Development and Challenges of Inclusive Finance in China

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Outline

- Key Elements of Inclusive Finance
- Development of Inclusive Finance in China
- Monetary Policies to Support Inclusive Finance
- Experience from China's Practice
- Challenges Ahead
Key Elements of Inclusive Finance

- **Accessibility**
  - branches
  - agents
  - remote access

- **Diversified and suitable products**
  - diversity
  - affordability
  - convenience
Key Elements of Inclusive Finance

- Commercial viability and sustainability
  - fair competition
  - market niches
  - public infrastructure

- Safety and responsibility
  - consumer protection
  - financial capability
  - financial integrity
Development of Inclusive Finance in China

Median number of access points per 100,000 adults

Source: IMF FAS 2016; WBG GPSS 2016; national authorities.
Development of Inclusive Finance in China

% adults (age 15+) reporting ownership of a store-of-value transaction account

Source: Global Findex 2017
Development of Inclusive Finance in China

% adults (age 15+) saving in the past 12 months

Source: Global Findex 2014 (Demirguc-Kunt and others 2015).
Development of Inclusive Finance in China

% firms with loan or line of credit

Monetary Policies to Support Inclusive Finance

Taking micro and small enterprises (MSEs) as an example----policies

- Targeted RRR cut
  4 times in 2018, injecting over 2 trillion yuan

- Intensifying central bank lending and discount for MSEs
  increasing quota 3 times in 2018, with the increment reaching 400 billion yuan
Monetary Policies to Support Inclusive Finance

Taking micro and small enterprises (MSEs) as an example—policies

- Innovating monetary policy tools
  - Targeted Medium-term Lending Facility (TMLF)
  - Central Bank Bills Swap (CBS)

- Expanding the scope of eligible collaterals for monetary policy tools
  - financial bonds for MSEs, green industry, and agriculture at or above AA
  - corporate credit bonds at AA+ or AA
  - MSE loans, private enterprise loans and green loans not rated by the PBC
Monetary Policies to Support Inclusive Finance

Taking micro and small enterprises (MSEs) as an example---achievements

At end 2018, the outstanding inclusive MSE loans registered 8 trillion yuan, up 18% year on year. The number of MSEs granted credit grew by 35.2% over the year before.
Experience from China’s Practice

- Developing financial infrastructure
  - Each family has at least one account
    - 8.5 billion personal accounts opened in the banking sector
  - Improving service accessibility in rural areas
    - About 1 million agents, covering more than 90% villages in China
  - Enhancing credit reporting system
    - Information of 930 million individuals and 24 million organizations
  - Integrated movable registration system
    - 2.94 million registrations for finance lease, security deposit pledge, warehouse receipts, etc.
Experience from China’s Practice

- Reforming financial institutions
  - encouraging big and medium-sized banks to establish inclusive finance department
  - reforming rural credit cooperatives
  - supporting micro finance, such as village and township banks and micro credit companies
Experience from China’s Practice

- Innovating digital finance
  - more diversified
    nonbank digital payment, P2P, Internet banking, etc.
  - more technical-driven
    big data, cloud computing, blockchain, AI, etc.
  - better collaborated
    digital players and traditional service providers
  - better regulated
    detailed regulations published, bad firms quit
Experience from China's Practice

- Extending monetary and regulatory policy support
  - differentiated reserve ratio, central bank lending and discount
  - proportionate regulatory polices for MSE loans, such as tolerance of NPR
  - supporting commercial banks to issue financial bonds for MSE loans
Experience from China's Practice

- Piloting regional polices
  - green finance targeting poverty alleviation in Qinghai Province
  - digital and mobile finance in Ningbo
  - rural finance and urbanization in Lankao County
  - financial literacy and infrastructure in Yijun County
Experience from China's Practice

- Enhancing consumer protection and financial capability
  - dispute resolution
    12363 hotline, alternative dispute resolution scheme
  - supervision
    information disclosure system, “soft” supervision
  - financial capability
    financial literacy month, national consumer protection day, financial consumer capability survey
Challenges Ahead

- Understanding inclusive finance
- Recalibrating the role of government
- Achieving commercial sustainability
- Managing risks of digital finance
- Supporting rural financial service providers
- Improving financial capability
Thank you!