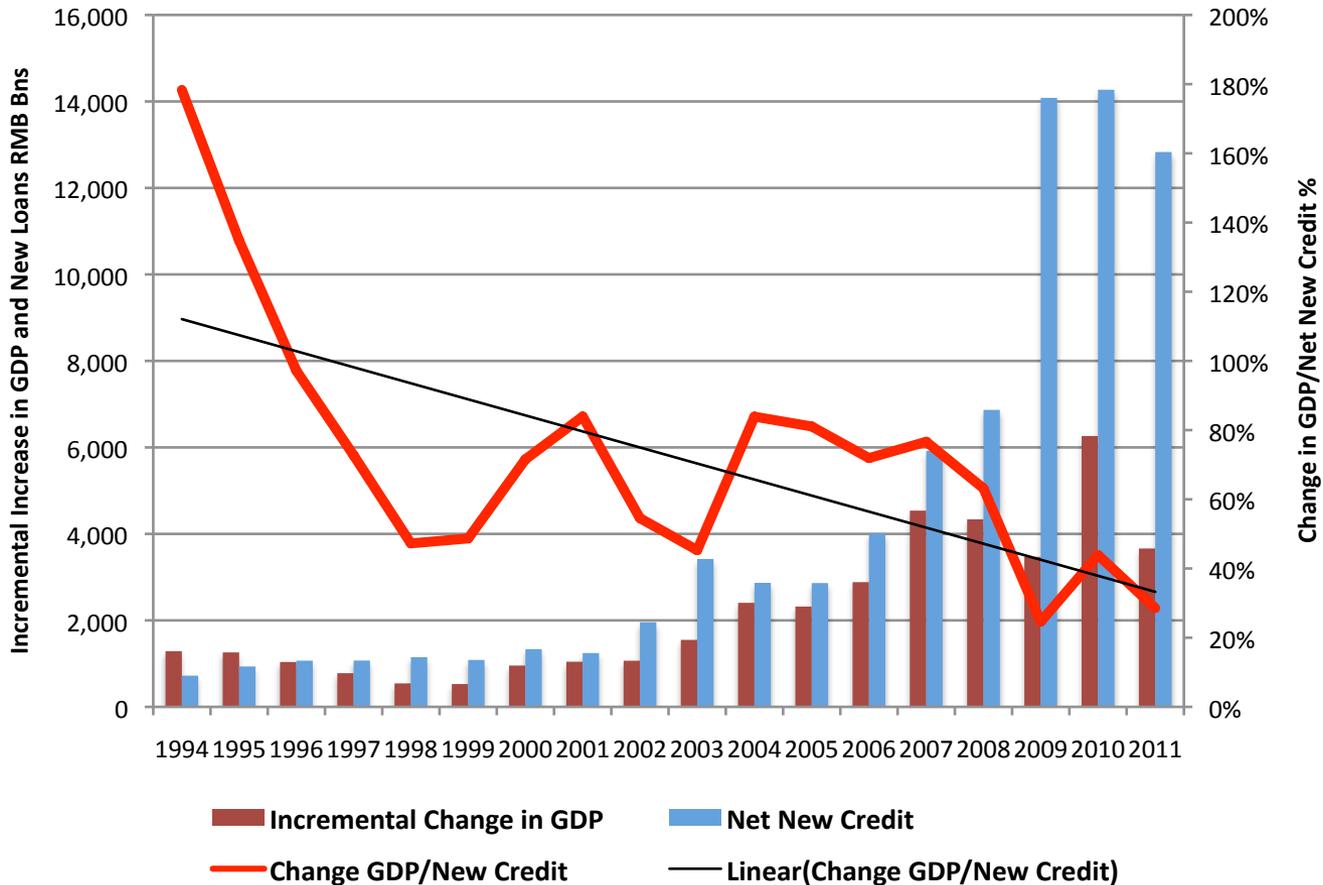
# The Party + Geography: 2008 RMB4 trillion stimulus package

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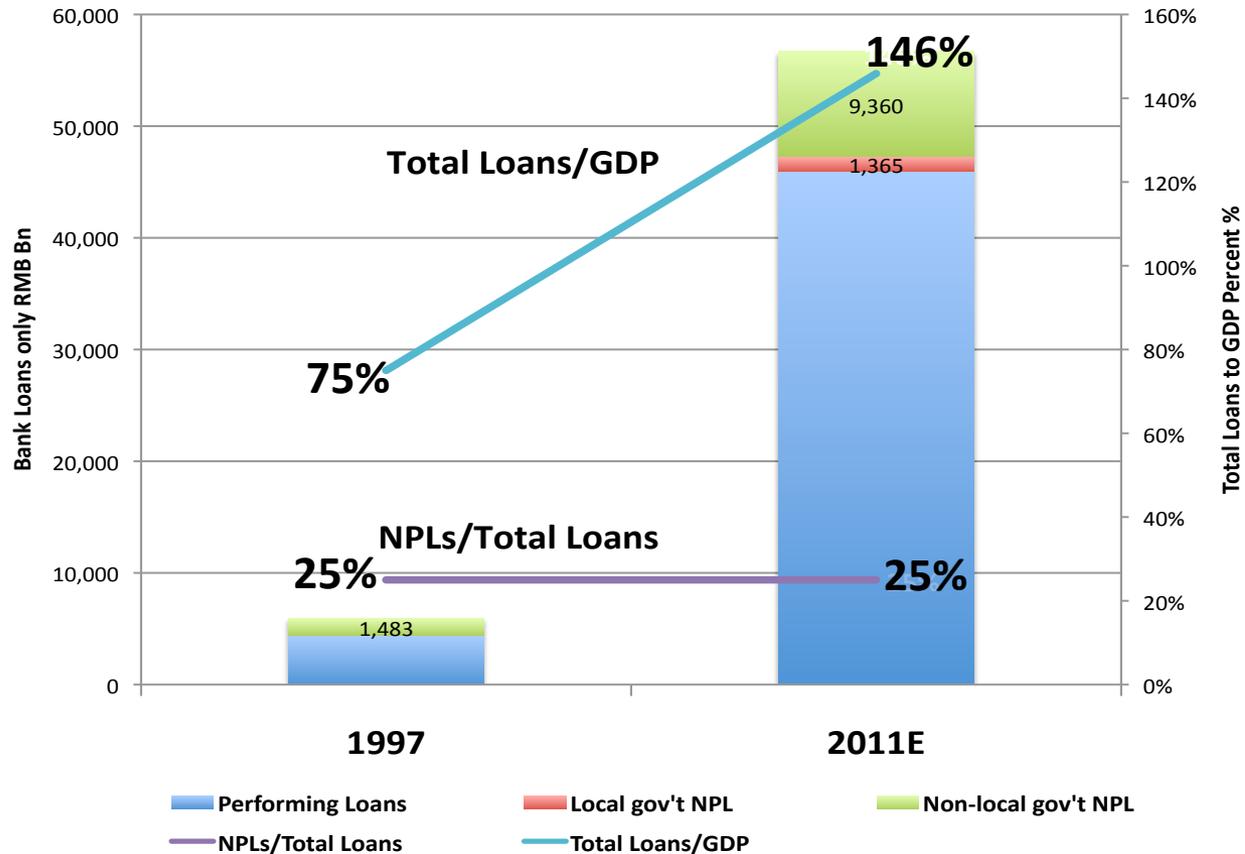
Source: PBOC/Wind Information. Note the years 1993-2001 show only RMB lending for illustrative purposes, the Total Societal Financing measure was initiated only to 2002.

## It's not surprising that since 2003 investment brings less bang for the buck



Source: PBOC; CSY

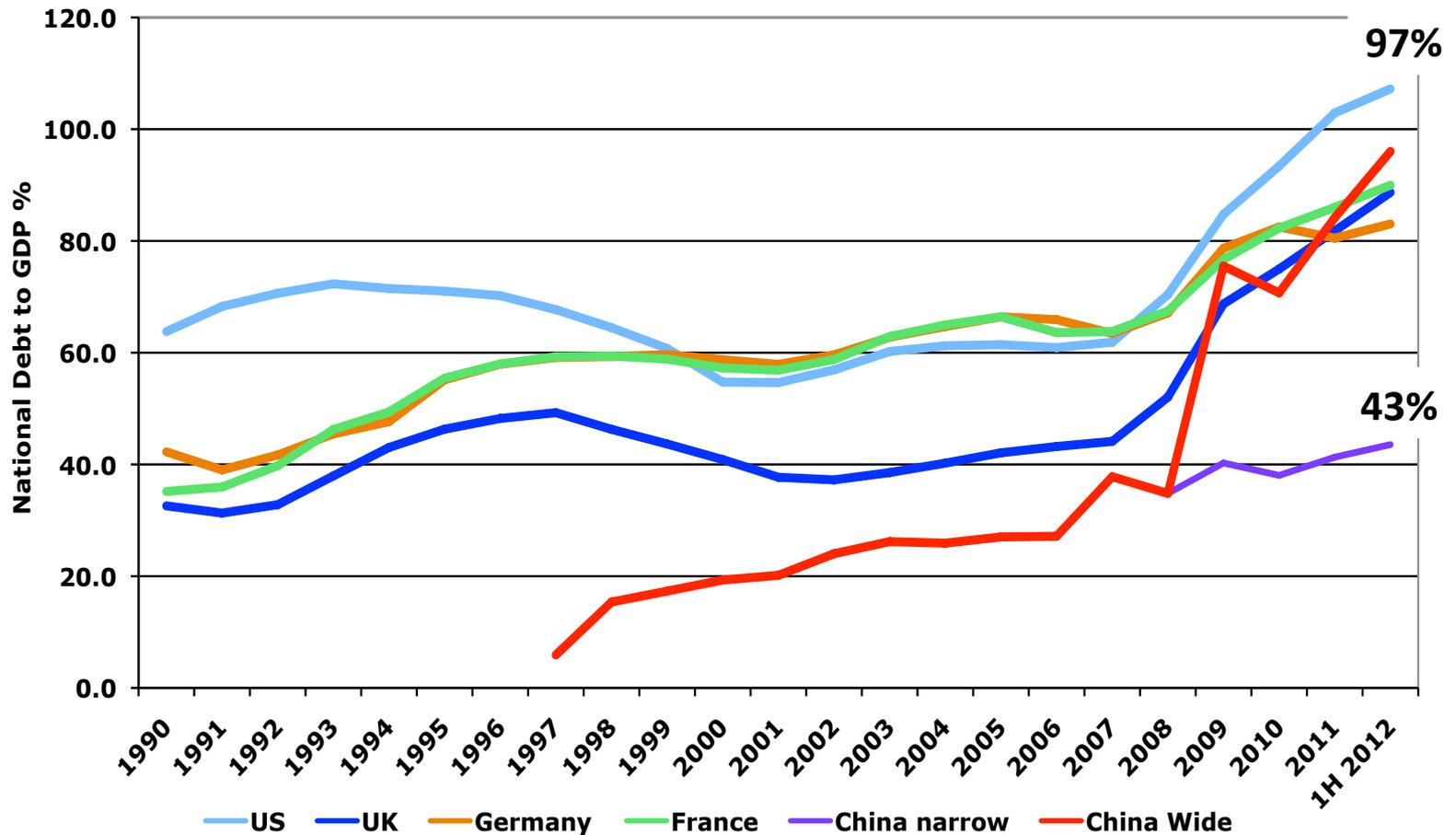
# NPL estimate (not including corporate bonds)



**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

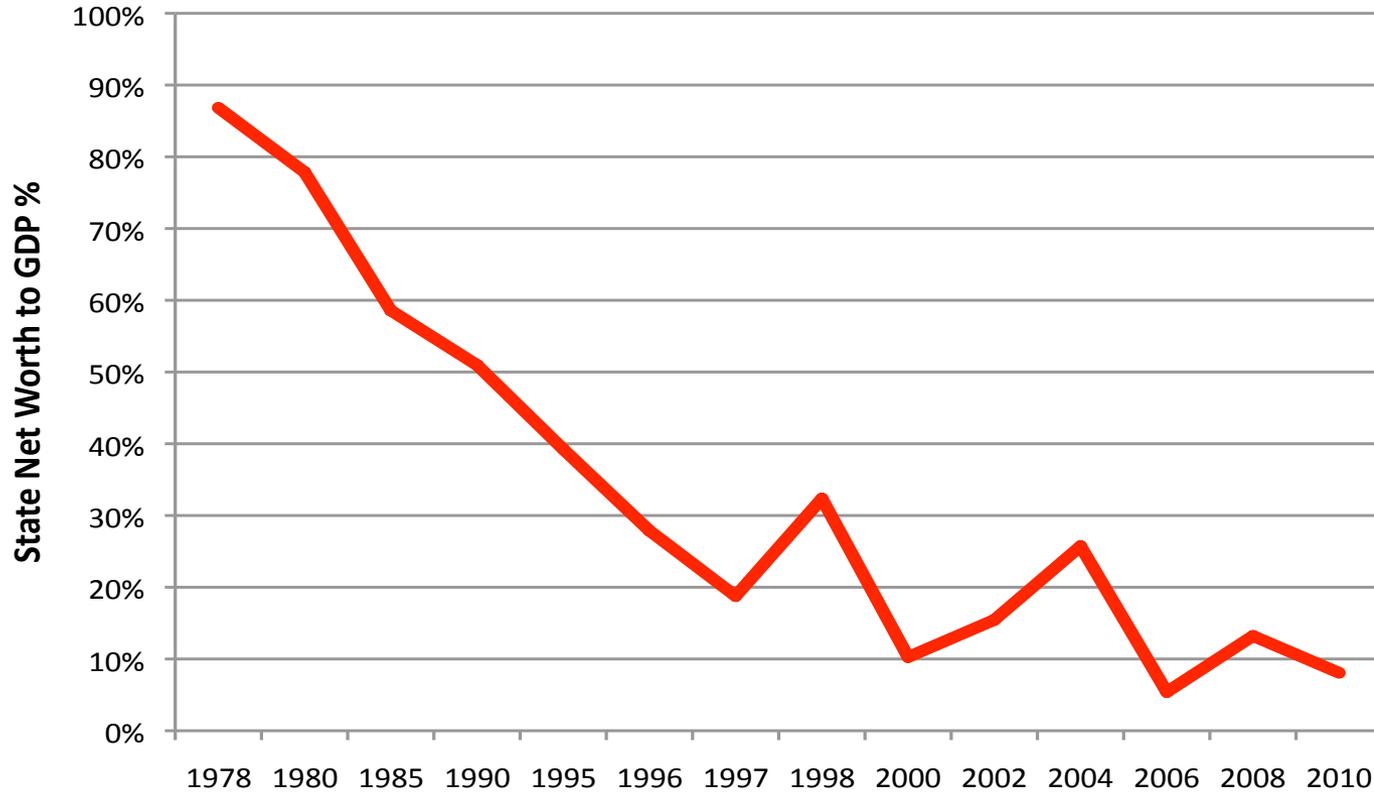


**China Narrow = MOF + policy banks + Ministry of Railways + bank sub debt**  
**China Wide adds local gov't debt + estimated NPLs**

Source: EuroStat; IMF; China Bond; Wind Information; see Walter and Howie, Table 8.1

# State Net Worth: the state sector approaches bankruptcy

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Based on Holz 2001 and Walter update

## Equity sell offs, debt issues and malinvestment