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## FEATURES OF THE DEVELOPMENT OF REGIONAL FINANCIAL POLICY OF CHINA

**Abstract.** The formation of the regional financial policy of the PRC began in 1949. The economic problems of that period gave impetus to the speedy implementation of these processes. China's fiscal policy has been shaped by extensive use of European experience. Initially, the increase in the number of branches of foreign banks, the creation of a local financial system and the financing of the country's building complexes at that time were of primary importance.

**Keywords:** *financial system of China, financial policy, regional financial policy, foreign banks, inflation, monetary policy.*

With the establishment of the People's Republic of China, there was a need to revise and improve the financial system, as on the one hand it was necessary to get rid of unofficial currencies, on the other hand it was necessary to eliminate accumulated inflation. At the same time, there was a need to increase the volume of money issuance in the National Bank, as there were no other sources of funding for military spending and the creation of the administration. However, industry and agriculture reduced production, and the main problem was in the supply of raw materials.

In April, July, November, 1949, and March 1950, prices were increased in four stages, respectively. The price index was 42 times higher than in December 1948. Therefore, the government decided to improve public trade, financial taxes, and the production of bonds. Banks began to actively accept deposits and issue loans. Market prices stabilized rapidly. At that time, money played a key role in trade and finance, which was the mainstay of monetary policy. In

November 1950, the People's Bank of China took control of the money supply nationwide, which led to a halt in inflation [1].

In 1953-1978, active planned economic activity was carried out in China. The state, on the other hand, set production plans to control economic activity and began allocating funds accordingly. In addition, the state established a centralization of bank lending, which banks in turn had to follow the plan and control the amount of loans. In the planned economic system, the balance of credit and money, income and expenses is the main mechanism. At the same time, targeted loans and money control allow for sustainable economic development. China has experienced three serious imbalances in the past period. For the first time, in 1956, the state carried out social construction in the economy, which led to an "economic boom" in society. In 1956, there was a "rush" in economic policy. In the same year, the volume of investments in capital construction increased by 62% compared to 1955.

Government spending increased by 47.8%. In the budget 1830 mln. yuan deficit emerged [2].

In the planned economic system, the credit and money balance between income and expenditure played an important role in the state economy. Thus, successful credit and cash management was a prerequisite for developing a sustainable economy. Budget deficits and rising agricultural lending have led to inflation. In 1957, the state established timely political control, pursuing a policy aimed at reducing and financing important events in accordance with the annual plan. The volume of investments, financial expenditures were reduced, the issuance of loans was controlled. As a result, the national economy began to recover rapidly. That year, the financial deficit was eliminated. Various deposits in banks increased by 23.4%, loans by 18.6%.

For the second time, an imbalance arose in 1958, when the Great Leap Forward policy gave control of the state plan to independent financial and lending institutions, resulting in a significantly larger construction volume than the state's financial resources. Banks did not follow lending norms and the established effective management system. Thus, there was a serious imbalance in the national economy and lending. In three years (1958-1960) capital investment increased 1.75 times; the total cost of production amounted to 134.3%, the financial deficit - 16.9 billion. yuan, while the volume of bank loans increased by 157.5%. At the same time, 4.31 billion yuan was issued. By the end of 1960, the turnover had reached 81.6%. In addition, natural disasters, declining productivity, and international closure have led to economic weakness in the national economy [3].

In August 1960, the government took control, reduced capital investment in construction, began to support agricultural development, and centralized economic, financial management, money issuance, and other important resource management. It also regulated the lending system.

For the third time, the imbalance arose during the Cultural Revolution. In May 1966, the Cultural Revolution began, which led to the weakening of the national economy and dealt a severe blow to monetary policy. In 1967 and 1968, national income fell by 7.2% and 6.5%, while loans increased by 5.4% and 11.8%, respectively. During these two years, the issue of foreign currency amounted to 2.56 billion. yuan. In 1972, the People's Bank of China tightened control over the monetary sector and began to exercise relatively precise control over foreign exchange emissions. In 1978, economic reforms began. This meant that China was gradually moving away from the planned economy. At the beginning of economic reforms, the main goal of monetary policy was economic growth, so many times the production of goods increased. In April 1979, the state implemented projects on management, reform, regulation and promotion. The People's Bank of China tightened credit management and took control of the currency, beginning to regulate credit structures. In 1981, the People's Bank of China introduced the "plan announcement, step-by-step management" course. This mobilized the activities of all banks, strengthened the monetary system [4].

In 1984, the government appointed the People's Bank of China to act as the country's central bank. Since that time, the People's Bank of China system has been established and modern monetary policy has been defined [5]. But in the process of moving the center of economic reform from the countryside to the city, there was another rush in economic policy. In 1985, the People's Bank of China moved away from the state's governance system in order to effectively use the basic tools of governance and exercise banking rights. At the same time, private banks have become real commercial banks. They had the opportunity to work independently, to be self-sufficient. In July 1993, the People's Bank of China established the centralization of credit distribution and took control of interest rate policy. In early 1994, the People's Bank of China gradually reduced its control over the volume of loans, and introduced asset and liability management in commercial banks. In 1995, the People's Bank Code was adopted. It was noted that the goal of monetary policy is to ensure a stable national currency and economic development.

Formation of the banking system in China. The "Western-looking" banking system began to appear in China in the late 19th century. In China, financial institutions existed relatively early, they were mainly in the form of promissory notes and outlets not related to investments in industry and trade, and were not properly focused on the long-term development of the national economy. Traditional financial institutions, on the other hand, provide high-interest short-term loans. Craftsmen and agricultural enterprises did not have access to long-term credit. At the same time, in the 19th century, the Chinese economy became very close to Western countries.

After the end of the Opium War, the first foreign bank to operate in China, Shanghai, was the British Oriental Bank (also the first commercial bank in China). The second half of the nineteenth century and in the early twentieth century, the number of foreign banks in China increased rapidly. Until 1890, British banks had a monopoly in China. By the late 1860s, there were dozens of European and American banks in China. If in 1870 the number of British banks in China was 17, by 1980 it had risen to 30. All Western banks were established to establish a national business engaged in banking services in foreign trade operations. In addition to currency exchange and remittances, some banks were provided with deposits and loans when receiving funds. Participants were generally interest-free and subject to commission. In the second half of the 19th century, the Chinese banking market came under the complete control of foreign financial institutions, which acted as both central and commercial banks. Therefore, foreign banks were not under state control and pursued banking policies independently. Such a situation in China was not only negative but also the basis for the development of the national banking system in China. In China, national banks based on the "Western model" began to appear.

The first National Bank of China was established by the Sin Empire (清朝 qīng cháo) in 1897 and was renamed the Imperial Bank of China (中国通商银行

zhōng guó tóng shāng yín háng) [6]. This financial institution is a private commercial bank with government capital, mainly engaged in financing the construction of railways. The first modern Chinese state bank was founded in Beijing in August 1905 and it was called Hu Bu Bank (户部银行hù bù yín háng). In February 1908, Hu Bu Bank was renamed the Bank of the Great Sin Empire - Da Sin大清银行dà qīng yín háng) [7]. In 1907, the Communication Bank ((交通银行jiāo tōng yín háng) was established with state capital to finance projects for the development of railways, telegraph and postal services [8].

The Bank of the Great Tzing Empire was mainly engaged in lending and depositing, as well as controlling the issuance of money and the state treasury. In the early twentieth century, many banks were established in China, most of them with the participation of the government or established entirely by the government. Most of them were engaged in issuing money along with lending. The first private

commercial bank was established in 1906; in 1907, the Zhejiang Industrial Bank and in 1908, the Xiamen Commercial Bank were established.

After the democratic revolution of 1911, the new Chinese government began to fully support the two modern banks of the period - Bank Communications and Da Qing Banks. However, both of these banks did not have sufficient financial capacity and were under the influence of foreign capital. In February 1912, the Bank of China was founded. The activities of the Bank of China have changed 3 times. From 1912 to 1928, it served as the central bank of the government. In 1928, the Bank of China carried out international currency exchange activities under a government license, and in 1942, the Bank of China carried out activities to promote international trade [9]. 73 commercial banks were established in China between 1916 and 1920, accounting for 90.1% of the total banks in China.

Number of banks established and closed in China in 1924-1934 [10].

Table 1

Years	Established banks	Closed banks
1912-1927	186	135
1928-1934	111	31
Total	297	166

At present, the banking system of the People's Republic of China, according to its structure, consists of:

1. People's Bank of China;
2. Industrial and Commercial Bank of China;
3. China Construction Bank;
4. China Investment Bank;
5. Agricultural Bank of China;
6. Bank of China;
7. China Communications Bank;
8. China International Credit and Investment Corporation;
9. Chinese rural credit cooperatives;
10. City credit cooperatives [11].

On October 1, 1949, the People's Republic of China was established. Since 1949, the Bank of China has been engaged in foreign exchange operations for a long time, at the same time ensuring its compatibility with the national currency, as well as the activities of remittances and various types of foreign exchange transactions. It has also played a key role in China's foreign trade and the development of the national economy. After the beginning of economic reforms, it used its opportunities to act as a bridge in the development of the country's economy on the basis of inflow of foreign capital. In 1994, the Bank of China was transformed into the State Commercial Bank. It was founded in August 2004 as the Bank of China, and in June-July 2006 the Hong Kong and Shanghai Stock Exchanges issued shares [12]. These processes helped to further develop the financial system.

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