
China's Policy Responses to the 2008 Financial Crisis

China's International Coordination in Policy Response to the 2008 Financial Crisis

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China's Policy Responses to the 2008 Financial Crisis

- The crisis and the call for international cooperation
- China's macroeconomic environment before the crisis
- China's motives in international coordination
- China's specific responses to the crisis
- Consequences and future perspectives

The Crisis and the Call for International Cooperation

- The crisis in September 2008
- The need for international coordination
- President Bush's call to President Hu (Sept. 21, 2008)
- U.S. call for joint international efforts (October 2008)
- G20 emergency summit in Washington, DC (Nov. 2008)

Need for International Coordination

- “As President George W. Bush sits down Saturday with foreign finance ministers to talk about the crisis in global markets, there will be this nagging question: **If we now live in a truly global economy, why isn't there a better system for responding to a global economic shock?**”
- “The crisis is showing that none of the existing political or economic institutions -- the **Group of Seven** industrialized countries, the **Group of 20** industrialized and developing nations or the International Monetary Fund -- is well suited to coordinate a response to a global crisis.”

Wall Street Journal, October 11, 2008

China's Macroeconomic Environment before the Crisis

- Economics growth
- Unemployment
- Housing prices
- Banking sector
- Government budget
- China's foreign exchange reserves
- The RMB exchange rate
- Inflation

U.S. – China GDP Growth Rates

U.S.- China GDP Growth Rate

(%, from same quarter last year)

	U.S. GDP	China GDP
2005-I	3.4	10.5
2005-II	3.1	10.1
2005-III	3.1	9.8
2005-IV	2.7	9.9
2006-I	3	11.4
2006-II	3	11.5
2006-III	2.2	10.6
2006-IV	2.4	10.4
2007-I	1.3	13.0
2007-II	1.8	12.6
2007-III	2.3	11.5
2007-IV	2.3	11.2
2008-I	1.9	10.6
2008-II	1.2	10.1
2008-III	-0.3	9.0
2008-IV	-2.8	6.8
2009-I	-3.8	6.2
2009-II	-4.1	7.9
2009-III	-2.7	9.1
2009-IV	0.2	10.7
2010-I	2.4	11.9
2010-II	3	10.3
2010-III	3.2	9.6
2010-IV	2.7	9.8

China Government Budget

Year	National Government		Increase Rates (%)		Deficit (Revenue- Expenditure)	GDP (current price, billion yuan)	Deficit/GDP	Government Expenditure / GDP
	Revenue (billion yuan)	Expenditure (billion yuan)	Revenue	Expenditure				
1978	113.23	112.21	29.5	33.0	1.0	364.52	0.28%	30.78%
1980	115.99	122.88	1.2	-4.1	-6.9	454.56	-1.52%	27.03%
1985	200.48	200.43	22.0	17.8	0.1	901.60	0.01%	22.23%
1990	293.71	308.36	10.2	9.2	-14.6	1,866.78	-0.78%	16.52%
1991	314.95	338.66	7.2	9.8	-23.7	2,178.15	-1.09%	15.55%
1992	348.34	374.22	10.6	10.5	-25.9	2,692.35	-0.96%	13.90%
1993	434.90	464.23	24.8	24.1	-29.3	3,533.39	-0.83%	13.14%
1994	521.81	579.26	20.0	24.8	-57.5	4,819.79	-1.19%	12.02%
1995	624.22	682.37	19.6	17.8	-58.2	6,079.37	-0.96%	11.22%
1996	740.80	793.76	18.7	16.3	-53.0	7,117.66	-0.74%	11.15%
1997	865.11	923.36	16.8	16.3	-58.2	7,897.30	-0.74%	11.69%
1998	987.60	1,079.82	14.2	16.9	-92.2	8,440.23	-1.09%	12.79%
1999	1,144.41	1,318.77	15.9	22.1	-174.4	8,967.71	-1.94%	14.71%
2000	1,339.52	1,588.65	17.0	20.5	-249.1	9,921.46	-2.51%	16.01%
2001	1,638.60	1,890.26	22.3	19.0	-251.7	10,965.52	-2.29%	17.24%
2002	1,890.36	2,205.32	15.4	16.7	-315.0	12,033.27	-2.62%	18.33%
2003	2,171.53	2,465.00	14.9	11.8	-293.5	13,582.28	-2.16%	18.15%
2004	2,639.65	2,848.69	21.6	15.6	-209.0	15,987.83	-1.31%	17.82%
2005	3,164.93	3,393.03	19.9	19.1	-228.1	18,321.74	-1.24%	18.52%
2006	3,876.02	4,042.27	22.5	19.1	-166.3	21,192.35	-0.78%	19.07%
2007	5,132.18	4,978.14	32.4	23.2	154.0	25,730.56	0.60%	19.35%
2008	6,133.04	6,259.27	19.5	25.7	-126.2	30,067.00	-0.42%	20.82%
2009	6,851.83	7,629.99	11.7%	21.9%	-778.2	33,535.30	-2.32%	22.75%
2010	8,308.00	8,957.50	21.3%	17.4%	-649.5	39,798.30	-1.63%	22.51%

Source: National Bureau of Statistics, China Statistical Yearbook

China's Housing Market and the Banking Sector before the Crisis

- Banking reforms after the Asian financial crisis
 - Housing prices continued to rise in 2007.
 - There had been no dramatic change in the mortgage rate before the crisis (mortgage rate was never as low as that in the U.S.).
 - Average down payment was higher in China.
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China's Foreign Exchange Reserves

China's Foreign Exchange Reserves			
(Billions of U.S. dollars)			
Year	FX RESERVES	Year	FX RESERVES
1978	0.167	2000	165.574
1979	0.840	2001	212.165
1980	(1.296)	2002	286.407
1981	2.708	2003	403.251
1982	6.986	2004	609.932
1983	8.901	2005	818.872
1984	8.220	2006	1,066.344
1985	2.644	2007	1,528.249
1986	2.072	2008	1,946.030
1987	2.923	2009	2,399.152
1988	3.372	2010	2,847.338
1989	5.550		
1990	11.093		
1991	21.712		
1992	19.443		
1993	21.199		
1994	51.620		
1995	73.597		
1996	105.029		
1997	139.890		
1998	144.959		
1999	154.675		

China's CPI

China CPI

(Percent change over corresponding period of previous year)

	CPI Inflation Rate		CPI Inflation Rate
Q1 2000	0.101	Q1 2006	1.200
Q2 2000	0.096	Q2 2006	1.366
Q3 2000	0.265	Q3 2006	1.266
Q4 2000	0.568	Q4 2006	2.038
Q1 2001	0.663	Q1 2007	2.730
Q2 2001	1.567	Q2 2007	3.596
Q3 2001	0.799	Q3 2007	6.101
Q4 2001	-0.136	Q4 2007	6.634
Q1 2002	-0.599	Q1 2008	8.035
Q2 2002	-1.069	Q2 2008	7.768
Q3 2002	-0.767	Q3 2008	5.265
Q4 2002	-0.632	Q4 2008	2.450
Q1 2003	0.497	Q1 2009	-0.609
Q2 2003	0.669	Q2 2009	-1.500
Q3 2003	0.833	Q3 2009	-1.336
Q4 2003	2.672	Q4 2009	0.668
Q1 2004	2.765	Q1 2010	2.198
Q2 2004	4.394	Q2 2010	2.933
Q3 2004	5.267	Q3 2010	3.467
Q4 2004	3.155	Q4 2010	4.9
Q1 2005	2.832	Q1 2011	4.9
Q2 2005	1.734		
Q3 2005	1.334		
Q4 2005	1.368		

RMB Exchange Rate

From July
20 to Aug.
29, 2008,
RMB
appreciated
21.3%

From July
20 to March
11, 2011,
RMB
appreciated
26%.

Date	Yuan/\$	Date	Yuan/\$	Date	Yuan/\$
20-Jul-05	8.2765	30-Apr-07	7.7090	30-Apr-09	6.8180
21-Jul-05	8.2765	31-May-07	7.6516	29-May-09	6.8278
22-Jul-05	8.1111	29-Jun-07	7.6120	30-Jun-09	6.8302
29-Jul-05	8.1056	31-Jul-07	7.5720	31-Jul-09	6.8319
31-Aug-05	8.0998	31-Aug-07	7.5462	31-Aug-09	6.8299
30-Sep-05	8.0920	28-Sep-07	7.4928	30-Sep-09	6.8262
31-Oct-05	8.0845	31-Oct-07	7.4682	30-Oct-09	6.8264
30-Nov-05	8.0804	30-Nov-07	7.3850	30-Nov-09	6.8265
30-Dec-05	8.0702	31-Dec-07	7.2946	31-Dec-09	6.8259
31-Jan-06	8.0608	31-Jan-08	7.1818	29-Jan-10	6.8268
28-Feb-06	8.0415	29-Feb-08	7.1115	26-Feb-10	6.8258
31-Mar-06	8.0167	31-Mar-08	7.0120	31-Mar-10	6.8258
28-Apr-06	8.0165	30-Apr-08	6.9870	30-Apr-10	6.8247
31-May-06	8.0215	30-May-08	6.9400	28-May-10	6.8305
30-Jun-06	7.9943	30-Jun-08	6.8591	30-Jun-10	6.7815
31-Jul-06	7.9690	31-Jul-08	6.8388	30-Jul-10	6.7735
31-Aug-06	7.9538	29-Aug-08	6.8252	31-Aug-10	6.8069
29-Sep-06	7.9040	30-Sep-08	6.7899	30-Sep-10	6.6905
31-Oct-06	7.8785	31-Oct-08	6.8388	29-Oct-10	6.6707
30-Nov-06	7.8340	28-Nov-08	6.8254	30-Nov-10	6.6670
29-Dec-06	7.8041	31-Dec-08	6.8225	30-Dec-10	6.6000
31-Jan-07	7.7714	30-Jan-09	6.8392	31-Jan-11	6.6017
28-Feb-07	7.7410	27-Feb-09	6.8395	28-Feb-11	6.5713
30-Mar-07	7.7232	31-Mar-09	6.8329	18-Mar-11	6.5689

22-Sep-11: 6.3808 (an appreciation of 29.70% from July 20, 2005)

U.S.- China Trade

(Million U.S. dollar)

	China Perspective			U.S. Perspective		
	Exports to U.S.	Imports from U.S.	Balance	Exports to Mainland China	Imports from Mainland China	Balance
Q1 2006	42,194.10	13,527.70	28,666.40	12,536.50	63,784.30	(51,247.80)
Q2 2006	49,005.70	15,212.90	33,792.80	13,232.70	72,141.20	(58,908.50)
Q3 2006	55,970.80	15,988.60	39,982.20	14,466.40	83,812.70	(69,346.30)
Q4 2006	56,727.40	14,596.90	42,130.50	14,988.40	86,049.40	(71,061.00)
Q1 2007	50,818.00	16,039.40	34,778.60	14,474.30	75,578.50	(61,104.20)
Q2 2007	56,649.00	17,355.00	39,294.00	16,072.20	81,126.00	(65,053.80)
Q3 2007	62,883.90	18,068.70	44,815.20	16,294.30	91,470.90	(75,176.60)
Q4 2007	62,829.80	18,534.50	44,295.30	18,397.60	91,942.30	(73,544.70)
Q1 2008	53,548.10	20,268.20	33,279.90	17,982.90	76,881.30	(58,898.40)
Q2 2008	63,467.70	21,360.90	42,106.80	18,708.60	85,975.10	(67,266.50)
Q3 2008	72,477.20	20,942.40	51,534.80	18,264.40	101,463.00	(83,198.60)
Q4 2008	63,293.40	19,151.20	44,142.20	16,501.10	91,999.50	(75,498.40)
Q1 2009	45,625.60	16,605.60	29,020.00	14,426.40	68,058.50	(53,632.10)
Q2 2009	51,728.20	18,507.00	33,221.20	15,961.90	71,715.50	(55,753.60)
Q3 2009	60,367.70	19,636.80	40,730.90	16,641.10	82,673.10	(66,032.00)
Q4 2009	63,662.80	23,023.00	40,639.80	22,546.60	87,110.60	(64,564.00)
Q1 2010	54,504.70	23,772.40	30,732.30	21,147.50	76,145.40	(54,997.90)
Q2 2010	70,178.40	23,870.40	46,308.00	20,058.90	92,188.90	(72,130.00)
Q3 2010	81,172.10	25,317.10	55,855.00	21,766.40	109,039.00	(87,272.60)

Source: IMF, DOT database

China's Motives in Policy Responses

- International responsibility
- International interdependence
- Maintaining growth, employment, and stability
- Experience during Asian financial crisis
- International policy synchronization to maintain currency stability
- Maintaining value of dollar and foreign exchange reserves

China's Specific Policy Responses

- Economic stimulus package
- Monetary policy
- Purchase of U.S. Treasury securities
- Contribution to IMF
- Participation in efforts to stem the euro debt crisis

Timeline of China's Monetary and Fiscal Policies: From Asian Financial Crisis to the 2008 Financial Crisis

				Asian Financial Crisis											2008 Financial Crisis							
Monetary policy	Contractionary			Expansionary		Prudential/Stable										Contractionary		Expansionary			Prudential	
Fiscal policy	Contractionary			Expansionary										Prudential			Expansionary					
	...	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	...			

China's Economic stimulus package

- First to formulate and implement a comprehensive stimulus plan (Nov. 9, 2008)
- Largest stimulus relative to GDP (\$586 billion, or about 15% of GDP)
- To be implemented in two years
- To be focused on infrastructure
- Immediate implementation
- Local government incentives

China's Money Supply Changes

China Money Supply

Billion Yuan

Year	Level			Percentage Change		
	M2	M1	M0	M2	M1	M0
2000	13,461.00	5,314.72	1,465.27			
2001	15,830.20	5,987.16	1,568.88	17.60%	12.65%	7.07%
2002	18,500.70	7,088.21	1,727.80	16.87%	18.39%	10.13%
2003	22,122.30	8,411.86	1,974.60	19.58%	18.67%	14.28%
2004	25,320.80	9,597.08	2,146.83	14.46%	14.09%	8.72%
2005	29,875.60	10,727.90	2,403.17	17.99%	11.78%	11.94%
2006	34,557.80	12,602.80	2,707.26	15.67%	17.48%	12.65%
2007	40,340.10	15,251.90	3,033.43	16.73%	21.02%	12.05%
2008	47,516.70	16,621.70	3,421.90	17.79%	8.98%	12.81%
2009	60,622.50	22,000.20	3,824.60	27.58%	32.36%	11.77%
2010	72,585.20	26,662.20	4,462.82	19.73%	21.19%	16.69%

Source: International Monetary Fund, International Financial Statistics database.

U.S. Money Supply Changes

U.S. Money Supply (Seasonally adjusted)

Billion U.S. dollar

Year	Level			Percentage Change		
	M2	M1	M0	M2	M1	M0
2000	4,913.2	1,087.2	584.9			
2001	5,428.6	1,182.1	635.4	10.49%	8.73%	8.64%
2002	5,775.2	1,219.7	681.5	6.38%	3.18%	7.25%
2003	6,064.1	1,306.5	720.2	5.00%	7.12%	5.68%
2004	6,407.8	1,376.4	759.3	5.67%	5.35%	5.42%
2005	6,673.4	1,374.9	787.4	4.14%	-0.11%	3.71%
2006	7,065.2	1,366.3	812.4	5.87%	-0.63%	3.17%
2007	7,493.8	1,373.6	824.4	6.07%	0.53%	1.47%
2008	8,245.1	1,602.7	1,653.9	10.03%	16.68%	100.62%
2009	8,528.7	1,693.6	2,017.2	3.44%	5.67%	21.97%
2010	8,816.4	1,832.1	2,008.5	3.37%	8.18%	-0.43%

Source: International Monetary Fund, International Financial Statistics database.

The Increase in Monetary Base in 2008

Federal Reserve Balance Sheet

BILLIONS OF DOLLARS				
Week Ending Jan. 14, 2009				
Assets			Liabilities	
Traditional Assets		593	Federal Reserve Notes	844
Treasury Securities	476		Bank Deposits	828
Other Traditional Assets	117		Other Liabilities	344
Nontraditional Assets		1,465	Capital Account	42
Total Assets		2,058	Total Liabilities	2,058
Week Ending Sept. 10, 2008				
Assets			Liabilities	
Traditional Assets		722	Federal Reserve Notes	798
Treasury Securities	480		Bank Deposits	32
Other Traditional Assets	242		Other Liabilities	54
Nontraditional Assets		202	Capital Account	40
Total Assets		924	Total Liabilities	924
SOURCE: Federal Reserve Board H.4.1.				

Monetary Base in Jan. 2009

Monetary Base in Sept. 2008

Richard G. Anderson, "The Curious Case of the U.S. Monetary Base," The Regional Economist, Vol. 17, No. 3 (July 2009), Pages 12-13.

Major Foreign Holders of U.S. Treasury Securities

Major Foreign Holders of U.S. Treasury Securities

Holdings at end of period (in billions of dollars except shares)

	Grand Total	China, Mainland		Japan		United Kingdom		Oil Exporters	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
Jun 2000	1,060.70	67.5	6.36%	318.8	30.06%	68.1	6.42%	45.9	4.33%
Dec 2000	1,015.20	60.3	5.94%	317.7	31.29%	50.2	4.94%	47.7	4.70%
Dec 2001	1,040.10	78.6	7.56%	317.9	30.56%	45	4.33%	46.8	4.50%
Dec 2002	1,235.60	118.4	9.58%	378.1	30.60%	80.8	6.54%	49.6	4.01%
Dec 2003	1,523.10	159	10.44%	550.8	36.16%	82.2	5.40%	42.6	2.80%
Dec 2004	1,849.30	222.9	12.05%	689.9	37.31%	95.8	5.18%	62.1	3.36%
Dec 2005	2,033.90	310	15.24%	670	32.94%	146	7.18%	78.2	3.84%
Dec 2006	2,103.10	396.9	18.87%	622.9	29.62%	92.6	4.40%	110.2	5.24%
Dec 2007	2,353.20	477.6	20.30%	581.2	24.70%	158.1	6.72%	137.9	5.86%
Dec 2008	3,077.20	727.4	23.64%	626	20.34%	131.1	4.26%	186.2	6.05%
Dec 2009	3,685.10	894.8	24.28%	765.7	20.78%	180.3	4.89%	201.1	5.46%
Dec 2010	4439.6	1160.1	26.13%	882.3	19.87%	272.1	6.13%	211.9	4.77%

Source: U.S. Department of the Treasury, Data and Charts Center

Consequences and Future Prospects

- Resumption of economic growth
 - Domestic challenges
 - Rising inflation
 - Unemployment at lower economic growth
 - NPLs?
 - International challenges
 - Pressure on RMB revaluation
 - U.S. – China trade imbalance
 - Safety and security of foreign exchange reserves
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