Guo Shuqing: Opening remarks - 11th Lujiazui Forum

Opening remarks by Mr Guo Shuqing, Party Secretary and Deputy Governor of the People's Bank of China, at the 11th Lujiazui Forum, Shanghai, 14 June 2019.

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Honorable Vice Premier Liu He, Secretary Li Qiang, Chairman Zhou Xiaochuan, Executive Deputy Secretary-General Ding Xuedong, Mayor Ying Yong, Governor Yi Gang, Chairman Yi Huiman, Ladies and Gentlemen,

Good morning!

As the rotating co-chair of this forum, on behalf of the host, I would like to extend a warm welcome to all of our friends old and new. The annual Lujiazui Forum has been held successfully ten times. We are glad to see that, Shanghai has been accelerating its steps in establishing an international financial center, amazing the world with its great achievements. In the future, the central financial regulator will continue with its support for the opening-up and reform of Shanghai, trying the upmost to do whatever we can do. Yesterday, the Shanghai municipal leaders criticized me for not coming here very often. I regret that it's true. But, as long as our Vice Premier Liu grants an approval, as soon as tomorrow I would move my office to Pudong.

Currently, the financial system of China operates soundly, and thus provides solid guarantee for the comprehensive deepening of reforms and the high-quality development of the Chinese economy. Under the leadership of the Party Central Committee with Comrade Xi Jinping at the core, and in line with the overall arrangements of the Financial Stability and Development Committee under the State Council, the financial system firmly implements the new development philosophy, vigorously promotes the supply-side structural reform, continuously optimizes the institutional system, market system and product system, and strives to provide the real economy and our people with more effective financial services of a better quality. In this process, the following aspects need to be highlighted.

First, financial institutions must remain committed to the customer-oriented operating philosophy. In 1978, China had aggregate financial assets of less than RMB200 billion, and saw an acute shortage of financial products. Today, the aggregate financial assets have exceeded RMB400 trillion. Despite this, financial institutions still have a long way to go in customer service and market segmentation. Fifteen years ago when we started introducing the shareholding system in large-sized state-owned banks, the hardest task was to eliminate the "bureaucratic way of handling commerce". In 2005, some experts from American banks came to help us reform bank outlets. For weeks, they went to the same savings agency, patiently asked every customer about the services they received, and put down every detail of the transactions. Our colleagues were confused, with some even mocking the Americans for being unwise and rigid. However, when the experts presented their accurate analysis reports, everyone was astonished. After that, our colleagues not only consult their American counterparts, but think about improvements on their own initiative. As a result, the business processes of Chinese banks gradually approach the Six Sigma method, and their productivity got close to or even surpassed that of the world's top-notch banks. Today, availing ourselves of such information technologies as the Internet, artificial intelligence, and big data, China's financial institutions continuously witness revolutionary changes in their technological capabilities, and product development is conducted at a pace increasingly closer to that of the world's leading institutions. However, to offer effective financial services and to build Shanghai into a world financial center, most crucially, financial institutions must put the interests and concerns of customers in the first place.

Second, more efforts should be made to develop more specialized and personalized financial institutions. China has over 5,000 licensed financial institutions, and tens of thousands of unlicensed institutions engaging in quasi-financial businesses. However, compared with developed countries, the penetration rate of banks, the depth and density of insurance businesses, and the influence of the capital market in China all remain at a very low level. Financial institutions are less diversified in classification, unreasonable in distribution, and indistinct in characteristics. Moreover, the phenomena of “excessive competition” and “service blank” coexist. With the new developments of Fintech, it is by no means feasible to simply copy the development path of other countries in terms of industrial pattern, profitability model, and corporate structure. Instead, we should work to both increase the number of financial institutions and improve the level of their quality. We should support small and medium-sized institutions serving communities and small and micro businesses (SMBs), and encourage the practice of the spirits of “collecting data street by street” and “walking into villages and households”; support specialized and dedicated financial enterprises, and encourage them to form distinct corporate culture appropriate for their main businesses; and support all kinds of distinctive financial institutions that can closely integrate offline and online businesses and combine traditional and modern features. In this process, we warmly welcome the involvement of overseas financial institutions with a further opening-up of China’s banking, insurance, securities, and trust sectors. We especially welcome experienced asset management institutions, along with domestic counterparts, to raise RMB capital and invest in the RMB-denominated securities market.

Third, the financing market system must be better suited to the life cycle of enterprises. Enterprises in different development stages have financing needs different in nature and feature. Venture capital suits the financing feature of startups; bank credit is more favorable for enterprises at the growth stage; and bonds, stocks, and other direct financing tools are of great importance to relatively mature businesses. By structure, bank credit accounts for over 80% of the aggregate financing, while equity financing makes up no more than 10%. Basically speaking, the bond market is a quasi-credit market with a lack of depth where commercial banks are major players, bond products are characterized by poor variety and the transaction scenario remains less lively. Meanwhile, due to excessive reliance on banks, enterprises cannot well match their life cycle with production cycle. As a result, the large and medium-sized enterprises are likely to squeeze others out and excessively occupy credit resources, whereas SMBs and innovation-driven enterprises may have difficulties in securing necessary financial support in the hatching stage. Therefore, on the basis of a strong consensus, financial regulators and enterprises must work concertedly to develop China’s capital market and completely change the imbalance between direct financing and indirect financing.

Fourth, measures should be taken to establish and improve a corporate governance structure with Chinese characteristics. Unsound corporate governance has always been an intrinsic problem in China’s economy, as enormous losses have been caused by major shareholders’ manipulation in some institutions and insider control in some others. Since the vast majority of financial institutions are, by nature, strongly correlated with public interests, the financial institutions should place more emphasis on corporate governance structure. We should make continued efforts to establish a modern corporate system and enhance Party leadership, so as to set up a mechanism of proactive cooperation and mutual restrictions between institutions of corporate governance. We should also carry out the Hangzhou Summit Declaration to ensure prior implementation of the G20-OECD corporate governance consensus in the financial sector.

Fifth, sufficiently harsh punishment should be promptly imposed on violators of laws and regulations. For some time, some institutions have disclosed false information, manipulated the quality categorization of assets, and even recklessly falsified accounts, which undermined the credibility of the financial sector. These problems can be attributed to a number of reasons, yet the principal ones include the failure in implementing capital rules, unsound corporate governance, feeble market control, and negligent oversight and law enforcement. The low cost of violating rules and regulations can only result in further trampling on laws. Therefore, regulators must have the courage to fight, to ensure strict enforcement of laws, and to resolutely safeguard the sanctity of laws. For more than two years, the banking and insurance regulators have been seriously dealing with institutions accountable for violating laws and regulations, imposing penalties of more than 8,000 person/times, and confiscating more than RMB6 billion from relevant institutions. A series of stringent regulatory measures have been taken to crack down on falsified asset categorization and accounting fraud, and more than RMB4 trillion of nonperforming loans have been disposed of.

Sixth, we should be determined to change the distribution of financial assets. At present, China's bank savings deposits amount to over RMB78.7 trillion, and asset management products, which are essentially similar to bank deposits, total more than RMB60 trillion. In addition, we have an equally considerable sum of corporate deposits and enormous idle funds in the society. How to transform such funds into long-term stable sources of investment capital through institutional investors, is an important yet urgent issue that must be addressed. We should vigorously develop various institutional investors including publicly offered funds, privately offered funds, insurers, trusts, and wealth management companies. In this way, we can change the investor composition dominated by retail investors and foster a market atmosphere favorable to long-term investment and value investing, while raising the scale of stable funds in the market as well as the efficiency of investment conversion. In terms of pension funds, we can draw on the experience of other countries to construct three pillars, namely basic social security funds, enterprise annuities, and commercial insurance, in a bid to raise the scale of China's pension funds in the capital market to the world average.

Seventh, we must firmly prevent the resurgence of structurally complex products. China boasts the largest new capital inputs among all economies in the world, but it is a challenging task to raise the efficiency of fund utilization. The key is to avoid the diversion of investment out of the real economy and to continuously clean up funds which circulate solely within the financial sector. For more than two years, we have remained committed to rectification of market irregularities and dismantled shadow banks, achieving a net reduction of RMB13.74 trillion of high-risk assets, consequently shortening the financing chain and lowering financing costs. Currently, there are signs of relaxed regulation in the world that promote resurgence of shadow banks, which requires us to be ever vigilant. The diversion of investment out of the real economy and multi-layer nested investment in China's financial sector had been among the most severe of the kind, so we must prevent a replay of the past.

Eighth, we must face up to the problem of the financialization of real estate in some parts of China. In recent years, the leverage ratios of the household sector in some Chinese cities have risen rapidly, and the debt ratios of a considerable proportion of households have reached an unsustainable level. More seriously, around half of the new savings resources are invested into the real estate sector. The excessive financing of the real estate sector not only crowds out credit resources of other industries, but also encourages investment speculation in the sector and causes a bigger bubble. When you buy a house to live in, it means you will have an income of market rent and an equal amount of expenditure each month, which also means that your house generates the equal amount of added value; when you buy another house to rent out, you will also have income and output; however, when you buy a house solely for investment or speculation, rather than for rental income, it will be just a pile of unused cement, bars, and bricks. Real estate is marked by regional differentials, and it is normal that housing prices rise and fall in different regions. Nevertheless, "housing is for living in, not for speculation." History has proved that every country relying excessively on real estate for economic prosperity would eventually pay a heavy price. All residents and enterprises relying on blind investment and speculation in real estate to manage money will eventually find that it is really not cost-efficient.

At present, the Chinese economy is at a crucial stage of transformation and upgrading and structural reform, and the transition from old to new drivers of growth keeps accelerating. As continuous improvement has been made to the financial sector's capability in serving the real economy, funds injected by the banking and insurance sector into businesses grew rapidly, and, in particular, loans issued to manufacturing and high-tech industries and private enterprises rebounded significantly, relieving the difficulties that SMBs face in accessing affordable financing. By end-May, inclusive financial loans issued by the five major banks to SMBs grew 23.7% compared to the end of last year, fulfilling the majority of their full-year plan. The average interest rate was 4.79%, reporting a decline of 0.65 percentage point compared to the full year rate for last year. Meanwhile, the banking and insurance sectors have been fully cooperating with local governments on the issuance of general bonds and special bonds, earnestly implementing decisions and plans made by the state to provide financing support for projects launched to bolster weak spots in infrastructure construction. We believe that, through the deepening supply-side structural reform to expand effective domestic demand, the effects of various impediments will be offset for certain. The Chinese economy and financial sector is surely to achieve sustained, healthy, and steady growth!

These ideas are only presented for your reference.

To conclude, I wish this forum a complete success.

Thank you!