

FEATURES OF THE CHINESE BANKING SYSTEM

Abstract: China's banking system is one of the largest in the world, both in terms of assets and in terms of the number of participants. To ensure a high economic level in the world, it is necessary to understand in more detail how the economic mechanisms in China are arranged. The experience of the Chinese banking system can help other countries in economic development.

Keywords: the banking system of China, the People's Bank of China, the three-tier banking system, the dividend yield of Chinese banks, key rates.

Economic reforms of the 80s allowed China in the 21st century to take a leading position in terms of the size of the world's economies. The main reason why China has so quickly become a leader in the world economy is reforms in the banking sector. The Chinese banking system is considered one of the largest and most developed in the world. It plays an important role in the country's financial infrastructure and supports economic growth and stability.

The history of the transformation of China's banking system began in 1949, when the People's Bank of China (PBOC) was created. The policy of the PBOC was to absorb and eliminate all commercial banks in the country. Until the end of the 70s, there was a complete monopoly in the Chinese banking system; the PBOC, in turn, performed the functions of a commercial and central bank.

In 1979, the situation changed dramatically after Paul Volcker raised rates in the United States. China revised its policies and began to create a system of commercial banks in a planned economy.

1984 was a decisive year for the Chinese banking system. It was then that the activities of the PBOC were distributed among five commercial banks, which in turn were under the total control of the state: Industrial & Commercial Bank of China – (ICBC), Construction (China Construction Bank – CCB), Agricultural (Agricultural Bank of China – ABC), Bank of Communications (Bank of Communications – BoCom) and Bank of China (Bank of China – BoC). The PBOC, in turn, acted as a central bank.

Subsequently, China allowed commercial banks to operate on its territory and also lifted the ban on foreign banks opening branches. Today, the assets of the Chinese banking system at the end of 2023 amount to 417.3 trillion yuan or 58.7 trillion dollars, the absolute increase compared to the previous year is 9.9%. For several years in a row, Chinese banks have held leading positions in terms of assets among banks in the world (Table 1). In 2023, in the list of the ten largest commercial banks in the world, the first four positions are occupied by Chinese banks.

Table 1

10 largest banks in the world by assets in 2023, billion dollars

No.	Name	Location	Assets
1	Industrial and Commercial Bank of China	China	5580
2	China Construction Bank	China	4840
3	Agricultural Bank of China	China	4770
4	Bank of China	China	4040
5	JPMorgan Chase	USA	3670
6	Bank of America	USA	3050
7	Mitsubishi UFJ Financial Group	Japan	2970



8	HSBC Holdings plc	Great Britain	2970
9	BNP Paribas	France	2840
10	Credit Agricole	France	2365

A special feature of China's banking system is its three-tier structure, which is completely and entirely under the control of the state.

The first level is formed by the People's Bank of China and political development banks. The functions of the PBOC include the development and implementation of monetary policy. The PBOC is the credit, emission and payment and settlement center of the country [3]. In turn, political development banks include: State Development Bank of China, Agricultural Development Bank of China, Export-Import Bank of China [2]. These banks implement government programs in the agricultural, industrial and foreign trade areas. The All-China Banking Regulatory Commission is responsible for monitoring and supervising the Chinese banking system.

It should be noted that the PBOC exercises extremely effective control over the exchange rate of the yuan. Due to the fact that the Chinese economy is an export economy, the PBOC has maximum interest in maintaining a stable exchange rate of the yuan against the dollar. Therefore, over the past 15 years, the exchange rate has varied by no more than 1 unit; in 2008, the rate was 6.2 yuan per dollar, while in 2023 it was 7.2 yuan per dollar.

The second level includes state commercial banks. They set the basis for the Chinese banking system and have the greatest impact on the Chinese economy as a whole. These commercial banks, which occupy leading positions in terms of assets among banks in the world, include: Bank of China, Industrial and Commercial Bank of China, Construction Bank of China, Agricultural Bank of China. In turn, state-owned commercial banks are divided into urban and rural. The priority of the Chinese government falls on improving the efficiency of state-owned banks, classifying large commercial banks as a separate category of the banking system. The presence of banks controlled by non-residents in the Chinese banking system is not as extensive as in other countries, since the ban on their activities in China was lifted only after the country joined the WTO [1]. In addition to commercial banks, the second level also includes financial companies with the right to carry out banking operations (trust investment companies, asset trust management companies, leasing financial companies).

The third level of the banking system includes urban and rural cooperation, which are most involved in lending to small and medium-sized businesses. The third level exists in the form of an agricultural and urban credit cooperative and numerous post offices.

At the moment, the Russian Federation is trying to adopt the experience of the Chinese banking system in total control over banking activities by the state in order to create monopoly banks.

Another feature of the Chinese banking system is the number of key rates that determine the country's cost of capital. As a rule, most of the world's leading economic countries have a single key rate, while in China there are four.

1. The one – year deposit rate – annual deposit rate. Chinese banks are guided by this rate to set the deposit rate, since 2015 it has been 1.5%.

2. The seven-day reverse-repurchase rate (DR 007) – weekly repo rate. The rate at which banks lend internally. This rate is set by the PBOC and with its help the liquidity of the banking system is regulated. Currently the repo rate is 2%.

3. The medium-term lending facility (MLF) – accounting rate. Monthly appointed by the PBOC. In fact, this rate can be considered as China's key rate, since the interest rate on medium-term lending to the population depends on it. This rate also affects the cost of loans from commercial banks to the central bank. In 2023, the discount rate reached 2.75%.

4. The loan prime rate (LPR) – interest rate on a loan for “first-class” borrowers. This rate is set for the most reliable borrowers, based on the arithmetic average of the rates of the largest banks



in China. This rate is divided into a one-year (for consumer loans) and a five-year rate (for mortgage lending) and is set every month by the PBOC. In 2023, the mark reached 3.65% for consumer loans and 4.3% for mortgage loans (Figure 1).

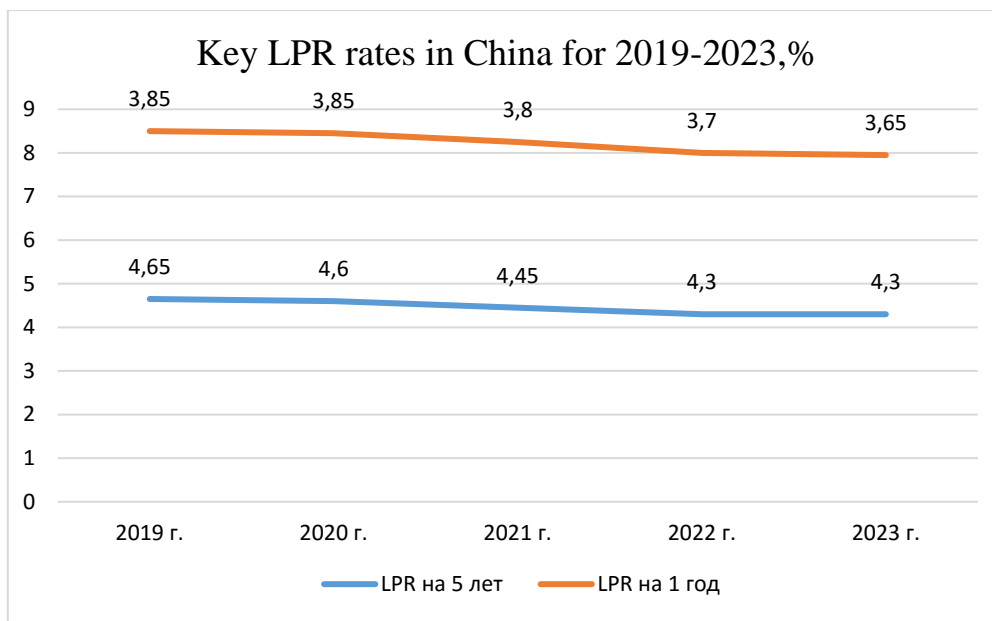


Figure 1 – Key LPR rates in China for 2019-2023, %

Despite the fact that many rates may indicate a liberal banking system in China, in fact, state control is at a high level. Due to the abundance of rates, the PBOC can regulate liquidity by changing only the specific type of rates. For example, in 2022, to support the real estate sector, the PBOC lowered the five-year LPR rate. To maintain overall liquidity of the banking system, a reduction in the repo rate (DR 007) by the PBOC will be required.

It should also be noted that Chinese banks, against the backdrop of high profits, pay their shareholders some of the highest dividends. The average dividend yield of Chinese banks in 2023 is 8.74%.

Thus, the Chinese banking system plays a huge role in the global economy. This system is amazing, unlike the banking systems of other advanced countries and has a number of its own features. These features include regular and total government intervention, a variety of key rates, high dividend yields of banks, as well as China's ability to pursue its own monetary policy, which affects global stock markets. It is all these features that make the Chinese banking system unique and advanced, and also help the PRC to remain in a leading position in the world economy for many years.

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