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CHINA'S FINANCIAL SYSTEM: DEVELOPMENT AND TRANSFORMATION
Master's thesis
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INTRODUCTION

The study of the economic structure of modern countries is excluded without an analysis of their financial system. The meaning of the word "finance" comes from the French finance - entrepreneurs, the totality of all state funds, as well as the system of their formation, distribution and use. This concept is often combined with a process that manifests itself in economic life in various forms and is accompanied by cash flows.

In the scientific literature and studies of many economic figures and scientists, it has long been concluded that finances are closely related to the activities of the state, and therefore form the finances of the state.

The relevance of the research topic lies in the fact that the financial system is a key link in the development and successful functioning of a market economy and a necessary prerequisite for economic growth and stability in general.

The development of the financial system is an important direction not only for the economy of the People's Republic of China, but also for the development of many states. The development of China's financial system in the modern phase of the market transformation of the Republic of China is characterized by profound changes in its content, internal structure, target orientation, and institutional regulation. To analyze and assess the prospects for the development of the financial system of the state, it is extremely important to understand the state, functioning and problem areas of its individual elements-the banking system, the budget system, the off-budget system, the financial system of enterprises, households and the population

Degree of study of the topic in scientific literature. The study of the mechanism and functioning of the financial system is based on the ideas of classical political economy, which is reflected in the scientific works of Ken F., Smith A., Riccardo D., as well as in the scientific works of Galbraith J., Keynes J., Samuelson P., Schumpeter J. methodological aspects of the financial, monetary system, anti-inflationary regulation, financial, budgetary, credit and banking strategy have been studied by the following scientists: Atkinson E.B., Stiglitz J., Gryaznova A.G. World finance at the end of the 20th and beginning of the 21st century experienced a period of serious transformations. Many countries have joined the processes of financial integration and globalization by opening their financial markets to international investors and becoming part of a single financial space. The financial landscape of the global economy has changed significantly. These processes are recorded and discussed in the works of O. V. Butorina, Ya. M. Mirkin, V. N. Tkachev and others.

The purpose of the work is to develop recommendations for the development of China's financial system. Various researchers have conducted extensive studies of the influence of factors on the financial system. However, few studies focus on a comprehensive analysis of a single element of the financial system and its impact on

the development of the financial system and the sustainability of the economy. In this connection, this study comprehensively analyzes the banking financial subsystem as an element of China's financial system. The study examines the problem areas and factors hindering the development of both the Chinese banking system and the financial system as a whole. The study suggests measures to reduce overdue loans, increase deposits in the national currency, and makes recommendations for optimizing corporate banking management, taking into account the experience of regulating financial flows in banking systems in different countries.

GENERAL CHARACTERISTICS OF THE WORK

List of keywords. FINANCIAL SYSTEM, CENTRALIZED AND DECENTRALIZED FINANCES, BANKING SYSTEM, DEPOSITS, OVERDUE LOANS, INTEREST RATE

Purpose, objectives, object and subject of research.

The purpose of this master's thesis is to develop practical recommendations for the development of the banking system as an element of the Chinese financial system and forecasting indicators reflecting the effect of the implementation of the proposed recommendations

Realization of the set purpose predetermines the solution of the following tasks:

- to study the economic essence of the of finance and financial system;
- explore the centralized and decentralized directions of the financial system of the state;
- analyze the legislative and regulatory framework governing the financial system in China;
- to study the financial system of the People's Republic of China;
- to conduct a SWOT analysis of banking system as an element of financial system in China;
- to identify and characterize the main problems in the Chinese banking system and to establish the causes, factors of existing problems in modern realities;
- make recommendations to improve the state, functioning of banking system as an element of financial system in China;
- assess the risks, uncertainties and safety of the implementation of the proposed measures.

The object of the master's thesis is the financial system of China and its elements -financial subsystems (including banking system)

The subject of the research is theoretical and practical aspects that ensure the stability and development of China's financial system in the conditions of the development of a market economy

Scientific novelty. Scientific novelty. The scientific novelty of the research includes the following aspects: in this study, the concepts of finance and the financial system of the state are clarified; recommendations are proposed to improve the state of the banking system as an element of the financial system of China, based on the use of the research method of combining macroanalysis and microanalysis.

Provisions submitted to the defense.

As a result of the conducted research, the following results were obtained, submitted for defense:

1. The theoretical foundations of the financial system: the concepts of "finance" and "financial system" are clarified; subsystems that form the entire financial system of the state are identified; factors and causes that influence the stability of China's banking and financial systems are considered;

2. The analysis and evaluation of financial flows in the budgetary and extra-budgetary systems, as well as in the banking system of China

3. A SWOT analysis of the Chinese banking system was carried out, as a result of which the key problems and factors creating these problems were identified. The author's recommendations on improving the banking system of China have been developed. A forecast of a decrease in "bad/overdue" loans based on the materials of the International Monetary Fund has been compiled.

Personal contribution of the master's student. The dissertation is an independent scientific study in the field of pricing in the real estate market. All theoretical provisions and recommendations for implementation contained in the dissertation announcement submitted for defense have either a certain novelty or practical significance and were developed by the applicant personally.

Information about the structure of the master's thesis. The master's thesis is presented on 52 pages of computer text, consists of an introduction, a general description of the work, the main part of three chapters, a conclusion and a list of sources used. The master's thesis contains 8 figures, 10 tables, 50 sources of literature.

CHAPTER 1

THEORETICAL ASPECTS OF THE FINANCIAL SYSTEM

1.1 The essence of finance. Functions of Finance

“The concept of the financial system is an evolution of a more general definition of finance. Finance is a historical category. By their nature, they are closely connected with the state, which needs money to perform its functions” [1, p. 115-120]. “Finance is an economic relationship that arises in the process of distribution, redistribution in monetary form of a part of the value of the national product, creation and use on this basis of monetary funds necessary to meet social needs” [1, p. 115-120].

For the first time the term "finance" (from the Latin *financia* - payment, income) arose in the XIII-XV centuries. in Italy. Over time, it began to be applied in a broader sense as a set of public income and expenditure. Then came the term "public finance", which defines government revenues and expenditures.

There are two views on the history of finance. The main difference is that the time parameters for the emergence of commodity-currency relations are sufficient to satisfy the emergence of financial relations and the extent of their occurrence.

The first point of view is that finance and the emergence of the state occur simultaneously, and society is stratified into classes, but at the same time it does not represent a separate category of economic relations. The original form of finance was public finance [8].

The meaning of the second point of view is that the emergence of finance in history is characterized by the development, strengthening and expansion of commodity-currency relations, as well as the strengthening and expansion of state functions. These standards were developed in the era of free competition. The beginning of financial relations is the creation of surplus products in the production sector and their subsequent distribution. The emergence of public finance is a new historical stage in financial development.

Consider the main periods of development of financial relations.

1 Finance appeared in the late Middle Ages as a separate economic category. In the sixteenth century, the word "finance" appeared, derived from the Latin "finish", which means the end, judge, prince and king, who put an end to monetary relations between the population and the country.

2 The seventeenth and eighteenth centuries saw the formation of the financial system. There are differences in the financial resources of countries and their heads of state. At this time, such concepts as public finances, the national budget and state credit appeared.

3 Under capitalism (nineteenth century), finance began to express economic relations associated with the formation, distribution and use of funds in the process of distribution and redistribution of national income. At that time, the process of formation and use of the national monetary fund was carried out under strict control.

4 The rapid development of financial relations occurred in the twentieth century, especially after the Second World War. In all countries, a significant part of the national income was nationalized (from 30 to 50%) during this period, spending underwent a qualitative change. The state actively regulates social processes and protects the environment. Local finances are developing.

As a result of the research, the main terms and concepts related to the formation of financial relations and their development were determined.

The science of finance is an interdisciplinary economic science and has a clearly defined subject of study. The subject of the science of finance is financial relations that arise at the second stage of the process of social production and are associated with the distribution and redistribution of the value of the gross social product, part of the national wealth [3].

Finance is a historical category, as they are in constant motion, dialectical development, close relationship with other value categories of a market economy. Changes in socio-economic processes cause changes in the qualitative and quantitative parameters of financial relations.

The historical conditions and objective prerequisites for the functioning of finance are the existence of commodity-money relations, the operation of the law of value, and the functioning of the state.

Finance is closely connected with the nature and functions of the state, its activity, which expresses in a concentrated way the economic needs of the state and the interests of society. At the same time, the state is subordinate, and economic relations are the decisive moment.

It should be noted that in the economic literature there are many definitions that reveal the concept of finance or represent their other characteristics. Table 1.1 presents the interpretations of various authors to the definition of the concept of "finance".

Table 1.1 – Interpretations of the authors to the definition of the concept of "finance"

| The authors | Definition of "finance" |
|-----------------------------------|---|
| 1 | 2 |
| Gryaznova A. G. and Markina E. V. | Finance is a set of monetary relations regarding the distribution of the value of the gross domestic product and part of the national wealth, which results in the formation of cash incomes, receipts and savings from individual business entities, the state, which are used in the future to solve economic and social problems [1, p. thirteen]. |

End of the table 1.1

| 1 | 2 |
|----------------|---|
| Ananyeva E. A. | Finance as monetary relations, manifested in the form of the movement of financial flows that arise in the process of formation of financial resources from various participants in the market economy, their distribution and use for purposes related to the fulfillment of their role in the economy [2, p. 26]. |
| Tyurnin V. A. | Finance is a kind of synthetic economic category and reflects the level of development of macroeconomic and microeconomic processes. Finances act as the most important component of market relations and at the same time are the main state tool for regulating the economy [4, p. 43]. |
| Yandieva M. I. | Finance is the highest form of exchange transactions at a given historical moment in time, which allows for the most efficient redistribution of goods and services in society, as well as control over members of society [7, p. ten]. |

Note - Source: [1, 2, 4, 7].

Thus, the concept and essence of finance is interpreted as:

- the totality of monetary relations regarding the distribution of the value of the gross domestic product;
- movement of financial flows;
- a special category reflecting the level of development of economic processes;
- the practice of handling and managing money;
- the science of managing money and other assets over a period of time.

Finance comes from money. Money is also the material content of finance and at the same time expresses a recognized system of economic relations. At the same time, not all monetary relations can be attributed to finance. In fact, finance at a certain stage is still an independent part of monetary relations. A feature of finance is that they do not have a special connection with the production and circulation of products [13].

Finance is an integral part of monetary relations. Finances act in monetary form, but not all monetary relations are financial. Finance differs from money both in content and in the functions they perform. Let's compare financial and monetary relations point by point (Table 1. 2).

Table 1.2 – Comparison of financial and monetary relations

| Money | Finance |
|--|--|
| The total equivalent by which the costs of associated producers are measured. | An economic tool for the distribution and redistribution of GDP and ND, a tool for controlling the formation and use of cash funds |
| They perform five functions: a measure of value, a means of accumulation and savings, a means of payment, world money. | Perform 3 functions of finance |
| Arise before finance | Arise after money |
| More general economic category | Secondary category derived from money |
| Covers broad economic relations | Cover narrower relationships associated with the formation of monetary funds |

Note – Source: [8].

Therefore, finance is understood as a set of economic relations arising in the process of capital formation, distribution and use of monetary resources. Finance refers to monetary relations between entities. In other words, the material basis for the existence and functioning of finance is money and currency turnover.

The country's financial system is a combination of various spheres (links) of financial relations, each of which is characterized by features in the formation and use of funds of funds, a different role in social reproduction.

Public finances are a set of monetary funds managed by state bodies in order to ensure national and social needs. State funds are formed mainly due to the withdrawal through taxation of part of the income from other subsystems of the financial system [18].

Public finances are personal funds received through wages, income from capital, entrepreneurial private activity. Enterprise finance is of great importance in the structure of the country's financial system, because it is at the level of enterprises that the largest mass of financial resources of the state is formed.

The finances of enterprises are characterized by the same features that are inherent in the whole category of finance. At the same time, they differ from state and municipal finances, which is due to their functioning in various sectors of social production, where all spheres of the reproduction process are organically linked - production, distribution, exchange and consumption [31, p. 112].

Finances have functions that reveal the social purpose of this economic category.

In economics, there is no consensus on the number of functions of finance. Most economists believe that finance performs three functions [17]:

- distribution;
- regulatory;
- control.

The essence of finance as a special sphere of distributive relations is manifested primarily with the help of the distributive function. It is through this function that the public purpose of finance is realized - providing each business entity with the financial resources it needs, used in the form of special-purpose funds.

The distributive function is carried out in all spheres of public life: in material production, in the non-material sphere, in the sphere of circulation. The subjects of distribution at the micro level are legal entities and individuals, at the macro level - the state. The objects of distribution are GDP and ND in monetary form. With the help of the distribution function, the distribution of new value (at the micro level) and the redistribution of this value (at the macro level) are carried out [33, p. 108].

The distribution function covers three consecutive steps:

1. formation of cash funds. At the micro level, the financial resources of economic entities necessary for the circulation of capital and the funds of households are created, and at the macro level - centralized state funds;

2. distribution of funds through financial instruments. At the micro level, separate funds of the enterprise (statutory, wages, depreciation) and household funds are formed for specific consumption; at the macro level, budgets of all levels and off-budget funds arise;

3. the use of monetary funds is called upon to ensure, at the micro level, expanded production and the existence of individual members of society, and at the macro level, the improvement of the national economic proportions and the nation-wide needs of the country.

As a result of the distribution of GDP and ND, society's incomes are created. During the primary distribution at the micro level, there are basic, or primary, incomes. In the sphere of material production, primary incomes include: profits of enterprises; contributions to social, off-budget funds; income of workers.

Thus, the distributive function of finance allows: to form monetary funds at the level of the enterprise and household, as well as the state; to form not just cash funds, but special-purpose funds; to carry out intersectoral, interterritorial redistribution, as well as between spheres and social groups; create the necessary reserves, both at the level of enterprises and the state [9, p. 113].

Control function. Finances associated with the movement of the monetary form of the value of GDP have the property of quantitatively displaying the reproduction process through financial resources. The essence of financial control is to inform the public about all problems in economic and monetary relations. The control function, which visually represents the reproduction process, signals the emerging deviations in the proportions of the distribution of GDP and ND, in the timely and complete formation of target funds, in the provision of the necessary resources for the production process.

The control function of finance manifests itself [15]:

- before the onset of the distribution process, when programs, forecasts, budgets are drawn up;
- in the process of using funds of funds, in the implementation of the planned programs, plans, estimates;
- in the process of summing up, compiling assessments of the implementation of plans.

The control function is implemented through:

- 1 financial and economic control at individual enterprises, based on the implementation of business contracts, the implementation of commercial settlement;
- 2 financial and budgetary control, when making tax payments and financing from budgetary resources;
- 3 credit and banking control, using the principles of lending and cash settlements;
- 4 independent audit and public control;

5 insurance control by insurance companies upon the occurrence of an insured event and the payment of compensation.

The regulatory function is expressed in the fact that with the help of finance it is possible to influence the behavior of participants in monetary relations. The regulatory function of finance is used:

- at the micro level – at the enterprise to stimulate its activities, creating various funds that help improve the quality of the production process, increase its volume, improve the financial situation of workers;
- at the macro level, the state, using public spending, taxes, state credit, achieves the same results. The credit policy of the state, monetary policy are tools to influence the situation within the country and interstate relations with the help of finance [29, p. 67].

Also, among economists, there is an opinion that finances have such functions as stimulating, stabilizing, reproductive.

The stabilization function of finance is realized in the conditions of market relations. Its content is to ensure stable conditions in economic and social relations for all economic entities and citizens.

The incentive function is to use the distributed income either to expand production or for savings and social needs. The state, with the help of a system of financial leverage, influences the development of industries and enterprises in one direction or another. Financial leverage can be: the budget, prices and tariffs, taxes, export and import duties.

The reproductive function ensures the balance of labor, material and monetary resources at all stages of simple and expanded production. In the context of the reproductive function, finance not only distributes, but also serves the circulation of funds, providing the reproduction process with monetary resources.

Thus, finance is a set of monetary relations, one of the participants of which is the state, through which the formation and use of nationwide funds of funds are carried out to fulfill the constitutional functions assumed by the state to solve economic, social, political and other tasks. The functions of finance are carried out: at all levels of management of the economic system (republican, territorial, local); in all spheres of public life (material production, sphere of circulation, sphere of consumption); at all levels of the economic system (intraeconomic - finances of enterprises, intrasectoral - finances of complexes, intersectoral and interterritorial - state budget and non-budgetary funds).

1.2 The financial system of the state

The concept of the financial system is a development of a more general definition of "finance". According to N. I. Bazylev, "finance is a historical category. By their nature, they are closely connected with the state, which needs money to perform its functions" [1, p. 115-120].

Also, according to his statement, "finances are economic relations that arise in the process of distribution, redistribution in monetary form of a part of the value of the national product, creation and use on this basis of monetary funds necessary to meet social needs. Finance performs two main functions: distributive and control. The first is connected with the distribution and redistribution of a part of the value of the social product. In the course of these processes, targeted monetary funds of business entities, the state, and the income of the population are formed and used. The second is due to the fact that cash flow can be quantified by various financial indicators that "report" how financial resources are distributed and how they are used. This allows society to control the process of creating funds, their redistribution and to stimulate the efficient use of funds" [1, p. 115-120].

According to Frolova T.A. "The subjects of financial relations are the state, enterprises, organizations and employees of enterprises, citizens. And the object of financial relations are financial resources, which include net income, depreciation deductions for renovation, taxes and non-tax payments, financial reserves, part of the funds of public organizations etc. Therefore, financial relations express the process of distribution and redistribution of the value of the social product and, on this basis, the formation of funds among the participants in the reproduction process: entrepreneurs who invest capital in production and sell goods and services; employment of a special population that owns the labor force; the state, which invests natural resources, regulates economic processes.

The financial system is a set of financial links designed to ensure the state's implementation of its political economic consists, on the one hand, of finances of private enterprises, corporations, monopolies" [26, p. 110].

Thus, financial relations can be divided into several blocks shown in Figure 1.1.

| Financial system | | |
|-------------------------|--|--------------------|
| public finance | Finances of enterprises, organizations, institutions | Citizens' finances |

Figure 1.1 – Structure of the financial system

Note - Source: own development [23]

The interpretation of the concept of "financial system" in the financial literature largely depends on the scientific school in which a particular researcher works. It should be immediately noted that the considered methods cannot represent all existing ones.

There are the following approaches to the concept of "financial system" (Figure 1.2).

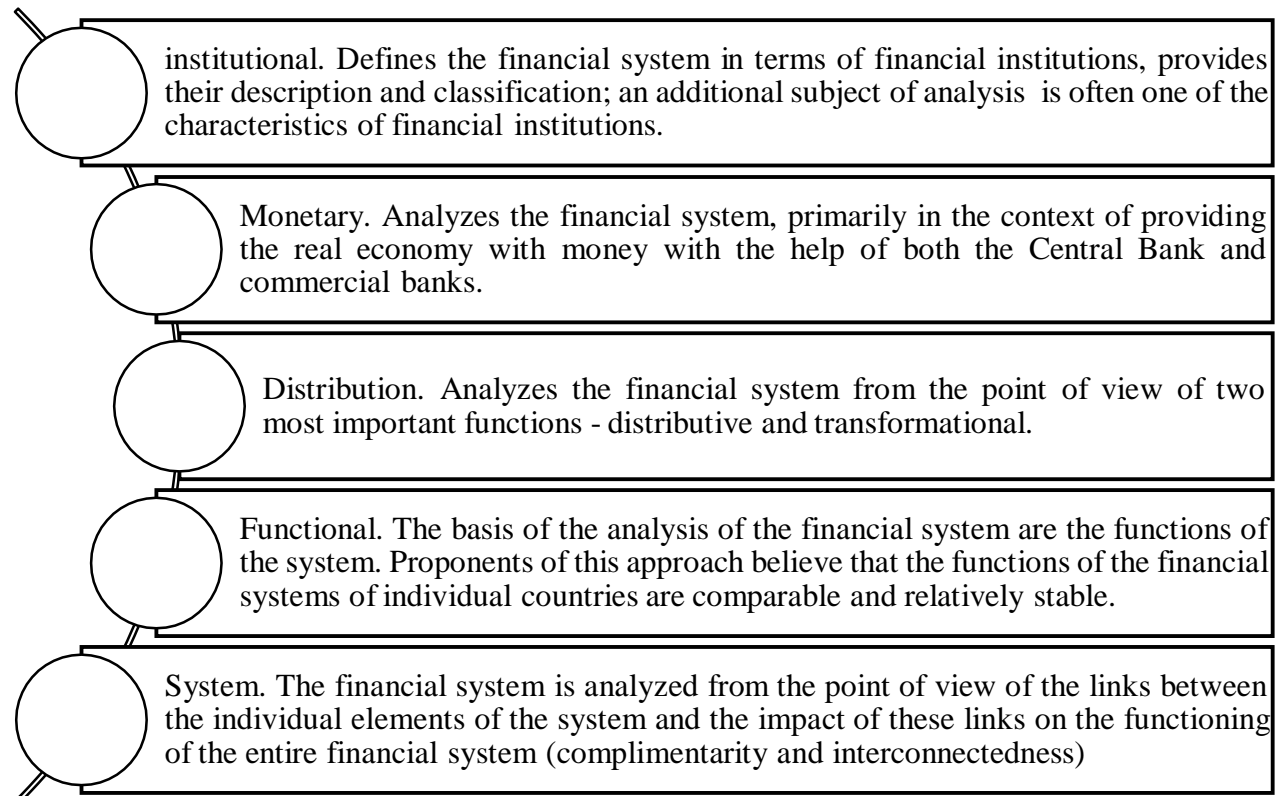


Figure 1.2 - Approaches to the definition of the financial system

Note - Source: [22]

Also, in addition to the financial system, some authors single out other blocks separately: the budget system, insurance, extra-budgetary funds, enterprise finance, international financial organizations, credit institutions, family farms (or population).

As shown in Figure 1.1, the structure of the financial system is represented by public finance, institutional finance, and enterprise finance.

Public finances are expenditures and revenues of the public sector and public authorities [4].

The finances of an organization are a system of economic relations of legal entities associated with the formation, distribution and use of financial resources in the course of their economic activities [4].

Similarly, with the finances of insurance and households, these are financial transactions related to insurance and transactions managed by various households [4].

Also, according to Frolova T.A. “The leading element of public finance is the state budget. In terms of its material content, it is the main centralized fund of the state's funds.

The state budget is the main means of redistributing the national income. Up to 40% of the country's national income is redistributed through this link in the financial system. The state budget concentrates the largest revenues and the most politically and economically important national expenditures. The main financial institutions – taxes, internal loans, expenses – find an organic link in it” [22].

The financial system is an ordered set of financial relations, the links of which can be divided into two blocks, each of which has an internal structure:

- 1) centralized finance;
- 2) decentralized finance. Each link in this system has special methods for the formation and use of funds and plays a different role in social reproduction [25].

Avilkina M.A. states that “the main place in the financial system is given to the state budget, the largest monetary fund used by the state to finance its activities. This fund supports the army, police, a significant part of healthcare, and also influences economic processes. Due to its special position, the state budget provides assistance to other parts of the financial system, providing them with direct assistance in case of need. This happens by transferring funds from the central state fund to local financial funds, state enterprise funds and special state funds [13].

The state budget consists of two interacting groups of articles: revenues and expenditures. The revenue part of the budget reflects the sources of funds and their amount. The main source of income for the budget are taxes from legal entities and individuals. The budget expenditures indicate the specific areas of work of the cashier, their amount. A significant part of the budget expenditures goes to finance sectors of the economy and social and cultural events. A relatively small share in the expenditure part is occupied by the costs of maintaining the administrative and defense apparatus of the country” [5].

The next important link in national financial finance is extrabudgetary funds - funds from the government and local authorities associated with financing costs that are not included in the budget. The formation of off-budget funds helps to attract additional financial resources.

The initial data is the formal redistribution and use of financial resources. Extrabudgetary funds have a strictly designated purpose - raising funds for pensions, employment, compulsory health insurance, development of priority sectors of the economy, etc. [23].

Also, according to the statement of Avilkina M.A. “The next most important financial link is the system of local finance. In modern conditions, under the influence of the development of productive forces, scientific and technological progress, there is

an increase in the role and influence of local authorities. All this enhances the importance of local finance, increases their role and share in the financial system.

The essence of finance is manifested through the distribution and redistribution of part of the GDP - net income. Only it has distributive and redistributive features and functions of creating income and savings as part of the total social product and national income. Net income is the main, and often the only source of formation of centralized and decentralized funds of funds. It is the source of the process of expanded reproduction. The distributive nature of net income is manifested in the fact that this separate part of the total product can be split and distributed into funds of funds” [5].

In view of the foregoing, each link in the financial system is a specific area of financial relations, and this system as a whole is a combination of various areas of financial relations, in the process of which funds of funds are formed and used.

In other words, the financial system is a system of forms and methods of education, distribution and use of state and enterprise funds. The main structural elements of the state financial system are the state budget and the local finance system.

1.3 Centralized and decentralized directions of the financial system of the state

Public finances are centralized finances and include the following links: the state budget, off-budget centralized funds, state credit.

1. One of the main elements of public finance is the state budget, which allows you to accumulate significant financial resources and direct them to solve national problems and carry out the functions of the state. The main role in the state budget revenues is played by taxes and non-tax payments received from business entities and the population.

According to Pisarenko, G. V. “off-budget funds are funds from the government and local authorities intended to finance expenses not included in the budget.”

State credit is a tool through which the state generates additional financial resources of the country at the expense of temporarily free funds of organizations and the population, as well as borrowing from external creditors [11, p. 76].

According to Sorokina T.V. “when carrying out credit operations within the country, the state is the borrower of funds, and the population and organizations are creditors. In the sphere of international economic relations, the state acts as both a borrower and a creditor. In cases where the state assumes responsibility for the repayment of loans or the fulfillment of various material obligations assumed by individuals and legal entities in relation to other legal entities, it is a guarantor.

Public debt should be a special object of management. At the same time, accounting for the volume of public debt, its repayment and servicing are of paramount importance. Being a means of increasing the financial capabilities of the state, the state

loan is a significant factor in accelerating the socio-economic development of the country” [6,7].

According to Pisarenko, G. V. “decentralized finance includes the finances of organizations (economic entities) and households. The finances of organizations are economic relations arising from the formation, distribution and use of funds of funds that ensure the process of reproduction in a particular organization.

The entire set of financial relations of organizations can be systematized in the following areas: related to the formation of the authorized capital of an economic entity; related to the production and sale of products, works, services (for example, supplier – buyer); between economic entities associated with the issue and placement of securities, mutual lending, equity participation in the creation of joint ventures; between an economic entity and its subdivisions, a higher organization, unions and associations, of which it is a member in the performance of mutual financial obligations; between business entities and the state budget and off-budget funds when paying taxes and fees, receiving funds from the budget, providing tax benefits, applying financial sanctions; between business entities and the banking system in the process of keeping money in a bank, obtaining and repaying loans, paying interest on a loan, etc.; between business entities and insurance companies arising from the insurance of property, certain categories of employees, business risk and liability” [8]

Also, according to Pisarenko, G. V. “household finances are financial relations, one of the subjects of which is an individual or a separate family running a joint household. A feature of this link in the financial system is the limited resources in comparison with the rest and its importance for social stability in society [21, p. 32].

Decentralized finance is used to regulate and stimulate the economy and social relations at the micro level. At this level, the predominant part of financial resources is formed. The overall financial situation of the country largely depends on the state of decentralized finance” [8].

In order to clearly understand what is the source of income and the direction of distribution of financial resources, it is advisable to consider Table 1.3.

Table 1.3 – Receipts (sources of income generation) and directions of distribution of financial resources (expenses) of centralized and decentralized financial systems

| Financial systems (financial flows) | Income (sources of income) | directions of distribution of financial resources (expenses) |
|-------------------------------------|-----------------------------|--|
| 1 | 2 | 3 |
| 1. Centralized financing | | |
| 1.1 state and local budgets | tax and non-tax payments | interbudgetary transfers, subsidized organizations, |
| 1.2 government credits and loans | external and internal loans | issue of securities (bonds) by a federal government agency |

End of the table 1.3

| 1 | 2 | 3 |
|---|--|--|
| 2. Decentralized finance | | |
| 2.1 Finance of commercial organizations | Proceeds from the sale of products, bank loans, etc. | payment to suppliers, purchase, i.e. economic needs; payment of taxes |
| 2.2 Banks | deposits, loans of the national (central bank) | meeting the various needs of legal entities and individuals both in cash and in certain services |
| 3. Public finances | wage | payment of taxes |

Note. Source: [24, p. 23].

Thus, the financial system is a system of forms and methods of management that allows the formation, distribution, regulation and use of the available funds of national forecasts and monetary policy funds of enterprises and the state. An important place in the country's financial system belongs to the state budget, which is widely used in the system of state regulation. As an estimate of national income and expenditure and affecting its well-being, the budget plays an important role in the life of every country. The financial system consists of centralized and non-centralized finance. Centralized finance includes state finance and municipal finance. Centralized finance is represented by the budget system, as well as state and municipal credit. Decentralized finance includes funds of funds that are formed outside of state and municipal finance. Owned by legal entities or individuals.

1.4 Annotated overview of the Legislative and Regulatory Framework Governing the Financial System in China

So, we will consider in detail each of the laws and regulations that regulate the financial system.

The Chinese banking system consists of three levels:

- Central Bank – People's Bank of China;
- Commercial banks, which are subdivided into state and joint-stock commercial banks, branches of foreign banks;
- non-bank credit institutions.

The Law of the People's Republic of China on Credit and Financial Instruments adopted on May 10, 1995 at the 13th session of the 8th NPC Standing Committee, promulgated by Decree No. 49 of the President of the People's Republic of China on May 10, 1995, came into force on January 1, 1996.

This law is introduced in order to regulate transactions with credit and financial instruments, protect the legitimate rights and interests of parties working with credit

and financial instruments, maintain social and economic order and stimulate the development of a socialist market economy.

This law applies to all credit and financial instruments in China.

People's Bank Law The People's Republic of *China* was adopted at the Third Session of the 8th Congress of the NPC on March 18, 1995.

This law is enacted to determine the status and functions of the People's Bank of China, ensure the correct formulation and implementation of the state monetary policy, establish and improve macro-control by the central bank, and strengthen supervision and control in the financial industry. The People's Bank of China is the central bank of the People's Republic of China. The People's Bank of China shall formulate and implement monetary policy and, under the guidance of the State Council, supervise and control the financial industry [10].

The Commercial Bank Law was adopted by the 13th session of the Standing Committee of the Eighth People's Congress on May 10, 1995. The adoption of this law is aimed at protecting the legitimate rights and interests of commercial banks, depositors and other clients, introducing common standards for the operation of commercial banks, increasing funds, strengthening control and administration, ensuring the security and strength of commercial banks, maintaining a normal procedure for conducting financial transactions and facilitating development of a socialist market economy.

The Banking Supervision and Control Law of the People's Republic of China was adopted by the 6th NPC Standing Committee on January 27, 2003.

This Law is adopted in order to strengthen control and management in relation to banks, standardize control and management actions, protect norms and reduce banking risks, protect the legitimate rights and interests of the client and depositor, and stimulate the healthy development of banks.

The Budget Law of the People's Republic of China was adopted by the second session of the 8th National People's Congress on March 22, 1994, promulgated by Decree No. 21 of the President of the People's Republic of China, and entered into force on January 1, 1995. This law is designed to strengthen the distributive and control function of the budget, improve the management of the state budget, strengthen the visible management and control by the state, and ensure the healthy development of the economy and society.

The Law of the People's Republic of China on Credit and Financial Instruments adopted on May 10, 1995 at the 13th session of the 8th NPC Standing Committee, promulgated by Decree No. 49 of the President of the People's Republic of China on May 10, 1995, came into force on January 1, 1996. This law is introduced in order to regulate transactions with credit and financial instruments, protect the legitimate rights and interests of parties working with credit and financial instruments, maintain social and economic order and stimulate the development of a socialist market economy.

The Law on Auditing in the People's Republic of China was adopted by the 9th Session of the 8th NPC Standing Committee on August 31, 1994, amended in accordance with the Decision to Amend the Auditing Law of the People's Republic of China, adopted at the 12th session of the Tenth NPC Standing Committee on February 28, 2006. This law was developed in accordance with the Constitution, with the aim of strengthening state control using audit, maintaining the financial and economic order in the country, contributing to the creation of a flawless management system and ensuring the healthy development of the national economy [41].

PRC Accounting Law

Originally adopted at the 9th meeting of the Standing Committee of the 6th National People's Congress on January 21, 1985, amended at the 5th session of the Standing Committee of the 8th National People's Congress on December 29, 1993. This law is designed to standardize and improve accounting, ensure that accountants comply with the law, and give effect to the role of accounting in maintaining the order of the socialist market economy, strengthening economic management, and improving the efficiency of the economy.

The Law of the People's Republic of China on Administration of Tax Collection was adopted by the 27th Session of the Standing Committee of the 7th National People's Congress on September 4, 1992.

The amendments were made in accordance with the decision to amend the law of the People's Republic of China on the management of tax collection, adopted by the 12th session of the 8th NPC on February 28, 1995.

This law is designed to improve the management of tax collection, secure government revenue and protect the legitimate interests of taxpayers.

PRC Personal Income Tax Law and PRC Corporate Income Tax Law

Publication date: 1999-01-22 Decree No.259. These provisions are designed to strengthen and streamline the system for collecting social insurance contributions and payments, and to ensure the payment of social insurance compensation.

It is also worth noting that there is a Law on Foreign Investment – the law of the People's Republic of China regulating foreign direct investment in China. The law was adopted by the National People's Assembly on March 15, 2019 and entered into force on January 1, 2020.

The Law of the People's Republic of China on Social Insurance was developed in accordance with the Constitution in order to regulate social insurance issues, protect the legitimate rights and interests of citizens to participate in social insurance and receive social insurance payments, encourage citizens to enjoy the fruits of society's development and achieve social harmony and stability [44].

Conclusions on chapter 1.

Finance actively interacts with various economic categories. In the process of value distribution, finance actively interacts with price, wages, and credit. There are also objective prerequisites for the influence of finance on the reproduction process. It should be noted that the impact of finance on the economy can be quantitative (distributed and used finance) and qualitative (impact on reproduction). In the sphere of material production, finance, serving the circulation of production assets, contributes to the creation of new value. In the sphere of circulation, finance actively influences the processes of exchange.

The financial system is a system of forms and methods of management that makes it possible to use the funds of the monetary policy of enterprises. The state budget plays an important role in the system of state regulation. The assessment of national income and expenditures and their impact on welfare is of great importance in the life of every country.

The modern financial system performs the following key functions: ensuring the movement of economic resources over time, across state borders and from one sector of the economy to another; ensuring risk management; accumulation of funds; saving function; lending function; planning function; provision of financial information; providing incentives, control function.

The structure of the financial system is the totality of its elements and the links between them. The financial system consists of centralized finance (state budget, off-budget funds (social, medical social insurance) and state credit) and decentralized finance (finance of commercial enterprises, finance of non-profit enterprises and finance of public associations).

An important place in the country's financial system belongs to the state budget, which is widely used in the system of state regulation. As an estimate of national income and expenditure and affecting its well-being, the budget plays an important role in the life of every country. The financial system consists of centralized and non-centralized finance.

The regulation of China's financial system has a multi-level character. The financial system in China is governed by various regulations and laws that cover the budgetary and extrabudgetary systems, the banking system, taxation, business and household finance, and public finance. Considering the most significant financial subsystems, such as budgetary and banking, one can note such regulations and laws as: the Law on the People's Bank of China, the Law on Banking Regulation and the Law on Commercial Banks.

CHAPTER 2

STUDY OF THE FINANCIAL SYSTEM OF CHINA

2.1 China's Financial System

It is worth noting that over the past thirty years of reforms in the PRC, there has been a radical change in the structure of the economy, the financial sector of China, like the whole country as a whole, has long been closed to foreign investment and developed exclusively at the expense of domestic resources.

China's financial sector has long been closed to foreign investment and developed exclusively from domestic resources. Financial intermediation in the country took place mainly through the banking system. The situation began to change significantly with the start of full-scale economic reforms.

1976 became a turning point for the history of China and its financial system in particular. The death of Mao Tse-tung and the rise to power of Deng Xiao Ping radically changed the structure of the country's economy and its position in the world. The new course of openness to the outside world broke with the tradition of the centuries-old isolation of the country, which meant, first of all, the expanding access of foreign capital to the Chinese economy: at first to a limited territory and a limited number of industries, and then on an ever larger scale. Over the years of reforms, the country has demonstrated phenomenal economic growth rates, actively joining the world economy, and has become a politically and economically worthy adversary of the leading world powers [14].

At the turn of the 1970s and 1980s, China began to implement a reform aimed at creating a system called the "market economy". The modernization strategy was defined by the policy of reform and opening up, the purpose of which was to revive the Chinese economy and provide conditions for economic growth after the failure of the Great Leap Forward policy of 1958-1963. The modernization policy took place in several stages:

1. 1978-1983 – there was a "cautious" introduction of the market into planned economies. As state enterprises were reformed to give them greater economic and managerial independence, the banking system was reformed, a transition was made to annual quotas for bank lending, setting benchmarks for interest rates (loans, deposits).

2. 1984-1987 – there was a further introduction of market mechanisms: the transition of local budgets to "contract" schemes of interaction with the state;

3. 1992-1996 – the acceleration and growth of the scale of liberalization and the reform of property rights continued. During these years, there was also a transition to the active model of the People's Bank of China.

For two decades there has been a significant reform of the country's banking system. By 1980, there were only 2 types of banking services in China: keeping

deposits and issuing loans, and insurance extended only to international transactions. The NBK combined the functions of a central bank with the operations of commercial banks, and was also responsible for the implementation of the country's economic reform.

In the context of decentralized and centralized financial systems, at the moment, the Chinese financial system consists of the following subsystems: budgetary and extra-budgetary systems, banking system, financial system of enterprises and households, tax system, public finance system.

Speaking about the centralized financial system, it is important to note that the bulk of centralized finance is accumulated in the budget system. Let's take a brief look at China's budget system

1.China's budget system.

Budget legal relations in the PRC are regulated by the Budget Law, the first edition of which was adopted in 1994 in the course of a large-scale tax and budget reform. The vision of the structure of the budgetary system laid down in this law initially corresponded to the administrative-territorial division of the country and implied five levels: the central budget; budgets of provinces, autonomous regions and cities of central subordination; budgets of autonomous prefectures and cities; district budgets; county budgets. With the formal preservation of this norm, a three-level system has actually developed in the PRC at the present time. The key level of the budget system within the provinces is now the districts, to which a number of powers and accounting and administrative functions have been transferred in relation to the budgets of lower counties (which is allowed by the Budget Law). Also, direct relations were established between the budgets of provinces and districts, which actually equated the latter to cities, while in the 1990s. city budgets acted as an intermediate link in relations between provinces and districts. The reduction in the actual number of levels of the budgetary system was the result of a targeted policy of the early 2000s aimed at streamlining and increasing the transparency of interbudgetary relations. The budgets of all levels are considered by the legislation as state budgets that make up a single system; municipal budgets, as well as local self-government in the traditional sense for Western countries, which is also reflected in Russian legislation (i.e., as different from state budgets and authorities at different levels), are absent in the PRC, and the concept of “local” applies to all budgets, except central [44].

Figure 2.1 shows China's budget spending.

Thus, budget expenditures in 2020 amounted to 37310.049 billion yuan, while in 2018 they amounted to 30474.167 billion yuan, in 2019 they amounted to 33835.277 billion yuan.

As a result, the budget balance was -3922.712 billion yuan in 2018, -6045.184 billion yuan in 2019, and -10967.178 billion yuan in 2021.

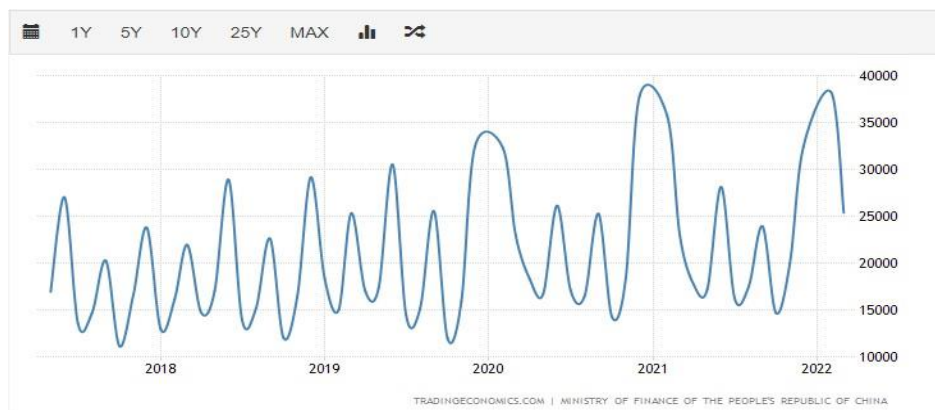


Figure 2.1 - The expenditure part of the state budget of the People's Republic of China
Note - Source: [16]

Next, let's look at the structure of expenditures of the state budget of China.

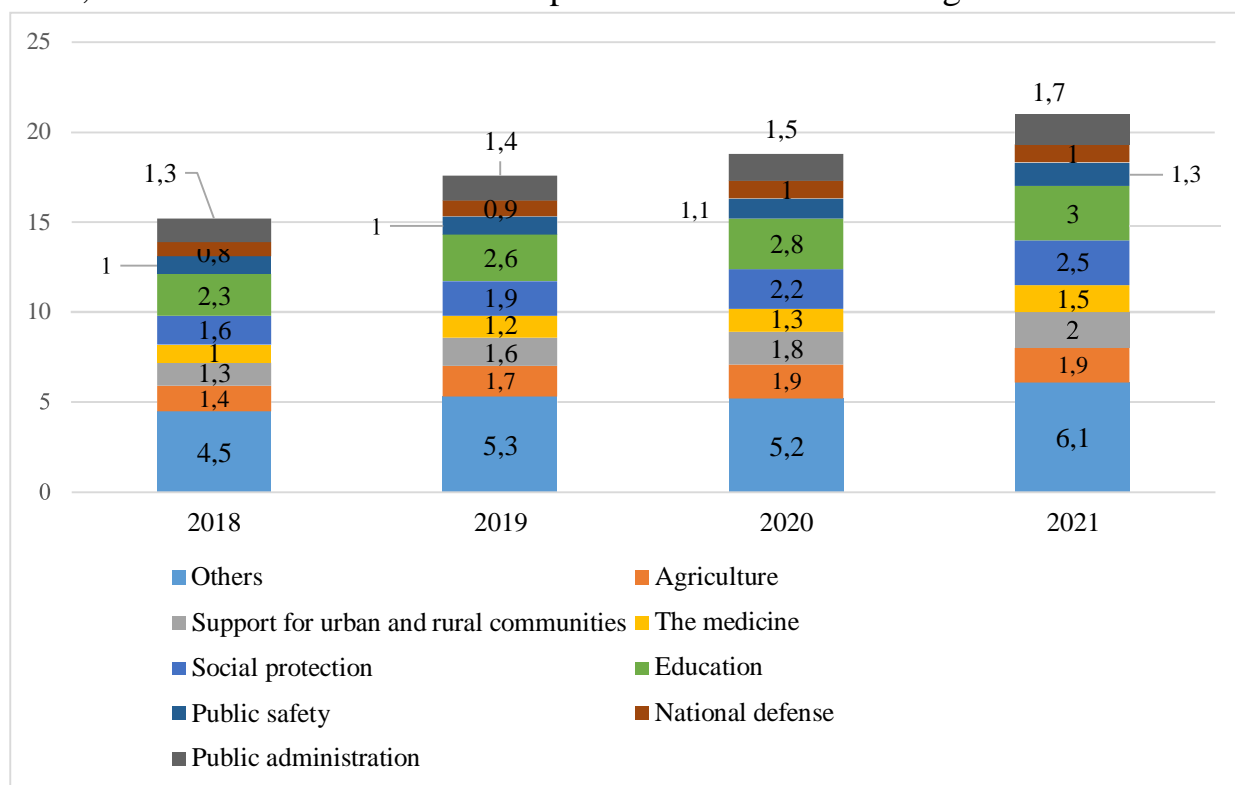


Figure 2.2 – The structure of the expenditure side of the state budget of the People's Republic of China for 2018–2021
Note - Source: [16]

As can be seen from Figure 2.2 above, the state budget expenditures of the People's Republic of China are structured as follows in 2021: education accounts for 3 trillion. yuan or 20.8% of total spending; \$2.5 trillion is spent on social protection. yuan or 17.4% of total spending; support for urban and rural communities accounts for 2 trillion. yuan or 13.8% of the total.

Next, consider Chinese off-budget funds.

As in most other countries, China has various off-budget funds and accounts, as well as various levels of budgets, including various levels of social security funds, public capital funds that accumulate income from state property, and many others. These extrabudgetary funds are controlled and managed by central and subnational

governments and function as a kind of parallel budgetary system, especially since the resources they manage are by no means small compared to the resources flowing through budgets as such.

Off-budget funds include such as the fund for the construction of energy and transport facilities and the fund for housing construction.

Specialists also talk about “unofficial” extrabudgetary revenues of provinces and counties, comparable to the total volume of official budgetary and extrabudgetary revenues of local authorities.

In the 80s. The central government has set up three main off-budget funds: a fund for the construction of key transport and power facilities, an agricultural assistance fund, and a budget regulation fund. Funds for these funds came from the payment of special fees by enterprises of the non-state sector. In 1996, all three funds were included in the central budget, and were later liquidated. At present, the off-budget funds established by the central government include the education support fund and the re-employment support fund.

The main problem associated with the existence of off-budget funds is that the absolute majority of them (over 90%) are created at the level of local governments in order to increase financial revenues. Many local foundations are informal and illegal. The incomes received by these funds do not fall into the budget and are not taken into account by official statistics. First of all, this applies to various payments for the use of state property. Income from renting state property, transferring land, using state-owned water and natural resources, issuing money, and issuing lottery tickets, which amount to hundreds of billions of yuan annually, is mainly retained by government and administrative organizations and institutions [5, c. 11].

Therefore, the task of the reform of off-budget funds is to eliminate most of the informal funds created by local governments. Payments for services rendered by government agencies, which constitute a significant part of the income of off-budget funds, are transferred either into commercial payments or into tax revenues of the state budget. As the experience of other countries shows, in order to increase local budget revenues, it is necessary to allow local governments to participate in setting tax rates, to have the right to impose local taxes, and to issue bonds.

Next, consider a decentralized financial system in which the finances of enterprises, banks, households and the population are accumulated.

The sources of formation of financial resources of Chinese enterprises include:

a) own (internal):

- income;
- profit from the main activity;
- profit from other activities;
- proceeds from the sale of retired property, minus the costs of its sale;
- depreciation charges;

b) attracted on different terms (external):

- own attracted;
- borrowed funds;

- arriving in the order of redistribution;
- budget allocations.

It should be remembered that not all profit remains at the disposal of the enterprise, part of it in the form of taxes and other tax payments goes to the budget. The profit remaining at the disposal of the enterprise is distributed for the purposes of accumulation and consumption. The profit allocated for accumulation is used for the development of production and contributes to the growth of the property of the enterprise. Profit directed to consumption is used to solve social problems.

Own attracted resources are the result of the investment of external investors as entrepreneurial capital.

Entrepreneurial capital is capital invested in the authorized capital of another enterprise for the purpose of making profit or participating in the management of the enterprise.

Loan capital (borrowed funds) is transferred to the enterprise for temporary use on the terms of payment and repayment in the form of bank loans issued for different periods, funds of other enterprises in the form of promissory notes, bonded loans.

Funds received in the order of redistribution consist of:

- insurance indemnity for our blunted risks;
- financial resources coming from concerns, associations, parent companies;
- dividends and interest on securities of other issuers;
- budget subsidies [19].

Budget allocations can be used both on a non-refundable and reimbursable basis. As a rule, they are allocated to finance government orders, individual investment programs, or as short-term state support for enterprises whose production is of national importance.

Financial resources are used by the enterprise in the process of production and investment activities. They are in constant motion and arrive in cash only in the form of cash balances on the current account in a commercial bank and the cash desk of the enterprise.

At present, society in China is undergoing a period of transformation. In this regard, we can distinguish a number of phenomena that similarly affect the population and determine the nature of its savings behavior: the abolition of the traditional system of social guarantees and a number of regulations in the economic life of people, the formation of the labor market and the formation of a consumer society. At the same time, a number of significant differences should be singled out in the course of China's socioeconomic transformations. They relate to the rate of urbanization of the population, the share of people employed in industries, the nature and pace of development of the institution of private property, and the features of the system of social and pension insurance.

Savings are considered from the traditional point of view - as accumulation. This is the part of a citizen's cash income that he saves, intending to use for future

purchases and / or self-insurance. Thus, the subject transfers his consumption from the present to the future.

The features of people's savings are determined by many factors: the conditions of the socio-economic environment, national traditions, as well as age (a person's belonging to a certain generation). S. Abramova, the author of a study of the attitude towards money of generational groups of children, parents and grandparents, writes that different types of economic behavior manifest themselves in different generations [1, p. 39].

Two assumptions can be made:

1. A group of Chinese citizens tend to save more than Belarusians. The assumption is based on the results of a literary review by A. Furnam, who showed that cultural and socio-structural factors affect the use, meaning and scope of money in modern society [12, p. 44-46].

2. The generation of parents is more likely to spend money on savings than the generation of adult children, and the generation of grandparents is more likely than the generation of parents.

Members of the younger generation are less likely to use free money in savings than members of the older generation. The socialization of generations of parents and grandparents in both countries took place in the era of the planned economy. Due to significant restrictions in the consumption and investment of their income, most of the citizens carried out the accumulation of surplus funds remaining after paying current expenses. In addition, in past years, the influence of traditional models of financial behavior associated with the strategy of material assistance to children, which has not lost its significance for the generation of grandparents, has been very strong; in the generation of parents, this strategy is only partially implemented.

The economic behavior of young people (including savings) has been and continues to be formed in the context of the development of a consumer society, economic stratification, social mobility, and demonstration of social status. As a result, young people are less likely to save than previous generations.

Further, we will take a closer look at the banking system as one of the most indicative financial subsystems of the state. Banks are the center of the financial system, the stability of which is the most important condition for the development of the economy. In this regard, it is obvious that the state of the national banking system has a huge impact on the pace of China's economic growth and the speed of its integration into the world economy.

An important part of China's banking system is the foreign financial institution, which includes 14 representative offices of foreign banks, joint Chinese-foreign banks, branches of foreign banks and foreign investment banks. Today, foreign financial institutions have the right to conduct 12 basic transactions and cooperate with hundreds of banking products [49].

China's modern banking system has a three-tier model and is fully controlled by the state. The first level includes the People's Bank of China, State Development Bank, China Agricultural Development Bank, Export-Import Bank. The People's Bank of China is the main financial institution of the PRC, which has broad powers to manage monetary policy and regulate financial institutions in mainland China. The functions of control and supervision over the operation of the banking system are assigned to the All-China Banking Regulatory Commission. The remaining (previously mentioned) banks are responsible for campaigns in the field of industry, agriculture and foreign trade.

The second level is the basis of the Chinese banking system. It is represented by commercial banks. They are divided into two types: significant Chinese banks with the participation of state capital - the famous "Big Four": the Bank of China; Agricultural Bank of China; Industrial and Commercial Bank of China; Construction Bank of China and joint-stock banks. The country's leadership is especially interested in the development of the largest banks and makes great efforts to this end. In general, most of them are managed by residents, the share of non-residents is low, since for a long time it was under a ban, which was lifted after the country joined the WTO in 2001. State commercial banks are divided into urban and rural depending on the field of activity. Moreover, this level of the banking system includes leasing financial, trust investment and other financial companies that carry out a wide range of banking operations.

At the third level of China's banking system are agricultural and urban credit cooperatives and post offices. They are the main base for the development of small and medium-sized businesses in the state (table 2.1).

Table 2.1 – Hierarchy of China's banking system

| | |
|--------------------------------|---|
| Central Bank | People's Bank of china |
| Political banks | State development bank Import-Export Bank of China Bank of China for Agricultural Development |
| State commercial banks | Commercial and Industrial Bank of China Bank of China Agricultural bank of China People's Construction Bank of China |
| Joint-stock commercial banks | More than 120 banks |
| City banks | Bank of Beijing, Bank of Shanghai, etc. |
| Other financial establishments | Urban and rural credit cooperatives Rural commercial banks Investment trust-companies Financial and crediting companies Foreign banks |

Note – Source: [42]

The Industrial and Commercial Bank of China was established on January 1, 1984. On October 28, 2005, it was reorganized into a joint-stock company with limited liability. The bank is one of the largest banks in the world, investing in various industries, actively participating in supporting structural reforms and modernizing the Chinese economy. At the end of 2021, the Bank's total assets were 24,137,265 million yuan, up 8.7% from the end of 2020. The net profit for 2021 was 279.1 billion yuan. Operating income was 675,891 million yuan, down 3.1% from 2020 [13].

The Agricultural Bank of China (ABC) was established in 1951 as an agricultural cooperative bank to finance agricultural projects. As a result of restructuring, the bank was transformed into a joint-stock commercial bank. In July 2010, as a result of listing on the Shanghai and Hong Kong stock exchanges, it was possible to raise 22.1 billion US dollars [6]. The bank specializes in a full range of financial services for corporate clients.

These banks in their activities, first of all, should be guided not by the extraction of profit, but by the social and state expediency of projects. They are engaged in the implementation of government tasks to finance the reconstruction and modernization of industry, the implementation of strategic, politically important, but not always economically effective projects, such as lending to city-forming enterprises, social facilities, and financing programs to combat poverty in villages. Banks receive funds to finance these projects, among other things, through the issuance of financial bonds distributed among commercial banks.

An extended list of services includes the agency's ability to work in the interests of institutional investors, Internet banking services, agency services for the purchase of government bonds, derivatives market arbitrage, and personal finance management services.

An important part of China's banking system is the foreign financial institution, which includes 14 representative offices of foreign banks, Sino-foreign bank joint ventures, branches of foreign banks, and foreign investment banks. Today, foreign financial institutions have the right to conduct 12 basic transactions and cooperate with hundreds of banking products.

An extended list of services includes the ability of the agency to work on behalf of institutional investors, Internet banking services, agency services for the purchase of government bonds, arbitrage in the futures market, and personal financial management services.

Let's consider the total equity of financial institutions in China (Figure 2.3).

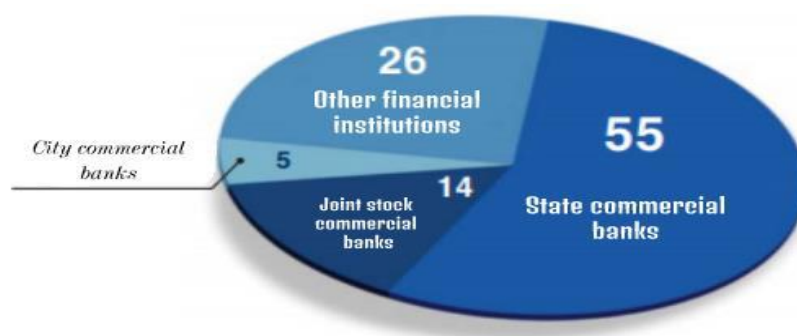


Figure 2.3 – The total equity capital of financial institutions in China for 2020

Note – Source: [32]

Figure 2.3 shows us that state commercial banks are the basis of China's banking system. 26 % of capital goes for other financial institutions. Worth remark that city commercial banks take only 5 % of total capital and joint stock commercial banks – 14 %.

In conclusion, China is the only country in the world that has a socialist system and is developing along the path of capitalism.

We learnt about following subsystems: budgetary and extra-budgetary systems, banking system, financial system of enterprises and households, tax system, public finance system. At first glance, the budget system of the PRC looks like a paradoxical combination of elements that are likely to be in conflict with each other. However, the fact that for many years Chinese authorities have been able to effectively use fiscal policy to stimulate economic growth, maintain macroeconomic stability and smooth interregional differences, requires a close and unbiased look at the current state and directions of development of budgetary relations in the country. The ratio of revenues and expenditures of central and local budgets in the consolidated budget of the PRC, as well as their dynamics relative to GDP, suggest a high degree of decentralization of the budget system, which, however, reflects the decentralization of budgetary administrative functions rather than the decentralization of budgetary powers and/or of fiscal policy formulation [42].

Off-budget funds include such as the fund for the construction of energy and transport facilities and the fund for housing construction. Specialists also talk about “unofficial” extrabudgetary revenues of provinces and counties, comparable to the total volume of official budgetary and extrabudgetary revenues of local authorities.

Of course, the basis of its financial system is made up of banks. The Central Bank (People's Bank of China) is subordinate to, finances the activities of the government and performs all kinds of banking functions. The structure of the financial system: state and central banks make up the first level; commercial institutions are the second level.

China's banking system is notable. It consists of different banks. There is a wide range of political banks, state commercial banks, joint-stock commercial banks, city banks and other financial establishments.

2.2 SWOT analysis of the banking system

Due to the fact that the banking financial system is one of the most important subsystems of the financial system of China, it is proposed to conduct a SWOT analysis of the banking financial system of China.

SWOT analysis is a tool used for strategic planning and strategic management both in organizations and at a larger level. It can be effectively used to build organizational strategy and competitive strategy. In accordance with the systems approach, organizations are subjects that interact with the external and internal environment and consist of various subsystems. In this sense, an organization exists in two environments, one inside the firm and the other outside. These environments need to be analyzed for the practice of strategic management. This process of analyzing an organization and its environments is called a SWOT analysis.

The strengths and weaknesses of the Chinese banking system are presented in Table 2.2.

Next, let's review the strengths of the Chinese banking system. There is no secret that for five years the banking system of the People's Republic of China has been a leader in the global market.

The State government controls and regulates all types of banks, ranging from large financial institutions to small branches of cooperatives. The main bank has a huge impact on the entire banking system, as it contains more than 70% of the total assets of the state. Each financial institution has its own banking function and is responsible for certain monetary transactions. The government is able to stop, cancel or change any banking transaction that is aimed at state needs. The government does not control and does not make changes to the policy of the stock market, where 80% of funds are deposits of the population.

The country has most of the legal obligations on all existing banks of the People's Republic of China. China is characterized by the rigidity of the banking system with minimizing the existence of shadow financing. Such a type as the distribution system of banks absolutely satisfies the total control of the state of all major financial transactions in the territory of the People's Republic of China.

The presence of shortcomings does not yet indicate the imperfection of the banking system of the People's Republic of China, since the state is characterized by a large-scale area and a large number of the population. A rapidly growing economy requires an increasing number of financial transactions that will ensure the further

development of industry and the service sector. China's banking system can be safely called stable and stable. The organization of financial transactions is carried out competently, in order to increase assets and liabilities. The only obvious disadvantage that China has been trying to prevent for 3 years is the predominance of loans over deposits.

Table 2.2 – Strengths and weaknesses of the Chinese banking system

| Strengths | Weak sides |
|--|--|
| The state government controls and regulates all types of banks, from large financial institutions to small branches of cooperatives. | Lack of qualified specialists for control a large number of daily financial transactions |
| The main bank has a huge influence on the entire banking system, since it contains more than 70% of the total assets of the state | Increasing bureaucratic pressure on the system |
| Each financial institution has its own banking function and is responsible for certain monetary transactions. | Growing dynamics of shadow operations and corruption |
| The government is able to stop, cancel or change any banking transaction that is aimed at public needs. The government does not control and does not make changes to the policy of the stock market, where 80% of the funds are deposits of the population | The growing number of "bad" loans due to insufficient credit risk calculation |
| The country has the most legal obligations on all existing banks in China | "Internal weakness" of state-owned banks: after their commercialization, new credit risk management rules were introduced, and some loans were no longer provided for economic reasons |
| | predominance of loans over deposits. |

Note - Source: own development on the following sources [44],[49],[50]

As Table 2.2 shows, China's banking system has both strengths and weaknesses. Opportunities and threats for the banking system are presented in Table 2.3.

Table 2.3 – Opportunities and Threats for the Chinese Banking System

| Opportunities | Threats |
|--|-------------------------------------|
| 1 | 2 |
| Chinese companies entering foreign markets. | Rise in bad loans. |
| Advanced training of employees of banking institutions. | The emergence of structural crises. |
| Improving the quality level of provincial banks. | Increasing bureaucratic pressure. |
| Banks need to improve mechanisms for supporting loan portfolios and collection technologies. Special attention should be paid to preventive measures, prevention of overdue debts. | |

End of the table 2.3

| 1 | 2 |
|--|---|
| The introduction of additional measures to regulate consumer lending through a balanced approach to optimizing the existing risk coefficients and the reserve rate, which could contribute to strengthening and increasing the stability of the national banking system. | |
| Developing of an effective strategy to support banking institutions in conditions of financial instability and introduce simplified mechanisms to support banks' liquidity. | |
| Developing of a strategy to stimulate the interest of owners of domestic capital and financial market participants in investing in the national banking sector | |
| Implementing of a law on the protection of the rights of national investors, which would provide for the advantages of Chinese creditors over foreign ones | |

Note - Source: own development based on the following sources [38],[49],[50]

Thus, we see that the following problems exist in the banking system of the People's Republic of China: lack of qualified specialists for control, a large number of daily financial transactions, increasing bureaucratic pressure on the system, growing dynamics of shadow operations and corruption, the growing number of "bad" loans due to insufficient credit risk calculation.

We also found out about the existence of such a problem like predominance of loans over deposits. But there are a lot of strengths in China's banking system. For example, the government is able to stop, cancel or change any banking transaction that is aimed at public needs. The government does not control and does not make changes to the policy of the stock market, where 80% of the funds are deposits of the population.

2.3 Problems in financial banking system

After the SWOT analysis in the Chinese banking system, we will consider the main problems in more detail

There are some problems in the banking system of the People's Republic of China:

- large volumes of non-performing loans (overdue loans);
- small capital investments;
- inefficient corporate governance;
- insufficient number of reserves in banks;
- predominance of deposits over loans

Let's look at them in more detail.

1. Overdue loans are shown in Figure 2.4.

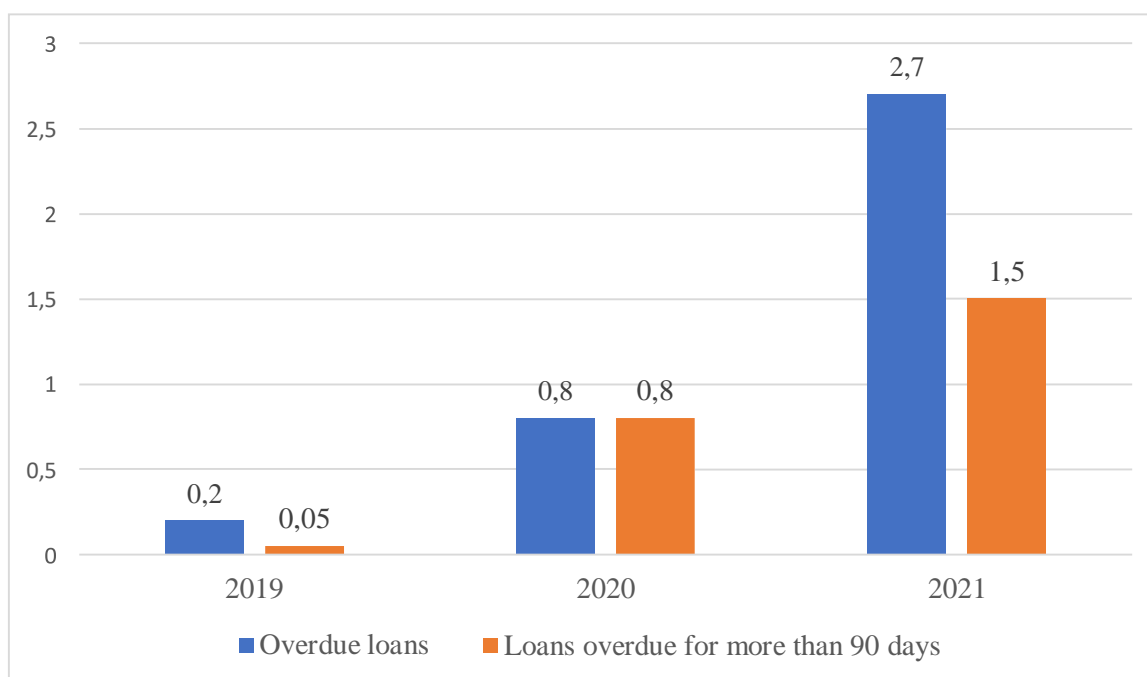


Figure 2.4 – Volumes of non-performing loans 2019–2021

Note - Source: own development on the following sources [46]

Thus, we see a steady increase in timely outstanding loans for 2019-2021. The volume of overdue loans of subsidiary banks of China at the end of 2021 amounted to 2.7 billion yuan, a year earlier — 780.5 million yuan. The share of delinquency from the loan portfolio decreased from 2.1 % to 1.2 %.

The volume of loans with overdue payments over 90 days amounted to 1.5 billion. yuan, a year earlier — 770.9 million yuan; the share of "long" delinquency from the loan portfolio decreased from 2 % to 0.6 %.

The pandemic and the military conflict have led to a sharp increase in the share of "bad" debts of China's sovereign borrowers: this is already turning the largest lender of developing countries into a "global collector," the study showed [39].

The level of overdue loans of Chinese commercial banks for 2016-2021 reflect in Figure 2.5.

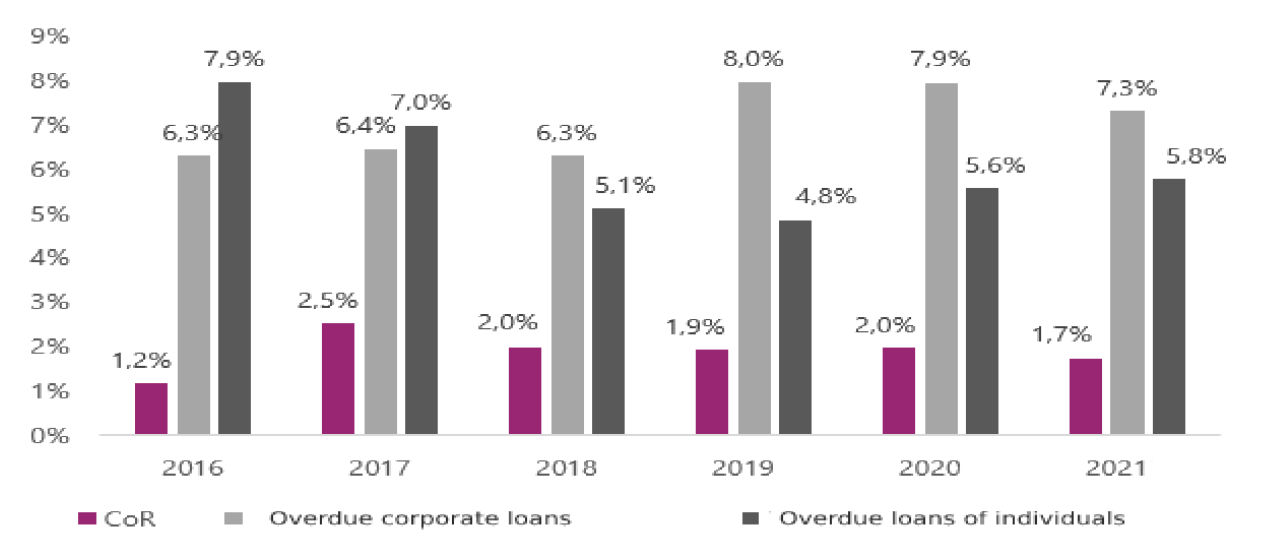


Figure 2.5 – The level of overdue loans of commercial banks in China for 2016-2021,
%Note - Source: [44, p. 30]

As can be seen from Figure 2.5, by 2021 the level of overdue loans of individuals decreased to 5.8%, while at the beginning of the study period it was 7.9%. However, the dynamics of overdue loans of legal entities is completely different: in 2016, the level was 6.3%, while in 2021 it was 7.3%.

COR – an indicator that characterizes the risk level of a bank or a set of credit institutions in the banking system, is determined as the amount of created reserves for credit losses (risk) divided by the size of the loan portfolio.

It is worth noting that in 2021 it amounted to 1.7%, while in 2016 it was 1.2%.

Many Chinese state-owned banks have actively invested in the economies of Russia, Ukraine and Belarus: since 2000, China has provided more than \$125 billion in loans to Russia (mainly to state-owned companies in the energy sector), Ukrainian projects – primarily agricultural and infrastructure – have received \$7 billion in loans from China, a portfolio of loans from Chinese state organizations, provided to Belarus, estimated at \$8 billion, Reinhart and co-authors calculated. The three countries together account for almost 20% of China's loans to sovereign borrowers since 2000 [23].

Now this means that a significant share of China's sovereign loan portfolio falls on borrowers with a sharply increased risk of default. The share of problem loans issued by China has been growing rapidly since the mid-2010s, when Venezuela defaulted, and the coronavirus pandemic further intensified this trend: if in 2010 potentially "bad" loans accounted for 5% of the Chinese portfolio of sovereign loans, then in 2022 their share reached 60% [34].

The Russian-Ukrainian military conflict, which directly affects only three borrowers of China, may trigger a "sudden stop" of lending by China not only to the

economies associated with the parties to the conflict, but also dozens of other developing countries in almost all regions of the world [20].

The researchers come to the conclusion about the probability of a "sudden stop" of lending from China due to three main reasons they found:

- a sharp increase in the share of "bad" loans in China's sovereign portfolio,
- a sharp increase in the number of restructuring of borrowers' obligations,
- a sharp reduction in the issuance of new loans by China.

Developing countries risk facing a combination of deteriorating conditions in financial markets (including due to the increase in the US Federal Reserve rate) and rising prices on commodity markets (with corresponding pressure on the budgets of countries) against the background of China's already declining issuance of foreign loans – with not the most flexible policy of Chinese state institutions regarding restructuring [48].

In my opinion, the viral crisis around the world has hit the SME segment hard. The volume of bad debts is increasing, and governments of different countries are looking for different ways to support the sector. So, the main cause of overdue loans nowadays is pandemic. But the other side of the following problem is political situation. There`s no need to say it has been escalated.

The problem of a sharp increase in potentially problematic debt in China's portfolio is exacerbated by the fact that for many developing countries, China has become a key creditor in recent decades. At the same time, Chinese loans are often characterized by large volumes, short terms and high interest rates, which makes it difficult to pay them in crisis situations and increases the risk of financial "contagion".

2. Next, let's look at the main problems of inefficient corporate governance in Chinese banks. As an example, it is proposed to consider the problem areas in the corporate governance of Baoshang Bank Co LTD.

In May 2019, China's financial regulators announced that they were taking over the private ownership of Baoshang Bank Co LTD due to the serious credit risks it posed, as part of efforts to dismantle the fallen business empire of tycoon Xiao Jianhua and contain financial risks.

The central bank later said that Xiao'S Tomorrow Holding Co LTD., which controlled 89% of Baoshang Bank's shares, had embezzled the lender's funds.

The takeover of Baoshang Bank is widely regarded as a milestone in the history of China's financial industry. It reflects that the risks faced by many small and medium-sized banks are failures in corporate governance and, as a result, financial corruption and misconduct.

The most striking feature of Baoshang Bank's corporate governance was the difference between its appearance and spirit. At first glance, the bank had a relatively complete corporate governance structure, including shareholder meetings, a board of directors, a supervisory board and a management team.

However, in fact, the bank was completely controlled by the main shareholder and insiders, who seized local regulators, which led to failures in corporate governance and turned the entire operation into corruption and violation of laws.

Let's look at the reasons that caused the problems.

Firstly, a major shareholder of Tomorrow Holding manipulated shareholders' meetings, interfered in the daily activities of the bank and accumulated fortunes through shady practices.

Having a monopoly stake in Baoshang Bank, Tomorrow Holding can "legitimately" manipulate the bank's shareholders' meetings in accordance with the rules of "one share, one vote" and "majority dominates". The meetings ultimately served the needs of the controlling shareholder rather than playing a supervisory role.

From 2005 to 2019, Tomorrow Holding illegally borrowed 156 billion yuan (\$22.4 billion) from Baoshang Bank through 209 shell companies in the form of 347 loans that turned out to be invalid in the end. The bank's assets gradually accumulated, which led to serious financial and operational risks and violated the interests of other shareholders and all depositors [43].

Secondly, the board of directors only nominally existed. The Chairman of the Management Board had a dominant voting right, which led to ineffective risk control.

The board of Directors of Baoshang Bank has been an empty shell for a long time. Among the list of 13 directors in 2015, a significant part did not participate in decision-making and did not object to illegal decisions, our takeover team found out. Some were willing to take bribes, evade their duties, or even approve of the misdeeds of others.

Despite the fact that the Bank's Board of Directors consisted of nine specialized committees, including one aimed at risk control, since 2011 it has simply represented the interests of Tomorrow Holding, making incorrect decisions on transactions with related parties.

Thirdly, the supervisory board could not function, showing weak independence and professionalism.

The Supervisory Board of Baoshang Bank draws attention to itself. Of the seven managers, four also worked at the bank as employees subordinate to the board of directors or the management team. In addition, some lacked the necessary professional knowledge to perform their duties well.

As a result, the supervisory board was not responsible for the entire company or for all shareholders, especially small and medium-sized ones, but was subordinate to the main shareholder of Tomorrow Holding and the Board of Directors.

Fourth, the management team ignored the rules and regulations.

Due to the lack of effective supervision, the management of Baoshang Bank not only illegally helped Tomorrow Holding to seize huge amounts of money, but also

fraudulently obtained loans through transactions with third parties associated with the bank.

Most of the related transactions have not been approved by the Board of directors. Some of them were solved collectively by a group of senior managers or even by a single member. Many loans previously issued as part of transactions with related parties were invalid at the time of the takeover.

It's worth saying that many of banks in China face such problems.

The main problem is that the bank can be completely controlled by the main shareholder and insiders who have taken over local regulators, which lead to failures in corporate governance and turn all activities into corruption and violation of the law.

Having a monopoly stake, the main shareholder manipulates the shareholders' meeting of the bank, interferes in the daily activities of the bank and makes fortunes with the help of shady machinations. Sometimes in some banks the board of directors is just a formality, since a significant part of the directors do not participate in decision-making and do not object to illegal decisions, and the supervisory board has weak independence. Sometimes the management team ignored the rules and regulations. Thus, mistakes in corporate governance lead to financial corruption and misconduct.

Currently, corporate governance is one of the most discussed issues in companies, scientific meetings and political circles around the world. Corporate governance also began to play an increasingly important role in the development of the economy [41].

The recent economic crisis has clearly shown that poor corporate governance can lead to the collapse of individual companies or the economy as a whole. Despite the relatively small history of corporate governance in China, as a ruler of the company, as well as stock exchange managers realize how important it is to properly implement corporate governance. To improve and more effective corporate governance, the Government has adopted a number of laws and guidelines, as well as amendments to existing laws.

In order to solve the problems described above, the share capital structure should be rationalized and diversified. Neither excessive concentration nor excessive diversification of the share capital structure contributes to proper corporate governance. Diversification of the share capital structure can allow shareholders' meetings to play their democratic role in decision-making, which will avoid the failure of the system of checks and balances [36].

In addition, strengthening external oversight and ensuring decent disclosure of information can increase corporate transparency. Regulators should monitor carefully to identify potential problems in a timely manner, including the absolute dominance of any shareholders or control by insiders. In addition, regulators may hire intermediaries, such as accountants, auditors and lawyers, to audit commercial banks in order to increase the reliability and independence of information disclosure [45].

Finally, it is extremely important to create more effective incentive mechanisms and develop a better corporate culture.

3. Next, let`s consider the following problem in the banking system – small foreign investments in banking system (table 2.4). It is caused by the relatively closed economy of China.

According to popular opinion, foreign banks operate in the PRC much more efficiently than Chinese ones. This point of view is justified, given the impossibility for large state-owned banks in China to make all decisions completely independently and based on their own business interests. One way or another, but they have to fulfill the will of the authorities at the state and regional levels, whose main task is, first of all, to stimulate economic growth and maintain a high level of employment in the country. Joining the WTO should have changed the situation somewhat, because the active activity of foreign credit institutions should have changed the competitive environment in the direction of tightening, if not for the top five banks – Industrial and Commercial Bank of China (ICBC), Construction Bank of China (CBC), Bank of China (BC), Agricultural Bank of China (ABC) and the Bank of Communications of China (BCC), whose positions are objectively impossible to shake today, then for smaller, regional and urban scale. However, a decade after joining the WTO and 5 years after the formal full liberalization of foreign credit institutions' access to the Chinese banking market, foreign banks have not been able to significantly displace Chinese banks on their territory, they account for only about 2 % of the assets of the entire banking system of the PRC [40].

The most effective activity of banks is in large cities, so it is here that competition from foreign banks poses a serious threat. Chinese commercial banks should actively improve their competitiveness by reforming their management system.

Table 2.4 – Indicators of relative efficiency of large state-owned banks, 2018-2021 [51]

| Bank | The share of foreign investors in the capital, % 2021 | Indicators of relative efficiency of large state-owned banks | | | | Average |
|---|---|--|------|------|------|---------|
| | | 2018 | 2019 | 2020 | 2021 | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Industrial and Commercial Bank of China | 5,17 | 0,80 | 0,78 | 0,85 | 0,79 | 0,80 |
| Agricultural Bank of China | 0,37 | 0,58 | 0,63 | 0,73 | 0,72 | 0,67 |

End of the table 2.4

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------------------------|-------|------|------|------|------|------|
| Bank of China | 0,3 | 0,69 | 0,66 | 0,65 | 0,63 | 0,66 |
| People's Bank of China | 18,63 | 0,75 | 0,80 | 0,78 | 0,77 | 0,78 |

Note - Source: own development on the following sources [17;44]

4. Next, let`s consider the following problem in the banking system – insufficient number of reserves in banks (Figure 2.6).

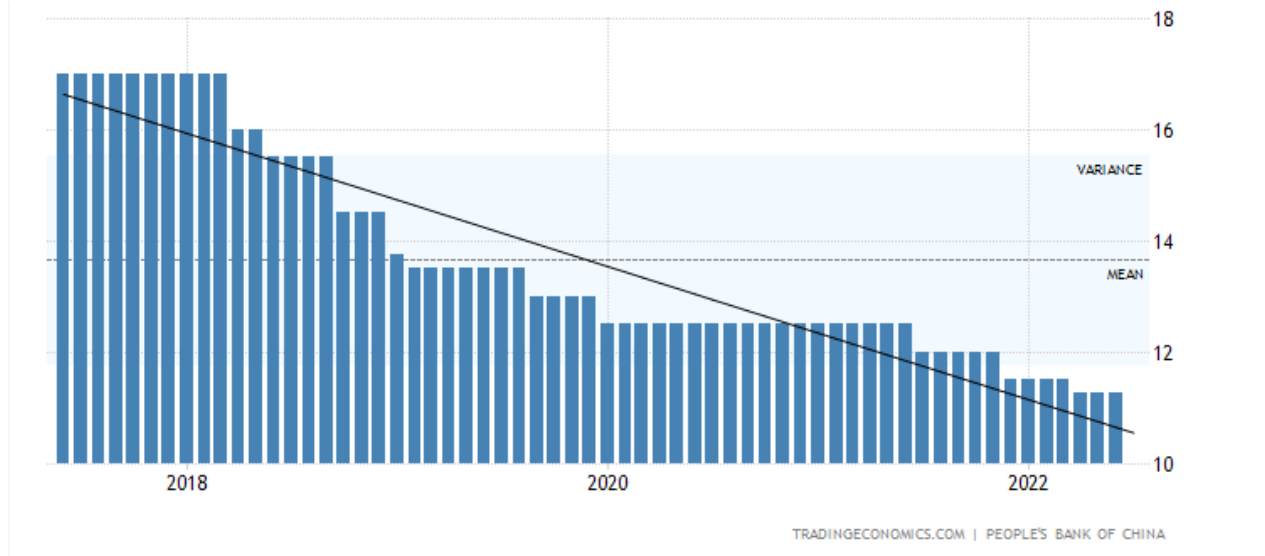


Figure 2.6 – China cash reserve ratio big banks, %

Note - Source: [28]

We see that cash reserve ratio in June 2022 is 11,25 %, when in 2020 it was 12,5 %. It`s worth saying that in 2018 this indicator was more than 16 %.

CHAPTER 3

RECOMMENDATIONS FOR THE DEVELOPMENT OF THE BANKING SYSTEM IN CHINA

3.1 Measures to reduce overdue loans by banks in China

Dozens of developing countries have been actively borrowing from China in recent years, primarily for the implementation of infrastructure projects. Unlike international organizations such as the IMF and the World Bank, China gives money on commercial terms, while requiring them not to disclose. Therefore, the real size of these loans may be much larger than investors and credit analysts assume.

The global recession, which has already set in against the backdrop of the coronavirus pandemic, is undermining the financial condition of debt-burdened countries. The main reason of overdue loans is that China always has been lender for all countries, including African countries. Unlike international financial organizations, China usually issues loans at market rates and sometimes requires collateral in the form of natural resources. The most famous such case is loans to Venezuela, for which it pays with oil. Since 2007, China has provided Venezuela with more than \$50 billion. In 2016, she had already agreed with him on restructuring and deferral of payments, and now she is trying to do it again [46].

But it's getting harder to reduce overdue loans because of pandemic and political situation. During the pandemic, Chinese banks acted in some aspects in the same way, in others in different ways, depending on their role and importance in the country's banking and financial system. The State Development Bank of China (GBRK) and the "political" banks of China act as a tool for carrying out various strategies of the Government of the People's Republic of China in the economic, social and other spheres. These financial institutions were primarily involved in providing financing, since their role implies special participation in providing assistance during national large-scale natural and other types of disasters [37].

We will summarize reasons for overdue loans and ways to solve these problems in Table 3.1.

Table 3.1 – Measures to reduce overdue loans

| The reason for overdue loans | Measures to solve the problem |
|---|--|
| 1 | 2 |
| Lenders from China are very limited in easing the debt burden of borrowers, even though restructurings are often preceded by a long period of overdue payments. | Easing of credit conditions, because refusal to ease credit conditions can lead to a "debt overhang" – when a country's debt obligations are too large compared to the amount of income from which it can make payments on them, and as a result, the country chronically fails to service its debt. |

End of the table 3.1

| 1 | 2 |
|---|---|
| Reasons caused by the pandemic in 2020-2021 | Monetary measures which should help increase market liquidity and support companies during a difficult period. For a limited number of medium-sized, small and microenterprises belonging to the industries most affected by the pandemic, such as transportation, wholesale and retail trade, entertainment, hotel and restaurant business, individual solutions must be provided in accordance with the "actual situation". Financial institutions must be instructed to "reasonably assess" the condition of enterprises and restructure loans with the overall goal of helping enterprises recover and continue their successful work. |
| Financial crisis | Lowering the interest rate on loans and increasing financial support. Carrying out recapitalization, and non-performing assets should be transferred to the balance sheets of specially created investment companies. |

Note - own development based on the studied literature

As mentioned in the table, the pandemic and the military conflict and financial crisis have led to a sharp increase in the share of "bad" debts of China's sovereign borrowers: this is already turning the largest creditor of developing countries into a "global collector". To prevent these problems China should form the principles of using "uncompetitive" monetary policy, fiscal stimulus policy and for taking timely measures on overdue debts and problems in its domestic banking system.

For example, for a limited number of medium-sized, small and microenterprises belonging to the industries most affected by the pandemic, such as transportation, wholesale and retail trade, entertainment, hotel and restaurant business, individual solutions must be provided in accordance with the "actual situation" [35].

Let`s make a forecast for at least one of the measures presented in the table. For example, we`ll consider the measure "interest rate reduction". Presumably, according to the IMF forecast, if commercial banks in China reduce the interest rate by 1 percentage point on loans, then overdue loans will decrease by 5 % by the end of 2023.

Table 3.2 – Forecast of a decrease in overdue loans for commercial banks after interest rate reduction

| overdue loans | before the implementation of the measures - 2022 (billion yuan) | percentage reduction of overdue loan | after the implementation of the measures -2023 (billion yuan) | reduction of overdue loans, (billion yuan) |
|--------------------|---|--------------------------------------|---|--|
| -of the population | 2,7 | 5 | 2,585 | -0,115 |
| - of enterprises | 1,3 | 5 | 1,235 | -0,065 |

Note - Source: own development

According to the table, by 2023 overdue loans of the individuals for commercial banks after interest rate reduction will decrease to 2,585 billion yuan from 2,7 billion yuan in 2022. Corporate overdue loans will decrease from 1,3 billion yuan to 1,235 billion yuan.

3.2 Measures to increase deposits in China's commercial banks

On deposits in Chinese banks have recently grown such a high mountain of dollars that it is increasingly difficult for bankers to issue cash loans, and traders complain that these dollars interfere with the actions of the authorities to curb the rapid strengthening of the yuan (Table 3.2).

Table 3.3 – Measures to increase the deposits

| The reason for decreasing of deposits | Measures to solve the problem |
|---------------------------------------|---|
| Political and economical situation | to lower the deposit rate in foreign currency and increase the deposit rate in national currency; increase duties on the export of raw materials |
| Distrust of banking system | development of targeted programs to attract public funds, i.e. to develop attractive conditions for attracting funds to term deposits; provision of a wide range of services to depositor clients, including non-banking services (for example, an element of medical care, subscription to periodicals of economic literature, issuance of subscriptions for excursion services in museums, etc.); conducting wide open advertising to attract clients; use of "silent" targeted advertising (by mail, by phone); the use of a high interest rate on long-term deposits with the payment of a premium at the end of the deposit period; payment of the "loyalty to the bank" bonus to regular depositors |

Note - own development based on the studied literature

It is also advisable to develop a comprehensive package of measures to develop a system of long-term savings of individuals in the country. It should provide for the following:

- development of the procedure for creating special purpose investment deposit accounts of individuals and legal entities for financing specific investment projects and programs at the expense of savings of the population with appropriate protection of deposits from inflation;
- implementation of targeted development of banking services for the formation of long-term targeted deposits of individuals, investment in various types of

insurance policies (pension, medical and life insurance), in stocks and other investment instruments;

- bringing the services of savings institutions closer to the population (especially in rural areas) through the formation of postal savings;
- appropriate benefits up to the exemption from taxation of the part of the income of individuals, which is directed to targeted long-term forms of deposits and investments;
- to stimulate the growth of the long-term component the resource base of banks should be monitored by the National Bank for the formation of the long-term component of its liabilities; the real economic interest of banks in the restructuring of liabilities in order to lengthen the use of attracted resources [47].

In particular, the following measures can give the desired effect:

- differentiation of requirements for the mandatory reserves fund depending on the structure of funds raised and exemption from mandatory reserving of funds raised for a period of more than three years;
- in order to encourage the capitalization processes of banks (which is by way of increasing the long-term resource base), as an experiment, it is possible to reduce (up to full exemption) the rate of deductions to the mandatory reserves fund for irrevocable deposits of individuals in foreign currency for those banks that have formed their own capital in the amount of 25 million euros and above;
- development of a mechanism to compensate banks for the difference between the market value of funds attracted from the population and the rate of their placement in investment loans. In general, all the proposed measures to improve deposit operations are aimed at attracting deposits from individuals,
 - attracting new depositors, expanding the segment of banking services,
 - improving the stability of the bank. At the same time, the issues of attracting deposits for a long time are still relevant; guarantees of the safety and return of resources placed in banks, etc.

3.3 Measures to improve corporate governance in China's commercial banks

No investments will give the desired results without improving the quality of corporate relations. Namely, improving corporate governance and protecting external investors are the most important goals.

Analyzing the activities of credit institutions, it should also be highlighted that the features of corporate governance in the banking system are always more complex and more responsible operations than traditional entrepreneurial measures aimed at extracting appropriate income. It should also be noted that corporate governance in the banking sector includes ways of managing the activities of individual credit institutions by the board of directors and management, which affects such aspects of banks' work as

setting corporate goals, managing the bank's current activities, analyzing and taking into account the interests of all interested parties, as well as ensuring compliance of corporate activities and corporate conduct of banks to the requirements of functioning banking legislation. The analysis of the content of the above documents testifies to their great importance in the processes of formation and development of corporate relations in the modern banking system [27].

It follows from the documents that proper corporate governance consists of many elements that include the main aspects of this problem, which include:

- strictly calculated and verified strategic directions and economic mechanisms that allow analyzing the results of the activities of the entire bank as a whole and the contribution of each individual employee to it;
- the most important corporate values and systems used to ensure and comply with an appropriate code of conduct and other standards to assess success collective activities and the results of the work of an individual employee;
- the main mechanisms of interaction and cooperation between the management staff of the directorate, management and auditors in various issues of improving the efficiency of banking activities and stimulating the work of team members;
- reliable internal control systems, including elements of a bank audit, independent of business units, risk management functions, as well as other elements of the system of checks and balances.

The next, most urgent problem is connected with the fact that in modern banking business the problem of risk management comes to the fore, because it becomes the most important element of the internal control system in banks.

It is known that the Basel Committee on Banking Supervision identifies 12 categories of banking risk: systemic, strategic, credit, country, market, interest rate, liquidity, currency, operational, legal, reputational and compliance risk. Highlighted by the Basel Committee in particular, the risk of compliance with regulations, rules and standards, or the risk of honesty, is closely related to legal and reputational risks)

Commenting on the above, it should be noted that these risks require very careful and attentive attitude, because ineffective risk management is reflected in their increased concentration and calculations, as well as in short-sighted loan policy and insufficient control over the activities of the team. Similar phenomena are typical in the banking system of many countries, including countries with developing and transition economies. Improving corporate governance is a systemic task and, of course, its solution is not limited only to updating the legislative and regulatory framework and the practice of its application. No less significant component are the problems of improving intrabank management practices, the development and implementation of more effective management principles and systems.

We believe that the main directions of improving the quality of corporate governance at present are:

1. Compliance with the rights of shareholders, management and other stakeholders.
2. Increasing the level of information disclosure and transparency of the ownership structure (transparency).
3. Improvement of the operational activity control system
4. Formalization of the basic principles of corporate governance.

CONCLUSIONS

Finance actively interacts with various economic categories. In the process of value distribution, finance actively interacts with price, wages, and credit. There are also objective prerequisites for the influence of finance on the reproduction process. It should be noted that the impact of finance on the economy can be quantitative (distributed and used finance) and qualitative (impact on reproduction). In the sphere of material production, finance, serving the circulation of production assets, contributes to the creation of new value. In the sphere of circulation, finance actively influences the processes of exchange.

The financial system is a system of forms and methods of management that makes it possible to use the funds of the monetary policy of enterprises. The state budget plays an important role in the system of state regulation. The assessment of national income and expenditures and their impact on welfare is of great importance in the life of every country.

The modern financial system performs the following key functions: ensuring the movement of economic resources over time, across state borders and from one sector of the economy to another; ensuring risk management; accumulation of funds; saving function; lending function; planning function; provision of financial information; providing incentives, control function.

The structure of the financial system is the totality of its elements and the links between them. The financial system consists of centralized finance (state budget, off-budget funds (social, medical social insurance) and state credit) and decentralized finance (finance of commercial enterprises, finance of non-profit enterprises and finance of public associations).

An important place in the country's financial system belongs to the state budget, which is widely used in the system of state regulation. As an estimate of national income and expenditure and affecting its well-being, the budget plays an important role in the life of every country. The financial system consists of centralized and non-centralized finance.

In China, there is a clear hierarchy in all spheres of life. The banking sector has three distinct levels:

Banks of the first rank: the Central Bank of China (People's Bank of China), as well as three political banks (China Development Bank, Agricultural Development Bank of China and China Exim Bank). The main task of this level is the distribution and control of financial flows, the control of funds, the issue of money.

Second-rank banks: financial organizations that are considered the most reliable (the Big Four of China).

Third-rank banks: private organizations with a small income and their own assets. This level includes small non-profit financial organizations and the post office.

Researching the subsystems of China's financial system, we came to the conclusion that in the budget system in recent years there have been changes in financial flows by income and expenditure items. The changes are caused by various political, economic and other factors, such as the pandemic and economic sanctions. However, there is no significant deficit or surplus.

We have conducted SWOT analysis of the banking system in China, identified the strengths and weaknesses of the Chinese banking system.

After analyzing all the work in this area, it becomes clear how the People's Republic of China managed to quickly rise to the top places in the world economy and politics in a short time, and to hold on to them until now. A clear, well-developed plan, not corrupt leadership, and most importantly, the desire and desire to raise their country to the leaders on world politics, forcing other states to reckon with China – that's what allowed the country to become a leader in the economic life of the whole world. We found that China`s banking system has its pros and cons. The disadvantages include lack of qualified specialists for control a large number of daily financial transactions, increasing bureaucratic pressure on the system, growing dynamics of shadow operations and corruption, the growing number of "bad" loans due to insufficient credit risk calculation. Advantages are that the state government controls and regulates all types of banks, from large financial institutions to small branches of cooperatives.

Besides, the main bank has a huge influence on the entire banking system, since it contains more than 70% of the total assets of the state, each financial institution has its own banking function and is responsible for certain monetary transactions.

The following problems are considered in detail in the master's thesis: the growth of overdue loans and the predominance of loans over deposits in national currency; the presence of inefficient corporate governance in commercial banks, which is the cause of "shadow", illegal transactions, the growth of corruption; the lack of bank reserves formed in case of urgency of deposit repayment in the conditions of existing economic uncertainty and instability.

The problem of a sharp increase in potentially problematic debt in China's portfolio is exacerbated by the fact that for many developing countries, China has become a key creditor in recent decades. An important factor in the sharp decline in the possibility of repayment of loans is economic instability, lack of financial stability and insolvency of enterprises, as well as a decrease in household incomes, inflationary fluctuations. All these reasons are caused by the consequences of the pandemic and the ongoing military operation in Ukraine.

To eliminate the existing problem in China's financial system, the International Monetary Fund recommended lowering the interest rate by 1% on overdue loans, which in turn should lead to an average increase in debt repayment by 5% by the end

of 2023. Based on the materials of the IMF in the master's thesis, a forecast of indicators of repayment of overdue loans was made (in the context of repayment of loans by the population and enterprises). The data show that overdue loans as a whole will decrease by 0.18 billion yuan. In order to balance the deposits-loans ratio in commercial banks, it is recommended in the master's thesis to increase the interest rate on deposits, since the deposits-loans ratio in China does not meet the established standards

In order to eliminate inefficient corporate governance in commercial banks, he master's student recommends to weaken the monopolization of shareholders with the largest stake, strengthen control in this direction by the supervisory authorities in the Chinese banking system.

It is recommended to strengthen external control over the board of directors and management, as their management affects the setting of corporate goals, the management of the bank's current activities, the interests of all interested parties, as well as ensuring compliance of banks' corporate activities with the requirements of current banking legislation.

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