



中国社会科学院世界经济与政治研究所
Institute of World Economics and Politics, CASS

CDB: Born Bankrupt, Born Shaper

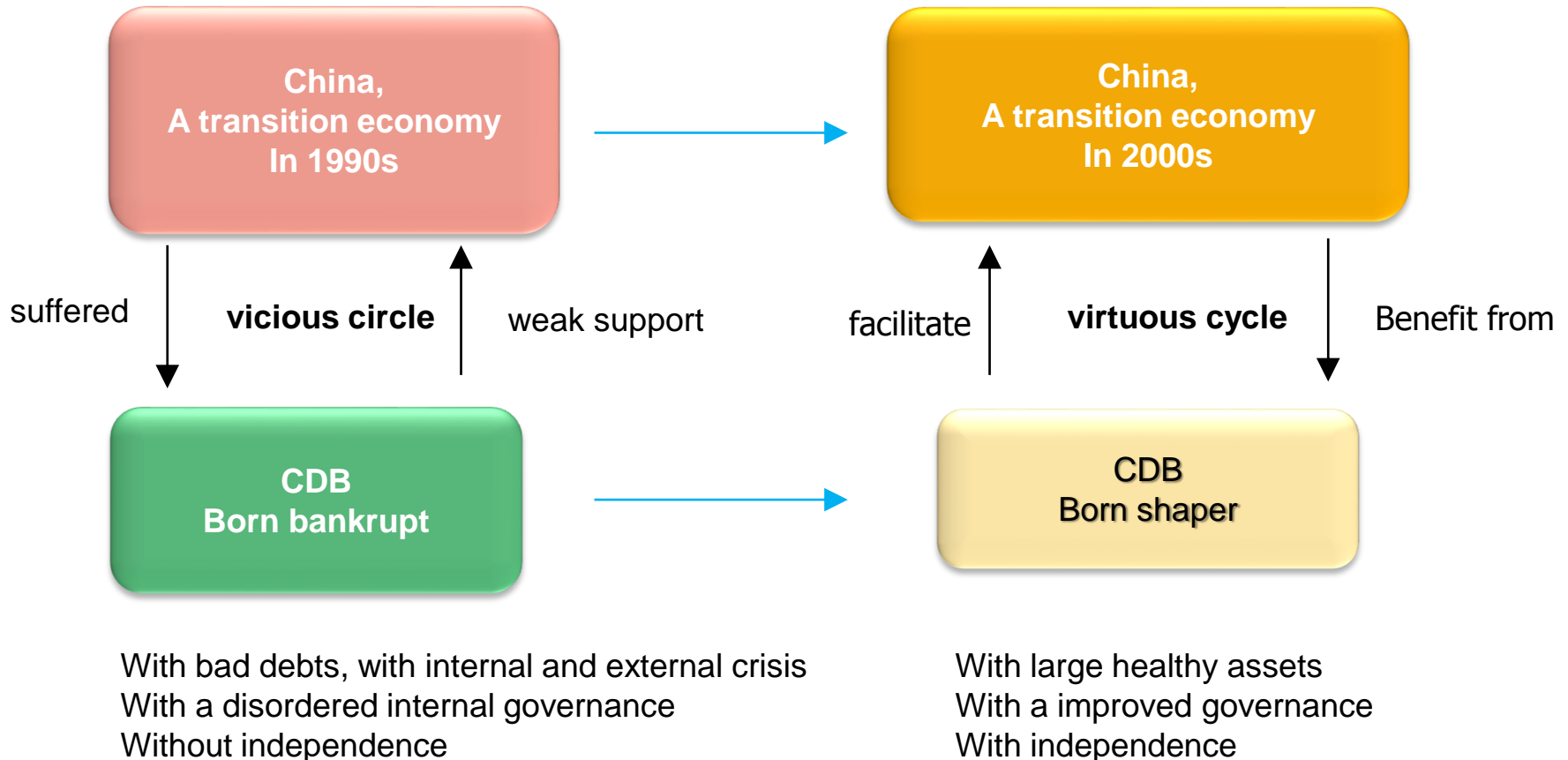
Qiyuan XU



The Future of National Development Banks
Carnegie Endowment, Washington DC, 19, April 2017,



CDB and China's transition economy





1 Born in a transition economy

Born bankrupt

2 Born bankrupt in 1990s

3 An amazing turnaround

4 CDB as a shaper to itself

Born shaper

5 CDB as a shaper to financial system

6 Concluding remarks

Appendix: as a counter-cyclical lender



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1 Born in a transition economy



Transition in fiscal system

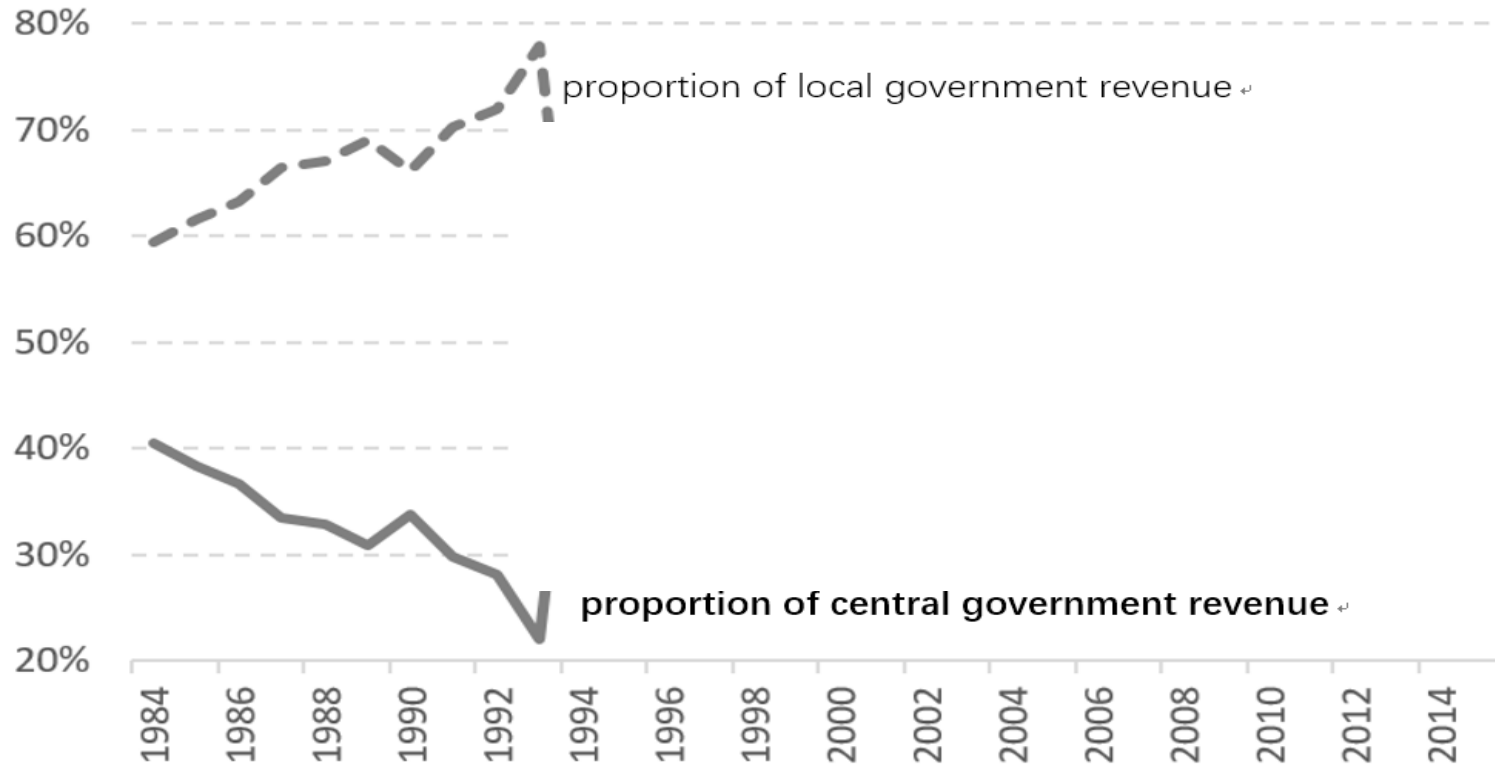


Figure 1 Central government revenue was crowded out by local government: in late 1980s and the beginning of 1990s

Source: China's National Bureau of Statistics and WIND data, 2017.



Transition in fiscal system

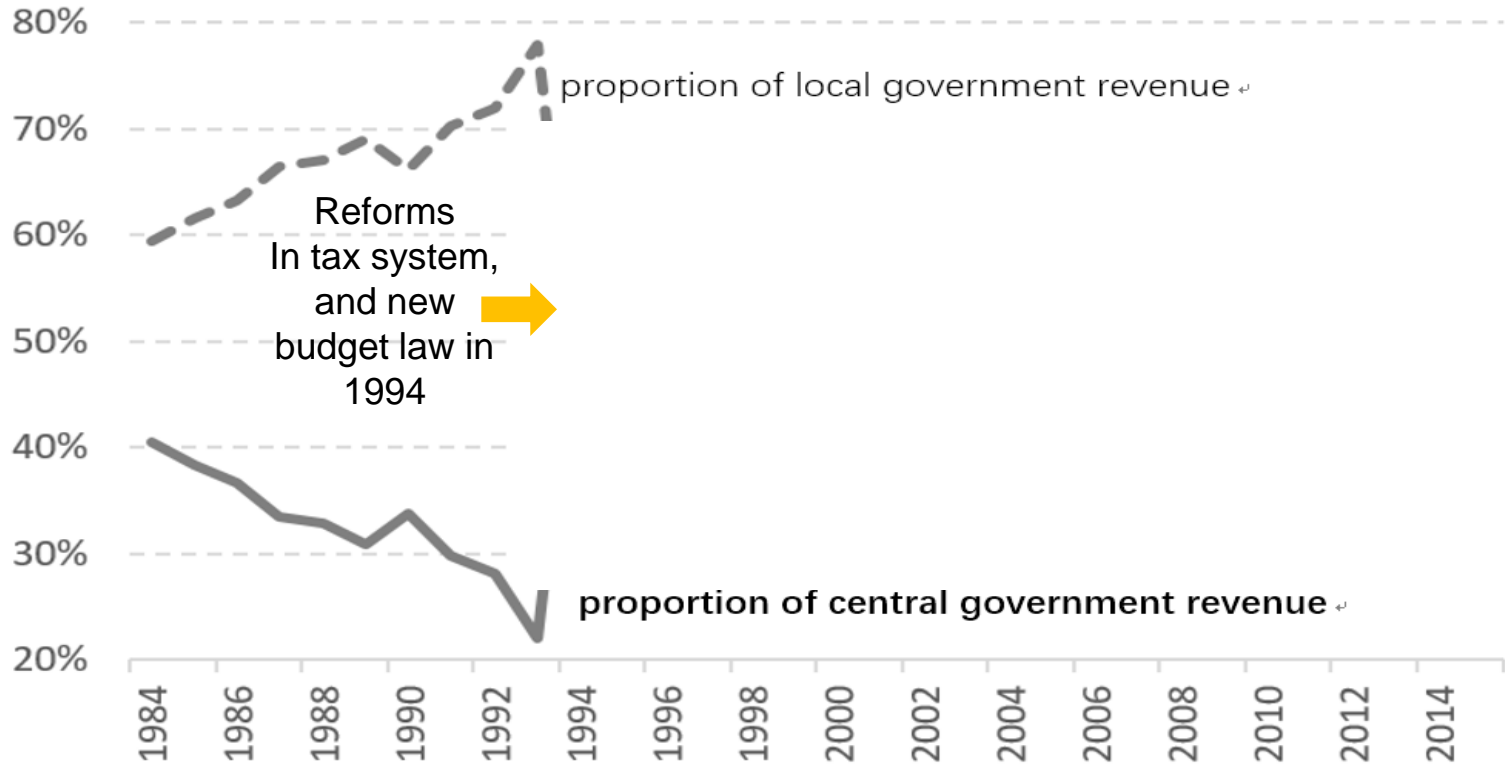


Figure 1 Central government revenue was crowded out by local government: ↵
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Transition in fiscal system

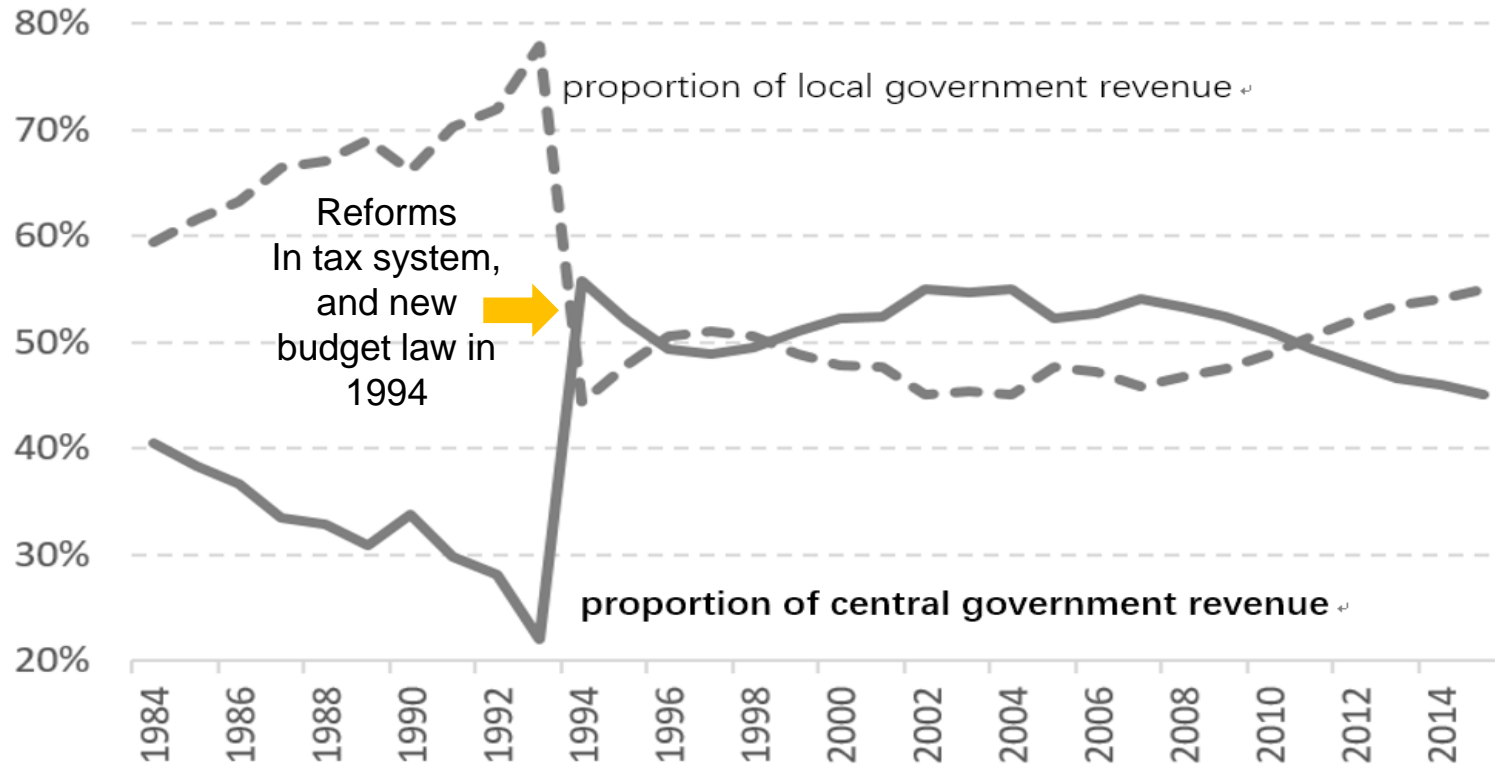


Figure 1 Central government revenue was crowded out by local government: ↵
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2.2 Local government: with poor capacity to finance infrastructures

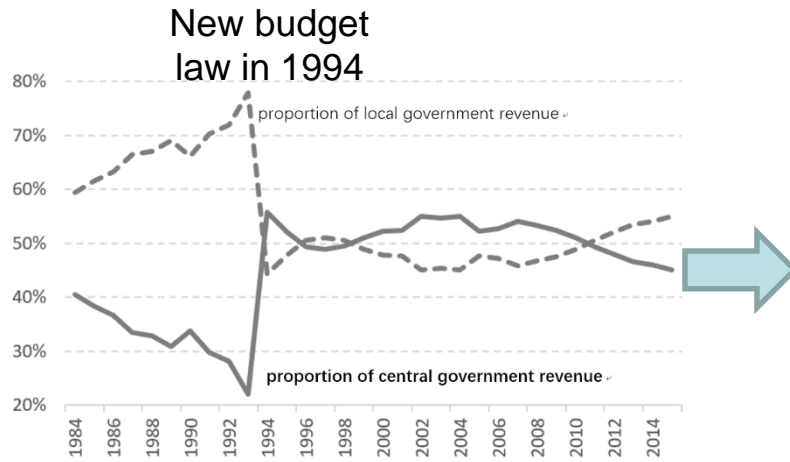


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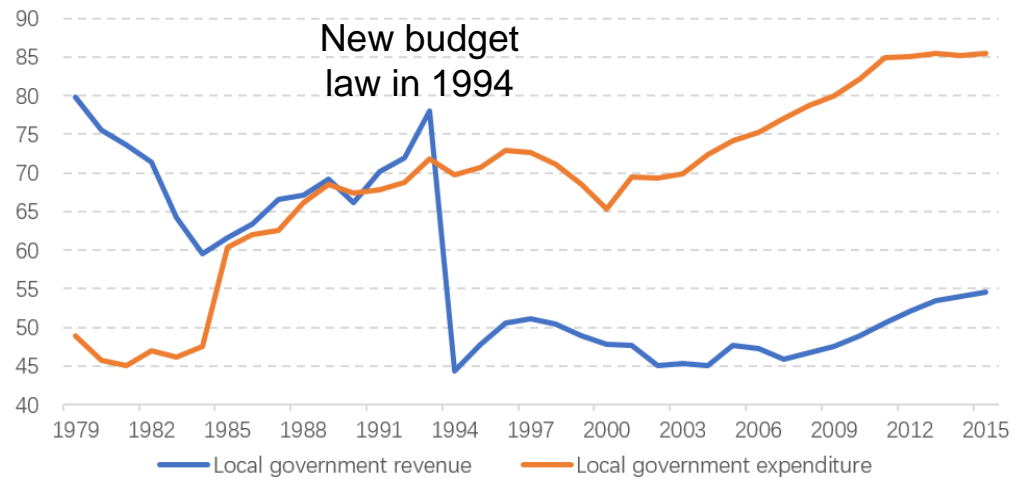


Figure 3: The mismatch between Local Government Revenue and Expenditure

(In percent of general government revenue and expenditure, %)

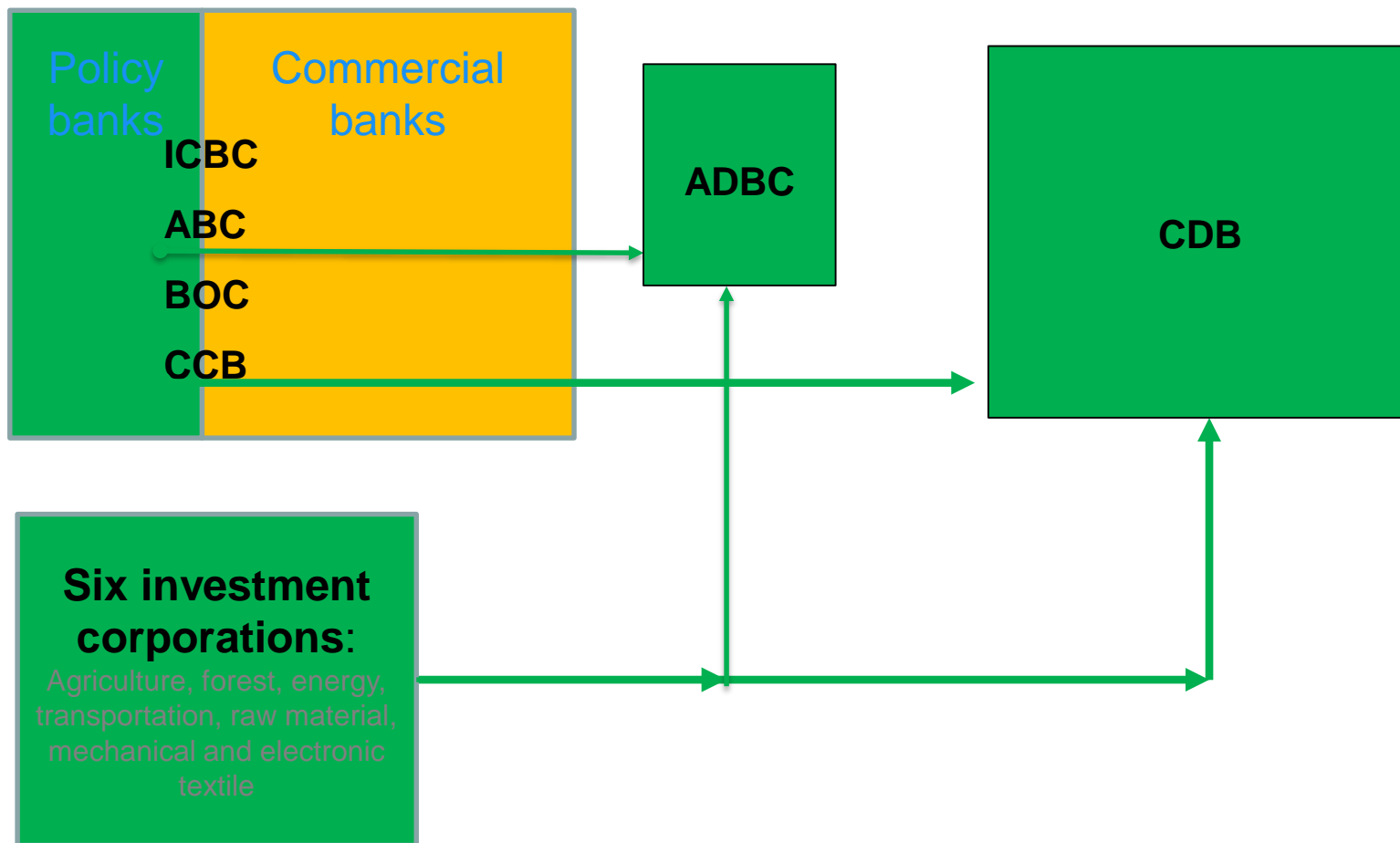
Sources: National Bureau of Statistics of China and WIND data, 2017.



1 Born in a transition economy

Transition in banking system

—policy bank business was separated from commercial banks in 1994





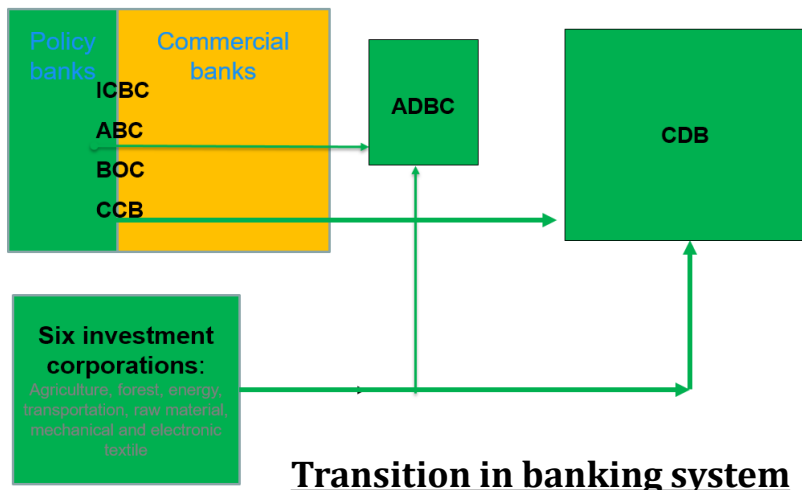
1 Born in a transition economy

More centralized?

**I. A shaper to itself:
reforms**

**II. A shaper to fiscal system:
rebalancing**

**III. A shaper to financial market:
benchmarks**



Transition in fiscal system

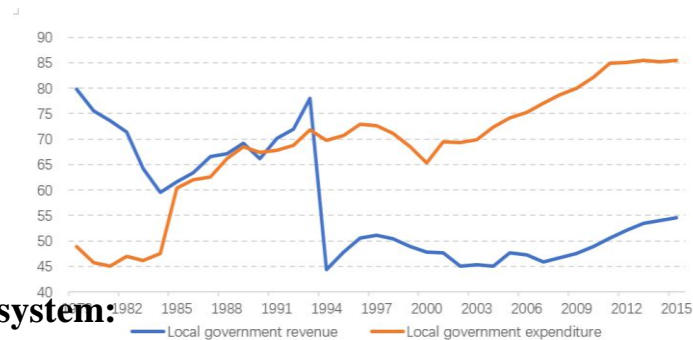


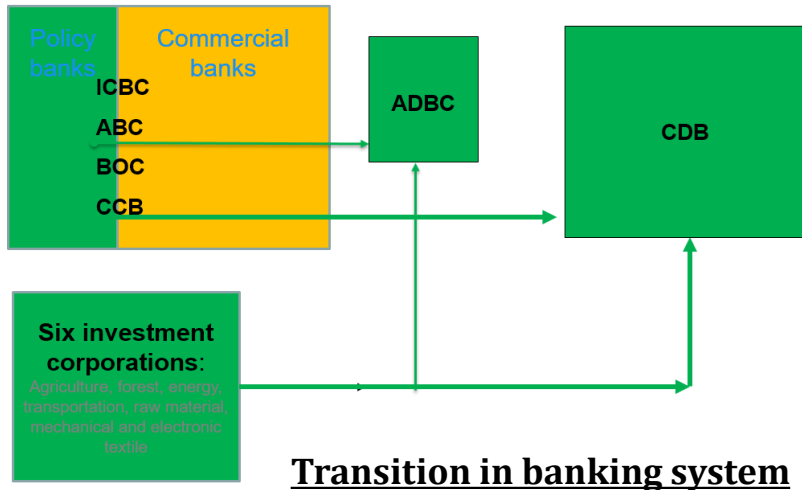
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1 Born in a transition economy

More centralized?

4. A shaper to itself reforms



5.1 A shaper to fiscal system rebalancing

Transition in fiscal system

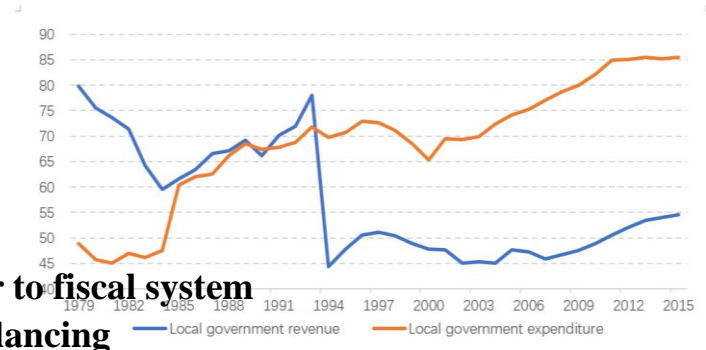


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5.2 A shaper to financial market benchmarks

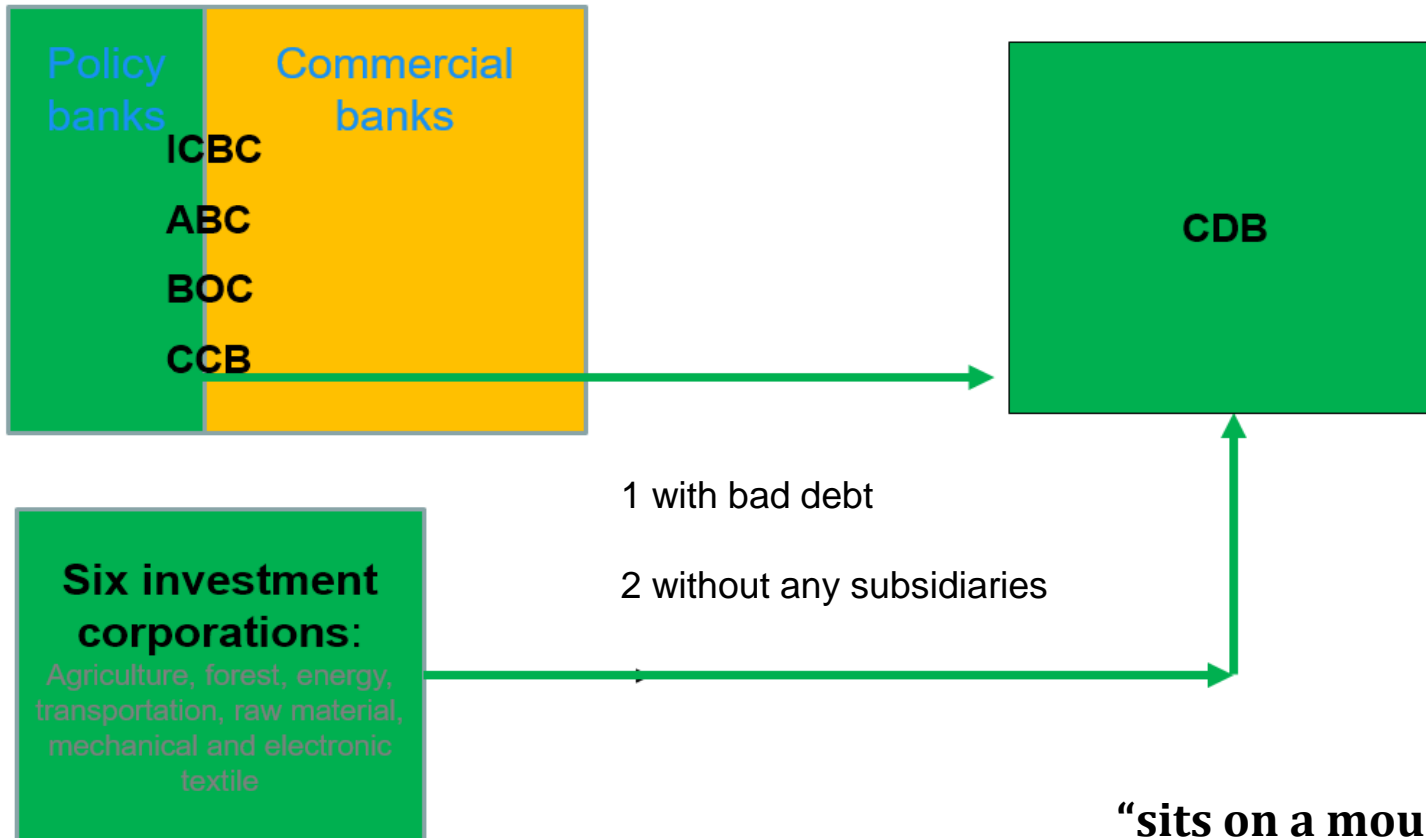


2 Born bankrupt in 1990s

2.1 CDB: a born bankrupt bank

1 total NPL ratio, 42.65%, in 1997

2 NPL ratio in coal industry, 75%, 1998





2.2 Local government: with poor capacity to finance infrastructures

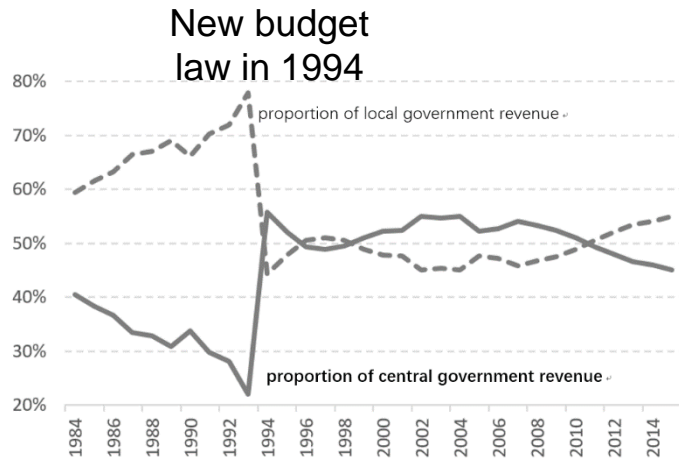


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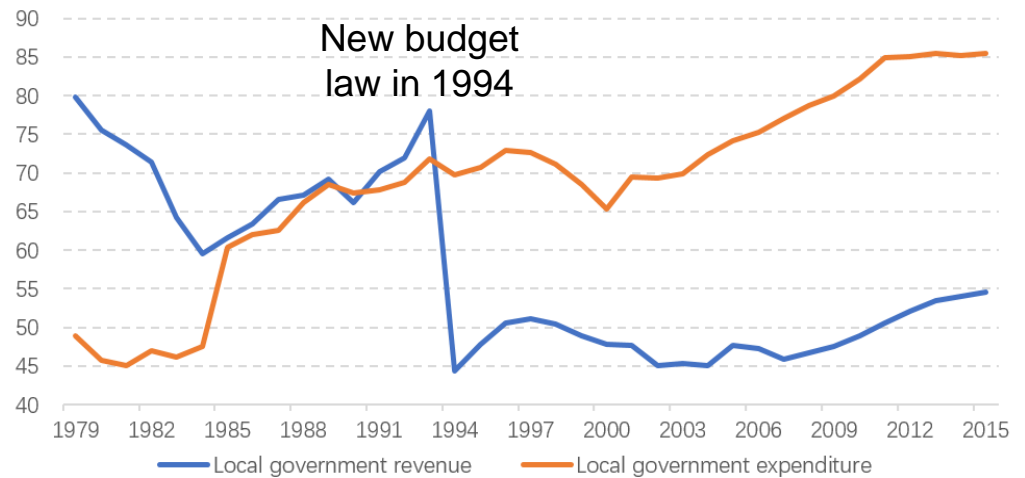


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Two problems:

- 1 project based financing
- 2 in 1995, the Law of Guarantee was published.

CICs
city investment companies



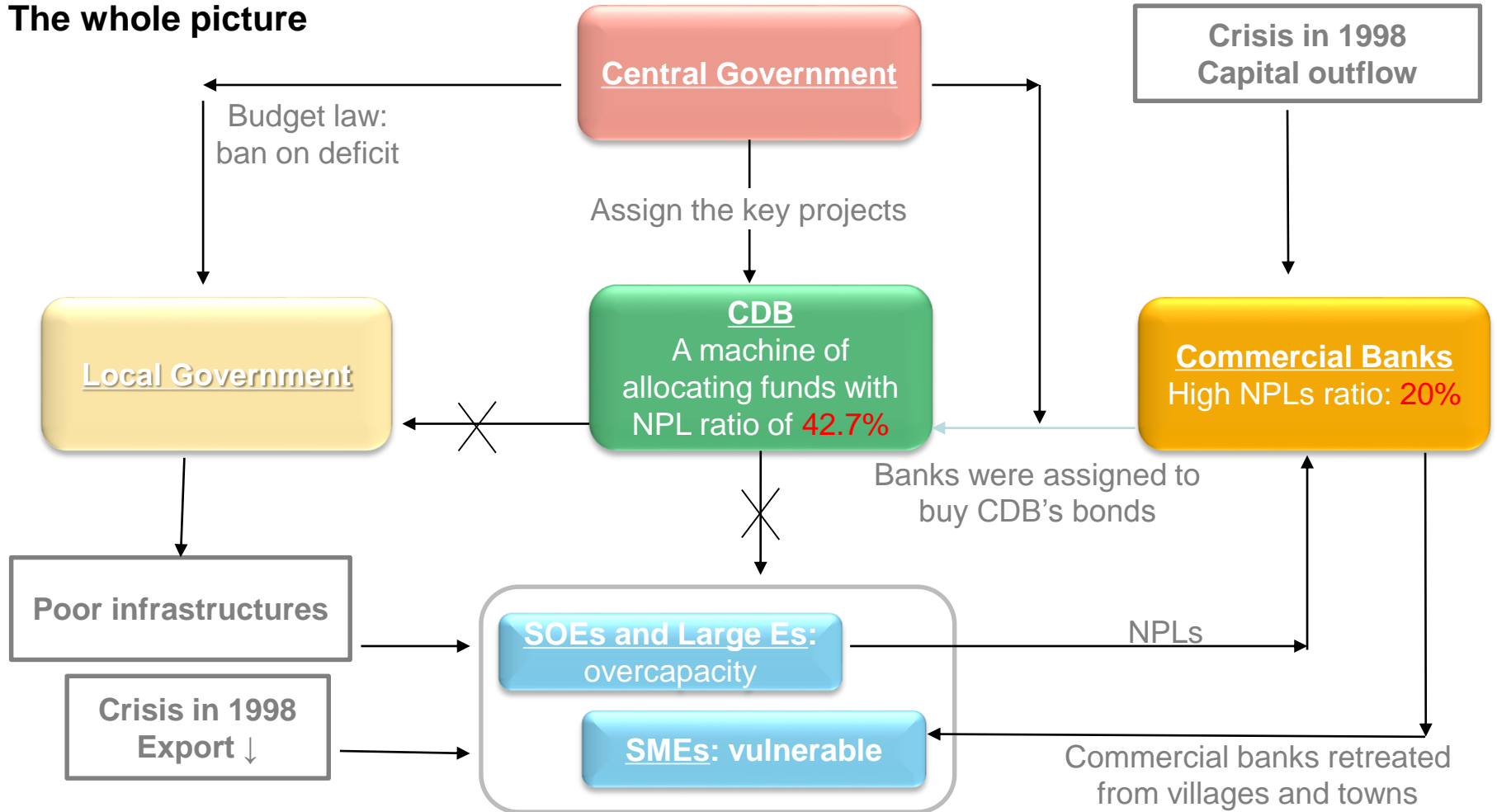
2.3 Central government: excessive intervention to CDB

CDB's balance sheet	
assets	liabilities
<p>* CDB's projects were defined by the SPC (State Planning Commission), which is the predecessor to NDRC</p>	<p>* Bonds PBoC forced CDB's bonds onto other commercial banks via administrative command</p>



2 Born bankrupt in 1990s

The whole picture





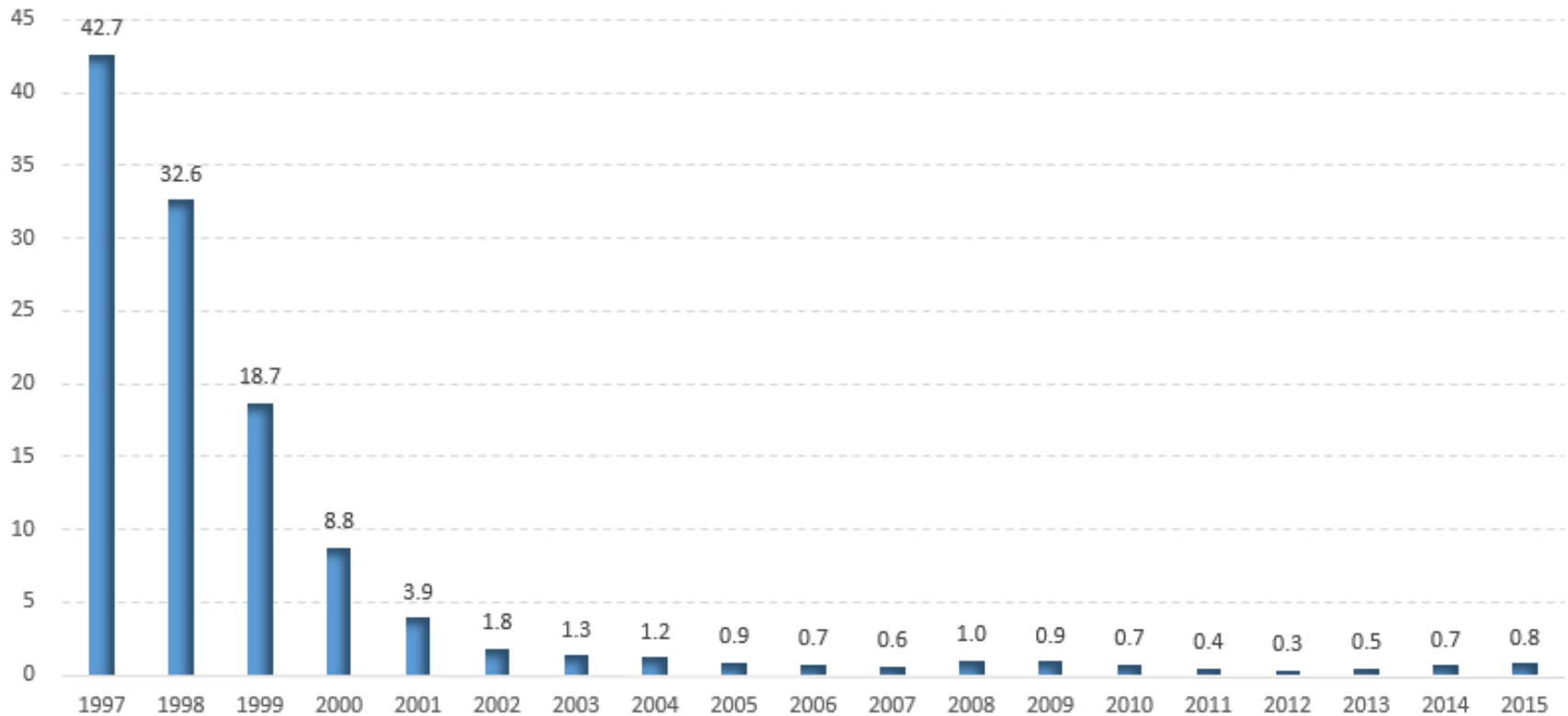
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3 An amazing turnaround



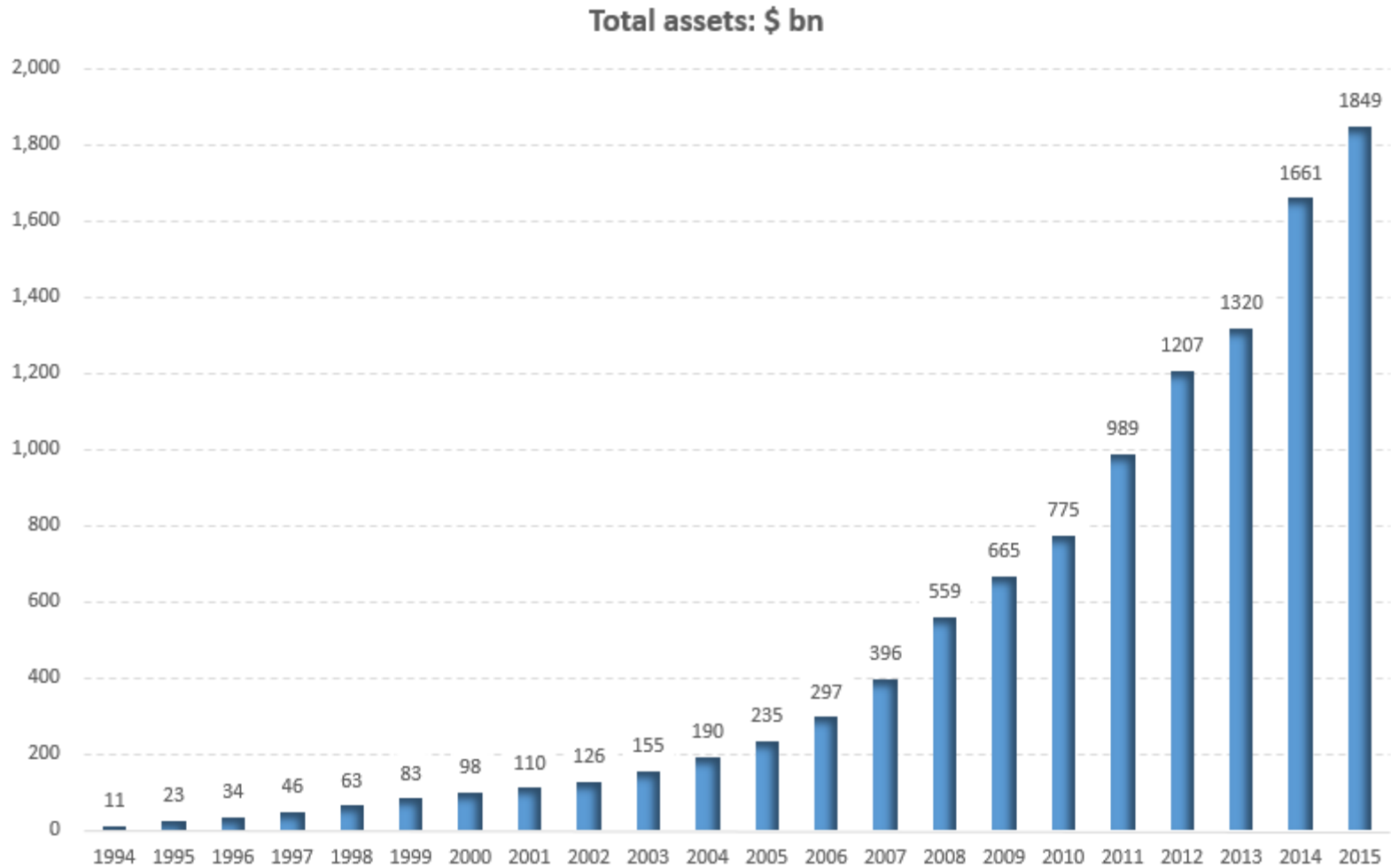
3 An amazing turnaround

NPL ratio: %





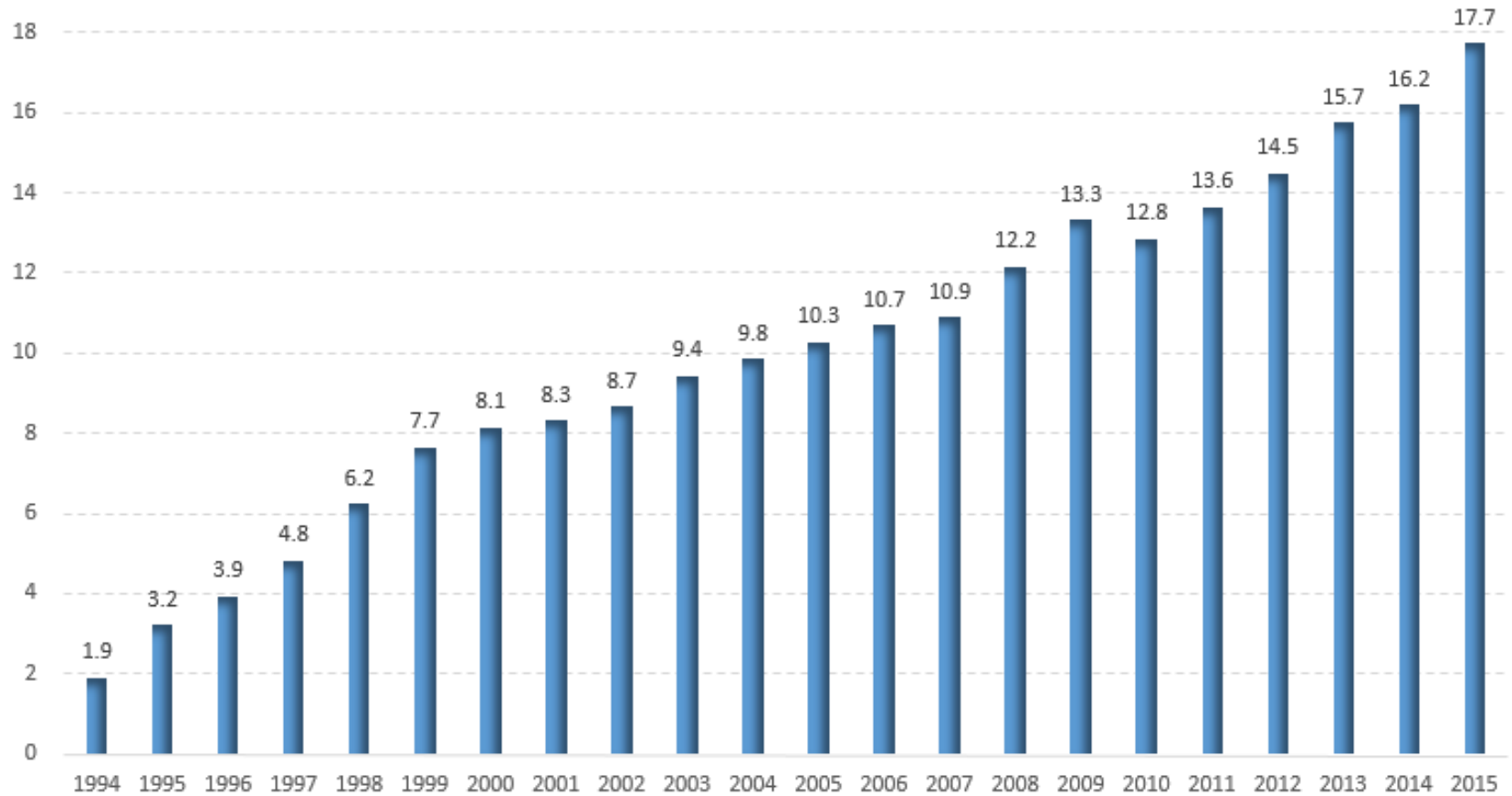
3 An amazing turnaround





3 An amazing turnaround

CDB's Assets to GDP ratio: %





3 An amazing turnaround

Capital adequacy ratio : %



ROA : %





3 An amazing turnaround

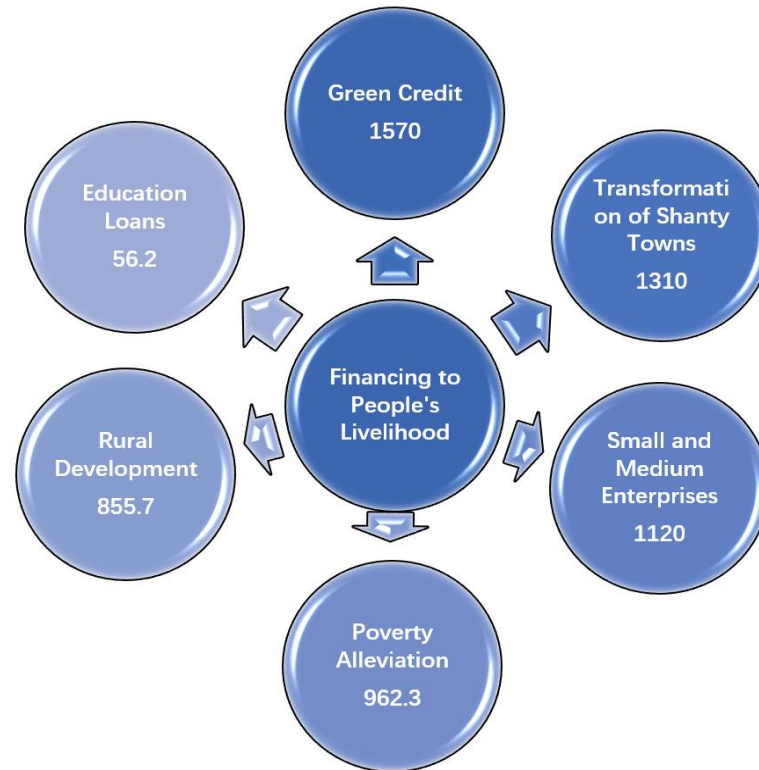


Figure CDB's Financing to People's Livelihood by 2015 (RMB bn)
Source: The Annual Report of CDB in 2015.



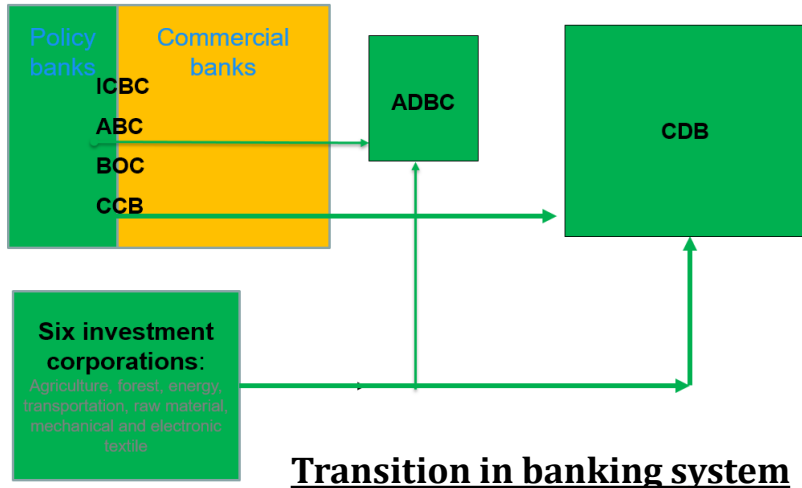
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4 CDB as a shaper to itself



More centralized?

4. A shaper to itself reforms



5.1 A shaper to fiscal system rebalancing

Transition in fiscal system

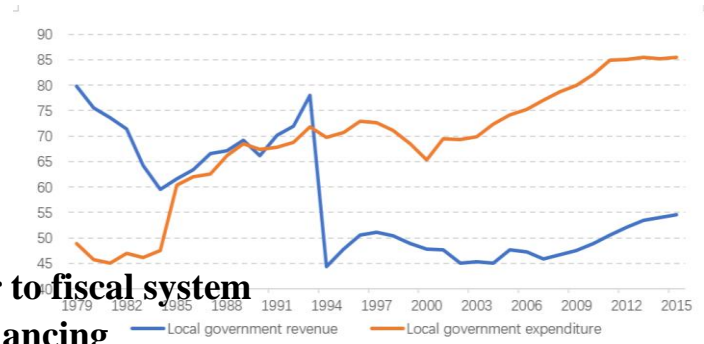


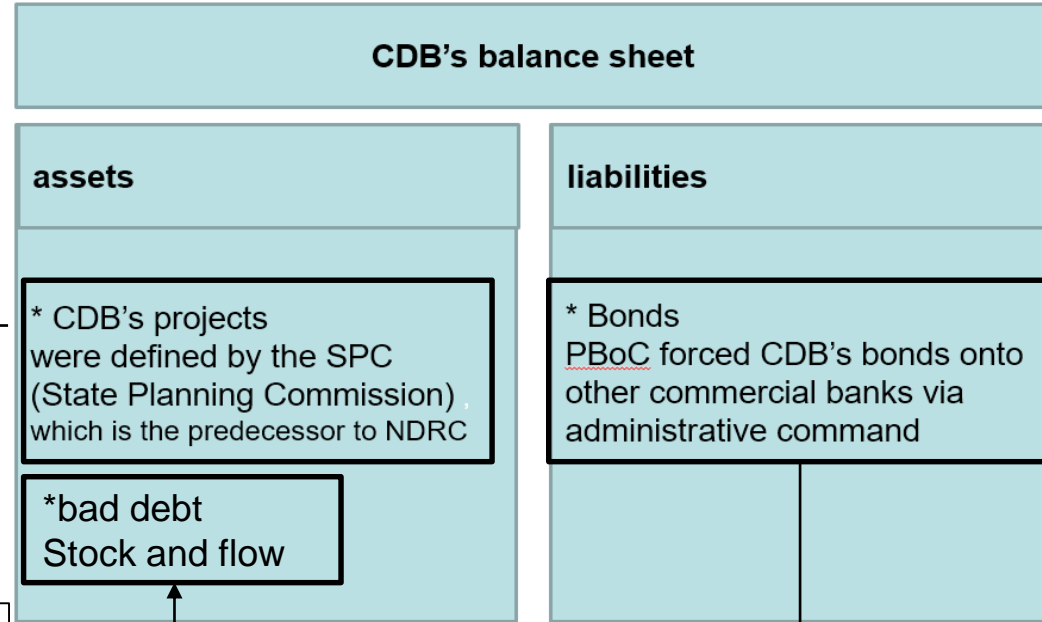
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Sources: National Bureau of Statistics of China and WIND data, 2017.

5.2 A shaper to financial market key player in benchmarks



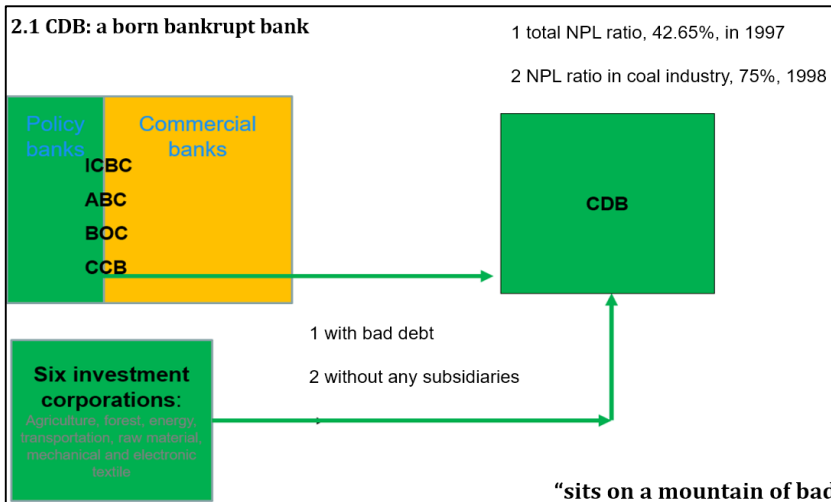
4 CDB as a shaper to itself

4.2 Be independent of central government intervention
in selecting projects through
(1) A strong president
(2) Build an approval system
(3) planning runs first



4.2 Be independent of central government intervention
in bond market

4.1 A shaper to itself
The disposal of NPLs.
Build up the national network of branches.
Reform the loans approval process.





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5 CDB as a shaper to financial system

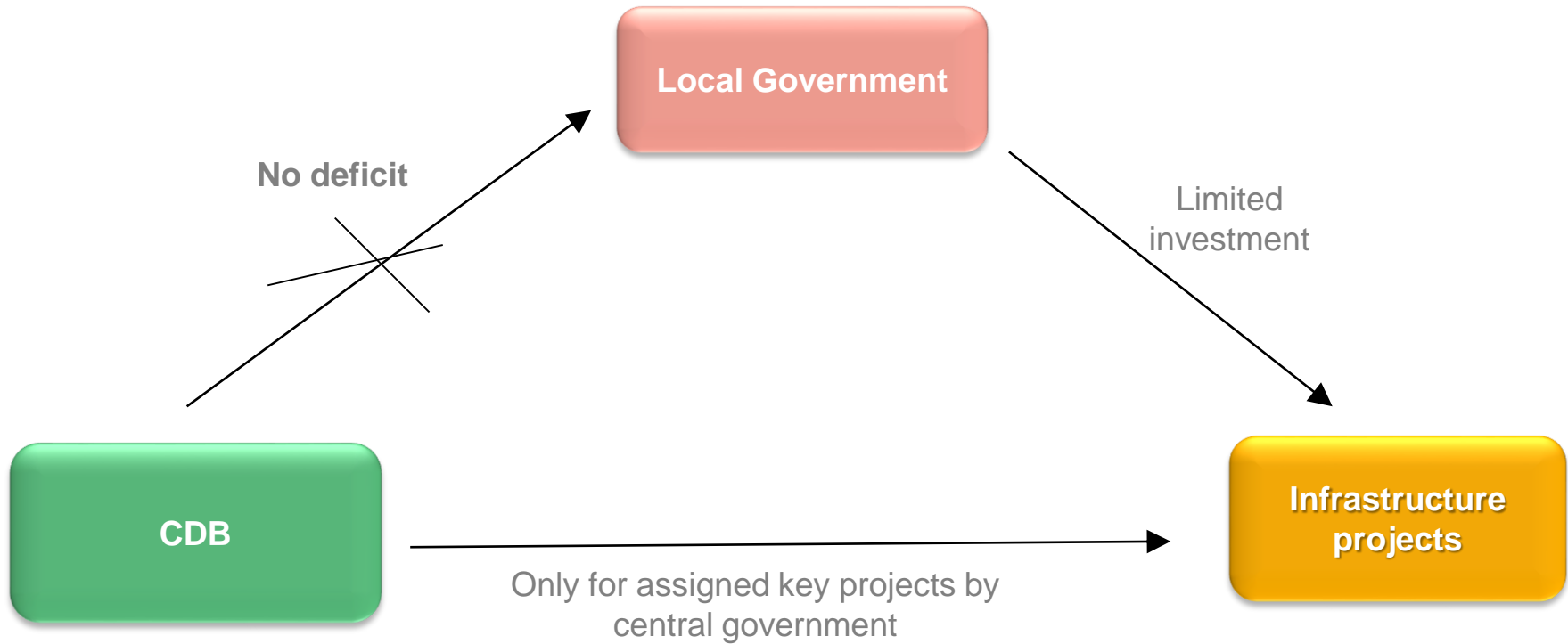


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5.1 CDB as a shaper to fiscal system: LGFV

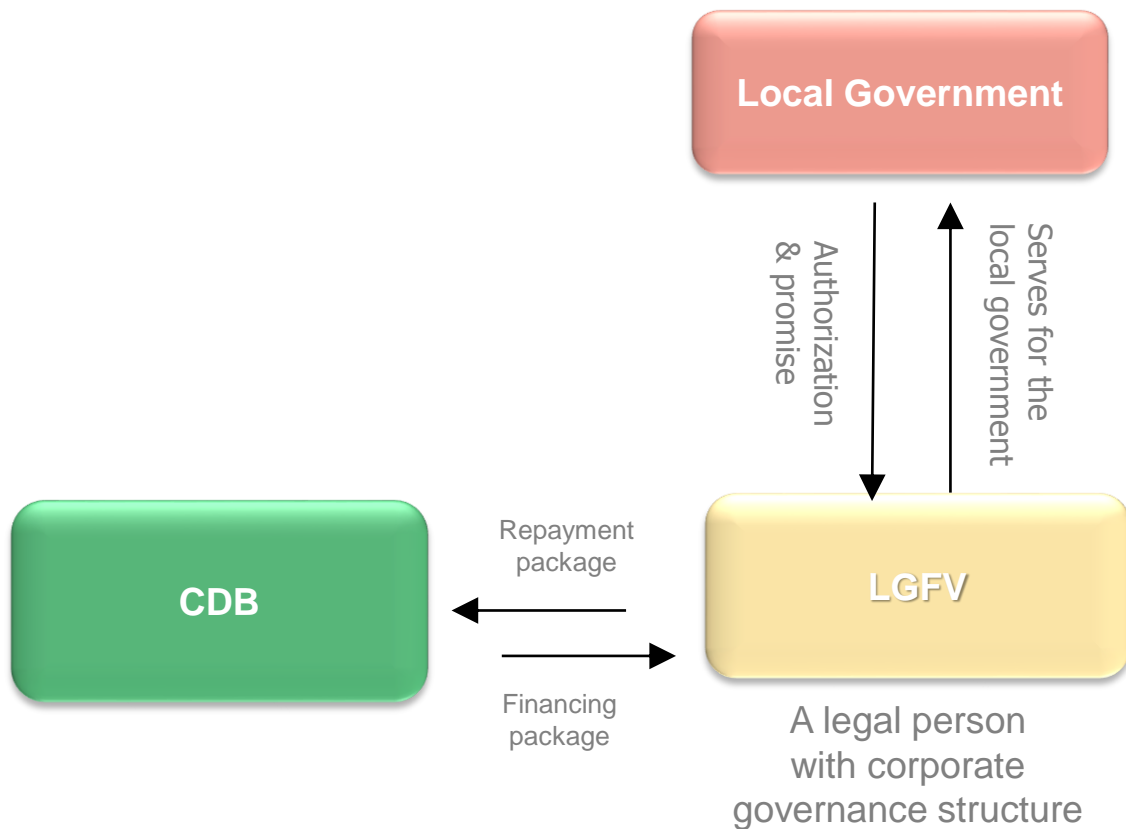


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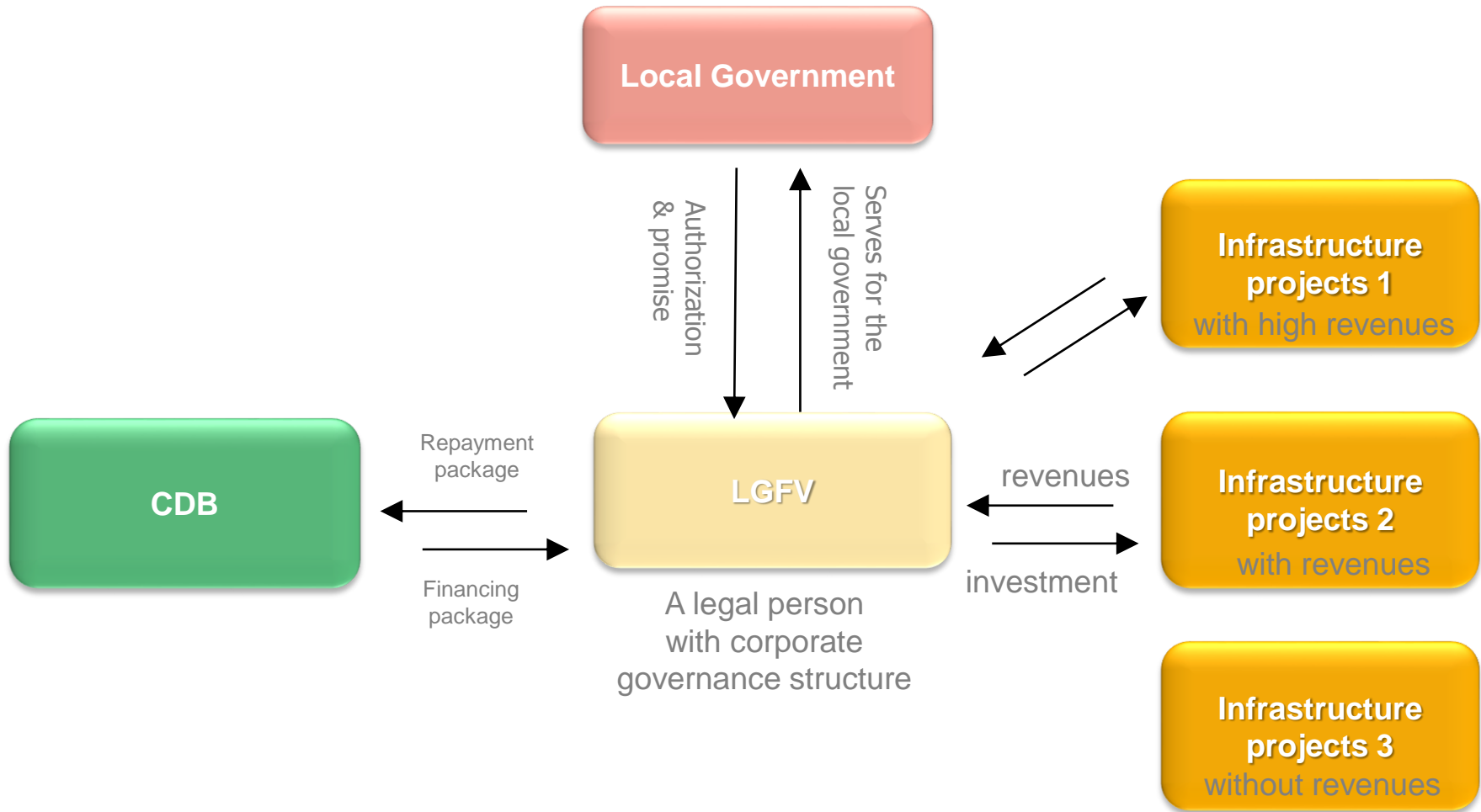


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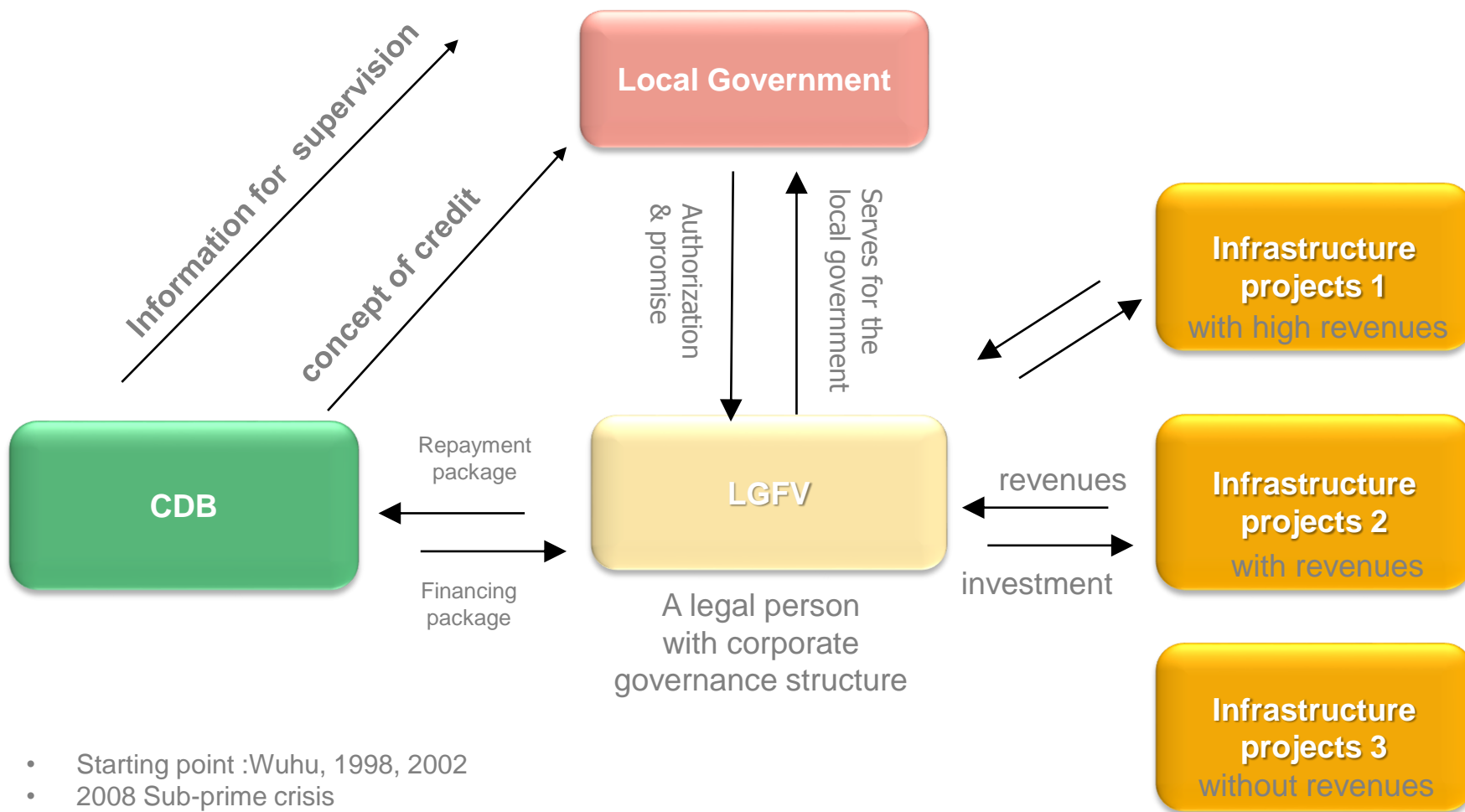


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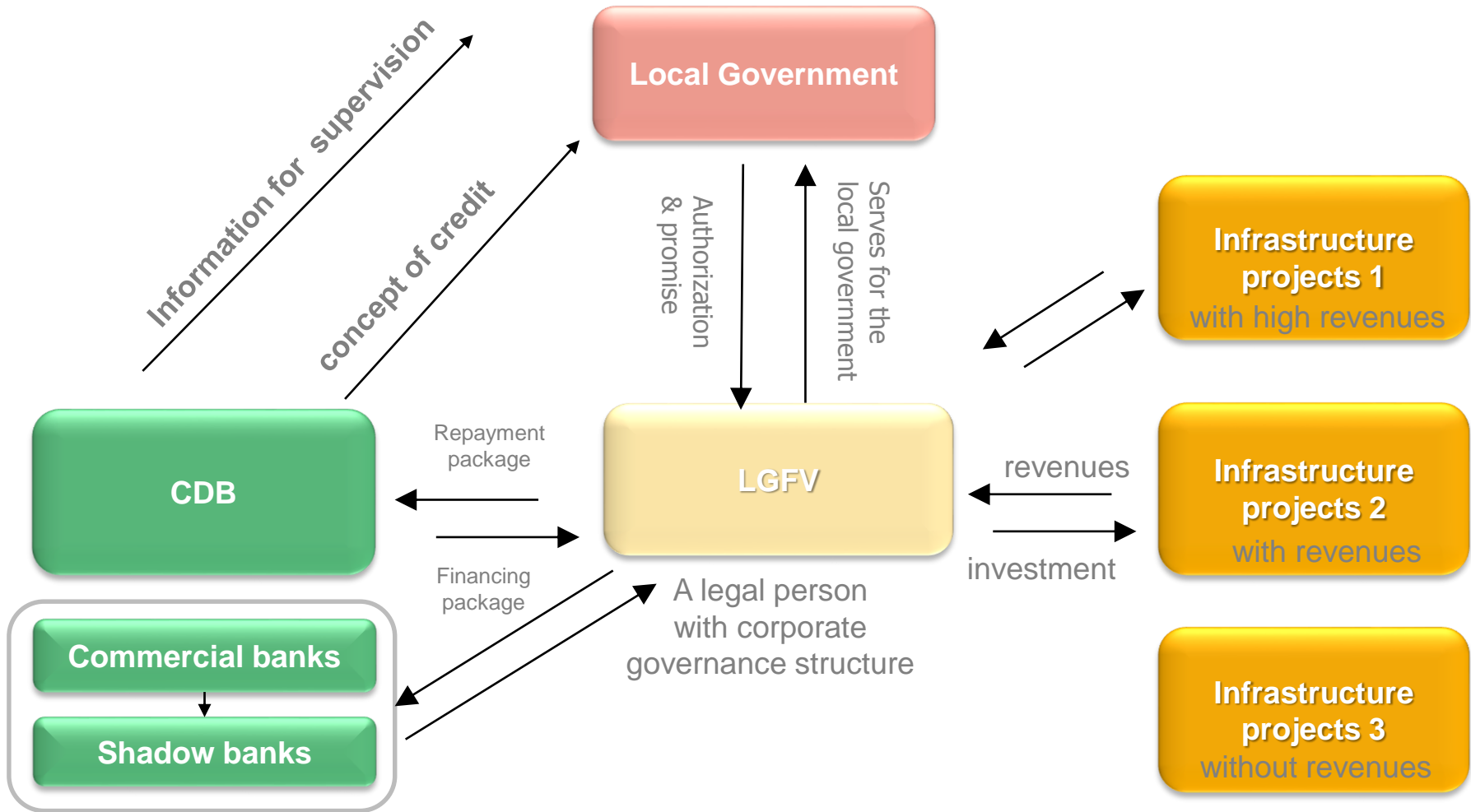


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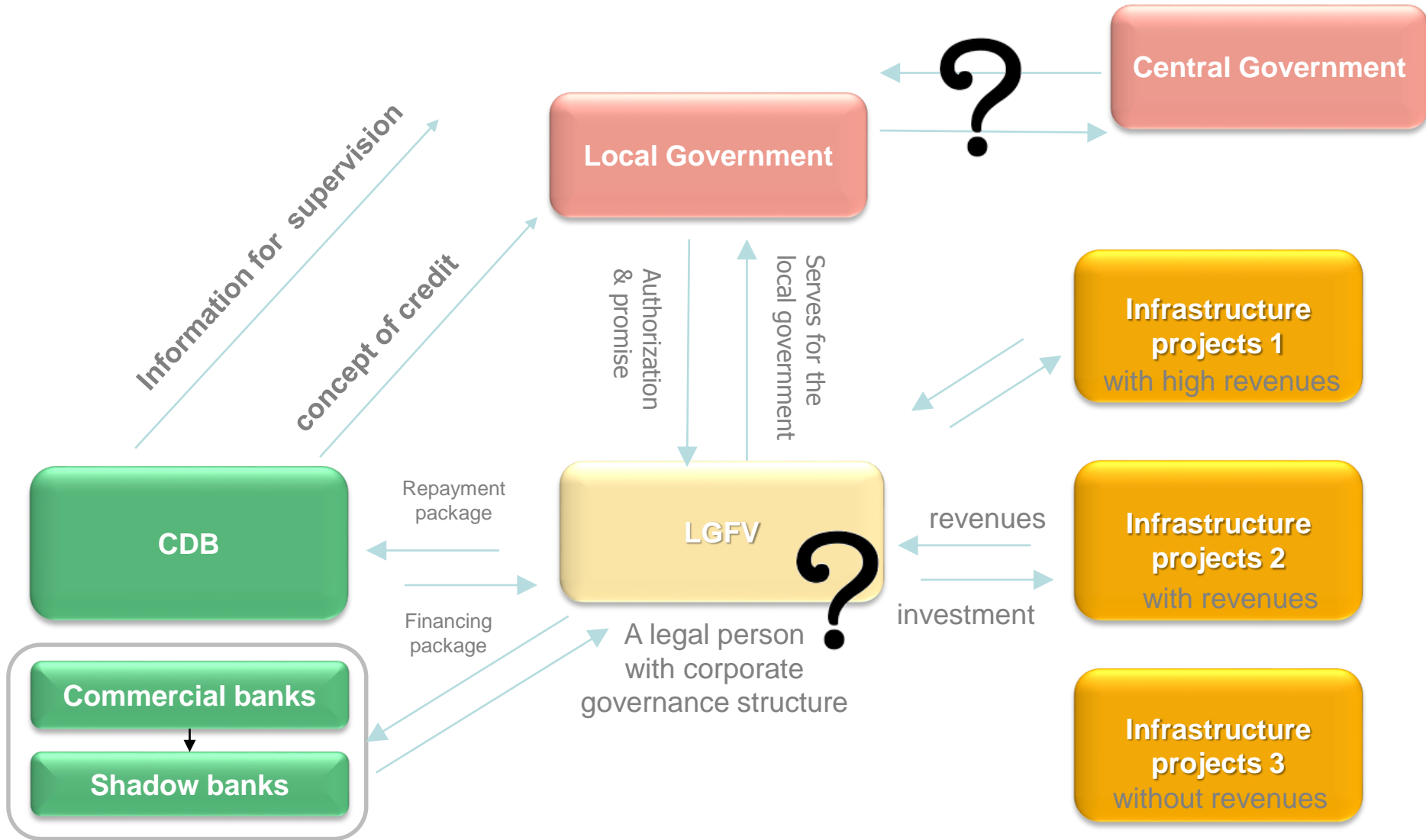


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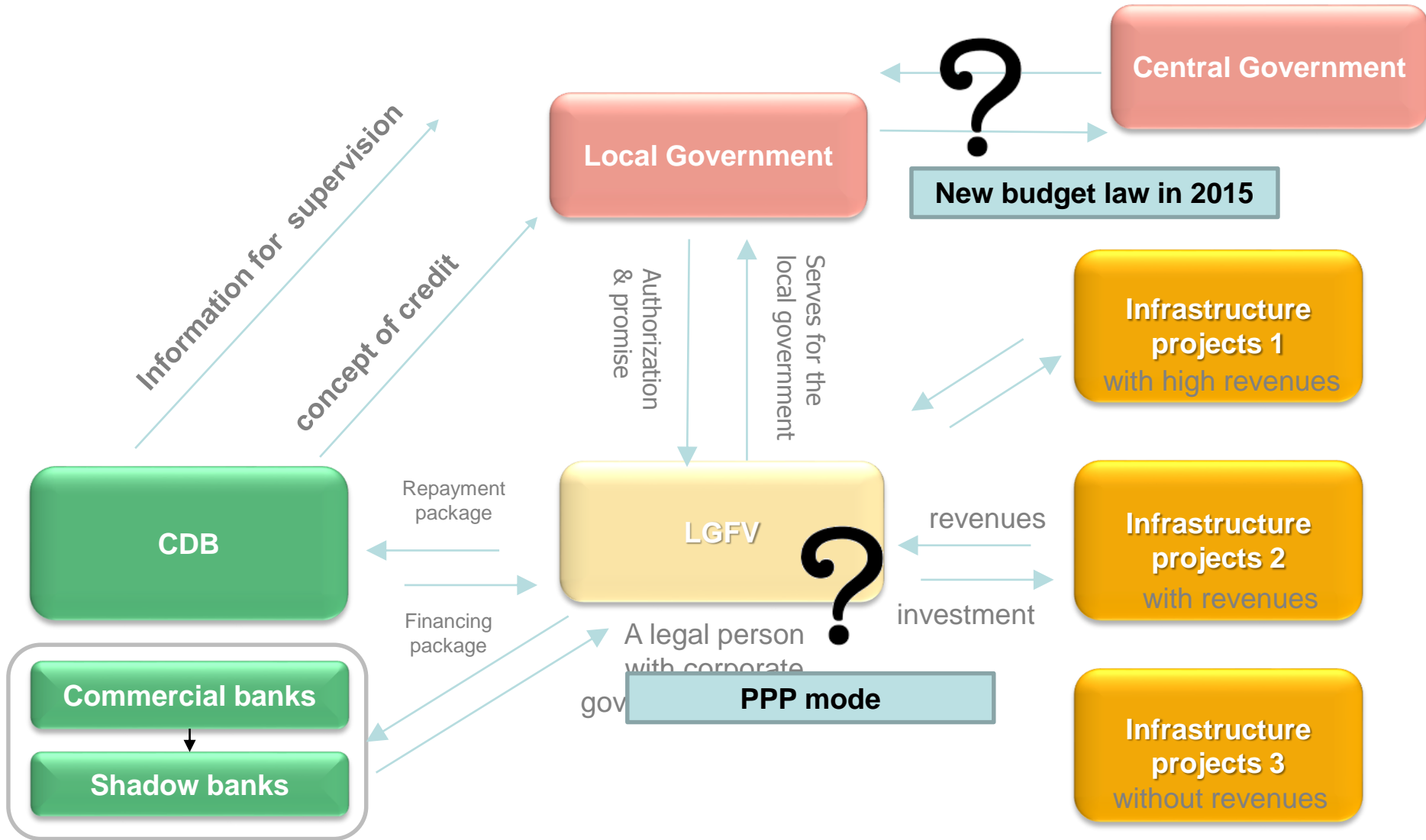


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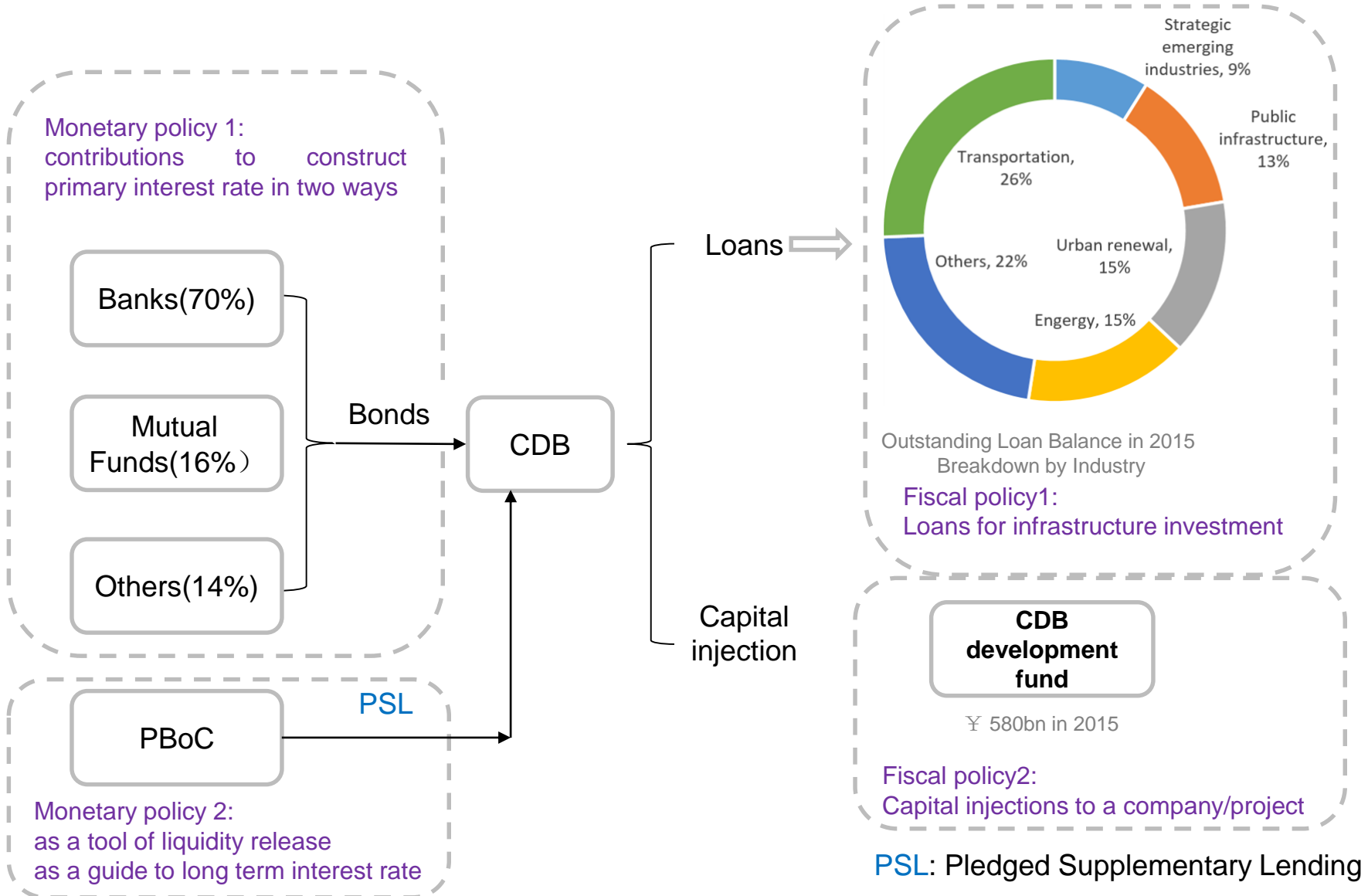
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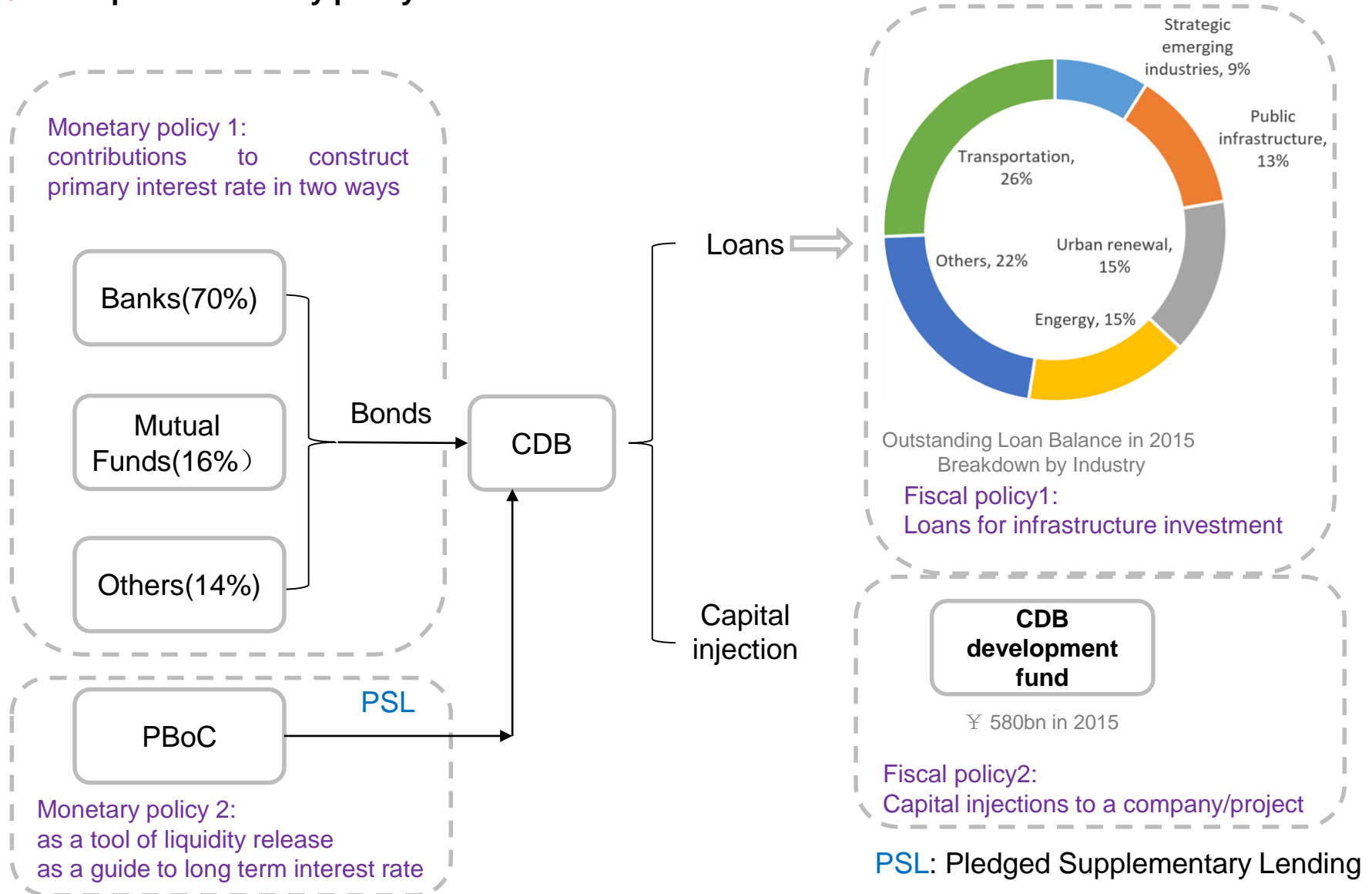
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5.2 CDB as a key player in monetary policy framework



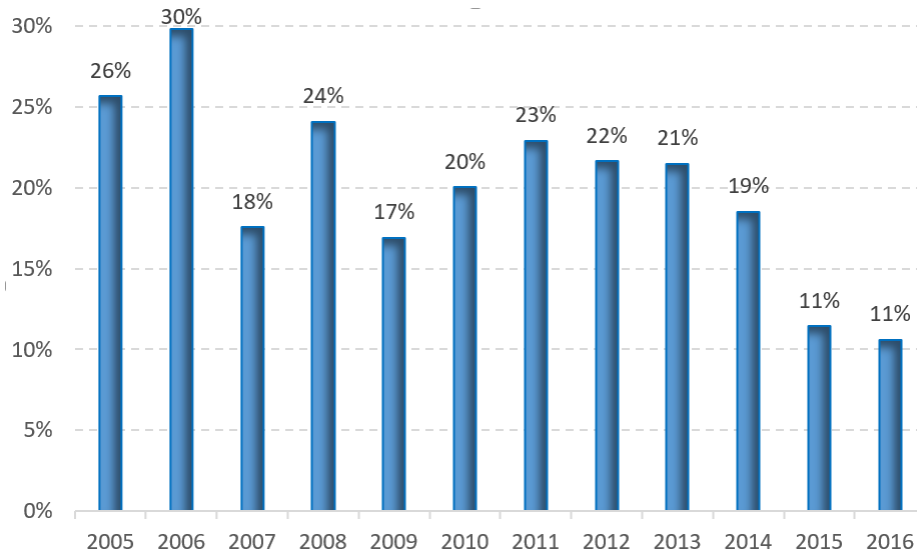
Appendix: counter-cyclical lender in fiscal policy framework

5 A shaper in monetary policy framework





- **Monetary policy 1:**
contributions to construct primary interest rate in two ways

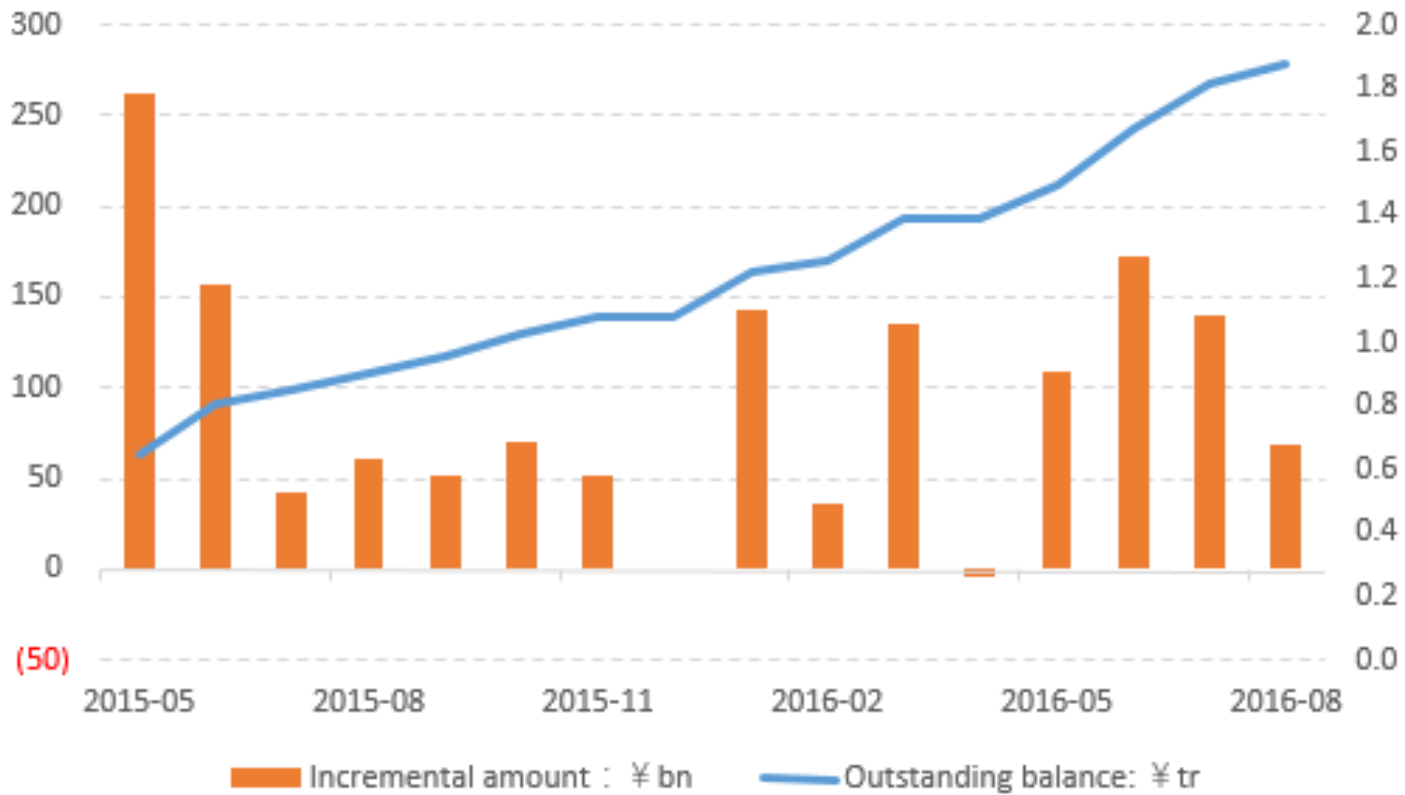


CDB bonds issuance accounts a key portion of the market

- An application of Shibor: floating rate bonds based on Shibor, 74% of them are issued by CDB.
- CDB's interest rate itself as a kind of bench mark in the market



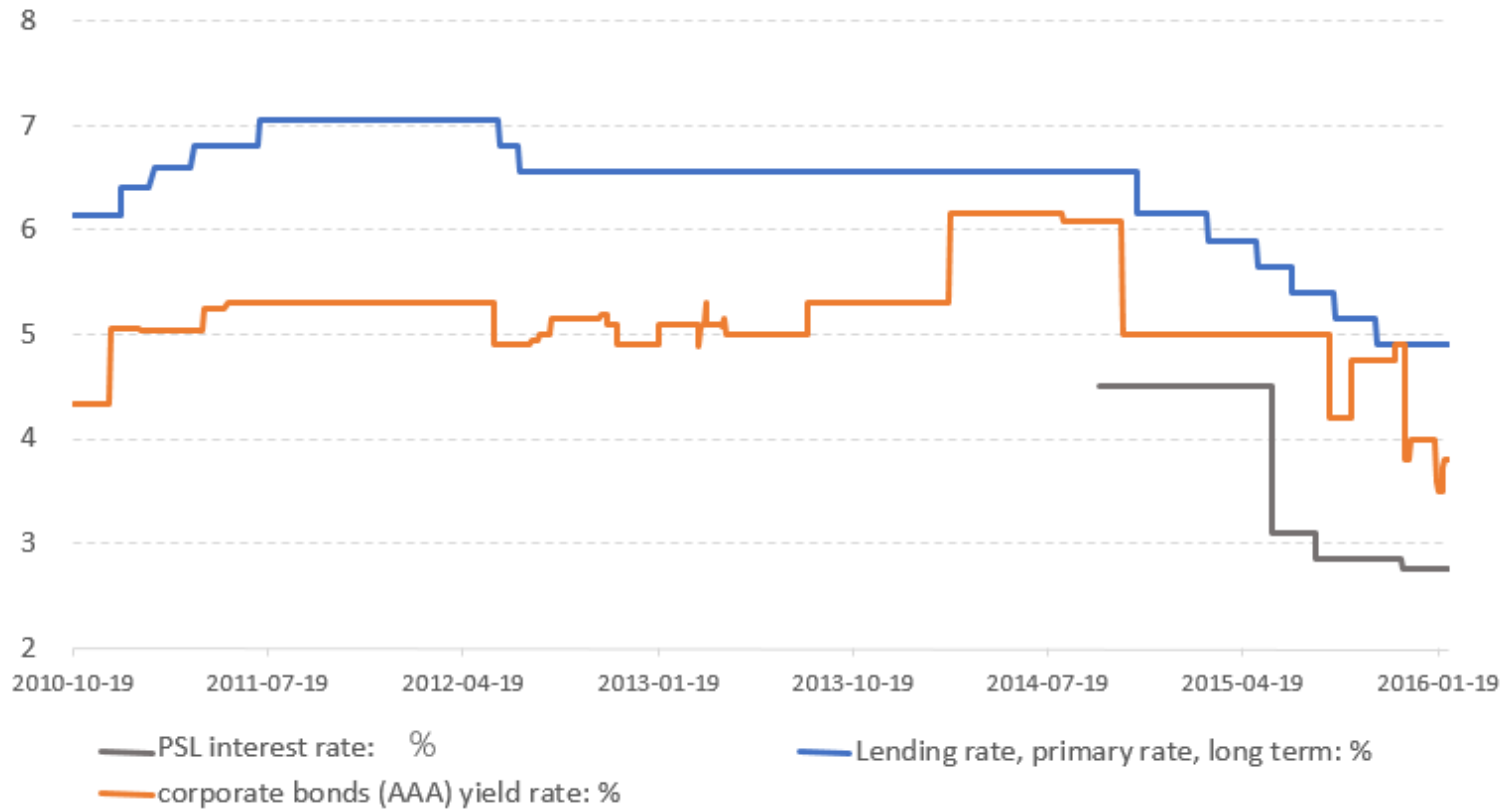
- Monetary policy 2.1
PSL as a tool of liquidity release





- Monetary policy 2.2

PSL interest rate as a guide to long term interest rate





CDB's revival resulted from

- the reconstruction of internal governance
 - its function to develop a sound credit system and to shape the financial market
 - the correction to the excessive 1994-fiscal-reform. Especially the rebalancing the fiscal capacity between the local and central government
 - CDB works as a connection between the central government and local government
- ? The independence of a national development bank?



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Thank you!
xuqy@cass.org.cn



Born bankrupt, born shaper
a story applies not only to CDB.

More shapers lead to more changes.

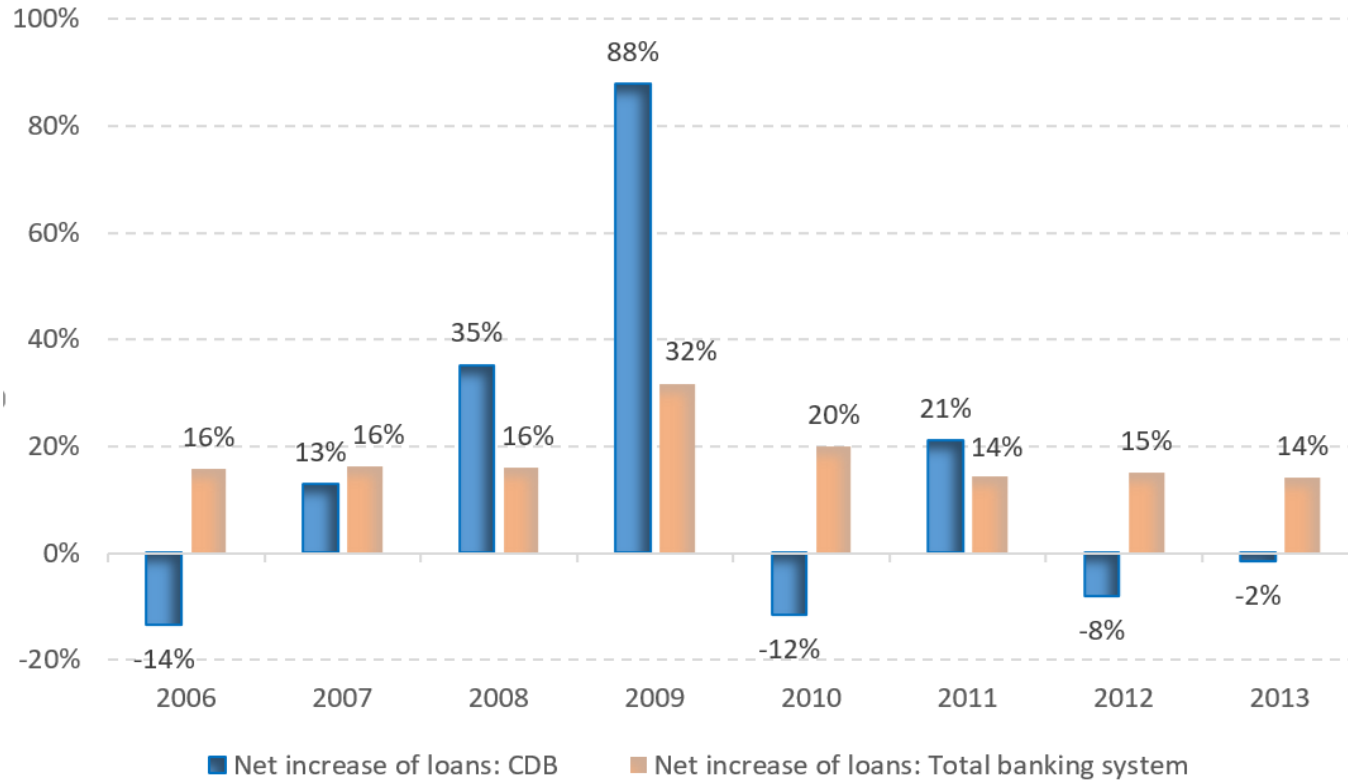


Figure CDB's counter-cyclical: net increase of loans

Source: the editorial board of The History of China Development Bank, 2013. And CDB's annual report in 2013. PBoC, 2016.



Why LGBs are forbidden since 1994?

Local government

- Issue too much bond
- With zero interest rate
- Force the staff to buy

Producer

- Neglect promises and commitment
 - Producer prefer to export
- ## Local government
- Local protectionism of the gov.

**Public financial system
in chaos**

**Private financial system
in disorder**



Local government

- Issue too much bond
- With zero interest rate
- Force the staff to buy

Producer

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Local government

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**Public financial system
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Alibaba