China’s Financial Opening
Reaccelerated

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Starting from September 2017, China has gradually withdrawn temporary macro-prudential and control measures along with stabilizing FX market:

- Foreign exchange risk provisions for forward FX sales lowered to 0;
- Deposit reserve requirement cancelled for overseas financial institutions;
- Restrictions on outward direct investment relaxed (not including sensitive sectors);
- Continuing to support the development of cross-border RMB businesses;
- The counter-cyclical factor suspended in the central parity quotation mechanism;
- Restarting QDII, QDLP, QDIE, RQDII quota approval;
- Allowing net settlement for forward FX sales (NDF) and specifying the authenticity check requirement in form of policy Q&As.
### The following measures for opening up financial sector will be implemented in the next few months this year:

1. **Remove the foreign ownership cap for banks and asset management companies, treating domestic and foreign capital equally; allow foreign banks to set up branches and subsidiaries at the same time.**

2. **Lift the foreign ownership cap to 51% for securities companies, fund managers, futures companies, and life insurers, and remove the cap in three years.**

3. **No longer require joint-funded securities companies to have at least one local securities company as a shareholder.**

4. **To further improve the stock market connectivity of the Chinese mainland and Hong Kong, we will increase the daily quota by three times from May 1, after which the daily quota for Shanghai-bound and Shenzhen-bound investment will be increased from RMB 13 billion to RMB 52 billion, while that for Hong Kong-bound investment from RMB 10.5 billion to RMB 42 billion.**

5. **Allow eligible foreign investors to provide insurance agent and loss adjuster services in China.**

6. **Lift restrictions on the business scope of foreign-invested insurance brokerage companies, treating them as equals of domestic companies.**
Governor Yi Gang announced measures and timetable for further financial sector opening-up in Boao Forum for Asia (April 11, 2018)

➢ In addition, we will roll out the following measures within this year:

- Encourage foreign ownership in trust, financial leasing, auto finance, currency brokerage and consumer finance.
- Apply no cap to foreign ownership in financial asset investment companies and wealth management companies newly established by commercial banks.
- Substantially expand the business scope of foreign banks.
- Remove restrictions on the business scope of jointly-funded securities companies, treating domestic and foreign institutions equally.
- Foreign insurance companies will no longer need to have a representative office in China for two consecutive years prior to establishing a fully-owned institution.
- Besides, thanks to joint efforts by China and the UK, preparatory work for Shanghai-London Stock Connect is proceeding as desired. We are aiming for launching the Shanghai-London Connect this year.

➢ Meanwhile, the previously announced opening-up measures have been implemented smoothly. We have lifted market access limit for bank card clearing institutions and non-bank payment institutions, eased restrictions on rating services provided by foreign financial service companies, and granted national treatment to foreign credit information companies.

• ——PBOC Website
### Main features of this round of financial opening

| **Restore neutrality of regulatory policy** | ➢ The so-called policy neutrality is impartiality in policies, respecting market choices or market results under established rules, and not the positions or views on specific exchange rate levels. |
| **Adhere to serving the real economy** | ➢ The opening of the financial sector to the outside world is not exactly the same as financial opening, and foreign-funded financial institutions operating in China still need to comply with domestic financial and foreign exchange regulations.  
➢ The opening of the financial sector to the outside world will help improve domestic financial services. |
| **Adhere to the gradual opening path** | ➢ The financial sector opening-up has a road map and timetable.  
➢ Pipeline opening is the main way for opening up financial transactions. |
| **Adhere to the principle of coordinated promotion of reform** | ➢ The three principles of opening-up (Yi Gang):  
  • Pre-establishment national treatment and negative list principle;  
  • The opening of the financial sector to the outside world will be coordinated and jointly promoted with the exchange rate formation mechanism reform and capital account convertibility process;  
  • While opening up, we must attach great importance to preventing financial risks and match financial supervision capabilities with financial openness. |
A three-pronged approach to market-oriented exchange rate system reform

- Improve exchange rate adjustment mechanism
  - Optimize fixing-price formation mechanism, widen or even abolish floating band.

- Accelerate development of foreign exchange market
  - Expand market participants, relax trading restrictions, enrich trading products: relax restrictions on forward FX sales and broaden the notion of authenticity check requirement.

- Rationalize foreign exchange supply and demand
  - Deregulate on foreign exchange revenue and expenditure: regulatory policies return to neutral.
Two-way fluctuations of the RMB exchange rate more evident this year

➢ In the first 5 months of 2018, the central parity of the RMB exchange rate appreciated by 1.9%, and the US dollar index rose by 1.9%.

  • In the first quarter, an appreciation of 3.9% (the U.S. dollar index fell 2.5%), a depreciation of 2.0% in April and May (the U.S. dollar index rose 4.4%);
  • The three exchange rate indices of the RMB appreciated by 2.5%, 4.8% and 2.4% respectively.
Exchange rate plays its normal role of lever

<table>
<thead>
<tr>
<th>The RMB exchange rate</th>
<th>The foreign exchange deposits</th>
<th>Ratio of foreign exchange settlements to receipts</th>
<th>Ratio of foreign exchange sales to payments</th>
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<tbody>
<tr>
<td>2018Q1 appreciated</td>
<td>increased by 4 billion U.S. dollars</td>
<td>increased by 14 billion U.S. dollars</td>
<td>62.0% (down by 0.4 percentage points quarter-on-quarter)</td>
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<tr>
<td>2018.04 dropped</td>
<td>reduced by 900 million U.S. dollars</td>
<td>reduced by 19.2 billion U.S. dollars</td>
<td>69.7% (up by 7.7 percentage points compared with that in first quarter)</td>
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In the first quarter of 2018, the current account deficit was 28.2 billion U.S. dollars, the direct investment surplus was 50.2 billion U.S. dollars, an increase of 300% year-on-year; the basic balance was 22 billion U.S. dollars, down 22% year-on-year; the short-term capital inflow was 4.2 billion U.S. dollars, it was a deficit of 30.9 billion U.S. dollars the same period the previous year; short-term capital flow/basic balance surplus was 19%, compared with -109% in the same period of the previous year; foreign exchange reserve assets increased by 26.6 billion U.S. dollars, compared with a decrease of 2.5 billion U.S. dollars in the same period of the previous year.
China’s domestic financial risks have been lowered to some degree

- **M2** increased 8.2% year-on-year, the growth was down 1.9 percentage points year-on-year;
- **M2/GDP** was 205.8%, down 4.0 percentage points year-on-year.

**2018Q1**

- The price index of new commercial residential housing in 70 large and medium-sized cities increased by 5.3% year-on-year, down 4.6 percentage points year-on-year.
Further efforts are needed to prevent and resolve systemic financial risks

➢ The soundness of the financial system is essential for the success of financial opening and exchange rate regime transformation.

➢ China regards preventing and resolving risks (including financial risks) as one of the three major challenges.

1. Improve the financial supervision system.
2. Regulate local government debt.
3. Reorganize Internet finance business.
4. Clean up PPP projects.
5. Introduce new regulations on asset management.
6. Break “guaranteed return”.
7. Supervise state-owned enterprises to reduce leverage.
8. Clear out the zombie business.
Thanks!