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China's Expected Financial Reforms in 2017
- In the stability-concentrated economic management -

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Emphasis on Stability in Chinese Economy in Early 2017

The financial market in China, either foreign exchange market or stock market, experienced instability from the latter half of 2015 toward the first quarter of 2016. In order to pick up the economy, the government moved to prop up the property market in 2016, which caused an excessive rise of property prices, triggering bubbles in some cities. In early autumn, the central government forced the local governments to implement restrictive measures for property purchase and the bubbles are now more or less under control, though the concerns over the reemergence of bubbles are still smoldering. The increase of property loans accounted for 44.8% of total credit expansion of financial institutions in 2016, and as of the end 2016, the loan outstanding to real estates increased by 27% over the previous year with the bank lending expanding irregularly.

The year 2017 falls on the last year of Xi Jinping's first term in which quinquennial Chinese Communist Party Congress is to be convened in autumn and top echelon of the next administration will be finally fixed. In the government activity report submitted to the National People's Congress held in March 2017, President Xi was duly treated as a central person of the Communist Party, and the emphasis was placed on the stability. The top priority in 2017 is the maintenance of stable growth of the economy, and the objective GDP growth rate was set at around 6.5%. Currently, the impact of the vigorous property market since last year has been continuing, while the government keeps measures for growth through infrastructure investment like in high-speed railways, roads and sewage facilities and consumption stimulus. At least until the early autumn the government will implement a careful policy management to prevent the economy from collapsing.

A Year for Financial Reforms

Meanwhile, the Chinese government has emphasized the prevention of comprehensive financial risks as the most important agenda for this year. This will involve not only the short-term measures to prevent an emergence of risks in the financial market before early autumn but also the medium-to-long-term responses to prepare firm policies on financial regulations, system, and management ahead of the National Financial Work Conference held every five years and slated for this year.

Currently, the People's Bank of China is fine-tuning the interest rates in the financial market to alleviate the shocks of the US rate hike. It is also going to tackle the instability factors like credit risks and financial derivatives risks that have crawled in the banking system in these years.

In February, Mr. Guo Shuqing, who had been away from the financial world for about 4 years to take an important position of head of Shandong Province, came back as Chairman of the China Banking Regulatory Commission (CBRC). Around this time next year, restructuring of government agencies in charge of financial affairs will be materialized and additional personnel changes of financial executive will be released.

Various arguments on financial reform will be developed this year. These arguments will pave the way to determine the mid-to-long term path for financial reform that China will take in the coming several years. The reform arguments will include further reforms on foreign exchange rate system and capital liberalization. They may involve such themes as a genuine internationalization of the Chinese yuan (RMB) without intermediation of the Hong Kong market, developmental dissolution of Chinese free trade zone through deepened economic opening, or departure from the old frameworks of thinking seen in the 2000s that emphasize "independence, governability, and progressiveness." If the discussion goes such further, arguments on the reform will be genuine and serious.