Macroeconomic Policy to the Forefront: The Changing of the Guard

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Worries continue to swirl around the Chinese and global economies, and China's growth is slowing at the end of 2011. However, the news from China in the third quarter of 2011 was basically positive: inflationary pressures eased while growth slowed only slightly. Moreover, surface indicators of the health of China's financial system remained stable and even improved slightly. These developments took some of the pressure off policy-makers, and opened up new space for policy adjustment and innovation. The overall economic environment is still challenging, and complex interactions among different parts of the financial system may not be fully understood. Moreover, today's policy decisions are intertwined with important personnel changes. In fact, the man most responsible for defending the financial health of China's banks has just stepped down: The retirement of Liu Mingkang, head of the China Bank Regulatory Commission, may have profound consequences for the Chinese financial system.

Creating Tight Monetary Policy

The current shift in macroeconomic conditions is the culmination of months of effort by monetary authorities. As described in previous issues of *China Leadership Monitor*, bank officials have wanted to slow credit growth since the magnitude of the stimulus-related credit surge became evident in mid-2009. However, only toward the end of 2010 did they get authorization from the top political authorities to tighten more aggressively, and they have since been steadily slowing the growth of credit. In the Chinese financial system, official interest rates do not play the same fundamental role in determining monetary policy that they do in a developed market economy such as that of the United States. Instead, Chinese monetary authorities use a bundle of quantity-related regulations, mixed with (relatively infrequent) changes in interest rates. The most important quantity regulation is the reserve requirement, which determines how much banks have to deposit with the central bank and thus, conversely, how much they have available to lend. This ratio reached a peak at the very high level of 21.5 percent of deposits in June 2011. A sign of the new macroeconomic policy environment came at the beginning of December, when the reserve ratio was reduced half a percentage point, to 21 percent.

Another type of regulation that affects the overall scope of credit in the economy is the strictness of the prudential regulations imposed on the banks. For almost two years, the head of the China Bank Regulatory Commission, Liu Mingkang, has been pushing banks to raise capital and set aside reserves. He has also been urging banks and regulatory and statistical agencies to investigate the extent of banking system exposure to housing and local government financing vehicles (discussed below). The result of this worry has been a persistent gradual *increase* in the banks' capital adequacy ratios, as they raise money in the stock market, and set aside larger loan-loss provisions. By the end of September 2011, China's banks capital adequacy ratio, overall, inched up to 12.3 percent, comfortably reaching the 10.5 percent standard set in the new international Basel III standard slated to come into effect in 2015.[1] These regulations make it harder for banks to extend credit rapidly, and thus also contribute to tighter monetary policy and make it more difficult to get credit.

There are significant time lags before changes in these regulations affect the growth of credit, and then further lags before the growth of credit begins to affect prices and the behavior of the real economy. We are only now beginning to see the full impact of policy changes over the last 18 months on the growth of bank credit. From 20 percent at the end of 2010, the year-on-year growth of nominal credit had fallen to 15.6 percent at the end of November. For the first time since the economic stimulus program at the beginning of 2009, the growth of credit is slower than the growth of nominal GDP (real GDP plus the overall inflation rate).[2] That means that credit is starting to "bite": expensive or scarce credit is beginning to constrain behavior in the economy. A policy orientation of this sort at first just draws down excess liquidity. As tighter credit begins to bind on the economy, it slows both the rate of price inflation and the underlying rate of real growth. So far the real growth slowdown has been modest—third quarter GDP growth was 9.1 percent, down slightly from the rate near 10 percent it has been sustaining since mid-2010. It remains to be seen what the ultimate impact on growth will be, but the effect on prices is already obvious.

Moderating Price Pressures: The CPI and the Housing Market

After reaching a peak in July of 6.5 percent, consumer price inflation has now declined for four consecutive months. The drop to 4.2 percent in November, from 5.5 percent in October, was especially sharp. Moreover, in November, for the first time, prices actually declined on a month-to-month basis, and food prices also declined.[3] The overall inflation rate has been helped by a good harvest, and by favorable trends in global commodity prices. Inflation is still high, but the trends are in the right direction.

Clear effects on housing prices are now emerging as well. The overall housing market began to turn down as of October 2011. Recall, however, that this is a long-standing government policy objective. China's current political leadership—and particularly Premier Wen Jiabao—have staked their political legacy in part on the perception that they have done *something* to control housing prices. Now, finally, they can begin to report some success. China's housing market—like that of the U.S.—is composed of scores of local markets, but evidence of price-cutting and falling prices has begun to show up in many markets.[4] The evidence is not unambiguous, because transaction volumes have plummeted as people on both sides of the market wait and see what will happen. A few developers have certainly posted large price reductions in an effort to attract attention and entice buyers. Overall, housing prices leveled off and began declining in October.[5] The official report on housing prices showed a clear majority of cities with declining prices, albeit by small amounts.[6]

To some, the gathering decline in housing prices spells an emerging financial crisis. With the experience of the United States fresh in everyone's mind, it is reasonable to worry that declining asset values might spill over into a broader financial crisis. This is possible, but on current evidence, not very likely. While there are plenty of reasons to worry about the Chinese economy, an imminent banking crisis is not among them.

The Impact of Tighter Credit: Crisis in Wenzhou

Since monetary and credit policy is implemented largely by quantitative controls, it is inevitable that tighter money will mean that some firms will have difficulty getting access to credit. This is an issue among the "insiders," those in the state economy, but is hard to observe. Recently, some large state firms such as Baosteel and Chalco (the big aluminum company) have reported that their customers are having payments difficulties.[7] State firms and state projects have to defend themselves against scarcer credit, but most of the politicking takes place behind closed doors. The impact of restricted credit access is much easier to see in the smaller-scale private sector. When they do not have access to credit, private firms complain, adjust their behavior and, in extreme cases, shut down. During the past few months, particularly evident cases of credit-related economic distress have emerged in Wenzhou (in Zhejiang Province). Wenzhou is not a large part of the Chinese economy overall, but it looms large in the private, financial, and speculative parts of the economy. Wenzhou capital is famous for seeking out profitable opportunities, and has financed a great deal of real estate speculation in provinces across China, as well as a significant part of the mine privatization—since reversed—that occurred in Shanxi and Inner Mongolia. So a financial crisis in Wenzhou would be something very different from a provincial crisis. It would clearly have national implications.

The Wenzhou crisis erupted into public consciousness on September 21 when news spread that Hu Fulin, the owner of Xintai Company, Wenzhou's largest manufacturer of eyeglasses, had fled to the United States when he was unable to roll over high-interest loans his company had taken out. The news prompted a mixture of concern, anger, and schadenfreude. There was concern, because within Wenzhou, the Hu Fulin case was by no means isolated. Indeed, by some counts, there were literally scores of Wenzhou entrepreneurs who disappeared in the wake of credit difficulties. Moreover, similar cases of bankruptcy and flight occurred in many parts of China, such as Zhengzhou (Henan) and Lianyungang (Jiangsu), potentially signaling more systemic problems in the informal credit system.[8] There was anger, because it was quite clear that Hu Fulin, like many of China's wealthy, had already prepared the ground for flight by moving assets and family members abroad.[9] Finally, since there is plenty of free-floating resentment toward the ostentatious newly rich Wenzhou merchants and speculators, many Chinese residents were pleased to see some of them get their comeuppance. In the event, the specific case of Hu Fulin was smoothed over (or perhaps covered up). He was induced to return from the U.S., given financial support to restructure his firm, and set back up in business, at least temporarily.[10]

Though the specific case of Hu Fulin was successfully managed, worries remain, because the interrelations between different parts of the informal credit system are not well understood. A great deal of press attention has been paid lately to the problem of so-called trust products, an innovation that results primarily from banks trying to escape the ordinary credit-control system with high-interest products that are openly advertised and marketed to middle-class (and above) urban residents. But there is an enormous range of informal, or even "underground" credit channels in China, all of which are, by definition, outside the formal, regulated system, and all of which are designed to various extents to circumvent restrictions on credit quantities or interest rates. Of course, a healthy financial system will have a wide variety of credit products, with a variety of interest and risk profiles, and these channels are also essential to the development of the Chinese economy. Important positive roles in the overall system might even extend to those at the extreme of the spectrum of informality, namely the shady money-lenders, who charge usurious interest rates because they have some kind of "muscle" available to enforce their claims. Moreover, in between there are many different actors and credit products that serve a broad range of credit needs. Credit comes from friends, from credit clubs, from micro-lenders, from underground banks, from state-owned enterprises on-lending funds received from the banking system, and in many other forms. We do not fully understand the scope of this system, how closely the different types of products are interrelated; or how strong the interregional links are between credit supply and demand in different regions. Credit is the lifeblood of the economy, permitting the most ordinary transactions to go forward, and also facilitating the longer-term investment on which the growth of the economy depends. As the supply of credit tightens, some of the weaker links in this chain of credit have begun to break down.

Particular attention has been paid to the role of credit guarantee companies (担保公司). When big banks lend to small private firms, they require them to post collateral or have guarantors. Credit guarantee companies provide this service to small firms (for a fee), and thus play an important role in the supply of bank credit to small firms. Not surprisingly, credit guarantee companies are also tempted to expand their offerings and also provide credit directly to small firms, particularly for short periods, although this is technically illegal. As credit tightened, small firms in Wenzhou and other places had to increase their reliance on credit guarantee companies and, gradually, on even more unsavory money-lenders. In some cases, small firms that had been in the habit of regularly turning to informal lenders for short periods, so that their bank loans could be repaid and a new cycle of credit initiated, now found themselves in debt for longer periods of time, and at much higher interest rates. When this type of situation began to result in the unrepayable accumulation of high-interest debt in Wenzhou, it triggered the panicked flight of several Wenzhou entrepreneurs.[11]

In case anyone doubted that the Wenzhou situation was potentially serious, Chinese government leaders signaled unmistakably that they believed that it was. On October 3 and 4, Premier Wen Jiabao flew down to Zhejiang, and promised that the crisis in credit supply to small and medium enterprises in Zhejiang would be alleviated within a month, "although it would be better if it were even sooner." What is most striking is the team he took along with him: Zhou Xiaochuan, the head of the central bank; Liu Mingkang, the head of the China Bank Regulatory Commission; Xie Xuren, the minister of Finance; and Zhang Ping, the head of the National Development and Reform Commission (NDRC). Wen also brought You Quan, the vice-secretary-general of the State Council (ministerial rank), who handles the "macroeconomy" portfolio and is also the chief of staff for premier presumptive Li Keqiang. In other words, with the exception of Vice-Premier Wang Qishan, every single one of China's top macroeconomic policy-makers was in Wenzhou at the same time.[12] It is hard to recall any precedent for assembling such a high-powered posse of travelling economic troubleshooters.

Opening Up Credit for Small and Micro Enterprises

One of the outcomes of the Wenzhou crisis has been a much stronger policy of support for small-scale enterprises. In fact, for over a year, bank officials had been emphasizing the importance of extending credit to small-scale firms, in part because of their concern that 2009 stimulus lending had tilted too far in favor of large state firms, and in part because they foresaw the need to buffer small firms from the impact of tighter credit. A May 2011 document stressed the need for preferential policies for small firms. In the wake of the Wenzhou events, expanded policies were introduced that included a completely new formulation of preference to "small and micro enterprises" (小微企业). The formulation is designed to end ambiguous policies of support to "small and medium enterprises" (中小企业) that end up funneling credit to surprisingly large (and often state-run) medium-sized firms, instead of the small-scale private sector. The new policy provides very concrete and quick sources of liquidity assistance to small firms (defined as those with bank credit lines under 5 million RMB).[13] The policy calls for some tax and fee reductions for small firms. More crucially, it relaxes credit constraints for small firms by relaxing the regulatory constraints on small firm lending,[14] and by allowing certain city commercial banks to issue bonds to fund small firm lending. Approval was immediately given to China's flagship Minsheng independent commercial bank to issue 50 billion RMB worth of bonds, and a total of 138 billion RMB of bonds were approved within days.[15] These policies will not only improve credit for small firms, they strengthen the long-term position of the smaller and more independent urban commercial banks, which lost ground to the biggest state-run banks during the stimulus program period.

Political and Economic Implications

Cutting back credit is an uncomfortable position for Chinese policy-makers to be in, especially in the run-up to a leadership turnover. Patronage is the lifeblood of a political system, and credit is the most straightforward way to finance patronage. As China heads into a period of leadership change from the top to the bottom of the political system, the existing leaders would prefer to be in a calmer segment of the business cycle in which new projects could be rolled out to reward clients and facilitate the power handoff.

Instead, they are faced with difficult decisions about where to cut, and which projects to suspend. They are doubtless tempted to ease off on macroeconomic contractionary policies. That would have a strong political logic, and some economic logic as well. After all, the global economy is weak, and some easing of China's macroeconomic policies might be appropriate. However, this reasoning is overshadowed by weightier economic and political considerations.

For the economists who currently run the financial system, the changes being brought by tighter credit are absolutely necessary. They wish to see current relatively tight monetary conditions continue at least through early next year.[16] Only with policy continuity, they believe, can the monetary authorities establish credibility, and contribute over the longer term to a healthier and more balanced economy. In the first place, it will take several months before residents begin to accept that China's inflation rate has really come down significantly. Real estate prices have only started to turn around, and in past episodes of declining housing prices, policies were hastily reversed and replaced with aggressive stimulus moves (e.g., in 2008). In other words, current policy toward the housing bubble lacks credibility, and policy-makers will have to invest more in stable policy-making if they wish to establish this credibility. Moreover, one of the causes of tighter credit has been the raising of capital adequacy standards imposed by the China Bank Regulatory Commission (CBRC), designed to control risks generated by reckless lending in the past. It would be irresponsible for policy-makers to ease off on those efforts now. Financial sector technocrats accept that some modest relaxation of monetary policy is essential, but they believe that recent policies to increase credit for small and micro enterprises are already on track to achieve the desired modification.

From a political perspective as well, a rapid shift in macroeconomic policy would be risky for China's hand-over at the top. As discussed in the last issue of *CLM*, China's presumptive next premier, Li Keqiang, is closely associated with a trend in policy-making that emphasizes providing welfare benefits to the population. The policy direction has been defined by Wen Jiabao, but the implementation of the policy has largely been delegated to Li Keqiang in recent years. As of the end of 2010, the policy program of Wen Jiabao and Li Keqiang looked quite shaky: Rising inflation and the failure to control soaring housing prices presented them with several obvious failures, and also constrained their policy flexibility. Now, things are looking somewhat better. If the current course is maintained, Wen and Li should be able to go into the leadership transition without the large liability of an inflationary legacy. For this reason, we should expect that policy-makers will wait until consumer prices stabilize and inflation declines for a couple of months, and there is continuing evidence of housing price stabilization or sustainable reductions in house prices. Only then are they likely to significantly ease overall macroeconomic policy.

Notice that there is an irony to the current situation. At the top, the main political beneficiary of improved macroeconomic conditions is Li Keqiang. However, the improvement in conditions has generally vindicated the position of the finance technocrats, including central bank officials. For the first time since the global financial crisis, the finance technocrats are in a position to push forward with their agenda. That agenda includes hardening soft budget constraints in the state sector and providing more support for the smaller-scale and more market-oriented sectors of the economy, both in manufacturing and in the financial sector. Potentially, such a policy shift could even mark the resumption of efforts to rebalance the economy away from excess reliance on investment and exports. Yet these finance technocrats work under the general patronage umbrella of Wang Qishan, the vice-premier in charge of finance. A relatively good record actually makes it less likely that Wang Qishan will displace Li Keqiang as next premier, but makes it more likely that policy prescriptions associated with Wang will prevail in the next administration.

Leadership Turnover

For more than a decade, China's financial sector has been governed by an experienced and highly capable group of economists, led at the top by Zhou Xiaochuan, central bank governor, and by Liu Mingkang, head of the China Bank Regulatory Commission (CBRC). Now China's strict retirement ages have brought change to this group. Minister-level officials are supposed to retire shortly after turning 65. Liu Mingkang turned 65 on August 28 of 2011, and on October 29, he stepped down and was replaced by Shang Fulin, heretofore head of the China Securities Regulatory Commission (CSRC). This change triggered personnel shifts at all three of the main financial regulatory agencies. Shang's CSRC spot will be filled by Guo Shuqing (I will not discuss the third regulatory position, that which governs the insurance industry). The head of the central bank, Zhou Xiaochuan, will turn 65 in January 2013.[17]

Liu Mingkang has played a powerful, positive, proactive role over the past eight years by stressing the need to prevent the buildup of risk in the banking system. Over the longer period, he was a principal in the restructuring of the banking system in 2003–4.[18] Thus Liu has played an overwhelmingly positive role in the generally very successful institutional reorganization, recapitalization, ownership diversification, and regulation of the banking system. This in turn is almost certainly the Hu-Wen administration's most positive legacy in terms of economic reform. Of course, as top regulator of the banking system, it is precisely Liu's job to guard against financial risk, but it is a job that he has performed well. Throughout his term, Liu has prominently advocated taking strong, proactive steps to guard against financial risk. Of all the regulatory agencies set up in the final wave of Zhu Rongji–era reforms in the late 1990s, only the China Bank Regulatory Commission has come close to fulfilling its initial mandate and promise.

In the last three years, Liu Mingkang has continued his proactive advocacy of effective risk protection. During the first quarter of 2009, at the height of the great flood of credit that marked China's stimulus package, Liu Mingkang began to warn of the potential financial risk involved in expanding lending to local government financing vehicles (LGFVs). Given the economic and political climate of the time, it was impossible for Liu to prevent the funding. However, in the nearly three years since, Liu has pushed for awareness and data collection, and has then pushed the banks to raise additional equity and set aside funds against future defaults. As described earlier, the increased capital has given China's commercial banks a capital adequacy ratio already in line with new international standards. Liu's steady focus on the issue has helped facilitate awareness and data collection, such that by mid-2010, all the key government agencies were mobilized to collect data, ultimately resulting in the audited year-end figure of 10.7 trillion RMB.[19]

Liu Mingkang is not without critics. His steady focus on risk control and regulation in the formal banking system is alleged by some to have driven funds out of the formal system and fostered the growth of an unregulated and potentially unstable informal financial system, a system that, until recently, he ignored.[20] It is certain that Liu's stress on raising capital and provisioning against losses reduced bank profits and slowed the growth of lending, earning him enemies within the banking system. It is hard to be sympathetic with those criticisms, though. Somewhat more credible are criticisms that Liu's regulatory style has simply been too intrusive, and takes away from banks' business autonomy. Representatives of CBRC sit in on board of directors meetings of commercial banks, for example, supposed just to understand the procedures and concerns of the banks.[21]

Shang Fulin is unlikely to bring the same constancy of purpose to the job of CBRC head. For those who are primarily concerned with the risks still evident within the banking system, Shang's appointment is not promising. Shang's tenure as head of the CSRC has been marked by some successes, notably in his willingness to adopt new financial products, and in his management of the process that gradually converted non-circulating state shares into circulating shares. However, Shang has not made much progress in really subjecting listed companies to greater transparency and oversight. Moreover, he has presided over a period of increased nationalism and domestic protectionism in financial markets. While Shang can hardly be deemed personally responsible for the shortcomings afflicting China's capital markets, his overall record could be characterized as "don't rock the boat" except when there are popular innovations that can be adopted. Shang Fulin's initial actions as head of CBRC were clearly designed to show continuity with Liu Mingkang's administration. His first act was to convene meetings to implement the new policies to speed the flow of credit to small and micro enterprises. The next week, CBRC issued instructions to lenders to accelerate restructuring of loans to local government funding and step up surveillance of troubled property developers. Both these moves signal continuity of policies closely associated with Liu Mingkang, and appear designed to signal the market the the new head of CBRC will follow the policies of his predecessor. Nevertheless, we know that in China the personality and orientation of leaders matters even more than it does in other systems. We are likely to miss Liu Mingkang's single-minded focus on risk and his willingness to push hard for what he believes in.

Guo Shuqing, Shang Fulin's replacement at CSRC, is one of China's most capable reform economists. Guo Shuqing has most recently been chairman of the China Construction Bank, serving with distinction. However, Guo's record goes back to his participation as a junior member in the 1980s comprehensive reform effort, led by senior economist Wu Jinglian, and with a prominent role played by Zhou Xiaochuan and Lou Jiwei. Guo has since played a positive role as director of the State Administration of

Foreign Exchange and vice-governor of the People's Bank of China. Thus, Guo's appointment is a good sign: this may be an opportunity to drive forward important reforms in equity and capital markets.

Conclusion

China's macroeconomic policy faces enormous challenges. Globally, economic growth is likely to be slower in 2012—even if Europe avoids a financial crisis—and weaker demand is already hitting Chinese exports. Domestically, the financial system must deal with a cooling housing market and falling land prices at a time when overextended local governments still depend on real estate deals for a large chunk of their financing. To add to these challenges, China is just beginning a period of significant leadership turnover at every level. Despite these challenges, the most likely prospect is for a fairly steady hand at the tiller for the next year or so. Macroeconomic successes tend to solidify the expected leadership transition. At the same time, an opening for further reforms through the financial system has opened up for the first time in years. Whether this can be an opportunity to break with the recent stagnation, and even backward slippage, in the reform agenda remains to be seen.

Notes

1 "三季末银行资本充足率12.3% 不良贷款率下降" (Bank capital adequacy ratio 12.3% at the end of the 3rd quarter; Non-performing loan ratio declines). *China Business Network* (中国经营网), November 16, 2011; accessed at http://bank.hexun.com/2011-11-16/135291966.html; Hu Rongping (胡蓉萍), "中国银行业：刘明康未完成的使命" (China Banking: Liu Mingkang's unfinished mandate). *Economic Observer* (经济观察报), November 5, 2011; accessed at http://finance.qq.com/a/20111105/000425.htm.

2 Real GDP growth in the third quarter was 9.1 percent and consumer price inflation was 6.3 percent for the quarter, which implies 16 percent growth of nominal GDP, only slightly faster than the growth of credit. In fact, producer price inflation was above consumer price inflation, so nominal GDP grew more than this.

3 National Bureau of Statistics, "2011年10月份居民消费价格变动情况" (Changes in consumer prices in October 2011), November 9, 2011; accessed at http://www.stats.gov.cn/tjfx/jdfx/t20111109_402764721.htm; and "2011年11月份居民消费价格变动情况" (Changes in consumer prices in November 2011), December 10, 2011; accessed at http://www.stats.gov.cn/tjfx/jdfx/t20111209_402771297.htm

4 "全国性房企启动大幅降价 北京频现1.3万低价房" (Nationwide real-estate prices start to fall; In Beijing, many 13,000 RMB/m2 low price apartments available), *Beijing Times* (京华时报), November 4, 2011; accessed at http://www.ce.cn/macro/more/201111/04/t20111104_22812663.shtml.

5 Zhu Yishi and Li Shen, "Mixed Signals on Real Estate's Blind Corner," *Caixin English*, November 9, 2011; accessed at http://english.caixin.cn/2011-11-09/100323913.html; Yu Zhixiang "Housing Prices Decline in October," *Caixin English*, November 2, 2011; accessed at http://english.caixin.cn/2011-11-02/100321455.html.

6 National Bureau of Statistics, "10月份70个大中城市住宅销售价格变动情况" (Housing sales price changes in 70 large and medium cities in October), November 18, 2011; accessed at http://www.stats.gov.cn/tjfx/jdfx/t20111118_402766942.htm.

7 Leslie Hook, "Chinese metals groups warn Beijing about tighter credit," *Financial Times* [London], October 27, 2011, p. 18.

8 Wang Yong and Li Shanshan (王勇, 李姗姗), "河南担保公司高息融资对外放贷 资金链断裂被查" (Henan credit guarantee companies loan money at usurious rates; the breakdown of the financing chain being investigated), *China Economic Weekly* (中国经济周刊), November 1, 2011; accessed at

http://news.sina.com.cn/c/sd/2011-11-01/005723392468.shtml; Lan Binzhen (蓝彬珍), "担保公司老板跑路连云港四银行涉及7000万元" (Head of credit guarantee company disappears; Four banks in Lianyungang out 70 million RMB), *Economic Observer Online* (经济观察网), November 17, 2011; accessed at http://bank.hexun.com/2011-11-17/135310504.html?fromfunds=tjxd.

[9]Yang Xiaoyin (杨晓音), "浙江企业家移民成潮 跑路之前资产家庭早已转移," (The emigration of Zhejiang entrepreneurs has become a flood; many transferred assets and family members abroad a long time ago), *China Business* (中国经营报), October 28, 2011; accessed at http://www.chinasoe.com.cn/news/finance/2011-10-28/13185.html.

[10] "温州'眼镜大王'跑路归来复工 称订单已到明年" (Wenzhou 'glasses king' has returned and resumed production; says he has enough orders to keep him going until next year), *Beijing Morning Post* (北京晨报), October 17, 2011; accessed at http://news.qq.com/a/20111017/000053.htm.

[11] For a detailed concrete description of the situation for two or three Wenzhou entrepreneurs, see Chen Ningyi (陈宁一), "温州部分公务员银行职员放贷 年关恐现跑路潮" (In Wenzhou, some civil servants and bank officials make loans; annual clearing contributes to entrepreneurs absconding), *Beijing News* (新京报), October 20, 2011; accessed at http://finance.sina.com.cn/china/dfjj/20111020/040010653919.shtml.

[12] Li Yilin (李伊琳), "温家宝调研开'药方' 治温州借贷危机 (Wen Jiabao prescribes a medicine to cure the Wenzhou credit crisis.), *21st Century Business Herald* (*21*世纪经济报道), November 9, 2011; accessed at http://www.21cbh.com/HTML/2011-10-9/3MMDcwXzM2OTk3MA.html.

[13] Li Yaqi (李雅琪), "小微企业贷款占比上升, 风险系数下调" (The share of small and micro enterprises in lending has increased; the risk coefficient has been adjusted downward)," *Wealth Management Weekly*(理财一周报), November 4, 2011; accessed at http://finance.sina.com.cn/stock/t/20111104/072610753594.shtml; Li Heming (李鹤鸣), "500亿直通小微企业 银监会闪电放行专项金融债," (50 billion RMB directly to small-micro enterprises; CBRC lightning approval of special bonds), *Southern Metropolis Daily* (南方都市报), November 10, 2011; accessed at http://nf.nfdaily.cn/nfdsb/content/2011-11/10/content_32933440.htm; Han Xuemeng (韓雪萌), "帮扶小微企业各项金融政策正在落地," (Policies to support small-micro enterprises are being implemented already), *Financial Times* (金融时报), November 11, 2011; accessed at http://finance.jrj.com.cn/2011/11/11064411536186.shtml; Wang Xinchuan (王信川), "小微企业迎来及时雨," (Small-micro enterprises welcome a timely rain), *Economic Times* (经济日报), November 11, 2011; accessed at http://finance.sina.com.cn/roll/20111111/044510796082.shtml.

[14] Small and micro enterprise lending is exempted from the loan-deposit gap controls that constrain banks, and the weight of small and micro enterprise lending in risk-adjusted lending was reduced from 100 percent to 75 percent of loans.

[15] Li Heming, "Lightning approval" (see endnote 14).

[16] For example, see the comments by Li Daokui, a Tsinghua professor who is also a member of the Monetary Policy Commission, in Tian Wenhui, Wan Min, Li Yumin (田文会, 万敏, 李玉敏) "李稻葵：短期政策不应放松 如有微调应指财政政策," (Li Daokui: In the short term policy should not be relaxed; if there is slight adjustment fiscal policy should be used), *Daily Economic News Net* (每日经济新闻网), November 10, 2011; accessed at http://www.nbd.com.cn/newshtml/20111110/20111110015113892.html.

[17] For a good account of the financial sector transition, see Ling Huawei, Wen Xiu, Li Qing, Chen Huiying, Li Tao, and Zhang Yuzhe, "New Era Dawns for Financial Oversight," *Caixin English*, November 10, 2011; accessed at http://english.caixin.cn/2011-11-10/100324755.html.

[18] See Barry Naughton, "Financial Reconstruction: Methodical Policymaking Moves into the Spotlight," *China Leadership Monitor*, no. 10, Spring 2004. An important supporting role was played by the then head of the State Administration of Foreign Exchange, Guo Shuqing.

[19] Hu Rongping, "China Banking"; see endnote 2.

[20] Ye Tan (叶檀), "风险刘明康" (Risk: Liu Mingkang), *Daily Economic News* (每日经济新闻), November 1, 2011; accessed at http://finance.qq.com/a/20111101/000724.htm.

[21] Hu Rongping, "China Banking."