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China's household balance sheet: Accounting issues, wealth accumulation, and risk diagnosis☆

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ABSTRACT

In this paper, we compile China's household balance sheet and apply this perspective to the analysis of household financial conditions. Specifically, we first address some technical issues on the balance sheet accounts, and detail the estimations of two important asset items, "dwellings" and "automobiles." Next, through reading the sheets, we provide an international comparative analysis, and show: (1) China's households are still on their early stage of wealth accumulation, and this trend is associated with a changing structure in favour of financial assets. (2) Although being subject to relatively low insolvency and liquidity risks, the sector has experienced, generally contrary to major developed or emerging countries, a climbing leverage cycle since the global financial crisis. These findings imply that China's policymakers should, on the one hand, make further efforts to help households accumulate wealth with an improved structure in terms of liquidity and risk diversification, and on the other hand, need to pay high attention to the increasing household financial stress and the potential risk contagion.

1. Introduction

National and sectoral balance sheets provide an important *stock* perspective, which is particularly informative about aggregate wealth accumulation, financial superstructure, debt risks and their transmission mechanisms, as well as other macroeconomic issues. Early works include Dickinson and Eakin (1936), Goldsmith and Lipsey (1963), Revell (1966), and Goldsmith (1982), which offered estimates and descriptive analyses on the balance sheets of some major developed economies. To a large extent, because of the lack of official statistics and well-established theoretical frameworks, the above research did not draw much attention from scholars and policy makers at that time, perhaps with the "financial interrelation ratio" as a remarkable exception (Goldsmith, 1982).[2] Nevertheless, in the aftermath of frequent financial turmoil in some Latin American and East Asian countries over the 1980s and 1990s, the limitations of the conventional macroeconomic analysis based upon *flow* indicators, such as Gross Domestic Product (GDP) and factor inputs, become more apparent, while the *stock* perspective, such as macro-level balance sheets, gains increasing attention among academia. In this respect, influential research lines and topics include the "balance sheet approach (BSA)" to financial crisis (Allen, Rosenberg, Keller, Setser, & Roubini, 2002; Lima, Montes, Varela, & Wiegand, 2006; Mathisen & Pellechio, 2006; Reinhart, Rogoff, & Savastano, 2014 and Rosenberg et al., 2005), the risk contagion through balance sheet channels (Ahrend & Goujard, 2012; Gray, Merton, & Bodie, 2007; Kiyotaki & Moore, 2002 and Paltalidis, Gounopoulos, Kizys, & Koutelidakis, 2015), the balance sheet

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[2] Typically, it is defined as the ratio of financial to tangible assets, measuring the level of financial deepening.

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adjustments in business cycles (Caballero, Hoshi, & Kashyap, 2008; Eggertsson & Krugman, 2012; He, Khang, & Krishnamurthy, 2010; Koo, 2011 and Nuño & Thomas, 2017), and the balance sheet-based wealth analysis (Piketty, 2014 and Piketty & Zucman, 2014).[3]

In the years following the Global Financial Crisis, besides the scholarly community, there is also an increasing consensus among international organizations and policy makers on the importance of national/sectoral balance sheet statistics and their implications for financial stability and surveillance. In this regard, a promising step is the *Data Gaps Initiative*, which was launched in September 2009 by International Monetary Fund (IMF) and Financial Stability Board (FSB) as a response to the call of the Group of Twenty (G20) made in April of the same year. This initiative includes a set of twenty recommendations aimed at improving the collection, disclosure, and application of macro-financial data, of which some have direct relevance to the balance sheet accounting and analysis.[4]

As for China, the balance sheet perspective had received little attention before the 2008 crisis, with the exception of the National Bureau of Statistics of China (NBSC), who published two guidebooks on the conceptual frameworks and methods of compilation of national/sectoral balance sheets applicable to China (NBSC, 1997 and 2007). However, according to NBSC, balance sheet serves only, loosely speaking, as an intermediary accounting component within the system of national accounts, and thus regular data release on this account has not been established yet. To a large extent, it was not until the global financial tsunami and the subsequent European debt crisis that China's macro-financial conditions, especially debt stress, have emerged as focuses of academic and policy attention. Obviously, information and analysis on the stock variables, such as assets and liabilities, are sorely needed to address these emerging concerns. In this context, a few scholars, including Liu, Niu, and Yang (2009), Cao and Ma (2012), Li, Zhang, Chang, Tang, and Li (2012a, 2012b); Li et al. (2013, 2015), Ma, Zhang, and Li (2012), and Du (2015) compile and examine China's national/sectoral balance sheets. A recent attempt has been made by Piketty, Yang, and Zucman (2017), which focuses on the accumulation of wealth and economic inequality in China. In their work-in-progress, some tentative estimates for private and public wealth are provided in the light of the aforementioned studies on China, especially Li et al. (2013, 2015) and NBSC (1997, 2007). On the whole, for the time being this growing body of literature is still in its infancy, and in particular, in-depth sector-focused investigations and international comparative studies remain largely preliminary.

With the aim of contributing to this important and emerging research area, the current paper addresses the balance sheet of China's household sector. The choice of this subject-matter is chiefly for three reasons: First, the financial conditions of China's households — the most important holder of national wealth both in China and in other major economies — have direct implications for some macroeconomic issues of paramount importance, especially including wealth/income distribution, and household financial behaviour as well as its impact on financial stability. Second, through its association with financial institutions and housing market, the household balance sheet provides an irreplaceable angle for looking at the two crucial challenges facing China today, the "de-leveraging" of debts and "destocking" of real estate inventories.[5] Third, compared to other sectors, especially public sector, the asset and liability items of household sector are more clearly defined, thereby not only facilitating the compilation of the balance sheet, but also rendering the relevant international comparison more reliable.

The rest of the paper proceeds as follows: Section 2 provides an overview of the accounting framework of China's household balance sheet and shows the compiled sheets for the years 2004 to 2014. Section 3 presents the estimation methods of "dwellings" and "household automobiles," which, put together, constitute the quasi-totality of household holdings of non-financial assets. Next, from comparative perspectives, Section 4 discusses the net wealth accumulation of China's households; and Section 5 examines the financial conditions and risk profiles of the sector. The last section concludes the paper by discussing China's policies on household wealth accumulation and the related risk management. Caveats and suggestions are also given for future research.

2. Major accounting issues about China's household balance sheets

According to China's system of national accounts (NBSC, various issues), "household" sector in China refers to the aggregation of urban and rural households, and individual businesses. Conceptually, this definition is a slight variant of the one proposed in the well-accepted *System of National Accounts* 2008 (SNA 2008), which includes "residents" albeit without urban-rural distinction, and "unincorporated enterprises." The sector is also defined in a similar manner in some major economies, such as the Group of Seven members, Australia, and South Africa. However, among them, Canada, Germany, the United Kingdom (UK), the United States (US), and South Africa only report the combined balance sheet statistics on households and "non-profit institutions serving households" (NPISH), thus reducing the comparability across countries. Thankfully, given the small size of the NPISHs relative to households, this problem seems to have a limited impact on our comparative analysis shown in next sections of the paper.[6]

Regarding the sheet structure, main entries, and valuation methods, we draw basically on the NBSC (2007) and the SNA 2008, whereas some technical adjustments and assumptions have been made so as to accommodate the case of China and the purpose of our research regarding wealth and financial risk analysis. In view of that, the household balance sheets compiled by us can be viewed as an alternative picture rather than an approximation of the official figures, which remain unfortunately unavailable at the time of writing.

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[3] It is noteworthy that besides the balance sheet perspective, our paper is also closely related to the research line of "household finance," which, as recently pointed out by Guiso and Sodini (2013), has become an emerging independent field.

[4] Mainly referring to the recommendations No.15 to No.19. For details, see http://ec.europa.eu/eurostat/statistics-explained/index.php/G20_Data_Gaps_Initiative_(DGI)_–_background.

[5] See http://www.chinadaily.com.cn/bizchina/2016-04/01/content_24224454.htm.

[6] For instance, in 2015, the total assets of the NPISH are merely equivalent to 1.2%, and 4.5% of those held by the households in France and Japan, respectively.

Table 1

China's Household Balance Sheets, 2004–2014 (billion yuan, current price).

Item/year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Non-financial assets	35,213.6	43,205.2	48,259.1	60,546.3	62,218.3	79,150.6	87,185.1	104,441.6	114,969.6	130,089.9	139,741.8
Dwellings	32,744.2	40,298.6	44,950.3	56,700.3	57,816.8	73,911.3	80,902.3	96,287.5	105,762.4	119,873.6	128,508.2
Of which: Urban	27,968	34,374.5	38,497.7	49,608.5	50,220.5	65,592.8	71,943.3	80,734.8	89,515.2	101,146.5	107,150
Rural	4776.2	5924.1	6452.6	7091.8	7596.3	8318.5	8959	15,552.7	16,247.2	18,727.1	21,358.2
Household automobiles	1364.2	1596	1927.4	2357.6	2811.8	3512.3	4463.7	5445.8	6397.6	7198.9	7996.3
Productive fixed assets of rural household	1105.2	1310.6	1381.4	1488.4	1589.7	1727	1819.1	2708.3	2809.6	3017.4	3237.3
Financial assets	18,036.9	20,908.3	25,160	33,549.5	34,287	41,086.9	49,483.2	57,803.4	76,196.4	90,182.7	103,151.1
Currency	1782	1994.5	2246.9	2521.1	2862.2	3198.2	3769.1	4265.2	4589.7	4914.7	5027.9
Deposits	12,957.5	15,055.1	17,173.7	18,184	22,847.8	26,865	31,564.2	36,333.2	42,226.1	47,814.9	52,293.7
Bonds	629.3	653.4	694.4	670.7	498.1	262.3	269.2	189.8	452.7	864.4	986.8
Shares	889.7	786.5	1700.1	5160.4	2015.7	4737.4	5647.7	5975.5	6161.9	6238.3	6387.9
Shares in investment funds	190.5	244.9	561.8	2971.6	1701.1	838.3	734.6	795.2	1104.9	1141.8	1525.5
Margin account in securities company	133.9	156.6	312.8	990.4	476	569.5	444.7	260.7	219.9	211.4	415.9
Insurance reserve fund	1411.3	1831.5	2268	2709.7	3783.1	4622.6	5266.7	5908.4	7271.2	8587.2	9913.4
Financial products	–	–	–	–	–	–	1497.5	4075.4	6700	9500	13,800
Trust fund	–	–	–	–	–	–	308.8	–	7470	10,910	12,800
Settlement fund	7.7	2.3	1.7	0	0	0	0	–	–	–	–
Other financial assets	50.4	183.5	200.5	341.5	103	6.4	19.3	–	–	–	–
Total assets	53,250.5	64,113.5	73,419.1	94,095.8	96,505.3	120,237.5	136,668.3	162,245	191,166	220,272.6	242,892.9
Financial liabilities (loans)	2943.1	3297.2	3963.6	5065.2	5705.8	8178.7	11,254.2	13,601.2	16,130	19,850.4	23,141
Non-operating loans	–	–	–	3272.9	3721	5533.4	7506.4	8871.7	10,435.7	12,972.1	15,366
Short-term	–	–	–	310.4	413.7	637.8	956.7	1355.5	1936.7	2655.8	3249.1
Mid/long-term	–	–	–	2962.5	3307.3	4895.6	6549.7	7516.2	8499	10,316.3	12,116.9
Of which: Mortgages	1600	1840	2250	2697	2980	4420	5730	6600	7500	9000	10,600
Operating loans	–	–	–	1792.3	1984.8	2645.3	3747.8	4729.5	5694.3	6878.3	7775.1
Short-term	–	–	–	1279.2	1455.5	1955	2478.1	3019.8	3623.5	4358.5	4822.5
Of which: Rural	–	–	–	1067.7	1197.2	1462.3	–	–	–	–	–
Mid/long-term	–	–	–	513.1	529.3	690.3	1269.8	1709.7	2070.8	2519.7	2952.5
Net worth	50,307.4	60,816.3	69,455.5	89,030.6	90,799.5	112,058.8	125,414.1	148,643.8	175,036	200,422.2	219,751.9
Equities	3335.5	4568.7	6236.3	8832.8	12,113.1	13,736.5	17,065.8	22,050.7	26,758.0	33,680.7	39,643.2
Total assets adjusted	55,505.8	67,650.8	77,393.5	94,796.6	104,901.6	128,398.3	147,351.8	177,525.0	210,657.2	246,573.2	274,622.7
Net worth adjusted	52,562.7	64,353.6	73,429.9	89,731.4	99,195.8	120,219.6	136,097.6	163,923.8	194,527.2	226,722.8	251,481.7

Notes: 1. "Total assets adjusted" = "Total assets" + "Equities" "Shares" "Shares in investment funds".
2. "Net worth adjusted" = "Net worth" + "Equities" "Shares" "Shares in investment funds".

Given the data limitations, especially on the statistics of assets, we only compile the annual sheets for the period of 2004 to 2014 (year-end figures), in which China's economy witnessed a shift from high-speed growth to medium-high speed growth, and other structural transformations both on supply and demand sides (see Zhu, 2012). It is important to mention that those changes serve as the background for our understanding of the characteristics and dynamics of China's household financial conditions. The estimated balance sheets are then shown in Table 1.

As can be seen from the table, following the SNA standards, the balance sheet breaks down into assets, liabilities, and their difference, net worth. On the side of assets, the first category pertains to the non-financial assets. Following Liu et al. (2009), only three items of produced assets are considered: "dwellings" and "household automobiles[7]" which are based upon our estimations detailed in the next section, and "productive fixed assets of rural household" which is released by NBSC (various issues). At this juncture, it is noteworthy that land and other natural resources in China are *de jure* owned by the state and the collectives. Hence, in the spirit of SNA 2008 that stresses the ownership rights and their effective enforcement on economic resources by the institutional unit in question (Chapter 10, Section 10.167), these items should not be seen as household properties (also see European System of Accounts 2010, Chapter 7, Section 7.26).[8] However, as shown below, when estimating the residential buildings of China's urban households, we rely upon the "average selling price." Thus, the values of land leasehold (with a maximum of 70 years of land-use rights) have been incorporated into the values of dwelling

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[7] Indeed, as recommended by SNA 2008 (Chapter 13), consumer durable goods "are not treated as being used in a production process giving rise to household services" (p.269), and therefore, they should not be shown on the side of assets in the balance sheet. However, since consumer durables have important relevance to wealth accumulation, risk profiles, and consumption/saving behaviour, we still treat it, as it is also the case for Canada, France, Italy, the UK and the US — as an asset item rather than a "memorandum item." In view of that, to homogenize the balance sheet data, in this paper we reintroduce consumer durables on the side of assets in the case of Australia, Germany, and South Africa. It is also to note that: as for Japan, only two items of produced assets, namely "fixed assets" and "inventories," are reported, and thus housing assets and consumer durable goods are not distinguishable; as for Russia, the item has been excluded from the estimates provided by Novokmet, Piketty, and Zucman (2017).

[8] It is to note that Piketty et al. (2017) assume a partial ownership of farmland between rural households and government sector in China: the share of the former is assumed to increase from 30% to 60% during 1978–2015.

assets. It must also be indicated that the treatment of non-produced tangible assets, including land and other natural resources in national/household balance sheet accounts substantially varies among countries. Taking “land” as an example: the “land underlying buildings and structures” is combined with real estate items in the case of Australia, the UK and the US; the land of same kind is separately reported in the case of France and Germany; this item is absent in the case of Canada, where “land” refers mainly to agricultural land; no details have been given about the coverage of “land” in the case of Italy, Japan, and South Africa. Despite its nontrivial effect on the composition of household non-financial assets, it seems to affect little the total value of this category of assets, and thus, net worth.[9]

The second category of assets pertains to the “financial assets,” composed of eleven items: “currency,” “deposits,” “bonds,” “shares,” “shares in investment funds,” “margin account in securities company,” “insurance reserve fund,” “financial products,” “trust fund,” “settlement fund,” and “other financial assets.” The figures on this category are directly sourced from “financial balance sheet of China's households” in *China Financial Stability Report* (CFSR) by People's Bank of China (PBoC, various issues) for the period of 2004–2010. Starting from 2011, they are estimated by adding current “flows” into the stock in previous year, which are sourced from *Flow of Funds Accounts* (FFAs) released in NBSC (various issues).[10] It is to note that both CFSR and FFAs do not report the equities of unlisted corporations held by households. In this paper, in most cases we still make use of the “CFSR + FFAs” data. In other cases, we consider the aggregation of listed and unlisted corporation equities held by households, which is estimated as follows: We first take the estimates of corporation sector's net worth provided in Li et al. (2015, Chapter 7), which are on the basis of *China Economic Census* (took place in 2004, 2008 and 2013) and FFAs. Next, we assume the share of households in the holdings of equities equals the share of private agents in “total investment in fixed assets” released in *Statistical Yearbook* (NBSC, various issues).

On the side of liabilities, according to the NBSC (2007), they refer exclusively to loans, which include “non-operating loans” (for urban and rural residents), and “operating loans” (for individual businesses). Each category has further been classified as “short-term loans” (consistent with the criterion proposed in SNA 2008, namely original maturity of one year or less), and “mid/long-term loans” (longer than one year). The data on liabilities for years 2004–2006 are directly sourced from CFSR, and those for years 2007–2014 are sourced from the tables of “sources and uses of credit funds of financial institutions” released by PBoC.[11] It is noteworthy that some liability items recommended in the SNA 2008, such as “debt securities,” “insurance, pension and standardized guarantee schemes,” and “other accounts payable” are omitted in the case of China. Logically, this omission also leads to underestimating, albeit to a small extent, the size of household liabilities.[12]

3. Estimations of “dwellings” and “household automobiles” assets

To estimate the market value of “dwellings (excluding land under dwellings)” and “household automobiles”, we draw mainly upon the methods taken in Li et al. (2013, Chapter 16), which will be briefly presented in what follows with supplementary and updated information. Our estimates will also be compared with those given in other three relevant studies, which include: (1) Liu et al. (2009), which directly inspires the current paper regarding conceptual framework and method of compilation; (2) Ma et al. (2012), which relies upon, like ours, macro-level official statistics; (3) Piketty et al. (2017), which draws, to some extent, upon the methods proposed in NBSC (1997, 2007), and Li et al. (2013, Chapter 16). From a methodological perspective, Appendix 1 gives a summary of these studies.

3.1. Dwellings

Given the dual urban-rural structure in China, especially in terms of legal status of lands and *Hukou* system (see Ho & Lin, 2003), “dwellings” in urban and rural areas are estimated in two different procedures. For the former, the compilation is based upon the data about “floor space per capita,” “average selling price of new residential buildings,” and “urban population,” which are all reported in *China Statistical Yearbook* (NBSC, various issues). Of which, the “floor space per capita” refers to the household living space available at the time of the NBSC survey, thus the demolition of houses has already been taken into account. We also apply the straight-line depreciation method to the calculation of the market value of dwelling stock. It is to note that no depreciation adjustment has been applied to the series in and before 1978 due to data limitations. Given the small size of housing stock in the pre-1978 era and the relatively large timespan between 1978 and our sample period, this problem, albeit giving rise to a bias of overestimation, seems to have trivial effect on the dwelling values over the sampled years.[13] Finally, according to news reports, on average, urban dwellings in China have an actual service life of about 30 years and a designed lifespan of 50 years. In view of that, we choose a yearly depreciation rate of 2.4% in this paper.[14] More specifically, the estimation procedure can be summarized as follows:

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[9] Due to data limitations, “intellectual property products” are also excluded in the case of China. Given the fact that this item, in general, represents a negligible part in household assets (0.14%, in the case of US for the year of 2015), the bias resulted from this exclusion seems to be minor.

[10] The data on “financial products” and “trust fund” over 2011–2014 are still sourced from CFSR.

[11] The data on “mortgages”, which only include commercial housing loans, are sourced from CFSR.

[12] Again, for instance, “loans” account for more than 96% of the US household liabilities in 2015.

[13] In fact, the total floor space of urban dwellings in China amounts only to 1.16 billion square meters in 1978, namely less than 5% of that in 2014; see Li et al. (2013, Chapter 16) for further explanation.

[14] See, for instance, http://news.china.com/zh_cn/domestic/945/20100419/15902148.html. Moreover, it is important to note: Piketty et al. (2017) use 2% as the depreciation rate for urban houses in China; Harding, Rosenthal, and Sirmans (2007) show that the depreciation rate of housing capital in the US is about 2% to 2.5%. Thus, combing all these information sources, it is believed that the assumed rate taken here falls within the reasonable range of estimates. For reference, if choosing an annual depreciation rate of 2% or 3%, then the total value of urban dwellings will be 114 or 97 trillion yuan in 2014, respectively. Considering the size of total household wealth ranging from 220 to 251 trillion yuan in that year, these differentials due to different assumptions on depreciation rate do not seem to affect the main results.

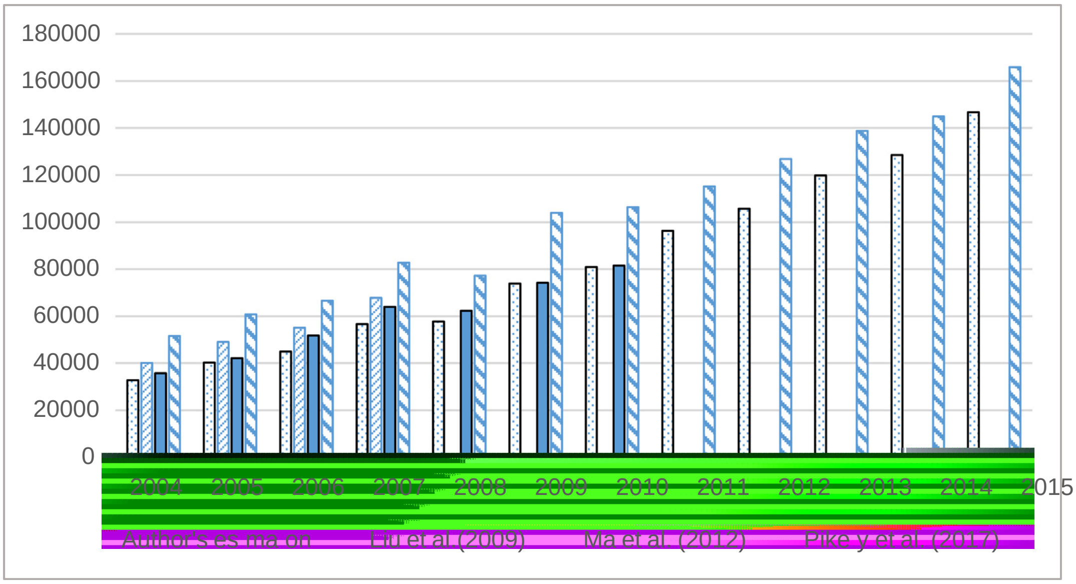

Fig. 1. Estimations of Total "Dwelling" Assets (in billion yuan)
Note: According to our estimation, the values of urban and rural dwellings reach 122.79 trillion yuan, and 23.92 trillion yuan, respectively, in 2015.

$$\begin{aligned} \text{Total Value of Urban Dwellings}_t &= \quad p_t\,, \\ &= (A_t, A_{t-1}, \ldots, A_{1979}), \\ &= (1, 0.976, \ldots, (1-0.024n)), n = t - 1979, \end{aligned} \tag{1}$$

where A_t denotes the newly added floor space in year t; denotes the depreciation vector; p_t. denotes the average selling price of new residential buildings in year t. Here, due to data limitations, we also assume that all urban dwellings are owned by households, and thus, there is a problem of overestimation due mainly to the existence of "public rental house (*gong zu fang*)." However, the bias caused by this treatment remains very limited given the extremely small and decreasing share of this type of housing over the sample period, which is a result of housing market reform launched from 1998.[15]

Turning to the estimation of the rural dwelling assets, we make use of the information released by NBSC (various issues), which include the "floor space per capita," "rural population," and "value of houses (per square meter)" at year-end. Since the latter corresponds, arguably, to the replacement costs of rural houses, this series can be taken directly with no need of depreciation adjustment.

Fig. 1 allows a comparison of our estimates with other studies. First, mainly because Liu et al. (2009) did not conduct the depreciation adjustment regarding the value of urban houses, their estimates are larger than those given by Ma et al. (2012) and by current paper. Second, using the "replacement costs" of both urban and rural dwellings, Ma et al. (2012)'s estimates tend to be slightly greater than ours in every single year under consideration with a discrepancy ranging from 13% in 2006 to 0.3% in 2009. Unfortunately, since no much details have been revealed in that study, we cannot further account for this difference. Third, drawing upon Li et al. (2013, Chapter 16) with some adjustments (especially on depreciation methods), Piketty et al. (2017) provide substantively larger estimates than all other studies in consideration. Arguably, it seems that this remarkable discrepancy cannot be entirely attributed to different depreciation methods.[16] It is hoped that we could come up with a better explanation for this as their preliminary work is being refined and improved.

3.2. Household automobiles

In much the same spirit of Liu et al. (2009), the value of "household automobiles" is estimated as follows:

$$\text{Household auto}_t = \sum_{k=0}^{9} \left(\text{Autosales}_{t-k} \times \text{Privateshare} \times (1 - 10\%)^k \right) \tag{2}$$

where the sales of automobiles of all kinds (or prime operating revenues of automotive products) come from *China Automotive Industry Yearbook* (China Association of Automobile Manufacturers, various issues); the *Privateshare*, denoting the average share of private vehicles in the total civil vehicles during the period of 2004–2014 (from NBSC, various issues), is set to 76%. The value is then

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[15] Only a few provinces or province-level regions in China release data on the ownership structure of housing. For illustration purpose only, in Anhui, a middle-sized province, the share of public rental housing in total units of urban dwellings decreased from 6.39% to 0.95% over the period of 2004 to 2013.

[16] Notably, depreciation adjustments are also done with the pre-1978 series in Piketty et al. (2017).