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Corporate Financing Practices in China

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1. Change of the structure of financing sources of Chinese corporations

1.1 The proportion of direct financing increased recently

- In 2010, China's domestic non-financial institutions (including households, businesses and government departments) financed 11.117 trillion yuan in total, which grew down 1.9 trillion yuan year-on-year. Financing in other ways except loans grew 311.1 billion yuan.
- From the financing structure, we can find that the proportion of loan financing which is in the dominant position declined significantly. And the proportion of national debt financing and equity financing increased (Table 1). Picture 1 shows the monthly changes of newly increased loans.

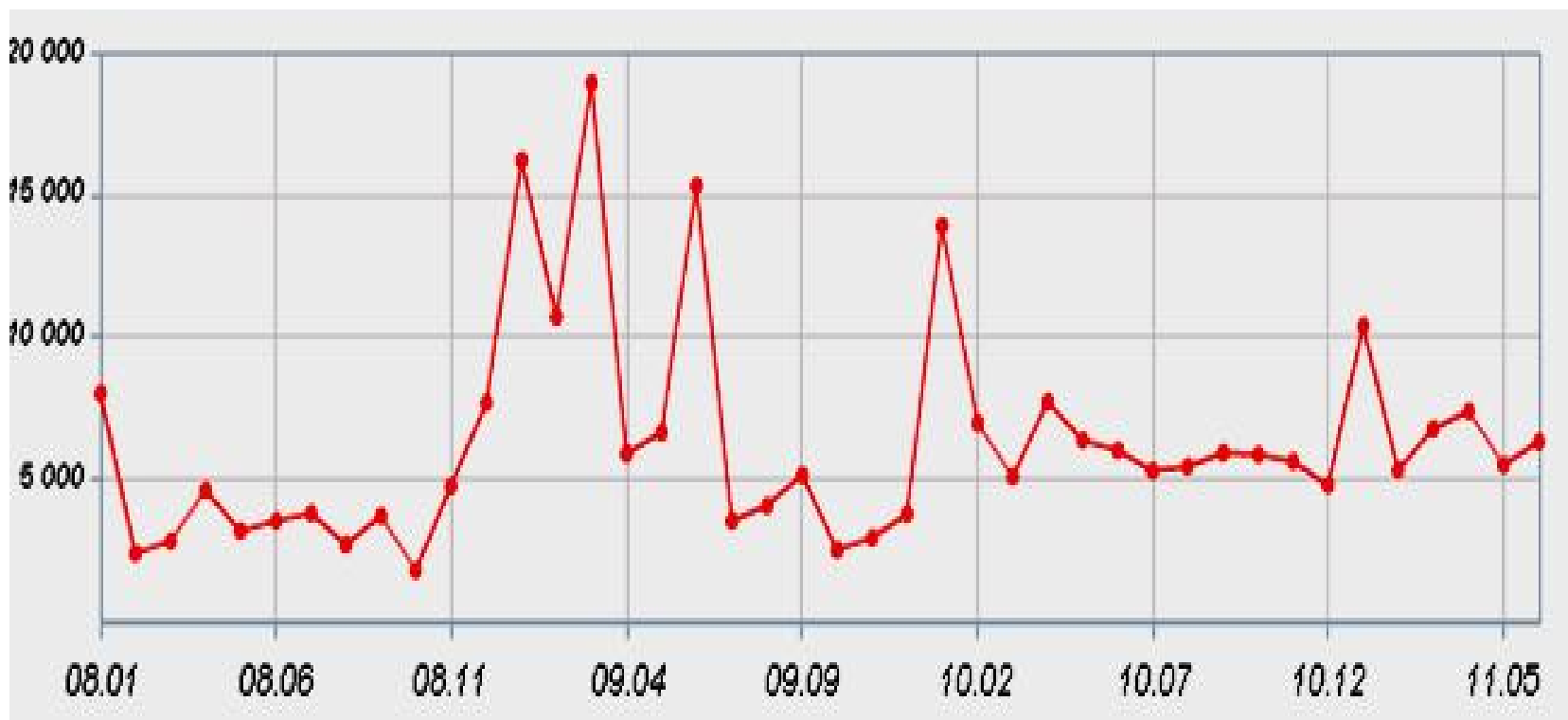
- The size of the financing of the stock market increased significantly. In 2010 all types of enterprises and financial institutions financed 1.13 trillion yuan in the domestic and overseas stock markets through IPO, *SEO*, allotment and exercise. It grew up 635.1 billion yuan and is 2.3 times of the last year which is the highest financing level.
- Among bond financing, the issuance of commercial papers (CP) increased substantially. The circulation of CP was 674.2 billion yuan in 2010 which grew by 46.2% year-on-year.

Table1 the financing conditions of China's non-financial institutions in 2010 and 2009

	Financing amount(billion yuan)		proportion (%)	
	2010 year	2009 year	2010 year	2009 year
The total financing amount of China's non-financial institutions	11113.6	12967.8	100.0	100.0
Loan①	8357.2	10522.5	75.2	81.2
Stock②	611.6	390.4	5.5	3.0
National Bond③	973.5	818.2	8.8	6.3
Enterprise Bond④	1171.3	1236.7	10.5	9.5

Note: ①in this table, loan financing means loan financing of RMB and foreign currency. ②in this table, stock financing doesn't include capital directional add-issuance financing or financial structure financing. ③local government bonds issued by the Ministry of Finance are included. ④enterprise bonds, corporation bonds, convertible bonds, detachable bonds, collective notes, short-term financing bills and notes are included. Financial enterprise bonds are not included.

Date source: the People's Bank of China.



Picture1 monthly data of newly increased loans.

Contrast: the case of Zhejiang Province

- In 2010, the amount of financing of the non-financial sectors in Zhejiang Province increases steadily. The financing amount is 880.15 billion yuan, which grew down by 155.6 billion yuan. From the financing structure, we can find that the proportion of loan financing, bond financing and stock financing in the total amount of corporation's financing is 87.6 : 4.3: 8.1. the proportion of loan financing dropped compared to the last year. Proportion of stock financing obviously increased, and thus promote the direct financing' proportion to increase 5 percent.
- In 2010 the total amount of bond financing is 37.48 billion yuan which achieved a breakthrough in the collection notes of small and medium-sized enterprises and notes and enterprise bonds of private enterprises in Zhejiang Province.

1.2 The financing structure changed slightly during the last decade

- But from situation of the 10 years, the change of the structure of non-financial sectors' financing sources is not great. And it's strongly affected by the stock financing. This shows that China's non-financial sectors' financing structure hasn't got a stable improvement (Table 2).
- It is noteworthy that because of the limit on bank lending since 2010, the amount of financing in equity market increased.

**Table2 financing structure of China's non-financial institutions
in 2010**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Loan^①	75.2	81.2	83.1	78.7	82.0	80.2	82.9	85.1	79.4	75.9	72.8
Stock^②	5.5	3.0	6.1	13.1	5.6	3.4	10.8	10.0	15.3	15.7	14.4
Notional Bond^③	8.8	6.3	1.7	3.6	6.7	9.8	1.1	1.0	1.3	4.8	0.5
Enterprise Bond^④	10.5	9.5	9.1	4.6	5.7	6.6	5.3	3.9	4	3.6	12.3

Note: ①in this table, loan financing means loan financing of RMB and foreign currency. ② in this table, stock financing doesn't include capital directional add-issuance financing or financial structure financing. ③local government bonds issued by the Ministry of Finance are included. ④enterprise bonds, corporation bonds, convertible bonds, detachable bonds, collective notes, short-term financing bills and notes are included. Financial enterprise bonds are not included.

Date source: the People's Bank of China

1.3 The amount of loan financing received by SMEs increased

- In China, 99% of the enterprises are SMEs. The total amount of them is 10.8 million and they created 60% of GDP and contributed 50% of state tax revenue and provided nearly 80% of urban jobs.
- According to the survey of more than 7,000 SMEs done by People's Bank of China, to the end of June 2011, the loans to SMEs increased by 18%, which is 7 percent higher than the big companies. And in the first half of the year, RMB loans decreased about 4 trillion yuan.

- **In Zhejiang Province:**

- In 2010, there are more than 2.6 million SMEs in Zhejiang Province, accounting for 99% of the total number of enterprises in the province and for about 8% of the national total amount. The contribution rate of the SMEs in Zhejiang Province on the output value of the province is 80%, and the contribution rate on employment is 90%, the contribution rate on tax and on exports are 85% and 82%.
- The banks provide loans for nearly past 0.5 million SMEs, accounting for 20% of the province's total number of SMEs. Along with loans provided by other financial institutions, the coverage will not exceed 30%. (Date from Financial Office in Zhejiang Province)

1.4 The micro meanings of the change of financing structures since 2009

- The “asymmetry” of financing policy. Under the background of macroeconomic policies on tighten bank lending, the way to solve the funding needs of large enterprises is to increase the equity market financing in order to alleviate the enterprises’ thirst for funds.
- The way to solve the debt needs of SMEs is the preferential policy to SME loans (and agricultural loans) in credit policy.
- The way to solve financing needs of the small economical units is the establishment of micro financial institutions and the activation of private lending.
- The ultimate goal is to achieve economical transformation and upgrading through financial constraints and innovations. (the macro goal is to solve the problem of inflation)

1.5 Uncertainties

- For the banking' trend of market-oriented reforms, the following questions need to be answered:
 - Is the loan constraint policy of banks expedient or persistent?
 - Under the loan constraints, can loans be invested to high-quality companies and new industries?
 - Is the increasement financing costs conducive to wash out inferior enterprises?
 - Can the banking industry achieve transformation by itself?

2. The innovation of corporate financing in China

2.1 The guidance by government capital to enterprise financing pushed by national strategy

- **Strengthen of the role of government holding companies (funds)**
 - For example, Shanghai Pudong Development (Group) Co., Ltd. is mainly responsible for the two tasks given by Pudong New Area government of the investment and financing of the key projects and major projects, and asset management.
- **Guidance by strategic area (new area) and new industries planning**
 - There are 4 new area planning, more than 20 national strategic regional planning, and seven strategic new industries planning.
- **Establishment of government industry guide fund**

2.2 Promoting from banking regulatory and business restructuring

- Under loan limitation regulatory, structure regulatory and the banking restructuring, the banks innovated a large number of financial products serving for small companies.
- Banking industry entering the issuance of commercial papers (CP)
- Entering the financial leasing market
- Entering market of corporation between trusted companies and banks

2.3 The strengthen of equity market's financing ability provided a financing platform for medium and large enterprises.

- Mainland China has become the world 's largest IPO market. In 2010, 531 companies financed in the A share market, and the financing amount is more than 1.02 trillion yuan. Among them, there are 347 companies which IPO in the A share market, and they financed 488.3 billion yuan in total which broke the the historical record set in 2007 and thus jumped to the first in the world. In the first five months this year, the financing amount in A share market has already reached 438.4 billion yuan.
- In recent years, the stock market introduced stock index futures exchange and and new business on margin trading, and IB business and etc..
- The development of securities markets Improve the financing environment of large and medium enterprises.

2.4 Financing innovation for SMEs

- Small companies hold together into a unit to apply for loans to improve credit rating:
 - Collective bonds (notes)
 - Cooperative guarantee, joint guarantee
 - Collective trust
 - Credit insurance financing (combined with credit insurance)
 - Cooperative credit (such as credit to the Chamber of Commerce)

- Collateral extension
 - Accounts receivable factoring, warehousing finance
 - Intellectual property pledge, mortgage of emission rights and etc.
 - Unlimited guarantee (personal property mortgage or assume unlimited liability)
- Supply chain financing
- Alibaba Financial: Taobao Loan (just use turnover rate and profit rate to decide loan for sellers of Taobao) (the end)