

Feature Articles

This month's focus: **China's Financial and Capital Markets: Challenges and New Developments**

Real Estate Market and Banking Business in China

Yosuke Tsuyuguchi

Contact point: yosuke.tsuyuguchi@main.teikyo-u.ac.jp

With the real estate market in China languishing recently, there are concerns over the increase in non-performing bank loans as business conditions at real estate developers continue to deteriorate. Since bank deposit and loan interest rates are controlled by the People's Bank of China, banks are rapidly disposing of non-performing loans while at the same time ensuring a substantial interest margin. Although the slump in the real estate market cannot be ignored for its impact on the macroeconomy, it is unlikely that banks will fall into a situation where they cannot fully exert their credit creation capabilities, as was the case in Japan after the bursting of its bubble.

Global Liquidity and Offshore Bond Issuance in China

Shugo Yamamoto

Contact point: shugo-y@rikkyo.ac.jp

To benefit from abundant global liquidity, the use of offshore affiliates of non-financial companies as financing vehicles for accumulating low-yield US dollar liabilities to circumvent capital restrictions has become widespread in China. Using a variety of firm-level micro data gleaned from the financial statements of Chinese non-financial companies, we find that US monetary policy has an impact on offshore bond issuance in China.

An Analysis of the Changes in Asset/Liability Allocation among Chinese Households

Cheng Tang

Contact point: tang@tamacc.chuo-u.ac.jp

In recent years, household asset allocation patterns and liability concerns have undergone significant changes in China, which has important implications for the country's economy and financial landscape. Chinese households generally hold a large amount of financial assets and these assets are increasingly diversified. The expansion of wealth management products in particular has emerged as a key driver of this diversification and played a crucial role in fueling the growth of China's shadow banking sector. Real estate remains a primary vehicle for wealth creation among Chinese households, a phenomenon closely linked to the rapid accumulation of debt, particularly mortgage-related liabilities. In addition, the burgeoning digital financial ecosystem brings new dimensions to household asset allocation and influences debt-related behavior.

Feature Articles

China's Digital Yuan System Design and Experimental Trends: Exploring Differences with Existing Cashless Payment Instruments

Eiichi Sekine

Contact point: eiichi.sekine.1@nomura.com

In China, payment services by private tech companies (third-party payment) were developed after Alibaba entered the market in 2003, and QR code payment on smartphones was introduced in 2011, giving users a convenient experience. Meanwhile, the People's Bank of China has been developing and researching a digital yuan since 2014, while strengthening the management and supervision of third-party payment institutions. The key to adoption of the digital yuan is the appeal to users of features different from those of third-party payments, such as the ability to use it without a savings account and the security of anonymity for small transactions.

Articles

An Empirical Analysis of Audit Quality for IPO Companies

Kou Mizukami & Rei Yamamoto, CMA

Contact point: rei.yamamoto@ae.keio.ac.jp

In this paper, we analyze the relationship between audit fees and audit quality for IPO companies, focusing on the audit refugee problem that prevents startup companies from contracting with audit firms. An analysis of IPO companies from 2011 to 2021 shows that audit fees are higher for large audit firms in IPO audits than for smaller audit firms, and that audit quality does not change with the size of the audit firm. This indicates that using small and medium-sized audit firms to conduct IPO audits does not affect audit quality.

Success Factors for Crowdfunding by Local Governments

Takuo Kamiyama & Yoshiaki Nose, CMA

Contact point: ynose@mail.doshisha.ac.jp

We analyzed the success factors in crowdfunding initiatives by local governments. The findings can be summarized into three key points. First, certain signals, such as the frequency of progress reports, increase the success rate of campaigns. Second, the presence or absence of "rewards" and the quantity of "rewards" does not impact the outcome of the campaign. Third, the success rate varies with the purpose for which the funds are used. Crowdfunding by local governments could potentially reduce the cost of fundraising when proclaiming the funds are allocated to address specific issues.