News release

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# Chinese bankers preparing to meet challenges ahead

*Interest rate liberalisation and managing risks top of agenda*

**HONG KONG, 7 January 2013** – Over 60% of bankers believe that interest rate liberalisation poses challenges to their business in the next three to five years.

The announcement of the People’s Bank of China to raise deposit interest rates in June 2012 was beyond the expectations of most bankers. According to the results of the fourth PwC/China Banking Association (CBA) Chinese Bankers Survey 2012, less than three in 100 of the bankers surveyed anticipated the start of interest rate liberalisation last year (the questionnaire was released in April 2012).

56.6% of respondents believe that removing the ceiling for deposit interest rates has a negative impact on banks.

“Bankers are developing a series of measures in response to the challenges. The measures include expanding high margin SME (Small and Micro Enterprises) loans; increasing low cost customer deposits; and optimising capital deployment through fee based business activities.” said Raymond Yung, PwC Financial Services Leader for China.

**Strategic transformation speeds up**

According to the survey, 41.2% of the bankers surveyed choose to diversify business into other types of financial services. 33.9% and 29.4% of the bankers decide to adjust business structure and customer structure respectively as the keys to their strategic transformation.

Compared to 2011, there has been a significant growth in wealth management business, primarily because of increased competition for customer deposits; tightened monitoring of credit extension; capital adequacy and loan-to-deposit ratio constraints imposed by the regulators; and a general shortage of other investment products and channels. The bankers surveyed expressed strong support on expanding wealth management business (80%).

The potential risks and issues underlying the rapid development of wealth management business have attracted the attention of the respondents. The survey also shows that 50.9% of bankers believe that since the significant growth has resulted in a high volume of off-balance sheet assets (and liabilities), a decline in the quality of these underlying assets could impact the steady operation and reputation of the banks. They welcome more guidance from the regulators in this respect.

The bankers also focus more on SME loans, and develop suitable credit products tailored to the risk characteristics of the SME. Survey respondents believe that despite an increase in risk, SME loans are the future focus of corporate lending (77.4%).

“The Chinese banking industry is vigorously developing the SME business despite concerns on the potential higher rate of non-performing loans in that sector,” added Mr Yung.

**Servicing the real economy**

“With China promoting industrial and economic restructuring simultaneously, the Chinese bankers think that the best measure is to increase support on strategic emerging industries, technology innovation industries, modern services industries, and culture businesses; and to reduce loans to industries with restricted growth,” said Jimmy Leung, China Banking and Capital Markets Leader, PwC.

According to the survey, strategic emerging industries (72%), logistics industry (52.1%), media and culture industry (50.8%), machinery production industry (46.2%), agriculture, forestry, livestock breeding and fishing industry (44.7%), and information technology services (44.2%) are the key focuses of credit facilities in the future.

As in the past year, Chinese bankers continued to take a more cautious stance in loans for real estate projects (67.4%) due to China’s current tightened policies on the property market.

Compared to 2011, Chinese bankers were less favourable in lending to the road and rail transportation industry. More than 60% of the bankers surveyed say that the volume of local government financing platform loans should be reduced, 58.8% express risk concerns and 26.6% believe that local government financing platforms will be among the highest instances for loan default rates in the following three years.

**Lower economic growth expectations**

Whilst bankers have lowered their expectations on China’s economic growth for 2012, around 50% of the bankers surveyed say that the country’s economic growth for 2012 would be 7.5%, and they are confident about the outlook on China’s medium and long-term economic growth prospects. 72.2% of the bankers believe that technological innovation is the main source for China’s economic growth in the next three to five years, and 59.6% indicate that benefits from policy transformation aid this growth prospect.

Faced with a down turning economy, the bankers are most concerned about macro-control policy change (75.1%), financial regulatory policy change (72.4%) and a global economic slowdown (64.4%). About 25% of the bankers anticipate that the annual growth rate in income and profit will be higher than 20%, and about half of the bankers believe that the non performing loan ratio will be below 1%
for the next three years.

“Despite the significant pressure on the Chinese banking environment caused by the global economic downturn, Chinese bankers remain very positive about the industry’s future development,” added Mr Leung.

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**Note to editors:**

1. **About the report**This survey is the joint effort of China Banking Association and PwC China. The project leader is Dr Ba Shusong, Deputy Director, Financial Research Institute, Development Research Center of the State Council of China. The survey respondents are senior management located at the headquarters and branches of domestic banks in China. The total number of effective questionnaires received is 850. In addition, the survey team also conducted an in-depth interview with 25 senior executives including Directors and Vice Presidents and department heads.
2. **About China Banking Association**Founded in May 2000, China Banking Association (CBA) is registered at the Ministry of Civil Affairs as a national non-profit organisation. On behalf of its 168 members, it brings together various categories of banking institutions to best represent the interests of this rapidly changing industry. Centering its functions on "self-discipline, rights-protection, coordination and service", CBA strives to safeguard the legal interests of the banking sector, maintain market order, improve the overall competence of banking employees, provide high-quality services to its members, and promote the healthy development of the banking sector.
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