

Su Ning: Press ahead with reform and opening-up and promote the rapid and healthy development of the financial sector

Speech by Mr Su Ning, Deputy Governor of the People's Bank of China, at the Financial Summit, Beijing, 23 May 2006.

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Distinguished guests,

Ladies and Gentlemen,

Good morning. It is a pleasure to attend the Financial Summit. This year is the concluding year of China's WTO accession transitional period. Soon, China's opening-up will reach a new stage. Over the five years of transitional period, the Chinese Government has unswervingly pressed ahead with opening-up, actively implemented the promises of financial sector opening, and promoted the reform, innovation and development of financial sector. Let me take this opportunity to review the opening-up of financial sector in the past five years and its impact on the reform and innovation of the banking sector.

1. Honoring WTO commitments and actively opening up financial sector

With China's accession to the WTO on 11 December 2001, the policy of financial sector opening-up has become more transparent, and the pace of opening more steady and orderly. At present, not only the geographical restriction and business limit on foreign financial institutions have been lifted according to our WTO commitment, but also the range of financial sector opening-up has been widened.

In the banking sector, the commitment of lifting geographical and business limit on RMB business of foreign banks was honored. Foreign banks are allowed to provide RMB services to Chinese companies in 25 cities. The geographical and client restrictions on foreign exchange business of foreign banks were removed. Under the precondition of ensuring the state's controlling stake and the country's financial safety, foreign capital were allowed to take part in the reform of state-owned commercial banks.

In the securities sector, commitments of opening-up were honored; in addition, explorations have been made to further open the securities market. Foreign investors are allowed access to the B share market; Sino-foreign joint ventures are allowed to raise fund in the A share market; QFIs are introduced to the A share market; securities service sector are partially opened by allowing Sino-foreign joint venture or cooperative companies access to underwrite securities issuing and wealth management in the domestic market.

In the insurance sector, almost all geographical and business limits have been lifted. Foreign insurance companies can operate without any geographical limit and in almost all businesses except compulsory insurance.

International financial institutions are given further access to the financial market. In October 2005, the PBC approved the IFC and ADB to issue at the inter-bank bond market RMB denominated bonds worth of 1.13 billion and 1 billion yuan respectively. This is an important step forward in the inter-bank bond market. The Pan Asia Fund and the Asian Bond Fund were introduced to the inter-bank bond market as the first foreign institutional investor. In addition, the auto finance market was further opened. Five foreign auto finance companies have started their business in China since 2004.

Further opening up of the financial sector, as a part of China's WTO accession commitment, is also a necessary ingredient in developing a socialist market economy in China. Opening-up has not only brought challenges and pressures, but also fresh opportunities and more competitiveness.

2. Financial reform was boosted by opening up

Opening up has helped deepen the reform of state owned financial institutions. Since State Council's decision in 2003 on joint stock reform of commercial banks, piloting banks have moved very fast in

their reform by improving corporate governance structure on the basis of international standard on public banks and in accordance with the regulatory requirements, drawing upon the advanced management expertise and technology from foreign banks, and conducting cooperation in risk management, internal control, financial management, human resources. Financial indicators of these piloting banks have approached or reached the international standards. These banks have basically become modern joint stock commercial banks with adequate capital and strict internal control mechanism. The Bank of Communications and China Construction Bank have already been listed on the Hong Kong stock market.

The opening-up of the Chinese economy has promoted the management mechanism reform in the financial sector. One good example is the foreign exchange management system. In recent years, in line with the gradual opening-up of the financial sector, we have speeded up the foreign exchange management mechanism and improved management over the current account. Compulsory foreign exchange surrender under the current account has been replaced with quota surrender. The coverage of exporting enterprises' automatic verification has been widened; limit on foreign exchange payment by enterprises under the current account has been eased; balance ceiling of enterprises' foreign exchange account has been raised and regional ceiling abolished. The foreign exchange management over individuals has been relaxed to allow individuals to pay and receive foreign exchange under the trade account. The convertibility of RMB under capital account has been promoted. Management over external debt of Chinese and foreign banks and the foreign exchange lending in their domestic operation has been strengthened and extended aggregate volume control over the external borrowing of domestic and foreign banks. Implementation of the going abroad strategy is supported by easing the restriction of domestic fund transfer and overseas investment. Foreign financial institutions are granted further market access through the introduction of QFII and the RMB denominated bond issuance by international development agencies. On July 21, 2005, we reformed the RMB exchange rate regime in a self-initiated, controllable and gradual manner.

The opening up has also promoted financial legislation and the optimization of the financial market and caused the market-based interest rate reform to move faster. The cross-sector operation piloting and the reform of intermediary institutions received a boost. It is fair to say that opening-up has greatly promoted financial reform in China.

3. Faster opening-up supported financial innovation in China

Since China's WTO accession, opening up of the financial sector has brought into China advanced financial technology, service and product design philosophy and boosted innovation in the sector.

First of all, opening-up has benefited the innovation of financial organization system. The Chinese financial sector has innovated in and improved financial organization by learning from the advanced international experience and based on the scientific development approach. The ICBC, CCB, Bank of Communications and other commercial banks were allowed to experiment in establishing fund management companies. Cross-sector operation has also made steady progress. Experiment was also made in setting up a micro loan agency to improve the rural financial service system. Efforts has been made to set up a risk compensation system in line with the need of a socialist market economy, establish a securities market investor protection fund, a deposit insurance agency and an insurance protection fund.

Secondly, innovation in financial products has offered more choices for investors. Drawing on the international experience, commercial banks in China issued subordinated bonds and financial bonds. Channels of direct financing have thus been expanded, helping commercial banks to raise their CARs. Experiments on MBS and ABS have been conducted, with the China Development Bank and China Construction Bank successfully issuing MBS and ABS respectively.

Third, financial transaction instruments and modes have been innovated to deepen the functions of financial market. Transaction instruments for risk management have been developed. On June 15, 2005, the first derivative financial instrument, bond forward transactions, was launched. In order further promote the corporate bond market, inter-bank bond market access has been granted to many corporate bonds. The bond transaction system and book-keeping system were linked to achieve straight-through processing. Research and design on when-issued trading will be expedited, and guidance provided to intermediary agencies on technological upgrading of relevant systems so deepen the inter-bank bond market. New instruments of interest rate swap will be explored and certain institutions will be allowed to experiment in interest rate swap.

Fourthly, there has been more innovation in the product and transaction at the foreign exchange market. Banks have been allowed to conduct foreign exchange swap with their clients; OTC and market makes have been introduced to the market. On May 18, 2005, a market maker driven system of foreign currency to foreign currency spot transaction was launched, offering the market more products. More participants and a larger coverage were introduced in the piloting operation of forward foreign exchange surrender and purchase. We have moved faster to integrate with the international foreign exchange market. In March 2006, the China Foreign Exchange Trade System and the Chicago Mercantile Exchange reached an agreement for Chinese financial institutions and investors to trade the exchange rate and interest rate products of the latter through the former.

Fifth, innovation in financial service philosophy and mode has been promoted. Opening-up has introduced advanced expertise, new philosophy, new technology, and new philosophy from developed financial market. The domestic financial institutions have parted ways with their old operational method, adopted the philosophy of putting the customers first, innovated in service system and set up a service mechanism in line with the international practice in terms of financial product, business arrangement, procedure and management. Quality of their service, operation and management has been elevated. Domestic enterprises and households now enjoy financial services in investment, wealth management, payment and settlement, financial consulting, etc, and the convenience of payment through bank cards, and online payment.

Thanks to opening-up, the Chinese financial sector has become stronger and the domestic financial market has progressed by leaps and bounds. The financial system has functioned better in resource allocation, promoting the rapid growth of financial sector and national economy.

4. Further promote the opening-up and enhance the competitiveness of the financial sector

China's economic performance has caught global attention because its impact on the global economy has been on the increase. In the years to come, along with the progress of globalization and economic growth in China, we will definitely integrate more deeply in the world economy, and influence the world economy more significantly. It is a challenge for the financial industry to

capital account; the domestic financial market will be further opened; financial legislation will be strengthened to build a market environment for fair competition; a financial macro management system and a regulatory system will be improved in line with the degree of financial opening-up, to safeguard financial security, and improve the overall quality as well as the competitiveness of the financial sector.

Ladies and gentlemen,

With the end of WTO transitional period, opening-up of the financial sector will reach a new stage. The Chinese economy will continue to realize its huge potential. We will move on with the reform, opening-up and development of the financial sector, and create a favourable environment for domestic and foreign financial institutions, so that the financial sector can make even greater contribution to the development of a socialist market economy in China.

Thank you.