THE PEOPLE'S BANK OF CHINA

ANNUAL REPORT

2018

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GOVERNOR'S ADDRESS

2018 marks the 70th anniversary of the founding of the People's Bank of China (PBC). During these seventy years, The development of China's financial sector continued to make breakthroughs. At the beginning of the establishment of the Bank, and under the leadership of the Communist Party of China (CPC), the PBC unified the issuance of currency across the country, swiftly contained financial disorder, and established a unified national banking system. At the start of the reform and opening-up period, the PBC's legal status as the central bank of China was confirmed, and it has since promoted the development of the financial organization system, the financial market system, the financial management system, as well as the financial regulatory system, in line with the socialist market economy with Chinese characteristics. In recent years, the PBC promoted a series of fundamental financial reforms, which have resulted in profound changes in the financial sector. The financial system's capacity to serve the real economy and its risk resilience have been significantly enhanced, and the system has successfully navigated several rounds of major shocks from international financial crises. During the past seventy years, the PBC has continued to strengthen its human resources, improve its functional arrangements and governance structure, enhance macro-management and financial management, increase its international influence, and has gradually grown into a modern, professional, and international central bank.

In 2018, faced with the complicated and severe domestic and external economic and financial situations, and guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the 19th National Congress of the CPC, the PBC launched a PBC-wide campaign, which confirmed political development as its priority, firmly established the "Four Consciousness", upheld the "Four Confidences", practiced the "Two Safeguards", and adhered to the general principle of pursuing progress while ensuring stability. The PBC continued to implement a prudent and neutral monetary policy, increased its support to the development of private enterprises and micro and small businesses, faithfully played its role in the Office of Financial Stability and Development Committee of the State Council, led the battle to prevent and mitigate major financial risks, and further deepened the financial opening-up and reform, making contributions to the 40th anniversary of the opening-up and reform with new responsibilities, new achievements, and new momentum.

Financial macro-management became more forward-looking and better targeted

In 2018, in particular during the second half of the year, there was a sharp increase in uncertainties and unstable factors in macroeconomic and financial developments, with US-China trade tensions bringing new headwinds to the economy. Faced with these challenges, the PBC implemented policy measures swiftly and efficiently, took an initiative to strengthen targeted management and range-based management, and avoided excessive liquidity in the financial system. It adopted a policy mix, including required reserve ratios, the Medium-Term Lending Facility (MLF), the Targeted Medium-Term Lending Facility (TMLF), central bank lending, and central bank discounts, to maintain adequate liquidity in the banking system and effectively offset the decline in credit growth. The PBC also used the Macro-Prudential Assessment (MPA) to carry out counter-cyclical management and structural guidance and it conducted window guidance for financial institutions to maintain their support to the real economy. In June, as the volatility of the RMB exchange rate increased, the PBC relaunched the reserve requirement on forward sales of foreign exchange and the counter-cyclical factor in the central parity rate pricing system so as to effectively guide market expectations and to maintain stable performance in the foreign exchange market.

Financial support to private enterprises and micro and small businesses was effective

In order to address the operational and financial difficulties faced by private enterprises and micro and small businesses, the PBC implemented timely supportive policies, including bond financing and credit financing. According to the principle of providing multi-pronged support, the PBC led the work to strengthen policies with respect to financial services to micro and small businesses, and issued twenty-three detailed measures in eight areas, ranging from monetary policies to regulatory indicators, internal controls, fiscal incentives, and improvements in the business environment, which will be well-targeted in the short term and will be conducive to addressing both the symptoms and the root causes in the long term. The PBC innovatively launched the bond financing supportive instrument for private enterprises, which provides credit enhancement for bond issuances by private enterprises based on market-oriented operations of professional institutions. The PBC also forcefully promoted service innovations in fields such as payment and credit information so as to support the development of private enterprises and micro and small businesses. In the meantime, it continued to actively provide financial support to key areas and weak links. It implemented a national strategy to win the battle against poverty, strengthened targeted financial support to reduce poverty, increased the sustainability of financial support to reduce poverty, and expanded the pilot program for improving the pricing mechanism of loans contributed through central bank poverty alleviation lending to twelve provinces (regions and municipalities). The PBC also provided financial services for rural rejuvenation and steadily promoted the pilot programs of loans collateralized with the right to manage land based on contracts and the right of housing property. It also actively pushed forward market-based bond equity swaps to reduce the leverage ratio in the corporate sector.

The prevention and mitigation of key financial risks fared well

A top priority for the PBC in 2018 has been to win the battle in preventing and mitigating key financial risks. The PBC took the lead in formulating an action plan, a division of labor, and supportive measures. It continued to strengthen special programs to address Internet finance risks and supported the clean-up of risks in Internet lending. It also accelerated actions to address regulatory gaps by issuing new rules on asset management and detailed industrial guidance, announcing regulatory policies for systemically important financial institutions, clarifying regulatory compliance standards for Internet asset management, improving regulatory rules for peer-to-peer Internet lending and small Internet loans, publishing regulatory guidance on non-financial institutions' investments in financial institutions, and formulating regulations on financial holding companies. The PBC also carried out central bank quarterly credit ratings for financial institutions and improved the risk-differentiated rate mechanism for depository insurance. It appropriately dealt with the impact of US-China trade tensions on China's financial stability. After implementation of various measures and centralized management, the rapid accumulation of financial risks during the past few years moderated, though it was still at a high level, but the risks already exposed are being resolved in an orderly manner. The rapid growth of the macro-leverage ratio was contained, the leverage ratio has gradually stabilized, and reckless behavior and various types of financial disorder have been stemmed. As a result, the financial system has been operating smoothly and the financial risks are manageable.

Financial sector reform and opening-up and international cooperation were deepened

The PBC firmly implemented the important opening-up measures announced by President Xi Jinping during the annual meeting of the Boao Forum for Asia and accelerated the financial sector opening-up according to the requirement of better earlier than later facilitating opening-up without delay or dependence on others. First, the PBC led the work on formulating a road map and timetable for deepening the financial sector opening-up, promoted an increase in the share of foreign investment in banking, securities, and insurance financial institutions and the expansion of the business scope of foreign institutions, and approved or accepted applications from foreign payment, clearing, credit information, and credit rating institutions such as American Express and Standard & Poor's, for entering the domestic market. Second, the PBC deepened reforms to streamline administration and delegate power to lower levels, balance the delegation of powers and strengthening of regulation, and improve services. In this way, it further liberalized and facilitated trade and investment, relaxed regulatory requirements and business-scope constraints on institutional investors, improved management in key foreign-exchange businesses, such as offshore financing against domestic guarantees, and outward direct investments. Third, based on the needs of the real sector, the PBC improved policies with regard to individual current-account transactions and cross-border investments and financing, realized full-coverage of policies regarding cross-border use of the RMB, continued to promote use of the RMB in neighboring countries and countries along the Belt and Road, and promoted overseas RMB fund business of financial institutions. Fourth, the PBC developed the outcomes of the first Belt and Road Forum for International Cooperation by expanding the size of the Silk Road Fund. In addition, it further deepened its multilateral cooperation with the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB), the BRICS, and so forth, and strengthened bilateral cooperation as well as cooperation with the Hong Kong SAR, the Macao SAR, and Taiwan Province of China.

The pace of financial market innovation and development accelerated

The PBC actively implemented measures to deal with risk aversion in bond markets and in the financial markets as a whole. On the one hand, it strengthened financial market institutions through connections of central depository bond institutions, cross-qualification recognition of bond credit-rating institutions, unified law enforcement in bond markets, and the launch of trading mechanisms for matured default bonds. These measures have stabilized the financing functions of the bond market and have enhanced the level of compliance of the gold market and the bill market. On the other hand, the PBC encouraged innovation and opening-up of financial markets by launching the over-the-counter business of local government bonds, a flexible bidding mechanism for financial bonds, third-party repurchasing business in the interbank market, and innovative capital replenishment tools, such as bonds without fixed maturities. It also clarified the mechanism for foreign institutions to issue bonds domestically, improved transaction and settlement arrangements regarding the Bond Connect, and further expanded the opening-up of the bond market. Since the end of November 2018, foreign investors have been able to invest in China's bond market through the connection between Bloomberg terminals and China Foreign Exchange Trade System, which has facilitated participation by foreign investors in China's bond market with lower transaction costs.

Financial services and financial management were enhanced

The PBC adheres to the development principle that centers on serving the people, actively improving the business environment, accurately grasping the new demands from the rapid development of financial technology, and achieving breakthroughs and progress while steadily carrying out various fundamental and regular financial management services so as to effectively increase the financial sector's capacity to serve the real economy and the efficiency of financial markets. The PBC successfully carried out the program to collect comprehensive statistics on asset management products, steadily promoted the use of comprehensive financial statistics, implemented a pilot program to abolish the approval requirements for enterprises when opening bank accounts, achieved significant progress in promoting the connections of payment institutions to NetsUnion Clearing Corporation or UnionPay while cutting off direct connections to banks and timely shutting down some illegal payment platforms. It regulated declining use of cash, implemented a pilot program to manage large amounts of cash, and established a national cash statistical system. The PBC also promoted the listing of Panda Gold Coins on the Shanghai Gold Exchange to meet the diversified investment demands of investors. The PBC issued the first license for individual credit information collection and facilitated the formation of a multi-functional and complementary structure for the individual credit-information market. It led the work on the fourth round of the mutual evaluation of the Financial Action Task Force (FATF), and allowed anti-money laundering to play an active role in the prevention of financial risks. Efforts to address the problems of illegal financial advertisements and sales and propaganda have made progress and the mechanism to protect the rights of financial consumers has been continuously improved.

2019 is the 70th anniversary of the founding of the People's Republic of China and it is the key year in building a moderately prosperous society. The PBC will follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, fully implement the spirit of the 19th National Congress of the CPC, the Second and Third Plenary Sessions of the 19th Central Committee, and the Central Economic Work Conference, and it will uphold the leadership of the CPC in financial work, the general principle of pursuing progress while ensuring stability, the new development philosophy, and the promotion of high-quality development. It will focus on supply-side structural reforms, earnestly implement the decisions and arrangements of the CPC Central Committee and the work requirements of the State Council, fulfill the mandates of the central bank in an innovative manner, and celebrate China's 70th birthday with outstanding performance.

People's Bank of China, Governor

易纲

MANAGEMENT OF THE PEOPLE'S BANK OF CHINA

Yi Gang

Governor of the PBC, Deputy Secretary of the CPC PBC Committee

Guo Shuqing

Secretary of the CPC PBC Committee, Deputy Governor

Chen Yulu

Deputy Governor, Member of the CPC PBC Committee

Pan Gongsheng

Deputy Governor, Member of the CPC PBC Committee, Administrator of the SAFE, Secretary of the CPC SAFE Committee

Fan Yifei

Deputy Governor, Member of the CPC PBC Committee

Zhu Hexin

Deputy Governor, Member of the CPC PBC Committee

Xu Jiaai

Commissioner of Discipline Inspection, Member of the CPC PBC Committee

Liu Guoqiang

Deputy Governor, Member of the CPC PBC Committee

Changes in the composition of PBC management

In January 2018, Yin Yong no longer served as Deputy Governor of the PBC, Member of the CPC PBC Committee.

In March 2018, Zhou Xiaochuan no longer served as Governor of the PBC, Secretary of the CPC PBC Committee. Yi Gang was appointed Governor of the PBC and Guo Shuqing was appointed Secretary of the CPC PBC Committee and Deputy Governor of the PBC.

In July 2018, Zhu Hexin was appointed Deputy Governor of the PBC, Member of the CPC PBC Committee; Liu Guoqiang no longer served as Assistant Governor, and was appointed Deputy Governor of the PBC.

Note: Information on management disclosed in this report is as of end-2018.

MEMBERS OF THE MONETARY POLICY COMMITTEE OF THE PBC

Chairman:	Yi Gang	Governor of the People’s Bank of China
Members:	Ding Xuedong	Deputy Secretary-General of the State Council
	Lian Weiliang	Vice Chairman of the National Development and Reform Commission
	Liu Wei	Vice Minister of the Ministry of Finance
	Chen Yulu	Deputy Governor of the People’s Bank of China
	Liu Guoqiang	Deputy Governor of the People’s Bank of China
	Ning Jizhe	Director of the National Bureau of Statistics
	Guo Shuqing	Chairman of the China Banking and Insurance Regulatory Commission
	Pan Gongsheng	Administrator of the State Administration of Foreign Exchange
	Tian Guoli	President of the China Banking Association
	Liu Shijin	Vice President of the China Development Research Foundation
	Liu Wei	President of the Renmin University of China
	Ma Jun	Director of the Center for Finance and Development, Tsinghua University

Note: Information on members of the monetary policy committee disclosed in this report is as of end-2018.

ORGANIZATIONAL STRUCTURE OF THE PBC

ORGANIZATIONS OF THE PBC (NUMBER)

Departments and Bureaus of the Head Office	25
Enterprises and Institutions Directly under the PBC	21
Overseas Offices	11
Departments of the Shanghai Head Office	14
Regional Branches and Operation Offices	10
Sub-branches in Provincial Capital Cities	20
Sub-branches in Provincial-Level Municipalities	5
Sub-branches in Prefectural-Level Cities	316
County-Level Sub-branches	1 761

THE PBC HEAD OFFICE (PBCHO)

General Administration Department (General Office of the CPC PBC Committee)

Legal Affairs Department

Monetary Policy Department

Monetary Policy Department II

Financial Market Department

Financial Stability Bureau

Statistics and Analysis Department

Accounting and Treasury Department

Payment System Department

Technology Department

Currency, Gold, and Silver Bureau

State Treasury Bureau

International Department (Office of Hong Kong, Macao, and Taiwan Affairs)

Internal Auditing Department

Human Resources Department (Organization Division of the CPC PBC Committee)

Research Bureau

Credit Information System Bureau

Anti-Money Laundering Bureau (Security Bureau)

Financial Consumer Protection Bureau

Education Department of the CPC PBC Committee

CPC Committee of the PBC Head Office (Office of Inspections)

Retired Staff Management Bureau

Office of Senior Advisors

Staff Union Committee

Youth League

GOVERNMENT AGENCIES DIRECTLY UNDER THE PBC

State Administration of Foreign Exchange

THE PBC SHANGHAI HEAD OFFICE (PBCSHO) AND SUB-BRANCHES IN PROVINCIAL CAPITAL CITIES AND PROVINCIAL-LEVEL MUNICIPALITIES UNDER ITS ADMINISTRATION

General Administration Department
(General Office of the CPC PBCSHO Committee)

Open Market Operations Department

Financial Market Management Department

Financial Stability Department

Statistics and Research Department

International Department

Financial Services Department I

Financial Services Department II

Foreign Exchange Management Department

Human Resources Department
(Organization and Education Division of the CPC PBCSHO Committee)

Discipline Enforcement and Supervision Department
(Internal Auditing Division)

RMB Cross-Border Business Department

Financial Consumer Protection Department

On-Site Inspection Department

Hangzhou Sub-branch

Fuzhou Sub-branch

Ningbo Sub-branch

Xiamen Sub-branch

PBC BRANCHES AND OPERATION OFFICES AND SUB-BRANCHES IN PROVINCIAL CAPITAL CITIES AND PROVINCIAL-LEVEL MUNICIPALITIES UNDER THE ADMINISTRATION OF THESE BRANCHES

Tianjin Branch
Shijiazhuang Sub-branch
Taiyuan Sub-branch
Hohhot Sub-branch

Shenyang Branch
Changchun Sub-branch
Harbin Sub-branch
Dalian Sub-branch

Nanjing Branch
Hefei Sub-branch

Ji'nan Branch
Zhengzhou Sub-branch
Qingdao Sub-branch

Wuhan Branch
Nanchang Sub-branch
Changsha Sub-branch

Guangzhou Branch
Nanning Sub-branch
Haikou Sub-branch
Shenzhen Sub-branch

Chengdu Branch
Guiyang Sub-branch
Kunming Sub-branch
Lhasa Sub-branch

Xi'an Branch
Lanzhou Sub-branch
Xining Sub-branch
Yinchuan Sub-branch
Urumqi Sub-branch

Operation Office (Beijing)

Chongqing Operation Office

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

In 2018, the global economy continued to grow but at a slower pace and economic growth became less integrated. Amid global trade frictions and changes in financial conditions, financial market volatility heightened somewhat and downside risks increased.

Economic developments in the major economies

Growth in the major advanced economies slowed down somewhat, with differences in their economic performance

The US economy saw strong growth but showed signs of a slowdown. Its annualized quarter-on-quarter GDP growth in 2018 was 2.2 percent, 4.2 percent, 3.4 percent, and 2.6 percent respectively, and its growth rate for the entire year was 2.9 percent. The manufacturing PMI of the Institute for Supply Management remained high throughout the year, remaining above 50 for 34 consecutive months, but it dropped unexpectedly to 54.10 in December. The University of Michigan's Consumer Sentiment Index remained high in 2018, with some fluctuations in Q4. Inflation initially rose but then fell. It reached a high of 2.9 percent in June and July, and then gradually declined to 2.2 percent and 1.9 percent respectively in November and December. Excluding the more volatile energy and food prices, the core CPI rose moderately. After rising to 2.1 percent in March, it consistently remained slightly above 2 percent, growing 2.2 percent in November and December. The labor market was tight and the unemployment rate fell from its previous low levels. It dropped to a fifty-year low of 3.7 percent in Q3 and then rose slightly to 3.9 percent in December.

In the euro area, economic growth continued to slow down. From Q1 to Q4, year-on-year GDP growth in the euro area was 2.4 percent, 2.2 percent, 1.6 percent, and 1.2 percent, reflecting a continuous slowdown. GDP growth for the entire year was 1.8 percent, lower than the 2.4 percent in 2017. Consumer sentiment in the euro area continued to drop after being relatively optimistic at the beginning of 2018. The manufacturing PMI also showed a downward trend in 2018, falling below 52 in Q4. GDP growth in Germany contracted 0.2 percent in Q3 compared with Q2, its first negative growth since 2015. Overall, inflation in the euro area remained subdued, as year-on-year growth of the core Harmonized Index of Consumer Prices (HICP) was about 1.0 percent throughout the year. The unemployment rate remained low, posting 7.9 percent in both November and December.

Economic fluctuations increased in Japan. Due to factors such as natural disasters, the annualized quarter-on-quarter GDP growth in Q3 was -2.5 percent, again falling into negative territory after it had contracted 1.3 percent in Q1, the biggest decline since Q2 of 2014. GDP growth in Q4 registered 1.4 percent and stood at 0.7 percent for the entire year. The labor market was close to full employment. But given insufficient incentives for wage increase by employers and weak inflation expectations, inflation was expected to remain low.

The UK economy continued to grow slowly amid the Brexit uncertainties. GDP growth in Q1 was merely 1.3 percent, the lowest in six years, and it remained low despite a slight rebound. GDP growth in Q2, Q3, Q4, and the entire year was 1.5 percent, 1.6 percent,1.3 percent, and 1.4 percent respectively. Meanwhile, inflation continued to surpass the target of the Bank of England, with the CPI posting 2.3 percent and 2.1 percent respectively year on year in November and December. Moreover, there were differences of opinion about the current Brexit deal in the UK, creating uncertainty for an orderly Brexit.

Performance in the emerging market economies continued to differ

Growth in Brazil regained some momentum. Compared with the previous year, GDP growth in Q2 dropped to 0.9 percent, while it rose to 1.3 percent and 1.1 percent in Q3 and Q4. GDP growth for the entire year was 1.1 percent. In Russia, due to the rebound in oil and other commodity prices, the Russian economy gradually stabilized, growing 1.9 percent and 1.5 percent respectively in Q2 and Q3 year on year. Inflation was contained but it rebounded slightly. The Indian economy grew rapidly, as year-on-year growth reached 8.0 percent in Q2, slightly moderating to 7.0 percent and 6.6 percent in Q3 and Q4 respectively, and standing at 7.3 percent for the entire year. Inflation pressures eased moderately. Economic activity in South Africa picked up slightly in Q3, but the unemployment rate remained stubbornly high. Affected by the turbulence in the financial market, the GDP in Argentina continued to contract on a year-on-year basis.

Developments in global financial markets

Both external and internal factors triggered financial market turbulence in some emerging economies, as exchange-rate depreciations, slumping bond prices, and tumbling stock indexes coincided, which caused large stock-market fluctuations in the advanced economies.

The USD index jumped. The euro and the British pound fell against the US dollar. Currencies in some emerging market economies weakened sharply, but thereafter regained their losses

At end-2018, the USD index closed at 96.07, up 4.09 percent from end-2017. The exchange rates of the euro, the British pound, and the Japanese yen were 1.1469 dollars per euro, 1.2757 dollars per pound, and 109.56 yen per US dollar, depreciating 4.39 percent, 5.59 percent, and appreciating 2.84 percent respectively from end-2017. Among the emerging market currencies, the Argentine peso, the Turkish lira, the Brazilian real, and the Indian rupee depreciated 50.57 percent, 28.34 percent, 14.65 percent, and 8.24 percent respectively as compared with the end of 2017. Throughout the year, the Russian ruble weakened 17.25 percent against the dollar, and the Mexican peso rose slightly by 0.04 percent.

T-bond yield curves generally fell in the advanced economies, but performance was mixed throughout the year

As of end-2018, the yield of 10-year US Treasuries closed at 2.691 percent, up 28 basis points (bps) from end-2017. Meanwhile, the yields of 10-year German and Japanese government bonds dropped 17.8 bps and 4.8 bps respectively over end-2017, while the yield of 10-year UK government bonds rose 8.1 bps from end-2017. Among the emerging market economies, the yield of 9-year Argentine government bonds advanced 562.1 bps in 2018 and the yields of Turkish, Brazilian, Russian, and Mexican government bonds saw a rise of 440 bps, a drop of 100 bps, a rise of 114 bps, and a rise of 93 bps respectively.

The stock markets in the major economies first peaked but then reversed

There has been a broad-based decline in the stock markets of the advanced economies amid concerns about trade tensions, rate hikes by the US Fed, and a possible peak in the economic cycle. As of end-2018, the US Dow Jones

Industrial Average, the Japanese Nikkei 225, the German DAX, the Euro STOXX 50, and the UK FTSE 100 tumbled 5.63 percent, 12.08 percent, 18.26 percent, 14.34 percent, and 12.48 percent respectively over end-2017. Among the emerging market economies, the Brazilian BOVESPA jumped 15.03 percent in 2018. The Argentine BUSE MERVAL and the Indian SENSEX added 0.75 percent and 5.91 percent respectively over end-2017. The Mexican MXX, the Turkish BIST 30, and the Russian RTS lost 15.63 percent, 19.54 percent, and 7.65 percent respectively in 2018.

Global economic and financial outlook

Looking ahead, the global economy may face the following risks.

First, trade tensions and policy uncertainties remain prominent risks. Amid the gradually unfolding trade tensions and uncertainties and the impact of higher tariffs on inflation and the global supply chain, enterprises either chose to postpone investment decisions or considered adjusting the supply chain. Some economies at the upper and lower ends of the supply chain were exposed to a weakening external demand and other shocks. The impact of trade tensions on confidence also heightened global financial market volatility. In the future, trade tensions will remain the fundamental factors affecting global economic growth and market confidence.

Second, financial vulnerability may be amplified amid policy uncertainties. Due to historically high levels of asset prices and rising vulnerability in financial markets, once panic grows with an economic slowdown or liquidity tightening exceeds market expectations, asset prices may fall sharply and the financial market may fluctuate as well. In addition, the growing uncertainties in the monetary policies of the advanced economies may exacerbate financial market volatility.

Third, as downside risks to growth are on the rise, the policy responses of some economies may face certain challenges. On the monetary policy front, low interest rates in some countries may have limited room for policy-rate adjustments and room for further balance-sheet expansion may also be constrained. On the fiscal policy front, fiscal deficits and government debts in some economies will remain high and the pro-cyclical fiscal policy in some economies will make it difficult to create room for future policy responses.

In addition, the outbreak of geopolitical conflicts in several regions and the accelerated build-up of risks and uncertainties will have a greater impact on economic and financial development. Meanwhile, new risks interwoven with FinTech and other new technologies will pose additional challenges to global financial supervision and thus should not be overlooked.

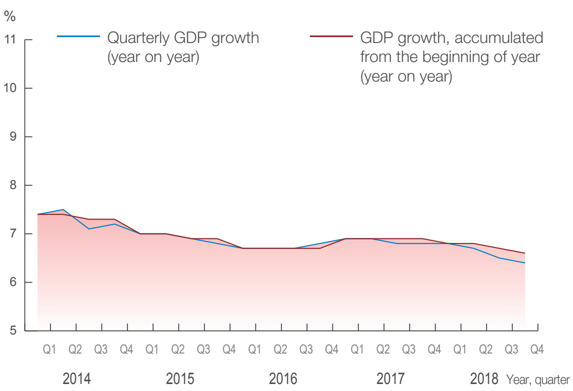
THE MACRO-ECONOMY IN CHINA

In 2018, China adhered to the overall principle of seeking progress while maintaining stability, effectively implemented the new development concept, and fulfilled the requirements for high-quality development. Taking the supply-side structural reforms as the major focus, the Chinese government made efforts to win the three critical battles of preventing and mitigating key risks, targeting poverty alleviation, and preventing and controlling pollution. China tried to promote various tasks such as stabilizing growth, deepening reforms, adjusting the economic structure, working to benefit the entire society, and preventing risks. While appropriately dealing with the China-US economic and trade tensions, it emphasized stabilizing employment, finance, external trade, investments, and expectations. The national economy grew steadily while its structure was continuously optimized.

The national economy made progress amidst stability and the industrial structure was continuously optimized

According to the initial calculations of the National Bureau of Statistics, China's GDP reached RMB90.03 trillion in 2018, a year-on-year growth of 6.6 percent at comparable prices. For the four quarters, GDP growth stood at 6.8 percent, 6.7 percent, 6.5 percent, and 6.4 percent respectively (Figure 1). Broken down by sectors, the value-added of the primary, secondary, and tertiary industries registered RMB6.47 trillion, RMB36.60 trillion, and RMB46.96 trillion, with a year-on-year growth of 3.5 percent, 5.8 percent, and 7.6 percent respectively.

Figure 1. China's Economic Growth



Source: National Bureau of Statistics

In terms of its share of industrial value-added in GDP, primary industry registered 7.2 percent, down 0.4 percentage point from the previous year, while the secondary and tertiary industries registered 40.7 percent and 52.2 percent, up 0.2 and 0.3 percentage point respectively from the previous year. In terms of their contribution to economic growth, the ratios of the primary, secondary, and tertiary industries registered 4.2 percent, 36.1 percent, and 59.7 percent respectively. The ratio of the contribution of the tertiary industry was higher than that of the secondary industry by 23.6 percentage points, down 0.3 percentage point from the previous year.

Industrial production grew steadily, while corporate profitability improved a little

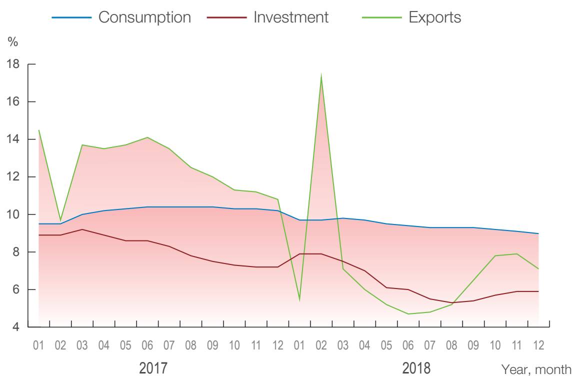
Overall industrial value-added reached RMB30.52 trillion in 2018, increasing 6.1 percent year on year but decelerating 0.2 percentage point over the previous year. The value-added of statistically large enterprises (SLEs) grew 6.2 percent year on year, a deceleration of 0.4 percentage point. In terms of the value-added of SLEs broken down by sectors, the mining sector rose by 2.3 percent, the manufacturing sector rose by 6.5 percent, and the production and supply sectors for electricity, thermo power, gas and water rose 9.9 percent year on year. The profits of SLEs registered RMB6.64 trillion, up 10.3 percent year on year. Broken down by sectors, profits in the mining sector reached RMB524.6 billion, up by 40.1 percent year on year; profits in the manufacturing sector reached RMB5.70 trillion, up by 8.7 percent; and the profits in the production and supply sectors for electricity, thermo power, gas and water were RMB414.1 billion, up by 4.3 percent. In 2018, the profit margin in the key businesses of the SLEs was 6.49 percent, up 0.11 percentage point from the previous year, indicating improving profitability in the industrial sector.

The contributions of consumption to economic growth increased, while the contributions of external demand turned from positive to negative

In 2018, the contribution of final consumption expenditures to economic growth was 76.2 percent, up 17.4 percentage points from the previous year, which was the primary force supporting the steady growth. Total retail sales of consumer goods amounted to RMB38.1 trillion in 2018, witnessing a year-on-year increase of 9.0 percent (Figure 2) though there was a deceleration of 1.2 percentage points. Broken down by residence, retail sales of consumer goods in urban areas hit RMB32.56 trillion, with a year-on-year increase of 8.8 percent, while retail sales of consumer goods in rural areas reached RMB5.50 trillion, with a year-on-year growth of 10.1 percent. Broken down by consumption, retail sales of commodities reached RMB33.83 trillion, up by 8.9 percent year on year, and revenue in the catering industry hit RMB4.27 trillion, up by 9.5 percent year on year. Online retail sales amounted to RMB9.01 trillion, with a year-on-year increase of 23.9 percent. Specifically, online retail sales of physical goods totaled RMB7.02 trillion, up 25.4 percent year on year, accounting for 18.4 percent of total retail sales of consumer goods and up by 3.4 percentage points from 2017.

Total fixed-asset investments in 2018 hit RMB64.57 trillion, up by 5.9 percent year on year (Figure 2) and a deceleration of 1.1 percentage points from the previous year. Specifically, fixed-asset investments (excluding in agriculture) reached RMB63.56 trillion, a year-on-year increase of 5.9 percent and a deceleration of 1.3 percentage points from the previous year. Specifically, investments in the primary, secondary, and tertiary industries amounted to RMB2.24 trillion, RMB23.79 trillion, and RMB37.53 trillion, a year-on-year increase of 12.9 percent, 6.2 percent, and 5.5 percent respectively. Investments in real-estate development hit RMB12.03 trillion, up 9.5 percent year on year and an acceleration of 2.5 percentage points from the previous year.

Figure 2. Growth of the Three Major Types of Demand



Sources: National Bureau of Statistics

In 2018, the contribution of net exports of goods and services to economic growth was -8.6 percent, against 9.1 percent in 2017. Imports and exports of goods in 2018 reached RMB30.51 trillion, a year-on-year increase of 9.7 percent and a deceleration of 4.5 percentage points from the previous year. Specifically, exports amounted to RMB16.42 trillion, up 7.1 percent year on year, and imports amounted to RMB14.09 trillion, up 12.9 percent year on year. The surplus of trade in goods was RMB2.33 trillion, decreasing by RMB521.7 billion from the previous year. Trade with the Belt and Road countries reached RMB8.37 trillion, a year-on-year increase of 13.3 percent. Among this, exports amounted to RMB4.65 trillion, up 7.9 percent year on year and imports amounted to RMB3.72 trillion, up 20.9 percent year on year.

Consumer prices rose moderately, while producer prices declined somewhat

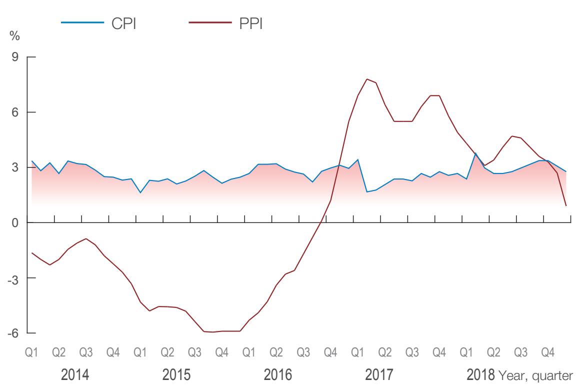
In 2018, the consumer price index (CPI) witnessed a year-on-year increase of 2.1 percent, an acceleration of 0.5 percentage point from the previous year. During the four quarters, CPI growth stood at 2.2 percent, 1.8 percent, 2.3 percent, and 2.2 percent respectively (Figure 3). Food inflation shifted from negative to positive, and non-food prices rose mildly. Food prices rose 1.8 percent year on year in 2018, while they registered a year-on-year decline of 1.4 percent in 2017. Non-food prices rose 2.2 percent, a deceleration of 0.1 percentage point. Growth in the price of consumer goods apparently expanded, while services inflation fell moderately. The price of consumer goods rose 1.9 percent, an acceleration of 1.2 percentage points from that in 2017, whereas the price of services rose 2.5 percent, a deceleration of 0.5 percentage point from the previous year.

In 2018, the producer price index (PPI) rose 3.5 percent year on year, a deceleration of 2.8 percentage points from the previous year. For the four quarters, PPI growth stood at 3.7 percent, 4.1 percent, 4.1 percent, and 2.3 percent respectively (Figure 3). Specifically, growth in the price of consumer goods was relatively stable, while growth in the price of capital goods obviously declined. The price of consumer goods rose 0.5 percent year on year, a deceleration of 0.2 percentage point from the previous year. The price of capital goods rose 4.6 percent year on year, a deceleration of 3.7 percentage points from the previous year. The Purchasing Price Index of Raw Materials (PPIRM) rose 4.1 percent year on year, a deceleration of 4.0 percentage points, with growth of the PPIRM standing at 4.4 percent, 4.4 percent, 4.7 percent, and 3.0 percent over the four quarters respectively.

Employment was generally stable and the income of residents steadily increased

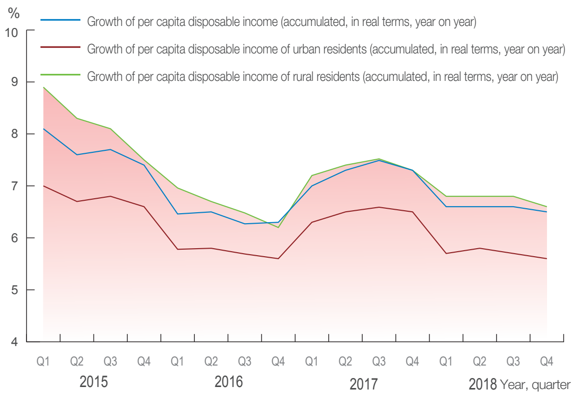
A total of 13.61 million new jobs were created in the urban areas in 2018, 100 000 jobs more than in 2017. The registered unemployment rate in the urban areas stood at 3.8 percent, down by 0.1 percentage point from the previous year. The national average per capita disposable income of residents totaled RMB28 228, up by 6.5 percent in real terms and a deceleration of 0.8 percentage point from the previous year. Specifically, the per capita disposable income of urban residents was RMB39 251, up 5.6 percent in real terms. The per capita disposable income of rural residents was RMB14 617, up 6.6 percent in real terms (Figure 4), while that of urban residents was 1.69 times higher, down by 0.02 percentage point from 2017.

Figure 3. CPI and PPI Growth (year on year)



Source: National Bureau of Statistics

Figure 4. Growth of Household Disposable Income

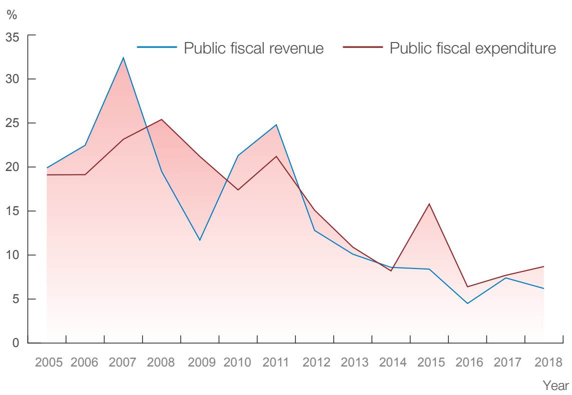


Source: National Bureau of Statistics

Growth of fiscal revenue decelerated, while growth of fiscal expenditures picked up

In 2018, fiscal revenue totaled RMB18.34 trillion, up 6.2 percent year on year (calculated by the same rate, the same below), and a deceleration of 1.2 percentage points from the previous year (Figure 5). Among this, central government revenue amounted to RMB8.54 trillion, a year-on-year increase of 5.3 percent, accounting for 46.6 percent of the total national fiscal revenue. Local government revenue hit RMB9.79 trillion, a year-on-year increase of 7.0 percent, accounting for 53.4 percent of the total national fiscal revenue. In terms of the revenue structure, tax revenue stood at RMB15.64 trillion, a year-on-year increase of 8.3 percent, accounting for 85.3 percent of the total national fiscal revenue. Non-tax revenue stood at RMB2.70 trillion, dropping 4.7 percent year on year and accounting for 14.7 percent of the total national fiscal revenue. In 2018, fiscal expenditures totaled RMB22.09 trillion, up 8.7 percent year on year and an acceleration of 1.0 percentage point from the previous year (Figure 5). Of the total, central government expenditures amounted to RMB3.27 trillion, a year-on-year increase of 8.8 percent and local government expenditures reached RMB18.82 trillion, a year-on-year growth of 8.7 percent.

Figure 5. Growth of Fiscal Revenue and Expenditure



Source: National Bureau of Statistics

Macro-economic outlook

Economic performance is likely to remain within a reasonable range. The year 2019 is the 70th anniversary of the founding of the People's Republic of China, a critical year for comprehensively building a moderately prosperous society and achieving the first centenary goal. Currently, the international environment and the domestic circumstances of the Chinese economy have been undergoing profound and complicated changes. On the international front, the global economic outlook is rather complicated as geopolitical risks remain elevated and monetary-policy trends in the major advanced economies are uncertain. Trade frictions are also causing large uncertainties for the export outlook, resulting in external demand being a weaker marginal driving force in the economy. This is also likely to change investor sentiment and exacerbate fluctuations in the financial market. On the domestic side, the traditional pillar industries, such as real estate and automobiles, have entered an adjustment phase. Most of the new businesses and new growth drivers are weaker than the traditional pillar industries in terms of their economic shares. Consumption growth is comparatively sluggish, thus the momentum for endogenous economic growth should be further enhanced. However, it should also be noted that there is still a huge potential and room for China's economic development. Bright development prospects lie ahead for the new urbanization, the service sector, the high-end manufacturing sector, and the upgrading of consumption. The economic situation, such as its resilience, sufficient potential, and ample room for maneuvering, remains unchanged. China's development is still and will continue to be at the stage of important strategic opportunities over a long period and the growth outlook for the Chinese economy will remain unchanged. The government will continue to encourage innovation, improve macro-regulation, deepen reform and opening-up, strengthen the driving role of innovation, and beef up policy coordination and cooperation. The potential for economic development will continue to be released and the economy will likely continue performing within a reasonable range.

Prices are quite stable. Domestic economic performance is generally stable. Food and cotton have witnessed a good harvest and high production. Industrial consumer goods have undergone a quality upgrading and improvement. Overcapacity has been obviously alleviated. Aggregate supply and demand is rather balanced. All these factors are favorable to price stability. The consumer price index will continue to rise moderately. Influenced by international commodity price moves and domestic supply and demand, the producer price index will decline somewhat.

Employment will remain generally stable and household income may continue to increase. The economy will grow within a reasonable range, which will provide strong support for the stability of employment. The economic structure will continue to be optimized and the capability of the services sector to create jobs will be further enhanced. The private economy will become an important force in adding employment, which will be helpful to promote employment growth. For the first time, the employment-first policy has been ranked as a macro-economic policy, thus attaching more importance to employment. As the employment-first policy continues to take effect, employment will remain generally stable and the income of residents will continue to grow.

FINANCIAL PERFORMANCE IN CHINA

In 2018, liquidity in the banking system was at a reasonable and adequate level, and RMB loans grew rapidly, which reflected the requirements of the counter-cyclical adjustments. Broad money supply (M2) and total social financing (TSF) grew at a reasonable pace, roughly consistent with the growth of nominal GDP. Market rates dropped across the board, resulting in lower financing costs. The RMB exchange rate remained generally stable with increased flexibility. The balance of payments remained in equilibrium.

M2 growth stabilized and was roughly consistent with the growth of nominal GDP

At the end of 2018, the balance of M2 was RMB182.67 trillion, up 8.1 percent year on year, the same as that at the end of 2017. The balance of narrow money supply (M1) and currency in circulation (M0) grew 1.5 percent and 3.6 percent respectively over the previous year to RMB55.17 trillion and RMB7.32 trillion respectively. The annual net cash supply was RMB256.3 billion, RMB22.1 billion more than that in 2017. Since the beginning of 2018, M2 growth stabilized above 8 percent, which was more or less consistent with the growth of nominal GDP, contributing to a stable macro leverage ratio.

TSF increased moderately

At end-2018, the stock of TSF posted RMB200.75 trillion, a year-on-year increase of 9.8 percent. The annual incremental financing was RMB19.26 trillion, RMB3.14 trillion less than in the previous year, largely due to a big decline in off-balance sheet financing. Broken down, first, the growth of RMB loans to the real economy accelerated. RMB loans from financial institutions to the real economy added RMB15.67 trillion, RMB1.83 trillion more than the increase in 2017, accounting for 81.4 percent of the incremental TSF in 2018. Second, the year-on-year growth of entrusted loans, trust loans, and undiscounted banker's acceptances declined significantly. Such off-balance sheet financing contracted RMB2.93 trillion, dropping RMB6.5 trillion further from the decline in 2017. Third, corporate bond financing grew notably, while the growth of equity financing decelerated. Net corporate bond financing posted RMB2.48 trillion, RMB2.03 trillion more than in 2017. Equity financing by non-financial enterprises on the domestic market shrank RMB515.3 billion compared with the previous year to RMB360.6 billion. Fourth, the growth of special bond financing by local governments slowed down. Special bond financing by local governments posted RMB1.79 trillion, down RMB211 billion from the previous year. Fifth, the growth of asset-backed securities (ABS) and loan write-offs at depository financial institutions accelerated slightly. At depository financial institutions, ABS financing was RMB594 billion, an increase of RMB396.3 billion compared with 2017, and loan write-offs posted RMB1.02 trillion, up RMB256.5 billion over 2017.

Lending from financial institutions maintained rapid growth amid a continuously optimizing structure

At end-2018, outstanding RMB loans stood at RMB136.30 trillion, jumping 13.5 percent year on year and increasing by RMB16.17 trillion compared with the beginning of 2018, adding RMB2.64 trillion year on year, three times the figure in 2017. This somewhat offset the decline in off-balance sheet financing. New small and micro loans with the amount lent to each borrower below RMB10 million for financial inclusion purposes registered RMB1.23 trillion, 2.3 times that in the previous year, and outstanding loans at end of the year grew 15.2 percent, up 8.2 percentage points year on year. The sectoral breakdown showed that the growth of household borrowing had leveled off, growing 18.2 percent year on year at end-2018, down 3.2 percentage points from end-2017. In particular, the growth of personal mortgage loans fell to 17.8 percent, shedding 4.4 percentage points over end-2017, and incremental mortgage loans decreased RMB81.8 billion to RMB3.89 trillion compared with 2017, representing 24.1 percent of the total incremental loans, 5.3 percentage points lower than in 2017. New loans to non-financial enterprises and government agencies and organizations gained RMB1.6 trillion year on year, amounting to RMB8.31 trillion. Broken down by maturity, the growth of medium- and long-term loans decelerated by RMB1.16 trillion year on year to RMB10.52 trillion, accounting for 65 percent of the total incremental loans, sinking 21.2 percentage points from the same period of the previous year.

Deposit growth at financial institutions decelerated

At end-2018, outstanding RMB deposits stood at RMB177.52 trillion, a year-on-year increase of 8.2 percent, down 0.8 percentage point from the end of 2017. Outstanding RMB deposits gained RMB13.40 trillion compared with the start of 2018, a drop of RMB107.1 billion year on year. Broken down by maturity, time deposits comprised 80.7 percent of the incremental household deposits and non-financial corporate deposits, jumping 25.9 percentage points over the same period of 2017. Broken down by sector, the growth of household deposits and non-bank financial institutions deposits rose by RMB2.6 trillion and RMB730 billion respectively year on year, while the growth of non-financial corporate deposits and government deposits decelerated by RMB1.93 trillion and RMB1.36 trillion respectively compared with the previous year.

Money market rates remained generally stable, though the key rates declined

The annual weighted average rates for interbank lending, pledged repos, and outright repos were 2.59 percent, 2.66 percent, and 3 percent respectively, sliding 19 basis points (bps), 26 bps, and 32 bps respectively year on year. At end-2018, the 7-day interbank lending rate (IBO007) and the rate on 7-day repos by depository institutions pledged with low credit-risk bonds (DR007) were 3.5 percent and 3.04 percent respectively, losing 55 bps and 5 bps year on year. At end-2018, the overnight and 1-week Shibor sank 29 bps and 5 bps respectively from the end of 2017 to 2.55 percent and 2.9 percent, and the 3-month and 1-year Shibor slumped 157 bps and 124 bps from end-2017 to 3.35 percent and 3.52 percent respectively.

Lending rates dropped, leading to lower financing costs

In December, the weighted average lending rate was 5.64 percent, dipping 0.07 percentage point from the previous year and dipping 0.28 percentage point from September. In particular, the weighted average rate on loans was 5.91 percent, down 0.28 percentage point from

Note: 1. Personal mortgage loan weighted average rate (excluding housing provident fund loan rate) was included in addition to weighted average rate on loans to non-financial enterprises and other sectors.

September and the weighted average rate on bill financing dropped 0.38 percentage point over September to 3.84 percent. The weighted average rate on corporate loans dropped for four successive months, losing a cumulative 0.25 percentage point. In particular, the rate on loans to micro businesses fell for five successive months by a total of 0.39 percentage point. On balance, the aggregate financing costs, including the cost of bank loans, bonds, and off-balance sheet financing, were reduced moderately compared with that at end-2017.

The yield curve of government bonds moved downwards and steepened

At end-2018, the yields of 1-year, 3-year, 5-year, 7-year, and 10-year government bonds were 2.6 percent, 2.87 percent, 2.97 percent, 3.16 percent, and 3.23 percent respectively, slashing 119 bps, 91 bps, 88 bps, 74 bps, and 65 bps compared with the beginning of 2018. The spread between 1-year and 10-year government bonds was 63 bps, widening 54 bps from the beginning of 2018.

Bond indices edged up, while stock indices dipped

At end-2018, the ChinaBond New Composite Index (Net Price), the ChinaBond New Composite Index (Full Price), and the Shanghai Stock Exchange Government Bond Index registered 101.92 points, 118.8 points, and 169.88 points respectively, up 4.03 percent, 4.79 percent, and 5.61 percent over end-2017. The Shanghai Stock Exchange Composite Index, the Shenzhen Stock Exchange Component Index, and the Growth Enterprise Board Index closed at 2 494 points, 7 240 points, and 1 251 points at end-2018, shedding 813 points, 3 800 points, and 502 points from end-2017.

The RMB exchange rate remained stable amid increased flexibility

The RMB exchange rate remained basically stable against a basket of currencies and became more flexible vis-à-vis the US dollar. At year-end, the CFETS RMB exchange rate index and the RMB exchange rate index against the SDR currency basket were 93.28 and 93.14 respectively, weakening 1.7 percent and 3 percent respectively compared with the previous year. According to BIS calculations, the RMB nominal effective exchange rate strengthened 1.17 percent and the real effective exchange rate appreciated 0.94 percent in 2018. At end-2018, the central parity of the RMB exchange rate against the dollar closed at 6.8632 per dollar, depreciating 4.8 percent compared with end-2017. The annualized volatility of the CNY/USD central parity was 4.2 percent in 2018, obviously higher than that in 2017, which played a greater role as the auto stabilizer in the macro-economy and the balance of payments.

The balance of payments remained in equilibrium

The current account balance remained within a reasonable range, as it ran a surplus of US$49.1 billion, or 0.4 percent of GDP. In particular, the combined trade in goods and services saw a surplus of US$102.9 billion, or 0.8 percent of GDP, reflecting an improved trade balance. The non-reserve financial account ran a surplus of US$130.6 billion. Broken down, direct investments remained a stable source of the surplus as they saw a surplus of US$107 billion. Portfolio investments ran an all-time high surplus of US$106.7 billion, mainly reflecting the effects of the greater opening-up of the capital market. Other investments reported a deficit of US$77 billion, basically stable amid two-way fluctuations. In general, capital inflows driven by long-term investments and asset allocations still dominated. China's outbound investments remained rational. In 2018, foreign exchange reserve assets from market transactions grew moderately, indicating a continuously self-fulfilling equilibrium in the balance of payments. By end-2018, external financial assets and liabilities in China had jumped 2.5 percent and 2.9 percent respectively over the end of 2017, and net foreign assets had advanced 1.4 percent to US$2.13 trillion.

MONETARY POLICY

Since the beginning of 2018, challenged by the complicated and constantly changing economic and financial situations, the PBC, guided by Xi Jinping's Socialist Thought with Chinese Characteristics for a New Era, earnestly implemented the decisions of the CPC Central Committee and State Council. It adhered to the key principle of making progress while maintaining stability and the new development concept, and it proactively benchmarked work against the requirement of high-quality growth. In order to maintain stability in employment, the financial sector, foreign trade, foreign capital, investment, and expectations, the PBC implemented a prudent monetary policy and pre-emptively adopted a series of effective policies to cope with the complicated situations both at home and abroad. Meanwhile, it worked to meet the fundamental requirement of enabling the financial sector to serve the real economy and provided suitable monetary and financial environments for supply-side structural reforms and high-quality development.

Pre-emptively implemented a series of counter-cyclical measures to offset the headwinds

Since the beginning of 2018, with the changes in the situation, the PBC dynamically improved policies to resolve the Three Big Constraints, namely liquidity, capital, and interest rates, for financial institutions to better support the real economy. During 2018, the PBC reduced the reserve requirement ratio (RRR) four times and expanded the operations of the MLF in order to increase the supply of mid- to long-term liquidity, maintain a reasonable and abundant amount of liquidity, and improve the stability of funds in the banking system. The funds released by the PBC were mainly used in the real economy. The PBC proactively guided financial institutions to expand credit and adjusted the parameters of the macro-prudential assessment (MPA) in order to expand space for broad credit growth of financial institutions and to strengthen financial support for the real economy. Regarding the banks' capital constraints to supply credit, the PBC, together with other institutions, facilitated an increase in capital for banks from various channels by making a breakthrough in perpetual bonds and introducing central-bank bill swaps (CBS) to support the issuance of perpetual bonds.

Strengthened precise and targeted adjustments and enhanced financial support for key and weak areas, including private, small, and micro enterprises (SMEs)

The PBC, closely following the remarks of General Secretary Xi Jinping at the Private Enterprise Seminar, stuck to the "Two Unwavering Principles" by utilizing and creating structural monetary-policy tools, further improving the monetary-policy transmission mechanism, optimizing the liquidity structures, and guiding financial institutions to strengthen financing support for private enterprises and SMEs so as to win more time and space for the transformation, upgrading, and enhancement of the quality and efficiency of private enterprises. The PBC used the targeted RRR cut to give incentives to financial institutions to provide support for private enterprises and SMEs and it further expanded market- and law-based debt-to-equity swaps and coverage of the targeted RRR cuts for inclusive finance. The PBC increased the quota of central-bank lending and discounts by RMB400 billion, cut interest rates on central-bank lending by 0.5 percentage point to support small enterprises, and expanded the scope of eligible central-bank collateral. The PBC newly added a special indicator to support private enterprises, SMEs, and debt-to-equity swaps in the MPA. It also created the Targeted Medium-Term Lending Facility (TMLF) and provided a long-term and stable funding source for preferential rates to financial institutions by taking into account their support for private enterprises and SMEs. The PBC successfully conducted the first operation of the TMLF in the amount of RMB257.5 billion. The Private Enterprise Bond Financing Facility was introduced to support bond issuances by private enterprises.

Maintained a balance between domestic equilibrium and external equilibrium and continued with market-based interest rate and exchange-rate regime reform

Challenged by the external constraints of a rate hike and the shrinking balance sheet of the Fed, the PBC paid attention to coordinating the relationship between domestic and foreign currencies. It focused on serving the domestic economy, while giving due consideration to an external equilibrium and making full use of the interest rate and the exchange rate, which represent the price of domestic and external funds respectively, to adjust the internal and external equilibrium. The PBC actively developed the interest-rate management mechanism, improved the interest-rate corridor, expedited the building of interest-rate benchmark systems, paid more attention to price signals and their transmission, and optimized the mechanism for the formation, adjustment, and transmission of interest rates. The PBC further improved the self-disciplined mechanism for market interest rates, improved the bond-market framework, promoted the orderly development of interbank negotiable certificates of deposit and certificates of deposit, and guided the independent and reasonable pricing of financial institutions. In the second half of 2018, faced with RMB depreciation pressures, the PBC stuck to the market-oriented mechanism for the exchange-rate formation and fully utilized the exchange rate as the “automatic stabilizer” for adjusting the macro-economy and the balance of payments. While maintaining the flexibility of the exchange rate, the PBC adopted a series of targeted and innovative measures in a timely manner, which effectively stabilized market expectations and kept the RMB exchange rate basically stable at a reasonable and equilibrium level.

Promoted monetary-policy guidance and communication, and stabilized market expectations

When formulating policies, the PBC, taking into consideration both the actual implications and guidance about expectations, dispelled doubts by promptly responding to issues of market concern through press releases and conferences. When there were great fluctuations in the bond, stock, or foreign-exchange markets, the PBC explained the relevant policies in a timely manner, which positively guided public opinion and stabilized market confidence.

In general, under the wise leadership of the CPC Central Committee and the State Council, the PBC, with its prudent monetary policy, struck a balance between supporting the real economy and taking into account both the domestic and the external equilibrium, better served the real economy, and promoted the stable and sound development of the national economy. Liquidity remained reasonable and abundant, RMB loans registered a significant year-on-year increase, bond financing recovered notably, market interest rates went down considerably, the RMB was basically strong, and financial-service support to the real economy remained firm, with better quality and higher efficiency.

Outlook for monetary policy

In 2019, the PBC will earnestly implement the strategic direction of the CPC Central Committee and the State Council, more closely unite around the CPC Central Committee with Comrade Xi Jinping at the core, be more mindful of potential dangers, hold to bottom-line thinking, actively deal with risks and challenges at home and abroad, and promote sustainable and sound economic development. The PBC will continue to implement a prudent monetary policy, focus on supply-side structural reforms, strengthen countercyclical adjustments, calibrate the intensity of policy management, maintain reasonable and abundant liquidity, improve monetary-policy transmission, continue to provide financing support to private enterprises and SMEs, further stabilize employment, financial sector, foreign trade, foreign capital, investment, and expectations, coordinate among stabilizing growth, promoting reforms, adjusting the structure, benefiting the people's livelihood, and preventing risks, and will foster a virtuous cycle between the economy and the financial sector.

First, the PBC will implement a prudent monetary policy, which will be tight or loose only as appropriate and reasonable and abundant liquidity will be maintained in the banking sector and stable market rates in order to promote the reasonable growth of money, credit, and total social financing.

Second, the PBC will maintain a balance between the aggregate and the structure, make innovations in monetary-policy instruments, pool the concerted efforts of various institutions, and unblock the transmission channels of monetary policy both from the supply side and the demand side.

Third, the PBC will coordinate policies for local and foreign currencies, keep a balance between a domestic and an external equilibrium, give full play to interest rate as a price lever, maintain the flexibility of the RMB exchange rate, and keep the RMB exchange rate stable at a reasonable and equilibrium level.

Fourth, the PBC will accelerate capital replenishments by banks to provide sustainable support to the real economy.

Fifth, the PBC will enhance the adaptability of the financial structure and strengthen the resilience of the financial system, while enabling the financial sector to support the transformation and upgrading of the real economy.

CREDIT POLICY

In 2018, with commitments to the policies and arrangements of the 19th CPC National Congress, the Central Economic Work Conference, and the Central Rural Work Conference, as well as to the general principle of seeking progress while maintaining stability and treating high-quality development and supply-side structural reforms as the main task, the PBC strengthened credit-policy guidance, gave full play to credit policy in the structural adjustment, enhanced financial services to the real economy, and reinforced financial support to key areas and weak links. These efforts effectively promoted sustainable and sound economic development and social stability.

Further promoted economic structural improvements and upgrading

The PBC guided financial institutions to provide financial services for the high-quality development of manufacturing and for building China into a manufacturing power. At year-end, outstanding medium- and long-term loans to the manufacturing sector posted RMB3.39 trillion, climbing 10.5 percent year on year. Among these, loans to high-tech manufacturing rose 33.1 percent, 22.6 percentage points higher than those to the whole sector. The PBC also participated in formulating the *Notice on Promoting Reductions of Excess Capacity and Restructurings Debts of "Zombie Enterprises"* as well as the *Notice on the Disposal of the Debts of "Zombie Enterprises" and Enterprises with a Reduced Capacity*, guiding financial institutions to properly dispose of the debts of these two types of enterprises. Efforts were made to support the strategy of "building a strong state and army" and "military-civilian integration." In particular, the PBC guided financial institutions to enhance credit support for enterprises in the key areas of national defense and civil science and technology and made full use of development finance and policy finance to support the key industries of military-civilian integration as well as industrial parks, such as the demonstration area for military-civilian integration reform and innovation and the demonstration base for military-civilian integration industries. Financial support for expanding consumption demand was further reinforced, which helped to foster new types of consumption, such as elderly care, health, and culture, and to accelerate the development of domestic trade circulation and logistics. The green finance system was improved to further promote innovation in green financial products and services, which will support protection of the ecological environment and the efficient use of resources. At year-end, outstanding green loans hit RMB8.23 trillion, up 16 percent year on year, 6.1 percentage points higher than that to enterprises and other units during the same period. To promote coordinated regional development, the PBC guided financial institutions to provide funds, especially medium- and long-term funds for major projects for the development of the Beijing-Tianjin-Hebei region and the construction of the Xiong'an New Area. These efforts helped promote the coordination and integration of the financial industry in the Beijing-Tianjin-Hebei region in an orderly manner, and promoted the formation of a rational financial industry layout. At year-end, outstanding loans of all financial institutions to the Beijing-Tianjin-Hebei region amounted to RMB15.3 trillion.

Promoted financial support for targeted poverty reduction

To implement policies to promote financial support for poverty alleviation, especially in the deeply impoverished areas, the PBC held sharing and promotion sessions on targeted poverty reduction in Lixian County of Sichuan Province, focusing on financial services for poverty alleviation in deeply impoverished areas. It also strengthened management of central bank lending for poverty reduction and optimized the pricing mechanism for loans made from central bank lending. Meanwhile, efforts were made to further the integration of financial and industrial support for poverty alleviation and to improve fund management, make adjustments in the means of financing, as well as in the dynamic repayment mechanism for the relocation of residents in poverty-stricken areas. At year-end, outstanding loans to people registered as living in poverty and those lifted out of poverty posted RMB724.4 billion, up 20.57 percent year on year, while loans to industries in targeted poverty reduction areas registered RMB1 011.5 billion, up 12.75 percent year on year.

Improved financial services to private, small, and micro enterprises

Working with the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, the National Development and Reform Commission, and the Ministry of Finance, the PBC released the *Opinions on Further Deepening Financial Services for Small and Micro Businesses*, which put forward 23 specific measures on monetary policy, supervision and assessment, internal management, fiscal and tax incentives, and optimizing the environment, so as to enhance financial support to small and micro businesses. In line with these policies, commercial banks were urged to improve financial services for small and micro businesses by optimizing internal management, allocating more internal credit resources to small and micro businesses, enhancing duty exemptions, and encouraging credit product innovations. The Office of the Financial Stability and Development Commission of the State Council organized on-the-spot supervision in seven provinces, including Zhejiang and Guangdong. At year-end, outstanding loans to small and micro businesses amounted to RMB8 trillion, a year-on-year gain of 18 percent and 8.2 percentage points higher than that in the previous year. Loans increased by RMB1.22 trillion in 2018, twice the growth in 2017.

Reinforced financial services for rural rejuvenation

The PBC steadily promoted the pilot program for loans collateralized by the operational rights of contracted farming land and rural housing property in order to increase the amount and coverage of loans. The guiding opinions on providing financial support for rural rejuvenation were announced to clarify the functional orientation and key supporting areas of agricultural financial institutions and financial services for the reform of the rural collective property rights system were promoted to support key areas, such as water-saving irrigation, high-standard farmland construction, and habitat environment improvements in the rural areas. In this way, rural resources and assets will be revitalized.

Stepped up financial support for key areas, such as science, technology, culture, and strategic emerging industries

The PBC improved financial services for science and technology innovation and expanded financing channels for start-ups in the field. Supporting systems such as intellectual property appraisals and trading were promoted for the development of intellectual property-backed financing, while cooperation between the cultural and financial sectors was strengthened, as cultural enterprises could access direct financing by issuing debt-financing instruments, which reinforced financial services for the reform and development of the cultural system.

Enhanced financial services for employment, entrepreneurship, and minority ethnic groups

The PBC improved policies on collateralized entrepreneurship loans by including farmers who started their own businesses as qualified applicants, removing the restriction that required reviews of the 5-year loan records of applicants for collateralized entrepreneurship loans, and increasing the credit line for personal loans to 150 000 yuan. It also strengthened the classified statistics and detailed management of the collateralized entrepreneurship loans. Financial institutions were required to set their lending rates within a reasonable range and the fiscal departments were to provide interest subsidies in line with the regulations, which provided financial services for employment and entrepreneurship of college graduates and returning migrant workers. Measures were taken to improve financial services for border areas and areas inhabited by minority ethnic groups, including preferential lending rates for trade and production of goods by minorities as well as additional credit supply. Working with the Ministry of Human Resources and Social Security, the PBC promoted the settlement of overdue wages of migrant workers and improved inclusive finance. At year-end, outstanding collateralized entrepreneurship loans posted RMB106.4 billion, jumping 22.5 percent year on year.

Provided financial services for local government debt management

In collaboration with the relevant departments, the PBC improved the policy framework for local government debt management to regulate local government borrowing and financing, strictly control incremental implicit debt, and properly dispose of the stock of implicit debt. It assisted in the debt swaps and new debt issues by local governments. Financial institutions were prohibited from providing funds to local governments that contravened the laws and regulations and were required to strengthen reviews of local government project financing and to extend loans consistent with market principles.

Promoted asset securitization

Pursuing a market-based, regulated, and transparent market, the PBC improved the operational mechanism and promoted the sound development of the asset securitization market by expanding market size and optimizing market functions in an active and orderly manner. During the year, financial institutions issued 155 credit asset-backed securities (ABS) in the amount of RMB931.8 billion, jumping 56 percent year on year. At year-end, outstanding ABS registered RMB1.48 trillion, climbing 70 percent year on year. Moreover, the PBC advanced the pilot program for distressed assets securitization in an orderly manner.

Column

Positive Progress in Addressing the Difficult-to-Obtain and Expensive Financing for Private Enterprises and SMBs

The CPC Central Committee and the State Council attach great importance to financial services for private enterprises and small and micro businesses (SMBs). The PBC has comprehensively implemented the decisions and arrangements of the CPC Central Committee and the State Council by leveraging the policy synergy forged by all involved parties, and introducing a full range of both long-term and short-term policies, to strengthen the monetary policy structural adjustments, ensuring a smooth policy transmission mechanism and making great efforts to complete the "last kilometer" in policy implementation so as to address the problem of difficult-to-obtain and expensive financing of private enterprises and SMBs and to make positive achievements.

Enhancing monetary policy support. In 2018, four targeted RRR cuts released RMB3.65 trillion, providing reasonable and sufficient liquidity for SMBs and other entities in the real economy. The PBC used monetary policy to facilitate structural adjustments by increasing central-bank lending and discounts three occasions with a total amount of RMB400 billion, and reducing the interest rate on SMB loans by 0.5 percentage point. The PBC set up a targeted medium-term lending facility (MLF), and actually extended the term to three years and applied an interest rate 15 basis points lower than that of the medium-term lending facility. The PBC expanded the scope of central-bank collateral, such as the MLF, and refinanced and expanded the coverage of targeted RRR cuts and other inclusive financial policies from SMBs with loans of less than RMB5 million to SMEs with loans of less than RMB10 million so as to ensure a targeted and precise liquidity provision for the SMBs.

Giving full play to the bond market. Financial institutions were allowed to issue financial bonds and asset-backed securities for SMBs to expand their financial resources. The annual issuance of financial bonds for SMBs was RMB124.5 billion, 11 times that in the previous year; and the issuance of asset-backed securities loans for SMBs was RMB10.8 billion, 15 times that in the previous year.

Coordinating the efforts of various policies. The fiscal agencies exempted the interest income of loans granted by financial institutions to SMBs and individual businesses with a credit line of less than RMB10 million from the VAT. A national financing guarantee fund was set up and government financing guarantee agencies were required to strengthen their support for SMBs, agricultural industry, rural areas, and farmers. Supervisory authorities required that financial banking institutions make great efforts to achieve the goal of "two increases and two controls" in lending to SMBs. They also prompted large state-owned banks to play the "leading goose" role, in the industry and to drive down the overall financing costs of SMBs.

Ensuring policy transmission and implementation. Efforts were made to guide commercial banks to improve the credit management mode and to optimize resource allocations, to provide support by internal fund pricing, to improve the evaluation and incentive mechanism, to delegate loan approvals to grass-roots outlets, to promote due diligence and accountability exemptions, and to enhance the use of FinTech, the Internet, and big data to improve customer services and the capacity to control risks. The key target is to encourage financial institutions to provide better and more lending products to the private enterprises and SMBs. The Office of the Financial Stability and Development Commission of the State Council has organized in-depth supervision in seven provinces, such as Zhejiang and Guangdong, to ensure policy implementation.

Continuously optimizing the business environment. Efforts were made to continuously improve services for opening bank accounts. The PBC summarized the experience of Taizhou in Jiangsu province and of Taizhou in Zhejiang province in abolishing the approval requirement for the opening of corporate bank accounts. With the experience of batch trial areas, the PBC will abolish approval requirements on corporate bank account openings by the end of 2019. The PBC continued to build up a credit system for the SMBs. By the end of the year, credit files have been set up for a total of 2.61 million SMEs, of which 540 000 SMBs had obtained bank loans. The PBC guided credit-reporting agencies to innovate credit-reporting services by using non-lending data, the improved information asymmetries between banks and enterprises, and the enhanced availability of loans.

Financial services for private enterprises and SMBs have achieved positive results. First, small and micro loans have continued to grow. At the year-end, the balance of SMB loans was RMB8 trillion covered by inclusive finance (SMB loans of less than RMB5 million), up 18 percent over the same period of the last year. Annual growth was RMB1.22 trillion, twice the growth in the previous year. Second, the coverage of SMBs was steadily expanded. At the year-end, the number of SMBs covered by inclusive finance reached 17.93 million, up by 4.67 million over the end of the previous year, or 35 percent year on year. Third, private enterprise bond financing was greatly improved. In the last two months of the year, RMB155 billion of credit bonds was issued, up by 70 percent year on year.

In 2019, the PBC will implement the decisions and arrangements of the CPC Central Committee and the State Council, insisting on the “two unshakables” and the “three unchanged.” The PBC will ensure a smooth policy transmission mechanism, continue leveraging the policy synergy forged by all involved parties, make consistent efforts to use every means to provide proper financial services for private enterprises and SMBs, and guide financial institutions to continuously improve financial services for SMBs so as to address the problem of difficult-to-obtain and expensive private and SMB financing.

LAW-BASED GOVERNANCE IN THE FINANCIAL SECTOR

In 2018, the PBC continued to improve law-based governance in the financial sector. Efforts were made to conduct administration in accordance with the law, promote law-based governance, enhance professional skills of legal consultants, carry out research on financial laws, and strengthen team-building for law enforcement. All these efforts provided a legal basis for serving the real economy, preventing financial risks, and deepening financial reforms.

Promoted financial legislation to improve law-based governance in the financial sector

First, functional changes were completed. In line with the institutional reform plan of the State Council, the PBC accepted new responsibilities to "draft important laws and regulations for the banking and insurance system as well as for the basic institution of prudential supervision."

Second, financial legislation on duties of the PBC was promoted. The PBC steadily pushed forward the revision of the *Law of the People's Bank of China* and the *Measures for Suppression of Illegal Financial Institutions and Illegal Financial Activities*, as well as the launch of the *Rules for Non-Depository Lending Entities*. It also set up an orderly disposal mechanism for Chinese financial institutions.

Third, the PBC actively participated in drafting key economic and financial legislation. It participated in the launch of the *E-Commerce Law,* the *Company Law (Amended),* the *Individual Income Tax Law (Amendment)*, as well as the formulation and revision of key pieces of financial legislation, such as *Civil Code,* the *Law on the Administration of Tax Collection,* and the *Implementation Rules of the Budget Law*.

Fourth, the institutional foundation of the rules and regulations of the PBC were consolidated. The PBC formulated and published rules and normative documents, such as the *Formulation Procedures and Administrative Regulations of the People's Bank of China on Rules, the Decisions on Amending the Administrative Measures for Financial Institutions' Reporting of Large-Value and Suspicious Transactions,* the *Formulation Procedures and Administrative Rules of the People's Bank of China on Normative Documents,* the *Guiding Opinions on Promoting Supervision of Non-Financial Enterprise Investments in Financial Institutions*, and the *Guiding Opinions on Standardizing Asset Management of Financial Institutions*, laying a solid foundation for fulfilling its duties. In accordance with the State Council's requirements of cleaning up documents and files, the central bank cleaned up the rules and policies of the Head Office and released the results in a timely manner. At the same time, it urged its branches to clean up their rules and policies and to release their catalogs.

Fifth, measures on opening up the financial sector were formulated and implemented. The opening-up measures for China's financial sector were announced at the Boao Forum for Asia, and the PBC also formulated and implemented supporting measures, including credit ratings, the clearing of bank cards, and non-bank payments.

Promoted law-based administration and law-based governance of the central bank

First, in line with the State Council's requirement of "delegating power, improving supervision, and optimizing services", the PBC constantly optimized the business environment. In accordance with the State Council's plans and requirements for optimizing the business environment, the PBC cleaned up its administrative approvals, formulated on-the-spot and ex post regulatory measures, promoted the "Internet + government services" and the "Internet + supervision" system, and also cleaned up the requirements for certification.

Second, law-based governance of the central bank was promoted. The PBC worked out measures for the *Implementation Plan for Law-Based Governance of the Central Bank (2016~2020)* to be entered into force during the next stage. It also set up an assessment system for law-based governance, offering both incentives and accountabilities to achieve on schedule the goal of law-based governance by 2020.

Focused on key aspects to fulfill duties

Research on law-based governance in the financial sector was carried out. The PBC conducted research on important subjects such as improvements in China's legislative mechanism, reform of the bankruptcy laws, development and supervision of community banks, international experience of non-depository lending entities, assistance by SPVs, reform of international supervision, and protection of personal information.

The PBC continued to play the leading role in preventing and cracking down on illegal fund transfers through offshore companies and underground banks, and it maintained strong law enforcement pressures on the illegal activities of underground banks.

The PBC carried out mid-term inspections and evaluations of the "Seventh Five-Year Plan" for promoting awareness of the legislation, and it sent a group of speakers to lecture on financial laws so as to promote legal-awareness education on the "Seventh Five-Year Plan" throughout the system. It also launched a campaign to increase constitutional knowledge.

Strengthened team-building for law enforcement

The PBC strengthened team-building among public lawyers in the system. The Head Office and most branches brought in leading law firms and legal experts as legal consultants to improve the efficiency and quality of legal services in the PBC. It revised draft model contracts, listed key points for contract reviews, and sorted out typical litigation cases in the PBC system. A law-based governance information system was launched, which provided IT tools for guidance to and communication with branches, and improved the specialization and performance of PBC legal officials.

FINANCIAL STABILITY

2018 marked the first year in fighting the critical battle of preventing and reducing major financial risks. Complicated economic and financial conditions and persistent domestic cyclical and structural problems, coupled with external shocks, increased the difficulties in economic development, as financial risks gradually emerged. Following the principle of seeking progress while ensuring stability, the PBC led the efforts to draft a plan of action for preventing and reducing major financial risks, improving financial regulation, effectively resolving risks in key areas through a targeted approach, deepening financial reform, and continuously improving risk monitoring and assessments. As a result, all work was completed successfully, marking a good beginning of the critical battle in preventing and reducing major financial risks.

Took the lead in drafting an action plan for preventing and reducing major financial risks

The 19th National Congress of the CPC identified preventing and reducing major financial risks as the top priority among the three critical battles to secure a decisive victory in building a moderately prosperous society in all respects. In line with the decision of the CPC Central Committee and the State Council, the PBC drafted ideas and measures on securing a decisive victory based on an assessment of the prominent risks in the financial sector. The first meeting of the Central Committee for Financial and Economic Affairs approved the draft, after which the PBC, along with other authorities, developed a plan of action. According to the requirements of CPC General Secretary Xi Jinping, the critical battle of preventing and reducing major financial risks will follow the principle of seeking progress while ensuring stability and the fundamental policy of pursuing overall stability, promoting coordination, adopting case-specific policy measures, and reducing risks by a targeted approach with priorities focusing on the following five areas: first, effectively stabilizing the macro leverage ratio and constraining credit risks in key sectors; second, properly reducing shadow banking risks; third, addressing in an orderly manner the risks of high-risk financial institutions; fourth, conducting a full-scale rectification of the financial order; and fifth, deepening financial-sector reform and opening-up and improving guidance of public expectations and comments to prevent abnormal fluctuations in financial markets and risks from external shocks.

Advanced work to improve financial regulatory shortcomings

To regulate the asset management business of financial institutions and apply universal regulatory standards for asset management products of the same nature, the PBC, together with other relevant authorities, published the *Guiding Opinion on Regulating the Asset Management Business of Financial Institutions*, based on extensive investigation and research as well as public comments. Additional notices were issued in a timely manner when economic and financial conditions changed at home and abroad to prompt the regulatory authorities to release corresponding detailed implementation rules. As a result, the rapid and disorderly growth of the asset management business was reined in to ensure sound and fair development of the financial industry. To prevent risk contagion between the real sector and the financial sector while promoting mutually beneficial interactions, the PBC promulgated the *Guiding Opinion on Strengthening Regulation of Investments in Financial Institutions by Non-Financial Enterprises*. The *Guiding Opinion on Better Regulating Systemically Important Financial Institutions* was released in a bid to ward off the too-big-to-fail risks and to strengthen regulation of systemically important financial institutions. The PBC explored supervision of financial holding companies and conducted a simulated regulatory pilot.

Resolved in an orderly manner high-risk institutions

Priority was given to resolve the risks of major problem institutions, such as Anbang, which have created serious risks with potential systemic impacts. In compliance with the relevant laws and regulations, efforts were made to prevent systemic risks and moral hazards. Default risks of key firms in the bond market were properly resolved and commercial banks were allowed to issue perpetual bonds for capital replenishment and risk resilience.

Effectively improved risk resilience against abnormal fluctuations in the financial market and external shocks

The PBC took the lead in setting up a coordinating mechanism for maintaining financial stability amid China-US trade tensions. The mechanism is aimed at ensuring the stability of liquidity, the financial market, financial institutions, financing costs, the affected industries, and Hong Kong financial markets. Work was done to build a mechanism to respond promptly to the major abnormal fluctuations in the financial markets and to conduct regular stress tests on market risks resulting from pledged stocks. An institutional reform of the stock market was advanced to reduce the risk of stock sell-offs. Guidance of market sentiment was enhanced to anchor market expectations and to promote the soundness of the financial market.

Facilitated the financial sector to serve the real economy

The PBC actively promoted market-oriented debt-for-equity swaps, explored a comprehensive mechanism for assessing the use of funds released by targeted cuts in the reserve requirement ratio (RRR) to support the market-oriented debt-for-equity swaps, and evaluated 17 commercial banks on a quarterly basis to ensure the proper use of funds released through the targeted RRR cuts and to reduce the corporate leverage ratio. Research was conducted on introducing new tools to facilitate equity financing of the private sector in line with market-oriented and law-based principles.

Deepened financial reform

The PBC continued to implement the reform plans of the China Development Bank, the Export-Import Bank of China, and the Agricultural Development Bank of China. It worked together with members of the reform working group to set up or improve their boards of directors, strengthen their governance structure, and identify their specific business scopes, among others. Reform of the large commercial banks continued. The Industrial and Commercial Bank of China, the Agricultural Bank of China (ABC), the Bank of China, the China Construction Bank, the Bank of Communications, and the Postal Savings Bank of China continued to deepen the reforms, leading to improved corporate governance, risk management, and internal controls. Their performance continued to be sound and their capacity to serve the real economy was enhanced. Reform of rural finance business units in the ABC was deepened, and rural financial services continued to expand in terms of both coverage and products.

Continuously improved risk monitoring and the assessment system

The PBC continued to enhance the monitoring and assessment of risks in the banking, securities, and insurance sectors. It drafted and published the *China Financial Stability Report (2018)* as part of its efforts to enhance financial-risk alerts and assessments, and policy interpretations to actively guide market expectations. Investigation and research were conducted to step up risk monitoring of large problem enterprises. Over 4 300 nationwide financial institutions participated in the pilot round of credit ratings and the four rounds of credit ratings on financial institutions conducted by the PBC. For high-risk institutions with rating results at a level 8 to 10, meetings with these institutions were arranged to alert them of their risks. Stress tests were conducted on 1 086 banking institutions and risk alerts were provided when necessary so as to encourage financial institutions to pursue sound operations. In light of the overall arrangements of the National Security Commission of the Communist Party of China, the PBC coordinated work on safeguarding national financial security by conducting annual financial security risk assessments and ad hoc assessments jointly with other relevant authorities.

Effectively implemented the deposit insurance scheme

The PBC continued to work on routine functions such as premium pooling and fund management. It improved the risk-based premium and preferential policy for rural credit cooperatives. Quarterly monitoring of the risk profile of insured institutions was conducted in a move to enhance risk identification and alerts. The PBC explored the role of deposit insurance in risk corrections at early stages so as to identify early risks and to reduce the occurrence of risks. As of end-2018, early correction measures were enforced on 425 insured institutions, including requirements to replenish capital, reduce asset growth, limit credit lines, and lower leverage ratios. Outreach activities to improve awareness of deposit insurance policies were arranged to allow deposit insurance to act as an anchor for public confidence and to enhance the soundness of the banking system.

Continuously facilitated central-bank lending and asset management related to financial stability

The PBC adopted various measures to maximize the recovery of central bank lending by actively consulting with the relevant authorities, local governments, or parties involved by taking advantage of the critical moments in the restructuring of the borrowing institutions to ensure the safety of central bank assets. Asset management promoted the entrusted institutions to speed up the disposal of the entrusted assets involved in financial stability operations.

Actively participated in international financial stability affairs

The PBC actively participated in the work of the Financial Stability Board, the Basel Committee on Banking Supervision, the Executives' Meeting of the East Asia-Pacific Central Banks, and the ASEAN+3 Macroeconomic Research Office, promoting development and implementation of reform policies and increasing China's voice in making international financial rules. The PBC continued to proceed with the follow-up of an updated Financial Sector Assessment Program (FSAP) to implement FSAP recommendations.

Column

Improving Regulation of Systemically Important Financial Institutions

Systemically important financial institutions (SIFIs) refer to financial institutions that may fail during major risk episodes and thus may have a serious negative impact on the financial system and the real economy, or may even trigger systemic risks due to their large assets, complicated business structures, high interconnections with other financial institutions, and irreplaceable functions in the financial system. Lessons from the 2008 global financial crisis reveal that identifying SIFIs and strengthening regulations accordingly are critical to prevent systemic risks. In the wake of the global financial crisis, some international organizations and major economies have already put in place regulatory arrangements for SIFIs. For instance, the Financial Stability Board (FSB) has issued a number of documents, such as *Reducing Moral Hazards Posed by Systemically Important Financial Institutions,* the *Intensity and Effectiveness of SIFI Supervision*, and *Key Attributes of Effective Resolution Regimes for Financial Institutions*. In line with the FSB requirements, the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) separately issued assessment methodology and loss-absorbing capacity requirements for global systemically important banks (G-SIBs) and insurers (G-SIIs), and conducted assessments of G-SIBs and G-SIIs. Some major economies such as the US, the EU, and the UK, have also established regulatory arrangements for SIFIs.

In China, after its rapid development in recent years, some large and highly complicated financial institutions have become the core of the financial system due to their high interconnections with other financial institutions. Therefore, they have a significant influence on the overall soundness of the Chinese financial system and its capacity for serving the real economy. This requires clear policy guidance and institutional arrangements to identify, regulate, and resolve the problem of the SIFIs. Thereafter, regulatory loopholes will be filled and sound financial-market performance will be effectively safeguarded.

In line with the decision of the Central Committee of the CPC and the State Council, the PBC, together with the China Banking and Insurance Regulatory Commission (CBIRC) and the China Securities Regulatory Commission (CSRC), published the *Guiding Opinion on Improving Regulation of Systemically Important Financial Institutions* (hereinafter referred to as the *Opinion*) on November 27, 2018. Drawing on international experiences and taking into account financial-sector development and regulatory practices in China, the *Opinion* laid down stipulations on the assessment, regulation, and resolution of SIFIs guided by a regulatory philosophy that combines macro-prudential management with micro-prudential management. The overall framework of the *Opinion* is as follows.

First, it provides for a scientific-assessment framework to identify SIFIs. It clarifies SIFI assessment procedures and methodologies so as to accurately identify financial institutions that have a systemic impact on the financial system. Second, it puts forward special regulatory requirements for SIFIs to enhance prudential regulation of the SIFIs so as to reduce the possibility of major risks. Third, it requires that a special resolution mechanism be set up. It requires that the relevant authorities to set up a SIFI crisis management team, develop recovery and resolution plans, and conduct resolvability assessments to ensure that the SIFIs can be resolved safely, swiftly, and effectively in the event of major risks.

The release of the *Opinion* is an inherent requirement for enhancing macro-prudential management and it is consistent with the general direction of the financial regulatory regime reform. It will help close any regulatory gaps and prevent systemic risks. In the long run, the *Opinion* will encourage rational corporate culture risk-takings in the SIFIs instead of ruthless business expansion, and it will be conducive to sound financial-sector development and healthy financial-market performance. The *Opinion* is a macro-policy framework. More regulatory requirements and operational details will be clarified in future detailed implementation rules. Since the release of the *Opinion*, the PBC has been working with the relevant authorities to formulate supporting policies, including gradually rolling out the assessment methodology and additional regulatory requirements for the SIFIs in the banking, insurance, and securities sectors.

Column

Enhancing Regulation of Non-Financial Corporate Investments in Financial Institutions

In recent years, the intensity of China's financial-sector reforms and opening-up has continued to grow. A large number of non-financial enterprises have invested in financial institutions through new establishments, and through mergers and acquisitions (M&A). Investments from well-behaved non-financial enterprises with sufficient financial resources have strengthened the mutually beneficial interactions between the financial sector and the real economy, as they can optimize the asset allocations of non-financial enterprises and expand the equity diversification and capital replenishment channels of financial institutions. But some non-financial enterprises chase returns on financial investment excessively and neglect the development of their main business. Such excessive speculation and arbitrage have given rise to a deviation from the real economy and a high leverage ratio. In some enterprises, the organizational structure is complicated, capital constraints and risk segregation mechanisms have yet to be put into place, and corporate governance is extremely weak. These enterprises use non-equity funds for false capital contributions or repeated capital contributions. They even intervene in the operation of financial institutions by abusing the rights of the controlling shareholders and using financial institutions as their cash withdrawal machines, which seriously undermines the financial institutions and their consumers and causes a risk contagion between the real sector and the financial sector. Given these problems, it is imperative to clarify policy guidance, strengthen coordinated supervision, and straighten out the relationship between the financial and real sectors.

The Central Committee of the Communist Party of China (CPC) and the State Council attach great importance to preventing financial risks. The Fifth National Financial Work

Conference noted that integration of the real and financial sectors should be strictly regulated and institution-building should be advanced to close the regulatory gaps in this field. In line with the decision of the CPC Central Committee and the State Council, the relevant authorities acted promptly to improve investment regulations in financial institutions by non-financial enterprises. In April 2018, the PBC, the CBIRC, and the CSRC jointly released the *Guiding Opinion on Strengthening Regulation of Investments in Financial Institutions by Non-Financial Enterprises* (hereinafter referred to as the *Opinion*). In the meantime, the *Interim Measures for Equity Management of Commercial Banks*, the *Measures for Equity Management of Insurance Companies*, and the *Regulations on Equity Management of Securities Companies (Exposure Draft)* were also published.

The regulation of non-financial corporate investments in financial institutions adheres to the following principles: first, non-financial enterprises should focus on their main business and adequately invest in financial institutions to serve the real economy. Second, capital constraints on non-financial enterprises should be tightened to ensure their investments in financial institutions are commensurate with the capital size and management capacity of the enterprises. Third, access to investing in financial institutions should be strictly controlled through higher qualifications for financial institution shareholders and tighter regulations on the equity structure, the sources of the investment funds, and capital authenticity. Fourth, real-sector risks should be isolated from financial-sector risks by strengthening corporate governance and regulating interconnected trading, and strictly forbidding undue intervention in the operation of financial institutions. Fifth, in line with see-through regulations and the principle of substance over form, authorities should strengthen supervision and law enforcement, and enhance inter-agency regulatory coordination and information sharing. Sixth, equal attention should be paid to regulating market order and activating market vitality. Based on the above principles, see-through regulations should be implemented as follows.

First, specifying the shareholder qualifications and simplifying the equity structure. Different types of shareholders are subject to differentiated regulations, focusing on non-financial enterprises that are the major shareholders or controlling shareholders of financial institutions. These shareholders are required to focus on their core businesses and to have sufficient capital, good corporate governance, up-to-standard management capabilities, and sound financial conditions. It is stressed that the equity structure should be simple and clear, the investment scheme should be simplified, and the organizational structure should be more transparent.

Second, regulating the sources of funds and tightening capital regulations. Non-financial enterprises must use their own funds to invest in financial institutions. The invested funds must be legitimate and real. Non-financial enterprises investing as major shareholders or controlling shareholders should have sound financial conditions and capital replenishment capabilities, with an appropriate overall level of liabilities and leverage.

Third, improving corporate governance and enhancing risk isolation. To effectively isolate financial risks from real-sector risks through a better institutional framework, non-financial enterprises with controlling shares in financial institutions should put in place a firewall in terms of legal entities, funds, and financial conditions. Financial institutions should set up effective check-and-balance mechanisms for the execution of decision-making and shall provide oversight to enhance governance by the board of directors and should avoid any abuse of power by the large shareholders or the controlling parties.

Fourth, strictly regulating connected transactions and preventing the tunneling of benefits. In general, connected trading should be regularly reported, but major connected transactions should be reported on a case-by-case basis. Financial institutions should comply with the see-through requirements and put in place effective administrative rules for connected transactions. Benefit transmissions or risk transfers are strictly prohibited. Non-financial enterprises should not intervene in the independent operation of financial institutions or siphon out funds from financial institutions.

Fifth, strengthening macro-prudential management and regulatory coordination. Following see-through and substance-over-form principles, financial regulators should focus on regulating shareholder qualifications and capital sources. In the meantime, coordination and information sharing among the relevant authorities should be enhanced to improve the regulatory effectiveness.

Strengthening regulation of non-financial corporate investments in financial institutions will help build market discipline, develop positive incentives, effectively isolate real-sector risks from financial-sector risks, and promote mutually beneficial interactions between the real and the financial sectors. Looking ahead, the relevant authorities will seriously implement the requirements established in the *Opinion*, enhance regulatory coordination, and safeguard the bottom line so there will not be any outbreak of systemic financial risks so as to create a favorable financial environment for the development of the real economy.

FINANCIAL MARKET

2018 was the first year to fully carry out what was proposed and advocated at the 19th National Congress of the CPC. The PBC, together with other relevant departments, thoroughly implemented the overall arrangements of the CPC Central Committee and the State Council by unswervingly following the essential requirement that financial services should serve the real economy, steadily advancing supply-side structural reforms, promoting a high level of opening-up, and focusing on preventing systemic financial risks. The bond market played its role in stabilizing growth, promoting reform, adjusting the structure, benefiting society, and preventing risks. Solid strides were made toward high-quality development.

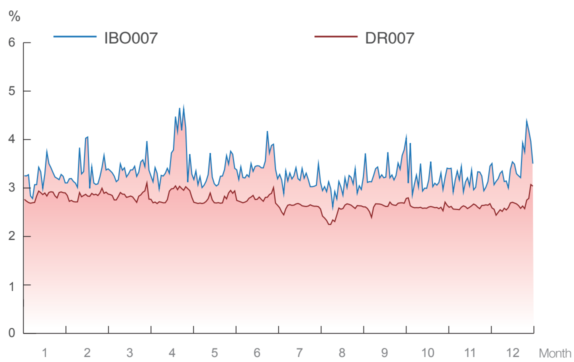
Performance of the money market

In general, the volume of trading increased. The cumulative trading volume of the interbank money market posted RMB861.97 trillion in 2018, surging 23.96 percent from the previous year. Among this, trading on the interbank funding market soared 76.37 percent year on year to RMB139.30 trillion, and trading on the pledged repo market jumped 20.47 percent from the previous year to RMB708.67 trillion, whereas outright repo market trading was slashed 50.18 percent compared with the previous year to RMB14 trillion.

Short-term trading still dominated the money market. Seven-day and shorter-term trading accounted for 94.31 percent of the total, up 0.5 percentage point over 2017. Among this, overnight funding took up 82.94 percent, 1.84 percentage points higher than that in 2017, while the share of 7-day funding fell 1.34 percentage points to 11.37 percent.

In general, the interest rate dropped. The PBC provided liquidity in the banking system at an adequate and reasonable level, with four cuts in the reserve requirement ratio (RRR) and a policy mix of contingent reserve arrangements (CRA), medium-term lending facilities, repos, and pledged supplementary lending (PSL). The overall level of the money-market rate remained stable and moved slightly downward. In particular, the annual weighted average rates on interbank funding, pledged repos, and outright repos stood at 2.59 percent, 2.66 percent, and 3 percent respectively, down 19 bps, 26 bps, and 32 bps year on year. At end-December, the 7-day interbank funding rate (IBO007) and the rate on 7-day repos pledged with low credit-risk bonds by depository institutions (DR007) were 3.5 percent and 3.04 percent respectively, losing 55 bps and 5 bps compared with the same period of 2017 (see Figure 1).

Figure 1. Movements of Money Market Rates, 2018



Source: National Interbank Funding Center

Large Chinese banks were the major fund providers. During the year, large commercial banks, policy banks, and listed commercial banks were the biggest fund providers on the money market, with net lending of RMB136.76 trillion, RMB101.82 trillion, and RMB73.95 trillion respectively, accounting for 42.22 percent, 31.43 percent, and 22.83 percent of total net lending. Securities firms, fund managers, and rural financial institutions were the major borrowers, with net borrowing of RMB89.30 trillion, RMB44.71 trillion, and RMB41.88 trillion, representing 27.57 percent, 13.80 percent, and 12.93 percent of the total net borrowing.

Bond market performance

In 2018, the size of bond issuances totaled RMB43.59 trillion, jumping 6.79 percent year on year, shedding 6.15 percentage points compared with the previous year. As of year-end, outstanding bonds in custody reached RMB86.39 trillion, surging 15.25 percent year on year. In particular, outstanding bonds in custody on the interbank market reached RMB75.69 trillion, accounting for 87.62 percent, while outstanding bonds in custody on the exchanges was RMB10.7 trillion.

The supply of special local government bonds rose substantially, while the issuance of general local government bonds slid 4.43 percent in 2018 from the previous year to RMB4.17 trillion, including RMB2.22 trillion worth of general bonds and RMB1.95 trillion worth of special bonds. In the first half-year, most local government bonds that were issued were bonds for debt swaps, but the issuance of special bonds spiked in the second half-year, surpassing the issuance of debt-swap bonds on an annual basis for the first time. As of end-2018, outstanding local government bonds in custody totaled RMB18.07 trillion, surpassing central government bonds as the largest type of bonds. In addition, the size of local government bond issuances on the exchanges continued to grow, soaring 149.64 percent year on year to RMB2.56 trillion, accounting for 61.39 percent of the total.

The size of spot bond trading expanded. In 2018, the volume of spot bond trading rose month by month, as the incentive to trade strengthened among financial institutions against the backdrop of a falling benchmark rate. In 2018, the trading volume of spot bonds reached RMB156.67 trillion, surging 44.54 percent from the previous year. Among this, spot bond trading on the interbank market was RMB150.74 trillion, up 46.58 percent over 2017, while that on the exchanges gained 6.63 percent over 2017, amounting to RMB5.93 trillion.

In 2018, bond lending sank 4.32 percent over the last year to RMB3.10 trillion. At end-2018, the outstanding value of bond lending stood at RMB575.89 billion. Broken down by maturity, lending of one month or less accounted for 77.32 percent of the total. Broken down by participating institutions, large banks, listed commercial banks, and securities companies were the top three players in terms of the trading amount, representing a combined 68.23 percent of the total. Broken down by the type of bonds, central government bonds, local government bonds, and policy bank bonds accounted for 96.63 percent of the total. Securities companies, listed commercial banks, and wealth management companies were the top borrowers, while large commercial banks, city commercial banks, and listed commercial banks were the main lenders.

The yield curve of low credit-risk bonds steepened. In 2018, the yield on low credit-risk bonds fluctuated downwards, with the yield on short-term bonds dropping more than that of medium- and long-term bonds. At year-end, the yield on 1-year and 10-year government bonds fell 119 bps and 65 bps respectively over the previous year. Their spread was 110 bps, 54 bps larger when compared with the end of 2017. The yield changes for low credit-risk bonds can be considered in two phases. At the beginning of 2018, pessimistic sentiments from 2017 remained, driving up the yield on 10-year government bonds to an annual high of 3.98 percent at mid- and late January. However, market sentiment improved gradually on the back of policy measures, such as the targeted RRR cuts and the CRA. After Sino-US trade tensions escalated in April, though the yield fluctuated violently after news of rate hike by the US Fed or relaxed after news of Sino-US trade tensions, downward trends persisted. At year-end, the yield on 10-year government bonds hit an annual low of 3.23 percent.

Issuance of corporate debenture bonds expanded and the yield fluctuated downwards. A total of RMB7.3 trillion worth of corporate debenture bonds was issued in 2018, surging 32.73 percent year on year and accelerating 65.65 percentage points over 2017. In particular, corporate debenture bonds issued on the exchanges and non-financial enterprise debt financing instruments issued on the interbank market both rose remarkably, jumping 42.55 percent and 36.31 percent year on year to RMB1.63 trillion and RMB5.43 trillion. As non-standard funding channels shrank, the bond market played a bigger role in meeting financing needs. In 2018, the yield on corporate debenture bonds dropped 80~160 bps, but the net trading price of bonds with default risks fluctuated significantly due to greater default risks and a weaker risk appetite. During the year, the spread between short-term bonds and bonds with low credit ratings expanded notably.

Default events increased moderately on the bond market. A total of 46 enterprises defaulted on 130 bonds, involving RMB124.3 billion in principal. As of year-end, outstanding unpaid corporate debenture bonds in default stood at RMB146.5 billion, representing 0.79 percent of the total outstanding corporate debenture bonds, which was lower than either the non-performing loan ratio of commercial banks[1] or the average default rate in the international bond market in recent years.[2]

In 2018, the rising bond defaults were mainly due to the rapid accumulation of earlier debt risks in some enterprises as a result of both external factors (such as sunset industries and changes in funding conditions) and internal factors (such as poor performance and governance). Some enterprises persistently faced funding strains as they pursued a rapid short-term asset expansion through excessive borrowing thus they were vulnerable to changes in external market conditions and the financing environment.

Bond financing instruments for private businesses were introduced. In the second half of 2018, the risk appetite for private businesses fell in some financial institutions due to multiple factors. This caused funding difficulties for some private businesses, though their operations were still normal. On October 22, approved by the State Council, supporting instruments were launched for bond financing by private businesses in an attempt to ease irrational market behavior. As of end-2018, 35 private businesses issued RMB22.9 billion of debt financing instruments due to the availability of supporting instruments for debt financing and credit risk mitigation warrants generated by financial institutions. Bond financing by private businesses improved after the introduction of supporting instruments. The average monthly private bond issuance was RMB76.8 billion in November and December, up by 70 percent compared with the average monthly issuance of RMB45 billion during the first ten months of the year. Net private bond financing also turned positive.

The investor structure was broadly the same, but holdings of overseas institutions increased significantly. As of year-end, outstanding bond holdings of depository financial institutions on the interbank market registered RMB43.43 trillion, accounting for 57.43 percent of the total, dipping 0.68 percentage point from the end of 2017. Bond holdings of non-corporate institutional investors stood at RMB21.86 trillion, 28.91 percent of the total, up

Notes: 1. 1.89% by end of 2018.

2. 1.12~2.15 percent based at Moody's estimates of global bond market default rates from 2016 to 2018.

by 0.57 percentage point over the end of 2017. Overseas investors increased their investments further, becoming the major buyers of government bonds. At end-2018, bond holdings by overseas institutions totaled RMB1.73 trillion, adding RMB550.11 billion, or 46.72 percent, compared with end-2017.

Performance of RMB interest rate derivatives

The RMB interest rate swap market saw more active trading and prices declined somewhat. The volume of trading on the interest rate swap market expanded significantly throughout the year. As of year-end, the nominal principal of interest rate swaps surged 48.05 percent from the previous year to a record high of RMB21.32 trillion. The price of interest rate swaps dropped slightly in 2018. At the end of the year, the swap rate of 1-year and 5-year swaps on FR007 both fell 95 bps from end-2017. The price change in the swap rate was mainly a corresponding adjustment to a lower interest rate caused by the rising price of government bonds in 2018.

Performance of the foreign exchange market

Trading on the RMB foreign exchange (FX) market reached US$29.07 trillion in 2018 (with average daily trading at US$119.63 billion), up by 20.70 percent over the previous year. In particular, transactions between banks and their clients and those on the interbank FX market stood at US$4.23 trillion and US$24.85 trillion respectively.

Trading on the spot FX market grew steadily. In 2018, cumulative trading on the spot FX market hit US$11.06 trillion, a year-on-year gain of 16.60 percent. In particular, spot FX purchases and sales at banks (excluding delivery of forward contracts) amounted to US$3.43 trillion, rising 11 percent over 2017, while cumulative spot trading on the interbank FX market stood at US$7.63 trillion, up by 19.31 percent over the previous year.

Trading of FX forwards continued to rebound. The cumulative full-year trading of FX forwards stood at US$541.88 billion, a year-on-year increase of 27.23 percent. In particular, forward FX purchases and sales between banks and their clients posted a cumulative US$454.34 billion, with FX purchases from and sales to clients registering US$213.03 billion and US$241.32 billion, and all three figures surging 40.87 percent, 43.70 percent, and 38.46 percent respectively over 2017. Cumulative trading of FX forwards on the interbank market slashed 15.31 percent from the previous year to US$87.54 billion.

Trading of FX and currency swaps increased steadily. The cumulative trading of FX and currency swaps went up 22.48 percent over 2017 to US$16.62 trillion in 2018. In particular, FX and currency swaps between banks and clients posted a cumulative US$103.63 billion, up 0.4 percent compared with 2017, while those on the interbank market gained 22.65 percent over the previous year, reaching a cumulative US$16.51 trillion.

Trading on the FX options market rebounded. In 2018, trading on the FX options market amounted to US$847.38 billion, surging 40.75 percent from 2017. In particular, cumulative trading between banks and clients went up 2.36 percent year on year to US$236.26 billion, while that on the interbank market registered a cumulative US$611.13 billion, jumping 64.61 percent compared with 2017.

Performance of the gold market

The infrastructure of the gold market was further improved amid a steady increase in the volume of trading. In June 2018, the GEMS-3, the third-generation trading system, was launched by the Shanghai Gold Exchange (SGE), which significantly improved the infrastructure and stability. In 2018, gold prices fluctuated throughout the year due to rate hikes by the US Fed and global trade frictions. At year-end, the SGE Au9999 closed at RMB284.60 per gram, climbing 4.25 percent year on year. The SGE saw steady growth in trading in 2018, with the trading volume jumping 24.35 percent over 2017 to 67 500 tons and the turnover hitting RMB18.3 trillion, up by 22.23 percent year on year.

Institutional building and new policies on the bond market

Bond market institutional building continued to improve. Following the principle of consolidating rules based on classification, the PBC guided self-regulatory agencies and intermediaries in the bond market to establish an ad hoc group to promote consistent information disclosure rules for corporate debenture bonds. Joint efforts were made with the Ministry of Finance (MOF) and the CBIRC to explore the over-the-counter (OTC) business of local government bonds in a move to increase the variety of OTC bonds and to promote a multi-tiered bond market. A flexible tender was introduced for financial bond issuances in pilot programs for development and policy originated bonds. This was intended to increase flexibility by exploring diversified bond issuance channels. A circular was published jointly with the CSRC to enhance regulation of the qualifications and rating criteria of credit-rating agencies so as to promote a well-regulated credit-rating market. The *Notice on Issues Concerning Stronger Supervision and Regulation of Green Financial Bonds Before Maturity* was released to improve the quality of information disclosures of green bonds before maturity. Bond issuance application procedures were further streamlined for local financial institutions, making it easier for them to issue bonds. Efforts were made to support development and policy banks in their efforts to issue financial bonds cross-market, to optimize bond pricing, and to promote bond market connectivity.

Product innovation in the bond market was actively promoted. Commercial banks were allowed to introduce innovative capital replenishment bonds, such as non-fixed term bonds and bonds that could be turned into equity so as to improve the capacity of commercial banks to replenish capital and to be resilient. The liquidity and attractiveness of debenture bonds were enhanced as the China Foreign Exchange Trade System (CFETS), under PBC's guidance, launched index products compiled with debenture bonds that had high credit ratings. The bond market played a bigger role in supporting the real economy and major national strategies, as financial institutions were encouraged to issue bonds to raise funds for green development and mass innovations and entrepreneurship. In 2018, 128 green bonds worth RMB220.35 billion were issued, up by 6.56 percent year on year, higher than the growth in the global market.

Prevention and mitigation of bond default risks were strengthened. Given the higher frequency of defaults in 2018, the PBC spearheaded efforts to draft plans to address bond default risks, laying out a specific work mechanism in three dimensions, namely, short-term responses, medium- and long-term structural arrangements, and contingency plans. It provided guidance for preventing and mitigating bond default risks. Guidance was offered to the National Association of Financial Market Institutional Investors and the PBC branches at all levels to build up a risk monitoring and early-warning system, and information on redemption arrangements by local issuers must be provided three months in advance so as to identify in a timely manner and to mitigate properly potential risks. Professional investors like asset managers were encouraged to participate in the trading of default bonds and a market-based exit mechanism was provided to investors unwilling to take part in bankruptcy restructurings so as to reduce the accumulation of risks.

FX market building and development were promoted. First, products on the FX market were optimized. FX administration in forward FX sales and purchases was improved, as the delivery for forward FX sales at maturity could be settled either on a gross or on a netting basis based on real needs. Support was given to market players to manage FX risks. Second, the FX market infrastructure was improved. The CFETS put into operation a new generation system, launched trading of foreign currency pair options, introduced a FX main brokerage business, and extended the business hours of regional trading between the RMB and the Kazakhstani tenge. Third, FX market self-discipline was enhanced by further improving the FX market administration framework that combines government regulation with self-regulation. Nationwide, self-regulatory institutions developed a number of supporting measures, including self-regulation and dispute resolution. The PBC actively participated in the work of the Global Foreign Exchange Committee.

The gold-market institutional framework was enhanced. First, supervision and regulation of the gold market was strengthened, as administrative measures for gold asset management activities, Internet gold business, and gold deposits were released to prevent gold-market risks and to protect investors' rights and interests. Second, the SGE developed and published the new-generation trading rules and implementation bylaws to improve gold-market supporting institutions. Third, cross-border cooperation with foreign exchanges was advanced steadily. In 2018, the SGE signed a Memorandum of Understanding with the Moscow Exchange, which increased the international influence of the Chinese gold market.

RMB INTERNATIONALIZATION

In 2018, in line with the decision and overall arrangement of the Central Committee of the CPC and the State Council, the PBC continued to follow the principle of serving the real economy and promoting trade and investment facilitation, and rode the tide while continuing to play an active role. As a result, RMB internationalization took another step forward, as cross-border use of the RMB grew rapidly, infrastructure development continued, international cooperation was strengthened, and the off-shore market developed steadily.

The role of the RMB as an international currency was further enhanced

The role of the RMB as a payment currency was continuously strengthened. According to the latest statistics of the Society for Worldwide Interbank Financial Telecommunications (SWIFT), as of end-2018, the RMB was the fifth largest payment currency in the world, with a market share of 2.07 percent.

The role of the RMB as a currency for investment and financing continued to grow. Overseas investors could invest in China's financial market through multiple channels, including the RMB Qualified Foreign Institutional Investors (RQFII) scheme, the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect, direct investment, and the Bond Connect. Domestic institutional investors could invest abroad in RMB-denominated financial products through the RMB Qualified Domestic Institutional Investors (RQDII) scheme, and domestic investors could also access overseas financial markets through stock connects and mutual recognition of funds. As of year-end, domestic RMB-denominated financial assets held by overseas institutions and individuals added RMB561.2 billion over end-2017, totaling RMB4.85 trillion.

The role of the RMB as a reserve currency grew gradually. RMB reserve assets held by central banks around the globe increased rapidly since the RMB was included in the Special Drawing Rights (SDR) basket. According to data of the International Monetary Fund (IMF), RMB-denominated reserves held by central banks stood at US$192.5 billion as of end-2018, accounting for 1.8 percent of the total, up 0.57 percentage point over the end of 2017, making the RMB the sixth largest major reserve currency. Incomplete statistics show that over 60 overseas central banks or monetary authorities included the RMB in their foreign exchange reserves.

A breakthrough was made in using the RMB as a denominating currency. On March 26, 2018, crude oil futures denominated and settled in RMB made a debut on the Shanghai International Energy Exchange. On May 4, the Dalian Commodity Exchange introduced overseas players to trading of iron ore futures. On November 30, overseas investors were given access to trading of RMB-denominated Pure Terephthalic Acid futures. Overseas investors will have access to more commodity futures, as China promotes RMB denomination and settlement through a phased-in approach.

Cross-border use of the RMB jumped

In 2018, economic and financial conditions at home and abroad were complex and constantly changing, and the RMB exchange rate faced depreciation pressures. Against this backdrop, cross-border RMB payments and receipts by banks on behalf of their clients surged 46.3 percent year on year to RMB15.85 trillion, taking up 32.6 percent of the total cross-border local and foreign currency payments and receipts, a record high in terms of both value and shares. Broken down by region, the total size of cross-border RMB settlements with jurisdictions along the Belt and Road and with neighboring jurisdictions stood at RMB2.07 trillion and RMB3.07 trillion respectively, soaring 51 percent and 49 percent year on year, both higher than the growth of overall RMB settlements.

Cross-border RMB flows remained stable and orderly. In 2018, the PBC strengthened macro-prudential management, conducted counter-cyclical adjustments, and improved the self-regulatory mechanism for cross-border RMB business as well as management during and after business activities. As a result, the cross-border RMB business saw sound development amid stable and orderly cross-border fund flows. In 2018, the cross-border receipts-to-payments ratio was 1 to 0.98 and was basically balanced, with a net inflow of RMB154.4 billion.

The cross-border use of RMB saw full policy coverage. With the development of the cross-border RMB business and the progress in RMB internationalization, the PBC gradually improved the policy framework. In line with the requirements to streamline administration, delegate powers, and improve regulations and services, the PBC systematically sorted out policies on cross-border RMB businesses, streamlined administration, and delegated powers, removed restrictions on personal RMB businesses under the current account, and improved the administration of cross-border direct investments and RMB fund pools. Currently, the RMB is as freely usable as foreign currencies, and many business operations are more convenient.

A growing number of enterprises choose the RMB to avoid exchange-rate risks. Domestic enterprises that use the US dollar in exports and imports have to bear exchange-rate risks, which increases their financial costs. After introduction of cross-border RMB business, enterprises can choose the RMB in the cross-border settlements, which is an effective way to avoid exchange-rate risks. The latest survey on cross-border use of the RMB conducted by the PBC shows that 85.6 percent of enterprises surveyed had already chosen the RMB for cross-border settlements. Among these, 66 percent cited exchange-rate risks as the primary reason for choosing the RMB. As the cross-border RMB settlement of the Global Fortune 500 in Shanghai outstripped foreign currency settlements, the RMB became the first choice for multinationals in Shanghai to settle cross-border trade.

The correlation between cross-border RMB payments and receipts and the RMB exchange rate weakened. As the administration of cross-border RMB business improved, RMB internationalization became more closely related to the real economy. The off-shore RMB exchange rate, the CNH, remained stable compared with the on-shore rate, the CNY. The CNH appreciated relative to the CNY for more than 6 months, and the average daily CNH-CNY spread narrowed further. As RMB payments and receipts grew rapidly, their correlation with the RMB exchange rate declined further. When the RMB depreciated at a faster pace from April to September, cross-border payments and receipts remained balanced, even with a relatively large net inflow, while the RMB exchange rate vis-à-vis the US dollar remained stable despite a relatively large net outflow from October to November.

Cross-border use of the RMB was mainly under the capital account. In 2018, RMB payments and receipts under the capital account surged 65 percent year on year to RMB10.75 trillion, becoming a major driver of growth in cross-border RMB payments and receipts, as they accounted for 67.8 percent of the total. In terms of net flows, RMB payments and receipts under the current account saw a net outflow of RMB980.1 billion, while those under the capital account saw a net inflow of RMB1 134.5 billion. The pattern of cross-border RMB fund flows featured outflows under the current account and inflows under the capital account.

Overseas investors sped up investments in China's financial markets. The attractiveness of China's financial markets underwent a substantial change, as A shares were added to the MSCI Emerging Markets Index and Chinese bonds were included in the Bloomberg Barclays Global Aggregate Index. According to a report by the Institute of International Finance, portfolio investments in China saw a net inflow of US$150.7 billion in 2018, representing 77.1 percent of the total inflows into the emerging markets. Among these, about 80 percent was in RMB.

RMB international cooperation was further enhanced. In 2018, approved by the State Council, the PBC signed a bilateral local currency swap agreement (BSA) with the central banks in Japan and Nigeria, and renewed the BSA with the central banks in 11 countries, including Malaysia, Belarus, the UK, and Indonesia, with a total amount of more than RMB1.2 trillion. As of year-end, the PBC had signed a BSA with central banks or monetary authorities in 38 jurisdictions with the total amount exceeding RMB3.7 trillion.

The infrastructure for RMB internationalization continued to develop

Overseas RMB clearing arrangements were further improved. In 2018, the PBC appointed JP Morgan as the second RMB clearing bank in the US, making it the first overseas foreign-funded RMB clearing bank. It established RMB clearing arrangements in Japan and designated the clearing bank and signed a memorandum of understanding on RMB clearing arrangements with the Bangko Sentral ng Pilipinas. As of end-2018, RMB clearing arrangements had been established in 25 jurisdictions on five continents, covering major international financial centers.

The RMB clearing network expanded worldwide. In May 2018, the RMB Cross-Border Interbank Payment System (CIPS, Phase II) was launched, which covers major time zones, as operating hours were extended to 24×5 plus 4 hours. As of end-2018, the actual business scope of the CIPS covered 2 659 incorporated financial institutions in 161 jurisdictions, which effectively supported global payments and financial market activities, and further increased the efficiency of RMB clearing.

The RMB off-shore market developed steadily

In recent years, driven by market demand, the RMB off-shore market has witnessed sound development, with Hong Kong as the major market, along with the markets in Southeast Asia, Europe, North America, and the Middle East, among others. RMB-denominated financial products were continuously diversified from traditional loans and deposits, bonds, stocks, and funds to RMB derivatives, such as futures and options, providing overseas investors with RMB hedging tools. Incomplete statistics show that outstanding RMB deposits in major off-shore markets already exceed 1.1 trillion yuan. In 2018, new dim sum bond issues in Hong Kong grew 1.06 times year on year to RMB106.1 billion. The intraday trading of a number of RMB futures, such as the USD/CNH futures, on the Hong Kong Stock Exchange recorded highs. The value of RMB settlements through Hong Kong's Real-Time Gross Settlement (RTGS) system jumped 11.8 percent over the previous year to RMB241 trillion, surpassing that of the Hong Kong dollar, the US dollar, and the euro. RMB payments and receipts between Hong Kong and the Mainland surged 30.6 percent over 2017, posting RMB6.4 trillion. Movements between the off-shore and the on-shore markets improved gradually, and the depth and width of the off-shore market expanded. The development of the off-shore market will help promote the internationalization of the RMB, as it will enhance the willingness of overseas market players to hold and use RMB.

The outlook for RMB internationalization

At present, China's economic fundamentals remain sound, the economic structure continues to be optimized, the internal impetus driving economic growth continues to be strengthened, a number of opening-up policies have been rolled out, and the reform of streamlining administration, delegating powers, and improving regulation and services continues to advance. As the reform and opening-up deepens, the international community will have more confidence in the Chinese economy, and the willingness of market players to hold and use RMB will also grow. Looking ahead, RMB internationalization will remain market-driven and will focus on serving the real economy and promoting trade and investment facilitation.

First, RMB internationalization will remain market-driven. Efforts will be made to explore the pilot for higher-level trade and investment facilitation and persistently remove barriers to RMB use to create a level-playing field for the RMB and other major convertible currencies.

Second, the role of the RMB as a payment currency will be expanded to a trading currency and a reserve currency. China's opening-up of the financial sector will continue, which will further facilitate use of the RMB by overseas investors for investments in China's bond and stock markets.

Third, sound development of the off-shore market will be pursued. Efforts will focus on making the RMB more freely usable and on promoting positive interactions between and deep integration of the on-shore and off-shore markets.

Fourth, macro-prudential management will be improved through better use of countercyclical adjustments to prevent risks from cross-border flows.

FOREIGN EXCHANGE ADMINISTRATION

In 2018, challenged by the complicated and grave situations at home and abroad, the PBC focused on the three priority tasks: serving the real economy, reducing financial risks and deepening financial reforms. It tried to balance between facilitating trade and investment, and reducing cross-border capital flow risks. It promoted the two-way opening-up of the financial market under the new pattern of the nation's comprehensive opening-up. It also effectively maintained the stability of the foreign-exchange market and national economic and financial security.

Efforts were made to deepen the reform in key areas and to serve the new pattern of the comprehensive opening-up

First, the SAFE deepened reforms to delegate power, improve supervision, and optimize services on an ongoing basis. It continued to streamline procedures, delegate powers, and remove out-of-date laws and regulations. Administrative procedures, such as directory registration of trade in goods were optimized. These measures served to improve the quality and efficiency of public services for foreign-exchange administration.

Second, the SAFE promoted the liberalization and facilitation of trade and investment. It conducted a pilot program for facilitation of foreign-exchange transactions of trade in goods, enabling enterprises with good credit standings to conduct trade transactions more conveniently. It supported the development of new business models such as cross-border e-commerce and market procurement, and implemented various measures to support the steady growth of foreign trade. It removed relevant restrictions on upfront fees for foreign investments and actively promoted implementation of key foreign investment projects. It clarified foreign-exchange administrations rules for the physical delivery of crude oil and iron ore futures to provide better access for overseas investors to carry out transactions on the domestic derivative market.

Third, the SAFE supported the regional opening-up and innovations and specific regional developments. It carried out pilot programs for foreign-exchange transaction facilitation under the capital account in 16 regions, and studied measures to support a full-fledged reform and opening-up of Guangdong–Hong Kong–Macao Greater Bay and Hainan Province.

Fourth, the SAFE actively supported the Belt and Road Initiative. It facilitated foreign-exchange transactions for overseas project contractors and followed up various foreign-exchange mechanisms of the countries along the Belt and Road. The *Overview of Foreign Exchange Administration Policies of Countries along the Belt and Road* was released, providing references, services, and guidance for market entities to participate in the Belt and Road Initiative.

Convertibility of capital account was steadily promoted and the two-way opening-up of the financial market was expanded

First, the SAFE improved foreign-exchange administration for qualified investors. It abolished restrictions on the proportion of outward remittances and the lock-up period for qualified foreign institutional investors (QFIIs/RQFIIs), allowing them to conduct foreign-exchange hedging to guard against exchange-rate risks. It advanced the pilot program for qualified domestic limited partnerships (QDLP) and qualified domestic investment enterprises (QDIE). It steadily promoted work related to qualified domestic institutional investors (QDII).

Second, the SAFE expanded the opening-up of the capital market. It expanded market access of the domestic commodity futures market to foreign investors and coverage of cross-border transfers of non-performing assets by domestic banks.

Third, the SAFE promoted foreign-exchange market development. It allowed clients to choose either gross or netting as their settlement method based on their actual demand for forward foreign-exchange transactions. It supported the China Foreign Exchange Trade System to conduct RMB-Foreign Exchange Options Trading, launched a pilot program for appointing a prime bank for foreign-exchange pair transactions and extended the regional trading hours of the CNY/KZT in the interbank foreign-exchange market.

Interim and ex-post supervision were improved to reduce risks from cross-border capital flows

First, the SAFE worked on improving macro-prudential management of full-coverage cross-border financing. It paid close attention to changes in the external debt so as to prevent risks from the overseas issuance of bonds by real estate firms and local government investment platforms.

Second, the SAFE strengthened administration of the domestic guarantees for external loans. It required banks to intensify due diligence reviews on the qualifications and financial capacity of debtors and guarantors. It reinforced policy coordination between the RMB and foreign currencies and established an evaluation mechanism for repayment risks.

Third, the SAFE improved the administration of outward direct investments. It worked with the relevant authorities to improve regulations, such as the *Interim Measures for the Recording (or Confirmation) and Reporting of Outbound Investments*.

Fourth, the SAFE strengthened regulations on foreign currency banknotes. It enhanced monitoring and inspection of high-frequency huge foreign currency banknote transactions by individuals and intensified administration of overseas bankcard transactions with huge cash withdrawals.

Fifth, the SAFE emphasized compliance of personal foreign-exchange transactions and urged banks to improve their internal control system to prevent split purchases and payments of foreign exchange in violation of current policies and to ensure that the legal demands of personal FX transactions are well met.

The SAFE severely cracked down on violations of the laws and regulations on foreign-exchange administration to maintain order in the foreign-exchange market

First, in its inspections to crack down on various violations of the laws and regulations on foreign-exchange administration, the SAFE focused on banks. In 2018, the SAFE investigated 3 701 cases, involving a total penalty of RMB1 billion.

Second, the SAFE cracked down on false and fraudulent foreign-exchange transactions and investigated violations involving forged documents, fabricated trade, and bogus investments.

Third, the SAFE worked together with other authorities to crack down on underground banks and their counterparts. It joined the Ministry of Public Security to carry out a special mission to crack down on outbound transfers of illegal proceeds via offshore companies and underground banks. It coordinated with the relevant authorities to uncover about 100 cases of underground remittance banks, to investigate more than 1 000 cases of illegal sales and purchases of foreign exchange, resulting in penalties totaling several hundred million yuan.

Fourth, the SAFE severely cracked down on illegal online platforms for foreign-exchange margin trading. Under a special rectification framework for Internet financial risks, it worked to clear up and rectify the online foreign-exchange margin trading platforms.

Operation and management of foreign-exchange reserves were improved to ensure their safety, liquidity, and value

First, the size of foreign-exchange reserves was kept stable. Challenged by the complicated and serious economic and financial conditions at home and abroad, the SAFE actively conducted liquidity management and maintained a balance of payments equilibrium.

Second, the SAFE improved its overall capacity for investments and operations. It improved its general capacity for investments, operations, and management, optimized the currency and asset structure, and maintained and increased the value of reserves while also ensuring the safety and liquidity of reserves.

Third, the SAFE advanced the diversification of foreign-exchange reserves. It invested in both equity and bonds, but with more of a focus on equity so as to better serve the high-quality development of the real economy.

ACCOUNTING

The institutional foundation of accounting management was improved constantly

Financial capability of the central bank was enhanced. The PBC gradually improved its financial governance structure, analyzed its assets and liabilities, and sorted out the assets so as to build a sound balance sheet management mechanism, laying a solid foundation for better implementation of monetary policy and macro-prudential policy.

Innovative efforts were made for budget performance checking. In line with the essentials of overall budget performance checking, the PBC improved performance evaluation indices, exercised supervision over implementation of performance objectives, and strengthened the application of budget performance evaluation to build performance checking system to fully cover all procedures, areas and indicators of budgeting to optimize the budget performance. The role of budget performance in guiding business development was strengthened continuously.

Matrix management on accounting was reinforced. The PBC refined the matrix management model in budgeting, infrastructure and procurement, and promoted the gradual integration of operations with expenses planning, budget implementation and performance evaluation, by driving business departments to actively participate in budget making, standard setting, project evaluation, and performance checking.

Reform and development was promoted for direct affiliates. Based on both objective and problem orientation, the PBC steadily pushed its affiliates to reform the management system and slim the management structures, in order to improve their quality and effectiveness. The central bank was also planning to establish a classified management system for affiliates, which would further strengthen the regularized management of distribution of profits (retained) generated by investment and financing.

The strict accounting management was pushed forward continuously

Strict regulation framework was reinforced. Based on the relevant principles of the Central Committee and its duties, the PBC formulated and implemented rules for the management of buildings, infrastructures and official vehicles, and launched guiding opinions for cleaning up real estate. Regulation implementation of strict management was strengthened by improved measures and fulfilled responsibilities.

Budget constraints were intensified. The PBC reined in regular expenditures such as “three major fiscal expenses” (expenses on receptions, vehicles and overseas trips), which declined 6.4 percent year on year in 2018. The management of fiscal receipts and expenses was regularized and the uses of budget surplus were enhanced. With rational implementation and strengthened dynamic monitoring of budget, the expenses were well arranged.

Management of infrastructure construction was strengthened. The PBC established and improved the infrastructure projects database, and strengthened the dynamic management to ensure scientific, standardized, open and transparent arrangements. Management in the process of construction was enhanced, and regular project inspection was developed for quality improvement and risk control, promoting the successful completion of projects.

Fixed assets and centralized procurements were well managed. The PBC strengthened its management on purchase and construction, allocation and disposal of fixed assets to improve the efficiency of fixed assets. With the concept of "value for money" in procurement, the hierarchical management of procurement and internal control in branches was enhanced.

High-quality development of accounting was advanced gradually

Resource allocation was optimized. Abiding by the principle of "full coverage, key focus and favoring the grass roots", the PBC optimized the structure of resource supply, refined the management of budget allocation, reinforced financial support for banknote issuance and financial infrastructure construction, and arranged expense schedules on overhauls and emergency management in sub-branches, so as to improve service system.

Standardized management system was improved. The PBC refined the quota standards of public funds and special funds, made its branches to set up quota standards of administrative projects, and adjusted the quota standard database dynamically. The application of quota standards was promoted in budget making, allocation and performance evaluation stressing on their role in rigid constrains and daily guidance.

IT system of accounting was promoted. Based on its information system, the PBC developed modules of the integrated accounting business system, strengthened the multi-dimensional analysis and overall management of accounting information, and dug up the value of financial and business data. The big data of accounting was taking shape.

Research on accounting was further promoted

Effectiveness of accounting researches was improved. To be "deep, solid and precise", the PBC formulated annual research guidelines, enhanced coordination between its headquarters and branches, integrated research resources, and carried out both comprehensive researches and thematic researches at all levels to support decision-making and policy guidance.

Research on key topics was facilitated. The PBC carried out studies on accounting and management system of the central bank, financial management of grass-root branches, effectiveness of real estate management and corporate governance structure of affiliates. The accounting research in finance sector was intensified, especially on the impact of accounting standards reform and regulatory policy adjustment on financial sectors and on the analysis and forecast of financial performance of the financial industry to provide policy recommendations for macro-control and macro-prudential management. The central bank also participated in the formulation and revision of accounting standards at home and abroad.

Accounting capability was strengthened

Team building was promoted under the guidance of "four capacities", including political, professional, researching and coordinating capacity. Adhering to the concept of "Party building dominating accounting development", the PBC explored new ways and paths for the integration of Party building and business operations. Efforts were made to continuously deepen the development of accounting professionals and foster capabilities consistent with the requirements of modern central bank finance governance by focusing on key areas, such as central bank balance sheet management, budget performance management and innovation, and development of information-driven accounting. Education, training and professional guidance were provided for accounting personnel at all levels to consolidate the talent pool and cultivate compound talents, building up a well-educated accounting team with strong political discipline, excellent professional capacity, comprehensive researches and effective coordination.

PAYMENT SYSTEM

Continued efforts were made to improve the payment and market infrastructure

The function of the Cross-Border Interbank Payment System (CIPS) was improved. The stage-2 CIPS was put into full operation, with its trading hours prolonged to 5×24＋4 hours so as to provide full coverage of financial markets in the various time zones and to bolster global payments and financial market businesses. In addition to real time gross settlements (RTGS), the CIPS also introduced a net settlement mechanism to meet the diversified demands of market participants and to facilitate cross-border e-commerce.

The services and functions of the payment and settlement system and the accounting system were optimized. First, the trading hours of the high-value payment system were prolonged to 5×21+12 hours to better meet the demands of cross-border payments and settlements and to effectively support fund settlements of the financial infrastructure. A "pay by mobile number" function was added to the IBPS. Second, the automated payment transfer function of the integrated sub-system of the Central Bank Accounting Data Centralized System (ACS) for depository banks for clearing reserves was introduced. Efforts were made to improve account management and the monitoring of fund flows so as to boost payment efficiency after it was required that the clearing of the balance of clients of payment agencies be deposited in a centralized depository. A direct connection between the ACS and the deposit insurance system was launched to achieve real-time verifications and inquiries of deposit insurance information, greatly boosting business efficiency.

The legal framework for payments and settlements was enhanced

Bank-account reforms were advanced.

First, removal of the corporate bank-account approval mechanism was actively and steadily boosted. As approved by the State Council, pilot reforms for corporate deposit bank accounts were launched in Taizhou (Jiangsu) and Taizhou (Zhejiang) beginning on June 11, 2018 to remove the approval requirement for corporate bank accounts. Corporate deposit bank accounts are only required to be registered with the authorities. This serves as a foundation for the complete removal of corporate bank-account approvals by the end of 2019.

Second, corporate bank-account services were further optimized. Banks were urged to improve their corporate account opening services and efficiency. The average time required to open a bank account by small and micro businesses (SMBs) was shortened to three working days, which was remarkably shorter as compared with the time required in the major developed economies.

Third, continuous efforts were made to improve personal bank-account management. The personal bank-account classification system was further improved in terms of account opening and operations.

Fourth, a pilot program for network-based verifications of invalid IDs of both residents and non-residents was launched to fully implement a real-name system.

Fifth, an integrated bank-account system for both domestic and foreign currencies was promoted. Research was conducted to set up an integrated bank-account system for both domestic and foreign currencies based on the RMB. Such integrated accounts for both the RMB and FX should be governed by uniform rules to meet the demands for RMB internationalization and foreign exchange administration.

A solid foundation was established for the institutional construction of a payment and market infrastructure. First, management of the cross-border financial network and information services was enhanced. Compliance obligations and self-discipline regulations for overseas providers and domestic users of information services were stipulated. Second, management of the ACS was reinforced. The *Contingency Plan of the Central Bank Accounting Data Centralized System* and the *Operational Manual of the Integrated Front Sub-system of the ACS* were released, stipulating the operational rules to ensure both the continuity of central bank accounting operations and the security of funds.

Regulations on non-cash payments were enhanced. Four regulations, including *the Administrative Rules of the Electronic Commercial Draft System*, were revised and promulgated, laying an institutional foundation for a uniform national bill market and its innovative development. The integration of paper-based and electronic bills was steadily promoted and explorations to make innovations in both bill payments, and financing businesses.

The opening-up of the payment market was deepened. First, regulations on market entry and the supervision of foreign payment agencies were published. Notices were released stipulating market entry and regulatory policies and applying comprehensive national treatment for the foreign payment agencies. Second, the opening of the bank-card market was steadily promoted. In November 2018, the PBC and the CBIRC approved the application submitted by Express (Hangzhou) Technology Services Company initiated by American Express, and the relevant information was publicly released, marking a step forward in the opening up of the bank-card market.

Regulation of the payment services market was strengthened in a comprehensive manner

A centralized depository of provisional funds of clients was implemented and a full amount depository of provisional funds was achieved. It is stipulated that the full amount of provisional funds of the clients of payment agencies must be deposited with the PBC. On January 14, 2019, the centralized depository of provisional funds in the amount of RMB1 289.28 billion was completed as scheduled. Smooth implementation of the centralized depository of provisional funds will contribute to strengthening the monitoring of fund flows, encouraging payment agencies to focus on their core business of payment services, and promoting the stable and sound development of the payment service market.

Work has been done to cut off the direct connections between payment agencies and banks. Payment agencies are not allowed to be connected to banks so as to crack down on disguised cross-bank clearing businesses. The cross-bank clearing business of payment agencies must be processed through the cross-bank clearing system of the PBC or through other qualified clearing institutions. As of January 14, 2019, all payment transactions of payment agencies together with those of commercial banks are processed through China Unionpay and the NetsUnion Clearing Corporation (NUCC). Cutting off the direct connections between payment agencies and banks optimizes the allocations of payments and clearing, contributes to the prevention of financial risks, and plays a fundamental role in rectifying chaos in the payment market and safeguarding the sound development of the market.

Targeted campaigns against unlicensed payment agencies were continuously launched. First, thorough investigations and follow-up disposals were carried out in a bid to eliminate all unlicensed payment agencies. Second, financial regulatory coordination was strengthened so as to crack down on illegal Internet-based foreign exchange transactions and cyber-money trading, and to take effective measures to forestall the contagion of P2P risks. As of end-2018, all 385 unlicensed agencies had been cleared up. Significant achievements have been made in targeted campaigns aimed at rectifying non-banking payment agencies and the market environment has been noticeably cleansed.

The daily regulation of payment agencies was conducted in an orderly manner. First, 238 payment agencies were ranked in terms of their performance in 2017, aimed at enhancing the compliance awareness and internal controls of payment agencies. Second, license renewals of 50 payment agencies were carried out in an orderly way, and eight payment agencies were denied license renewals due to malpractice, including insufficient qualification, embezzlement of provisional funds, and not offering payment services. The market exit mechanism through license renewals serves as a deterrent for rule-breaking agencies and continuously cleanse the payment market. Third, in line with the principle of substance over form, changes in the ownership structure and the actual controller of the payment agencies were strictly examined as part of the daily supervision.

Clean-up and rectification work were carried out to crack down on payment and settlement services for illegal transactions. Special inspections were organized aimed at fighting against the illegal provision of payment and settlement services for illegal transactions such as gambling. Hand in hand with the relevant public-security authorities, market supervision and administration, communications management, as well as the joint ministerial office on Internet financial risks, the PBC detected over 400 illegal platforms involved in Internet gambling, pornography, lottery sales, cyber-money transactions, and illegal foreign exchange, precious metal, securities and futures, and bulk commodities transactions and it transferred all of the cases to the public security authorities. In addition, 1 359 merchants involved in illegal transactions were shut down and actions were taken against 1 336 high-risk merchants.

High-quality development of payment services was promoted

Efforts were made to facilitate mobile payments in Guangdong–Hong Kong–Macau Greater Bay. The UnionPay app (Hong Kong and Macau version) and the electronic wallet of Wechat (Hong Kong) were put into operation, both of which were related to cross-border mobile payments. The UnionPay app (Hong Kong and Macau version) allows residents in Hong Kong and Macau to register local mobile phone numbers, link with local UnionPay cards, and make on the ground payments or payments by scanning the QR code with local merchants on the Mainland. The electronic wallet of Wechat (Hong Kong) allows Hong Kong residents to make payments to local merchants on the Mainland by scanning the QR code with their electronic wallet of Wechat (Hong Kong). These two cross-border projects effectively meet the demands of Hong Kong and Macau residents for mobile payments in the Chinese Mainland.

Continuous efforts were made to improve the environment for rural payment services. Work was done to promote non-cash payments in rural and poverty-stricken areas, enhance specific services such as deposit withdrawal facilities in rural areas and tailor-made bankcards for migrant workers, and to boost mobile payments and e-commerce in rural areas so as to support poverty relief. As of the end of the year, personal bank accounts totaled 4.31 billion in the rural areas and there were 1.69 billion personal accounts in poverty-stricken areas, averaging 4.44 accounts and 3.61 accounts per person respectively. Moreover, 612 million Internet bank accounts and 670 million mobile bank accounts were opened. A total of 864 900 rural bank outlets with cash withdrawal facilities were set up nationwide, covering over 500 000 villages with a coverage ratio of over 90 percent. Specifically, over 206 100 rural bank outlets with bankcard services were equipped with village-level e-commerce services.

The innovative development of convenient mobile payments was encouraged. Efforts were made to build a multi-layered diversified payment service system. In addition to taking full advantage of conventional non-cash payment instruments, such as bankcards and bills, the market was encouraged to make innovations in payment modes and to enrich payment scenarios. With the joint efforts of the commercial banks, China Unionpay, and other relevant parties, coverage of convenient projects aimed at improving the people's livelihood was broadened from 19 model cities to 100 major cities nationwide. Mobile payments governed by the universal standards of the banking sector fully cover areas such as the subway, public transportation, and medical service centers. A unified app "Cloud Flash Pay" in the banking sector has been established preliminarily to provide convenient services to communities with diversified mobile payment products. Nationwide, commercial banks processed 60.53 billion mobile payment transactions for a total of RMB277.4 trillion in 2018, representing a year-on-year growth of 61.2 percent and 36.7 percent respectively.

International exchanges of payments and settlements were facilitated

The PBC has been actively involved in a number of international cooperation mechanisms, including the Financial Market Infrastructure Committee and the Financial Stability Board (FSB). The PBC also closely monitors the development of the payment system, the evolution of the FinTech and financial stability, Internet security, and payment supervision. Moreover, the PBC participates in the formulation of international rules so as to enhance its influence in the realm of international payments and settlements.

Column

Progress in Developing NetsUnion

In recent years, the online payment market in China has developed rapidly, which brought not only significant social and economic benefits but also problems such as illegal operations, embezzlement, and misappropriations of the money of the clients at non-bank payment institutions (hereinafter referred to as NBPIs). In April 2016 the General Office of the State Council released the *Plan for the Overhaul of Internet Finance Risks,* which stipulates requirements such as NBPIs should deposit client payment reserves at the PBC or eligible commercial banks, that NBPIs should not be connected to multiple bank systems or engage in hidden cross-bank settlements, and that NBPIs should conduct cross-bank payment businesses via the PBC cross-bank settlement system or eligible settlement institutions. To promote the above-mentioned work, the PBC organized major NBPIs to establish the NetsUnion Clearing Corporation (NUCC) in 2017, in line with the principle of "common development, common ownership, and common sharing" and the principle of "regulated by the central bank," a universal and common settlement platform was built that is dedicated to handling the payment business between NBPIs and banks.

Under the guidance of the PBC, important breakthroughs were achieved as a result of the active preparations of the NUCC and the coordinated promotion of the relevant NBPIs and commercial banks. By the end of 2018, a total of 424 commercial banks, 115 Internet-based NBPIs, and 7 pre-paid NBPI cards were connected to the NetsUnion platform. The platform processed 129.674 billion transactions in 2018, totaling RMB57.9 trillion, and successfully handled online payments during peak hours, such as on November 11 and on December 12 when the processing peaked at 92 771 transactions per second, which makes the platform a payment and settlement infrastructure with the world's largest volume of business. With the support of the NetsUnion platform, the PBC organized NBPIs and banks to orderly break their direct connections and implemented the strategy of making NetsUnion and China UnionPay serve as backups to each other. By January 14, 2019, payment businesses jointly conducted by NBPIs and commercial banks were all processed by the NUCC and China UnionPay.

Building the NetsUnion platform represents an important effort by the PBC to implement the principles set forth by the 19th CPC National Congress to prevent and resolve financial risks and to enhance weak areas in financial regulation. It will facilitate orderly competition in the payment market and healthy development of the online payment industry. First, connection costs are lowered significantly, in particular the costs of small- and medium-sized institutions are alleviated by the provision of universal and common settlement services for NBPIs. Second, the efficiency of fund transactions is increased as the time consumed by a single transaction processed by the NetsUnion platform is on average 100 milliseconds shorter than that processed on the "direct connection" pattern. Third, the NetsUnion platform supports centralized custody of the payment reserves of clients, which effectively ensures the security of the customers' money. Fourth, obstacles among different channels are removed through universal business rules, technical specifications, and pricing standards, which create opportunities for fair competition for the NBPIs, particularly small- and medium-sized NBPIs, and facilitate the formation of a fair, just, and win-win market environment. Fifth, the transparency of fund settlements is enhanced, which helps government authorities monitor money flows and relevant risks, remove risks and potential dangers in a timely manner, and facilitate the establishment of a monitoring mechanism for anti-money laundering and countering the financing of terrorism.

The NetsUnion platform effectively helps small- and medium-sized NBPIs to lower costs within a fair competitive environment, promotes small- and medium-sized banks to make up their disadvantages and to improve their general service capability, and to improve payment businesses in the rural areas by optimizing the rural payment environment. Under the "direct connection" pattern, there were altogether 206 banks and NBPIs cooperating in the payment business. With the support of the NetsUnion platform, the number of banks cooperating with the NBPIs has increased to more than 400, and the newcomers are primarily small city commercial banks, rural cooperatives, and township and village banks. The connections of the rural financial institutions to the NetsUnion platform expands the business scope of rural merchants, enhances their business capacity, and enables rural customers to enjoy fast and convenient online payment services, which further facilitate the popularization and promotion of emerging payment methods in the rural areas.

Column

Regulating the Business of Online Money-Market Funds of Non-Bank Payment Institutions

In compliance with the spirit of the 5th National Conference on Financial Work and the 16th Inter-Ministerial Meeting on Financial Regulation, the PBC cooperates with the CSRC, in line with the principle of see-through and homogeneous regulation, to regulate the asset management business of payment institutions. The purpose is to incorporate the asset management business of payment institutions into the commercial banking system. The focus in the early stage is to regulate the business of online money-market funds of payment institutions.

1. Trace the source by identifying the business nature and the structural features

According to the definition given by the Financial Stability Board (FSB), online money-market funds of payment institutions are credit intermediaries that engage in activities such as term conversions, liquidity conversions, and credit conversions, which are an important part of shadow banking.

1.1 As a credit intermediary online money-market funds have attributes of shadow banking. On the side of liabilities, payment institutions cooperate with fund companies to take deposits from the public at face value in the form of current deposits (realized via T+0 redemption). On the side of assets, the deposits taken are invested in money-market instruments with longer terms, which by nature convert short-term liabilities into long-term assets and realize a conversion of terms. Two-way conversions are realized between liquid monetary assets and less liquid financial instruments during fund subscriptions and redemptions, resulting in such funds having liquidity-conversion functions. Credit conversions are realized as money-market funds expand credit by allocations of the investors' money, and the credit of the underlying assets are enhanced and their credit risks are transmitted and transferred via banks, non-bank credit intermediaries, and credit-rating agencies.

1.2 Some online money-market funds take advantage of the separate regulatory framework for the purpose of arbitrage, which increases the social financing costs. Although online money-market funds of payment institutions belong to the shadow banking business, they enjoy much lower operational and compliance costs than traditional deposit takers because they not only are exempt from deposit reserves, deposit insurance, and other taxes and fees but also they do not have to meet the liquidity and capital adequacy requirements as is the case for traditional banks. Money-market funds are primarily invested in bank deposits and interbank certificates of deposit (CDs). This means that, by nature, the money of investors that could have been taken by banks as demand deposits is collected instead as interbank CDs instead, which is an arbitrage of the institutional interest-rate spread between personal deposits and interbank CDs. As a result, high earnings are realized by the transfer and allocation of idle funds at the expense of the higher marginal financing costs of the real economy.

1.3 Online money-market funds bear hidden liquidity and systemic risks. Some online market funds, with a rapidly expanding scale, have already become systemically important, and if they run into trouble, the overly centralized allocation of assets will exacerbate uncertainties of mass redemptions and possibilities of liquidity risks. In such cases, the funds will not only require huge bail-outs but also will have a negative impact on the counterparties and market confidence, intensifying market panic and a herd effect. This will, in the case of tight market liquidity, lead to a run on deposits and an accelerated flow of money out of the banking system. As a result, individual risks will rapidly spread to the financial system and become systemic and universal risks, leading to instability in the entire financial system and eventually will have a huge impact on the real economy.

2. See-through regulation was adopted to prevent regulatory arbitrage and systemic risks

2.1 Rely on MYbank to divert some of the customers and funds of Yu'ebao and to promote shadow banking business to return to the banking regulatory system. Since April 2018, the PBC has actively guided Ant Financial to promote the diversion of Yu'ebao customers and business switching in a prudent and orderly manner by relying on MYbank to serve as sales agent for many money-market funds so as to divert money and customers. This has helped to promote the sale of money-market funds to return to the banking system, incorporate the shadow banking business into the financial regulatory system, and properly address the problem of some institutions being "too big to fail." By the end of 2018, MYbank cooperated with 12 fund companies, including Bosera Funds, Zhong Ou AMC, HuaAn Funds, and GF Fund Management, to work as their sale agents. A total of 134 million users of Tianhong Yu'ebao have converted to the banking sales agent model, and altogether RMB644.839 billion was diverted. The total scale of online money-market funds was lowered to RMB1.06 trillion.

2.2 Exercise macro-prudential regulation of systemically important money-market funds and build a net asset buffer and lower massive redemptions and systemic risks. First, further improve regulatory requirements on the investment scope and term of investments and on the proportion of money-market funds. Second, roll out institutional arrangements for liquidity management of money-market funds. Third, strictly control the deviation risks of the shadow pricing of money-market funds under the amortized cost method. Take Tianhong Yu'ebao as an example, by the end of 2018, the average remaining term of portfolios had been lowered to 57 days and the proportion of bank investments had decreased to 48.61 percent. A total of RMB7.186 billion was accrued as risk reserves and the average deviation of fund assets had been lowered to 0.007 percent based on shadow pricing and the amortized costs method.

2.3 Adhere to the principle that financial businesses should be licensed, with a set redemption threshold and a controlled liquidity risk exposure. First, strengthen the requirements for business licensing. Online money-market funds can only be sold by eligible fund sale institutions. Second, adhere to the notion that "payment on someone else's behalf" is an action of extending credit. It is specified that only commercial banks eligible for fund sales are qualified to provide money for T+0 fast redemptions (and then to be repaid later). Third, set a limit of RMB10 000 for a single money-market fund held by a single investor. Fourth, payment institutions are prohibited from providing value-added services paid directly with shares of money-market funds. Up until now, all online money-market funds have been sold by eligible fund sale institutions and all 168 money-market funds that allow T+0 fast redemptions have converted to the model where by the redeemed money is provided by commercial banks on behalf of the fund companies. The business limit has been lowered to RMB10 000 and value-added services paid directly with money-market fund shares have been suspended.

3. A new innovation-driven and regulated development pattern has been formed.

In the FSB's report to the G20 on the *Implementation and Effects of the G20 Financial Regulatory Reforms*, it is pointed out that China was one of the fastest countries to implement the recommendations on money-market fund regulation as proposed by the IOSCO. The size of the assets of money-market funds is increasing steadily, forming a new innovation-driven and regulated development pattern.

CURRENCY ISSUANCE AND MANAGEMENT

The overall cash supply was guaranteed

In 2018, the yearly net cash injection totaled RMB256.3 billion, a year-on-year increase of 9.4 percent. Money in circulation (M0) was RMB7.32 trillion, up 3.6 percent as compared with the previous year. Cash injection between the New Year's Day and the Chinese Spring Festival exceeded RMB2 trillion for five consecutive years, still featuring explosive growth during holiday seasons. A multi-dimensional system of cash statistics was developed to strengthen forecast of cash operation and related research to ensure flexible RMB banknote printing and coin production. Reserve inventory management was enhanced with the allocation of reserve optimized, and the annual cash supply was accomplished.

Management and service of RMB circulation was continuously strengthened

The practice of refusing cash payment was fixed. Notices was published of fixing the problem of cash refusal, guidance and publicity were provided and promoted to pave the way for the gradual development of a long-term effective regulatory system. As of the year-end, 980 cases of cash refusal were investigated, of which 962 cases were closed with corrective measures.

Substantial progress was made in promoting the self-circulation of coins nationwide. Efforts were made to build a cross-regional circulation mechanism of coins and further improve the specialized management regulations of coins. The identification and exchange of damaged or mutilated RMB coins were improved, and regional coin destruction centers were set up to step up the destruction of damaged or mutilated RMB coins. The application of science and technology was stressed by establishing a platform of service information and statistics to boost the circulation of coins. A regional self-circulation system has been developed preliminarily, with the national re-injection of 20 billion coins from 2016 to 2018, producing remarkable social and economic effects.

Tidiness of RMB in circulation witnessed a substantial improvement. *Standards for RMB Coins Unsuitable for Circulation* was promulgated, together with the social publicity of the standards for RMB banknotes and coins unsuitable for circulation. Activities intended to create cash service demonstration zones were launched to provide experience for developing quality environment for cash circulation nationwide. Cash service in rural areas was enormously enhanced in an effort to build a long-term effective mechanism for cash supply and reclamation of damaged or mutilated RMB in rural areas. The circulation of the 4th set of RMB was partially ceased while more effort was made to replace old notes with new RMB notes and destroy the mutilated RMB. Pilot programs were designed for the monitoring and sample survey of RMB tidiness, attempting to devise a multi-tier approach to evaluate the tidiness of RMB in circulation.

Continuous efforts were made in advancing the RMB circulation management and service. The managerial methodology and implementing strategies of large-amount cash were further clarified and the priority plan of large-amount cash management was formulated. The indicator system of RMB receipt and payment was constantly improved and onsite inspection and offsite supervision of RMB receipt and payment were enforced to promote the standardization of cash service. RMB derivatives were cleared and reports of false advertisements were promptly tackled with the assistance of authorities concerned. To strengthen RMB quality management, related publicity was given and the quality of RMB in circulation was investigated. While cross-border allocation and transportation of RMB cash by commercial banks were boosted, the cross-border flow was monitored and collaboration was given to the customs as to the online check of certificates on cross-border RMB allocation and transportation.

Transformation of the role of cash processing center was advanced

Researches on the construction of regional cash processing centers were undertaken to create an efficient, economical, and standardized new cash circulation system. The management of labor outsourcing service of cash processing was regulated to prevent and control business transformation-related risks. Branches of the PBC were urged to put in place the filing-based system of cash processing enterprises, better the statistical system of cash processing and service by banking institutions, and speed up the establishment of the supervision system over banking institutions and cash processing industry. *Measures for Cash Processing Equipment, Maintenance and Procurement* was improved in a bid to reduce the risk of procurement. The checklist of onsite management and offsite supervision of cash processing centers was composed to elevate their level of security management and instruct their supervision-oriented transformation.

Security of cash vault was promoted

The initiative of "the Year of All-Round Risk Management of Cash Vault" was advanced, and the special inspection of reserve funds and the national inspection of cash vaults was organized. A national teleconference on cash vault management was held to consolidate the foundation of management. Regulations were revised and quantitative assessment was piloted to heighten the standardization of management. Pilot projects of the intelligentization of cash vaults were carried out, and the construction of the second-generation cash issuance information system was advanced in an effort to push forward the modernized management of cash vaults.

The anti-counterfeiting work was advanced in a vigorous style

The anti-counterfeiting mechanism was improved. The 6th session of the joint conference of anti-counterfeiting work was held, member units and duty division adjusted and foci of work clarified. Pilot work was done on the rewarding system for informants of crimes related to counterfeit RMB in order to build up a regular anti-counterfeiting mechanism. Joint effort was made with the Ministry of Public Security to crack down on counterfeiting offences and crimes, bringing under effective control the rally of the offences and crimes. The acts of mistaken receipt or payment with counterfeit RMB were redressed and the anti-counterfeiting training was provided for cashiers in banking institutions, attempting to enhance the ability to block counterfeit RMB on the part of banking institutions.

The detection capacity of RMB cash equipment was reinforced. The construction was bolstered of the testing center for detection capacity of cash equipment with the Institute of Printing Science and Technology of the PBC. In 2018, six lists of qualified equipment were publicized, involving 335 brands and models. The lead was taken in forming a specialized committee of cash equipment with China Numismatic Society to provide a self-management platform for the cash equipment industry. The standards for financial industry were adopted in line with *Technical Standards for the Detection Capacity of RMB Cash Equipment*, to instruct and encourage financial institutions to increase the detection capacity of cash equipment. The offsite supervision of the detection capacity was explored to foster the efficient and targeted management of cash equipment.

The issuance mechanism of common commemorative coins saw continuous improvement

Deliberately implemented were the issuance of common commemorative coins celebrating the Chinese Lunar New Year 2018 and the 40th anniversary of reform and opening-up, and the issuance of commemorative banknotes in honor of the 70th anniversary of the issuance of RMB. The counseling mechanism was developed of the number of common commemorative coins to be issued to make the issuance more scientific. According to the public need, pre-order issuance and on-site issuance at commercial bank outlets were combined and the packaging of common commemorative coins was improved. The discipline concerning the issuance was tightened and a refined mechanism of information monitoring and market inspection was established. The telephone number for reporting misconduct was made public to give prompt response to social concerns. Cases of violation were announced as a way of punishment and violations in the issuance of commemorative coins were firmly punished.

Transformation of administration of gold and silver was advanced

A specialized committee of checking non-standard gold and silver with the PBC was founded to improve the working mechanism and promote a more accurate, logistical and informationized administration that emphasized both quantity and value. A research platform was put up for the Chinese monetary history and new channels of project approval were opened up with 18 projects approved, and the research on the monetary history was gradually deepened.

In accordance with the requirements of "delegating power, streamlining administration and optimizing government services" by the State Council and together with General Administration of Customs, announcements were released to conduct online examination of the digital data of the import & export licenses of gold and golden products, to boost efficiency of clearance and make convenient the import & export of gold and golden products.

The R&D of digital currencies was orderly pushed forward to prevent the risks of virtual currencies

The latest development was closely followed in the international research on central bank digital currency, and active international exchanges were made. Commercial institutions were properly and orderly organized to combine their efforts in the R&D of electronic payment instruments with features of digital currencies (DC/EP), which had made some progress. Monitoring and regulation of various virtual currencies were strengthened. Active research into the related regulatory framework was underway. The acceptance by related units of payment with virtual currencies was rectified. Support was lent to departments concerned in the fight against the crimes of illegal fundraising in the name of virtual currencies, DTC (*dangtang coin*) for example.

Commemorative Coins (Banknotes) Issued by the PBC in 2018

Issuing Date	Theme	Made of	Denomination (yuan)	Size of Issuance (million)
Feb. 2	Common Commemorative Coins Celebrating the Chinese Lunar New Year 2018	Golden and Silver Brass Alloy	10	350
Sep. 3	Common Commemorative Coins of China High-Speed Railway	Golden and Silver Brass Alloy	10	200
Dec. 28	Common Commemorative Coins celebrating the 40th Anniversary of Reform and Opening-up	Golden and Silver Brass Alloy	10	180
Dec. 28	Commemorative Banknotes in honor of the 70th Anniversary of the Issuance of RMB	Banknote	50	120

TREASURY MANAGEMENT

The treasury transactions were secure and efficient

In 2018, the treasury system of the PBC processed RMB34.37 trillion of receipt transactions, jumping 7.4 percent year on year. In particular, central and local receipts were RMB12.88 trillion and RMB21.49 trillion, surging 2.1 percent and 10.8 percent respectively. Payment transactions in the amount of RMB35.38 trillion were processed, an increase of 8.7 percent year on year. Among these, central payment amounted to RMB5.71 trillion, down 0.9 percent, while local payment amounted to RMB29.66 trillion, a rise of 10.7 percent. The treasury system reinforced risk management of funds and strengthened daily monitoring and maintenance of the business systems to ensure the security of the business system and the treasury funds. As a result, the objective of achieving low risk and zero cases of unsafe transactions was met.

Institutional arrangements of the treasury were further improved

The PBC actively communicated with the Ministry of Justice and the Ministry of Finance on the revision of the *Regulations on the Implementation of the Budget Law* to fully and accurately express its opinions. The *Guidelines for the Standardization of State Treasury Accounting (Tentative)* was released to improve the quality of treasury accounting. Working with other relevant ministries, the PBC formulated a scheme to include the collection of social insurance funds in the treasury, providing support for the orderly transition of responsibilities for the collection and management of social insurance funds. Based on studies of the management system for treasury funds processed by non-bank payment institutions, non-bank payment institutions and clearing institutions were organized to process receipt and payment transactions of treasury funds in pilot programs, thereby facilitating tax payments by taxpayers. The *Notice on Electronic Fund Withdrawals from the Treasury* was launched to prepare for electronic tax refunds in 2019. Following the requirements for streamlining administration, delegating powers, and improving regulations and services, the PBC sorted out the administrative approvals, produced comprehensive assessments on implementation of cancelled administrative approvals, and cleaned up normative documents as required. The process of qualification confirmations of agent banks for treasury payments was optimized by cutting the timeframe from 20 working days to 15 working days and publishing a service guide with clear application conditions and requirements. Qualification confirmations of agent banks for direct and authorized payments of the central government budget were completed, with 33 applications approved by the administration and 2 rejected.

The treasury IT systems improved remarkably

The second generation of the Treasury Information Processing System (TIPS) was launched nationwide, winning the award for best practices at the first "Digital China Summit." Tax collections and payment of the General Administration of Customs were fully docked with the TIPS, promoting national coverage of real-time tax deductions, bank-side tax payments and inquiries, and aggregation of tax guarantees and deposits (delayed declarations). Most of the tax collections and payments of customs were processed by the TIPS, which indicated the network of finance, taxation, customs, treasury, and commercial banks covered all regions, collection institutions, and business lines. Maintenance of treasury IT systems proceeded smoothly, as systems, including the TIPS, the Treasury Centralized Booking System (TCBS), the Treasury Management Information System (TMIS), and the treasury accounting system, were upgraded several times. In accordance with requirements of the State Treasury Project, the PBC compiled the business requirements for the information-sharing platform and its subsystems, such as treasury accounting, risk supervision, statistical analysis, treasury bond management, and treasury cash management.

Treasury bond management was improved

In 2018, issuance of treasury savings bonds stood at RMB329.03 billion, increasing RMB7.50 billion or 2.3 percentage points, over the previous year, completing 97.35 percent of the plan and a year-on-year jump of 10 percentage points. Among these issuances, 8 issues of treasury savings bonds (certificates) were completed, in the amount of RMB121.49 billion, completing 96.42 percent of the plan; and 10 issues of treasury savings bonds (electronic) were completed, in the amount of RMB207.54 billion, completing 97.90 percent of the plan (see Table 1). Redemption of 8 issues of treasury savings bonds (certificates) were completed, with payment of RMB132.19 billion in principal and interest. Redemptions of bearer treasury bonds amounted to RMB1.22 million in principal and interest. The PBC formulated the *Measures for the Issuance Quota of the Treasury Savings Bonds 2018–2020* and the *Measures for Ranking the Members of the Treasury Savings Bonds Underwriting Group 2018–2020* with the Ministry of Finance, and supplemented by underwriting an agreement on treasury savings bonds. An underwriting group for treasury savings bonds from 2018 to 2020 was set up with new members, such as Chongqing Rural Commercial Bank, China Zheshang Bank, Guangzhou Rural Commercial Bank, and Dongguan Rural Commercial Bank. Underwriters satisfying the regulatory requirements were supported to apply for online sales. The Bank of Nanjing, Bank of Ningbo, Bank of Hebei, Bank of Chengdu, Bank of Harbin, and Bank of Tianjin were approved as new underwriters. Underwriters such as Huaxia Bank and Huishang Bank were encouraged to provide services including agreed upon deposits at maturity and reminders of redemptions of treasury savings bonds (certificates).

Monitoring of the treasury was constantly reinforced

In order to support the economic reforms and development, the PBC strengthened communication and coordination with relevant departments and gave instructions to its branches regarding setting up treasuries for the Xinjiang Production and Construction Corps and the Xiong'an New Area of Hebei province. Following the PBC's instructions, treasuries were set up in 485 towns in Liaoning province, all of which were managed by the PBC branches. Relying on close cooperation among the relevant branches, the jurisdiction of the treasury in the Shenzhen-Shantou Special Cooperation Zone was transferred from Guangdong to Shenzhen. On-site inspections of accounting management were conducted for 12 sub-treasuries as well as for treasuries under their jurisdiction. The PBC reduced the time limit for "approval of agent sub-treasuries by commercial banks and credit cooperatives" to optimize the process. To hedge against the risks of treasury funds, the PBC also enhanced on-the-spot and ex-post supervision of agent treasuries, steered sub-treasuries to place inspections of agent treasuries onto the random checklist according to the rules, established a power list, responsibility list, and a negative list for treasury supervision, and it reinforced supervision and inspection of agent sub-treasuries by commercial banks and credit cooperatives.

Support of decision-making was enhanced

The PBC strengthened the statistics and monitoring of treasury data, and earnestly completed the routine reports, such as the daily and monthly reports on treasury receipts, payments, and deposits, to ensure standardized subjects, accurate data, and timely reports. It also improved the database for treasury statistics and analysis by sorting out, summarizing, and updating the data on treasury receipts, payments, and deposits as well as the relevant macroeconomic data in accordance with merits of the regions, subjects, industries, and levels. Focusing on the peak period of tax payments and intensive financial appropriations at the end of each month, the PBC enhanced monitoring of inventory fluctuations and their impact on monetary policy management. Research was conducted on widely discussed issues, including supply-side structural reforms, fiscal relations between central and local governments, tax system reforms, budget implementation, and coordination between fiscal and monetary policies.

Cash management of the treasury made steady progress

In 2018, the central treasury disbursed RMB1.14 trillion in 11 term deposits (see Table 2), and received RMB1.24 trillion in 12 treasury term deposits maturing as cash management with commercial banks, and interest income in the amount of RMB13.20 billion. The balance was RMB100 billion at end-2018 (see Table 3). The local treasuries made 192 term deposits that released RMB2.81 trillion, and received RMB2.72 trillion from 190 matured term deposits, with interest income of RMB16.7 billion and a balance of RMB1 trillion at year-end (see Table 4). The PBC strengthened cash management of balance limits in provincial treasuries to promote coordination between fiscal and monetary policies. It launched the *Rules on the Bidding and Tendering of Term Deposits by Commercial Banks* with the Ministry of Finance, and adjusted and confirmed the list of banks participating in treasury cash management. Violations were stopped in time to promote standardized and orderly cash management in state and local treasuries.

Table 1 Issuance of Treasury Savings Bonds, 2018

Variety	Issue No.	Issue Time	Term (Year)	Coupon Rate (percent)	Total Actual Issuance Amount (RMB100 million)
Certificate T-bonds	1st	3.10-3.19	3	4.00	149.71
	2nd	3.10-3.19	5	4.27	149.47
	3rd	5.10-5.19	3	4.00	149.78
	4th	5.10-5.19	5	4.27	148.83
	5th	9.10-9.19	3	4.00	178.22
	6th	9.10-9.19	5	4.27	148.69
	7th	11.10-11.19	3	4.00	176.52
	8th	11.10-11.19	5	4.27	113.70
	Subtotal				1 214.92
Electronic T-bonds	1st	4.10-4.19	3	4.00	200.00
	2nd	4.10-4.19	5	4.27	200.00
	3rd	6.10-6.19	3	4.00	199.95
	4th	6.10-6.19	5	4.27	199.94
	5th	7.10-7.19	3	4.00	213.94
	6th	7.10-7.19	5	4.27	210.50
	7th	8.10-8.19	3	4.00	229.34
	8th	8.10-8.19	5	4.27	221.71
	9th	10.10-10.19	3	4.00	200.00
	10th	10.10-10.19	5	4.27	200.00
	Subtotal				2 075.38
Total					3 290.30

Table 2 Term Deposits Disbursed by Central Treasury Cash Management at Commercial Banks, 2018 (New Deposits)

Date (Value date)	Series No.	Amount (RMB100 million)	Bidding Rate (percent)	Term	Expected Interest Income (RMB100 million)
Jan.15	1st, 2018	800	4.70	3M	9.37
Feb.7	2nd, 2018	1 200	4.50	3M	13.46
Mar.26	3rd, 2018	500	4.62	3M	5.76
Apr.20	4th, 2018	800	4.50	3M	8.98
May.9	5th, 2018	1 200	4.63	3M	13.85
Jun.15	6th, 2018	1 000	4.73	3M	11.79
Jul.17	7th, 2018	1 500	3.70	3M	13.84
Aug.16	8th, 2018	1 200	3.70	3M	11.07
Aug.27	9th, 2018	1 000	3.80	3M	9.47
Sep.21	10th, 2018	1 200	3.71	3M	11.10
Dec.7	11th, 2018	1 000	4.02	1M	3.08
Total		11 400			111.78

Table 3 Term Deposits Disbursed by Central Treasury Cash Management at Commercial Banks, 2018 (Matured)

Date (Due date)	Series No.	Amount (RMB100 million)	Bidding Rate (percent)	Term	Actual Interest Income (RMB100 million)
Jan.15	5th, 2017	800	4.42	3M	8.82
Feb.23	6th, 2017	1 200	4.60	3M	14.82
Apr.16	1st, 2018	800	4.70	3M	9.37
May.9	2nd, 2018	1 200	4.50	3M	13.46
Jun.25	3rd, 2018	500	4.62	3M	5.76
Jul.20	4th, 2018	800	4.50	3M	8.98
Aug.8	5th, 2018	1 200	4.63	3M	13.85
Sep.14	6th, 2018	1 000	4.73	3M	11.79
Oct.16	7th, 2018	1 500	3.70	3M	13.84
Nov.15	8th, 2018	1 200	3.70	3M	11.07
Nov.26	9th, 2018	1 000	3.80	3M	9.47
Dec.21	10th, 2018	1 200	3.71	3M	11.10
Total		12 400			132.33

Table 4 Provincial-Level Local Treasury Cash Management, 2018

Region	New Deposits	Amount (RMB100 million)	Deposits Matured	Amount (RMB100 million)	Balance at Year End (RMB100 million)	Actual Interest Income (RMB100 million)
Beijing	11	3 780.00	11	4 030.00	850.00	16.25
Tianjin	4	600.00	3	450.00	150.00	1.72
Hebei	10	1 700.00	11	1 700.00	200.00	6.27
Shanxi	7	1 270.00	6	1 150.00	320.00	5.27
Inner Mongolia	3	150.00	3	150.00	0.00	0.57
Liaoning	0	0.00	0	0.00	0.00	0.00
Jilin	2	140.00	2	140.00	0.00	0.89
Heilongjiang	4	400.00	3	300.00	100.00	1.13
Shanghai	7	3 350.00	8	3 150.00	1 200.00	18.25
Jiangsu	6	970.00	7	950.00	540.00	8.65
Zhejiang	7	1 290.00	6	1 200.00	790.00	9.62
Anhui	2	210.00	2	200.00	110.00	2.73
Fujian	5	480.00	4	400.00	280.00	3.89
Jiangxi	6	1 130.00	6	1 030.00	580.00	9.41
Shandong	5	827.29	5	997.29	230.00	5.78
Henan	3	330.00	2	350.00	180.00	3.07
Hubei	2	400.00	2	400.00	200.00	3.51
Hunan	2	120.00	2	170.00	50.00	1.16
Guangdong	6	1 180.00	5	1 100.00	530.00	7.12
Guangxi	7	560.00	7	580.00	100.00	2.97
Sichuan	4	650.00	4	780.00	270.00	6.84
Chongqing	5	970.00	5	675.00	500.00	4.64
Guizhou	10	1 046.86	9	999.90	300.00	3.83
Yunnan	10	1 010.00	11	1 040.00	150.00	3.87
Tibet	3	410.00	2	320.00	250.00	2.91
Shaanxi	3	480.00	4	580.00	100.00	2.66
Gansu	4	420.00	5	530.00	160.00	3.36
Qinghai	10	500.00	10	480.00	170.00	2.75
Ningxia	8	210.00	7	190.00	70.00	1.03
Xinjiang	0	0.00	0	0.00	0.00	0.00
Qingdao	4	110.00	2	50.00	60.00	0.45
Dalian	0	0.00	0	0.00	0.00	0.00
Ningbo	5	520.00	6	470.00	200.00	2.65
Hainan	4	240.00	6	310.00	130.00	3.15
Shenzhen	7	2 120.00	7	1 800.00	1 120.00	16.46
Xiamen	16	535.00	17	555.00	185.00	4.01
Total	192	28 109.15	190	27 227.19	10 075.00	166.86

FINTECH

Deepening FinTech research, application, and administration, and guiding the regulated development of FinTech

In line with the principle of "integrity, security, inclusion, and openness," the PBC strengthened FinTech research, planning, and coordination, enhanced regulatory guidance of FinTech innovations and improved FinTech applications and administration.

Strengthening FinTech applications and guidance. The PBC, together with the National Development and Reform Commission and other authorities, launched the FinTech application pilot program in 10 provinces and cities, including Beijing, Shanghai, and Guangdong, to explore practices of using FinTech to support the real economy and improve the risk control capacity. The PBC implemented a national authentication mechanism and strengthened the quality and security management of FinTech products to prevent the transmission of the risks of defective products into the financial sector. The PBC studied and planned the framework and strategy of the next-generation payment technology and promoted pilot applications in the Guangdong–Hong Kong–Macao Greater Bay Area. The PBC, together with the Ministry of Human Resources and Social Security and the National Health Commission, developed rules on APIs both between banks and social security and between banks and hospitals so as to regulate the connections between the financial sector and the social security sector and between the financial sector and the health care sector, so as to promote the financial sector to better serve the real economy and society.

Promoting FinTech research. The PBC organized a FinTech research program and published the *FinTech Research Report 2018* to provide support for decision makers on industrial administration and guidance. Committed to the principle of "joint efforts, joint research, and joint results," the PBC improved the operational system of the FinTech Research Center, established an expert think-tank for the academic committee, built joint post-doctoral training programs and carried out both general and forward-looking research. The FinTech Committee of the China Society for Finance and Banking was set up to promote FinTech research and exchanges and to provide a new working platform for all relevant parties to work together.

Enhancing FinTech exchanges and cooperation. The PBC hosted the sub-forum of the Fifth World Internet Conference, featuring the theme of "FinTech and a Credit-Based Society," to build an international platform for FinTech exchanges. The PBC participated in the Financial Inclusion Global Initiative (FIGI) of the World Bank and explored the development pattern of digital inclusive finance for China. The PBC also had intensive communications with representatives from more than 10 countries and international organizations to raise China's presence in international FinTech discussions.

Promoting architectural transformation to accelerate the development of a "digital central bank"

Effective progress was made in strengthening technological control and promoting the architectural transformation of the PBC. The 2nd-generation Treasury Information Process System (TIPS) was launched successfully, which effectively enhanced the security and efficiency of treasury operations. The provincial data centers were moved to the cloud and development of the "Internet + regulation" system achieved steady progress. The PBC coordinated and planned for a new generation digital office platform. The NetsUnion platform optimized the transaction routes for the full circuit to ensure sound transactions at critical moments during the year. The PBC used the Award for Banking Technological Development as a tool to provide guidance on technological development in the industry and helped the banking sector tackle difficulties and make progress in areas such as architectural transformation and general research.

Improving big data services and applications. The PBC accelerated the build-up of financial big data analysis and the service platform, expanded the big data application pilot programs among PBC provincial-level branches, and gradually introduced good practices elsewhere. A pilot app, called the "Financial Institutions' Information Sharing System," was launched to support the financial sector to provide better services to the public.

Strengthening cyber-security to support financial risk prevention and controls

Improving the IT risk-control system in the PBC. The PBC successfully completed a drill of instant switching by order between the twin data centers of the second generation TIPS and unexpected switching of operations to different locations in the national processing center (NPC) for the payment clearing system. Aimed at risk prevention, the PBC improved the relevant rules and regulations to ensure the sound operation of information systems.

Enhancing guidance over cyber-security in the financial sector. The PBC implemented the *Law on Cyber-Security* and provided guidance over cyber security of the financial sector. The PBC organized the financial sector to safeguard cyber-security during critical periods, promoted the upgrading and optimization of cryptographic applications, for critical information system sectors. Data security management was also enhanced. The PBC hosted the Attack and Defense Cyber Security Contest for the financial sector and the "Financial Day" during China Cyber Security Week. The PBC released the *Opinion of the Financial Sector on Implementing an Action Plan for the Massive Deployment of IPv6* and initiated the massive deployment of IPv6 in the financial sector.

Preventing FinTech security risks. The PBC built up a FinTech risk prevention system and enhanced guidance on regulated FinTech innovations. The PBC released regulatory rules on the application of cloud computing in the financial sector, published FinTech-related specifications in areas such as tokenization and Trusted Execution Environment (TEE), and guided the reasonable application of new technologies in the financial industry. The PBC worked to develop a technical solution for secure application of face recognition technology in off-line payment scenarios and organized application verifications to regulate the application of face recognition in the financial sector. It explored solutions for cyber ID authentication that are both safe and convenient to enhance the security of financial transactions. It also organized specialized examinations of payment security risks to improve payment security.

Enhancing financial IT planning and standardization and promoting financial standardization to make new progress

The PBC completed the mid-term evaluation of the implementation of the *Plan for the Development of Financial Standards System (2016–2020)* and *the 13th Five-Year Plan for the Development of Information Technology in the Financial Sector of China* and followed up on their progress.

Two national financial standards – the *Insurance Terminology* and the *Securities and Relevant Financial Instruments Classification of Financial Instruments (CFI)* – and 40 financial-industry standards were released, including the *Specifications on Basic Descriptions of Commercial*

Bank Collateral, which effectively met the demands of financial services and administration. The PBC established specialized working groups in areas such as digital fiat currency, green finance, and financial IT infrastructure to promote development of standards in those areas. Six industry associations, such as the National Internet Finance Association and the Payment & Clearing Association of China, released 11 financial standards on the platform of the State Administration of Standardization which publishes various standards. The standards developed by market participants started to play important roles. A standard system characterized by "Government + Market" was gradually built up as the standards coexist and complement one another.

The PBC engaged in organizing "Advocating financial standards to improve financial services" as a routine program. It organized a program on financial standardization to celebrate the 40th anniversary of the reform and opening-up and published all financial-industry standards to the public. Public awareness of financial standards was enhanced significantly. In areas such as inclusive finance, currency/gold/silver, FinTech, and cyber-security, financial standards have played an effective role in serving both the society and the corporate sector.

Together with various government authorities, corporate sectors, educational institutions, academic agencies, and users, the PBC worked to promote the national priority project of "Key Technical Standards for Financial Risk Prevention and Control" that encompasses important research projects, such as the development of financial-product standards and the integration of financial standards and financial governance. The PBC explored new patterns for the development of financial standards by launching pilot programs in Chongqing and Zhejiang for innovations in financial standards. It also strengthened international cooperation in financial standardization to promote the development of three ISO standards on descriptions of banking products or services, IT security targets of third-party payment providers, and an application program interface based on the Web.

CREDIT INFORMATION AND THE SOCIAL CREDIT SYSTEM

Promoted studies on building an Internet-based credit system and accelerated the development of a universal credit-information system

To improve government information services, optimize the online credit environment, prevent contagious dishonest behavior on the Internet, promote innovative and healthy development of Internet-based industries, and prevent cross-sector transmission of financial risks, the PBC actively promoted the establishment of an Internet-based credit system to end information isolation. Based on thorough surveys and analyses of domestic commercial banks, Internet-based e-commerce businesses, Internet finance platforms, data suppliers, government authorities, scholars and experts, and overseas Internet data service marketplaces, and upon full consideration of China's reality, the PBC formulated the *Report on the Establishment of an Internet-Based Credit System*, which proposed the basic ideas and measures to build an Internet-based credit system and to promote the development of a credit-information system covering the entire society.

Steadily promoted development of the credit-information market and increased the effective supply of the credit-information market

First, the PBC prudently approved the first license for a market-oriented personal credit-information institution and made breakthroughs in building a credit-information system covering the entire society. In January 2018, Baihang Credit Scoring was licensed in accordance with the law as a market-oriented personal credit-information institution dedicated to promoting the sharing of credit-information not yet covered or not fully covered by the basic database of financial credit-information. Baihang Credit Scoring and the Credit Reference Center of the PBC have formed a pattern in the personal credit-information market where by each develops its own niche in the market and at the same time each complements the other. Second, the PBC regulated and cultivated enterprise credit-information institutions. The PBC branches enhanced administration of registered enterprise credit-information institutions according to the principle of territorial and supervised credit-information institutions to strengthen information security, to guard against information leakage, and to safeguard order in the credit-information market. In 2018, 9 registered enterprise credit-information institutions were cancelled by PBC branches in accordance with the law and the registration of 6 institutions were approved. Third, the credit-information system effectively improved financial services and guarded against financial risks. Currently the credit-information system is widely adopted by financial institutions for credit-risk management, which helps to increase the efficiency of loan approvals. In particular, the collection and adoption of alternative data on individuals and enterprises in the credit-information system have solved the problem that "long-tail" customers and small-and-micro business owners cannot have access to financial support because they do not have credit archives. This provides borrowers with more financing opportunities, facilitates the development of financial inclusion, and effectively prevents default risks by borrowers.

Enhanced and ensured credit-information security

First, the PBC comprehensively enhanced credit-information security. It released the *Notice on Further Strengthening Credit-Information Security Management*, and organized the operators and the connecting institutions of the financial credit-information database and the PBC branches to implement the arrangements and requirements for credit-information security management. Focused on improving internal controls as well as the reporting and accountability mechanism, they are asked to enhance technical controls, strengthen compliance with credit-information business, conduct professional education and training of all staff engaged in the credit-information business, and ensure credit-information security in all respects. Second, internal compliance management of credit-information users was combined with external supervision. The PBC guided and supervised institutions connected to the financial credit-information database to enhance internal compliance and asked them to make daily checks of the credit-information business, monthly checks of the abnormal inquiries on credit-information business, quarterly self-examinations and self-corrections of credit-information compliance, and to incorporate the credit-information business into the annual audits. The credit-information authorities of the PBC constantly improved external supervision by developing monthly reports on credit-information security, compiling quarterly reports on self-examinations and self-corrections, and conducting annual evaluations of compliance and at the same time enhanced external supervision via on-site measures such as on-site examinations of the enforcement of laws related to credit-information and surveying inspections of credit-information security. Third, the PBC paid great attention to resolving complaints about the credit-information business. It formulated the *Cases on Credit-Information Rights Protection* and handled complaints or complaint letters on the credit-information business in accordance with the law to effectively safeguard the legitimate rights and interests of the information subjects and to provide the public with secure and accessible credit-information services.

Steadily promoted the overall opening-up of the credit-information industry

The credit-information market was opened up to the non-governmental sector. The PBC promoted the establishment of a universal credit-information system, allowed both the government and the market to play a role, and committed itself to promoting the market-oriented development of the credit-information sector. First, allowing the government to play a leading role during the early stage of development of the credit-information system. Operating for more than 10 years, the PBC Credit Reference Center has become the primary force in providing corporate and personal credit-information services and it has become the world's largest credit-information institution. By the end of 2018, the credit reference system had collected information on 982 million natural persons and 25.82 million enterprises and other organizations, and had collected 1.07 billion entries regarding non-financial information. Second, opening up the credit-information market to non-governmental players. Currently, more than 80 percent of the 125 enterprise credit-information institutions and 97 credit-rating agencies have been established by non-governmental forces. In 2018, the personal credit-information market was also opened up to the non-governmental sector, and all the founding shareholders of Baihang Credit Scoring, a personal credit-information institution, came from the non-governmental sector.

The credit-information market was opened up to the overseas market. First, opening up the credit-rating market. The PBC guided Standard & Poor's, the Moody's, and the Fitch Ratings to conduct business in the Chinese market, promoted integration of domestic resources in the credit-rating market, and took measures to improve the competitiveness of domestic credit-rating agencies. Second, opening up the enterprise credit-information market. Shanghai Huaxia Dun & Bradstreet Corporation and Experian Credit Service (Beijing) Co., Ltd., invested in China by Dun & Bradstreet in the United States and Experian Information Solutions, Inc. in the UK respectively, completed registration as enterprise credit-information institutions and were approved to conduct enterprise credit-information business in China.

Strengthened regulation of the credit-rating market and promoted the regulated development of credit rating agencies

First, development of rules and regulations regarding credit rating was accelerated. To address the absence of credit-rating regulations, the PBC promoted the release of the *Temporary Methods for the Administration of the Credit Rating Industry* and studied the development of supporting rules, such as the *Method for the Registration of Credit Rating Agencies*. Second, efforts were made to coordinate and promote compatibility between regulatory standards and law enforcement benchmarks based on a division of responsibilities. Third, work was done to explore setting up and relying on external rating and risk control committees to play their self-disciplinary roles, and meetings were held with such committees. Fourth, the PBC comprehensively organized and promoted internal (enterprise) credit ratings. In 2018, a total of 32 000 enterprises were reported and 24 000 of them had completed their ratings in the PBC credit-rating system. Fifth, the PBC guided its branches to strictly administer the registration of credit-rating agencies and to enhance regulation during the process and thereafter. The PBC organized registered credit-rating agencies to conduct self-examinations of compliance and to choose important agencies for examination to regulate the business conduct of the credit-rating agencies.

Promoted overall development of a social credit system

First, the PBC took full advantage of its role as the leading authority at the inter-ministerial meeting to establish a social credit system and to enhance coordination with the relevant authorities in improving and promoting social integrity. It cooperated with the National Development and Reform Commission (NDRC) and other authorities in establishing joint reward and punishment mechanism where by honest behavior would be rewarded and dishonest actions would be punished. The PBC, together with the NDRC, released the *Notice on Enhancing Credit Regulation of Dishonest Subjects* and cumulatively signed and released, together with members of the inter-ministerial meeting, more than 50 memoranda on cooperation of joint rewards and punishments, so as to create a favorable environment for social integrity and optimize the business environment. Second, the PBC comprehensively promoted the development of a credit system for small and micro enterprises (SMEs) and for rural areas. It built a mechanism for collecting information on SMEs and rural households, for credit ratings, and for information applications, and guided and promoted financial institutions and government authorities to develop relevant policies and measures to support credible SMEs and rural households to receive financing, to lower their financing costs, and to improve the local credit environment. As of the year-end, information on 2.61 million SMEs throughout the country was added to the database and a total number of 544 000 SMEs received bank loans with a total balance of RMB11 trillion. A cumulative 184 million rural households built up their credit files and 97 million rural households received bank loans with a balance totaling more than RMB3.4 trillion. Third, the PBC promoted publicity on credit-information. It launched the special campaign regarding “Credit Record Day on June 14” in celebration of the fifth anniversary of implementation of the *Regulation on the Credit-Information Industry*. With support from the media such as the People’s Daily, the Xinhua News Agency, the CCTV, the Economic Daily, the Financial Times, the Science and Technology Daily, and China Finance, the PBC hosted a media salon on credit-information administration to guide public opinion. The PBC participated in a series of publicity campaigns on “Ten thousand miles to build social integrity,” hosted by the Ministry of Publicity of the Central Committee of the CPC, and supported by the Central Committee of the Communist Youth League to organize a program of “Integrity lighting up China”. A total of 81 000 publicity and educational programs on credit-information were organized within the PBC system in 2018, and they were attended by more than 15 million people. Fourth, the PBC actively improved the business environment. In Doing Business, released by the World Bank, China received a full score in the credit-information index for three consecutive years, which significantly improved China’s international ranking in terms of its business environment.

Column

Central Bank Internal (Enterprise) Rating

Central bank internal (enterprise) rating (hereinafter referred to as the "central bank internal rating") refers to the central bank's comprehensive evaluation of the credit profile of enterprises bearing a credit relationship with financial institutions by combining qualitative and quantitative analytical methods based on factors such as financial position and operation environment. Financial institutions can use loans to qualified enterprises as collateral when applying for central bank lending and other financial support from the central bank.

International experience shows that the central bank internal rating is the core of the central bank collateral management system, an important way to assess the value of credit assets collateral with a low degree of marketization, and an integral part of the implementation mechanism for monetary policy. The results of the central bank internal ratings can be used not only for financing pledged with credit assets but also in monetary-policy operations and macro-prudential management. They play an important role in improving monetary-policy transmission channels, serving the financing needs of small and micro-enterprises, maintaining national financial stability, and strengthening macro-economic analysis.

The PBC actively explored and practiced central bank internal ratings

At the end of 2012, the PBC initially established a multi-tiered central bank collateral management framework. In 2014, it launched a pilot program for credit-asset pledges and central bank internal rating in an attempt to establish a central bank internal rating system. The Ji'nan Branch and Guangzhou Branch were selected to carry out the pilot projects. In 2015, the pilot program was expanded to the Shanghai Head Office, six other branches, and two operations offices. In 2018, it was expanded nationwide.

After five years of exploration and practice, the PBC internal rating has gradually matured from scratch. First, an organizational mechanism has been set up for the linkages between the headquarters and the branches of the PBC and for coordination among the PBC, the central bank rating agencies, and financial institutions. Second, the PBC has formulated the institutions and operating procedures for central bank internal ratings. It issued the *Guidelines for Implementing Central Bank Internal (Enterprise) Ratings* and the *Standards for Quality Control of Central Bank Internal (Enterprise) Ratings*, which determine the procedures for central bank internal ratings, define the responsibilities of the participants in the central bank internal ratings, and establish normative standards for each business link. Third, a rating method featuring a combination of quantitative and qualitative evaluations has been formulated. The quantitative evaluation reflects the financial strength of an enterprise, which mainly includes four aspects, namely, the financial structure, solvency, operational capability, and profitability. The qualitative evaluation includes six aspects, namely, the business environment, industrial status, competitive position, internal management, reputation, and development prospects. The rating scores are based on the hundred-mark system and they are divided into 10 grades, among which the credit assets of enterprises with a rating of "acceptable" and above can be qualified collateral. Fourth, quality controls, conflict prevention, and supervision and management of central bank internal ratings have been strengthened, which has comprehensively enhanced the objectivity, independence, and scientificity of central bank internal ratings. Fifth, the central bank internal rating system has been developed to improve the efficiency and quality of information collection for central bank internal ratings.

Positive results have been achieved in central bank internal ratings

The internal rating results have played an active role in safeguarding the asset security of the PBC and in serving the financing of small and micro enterprises. First, the continuous expansion of the coverage of monetary-policy instruments has been promoted. The number of locally incorporated financial institutions and enterprises participating in central bank internal ratings has been increasing, and the number and amount of central bank lending guaranteed by credit assets have increased steadily. In 2018, the central bank internal rating system uploaded a total of 32 000 enterprises, and 23 700 enterprises were rated, among which the number of enterprises with a final rating of “acceptable” and above was 15 000. A total of 170 cases of central bank lending guaranteed by credit assets was issued to 119 locally incorporated financial institutions based on central bank internal ratings, with a total amount of RMB20.94 billion. Second, central bank ratings have played an active role in serving the financing of small and micro enterprises. The PBC has clearly put forward the priority of accepting small and micro enterprise loans as collateral to guide locally incorporated financial institutions to increase financial support for small and micro enterprises. The participating enterprises and financial institutions were mostly small and micro enterprises, and small local financial institutions. Among the graded enterprises, small and micro enterprises accounted for 86 percent of the total. Among the locally incorporated financial institutions involved in central bank internal ratings, rural commercial banks, village banks, rural credit cooperatives, and urban commercial banks accounted for 52 percent, 21 percent, 14 percent, and 13 percent respectively. By the end of the year, there were 15 000 enterprises rated “acceptable” and above, including 12 500 small and micro enterprises. Loans to small and micro enterprises held a larger share of the eligible collateral, reflected both in the total amount and in the percentage.

ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

The reforms of regulatory institutions and mechanisms for anti-money laundering, combating the financing of terrorism, and anti-tax avoidance were deepened

The PBC and other members of the Inter-Ministerial Joint Conference on Anti-Money Laundering (AML) implemented the *Opinion on Improving the Regulatory Framework for Anti-Money Laundering, Combating Financing for Terrorism, and Anti-Tax Avoidance* published by the General Office of the State Council, and achieved preliminary outcomes. The PBC, the CBIRC, the CSRC, and the SAFE convened a national financial sector AML work conference to discuss how to strengthen work on AML and to combat financing of terrorism (CFT) in the financial sector in the new era. The first national money laundering and terrorist financing risk assessment report was completed. Joint regulation of AML was launched on a trial basis together with financial regulators expanding the regulatory scope of AML/CFT in certain non-financial sectors. An inter-agency ad hoc campaign, which achieved remarkable results, was launched to crack down on money laundering, terrorist financing, and upstream crimes with remarkable outcomes.

Engaged in the AML and CFT mutual evaluation on China conducted by the Financial Action Task Force (FATF)

The PBC and members of the Inter-ministerial Joint Conference on AML overcame difficulties and completed most of the key tasks for the mutual evaluation. From January to April, the PBC played a leading role in several rounds of the centralized assessment, and written documents totaling more than 4 000 pages, including answers to questionnaires on compliance and effectiveness, relevant laws and regulations, and some cases, were submitted to the evaluation team on schedule.

In July, the PBC coordinated an on-site visit by the evaluation team to Beijing, Shanghai, and Shenzhen by arranging 66 meetings between the evaluation team and 928 personnel from 113 Chinese public and private entities. From August to December, the PBC conducted technical consultations with the evaluation team to improve the mutual evaluation report. During the consultations with the evaluation team in Washington DC in December, the Chinese delegation made breakthroughs in raising the ratings of several indicators, which laid a solid foundation for endorsement of China's mutual evaluation report at the FATF plenary meeting.

Further improved AML institutional arrangements

The PBC amended the *Administrative Measures for Financial Institutions' Reporting of Large-Value and Suspicious Transactions*, issued documents on large-value transaction reports by non-bank payment institutions and the identification of beneficial ownership, and led the work on releasing the *Administrative Measures for Anti-Money Laundering and Combating Financing of Terrorism by Internet Finance Institutions (Provisional)* to tighten the regulatory requirements. The PBC published guidance and measures for incorporating financial institutions to manage money laundering and terrorist financing risks and to urge these financial institutions to tighten risk management. Efforts were also made to enhance the AML institutional framework in certain non-financial sectors and to further regulate AML enforcement.

Intensified accountability for AML supervision and enforcement accountability

First, continuously intensifying AML enforcement and accountability. The PBC adopted a risk-based approach, launched innovative patterns of law enforcement, and improved inspection accuracy and efficiency through big data. Some PBC branches conducted joint AML law enforcement inspections with other regulatory authorities and achieved preliminary results. In 2018, 1 569 institutions were inspected for AML and non-compliance cases were addressed in line with the relevant rules and regulations with total penalties amounting to RMB166 million. The tight regulation stance was intensified.

Second, the PBC focused on improving the levels of compliance and risk management of responsible institutions. The PBC conducted ratings on the AML efforts by incorporated responsible institutions and reviewed AML measures adopted by payment agencies before renewing their payment licenses. The PBC assigned a rating to 42 678 institutions, assessed the risks of 747 institutions, questioned 922 institutions, conducted regulatory talks with 2 190 institutions, and paid regulatory visits to 4 827 institutions. Communications were strengthened with the relevant institutions in certain non-financial sectors, such as real estate, certified accountants, and lawyers. AML policy outreach and fundamental regulatory work were also conducted.

Conducted AML investigations and monitored transactions

The PBC conducted an in-depth analysis of the typology of money laundering, tried to improve its indicator system for analyzing the typology of regional money laundering, issued risk alerts on terrorist fund transfers and tax-related money laundering, and offered guidance to responsible institutions on risk prevention. The PBC further strengthened CFT by developing a watch list of entities with suspected links to terrorism and guiding responsible institutions to improve their monitoring and analysis models. It also actively cooperated with the relevant authorities in ad hoc campaigns such as cracking down on gang crimes across the country, and it achieved with notable result.

In 2017, the PBC identified and received 13 467 clues about suspicious transactions and after screening opened AML investigation on 1 086 of them. It provided 3 648 clues to investigation authorities and assisted in investigating 2 663 cases. The PBC played an effective role in maintaining national security and social stability as well as in preventing and reducing financial risks by fulfilling its AML mandate, as it assisted in closing 540 cases of money laundering crimes.

The China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC) steadily promoted transparent monitoring of AML/CFT, pursued precision in monitoring, and further increased the activeness and effectiveness of funds monitoring of illegal economic and financial activities, which provided strong support for major ad hoc campaigns launched by the central government and for financial-risk prevention. AML monitoring was expanded from the traditional financial sector to certain non-financial institutions, such as the precious metal exchange. The second generation of AML monitoring and analysis system was put into operation, and great progress was made in developing a national AML database. In 2018, 3 941 reporting institutions submitted 1.60 million reports on suspicious transactions, a drop of 41.18 percent from 2017. The quality of the reports continued to improve, and data governance saw remarkable achievements.

Promoted international cooperation on AML

Echoing economic and financial diplomacy, the PBC actively participated in internal governance reforms, discussions of important issues, a fresh round of mutual evaluations and typology studies under multilateral organizations, including the FATF's internal governance reform, standard setting and revision, as well as the FAFT, the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), and the Asia/Pacific Group on Money Laundering (APG). The PBC assumed important roles, including FATF vice chair and chair of the EAG, amid its growing influence in international AML governance. Efforts were also made to deepen bilateral cooperation on AML. The PBC maintained regulatory cooperation channels with the US and the Hong Kong Special Administrative Region (SAR), and made substantial progress in negotiations on a MoU on AML regulatory cooperation with the Hong Kong SAR, the UK, Spain, and Chile. The CAMLMAC signed a MoU on financial intelligence exchanges and cooperation with financial intelligence units (FIUs) from 4 countries, including Myanmar.

FINANCIAL CONSUMER PROTECTION

Emphasized communication and collaboration and established a coordination mechanism

In order to enhance arrangements for financial consumer protection and facilitate communication and coordination, PBC and the CBIRC jointly established a coordination mechanism for financial consumer protection. Throughout 2018, four coordination meetings were held, which discussed and reached a consensus on the design, approach, items, and arrangements of the coordination mechanism. The relevant work has commenced.

Emphasized a top-down design in building an institutional framework

The PBC formulated the *Detailed Measures for Evaluating Financial Consumer Protection Institutions*, participated in formulating national standards such as the *Guidelines for Protecting Personal Financial Information* and the *Safety Requirement for Cross-Border Flows of Financial Data*, added financial consumer protection to the *Measures to Ban Illegal Financial Institutions and Illegal Financial Activities* and the *Regulations on Preventing and Resolving Illegal Financing*, followed and participated in the formulation of the *Regulations on Implementing the Law on the Protection of Consumers*, and set up application and punishment standards in the financial sector for the *Law on the Protection of Consumers' Rights and Interests*. Jointly with the CBIRC, the PBC issued industry standards in the form of the *Statistical Classification and Coding of Financial Consumers' Complaints: Banking Institutions*, and began formulating the *Statistical Classification and Coding of Financial Consumers' Complaints: Non-banking Financial Institutions*.

Emphasized institutional building and explored clean-ups of advertising

The PBC headquarters and branches participated in the Joint Meeting for Clamping Down on Illegal Advertisements, and relied on the joint meeting mechanism to clear-up advertisements. The PBC entrusted the National Internet Finance Association of China (NIFA) to monitor financial advertisements on nationwide Internet media, and jointly with the NIFA developed and launched a monitoring and management information system for financial advertisements. The PBC issued the *Procedures for Monitoring and Resolving Financial Advertisements*, encouraging the industry's self-disciplinary organizations to participate in the clean-up of financial advertisements. On the basis of monitoring and distinguishing financial advertisements, the PBC, through joint inquiries, focuses on and effectively resolves problematic advertisement platforms and advertisers.

Emphasized joint actions, provided financial education

The PBC, jointly with the State Administration of Press, Publication, Radio, Film and Television and the NIFA, made a promotional film for a public-service advertisement – *Distinguishing between True and Fake Advertisements* – which was shown on China Central Television (CCTV) on March 15. The PBC, the CBIRC, and the State Internet Information Office jointly launched activities, such as the "Month of Financial Literacy, Financial Awareness by Thousands of Households" and "Improve Financial Literacy, Be A Good Financial Netizen." In addition, the PBC also carried out a series of financial awareness activities, such as "Financial Consumer Day on March 15" and "Improve Financial Literacy, Keep Your Purse Safe." Meanwhile, the PBC instructed its branches to strengthen communication with local governments and educational agencies and to add financial knowledge to the public education system. Moreover, the PBC organized the compiling of *Traveling with Financial Creditworthiness*, a primary-school reading reference text to promote financial awareness among students.

Emphasized problem-oriented inspections

The PBC conducted a nationwide on-site inspection of financial consumer protection in the payment service industry, improved the off-site supervisory approach, refined the evaluation framework for financial consumer protection agencies, and promoted effective inspection evaluation, and correction mechanisms within financial institutions. In the meantime, the PBC continued to advance pilot assessment programs for financial consumer protection. Furthermore, the PBC strengthened case studies and risk alerts with respect to financial consumer protection and issued risk warnings to relevant institutions and consumers.

Emphasized coordination and improved complaint-handling procedures

The 12363 hotline for complaint and inquiry services continued to improve, achieving the target of "setting up provincial/municipal/district call centers across the country." Meanwhile, the PBC released quarterly reports on summary of financial consumers' complaints and typical cases. In addition, the PBC formulated the *Procedures for Handling Financial Consumers' Complaints*, advanced the establishment of an alternative third-party dispute settlement channel for financial consumers, and provided support to mediation agencies on financial consumer disputes.

Emphasized measures tailored to demand and to promote inclusive finance

The PBC further promoted the construction of an indicator system for inclusive finance. It issued the *2017 Analysis Report of China's Inclusive Finance Indicators* for the first time, and relentlessly advanced research on the indexation of inclusive finance indicators. The PBC provided guidance for local inclusive finance pilot programs and continued to support large- and medium-size commercial banks and locally incorporated banks in setting up inclusive finance departments to provide inclusive financial services. Meanwhile, the PBC enhanced international exchanges and cooperation in inclusive finance, and officially launched the Chinese program for the Financial Inclusion Global Initiative (FIGI).

Column

Out-of-Court Financial Consumer Dispute Third-Party Resolution Mechanism

On October 13, 2015, General Secretary Xi Jinping chaired the 17th Session of the Central Leading Group for Comprehensively Deepening Reforms. The *Opinions on Improving the Mechanism of Resolving Conflicts and Disputes in Multiple Ways* was deliberated and endorsed, requiring the PBC to take the lead in developing the out-of-court financial consumer dispute third-party resolution mechanism. In November 2015, the General Office of the State Council released the *Guiding Opinions on Strengthening the Protection of the Rights and Interests of Financial Consumers*, raising demands for building a third-party mediation and arbitration mechanism for financial consumer disputes and forming a mechanism for resolving disputes in multiple ways, including settlement, mediation, and litigation. According to the arrangements and requirements of the Central Committee of the CPC and the State Council, the PBC actively promoted the development of an out-of-court financial consumer dispute third-party resolution mechanism. Shanghai, Guangdong, Shaanxi, and Heilongjiang were the pilot provinces (municipality) that built mediation organizations at the provincial (municipal) level; Shandong and Guangdong were the pilot provinces that built mediation organizations at the prefectural (city) and county (city) levels. Good results were achieved as independent third-party mediation services were provided to all disputing parties in a fair, just, professional, efficient, economical, and convenient manner.

In November 2017, the PBC took stock of and evaluated the pilot work, identified a feasible model for an out-of-court financial consumer dispute third-party resolution mechanism, and considered the experience to be replicable and transferable. On this basis, different cities independently chose the appropriate model based on local conditions so as to forge ahead steadily and orderly and to ensure substantial results. In 2018, three provincial financial consumer protection associations (federations) were established in Fujian, Hainan, and Guizhou; five municipal financial consumer protection associations were established in Nanjing, Wuxi, Nantong, Yangzhou, and Suqian in Jiangsu province.

Meanwhile, the PBC guided financial consumer dispute mediation organizations to improve the work mechanism and innovative methodology so as to duly resolve the disputes. For example, the Financial Ombudsman Service Shanghai continuously improved the mechanism for rapid resolution of small claims and disputes, introduced a neutral evaluation mechanism, promoted and put into use an online mediation platform, and expanded the scope of the mechanism that connects litigation and mediation. It has been shown that the construction and operation of an out-of-court financial consumer dispute third-party resolution mechanism can ease the pressures on financial regulators to settle financial consumer disputes and can provide financial consumers with impartial, convenient, and economical dispute-resolving services. By offering a "pressure reducing valve" and "lubricant", the mechanism reduced the use of legal resources by small claims and financial consumer disputes.

INTERNATIONAL FINANCIAL COOPERATION AND GLOBAL ECONOMIC GOVERNANCE

Participate in and lead global economic governance process through platforms like G20 and IMF

The PBC pushed the G20 to implement the outcomes of Hangzhou Summit, promoted the coordination of macroeconomic and financial policies, and ensured a successful G20 Buenos Aires Summit. First, the PBC participated intensively in macroeconomic policy coordination, and urged all parties in G20, advanced countries in particular, to pay attention to the spillover effects of macroeconomic policies. Second, the PBC continued to improve international financial architecture, called on all parties to resolve differences and reinforce global financial safety net. Third, the PBC led the cooperation of the sustainable finance research group, and promoted the development of sustainable finance around the globe. Fourth, the PBC pushed the G20 to reach positive outcomes in topics such as financial sector reform, crypto-assets, inclusive finance, and infrastructure financing. Fifth, the PBC led actively and participated intensively in the discussion of reports by the G20 Eminent Persons Group on Global Financial Governance.

The PBC actively participated in all affairs of the International Monetary Fund (IMF), deepened cooperation with the IMF, and enhanced China's say and representation. The PBC strengthened its communication with the IMF and major countries, helped maintain the IMF quota and governance reform momentum, and pushed all parties to reach consensus on reform plans as soon as possible. In addition, the PBC conducted the Article IV midterm and annual consultations with the IMF where the IMF made objective and appropriate assessments about China's economic and financial development. Besides, the PBC actively participated in the IMF Spring and Annual Meetings, talked positively about Chinese economy, strengthened policy communication and coordination with all parties, and worked together to safeguard global economic and financial stability.

The PBC pushed all parties of the BRICS to implement the outcomes of Xiamen Summit and deepen financial cooperation. The PBC encouraged all parties of the BRICS to coordinate their positions on major international economic and financial policy issues and speak aloud as emerging market economies. In the meantime, the PBC amplified the achievements of the Xiamen Summit, strengthened the research capacity of the BRICS Contingent Reserve Arrangement (CRA), and called for the first CRA exercise. Furthermore, the PBC actively prepared for the establishment of the BRICS Local Currency Bond Fund, which would enhance BRICS countries' resilience against financial risks and improve global financial safety net.

Participate continuously in international finance reform, promote international rule and standard setting

The PBC strengthened cooperation with the Bank for International Settlements (BIS), participated comprehensively in the formulation and implementation of financial standards in international organizations such as the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), and promoted the alignment of domestic standards with international standards. The PBC continued to use the BIS as platform to discuss macroeconomic and financial policies and hot issues, and strengthened dialogue and cooperation with major central banks and regulators around the world. Meanwhile, the PBC supported and participated in the standard setting of the FSB and the BCBS, facilitated the implementation of Basel III, shadow banking regulation, OTC derivative reform, data gap and other regulatory measures, promoted the discussion of FinTech and cyber security. The PBC also monitored the implementation of relevant standards, and fostered the integration between domestic and international standards.

Promote financial integration along the Belt and Road, ensure the healthy and orderly development of 'Go Out' strategy

2018 marked the fifth anniversary of the Belt and Road Initiative proposed by Xi Jinping, General Secretary of the CPC Central Committee. The PBC vigorously promoted financial integration along the Belt and Road, and pushed the Belt and Road construction toward high-quality development through meticulous arrangements. First, the PBC actively implemented outcomes of the first Belt and Road Forum for International Cooperation, and prepared for the next forum. Second, the PBC officially launched the China-IMF Capacity Development Center (CICDC) in April 2018 jointly with the IMF, which would provide macroeconomic and financial training courses to countries along the Belt and Road including China, and support capacity building of these countries. Third, the PBC strengthened third-party cooperation, and explored third-party cooperation with international organizations such as the IMF and the European Bank for Reconstruction and Development (EBRD) and developed countries such as the United Kingdom within the framework of the Belt and Road. Fourth, the PBC continued to promote the expanding network of financial institutions and financial services, support a bigger role of development finance and equity investment, encourage more use of local currency, and ensure the sustainability of the Belt and Road construction.

The PBC also fostered the healthy and orderly development of 'Go Out' strategy. Above all, the PBC enhanced financial services to Chinese businesses going out. The PBC built and improved a financing framework with multiple channels, completed capital increase in the Silk Road Fund, and promoted the role of equity investment as leverage. The PBC also encouraged the development of overseas RMB funds, and boosted RMB internationalization. Second, the PBC strengthened regulation on financial support to Chinese businesses going out. The PBC improved institutional arrangements and urged financial institutions to establish effective binding mechanism, which aimed at clarifying risk and responsibility, strengthening risk assessment, encouraging scientific decision-making, and preventing and mitigating potential risks.

Strengthen regional financial cooperation, promote regional financial market development, and safeguard regional financial stability

The PBC actively participated in regular reviews of the Chiang Mai Initiative Multilateralization (CMIM), championed strengthening the CMIM's coordination and cooperation with the IMF, and safeguarded regional financial stability. Within the framework of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), the PBC strengthened regional economic and financial monitoring, promoted the Asian bond market development, and held the 55th EMEAP Deputies' Meeting and relevant meetings in Kunming, Yunnan province. The PBC engaged assiduously in the cooperation in the South East Asian Central Banks (SEACEN), and carried out well work related to Boao Forum for Asia, the Asia-Pacific Economic Cooperation (APEC), the Asia Europe Meeting, the Lancang-Mekong Cooperation, and Islamic finance.

Address properly the China-US trade tension, conduct pragmatically major dialogues, and strengthen bilateral financial coordination and cooperation

The PBC did well in work related to the financial track of the China-US trade negotiation, and continued to strengthen economic and financial cooperation with major economies such as the US, Europe, UK, Japan, and Russia through the existing bilateral dialogue mechanisms and platforms. Through dialogue mechanisms such as the Working Group between the PBC and the European Central Bank, the PBC promoted financial cooperation between China and Europe, and facilitated the establishment of the China-EU Co-Investment Fund jointly by the Silk Road Fund and the European Investment Fund. The PBC announced granting Japan a quota of RMB200 billion under the Renminbi Qualified Foreign Institutional Investors (RQFII) scheme, and signed bilateral local currency swap agreement as well as MoU on RMB clearing arrangement with the Bank of Japan. In addition, the PBC held the meeting of the Financial Cooperation Subcommittee of the China-Russia Prime Ministers' Regular Meeting Committee, which delivered a candid dialogue on pragmatic cooperation between China and Russia in the entire financial sector.

The PBC deepened financial cooperation with neighbouring countries, central and eastern Europe (CEE), African and Latin American countries. The PBC conducted bilateral financial cooperation with Singapore, Indonesia, Thailand and Vietnam at a proper pace. Meanwhile, the PBC participated actively in work related to the China-CEE Leaders' Sophia Summit and outcome preparation, held the meeting of central bank governors of China and the CEE countries jointly with the Hungarian National Bank, deepened financial cooperation with the CEE countries. In addition, the PBC engaged vigorously in the activities of the 2018 Forum on China-Africa Cooperation (FOCAC) Beijing Summit.

Forge ahead through innovation, and enhance pragmatic cooperation with multilateral development institutions

The PBC maintained close cooperation with the Inter-American Development Bank, and increased support to the Latin America through joint financing platform. The PBC, jointly with the EBRD, hosted the Belt and Road Central Asia Investment Forum, and strengthened cooperation with the EBRD and Central Asian countries under the Belt and Road Initiative. On the occasion of presidents of the African Development Bank, the Eastern and Southern African Trade and Development Bank (TDB) and the West African Development Bank (BOAD) attending the FOCAC in China, the PBC deepened its pragmatic cooperation with multilateral development institutions, and supported Chinese enterprises and financial institutions expanding economic, trade, and financial cooperation in Africa.

Column

Further Expanding the Opening-Up of the Financial Sector

The CPC Central Committee and the State Council attach great importance to the opening-up of the financial sector. The report to the 19th National Congress of the CPC clearly states that China should promote a comprehensive opening-up, significantly broaden market access, and further open up the services sector. At the April 2018 Boao Forum for Asia, President Xi Jinping further stressed that China will significantly broaden market access and accelerate implementation of major measures sooner rather than later.

To implement the guiding principles of the CPC Central Committee and the State Council, the PBC worked closely with the CBIRC, the CSRC, and the SAFE to develop a timetable and road map for a further opening-up, and expeditiously rolled out opening-up measures, which resulted in a number of achievements.

A new round of measures was announced in the banking, securities, and insurance sectors. First, foreign ownership caps were removed or relaxed. The cap on foreign investments in banks and asset-management companies was removed. There is no placed in newly established asset-management companies or wealth-management companies by commercial banks. The ownership caps in securities firms, asset-management companies, futures companies, and life-insurance companies were increased to 51 percent and they will be removed in 2021. Second, market access for foreign-funded institutions and businesses was broadened. Foreign banks are allowed to set up subsidiaries and branches in China. The requirement that foreign-funded banks should be in operation for one year before applying for RMB business was abolished, as was the two-year requirement for foreign insurance institutions to operate as representative offices before their formal establishment. Eligible overseas investors are allowed to operate insurance agent and adjustment businesses. Third, the business scope of foreign-funded institutions was expanded. The branches of foreign banks are allowed to act as agents to issue, redeem, and underwrite government bonds. The threshold of a single RMB retail time deposit in the branches of foreign-funded banks was lowered to RMB500 000. The methods for foreign-funded firms to handle non-performing assets were actively expanded. Domestic and foreign-funded securities firms and insurance brokerage companies are treated equally, as restrictions on the business scope of these foreign companies have been lifted. Fourth, the supervisory rules over foreign-funded institutions have been optimized. Assessments of the branches of foreign-funded banks have been consolidated, the administrative measures on the working capital of foreign-funded branch banks have been adjusted, and foreign-funded management banks are now allowed to authorize qualified branches to conduct RMB business and derivative trading.

Other measures were also introduced to promote the opening up of the financial sector. The market access restrictions on credit investigations, credit ratings, payments and other areas have been gradually eased. Foreign-funded institutions are allowed to carry out corporate credit investigations and credit ratings in China, and market-access policies for foreign-funded bank card clearance institutions and non-bank payment institutions have been specified, granting foreign institutions national treatment.

The bond market saw progress in the extent and quality of the opening-up. The institutional arrangement for overseas institutions to issue bonds onshore has been improved, as overseas issuers are allowed to flexibly choose the accounting principles and their interest income from the onshore bonds market is exempt from the corporate tax and the value-added tax. Trading under the Bond Connect is settled on a Delivery versus Payment (DvP) basis, which will increase settlement efficiency. In March 2018, Bloomberg announced its decision to add Chinese bonds to the Bloomberg Barclays Global Aggregate Index as of April 2019.

As this round of financial-sector opening-up measures surpasses previous rounds, both in terms of policy intensity and coverage, foreign-funded financial institutions will participate in China's financial system more extensively and the international competitiveness of China's financial sector will grow markedly. Moving forward, China will continue to follow three principles with respect to the opening-up of the financial sector. First, pre-established national treatment plus a negative list will be implemented. Second, the financial sector opening-up will move ahead with the reform of the foreign-exchange formation mechanism and the convertibility of the capital account. Third, prevention of financial risks will be emphasized so that the supervisory capability will match the openness of the financial sector. China will take the initiative and orderly expand the opening-up of its financial sector, enhance the resilience and competitiveness of its financial sector, and promote financial stability and sound economic development.

THE MAINLAND'S FINANCIAL COOPERATION WITH THE HONG KONG SAR, THE MACAO SAR, AND FINANCIAL SECTOR INTERACTIONS WITH TAIWAN

Cooperated financially with the Hong Kong SAR and the Macao SAR

The PBC steadily promoted the development of RMB business in the Hong Kong SAR. In September 2018, the PBC and the Hong Kong Monetary Authority (HKMA) signed a *Memorandum on Cooperation in Using HKMA-CMU for Placement of PBC Bills*, with a view to enriching high credit rating RMB-denominated financial products and improving the RMB bond yield curve in Hong Kong. In November, the PBC auctioned RMB20 billion central bank bills through the HKMA-CMU, with 3-month and 1-year bills being RMB10 billion each and with bid-winning interest rates of 3.79 percent and 4.20 percent respectively. As of the end of 2018, outstanding RMB deposits in Hong Kong registered RMB615.02 billion, up by 10 percent year on year. Throughout 2018, Hong Kong conducted RMB6.43 trillion in RMB transactions with the Mainland, accounting for 40.62 percent of all cross-border RMB transactions, the largest amount among all countries and regions.

Efforts were made to strengthen financial regulatory cooperation with the Macao SAR. In August 2018, the PBC signed with the Macao Monetary Authority (MMA) the *Memorandum on Cooperation in Related Financial Policies and Financial Regulations*, which specified ways to strengthen cooperation regarding approval of incorporation and regulation of financial institutions in Macao and related information-sharing as well as supporting the Macao SAR Government to develop green finance, mobile payments, and Fintech. At the end of 2018, outstanding RMB deposits in Macao posted RMB44.81 billion, an increase of 21.6 percent year on year. Throughout 2018, RMB transactions between Macao and the Mainland totaled RMB323.53 billion, accounting for 2.04 percent of the total cross-border RMB transactions with the Mainland, the ninth largest amount among all countries and regions.

The Bond Connect scheme performed well and continued to improve. The PBC reduced the fee for the Bond Connect trading platform in July 2018 and expanded the number of market makers to 34. In August 2018, all transactions through the Bond Connect could be settled in the form of DVP (delivery versus payment), tax issues related to overseas investors were further clarified, and the sub-positioning of large-value bond transactions was launched. In September 2018, Mainland and Hong Kong securities regulators officially kicked off a see-through mechanism for northbound investors under the Shanghai–Hong Kong Connect and the Shenzhen–Hong Kong Connect programs. As of end-2018, 34 domestic market makers concluded transactions with 229 overseas investors for a total of RMB1.16 trillion, with the average daily turnover posting RMB3.16 billion. Overseas investors held RMB180 billion in bonds through the Bond Connect.

Financial support was given for the development of the Guangdong-Hong Kong-Macao Greater Bay Area. The PBC established a working group for promoting development of the Guangdong-Hong Kong-Macao Greater Bay Area, which elaborated on the policy issues, attached importance to both near-term and long-term demand, and actively coordinated policy implementations.

High-level financial dialogues with Hong Kong and Macao continued. In 2018, Governor Yi Gang met with Mr. Paul Mo-po Chan, Financial Secretary of Hong Kong, and Mr. Norman Chan, Chief Executive of the HKMA. Deputy Governor Chen Yulu met with participants in the Hong Kong Finance Young Professionals Program. Deputy Governor Pan Gongsheng met with Eddie Yue, Deputy Chief Executive of the HKMA, Leong Vai Tac, Secretary for the Economy and Finance of Macao, and a delegation of the Hong Kong Association of Banks. Deputy Governor Fan Yifei met with Mr. Howard Lee, Deputy Chief Executive of the HKMA. In-depth discussions were held on topics such as development of the Guangdong-Hong Kong-Macao Greater Bay Area, internationalization of the RMB, the interconnectivity of capital markets, as well as economic and financial development of Hong Kong and Macao.

RMB business and financial sectors interacted with Taiwan

RMB business in Taiwan remained basically stable. The PBC signed with the Bank of China Taipei Branch an *Agreement on the Clearing of RMB Business*. As of end-2018 outstanding RMB deposits posted RMB298.44 billion (including transferrable term certificates of deposit). In 2018, RMB settlements by RMB business participating banks registered a cumulative USD123.66 billion.

Financial exchanges across the Taiwan Strait continued to grow. The 23rd Seminar on Financial Cooperation across the Taiwan Strait was held in Taipei. It was co-hosted by the China Society for Finance and Banking, Chung-Hua Institution for Economic Research, and other institutions. Ms. Zhang Xiaohui, Deputy Director of the China Society for Finance and Banking, led a delegation of 29 financial-sector practitioners from the Mainland to attend the seminar. Participants exchanged views on financial inclusion, financial support for small and micro businesses, cross-border electronic payments, and regulatory technology, among others.

HUMAN RESOURCES

Staff composition

As of end-2018, the number of PBC staff totaled 125 357, including 17 548 staff at China Banknote Printing and Minting Co. Ltd. and its subsidiaries.

Among this total, 45 400, or 36.22 percent of the staff, are female. 1 225, or 0.98 percent, of the staff hold PhD degrees, 16 084, or 12.83 percent, hold master's degrees, and 71 642, or 57.15 percent, hold bachelor's degrees. Among the staff at the PBC Head Office, 161, or 22.55 percent, are PhD degree holders, 436, or 61.06 percent, are master's degree holders, and 103, or 14.43 percent, are bachelor's degree holders. In 2018, 5 728 new staff members were recruited from among new graduates and experienced job applicants, and 5 027 staff members retired.

In terms of the organizational structure, among the PBC staff, 714 are in the PBC Headquarters (including staff in PBC entities managed by the Civil Servant Law), 699 are in the Shanghai Head Office, 2 003 are in PBC subsidiaries and agencies, 6 296 are in branches and operational offices (including the operational offices of the branches), 8 844 are in sub-branches in provincial capital cities, 1 392 are in sub-branches in provincial-level municipalities, 43 847 are in sub-branches in prefectural-level cities, and 43 267 are in county-level sub-branches.

In terms of the age structure, 23 325 are under 30 years old, 12 018 are in the range of 31 to 35 years old, 10 533 are in the range of 36 to 40 years old, 14 030 are in the range of 41 to 45 years old, 27 457 are in the range of 46 to 50 years old, 22 598 are in the range of 51 to 55 years old, and 15 396 are over 55 years old.

Team-building

The PBC studied and implemented Xi Jinping Thought on Socialism with Chinese Characteristics in a New Era (hereafter cited as "The Thought") as well as the direction of the 19th CPC National Congress, and enhanced CPC supervision of officials and set high standards for PBC officials to provide strong organizational and personnel support so as to fulfill its responsibilities in the new era.

First, the PBC studied and implemented "The Thought" and the essentials of the 19th CPC National Congress. The PBC also enhanced party building, facilitated "Studies on Theoretical and Practical Issues in Party Building" on a daily basis, and improved the party organizational network within the PBC. PBC Party Committees at all levels and all party members thoroughly studied and implemented "The Thought" and the essentials of the 19th CPC National Congress, and strengthened theoretical training within the party. In accordance with the *Opinions on the Term of Party Local Agencies* of the General Office of the CPC Central Committee, the election mechanism for local party agencies was refined to improve efficiency. In light of *the Regulations on CPC Branches (Tentative)*, CPC branches within the PBC were further enhanced by organizing regular activities of party committees at all levels in an effort to establish a favorable political environment. Party members are well educated and well supervised to enhance their sense of responsibility in the new era.

Second, following the spirit of the National CPC Meeting on Organization, the PBC cultivated loyal, conscientious, and well-educated talent by strengthening party supervision of officials. Based on its actual duties, the PBC improved its personnel mechanism for training, assessing, selecting, appointing, managing, and providing incentives in order to cultivate sufficient and active professional officials who implement "The Thought", remain loyal to the party, and satisfy the requirements of the party. In 2018, 51 director-generals or deputy director-generals were appointed, and 67 director-generals were moved to parallel positions. 15 heads of departments, bureaus, direct affiliates, and other units and 7 principals of department-level branches and sub-branches were appointed. In the Headquarters, 52 officials were sent on exchanges to areas with difficult conditions or complicated circumstances or to the front-line of the financial market; 148 officials from the PBC system were exchanged with the Headquarters and the SAFE; 73 officials from PBC branches and sub-branches were exchanged between the East and the West; 39 officials and 48 young volunteers were seconded to Tibet, Xinjiang, and Qinghai; and 21 officials were seconded to the Headquarters.

Third, the PBC enhanced its supervision of official selection and appointment and refined the regular supervisory system to improve rule-based administration. Focusing on compliance with political discipline and rules as well as implementation of decisions and arrangements of the Central Committee, the central bank reinforced supervision of the heads of offices and officials in key departments and in critical positions. Problems that indicated negative trends in official selections and appointments, or personal matters in inspections and tip-offs were disposed of. Supervision of official selections and appointments was integrated with inspections. In 2018, official selections and appointments of 20 subordinates were supervised and inspected to rectify common practices. The PBC released a series of rules, such as the *Measures for Officials to Work in Both Leading Positions and at the Grass Roots, Guidance on the Strict Separation of the Public and the Private in Staff Performance,* the *System to Challenge Performance,* the *Regulations on Accountability*, and the *Provisions on Welfare for Officials Exchanged to Other Places*, laying a regulatory foundation for the management and supervision of officials.

Fourth, the PBC enhanced team building of professional talent to provide personnel support to fulfill the PBC's duties. The PBC implemented *the Opinions on the Reform of the Professional Title System* of the central government and formulated detailed criteria for senior professional titles, improving the channels for talent development. The assessment system for senior professional and technical qualifications in the PBC was optimized. With anonymous assessments, 197 staffs obtained senior professional and technical qualifications for research, economics, accounting, engineering, political work, and publishing in 2018. By the end of the year, 6 533 staff had obtained senior professional and technical qualifications in the PBC system. In line with the major national talent projects, the PBC also promoted talent cultivation for international organizations.

Fifth, to implement the *National Plan for the Education and Training of Officials 2018~2022* and the principles of the National Meeting on the Education and Training of Officials, 8 symposia on studying and implementing the guiding principles of the 19th CPC National Congress were arranged for director-generals and directors. Training courses were arranged for all director-generals in the PBC as well as for all directors in the Headquarters and some directors in its direct affiliates. In 2018, 87 face-to-face training courses involving 56 000 person-days were held by the Headquarters, 16 online training programs with 435 new online courses were offered for more than 180 000 staff. The training of officials in the western and minority areas was intensified, and courses on financial reform, targeted poverty alleviation, and financial inclusion were included in the curricula in light of the economic development in the western areas. The "Internet +" mode was applied to improve training methods and participation, which further enhanced the effects of the training.

Sixth, the PBC constantly enhanced staff recruitment and team-building in its branches. Recruitment in branches was improved by more specialized, institutionalized, and scientific operations. Efforts were made to standardize and improve recruitment in branches, including providing unified eligibility criteria, regulating written examinations, establishing interview discipline, and dispatching interviewers.

INTERNAL AUDITS

Internal auditing work was steadily carried out

In 2018, the PBC internal auditing units focused on identifying risks and problems, conducted checks on internal auditing, effectively promoted rectification, and constantly improved its management capabilities to perform its duties.

First, follow-up audits were conducted on the implementation of major policies and measures. Taking the deepening of financial services for small and micro businesses (SMBs) as an example, the PBC made useful explorations on the content, organizational model, and resultant applications of these follow-up audits on policy implementation.

Second, audits were conducted on the economic responsibilities of leading officials, including the directors of some branches and sub-branches, the directors of affiliated enterprises and institutions, and the chief representatives of the overseas offices of the PBC. These audits focused on examining policy-making and policy execution in terms of budget management, financial revenue and expenditures, assets and liabilities, capital construction, and procurement management.

Third, budget management audits were conducted. Importance was attached to supervision of the compiling, distribution, and execution of the budget by the branches and sub-branches, to the implementation of the "eight-point frugality code" and the requirement to practice frugality and fight against waste, and to the compliance and efficiency of all kinds of financial revenue and expenditures, so as to enhance the quality and efficiency of budget management.

Fourth, audits of administration according to the law were conducted. They mainly focused on the performance of the duties of the branches and sub-branches in terms of administration according to law, examination of law enforcement, administrative penalties and information disclosures, and evaluating the legality, standardization, and effectiveness of administration according to the law so as to enhance the capability of administration and the performance of duties according to the law.

Fifth, specific audits were organized and conducted on contract management. The focus was the legal risks and secured rights and interests involved in the procedures, such as the signing, fulfillment, changes and dispute settlement of contracts. Efforts were made to prevent legal risks and to guarantee rights and interests concerning contract management so as to enhance the capability of the branches and sub-branches in contract management.

Sixth, specific audits were organized and conducted on the construction and management of application systems. The PBC paid attention to items such as organizational management, project initialization management, procurement management, development process management, and deployment management of new online systems. Efforts were made to assess the effectiveness and efficiency of the construction of the application system so as to improve the standardization, security, and effectiveness of the application systems built up by the branches and sub-branches.

Seventh, specific audits were conducted on security management. These audits paid attention to the guarding of the treasury, the transportation of cartridges, preserving the safety of technology, and management. By inspecting and evaluating the effectiveness and adequacy of the relevant internal controls, they promoted the branches and sub-branches to effectively perform their duty to safeguard security.

Eighth, audits were conducted on the security management of some information systems, which attached importance to the organizational management, environment and equipment management of the computer lab, network system management, application system management, operations and maintenance, disaster recovery, and emergency management. They enhanced the security, reliability, and sustainability of the information system.

Elementary work was constantly improved

With a view to better promoting standardized management and performance in compliance with the laws and regulations, the PBC promoted a deepened development of internal audits.

First, auditing rectification was intensified. The auditing department conducted face-to-face exchanges with the business divisions. This helped expand the scope and depth of the utilization of auditing results, and promoted source rectification. By strengthening auditing analysis, notifying of problems, and conducting follow-up audits, the PBC urged feasible rectifications. It summarized risk-related events and relevant institutional regulations involved in economic activities, and it provided risk warnings.

Second, the compilation of internal control reports was organized and implemented. By continuously building up an internal control framework, the PBC further optimized the environment for internal control, facilitated communication of information, and improved the internal control mechanism in terms of the budget, revenue and expenditures, procurements, assets, construction projects, and contract management so as to improve the internal control mechanism of economic activities throughout the system.

Third, risk evaluations of the internal auditing department were continuously conducted. The PBC sorted out the list of subjects and events to be evaluated for risks, specified the risk evaluation criteria, improved the methods of risk calculations, upgraded the risk evaluation management system, and further unified the evaluation criteria, so as to improve the quality of risk evaluations.

Fourth, continuous efforts were made to strengthen the build-up of auditing information. The PBC improved management of the use of the comprehensive management system for internal audits, improved the auditing analysis model, and promoted the application of computer-aided auditing technology in all kinds of audits to enhance the IT-based internal audit capacity.

FINANCIAL STATISTICS

New breakthroughs in key areas of comprehensive statistics in the financial sector

In April 2018, the General Office of the State Council issued the *Opinion on Promoting Comprehensive Statistics in the Financial Sector* (hereinafter referred to as the "*Opinion*"), which provided a policy foundation and basic norms for promoting comprehensive statistics in the financial sector in an all-round way. For the first time, it put forward a working mechanism for comprehensive statistics in the financial sector through single standards, synchronous collections, centralized verifications, and the sharing of data, which was of great significance in speeding up comprehensive financial statistics, supporting the real economy through financial services, preventing and controlling financial risks, and deepening financial reform.

The *Opinion* defined seven major tasks and two key supports, and it established a comprehensive financial-sector statistical framework from an institutional point of view. Considering both the urgency of policy needs and the feasibility of infrastructure development, it proposed to carry out key work step by step, in order to promote the comprehensive statistical work of the financial sector, not only to improve the quantity but also to achieve a qualitative leap. First, it established statistics on asset management products of financial institutions, formulated a statistical system and template of asset management products, and developed single statistical standards and full coverage of data collection. Second, it reinforced the database of the structural leverage ratio and the quarterly leverage ratio so that the policy of structural deleveraging was evidence-based. On the one hand, it realized quarterly monitoring of leverage data to provide more high-frequency data support for decision-making; on the other hand, it constructed structured leverage data through a breakdown by economic sector, enterprise ownership, financial instruments, regions, and maturities, so as to lay a data foundation for further strengthening the specialized leverage analysis. Third, it carried out special statistics on the private sector, small and medium-sized enterprises, green credit, inclusive finance, and precise poverty alleviation so as to provide important informational support for the credit policies. Inclusive finance and loan statistics for small and micro enterprises effectively supported the targeted effect of monetary policy and contributed to the increase in financing size, the decrease in financing costs, and the expansion of financing coverage. The PBC strengthened green loan statistics according to the concept of management guidance and compiled and published for the first time green loan data. The PBC scientifically evaluated the loans of private enterprises and accurately calculated the proportion of loans to state-owned and non state-owned entities, providing a reasonable basis for financial support to the private economy.

A focus on improving capacity building

First, the PBC attached great importance to the quality of data, constantly improved statistical management, and strictly audited the quality of statistical reports. During the year, the PBC conducted comprehensive statistical law enforcement inspections of 2 300 financial institutions, evaluated and improved statistical analysis and monitoring work, and promoted data quality. Second, the PBC improved the methodology for money and total social financing (TSF) statistics in order to meet the actual needs of monetary policy. In 2018, the PBC improved the statistical method for money market funds in the money supply, replaced money market fund deposits (including CDs) with money market funds held by non-depository institutions, and included three indicators in the TSF statistics, including asset-backed securities of depository financial institutions, loan write-offs, and special local government bonds. Third, the PBC compiled a balance sheet for the financial sector and completed the accounting and consolidation of financial transactions in various departments on the national balance sheet. It compiled quarterly summaries of assets and liabilities in the financial sector. Under the framework of the SNA2008, the PBC further improved the index setting, compilation principles, and valuation techniques of financial-sector balance sheets, and expanded the scope of statistical institutions. It completed the 2015 financial sector balance sheet. Fourth, the PBC coordinated and improved the statistical framework and the system of bonds. It actively promoted data reporting of individual bond transactions and direct reporting of asset-backed securities by stock exchanges, and it established a data-sharing mechanism for overseas bond issuances by residents. Fifth, the PBC compiled a social flow of funds (stock) accounting table in 2017, examined the semi-annual accounting for the first time, actively carried out analysis and application of the savings rate and other issues, and provided solid basic data for the construction of a financial CGE model. Sixth, the PBC rolled out research on the framework for the construction of the database on national financial infrastructure. It began preparatory work for completing in the international statistical template for the SIFIs and established a statistical plan for first launching a pilot project, and focusing on important areas. A statistical reporting system for financial holding companies took shape, which laid a foundation for comprehensively developing a statistical framework for financial holding companies.

In-depth monitoring and research on fundamental issues

The PBC conducted an analysis of enterprise financing demands, financial positions, the bond market, and micro-financial data, and strengthened the application of and research on economic survey data. Through financial data, such as enterprise costs and profits, the PBC evaluated the effects of tax and fee cuts, social security contributions, and structural monetary-policy adjustments. The PBC organized and carried out a survey of financing conditions in 52 000 small and micro businesses, monitored financing demands, channels, availability, support coverage, and the cost of small and micro businesses during different credit intervals, and it provided data support for evaluating and improving policies on financing small and micro businesses. The PBC summarized the experience of the pilot survey on assets and liabilities of urban households, expanded the scope and quantity of the pilot survey, measured the household leverage ratio, monitored household solvency, and analyzed the robustness of the assets and liabilities of the household sector. The PBC expanded the survey of service enterprises to more comprehensively reflect sentiments in the real economy. The PBC improved the monitoring system of big data on housing prices, established a housing price monitoring system, and promoted regular surveys and the monitoring of pre-occupied house prices, real-estate inventories, and rents in major cities, so as to provide informational support for real-estate financial decision-making.

Focusing on key and topical issues, the PBC adhered to a problem-solving strategy and strengthened pre-research and pre-judgment of the economic situation. It made forward-looking judgments on key issues in economic performance, such as economic growth, consumption growth, and changes in the TSF growth rate. The PBC strengthened risk monitoring and analyzed the effects of deleveraging; sorted out and analyzed the leading economic indicators and forecast the development trends of the major economic indicators; and monitored the price changes in the wholesale sector, decomposed the structural characteristics of off-balance sheet financing and bond financing, and scientifically predicted movement of the TSF and money supply.

Column

Improving Statistics on Aggregate Financing to the Real Economy to Reflect Financial Support to the Real Economy

Aggregate Financing to the Real Economy refers to funding from the financial system to the real economy. Since its introduction in 2011, this indicator has played an important role in financial macro-controls. In recent years, China's financial innovations have developed rapidly, and changes in the relevant financial-system arrangements have accelerated. Therefore, in order to fully reflect the financial support to the real economy, it is necessary, if possible, to improve the index of Aggregate Financing to the Real Economy.

Since July 2018, the PBC has included asset-backed securities of depository financial institutions and write-offs of loans in the statistics on Aggregate Financing to the Real Economy.

Asset securitization is structured financing in which the sponsor trusts the underlying assets to the trustee, and the trustee issues the beneficiary securities to the investors in the form of asset-backed securities and pays the proceeds of the asset-backed securities with the cash flow generated by the assets. The basic assets of asset-backed securities of depository financial institutions are real-estate loans in support of the real economy. After securitization, the basic assets are off-balance sheet. If they are not included, the scale of Aggregate Financing to the Real Economy is not complete.

Loan write-offs refer to the lending financial institutions, in accordance with prudential accounting principles, writing off the loan principal with a loan loss provision. As the write-off of loans does not exempt or change the relationship between lenders and the borrowers' rights and debts, the write-off of loans by banks with their own capital also reflects the financial support of financial institutions to the real economy, so it should be included in the statistics of Aggregate Financing to the Real Economy.

Since September 2018, local government special bonds have been included in the statistics of Aggregate Financing to the Real Economy.

Local government special bonds refer to government bonds issued by local governments for public welfare projects (such as land reserves, toll roads, shantytown renovations, etc.) with a certain income, which are repaid by government funds or special income corresponding to public welfare projects within a certain period of time.

The purpose of local government special bonds is to build public welfare projects (toll roads, rail transit, shantytown renovations, etc.) with cash flows, mostly held by financial institutions, which reflect financial support to the economy. According to the principle of "focusing on both the concept and the substance" in national economic accounting it is reasonable to include local government special bonds in the statistics of Aggregate Financing to the Real Economy. Furthermore, starting from August 2018, the issuance of local government special bonds was accelerated, and the replacement effect on bank loans and corporate bonds was enhanced. Including local government special bonds in the statistics of Aggregate Financing to the Real Economy better reflects the financial support to the real economy.

In general, asset-backed securities of depository financial institutions, loan write-offs and local government special bonds conform to the definition and statistical principles of Aggregate Financing to the Real Economy. Therefore, they are included in the statistics of Aggregate Financing to the Real Economy to better reflect the financial support to the real economy.

FINANCIAL RESEARCH

Deepened research on key economic and financial issues

In-depth thematic studies were carried out on the fiscal and tax systems, the financial regulatory regime, local government debt, the leverage ratio, the relationship between fiscal and financial policies, replacing the business tax with a value-added tax (VAT) in the financial sector, the property tax, a market-based interest rate adjustment mechanism, competitive neutrality, corporate governance, administration of state-owned financial capital, and the pension regime. Research was strengthened on international economic and financial issues, such as Sino-US trade tensions and WTO reform. The PBC also studied FinTech and RegTech as well as the financial history of China.

Published the 13th Five-Year Plan for the financial sector and prepared for the financial-sector exhibition on the occasion of the 40th anniversary of reform and opening-up

The PBC played a leading role in publishing the *13th Five-Year Plan for a Modern Financial System*, which reviewed the achievements in financial-sector reform during the 12th Five-Year Plan period, and put forward the strategic objectives and main tasks in financial-sector development during the 13th Five-Year Plan period as underpinned by a number of policy measures, which will serve as an important reference for future financial-sector reform, development, and opening-up. The mid-term evaluation of the 13th Five-Year Plan outline and major projects was completed. Preparations for the financial sector exhibition, as part of the exhibition celebrating the 40th anniversary of reform and opening-up, was a complete success.

Advanced the pilot of regional financial reform and vigorously bolstered economic and social development in Xinjiang and Tibet

The PBC conducted an in-depth study on measures for deepening financial reform and innovation in pilot free trade zones in the new era. It led the work in promoting financial support for the Pilot Free Trade Zone in Hainan (free trade port) and deepened the work related to the development of the Pilot Free Trade Zone in Shanghai. The PBC assisted in releasing important policies, such as deepening reform and innovation in the free trade zones and the action plan for building Shanghai into an international financial center, and it provided timely policy interpretations to the press. The PBC assisted other ministries in promoting regional financial reform, such as providing financial support for Hainan's comprehensive reform, the Guangdong-Hong Kong-Macau Greater Bay Area, the rejuvenation of Northeast China, and the Yangtze River Economic Belt. Policy assessments were made to provide financial support for social and economic development in Xinjiang, Tibet, and the Tibetan regions in four other provinces as well as for the development of southern Jiangxi province, which was once part of the Central Soviet Area.

Deepened the pilot reform and research on rural finance and inclusive finance

The PBC conducted an in-depth study on deepening the reform of rural credit cooperatives, financial innovation regarding the institutional reform of rural land ownership, private and micro business financing, digital financial inclusion, and the development of non-conventional finance and financial deepening. It intensified assistance and guidance for the regional reform of rural finance and inclusive finance, providing guidance to Lankao of Henan province in developing a special action plan for implementing digital financial inclusion. The *2018 China Rural Financial Service Report* was completed.

Promoted green finance with remarkable effects

The PBC published the *Evaluation Plan for Green Credit Performance in Depository Banking Institutions (Provisional)* and included the performance of depository financial institutions in issuing green loans and green bonds in the macro-prudential assessment (MPA) as part of the efforts to provide an incentive mechanism to encourage and promote green finance. It led the work on setting up a working group on green finance standards to develop a standard system for green finance. As the world's only official annual green finance development report, the *2017 China Green Finance Development Report* was published, which systematically introduced the outcomes of China's green finance development. The PBC assisted the National Development and Reform Commission in drafting the *2018 Green Industry Guidance Catalogue*, laying the foundation for unifying China's green bond catalogue. Green finance reform and innovation achieved active progress in five pilot provinces and autonomous regions, including Zhejiang, Guangdong, Jiangxi, Guizhou, and Xinjiang. The pilot program to provide financial support for clean heating as well as livestock waste treatment and utilization as a resource was steadily promoted.

Continuously improved the capacity for monitoring and analyzing economic, financial, and price developments

The PBC closely monitored the structure of money and credit aggregates, market interest rates, liquidity changes, the adoption and effects of various monetary policy tools, and monetary policy developments in major countries so as to provide references and policy recommendations for monetary policy decision-making and implementation. Efforts were made to assess macroeconomic developments, closely follow financial developments and monitor the impact of macroeconomic developments in other major economies on China. Price monitoring and analysis were conducted to continuously improve the capacity for inflation forecasting. The *Inflation Monitoring and Analysis Report* was published to help the monetary policy committee make informed decisions.

Achieved new progress in developing a national high-end think-tank

The PBC abided by the requirements of the Publicity Department of the Central Committee of the CPC regarding fostering national high-end think tanks and improving its information-reporting functions. It successfully completed annual research as a national high-end think tank and research on 100 enterprises on the occasion of the 40th anniversary of reform and opening-up. The publication series on China's Financial Forum was unveiled and the quality and social influence of such publications were further improved, including periodicals and the Almanac of China's Banking and Finance. Their academic influence grew significantly. The PBC hosted a number of high-quality academic events, including the 2018 Annual Academic Meeting of the China Society for Finance and Banking and the Annual Meeting of the China Financial Forum, and the Forum on Financial Accounting, taking advantage of the academic platforms provided by the China Society for Finance and Banking and the Financial Accounting Society of China.

Column

Further Progress in Green Finance

Since 2016, the development of China's green finance has experienced full-fledged acceleration, taking the lead in the world. Green finance has become an important concept in the financial sector, with more and more innovative developments in theory, policy, market, and practice.

As the general principle is clear, green finance is well on track

On August 31, 2016, the PBC and seven other ministries jointly issued the *Guidance on the Construction of a Green Finance System*, which clarify the overall principle for the construction and development of a green finance system, mainly embodied in the "four combinations": the combination of high-quality development in the real economy and effective risk prevention; the combination of the government's role in improving the institutional environment and the endogenous initiatives in the market; the combination of strengthening the top-level design by the central government and giving full play to innovations by local governments; the combination of highlighting Chinese characteristics and leading in participation international rule-making practices. Thus, the scale of the green finance market continues to expand. In 2018, the domestic entities issued green bonds totaling more than RMB260 billion, both at home and abroad. And outstanding domestic green bonds were close to RMB600 billion, ranking first in the world. Annual green loans increased by RMB1.13 trillion, accounting for 14.2 percent of new loans for enterprises and other units during the same period. By the end of the year, outstanding national green loans reached RMB8.23 trillion, an increase of 16 percent year on year. In addition, green funds, green insurance, green leasing, green PPP, environmental properties, and other products were booming, the various green finance market frameworks were gradually improving, and the green investors were gradually maturing and expanding.

Improved policies have provided a good environment for promoting the sustainable development of green finance

All relevant agencies cooperated with one other and built a relatively complete green finance policy system by adhering to market-oriented and sustainable principles and focusing on the cohesion and coordination of green finance with the relevant policies of green industry, environmental protection, and tax policies. In terms of monetary policy, the PBC has included qualified green credit and green bonds in the scope of qualified collateral for monetary policy operations; it issued the *Green Credit Performance Evaluation Scheme for Depository Financial Institutions (Trial)*, rolled out nationwide green credit performance evaluations for depository financial institutions, and incorporated the evaluation results into the Macro-prudential Policy Assessment System (MPA), so as to enhance the internal impetus of depository financial institutions to expand their green finance business. In terms of fiscal policy, the central government has set up a national green development fund, and some local governments have introduced fiscal discounts, bonuses, and tax incentives for green credit and green bonds. In addition, based on an innovative and enhanced pricing mechanism to promote green development, the cost of the ecological environment will be included in the cost of the economy, and a pricing mechanism and pricing policy framework favorable to green development will be generated by 2020.

The infrastructure has been enhanced to build a good ecosystem for the green finance market

Institutional arrangements are necessary for further market development. With respect to green finance standards, the PBC has taken the lead in setting up a working group on green finance standards. Bringing together regulatory authorities, market institutions, and research institutes, it aims to promote the build-up of a unified, internationally integrated, clear, and enforceable green finance standards system. The PBC initiated research on standards for green bonds and information disclosures, which are urgently needed to meet international standards and high criteria. With respect to the evaluation and certification of green finance, the PBC and the CSRC jointly promulgated the *Guidelines for Green Bond Assessments and Certification (Provisional)*, which regulate the agencies in terms of green finance evaluations, certifications, and their businesses. The Banking Association organizes and implements an evaluation of green banks in China's banking sector and standardizes the green credit business of banks with the help of industrial self-regulation. With respect to the statistical system, both the PBC and the CBIRC have established a special statistical system, providing a basis for banks to identify green credit. With respect to information disclosures, the PBC has issued a regulation regarding information disclosure of green finance bonds during their duration to reduce the information asymmetries of green finance bonds. The CSRC announced a target for information disclosures of listed companies to achieve three phases of mandatory information disclosures of all listed companies by the end of 2020 so as to enhance market transparency.

Pilot zones for green finance reform and innovation have been developed to promote green finance innovation

In June 2017, the State Council approved the establishment of pilot zones for green finance reform and innovation in Zhejiang, Guangdong, Guizhou, Jiangxi, and Xinjiang. During the past year, these pilot zones, with their respective emphases and characteristics, have creatively promoted various pilot projects based on their own situations and have gained initial results with a correct orientation and effective measures. The preliminary evaluation results show that more than 85 percent of the tasks in the overall scheme of the pilot areas have been launched, accumulating experience for further promoting green finance throughout the country.

International cooperation is fruitful to draw on international best practices and to share China's experiences

China has always actively participated in international cooperation in the field of green finance and has played an important role in promoting the formation of a global consensus on green finance. With our efforts, the G20 has been discussing green finance for three consecutive years and has established a research group co-chaired by the PBC and the Bank of England. In December 2017, the Network for Greening the Financial System (NGFS) between the central banks and the supervisory authorities was set up by eight countries, including France and China, to carry out exchanges and research in green finance. Under the bilateral frameworks of China and the UK, and China and France, green finance cooperation has been continuously promoted.

GOVERNMENT INFORMATION DISCLOSURES AND CENTRAL BANK COMMUNICATIONS

Promoted government information disclosures and increased central bank transparency

Following the requirement for the entire process disclosure of government information, the PBC actively promoted disclosure of decision-making, execution, administration, services, and results. On its official website, the PBC proactively disclosed its policies, regulations, reports, financial statistics, appointments, annual budgets, and final accounts, the "three official" spendings (spending on official overseas visits, official vehicles, and official hospitality), and public procurements in a timely manner. Disclosures of items that require administrative reviews and approvals, administrative authorization, and administrative penalties were conducted on a regular basis. In 2018, the PBC released 298 administrative authorizations, 5 administrative penalties, and 55 departmental regulations, normative documents, announcements, etc. In terms of disclosed regulations and normative documents, the PBC rendered implementation of policies more open and transparent by labeling disclosed documents that have been abolished or have expired. The "Government Transparency" column on the PBC official website was optimized in a way that updated guidance over government services, including the issuance of payment business licenses, the approval of qualified credit reference agencies that run personal credit reference business, the approval of the market maker in the interbank bond market, etc.

Government information disclosures and government services were deeply integrated. The PBC branches and sub-branches combined the reform requirement to streamline administration, delegate powers, and improve regulation and services with local characteristics. By attaching equal importance to online and offline services, PBC branches and sub-branches played an important role as windows of government services and strengthened cross-departmental coordination to implement the "Internet Plus Government Services" model. The connectivity between the construction of the PBC government service platform and the national government service platform was promoted.

The PBC also disclosed the handling of the results of suggestions from deputies to the People's Congress and proposals from members of the CPPCC. For suggestions and proposals that attracted extensive attention or that were related to national welfare and people's livelihood, the replies were fully disclosed. In 2018, the PBC fully disclosed 161 replies to suggestions and proposals.

Citizens' and legal persons' applications for the disclosure of government information were accepted and duly responded to in accordance with the law. For government information that requires by law a third-party opinion for disclosure, the relevant institutions were fully consulted. In 2018, the PBC duly disclosed 336 replies upon application in accordance with the law.

Enhanced policy release and interpretation to guide and stabilize market expectations

The PBC intensified its release of policies by disclosing major government policies and financial statistics in a timely and accurate manner. In 2018, over 40 000 pieces of information were released via the PBC official website. Development of the English website became a priority to improve information disclosures in English. The PBC's government affairs micro-blog posted 330 blogs on financial laws and regulations, monetary policies, the financial market, financial statistics, payments and settlements, anti-counterfeiting, currency issuances, credit reference management, and Internet finance, drawing the attention of more than 5 million blog users. The PBC also focused on improving the effectiveness of policy interpretation. It addressed social concerns in a timely and proactive manner through multiple channels, including news conferences, briefings, press interviews, special reports, and articles. During the 2018 NPC and CPPCC, the PBC governors attended a press conference on the theme of "Financial Reform and Development" and they responded to topical issues with authoritative interpretations. Governor Yi Gang and Secretary of the CPC PBC Committee Guo Shuqing were interviewed many times by the press, such as the *Financial News, Shanghai Securities News*, and *China Securities Journal* on cases such as the high volatility in the market. In this way, authoritative messages of the central bank were duly sent to the public to guide and stabilize market expectations. The news release system was further improved by holding quarterly news conferences. *The China Monetary Policy Report*, *Financial Stability Report*, and other reports compiled and issued by the PBC issued targeted responses to public concerns by offering authoritative interpretations of topical issues, such as the currency issuance mechanism, the reserve requirement ratio, regulation and transmission of interest rates, fluctuations in the RMB exchange rate, and information on preventing and defusing major financial risks. Meanwhile, by holding expert symposia, such as the symposia on corporate financial services, and the symposium for the press, the PBC paid much attention to understanding the major concerns and market feedback, listening to suggestions, enhancing communications with the public, and creating favorable conditions to better perform its duty.

New initiatives in terms of financial services were publicized, enabling the people to share the fruit of the reform of services. In 2018, financial reforms were carried out comprehensively. There was a steady improvement in financial services and increasingly strong support from the financial sector to serve the real economy. Centering on improving financial services and the people's livelihood, the PBC actively publicized information is closely related to the people's livelihood, including payments and settlements, cash management, development of the credit reference system, and risk controls for Internet finance. The general public was thus able to know, understand, and enjoy financial services comprehensively and deeply. The PBC also organized publicity activities, such as standardizing QR code payments, releasing reports on surveys and analyses of consumers' financial literacy, issuing standards for identifying RMB cash equipment, popularizing financial knowledge, showcasing achievements in inclusive finance, and so on, which enabled the public to understand the relevant policies in a timely and accurate manner.

STATISTICAL ANNEX

Selected Economic Indicators

(Year-End Balance)

RMB100 million

	2014	2015	2016	2017	2018
Gross Domestic Product (GDP)	641 281	685 993	740 061	820 754	900 309
Industrial Value Added	233 856	236 506	247 878	278 328	305 160
Fixed Asset Investments	512 021	562 000	606 466	641 238	645 675
Retail Sales of Consumer Goods	271 896	300 931	332 316	366 262	380 987
Urban Households	226 368	258 999	285 814	314 290	325 637
Rural Households	36 027	41 932	46 503	51 972	55 350
Exports & Imports (US$100 million)	43 015	39 530	36 856	41 071	46 227
Exports	23 423	22 735	20 976	22 633	24 868
Imports	19 592	16 796	15 879	18 438	21 359
Balance	3 831	5 939	5 097	4 196	3 509
Foreign Direct Investments (US$100 million)	1 196	1 263	1 260	1 310	1 350
Foreign Exchange Reserves (US$100 million)	38 430	33 304	30 105	31 399	30 727
Consumer Price Index (Previous year=100)	102.0	101.4	102.0	101.6	102.1
Government Revenue	140 350	152 217	159 552	172 567	183 352
Government Expenditures	151 662	175 768	187 841	203 330	220 906
Fiscal Balance (Negative figure indicates a surplus)	13 500	16 200	21 800	23 800	23 800
Per Capita Urban Household Disposable Income (yuan)	28 844	31 195	33 616	36 396	39 251
Per Capita Rural Household Disposable Income (yuan)	10 489	11 422	12 363	13 432	14 617
Number of Employed Persons in Urban Areas (million)	393.1	404.1	414.3	424.6	434.2
Registered Urban Unemployment Rate (%)	4.09	4.05	4.02	3.90	3.80
Total Population (million)	1 367.8	1 374.6	1 382.7	1 390.1	1 395.4

Notes: 1. National Bureau of Statistics is the main source.

2. GDP and industrial value added in this table are calculated at current prices, while their growth rates are calculated at constant prices.

Selected Economic Indicators

(Growth Rates)

Percentage Change

	2014	2015	2016	2017	2018
Gross Domestic Product (GDP)	7.3	6.9	6.7	6.8	6.6
Industrial Value Added	7.0	6.0	6.0	6.3	6.1
Fixed Asset Investments	15.3	9.8	7.9	7.0	5.9
Retail Sales of Consumer Goods	12.0	10.7	10.4	10.2	9.0
Urban Households	11.8	10.5	10.4	10.0	8.8
Rural Households	12.9	11.8	10.9	11.8	10.1
Exports & Imports	3.4	-8.1	-6.8	11.4	12.6
Exports	6.0	-2.9	-7.7	7.9	9.9
Imports	0.5	-14.3	-5.5	16.1	15.8
Balance					
Foreign Direct Investments	1.7	5.6	-0.2	4.0	3.0
Foreign Exchange Reserves	0.6	-13.3	-9.6	4.3	-2.1
Consumer Price Index	2.0	1.4	2.0	1.6	2.1
Government Revenue	8.6	8.4	4.5	7.4	6.2
Government Expenditures	8.2	15.8	6.4	7.7	8.7
Per Capita Urban Household Disposable Income (inflation-adjusted)	6.8	6.6	5.6	6.5	5.6
Per Capita Rural Household Disposable Income (inflation-adjusted)	9.2	7.5	6.2	7.3	6.6
Number of Employed Persons in Urban Areas	2.8	2.8	2.5	2.5	2.3
Natural Population Growth (‰)	5.2	5.0	5.9	5.3	3.8

Note: Same as the notes for the previous table.

Aggregate Financing to the Real Economy

Aggregate Financing to the Real Economy (Increment)

	2017		2018	
	Increment (RMB100 million)	Proportion (%)	Increment (RMB100 million)	Proportion (%)
Aggregate Financing to the Real Economy	223 970	100.0	192 584	100.0
Of which: RMB Loans	138 432	61.8	156 712	81.4
Foreign Currency–Denominated Loans (RMB equivalent)	18	0.0	-4 201	-2.2
Designated Loans	7 770	3.5	-16 067	-8.3
Trust Loans	22 555	10.1	-6 901	-3.6
Undiscounted Bankers' Acceptances	5 364	2.4	-6 343	-3.3
Net Financing of Corporate Bonds	4 421	2.0	24 756	12.9
Special Local Government Bonds	19 962	8.9	17 852	9.3
Domestic Equity Financing by Non-Financial Corporations	8 759	3.9	3 606	1.9

Notes: 1. Sources: PBC, CBIRC,CSRC, CCDC, and NAFMII.

2. Starting from July 2018, the PBC improved the methodology for statistics on aggregate financing to the real economy by including asset-backed securities of depository financial institutions and loan write-offs. Starting from September 2019, special local government bonds are included in the statistics. Special local government bonds in this table were compiled according to the date of registering debts and claims with custodians. The PBC adjusted the data on aggregate financing to the real economy in 2017 in line with the new methodology and calculated the year-on-year growth rate in comparable terms.

Aggregate Financing to the Real Economy (Stock), 2018

	Stock (RMB trillion)	Growth (%)	Proportion (%)
Aggregate Financing to the Real Economy	200.75	9.8	100
Of which: RMB Loans	134.69	13.2	67.1
Foreign Currency–Denominated Loans (RMB equivalent)	2.21	-10.7	1.1
Designated Loans	12.36	-11.5	6.2
Trust Loans	7.85	-8.0	3.9
Undiscounted Bankers' Acceptances	3.81	-14.3	1.9
Net Financing of Corporate Bonds	20.13	9.2	10.0
Special Local Government Bonds	7.27	32.6	3.6
Domestic Equity Financing by Non-financial Corporations	7.01	5.4	3.5

Notes: 1. Stock figures are calculated on the basis of book-value or face-value.

2. Sources: PBC, CBIRC,CSRC, CCDC, and NAFMII.

3. Starting from July 2018, the PBC improved the methodology for statistics on aggregate financing to the real economy by including asset-backed securities of depository financial institutions and loan write-offs. Starting from September 2019, special local government bonds are included in the statistics. Special local government bonds in this table were compiled according to the date of registering debts and claims with custodians. The PBC adjusted the data on aggregate financing to the real economy in 2017 in line with the new methodology and calculated the year-on-year growth rate in comparable terms.

Aggregate Financing to the Real Economy (Increment), 2018, By Region

RMB100 million

Area	Aggregate Financing to the Real Economy, By Area	Of which							
		RMB Loans	Foreign Currency–Denominated Loans (RMB equivalent)	Designated Loans	Trust Loans	Undiscounted Bankers' Acceptances	Net Financing of Corporate Bonds	Special Local Government Bonds	Domestic Equity Financing by Non-financial Corporations
Beijing	17 784	7 573	-330	-1 784	-334	-503	7 006	207	387
Tianjin	3 075	2 408	-104	-929	-192	66	704	791	11
Hebei	6 160	4 815	-54	-118	-145	-609	560	876	78
Shanxi	3 239	2 588	73	-333	-36	-185	527	246	8
Inner Mongolia	1 627	602	-16	129	138	332	-102	199	1
Liaoning	3 796	3 840	-225	-1 476	-50	1 086	-411	271	125
Jilin	1 510	992	-16	-175	-55	-82	183	276	17
Heilongjiang	1 218	837	-69	9	215	-241	-71	292	5
Shanghai	5 765	6 181	-782	-1 296	-1 074	-225	1 716	275	186
Jiangsu	17 699	13 574	-51	-1 890	-457	1 065	2 382	1 580	472
Zhejiang	19 499	15 490	-95	-364	167	7	1 544	939	384
Anhui	5 382	4 320	-104	-701	-255	-205	448	1 310	47
Fujian	5 620	4 631	-199	-613	-1 090	-135	992	669	133
Jiangxi	5 792	4 593	3	25	-158	-302	659	542	45
Shandong	9 225	7 251	-404	-887	-380	-1 074	1 401	1 409	191
Henan	7 794	6 088	70	-445	162	-52	480	600	31
Hubei	6 605	6 111	30	-626	-71	-787	551	703	124
Hunan	6 024	4 655	-77	40	42	-289	347	800	66
Guangdong	22 502	20 054	-1 651	-1 876	-788	-563	3 174	1 282	979
Guangxi	4 172	3 331	-9	-188	0	-17	161	553	37
Hainan	389	499	-255	-75	0	-7	-77	216	18
Chongqing	5 000	3 490	214	-242	426	-384	250	641	36
Sichuan	8 087	5 947	-45	-840	159	16	803	799	83
Guizhou	4 168	3 847	-3	-279	-372	42	-9	669	18
Yunnan	3 433	2 647	-53	-165	-38	-339	346	495	17
Tibet	542	514	-2	29	-35	-79	41	13	34
Shaanxi	3 599	3 815	-45	-454	-533	-593	560	477	22
Gansu	2 347	1 682	-47	-138	736	-310	-67	229	1
Qinghai	126	353	-2	-14	27	-198	-168	41	0
Ningxia	529	475	17	-7	0	-195	26	90	0
Xinjiang	836	1 337	-13	-393	-512	-150	-61	361	50

Notes: 1. Funding provided by the headquarters of financial institutions totaled RMB915.3 billion.

2. Starting from July 2018, the PBC improved the methodology for statistics on aggregate financing to the real economy by including asset-backed securities of depository financial institutions and loan write-offs. Starting from September 2019, special local government bonds are included in the statistics. Special local government bonds in this table were compiled according to the date of registering debts and claims with custodians.

Selected Financial Indicators

(Year-End Balance)

RMB100 million

	2014	2015	2016	2017	2018
Money & Quasi-money (M_2)	1 228 374.8	1 392 278.1	1 550 066.7	1 690 235.3	1 826 744.2
Money (M_1)	348 056.4	400 953.4	486 557.2	543 790.2	551 685.9
Currency in Circulation (M_0)	60 259.5	63 216.6	68 303.9	70 645.6	73 208.4
Total Deposits with Financial Institutions	1 138 644.6	1 357 021.6	1 505 863.8	1 641 044.2	1 775 225.7
Savings Deposits	485 261.3	526 280.8	569 149.3	595 972.6	631 202.4
Non-financial Enterprise Deposits	378 333.8	430 247.4	502 178.4	542 404.6	562 976.2
Total Lending by Financial Institutions	816 770.0	939 540.2	1 066 040.1	1 201 321.0	1 362 966.7

Selected Financial Indicators

(Growth Rates)

Percentage Change

	2014	2015	2016	2017	2018
Money & Quasi-money (M_2)	12.2	13.3	11.3	8.1	8.1
Money (M_1)	3.2	15.2	21.4	11.8	1.5
Currency in Circulation (M_0)	2.9	4.9	8.1	3.4	3.6
Total Deposits with Financial Institutions	9.1	12.4	11.0	9.0	8.2
Savings Deposits	8.4	8.5	8.2	4.7	5.9
Non-financial Enterprise Deposits	4.6	13.7	16.7	8.0	3.8
Total Lending by Financial Institutions	13.6	14.3	13.5	12.7	13.5

Monetary Statistics

Depository Corporations Survey, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Net Foreign Assets	255 448.39	257 146.55	256 693.98	255 736.06
Domestic Credit	1 841 752.74	1 873 240.25	1 927 674.49	1 965 451.37
Claims on Government (net)	214 980.98	220 422.83	238 969.72	251 378.34
Claims on Non-financial Sectors	1 338 831.03	1 373 057.60	1 423 654.66	1 450 736.66
Claims on Other Financial Sectors	287 940.74	279 759.82	265 050.11	263 336.37
Money & Quasi-money	1 739 859.48	1 770 178.37	1 801 665.58	1 826 744.22
Money	523 540.07	543 944.71	538 574.08	551 685.91
Currency in Circulation	72 692.63	69 589.33	71 254.26	73 208.40
Corporate Demand Deposits	450 847.45	474 355.38	467 319.82	478 477.50
Quasi-money	1 216 319.40	1 226 233.66	1 263 091.50	1 275 058.31
Corporate Time Deposits	332 605.89	334 425.29	349 826.79	340 178.91
Personal Deposits	692 563.69	692 440.77	706 256.25	721 688.57
Other Deposits	191 149.82	199 367.60	207 008.46	213 190.83
Deposits Excluded from Broad Money	48 087.93	47 684.68	46 714.11	45 211.42
Bonds	230 069.30	236 917.40	242 695.69	255 387.56
Paid-in Capital	52 127.82	53 052.16	53 577.82	54 432.45
Others (net)	27 056.60	22 554.19	39 715.28	39 411.78

Note: In January 2018, the PBC improved the statistical methodology for money market funds (MMF) in money supply by replacing MMF deposits (including certificates of deposit) with MMFs held by non-depository institutions.

Balance Sheet of the Monetary Authority, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	220 277.91	220 183.33	218 810.54	217 648.06
Foreign Exchange	214 952.04	215 193.78	214 084.15	212 556.68
Monetary Gold	2 541.50	2 541.50	2 541.50	2 569.79
Other Foreign Assets	2 784.37	2 448.05	2 184.89	2 521.59
Claims on Government	15 274.09	15 274.09	15 274.09	15 250.24
Of which: Central Government	15 274.09	15 274.09	15 274.09	15 250.24
Claims on Other Depository Corporations	99 901.88	103 424.01	109 333.36	111 517.46
Claims on Other Financial Corporations	5 949.94	5 947.94	5 956.83	4 642.60
Claims on Non-Financial Sectors	35.65	54.37	45.02	27.84
Other Assets	18 168.93	17 818.71	16 809.91	23 405.85
Total Assets	359 608.40	362 702.44	366 229.75	372 492.06
Reserve Money	321 350.16	318 471.19	317 918.35	330 956.52
Currency Issues	79 452.59	75 657.75	78 117.23	79 145.50
Deposits of Financial Corporations	238 740.05	237 805.08	231 051.12	235 511.22
Deposits of Other Depository Corporations	238 740.05	237 805.08	231 051.12	235 511.22
Deposits of Other Financial Corporations				
Deposits of Non-Financial Institutions	3 157.52	5 008.36	8 749.99	16 299.80
Deposits of Financial Corporations Excluded from Reserve Money	4 168.46	3 746.50	3 549.03	4 016.33
Bond Issues				200.00
Foreign Liabilities	928.59	1 117.80	2 049.55	1 164.51
Government Deposits	26 373.97	32 041.47	34 794.98	28 224.74
Equity	219.75	219.75	219.75	219.75
Other Liabilities	6 567.48	7 105.73	7 698.09	7 710.20
Total Liabilities	359 608.40	362 702.44	366 229.75	372 492.06

Notes: 1. Starting from 2017, local currency accounts of international financial organizations are reflected as net positions.
2. "Deposits of Non-Financial Institutions" are clients' reserves deposited by payment institutions with the PBC.

Balance Sheet of Other Depository Corporations, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	55 832.74	57 794.57	59 781.76	60 146.25
Reserve Assets	244 963.13	244 261.40	238 906.92	243 160.75
Deposits with the Central Bank	238 203.17	238 192.99	232 043.95	237 223.65
Cash in Vault	6 759.96	6 068.41	6 862.97	5 937.10
Claims on Government	226 080.86	237 190.21	258 490.61	264 352.83
Of which: Central Government	226 080.86	237 190.21	258 490.61	264 352.83
Claims on the Central Bank				
Claims on Other Depository Corporations	283 166.59	282 344.92	280 218.03	287 239.04
Claims on Other Financial Corporations	281 990.80	273 811.88	259 093.28	258 693.77
Claims on Non-Financial Corporations	921 704.53	937 323.23	967 286.96	977 946.45
Claims on Other Resident Sectors	417 090.85	435 680.00	456 322.69	472 762.37
Other Assets	101 405.82	101 297.61	100 213.90	103 033.45
Total Assets	2 532 235.32	2 569 703.82	2 620 314.15	2 667 334.90
Liabilities to Non-Financial Institutions & Households	1 573 169.12	1 591 689.75	1 624 130.19	1 641 200.71
Deposits Included in Broad Money	1 476 017.03	1 501 221.44	1 523 402.86	1 540 344.99
Corporate Demand Deposits	450 847.45	474 355.38	467 319.82	478 477.50
Corporate Time Deposits	332 605.89	334 425.29	349 826.79	340 178.91
Personal Deposits	692 563.69	692 440.77	706 256.25	721 688.57
Deposits Excluded from Broad Money	48 087.93	47 684.68	46 714.11	45 211.42
Transferable Deposits	15 642.98	15 028.96	14 651.96	15 355.91
Other Deposits	32 444.96	32 655.72	32 062.15	29 855.51
Other Liabilities	49 064.16	42 783.62	54 013.21	55 644.31
Liabilities to the Central Bank	95 168.10	94 314.95	99 761.61	104 474.77
Liabilities to Other Depository Corporations	112 176.00	110 739.06	107 847.99	108 915.86
Liabilities to Other Financial Corporations	179 402.83	184 889.67	182 568.64	184 310.60
Of which: Deposits Included in Broad Money	175 839.38	181 610.05	177 897.24	179 374.61
Foreign Liabilities	19 733.67	19 713.55	19 848.77	20 893.74
Bond Issues	230 069.30	236 917.40	242 695.69	255 387.56
Paid-In Capital	51 908.07	52 832.40	53 358.06	54 212.70
Other Liabilities	270 608.23	278 607.05	290 103.21	297 938.96
Total Liabilities	2 532 235.32	2 569 703.82	2 620 314.15	2 667 334.90

Balance Sheet of Large-Sized Domestic Banks, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	30 975.78	31 919.00	32 887.66	32 428.36
Reserve Assets	127 903.44	126 423.37	124 009.04	117 998.78
Deposits with the Central Bank	124 290.74	123 221.07	120 342.69	114 843.67
Cash in Vault	3 612.70	3 202.29	3 666.35	3 155.11
Claims on Government	145 469.39	153 150.40	165 962.89	169 057.01
Of which: Central Government	145 469.39	153 150.40	165 962.89	169 057.01
Claims on the Central Bank				
Claims on Other Depository Corporations	107 666.83	105 551.33	104 842.31	103 994.14
Claims on Other Financial Corporations	64 342.59	63 249.91	62 199.18	62 477.33
Claims on Non-Financial Corporations	465 839.19	467 388.41	483 710.02	486 979.20
Claims on Other Resident Sectors	215 652.48	223 672.82	231 686.79	237 932.55
Other Assets	47 519.73	46 551.32	45 129.66	44 609.30
Total Assets	1 205 369.44	1 217 906.56	1 250 427.55	1 255 476.67
Liabilities to Non-Financial Institutions & Households	819 739.26	821 637.93	838 797.41	835 134.14
Deposits Included in Broad Money	755 247.17	762 374.47	770 529.30	766 506.97
Corporate Demand Deposits	222 198.15	234 996.74	231 896.63	229 781.36
Corporate Time Deposits	128 336.07	127 376.10	130 761.17	124 589.36
Personal Deposits	404 712.95	400 001.63	407 871.50	412 136.25
Deposits Excluded from Broad Money	24 836.76	24 568.78	23 786.68	22 554.47
Transferable Deposits	7 393.15	6 924.16	7 050.01	7 125.50
Other Deposits	17 443.61	17 644.62	16 736.67	15 428.97
Other Liabilities	39 655.34	34 694.67	44 481.44	46 072.70
Liabilities to the Central Bank	51 007.64	48 232.50	50 342.56	51 163.47
Liabilities to Other Depository Corporations	16 623.69	19 242.88	21 047.30	23 530.02
Liabilities to Other Financial Corporations	65 090.68	70 016.32	72 630.29	69 785.71
Of which: Deposits Included in Broad Money	64 139.05	68 846.05	71 479.50	68 493.76
Foreign Liabilities	7 873.93	7 197.85	7 433.75	8 440.40
Bond Issues	95 875.81	98 570.42	102 212.66	105 419.59
Paid-In Capital	21 718.17	22 097.28	22 199.22	22 193.02
Other Liabilities	127 440.25	130 911.37	135 764.37	139 810.33
Total Liabilities	1 205 369.44	1 217 906.56	1 250 427.55	1 255 476.67

Notes: 1. The PBC compiles the monetary and financial statistics on the basis of the RMB and foreign currency statistical data of domestically operating financial institutions in line with the concepts, definition, and classifications of the IMF *Manual of Monetary and Financial Statistics*.

2. Large-sized domestic banks refer to those banks with total RMB and foreign currency assets of more than RMB2 trillion (with the total asset size at end-2008 as a reference), including the ICBC, CCB, ABC, BOC, CDB, BOCOM, and the Postal Savings Bank of China Co., Ltd.

Balance Sheet of Medium-Sized Domestic Banks, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	20 982.48	21 709.55	22 703.17	23 270.91
Reserve Assets	40 702.47	41 465.90	39 049.57	40 679.94
Deposits with the Central Bank	40 136.18	40 945.48	38 528.97	40 141.87
Cash in Vault	566.28	520.43	520.60	538.07
Claims on Government	47 653.59	49 752.21	53 968.47	54 924.69
Of which: Central Government	47 653.59	49 752.21	53 968.47	54 924.69
Claims on the Central Bank				
Claims on Other Depository Corporations	40 316.43	41 327.03	40 270.08	43 055.84
Claims on Other Financial Corporations	99 879.98	97 733.14	87 851.78	89 387.94
Claims on Non-Financial Corporations	220 714.32	227 107.63	230 935.69	231 884.67
Claims on Other Resident Sectors	97 902.90	102 998.26	109 593.58	115 301.68
Other Assets	18 737.87	19 265.20	17 805.77	20 562.71
Total Assets	586 890.04	601 358.92	602 178.11	619 068.37
Liabilities to Non-Financial Institutions & Households	269 819.75	276 862.17	280 012.80	282 198.81
Deposits Included in Broad Money	250 931.77	258 779.77	261 441.60	264 372.84
Corporate Demand Deposits	102 440.84	106 540.03	101 709.39	104 897.56
Corporate Time Deposits	97 287.09	97 894.58	104 344.90	101 411.48
Personal Deposits	51 203.84	54 345.16	55 387.30	58 063.80
Deposits Excluded from Broad Money	15 066.97	15 313.74	15 217.64	14 630.74
Transferable Deposits	4 937.95	4 826.59	4 457.07	4 615.10
Other Deposits	10 129.02	10 487.14	10 760.58	10 015.64
Other Liabilities	3 821.02	2 768.67	3 353.57	3 195.23
Liabilities to the Central Bank	35 524.50	36 325.10	38 789.60	39 696.40
Liabilities to Other Depository Corporations	34 800.29	35 431.93	31 751.71	34 693.57
Liabilities to Other Financial Corporations	74 777.25	75 116.91	70 476.72	72 246.04
Of which: Deposits Included in Broad Money	73 468.23	73 903.02	68 171.66	69 944.49
Foreign Liabilities	6 190.63	6 453.44	6 265.18	6 373.67
Bond Issues	96 829.34	100 167.71	101 501.70	107 575.33
Paid-In Capital	6 221.42	6 295.71	6 329.87	6 395.56
Other Liabilities	62 726.86	64 705.95	67 050.54	69 888.98
Total Liabilities	586 890.04	601 358.92	602 178.11	619 068.37

Note: Medium-sized domestic banks refer to banks with total RMB and foreign currency assets of more than RMB300 billion but less than RMB2 trillion (with the total asset size at end-2008 as a reference), including the China Merchants Bank Co., Ltd., Agricultural Development Bank of China, Shanghai Pudong Development Bank Co., Ltd., China CITIC Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Banking Corporation, China Everbright Bank Co., Ltd., Hua Xia Bank Co., Ltd., Export-Import Bank of China, Guangdong Development Bank Co., Ltd., Ping'an Bank Co., Ltd., Bank of Beijing, Bank of Shanghai, and Bank of Jiangsu.

Balance Sheet of Small-Sized Domestic Banks, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	1 622.34	1 615.40	1 578.31	1 766.00
Reserve Assets	60 714.37	60 325.46	59 770.95	66 328.89
Deposits with the Central Bank	58 730.07	58 493.49	57 664.71	64 498.63
Cash in Vault	1 984.31	1 831.98	2 106.24	1 830.26
Claims on Government	29 350.79	30 694.99	34 285.56	35 997.70
Of which: Central Government	29 350.79	30 694.99	34 285.56	35 997.70
Claims on the Central Bank				
Claims on Other Depository Corporations	89 991.49	90 389.01	89 218.51	92 540.26
Claims on Other Financial Corporations	108 502.01	103 220.33	98 641.33	97 963.04
Claims on Non-Financial Corporations	180 762.11	188 116.14	197 444.56	204 553.32
Claims on Other Resident Sectors	84 394.64	89 748.45	95 970.79	101 279.66
Other Assets	19 017.33	19 437.69	20 615.79	21 378.47
Total Assets	574 355.09	583 547.46	597 525.80	621 807.34
Liabilities to Non-Financial Institutions & Households	373 481.39	382 248.81	391 974.23	408 501.16
Deposits Included in Broad Money	365 654.50	374 688.34	383 900.33	400 134.92
Corporate Demand Deposits	96 210.28	100 243.61	100 249.73	103 423.07
Corporate Time Deposits	76 457.98	78 492.12	81 283.97	83 600.52
Personal Deposits	192 986.24	195 952.60	202 366.63	213 111.33
Deposits Excluded from Broad Money	3 942.13	3 514.01	3 412.64	3 359.29
Transferable Deposits	999.41	893.28	860.81	979.79
Other Deposits	2 942.72	2 620.73	2 551.84	2 379.50
Other Liabilities	3 884.77	4 046.46	4 661.26	5 006.95
Liabilities to the Central Bank	7 593.51	8 586.23	9 608.88	12 397.55
Liabilities to Other Depository Corporations	48 390.29	44 366.04	43 577.20	40 430.36
Liabilities to Other Financial Corporations	38 021.05	38 302.63	37 891.97	40 728.76
Of which: Deposits Included in Broad Money	37 165.89	37 629.80	36 990.05	39 696.79
Foreign Liabilities	924.20	965.73	1 116.17	1 150.95
Bond Issues	37 036.32	37 754.37	38 400.04	41 757.17
Paid-In Capital	15 140.64	15 474.23	15 792.36	16 546.38
Other Liabilities	53 767.67	55 849.41	59 164.97	60 295.01
Total Liabilities	574 355.09	583 547.46	597 525.80	621 807.34

Note: Small-sized domestic banks refer to banks with total RMB and foreign currency assets of less than RMB300 billion (with the total asset size at end-2008 as a reference), including Hengfeng Bank, China Zheshang Bank, China Bohai Bank, small-sized city commercial banks, rural commercial banks, rural cooperative banks, village banks, and other small-sized domestic banks.

Balance Sheet of Foreign-Funded Banks, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	2 042.79	2 328.41	2 380.17	2 452.41
Reserve Assets	3 045.00	2 985.35	2 832.29	3 286.71
Deposits with the Central Bank	3 037.94	2 978.57	2 826.24	3 280.60
Cash in Vault	7.06	6.77	6.05	6.12
Claims on Government	2 020.37	2 028.15	2 584.27	2 681.34
Of which: Central Government	2 020.37	2 028.15	2 584.27	2 681.34
Claims on the Central Bank				
Claims on Other Depository Corporations	5 926.06	5 892.65	5 271.03	5 843.78
Claims on Other Financial Corporations	3 825.89	3 848.67	3 847.03	3 745.44
Claims on Non-Financial Corporations	12 082.05	12 009.17	12 367.27	11 648.67
Claims on Other Resident Sectors	1 253.96	1 283.27	1 340.21	1 451.93
Other Assets	12 604.10	12 596.29	13 217.80	13 066.42
Total Assets	42 800.22	42 971.95	43 840.06	44 176.72
Liabilities to Non-Financial Institutions & Households	17 732.04	17 378.10	17 467.85	18 385.53
Deposits Included in Broad Money	12 908.92	12 864.83	12 701.45	13 699.84
Corporate Demand Deposits	3 876.34	4 151.63	3 649.92	4 837.13
Corporate Time Deposits	7 785.78	7 499.07	7 804.65	7 564.54
Personal Deposits	1 246.80	1 214.13	1 246.88	1 298.17
Deposits Excluded from Broad Money	3 210.71	3 335.84	3 346.68	3 461.05
Transferable Deposits	1 668.20	1 776.81	1 749.01	1 875.52
Other Deposits	1 542.50	1 559.03	1 597.67	1 585.53
Other Liabilities	1 612.41	1 177.43	1 419.72	1 224.63
Liabilities to the Central Bank	91.33	225.59	81.85	144.34
Liabilities to Other Depository Corporations	3 136.50	2 831.70	2 884.12	2 341.79
Liabilities to Other Financial Corporations	903.03	1 042.67	1 100.38	1 115.97
Of which: Deposits Included in Broad Money	772.45	936.03	938.32	1 003.73
Foreign Liabilities	4 735.07	5 072.66	5 010.53	4 903.62
Bond Issues	208.03	322.74	445.91	549.38
Paid-In Capital	1 830.06	1 835.39	1 872.62	1 877.84
Other Liabilities	14 164.17	14 263.11	14 976.82	14 858.25
Total Liabilities	42 800.22	42 971.95	43 840.06	44 176.72

Balance Sheet of Rural Credit Cooperatives, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	3.57	3.17	7.16	6.98
Reserve Assets	9 798.08	10 020.83	9 845.82	11 288.96
Deposits with the Central Bank	9 208.48	9 514.44	9 282.10	10 881.43
Cash in Vault	589.59	506.40	563.72	407.53
Claims on Government	1 527.90	1 504.80	1 620.85	1 627.19
Of which: Central Government	1 527.90	1 504.80	1 620.85	1 627.19
Claims on the Central Bank				
Claims on Other Depository Corporations	21 761.65	20 486.49	19 708.69	16 428.53
Claims on Other Financial Corporations	2 267.74	1 874.12	1 739.01	1 453.87
Claims on Non-Financial Corporations	17 876.15	17 553.32	17 021.68	15 546.67
Claims on Other Resident Sectors	16 603.65	16 670.92	16 362.74	15 328.11
Other Assets	3 158.17	3 054.46	3 010.64	2 948.39
Total Assets	72 996.92	71 168.11	69 316.58	64 628.72
Liabilities to Non-Financial Institutions & Households	53 374.67	51 972.48	50 182.54	46 535.39
Deposits Included in Broad Money	53 295.64	51 902.61	50 113.53	46 408.10
Corporate Demand Deposits	9 019.86	9 162.03	8 947.85	7 839.10
Corporate Time Deposits	1 867.24	1 819.56	1 788.69	1 497.42
Personal Deposits	42 408.54	40 921.01	39 376.99	37 071.58
Deposits Excluded from Broad Money	1.41	0.59	0.47	0.48
Transferable Deposits	1.31	0.55	0.45	0.46
Other Deposits	0.10	0.03	0.02	0.02
Other Liabilities	77.62	69.28	68.53	126.82
Liabilities to the Central Bank	778.33	770.38	743.25	770.77
Liabilities to Other Depository Corporations	8 393.69	7 927.62	7 778.30	7 165.43
Liabilities to Other Financial Corporations	339.36	144.48	164.35	170.04
Of which: Deposits Included in Broad Money	117.75	123.67	102.34	87.63
Foreign Liabilities	0.01			0.03
Bond Issues	33.99	22.86	57.56	9.56
Paid-In Capital	1 780.88	1 761.62	1 692.48	1 585.07
Other Liabilities	8 295.99	8 568.68	8 698.09	8 392.42
Total Liabilities	72 996.92	71 168.11	69 316.58	64 628.72

Balance Sheet of Finance Companies, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Foreign Assets	205.78	219.05	225.30	221.58
Reserve Assets	2 799.77	3 040.49	3 399.25	3 577.47
Deposits with the Central Bank	2 799.76	3 039.94	3 399.24	3 577.45
Cash in Vault	0.01	0.55	0.01	0.02
Claims on Government	58.82	59.66	68.56	64.91
Of which: Central Government	58.82	59.66	68.56	64.91
Claims on the Central Bank				
Claims on Other Depository Corporations	17 504.12	18 698.42	20 907.41	25 376.48
Claims on Other Financial Corporations	3 172.58	3 885.71	4 814.95	3 666.15
Claims on Non-Financial Corporations	24 430.72	25 148.57	25 807.73	27 333.92
Claims on Other Resident Sectors	1 283.21	1 306.28	1 368.58	1 468.44
Other Assets	368.61	392.64	434.25	468.14
Total Assets	49 823.61	52 750.82	57 026.05	62 177.10
Liabilities to Non-Financial Institutions & Households	39 022.00	41 590.27	45 695.36	50 445.69
Deposits Included in Broad Money	37 979.03	40 611.43	44 716.66	49 222.32
Corporate Demand Deposits	17 101.97	19 261.33	20 866.30	27 699.27
Corporate Time Deposits	20 871.74	21 343.87	23 843.41	21 515.60
Personal Deposits	5.32	6.23	6.96	7.44
Deposits Excluded from Broad Money	1 029.96	951.73	950.00	1 205.39
Transferable Deposits	642.95	607.56	534.62	759.54
Other Deposits	387.01	344.17	415.38	445.84
Other Liabilities	13.01	27.11	28.70	17.99
Liabilities to the Central Bank	172.78	175.15	195.47	302.24
Liabilities to Other Depository Corporations	831.54	938.88	809.37	754.70
Liabilities to Other Financial Corporations	271.45	266.66	304.94	264.08
Of which: Deposits Included in Broad Money	176.02	171.47	215.38	148.23
Foreign Liabilities	9.84	23.87	23.14	25.07
Bond Issues	85.81	79.29	77.83	76.54
Paid-In Capital	5 216.90	5 368.18	5 471.52	5 614.84
Other Liabilities	4 213.29	4 308.53	4 448.42	4 693.95
Total Liabilities	49 823.61	52 750.82	57 026.05	62 177.10

Monetary Aggregates, 2018 (Quarter-End Balance)

RMB100 million

	Q1	Q2	Q3	Q4
Money & Quasi-money (M_2)	1 739 859.48	1 770 178.37	1 801 665.58	1 826 744.22
Money (M_1)	523 540.07	543 944.71	538 574.08	551 685.91
Currency in Circulation (M_0)	72 692.63	69 589.33	71 254.26	73 208.40
Corporate Demand Deposits	450 847.45	474 355.38	467 319.82	478 477.50
Quasi-money	1 216 319.40	1 226 233.66	1 263 091.50	1 275 058.31
Corporate Time Deposits	332 605.89	334 425.29	349 826.79	340 178.91
Personal Deposits	692 563.69	692 440.77	706 256.25	721 688.57
Other Deposits	191 149.82	199 367.60	207 008.46	213 190.83

Note: In January 2018, the PBC improved the statistical methodology for money market funds (MMF) in money supply by replacing MMF deposits (including certificates of deposit) with MMFs held by non-depository institutions.

Monetary Aggregates, 2018 (Growth Rate)

Percentage Change

	Q1	Q2	Q3	Q4
Money & Quasi-money (M_2)	8.2	8.0	8.3	8.1
Money (M_1)	7.1	6.6	4.0	1.5
Currency in Circulation (M_0)	6.0	3.9	2.2	3.6
Corporate Demand Deposits	7.3	7.0	4.3	1.1
Quasi-money	8.7	8.6	10.2	11.2
Corporate Time Deposits	4.9	5.5	7.1	6.2
Personal Deposits	7.7	7.7	8.9	11.1
Other Deposits	20.4	17.7	21.2	20.5

Note: same as the above note.

Statistics on the Volume of RMB Issuance

RMB100 million

Notes & Coins	Year-End Balance, 2017	Year-End Balance, 2018
100 Yuan Note	67 465.76	69 269.58
50 Yuan Note	3 150.57	3 093.03
20 Yuan Note	1 369.39	1 425.17
10 Yuan Note	2 102.94	2 242.05
5 Yuan Note	949.12	981.14
2 Yuan Note	38.92	38.90
1 Yuan Note	707.46	752.09
5 Jiao Note	154.67	154.92
2 Jiao Note	20.86	20.84
1 Jiao Note	71.26	71.20
5 Fen Note	1.56	1.56
2 Fen Note	1.76	1.76
1 Fen Note	2.92	2.92
1 Yuan Coin	592.74	625.10
5 Jiao Coin	219.81	235.04
1 Jiao Coin	130.32	136.46
5 Fen Coin	6.96	6.96
2 Fen Coin	5.82	5.82
1 Fen Coin	3.54	3.55
Total	76 996.39	79 068.09

Note: Including currency in circulation (M_0) and cash in the vault of banking institutions.

Business Statistics on Non-Cash Payment Operations

		2017		2018	
		Transaction Number (10 000)	Transaction Value (RMB100 million)	Transaction Number (10 000)	Transaction Value (RMB100 million)
Commercial Papers	Bills of Exchange	52.73	3 644.82	26.75	1 969.77
	of which: Bankers' Drafts	0.03	2.50	0.03	1.80
	Transfer Bank Drafts	52.70	3 642.32	26.72	1 967.97
	Commercial Drafts	1 648.39	167 736.82	1 892.57	162 125.04
	of which: Commercial Acceptance Bills	67.95	15 716.34	107.43	19 082.38
	Bankers' Acceptance Bills	1 580.43	152 020.48	1 785.14	143 042.67
	Promissory Notes	164.70	14 246.84	116.14	9 850.58
	of which: Cash Promissory Notes	0.07	0.87	0.02	0.62
	Transfer Promissory Notes	164.64	14 245.97	116.20	9 861.72
	Cheques	23 722.87	1 538 076.40	20 166.63	1 314 684.40
	of which: Cash Cheques	7 809.32	52 845.32	6 536.37	45 500.90
	Transfer Cheques	15 913.55	1 485 231.08	13 630.27	1 269 183.49
	of which: Organization Cheques	23 617.19	1 536 721.86	20 082.89	1 313 617.77
	Personal Cheques	105.68	1 354.54	83.75	1 066.63
	Total	25 588.69	1 723 704.86	22 202.10	1 488 629.80
Bankcards	Cash Deposits	964 128.82	679 206.71	786 332.67	600 271.24
	Cash Withdrawals	1 731 658.91	650 728.21	1 408 666.10	589 002.97
	of which: ATM	1 545 347.90	284 597.09	1 236 946.49	254 500.28
	Consumption	5 862 684.09	686 662.16	9 833 618.05	927 585.26
	Transfers	6 384 624.00	5 599 881.13	9 007 309.45	6 504 177.40
	Total	14 943 095.82	7 616 478.21	21 035 926.27	8 621 036.86
Settlements	Credit Transfers	966 672.83	27 806 669.27	918 852.84	27 160 333.10
	Direct Debit	152 389.41	430 926.23	54 171.33	394 370.54
	Consignment Collection Payments	23.31	5 863.27	20.59	6 093.94
	Domestic Letters of Credit	6.73	15 773.04	6.66	16 238.23
	Total	1 119 092.27	28 259 231.81	973 051.42	27 577 035.81

Statistics on Transactions via Payment Systems

10,000 (volume), RMB100 million (value)

		2017	2018
High Value Real-Time Payment System	Volume	93 208.70	107 310.73
	Value	37 318 633.92	43 534 782.76
Bulk Electronic Payment System	Volume	252 753.84	218 279.40
	Value	331 445.29	355 326.99
Online Payment Inter-Bank Clearing System	Volume	846 427.92	1 209 784.49
	Value	617 200.49	890 544.71
Inter-City Clearing System	Volume	35 902.76	35 488.89
	Value	1 308 500.57	1 120 284.71
Domestic Foreign Exchange Payment System	Volume	201.66	213.52
	Value	67 456.07	83 267.58
Check Image Exchange System	Volume	443.50	0.00
	Value	2 456.87	0.00
Intra-bank Payment System of Banking Financial Institutions	Volume	3 231 336.24	3 669 527.73
	Value	13 336 885.70	13 320 871.21
UnionPay Inter-bank Bankcard Clearing System	Volume	2 934 772.13	2 632 478.30
	Value	938 491.66	1 190 709.89
City Commercial Bank Draft Processing System and Payment Clearing System	Volume	3 311.47	6 295.78
	Value	9 162.58	5 882.82
Rural Credit Bank Payment Clearing System	Volume	334 903.76	845 084.42
	Value	66 748.83	84 505.30
Cross-Border Interbank Payment System	Volume	125.90	144.24
	Value	145 539.58	264 463.17
NetsUnion Payment System	Volume	0.00	12 847 693.77
	Value	0.00	579 065.80
Total	Volume	7 733 387.88	21 572 301.25
	Value	54 142 521.56	61 429 704.92

Notes: 1. Banking financial institutions process activities on National Check Image Exchange System through the Bulk Electronic Payment System, starting from September 4, 2017. Thus, statistics on the National Check Image Exchange System only covers transactions between January 1, 2017 and September 3, 2017.

2. Starting from 2017, City Commercial Bank Draft Processing System and Payment Clearing System not only covers statistics on Bankers' Acceptances, remittances, and automatic deposits and withdrawals, but also real-time payments and receipts on behalf of clients.

Statistics on the Number of Bank RMB Settlement Accounts

Unit: 10 thousand

	2014	2015	2016	2017	2018
Entity Settlement Accounts	3 976.91	4 439.03	4 939.47	5 483.43	6 118.87
Basic Deposit Settlement Accounts	2 468.02	2 835.43	3 282.67	3 792.31	4 334.98
General Deposit Settlement Accounts	1 196.90	1 272.76	1 306.72	1 331.11	1 407.88
Special Deposit Settlement Accounts	291.02	310.13	330.01	340.96	357.45
Temporary Deposit Settlement Accounts	20.96	20.71	20.07	19.05	18.56
Individual Settlement Accounts	647 271.18	732 526.66	830 315.62	916 851.64	1 006 847.17
Total	651 248.09	736 965.69	835 255.09	922 335.06	1 012 966.04

Statistics on the Number of Bankcards

Unit: 100 million

	2014	2015	2016	2017	2018
Debit Cards	44.81	50.10	56.60	61.05	69.11
Credit Cards (including combo cards with both debit and credit functions)	4.55	4.32	4.65	5.87	6.86
Total	49.36	54.42	61.25	66.93	75.97

Interest Rates

RMB Interest Rates, 2018

Percentage Change

	Jan. 1	Dec. 31
Benchmark Rates[1]		
Required Reserves	1.62	1.62
Excess Reserves	0.72	0.72
Loans to Financial Institutions		
1 Month	2.90	2.90
3 Months	3.20	3.20
6 Months	3.40	3.40
1 Year	3.50	3.50
Discount	2.25	2.25
Official Interest Rates on Deposits & Loans of Financial Institutions		
Interest Rates on Deposits		
Demand Deposits	0.35	0.35
Time Deposits		
3 Months	1.10	1.10
6 Months	1.30	1.30
1 Year	1.50	1.50
2 Years	2.10	2.10
3 Years	2.75	2.75
Interest Rates on Loans		
1 Year or Less	4.35	4.35
1~5 Years (including 5 years)	4.75	4.75
Longer than 5 Years	4.90	4.90
Loan Prime Rate (Average)[2]	4.30	4.31
Weighted Average Rates in the Interbank Market[3]		
Interbank Borrowing		2.57
Bond-Pledged Repo		2.68

Notes: 1. The PBC did not adjust the benchmark rates and the official interest rates on deposits & loans of financial institutions in 2018.
2. Respective average rates for January 2 and December 31, 2018.
3. Monthly average rates for December 2018.

Interest Rates on Small-Value USD Deposits

Percentage Change

	Nov. 18, 2004	May 20, 2005	Aug. 23, 2005	Oct. 15, 2005	Dec. 28, 2005
Demand Deposits	0.075	0.075	0.275	0.775	1.150
7-Day Notice Deposits	0.250	0.250	0.500	1.000	1.375
1 Month	0.375	0.625	1.250	1.750	2.250
3 Months	0.625	0.875	1.750	2.250	2.750
6 Months	0.750	1.000	1.875	2.375	2.875
1 Year	0.875	1.125	2.000	2.500	3.000

Note: No adjustments since December 28, 2005.

Shibor Monthly Average Rates, 2018

Percentage Change

	Overnight	1-Week	2-Week	1-Month	3-Month	6-Month	9-Month	1-Year
January	2.65	2.83	3.82	4.21	4.70	4.73	4.72	4.73
February	2.59	2.86	3.88	4.08	4.71	4.73	4.73	4.74
March	2.61	2.87	3.84	4.34	4.68	4.72	4.72	4.73
April	2.65	2.86	3.77	3.89	4.15	4.33	4.42	4.49
May	2.61	2.79	3.68	3.84	4.12	4.20	4.30	4.37
June	2.57	2.82	3.72	4.08	4.31	4.30	4.34	4.39
July	2.33	2.67	3.08	3.29	3.60	3.78	3.89	3.96
August	2.20	2.58	2.63	2.72	2.88	3.09	3.31	3.43
September	2.47	2.67	2.81	2.75	2.84	3.24	3.45	3.51
October	2.31	2.63	2.66	2.68	2.87	3.27	3.47	3.52
November	2.39	2.64	2.65	2.69	3.04	3.29	3.50	3.54
December	2.37	2.66	2.85	3.05	3.20	3.28	3.48	3.52

Note: Monthly average rates for each month.

Financial Market Statistics

Money Market Statistics, 2018

	Q1	Q2	Q3	Q4
Turnover of Interbank Borrowing (100 million yuan)	305 817	300 011	407 583	379 574
Turnover of Interbank Repo (100 million yuan)	1 647 215	1 631 501	2 034 373	1 913 672
Quarter-End Shibor: Overnight (%)	2.69	2.63	2.65	2.55
Quarter-End Shibor: 1-Week (%)	2.92	2.86	2.77	2.90
Quarter-End Monthly Weighted Average Rate of Interbank Borrowing (%)	2.74	2.73	2.59	2.57
Quarter-End Monthly Weighted Average Rate of Bond-Pledged Repo (%)	2.90	2.89	2.60	2.68
Commercial Bills Accepted (100 million yuan)	40 441	36 534	41 220	42 339
Quarter-End Commercial Bills Outstanding (100 million yuan)	84 993	85 327	87 080	93 921
Financial Institutions Discount (100 million yuan)	71 035	67 496	79 113	79 477
Quarter-End Financial Institutions Discount Outstanding (100 million yuan)	38 313	42 730	50 987	57 807

Bond Market Statistics, 2018

	Q1	Q2	Q3	Q4
Total Bond Issuances (100 million yuan)	88 593	113 751	120 926	107 688
Government Bonds	7 395	22 459	34 526	13 898
Central Bank Bills				
Financial Bonds	65 000	72 974	65 711	70 371
Interbank Negotiable Certificates of Deposit	52 423	56 169	49 758	52 482
Corporate Debenture Bonds	15 987	18 145	20 527	23 246
International Institutions Bonds	212	174	162	172
Quarter-End Outstanding Bonds (100 million yuan)	762 996	790 532	826 340	859 807
Government Bonds	283 535	298 075	323 833	330 069
Central Bank Bills				
Financial Bonds	287 321	296 566	303 057	322 585
Interbank Negotiable Certificates of Deposit	86 900	89 016	89 587	98 859
Corporate Debenture Bonds	190 946	194 525	198 023	205 603
International Institutions Bonds	1 195	1 366	1 428	1 550
Quarter-End Chinabond Composite Index (%, net price)	98.8	99.8	100.2	101.9
Quarter-End Chinabond Yield Curve (%, for 1-year term)	3.32	3.16	2.97	2.60
Quarter-End Chinabond Yield Curve (%, for 10-year term)	3.74	3.48	3.61	3.23

Note: Corporate Debenture Bonds include debt financing instruments of non-financial corporations, enterprises bonds, corporate bonds, transferable bonds, and so forth.

Stock Market Statistics, 2018

	Q1	Q2	Q3	Q4
Total Funds Raised (RMB100 million)	2 022	1 393	2 473	938
Trading Turnover (RMB100 million)	282 582	242 095	193 327	183 735
Quarter-End Volume of Stocks Issued (100 million shares)	54 370	55 914	57 016	57 581
Quarter-End Market Capitalization (RMB100 million)	559 519	504 217	486 616	434 924
Quarter-End Number of Companies Listed	3 522	3 547	3 568	3 584
Quarter-End Closing Index				
Shanghai Stock Exchange Composite Index (December 19, 1990=100)	3 169	2 847	2 821	2 494
Shenzhen Stock Exchange Component Index (July 20, 1994=1000)	10 869	9 379	8 401	7 240

Securities Investment Funds Statistics, 2018

	Q1	Q2	Q3	Q4
Number of Securities Investment Funds	5 182	5 388	5 561	5 792
Total Volume (RMB100 million)	118 346	123 094	130 502	128 966
Net Funds Assets (RMB100 million)	123 661	126 982	133 587	130 343
Trading Turnover (RMB100 million)	808	672	578	730

Futures Market Statistics, 2018

	Q1	Q2	Q3	Q4
Transaction Volume (10 000 lots)	61 032	78 762	81 565	79 710
Trading Turnover (RMB100 million)	410 975	549 982	584 403	562 697
Quarter-End Position (10 000 lots)	1 474	1 439	1 249	1 169
Delivery Volume (lots)	356 724	346 292	248 266	219 809

Insurance Market Statistics, 2018

	Q1	Q2	Q3	Q4
Premium Income (RMB100 million)	14 084	8 285	8 292	7 355
Property Insurance	2 753	2 689	2 562	2 767
Life Insurance	11 331	5 596	5 731	4 588
Claim and Benefit Payments (RMB100 million)	3 268	2 719	3 142	3 168
Property Insurance	1 255	1 373	1 521	1 748
Life Insurance	2 013	1 346	1 621	1 421
Quarter-End Assets, Total (RMB100 million)	172 242	176 442	178 754	183 309
Of which: Bank Deposits	20 182	21 420	22 850	24 363
Investments	132 451	135 453	135 889	139 725

Gold Market Statistics, 2018

	Q1	Q2	Q3	Q4
Value Traded of Au99.99 (RMB100 million)	5 331	4 045	3 034	3 494
Value Traded of Au (T+D) (RMB100 million)	7 828	7 601	7 446	8 717
Value Traded of Ag (T+D) (RMB100 million)	7 192	7 645	6 839	6 558
Au99.99 Quarter-End Closing Price (yuan/g)	271	267	264	285
Au (T+D) Quarter-End Closing Price (yuan/g)	270	267	264	284
Ag (T+D) Quarter-End Closing Price (yuan/kg)	3 591	3 657	3 477	3 632

Balance of Payments, External Debt Position, RMB Exchange Rate, etc.

RMB Exchange Rate

Year	Foreign Currency	Year-End Rate (yuan per unit of foreign currency)	Change in Basis Points
2014	USD	6.1190	-221
	HKD	0.7889	-26
	JPY	5.1371	64
	EUR	7.4556	9 633
2015	USD	6.4936	3 746
	HKD	0.8378	489
	JPY	5.3875	2 504
	EUR	7.0952	-3 604
2016	USD	6.937	4 434
	HKD	0.8945	567
	JPY	5.9591	5 716
	EUR	7.3068	2 116
2017	USD	6.5342	-4 028
	HKD	0.8359	-586
	JPY	5.7883	-1 708
	EUR	7.8023	-4 955
2018	USD	6.8632	3 290
	HKD	0.8762	403
	JPY	6.1887	4 004
	EUR	7.8473	450

Note: The exchange rate of the RMB against the Japanese yen is reflected as yuan per 100 Japanese yen.

Official Reserve Assets, 2018

	Q1		Q2		Q3		Q4	
	USD100 million	SDR100 million	USD100 million	SDR100 million	USD100 million	SDR100 million	USD100 million	SDR100 million
Foreign Exchange Reserves	31 428.20	21 617.01	31 121.29	22 125.62	30 870.25	22 125.23	30 727.12	22 093.26
Reserve Position at the IMF	77.44	53.27	85.27	60.62	85.12	61.00	84.79	60.97
SDRs	112.19	77.17	108.61	77.21	108.13	77.50	106.90	76.86
Gold	784.19	539.38	740.71	526.61	703.27	504.05	763.31	548.83
	5 924 ten thousand ounces	5 924 ten thousand ounces	5 924 ten thousand ounces	5 924 ten thousand ounces	5 924 ten thousand ounces	5 924 ten thousand ounces	5 956 ten thousand ounces	5 956 ten thousand ounces
Other Reserve Assets	1.40	0.96	5.35	3.80	4.10	2.94	-2.20	-1.58
Total	32 403.43	22 287.79	32 061.23	22 793.86	31 770.87	22 770.73	31 679.93	22 778.35

Note: The data in this table are published both in USD and SDR terms, and the exchange rate of the SDR is derived from the IMF Website.

China’s Balance of Payments, 2018

US$100 million

Item	Amount	Item	Amount
I. Current Account	491	1.2.8 Charges for the Use of Intellectual Property	-302
Credit	29 136	Credit	56
Debit	-28 645	Debit	-358
1. A Goods and Services	1 029	1.2.9 Telecommunications, Computers, and Information Services	65
Credit	26 510	Credit	300
Debit	-25 481	Debit	-235
1.1 Goods	3 952	1.2.10 Other Business Services	191
Credit	24 174	Credit	662
Debit	-20 223	Debit	-470
1.2 Services	-2 922	1.2.11 Personal, Cultural, and Recreational Services	-24
Credit	2 336	Credit	10
Debit	-5 258	Debit	-34
1.2.1 Manufacturing Services	172	1.2.12 Government Goods and Services n.i.e	-27
Credit	174	Credit	18
Debit	-3	Debit	-45
1.2.2 Maintenance and Repair Services	46	2. Primary Income	-514
Credit	72	Credit	2 348
Debit	-25	Debit	-2 862
1.2.3 Transport	-669	2.1 Compensation of Employees	82
Credit	423	Credit	181
Debit	-1 092	Debit	-99
1.2.4 Travel	-2 370	2.2 Investment Income	-614
Credit	404	Credit	2 146
Debit	-2 773	Debit	-2 760
1.2.5 Construction	49	2.3 Other Primary Income	18
Credit	136	Credit	21
Debit	-86	Debit	-3
1.2.6 Insurance and Pension Services	-66	3. Secondary Income	-24
Credit	49	Credit	278
Debit	-116	Debit	-302
1.2.7 Financial Services	12	3.1 Personal Transfer	-4
Credit	33	Credit	62
Debit	-21	Debit	-66

Continued

Item	Amount	Item	Amount
3.2 Other Secondary Income	-20	2.1.2 Portfolio Investments	1 067
Credit	216	Assets	-535
Debit	-236	Equity and Investment Fund Shares	-177
II. Capital and Financial Account	1 111	Debt Securities	-358
1. Capital Account	-6	Liabilities	1 602
Credit	3	Equity and Investment Fund Shares	607
Debit	-9	Debt Securities	995
2. Financial Account	1 117	2.1.3 Financial Derivatives (other than reserves) and Employee Stock Options	-62
Assets	-3 721	Assets	-48
Liabilities	4 838	Liabilities	-13
2.1 Financial Account Excluding Reserve Assets	1 306	2.1.4 Other Investments	-770
Assets	-3 532	Assets	-1 984
Liabilities	4 838	Other Equity	0
2.1.1 Direct Investments	1 070	Currency and Deposits	-731
Assets	-965	Loans	-818
Of which: Equities	-790	Insurance, Pensions, and Standardized Guarantee Schemes	-6
Debts	-175	Trade Credit and Advances	-653
Of which: Financial Sector	-208	Other Accounts Receivable	224
Equities	-200	Liabilities	1 214
Debts	-8	Other Equity	0
Non-financial Sector	-757	Currency and Deposits	514
Equities	-590	Loans	321
Debts	-167	Insurance, Pensions, and Standardized Guarantee Schemes	2
Liabilities	2 035	Trade Credit and Advances	408
Of which: Equities	1 544	Other Accounts Payable	-31
Debts	491	Special Drawing Rights	0
Of which: Financial Sector	176	2.2 Reserve Assets	-189
Equities	149	Monetary Gold	0
Debts	26	Special Drawing Rights	0
Non-financial Sector	1 859	Reserve Position in the IMF	-7
Equities	1 395	Foreign Exchange Reserves	-182
Debts	465	Other Reserve Assets	0
		3. NET errors and omissions	-1 602

Notes: 1. China compiles the BOP in accordance with the 6th edition of the *Balance of Payments and International Investment Position Manual*.

2. "Credit" and "Debit" entries are recorded as positive and negative values, respectively. Balance is calculated by adding credit and debit entries. All other entries are recorded as "balance" except the "Credit" and "Debit" entries.

China's External Debt Position, 2018, By Sector

US$100 million

Item	Amount	Item	Amount
General Government	2 323	Currency & Deposits	4 685
Short-term	197	Debt Securities	638
Currency & Deposits	0	Loans	1 894
Debt Securities	197	Trade Credits & Advances	0
Loans	0	Other Debt Liabilities	18
Trade Credits & Advances	0	Long-term	1 752
Other Debt Liabilities	0	Currency & Deposits	0
Long-term	2 126	Debt Securities	1 290
SDR Allocations	0	Loans	454
Currency & Deposits	0	Trade Credits & Advances	0
Debt Securities	1 640	Other Debt Liabilities	8
Loans	487	Other sectors	5 923
Trade Credits & Advances	0	Short-term	4 579
Other Debt Liabilities	0	Currency & Deposits	2
Central Bank	296	Debt Securities	36
Short-term	178	Loans	568
Currency & Deposits	149	Trade Credits & Advances	3 862
Debt Securities	29	Other Debt Liabilities	111
Loans	0	Long-term	1 343
Trade Credits & Advances	0	Currency & Deposits	0
Other Debt Liabilities	0	Debt Securities	453
Long-term	118	Loans	696
SDR Allocations	97	Trade Credits & Advances	69
Currency & Deposits	0	Other Debt Liabilities	125
Debt Securities	0	Direct Investments: between Enterprises	2 123
Loans	0	Liabilities of Direct Investment Enterprises to Direct Investment Investors	1 316
Trade Credits & Advances	0	Liabilities of Direct Investment Investors to Direct Investment Enterprises	48
Other Debt Liabilities	21	Liabilities to Affiliated Enterprises	759
Other Depository Corporations	8 987	Total External Debt Positions	19 652
Short-term	7 236		

Note: "Short-term" and "Long-term" are decided upon by the signed agreements.

RMB Internationalization

Statistics on RMB Cross-Border Payments and Receipts

RMB100 million

Year	Current Account			Capital Account				RMB Settlements of Cross-Border Trade
	Total	Trade in Goods	Trade in Services and Others	Total	Overseas Direct Investments	Foreign Direct Investments	Other	
2009	26	20	6	71	-	-	71	97
2010	3 501	3 034	467	604	57	224	324	4 105
2011	15 889	13 811	2 078	5 047	266	1 007	3 774	20 936
2012	28 797	26 040	2 757	11 362	312	2 592	8 458	40 159
2013	46 368	41 368	5 000	15 972	867	4 571	10 534	62 340
2014	65 510	58 946	6 564	34 078	2 244	9 606	22 228	99 588
2015	72 344	63 911	8 432	48 698	7 362	15 871	25 465	121 042
2016	52 275	41 209	11 066	46 193	10 619	13 988	21 586	98 468
2017	43 243	32 301	10 942	65 122	4 579	11 961	48 582	108 365
2018	51 069	36 572	14 497	107 466	8 048	18 586	80 832	158 535
Total	379 022	317 212	61 809	334 613	34 354	78 406	221 854	713 635

RMB Financial Assets Held by Overseas Institutions and Persons

RMB100 million

	Jan. 2018	Feb. 2018	Mar. 2018	Apr. 2018	May 2018	Jun. 2018
Stocks	12 835.32	12 043.95	12 016.33	11 978.72	13 237.20	12 752.38
Bonds	12 975.3	13 293.82	13 610.08	14 295.24	14 904.75	16 029.38
Loans	7 779.71	8 120.81	8 417.73	8 547.36	8 136.41	8 243.48
Deposits	11 426.83	11 258.39	11 377.85	10 591.50	11 615.62	11 841.02

	Jul. 2018	Aug. 2018	Sept. 2018	Oct. 2018	Nov. 2018	Dec. 2018
Stocks	12 858.06	12 225.61	12 784.87	11 131.63	11 848.17	11 517.35
Bonds	16 680.80	17 393.34	17 450.35	17 361.50	17 008.97	17 115.94
Loans	8 430.27	8 814.48	9 242.54	9 304.87	9 909.19	9 246.53
Deposits	11 532.87	11 476.64	10 363.62	10 858.62	10 333.86	10 591.55

Flow of Funds Statement, 2017 (Financial Transaction Accounts)

	Households		Non-Financial Corporations		General Government		Financial Institutions	
	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investments	42 482		-56 254		155		24 744	
Financial Uses	121 970		72 537		42 914		381 405	
Financial Sources		79 488		128 791		42 759		356 661
Currency	2 086		211		47			2 342
Deposits	49 603		50 647		36 038		3 976	142 153
Demand Deposits	16 746		22 731		14 509			53 987
Time Deposits	29 513		18 173		13 726			61 411
Fiscal Deposits					5 684			5 684
Foreign Exchange Deposits	-48		5 597		68		-461	5 260
Other Deposits	3 392		4 145		2 052		4 436	15 811
Customer Margin of Securities Companies	-1 466		-1 164		-770		-1 082	-4 598
Loans		77 863		113 137		-21 150	178 203	5 256
Short-term Loans & Discounted Commercial Paper Loans		19 180		9 010			28 189	
Medium & Long-term Loans		53 017		73 489			126 506	
Foreign Exchange Loans		-3		-320		629	3 522	120
Designated Loans		3 464		7 299		-3 561	7 348	144
Other Loans		2 206		23 660		-18 219	12 638	4 991
Undiscounted Bankers' Acceptance Bills			5 381	5 381			5 381	5 381
Insurance Technical Reserves	19 914		1 151			8 256		12 810
Inter-Financial Institution Accounts							24 886	27 545
Required & Excessive Reserves							10 466	10 528
Bonds	643		5 187	2 607	1 371	55 807	91 130	41 412
Government Bonds	537		-3		-128	55 807	53 849	
Financial Bonds	28		1 227		669		38 816	41 412
Central Bank Bonds							9	
Corporate Bonds	77		3 963	2 607	830		-1 544	
Stocks	3 187		5 089	9 922	1 675		2 339	2 114
Securities Investment Funds Shares	6 935		5 506		3 645		5 120	21 754
Cash in Vault							-148	-153
Central Bank Loans							24 731	24 731
Miscellaneous (net)	41 068	1 625	-7 661	818	909	-350	31 765	63 988
Foreign Direct Investments			6 881	11 358				
Changes in Other Foreign Assets & Debts			1 310	549		197	-1 539	1 398
Changes in Reserve Assets							6 179	
Errors & Omissions in the BOP				-14 982				

RMB100 million

All Domestic Sectors		Rest of the World		Total		
Uses	Sources	Uses	Sources	Uses	Sources	
11 127		-11 127				Net Financial Investments
618 826		14 412		633 238		Financial Uses
	607 699		25 538		633 238	Financial Sources
2 344	2 342	-2		2 342	2 342	Currency
140 263	142 153	5 226	3 336	145 489	145 489	Deposits
53 987	53 987			53 987	53 987	Demand Deposits
61 411	61 411			61 411	61 411	Time Deposits
5 684	5 684			5 684	5 684	Fiscal Deposits
5 157	5 260	3 439	3 336	8 596	8 596	Foreign Exchange Deposits
14 025	15 811	1 786		15 811	15 811	Other Deposits
-4 482	-4 598	-116		-4 598	-4 598	Customer Margin of Securities Companies
178 203	175 105	394	3 492	178 597	178 597	Loans
28 189	28 189			28 189	28 189	Short-term Loans & Discounted Commercial Paper Loans
126 506	126 506			126 506	126 506	Medium & Long-term Loans
3 522	426	394	3 490	3 916	3 916	Foreign Exchange Loans
7 348	7 346		2	7 348	7 348	Designated Loans
12 638	12 638			12 638	12 638	Other Loans
10 762	10 762			10 762	10 762	Undiscounted Bankers' Acceptance Bills
21 065	21 065			21 065	21 065	Insurance Technical Reserves
24 886	27 545	4 127	1 468	29 013	29 013	Inter-Financial Institutions Accounts
10 466	10 528	62		10 528	10 528	Required & Excessive Reserves
98 331	99 827	3 359	1 863	101 689	101 689	Bonds
54 255	55 807	1 872	319	56 126	56 126	Government Bonds
40 741	41 412	1 553	881	42 294	42 294	Financial Bonds
9			9	9	9	Central Bank Bonds
3 326	2 607	-66	654	3 260	3 260	Corporate Bonds
12 289	12 036	2 293	2 545	14 581	14 581	Stocks
21 206	21 754	548		21 754	21 754	Securities Investment Funds Shares
-148	-153		4	-148	-148	Cash in Vault
24 731	24 731			24 731	24 731	Central Bank Loans
66 081	66 081			66 081	66 081	Miscellaneous (net)
6 881	11 358	11 358	6 881	18 239	18 239	Foreign Direct Investments
-229	2 145	2 145	-229	1 916	1 916	Changes in Other Foreign Assets & Debts
6 179			6 179	6 179	6 179	Changes in Reserve Assets
	-14 982	-14 982		-14 982	-14 982	Errors & Omissions in the BOP

NOTES ON SECTORS AND ITEMS IN THE FLOW OF FUNDS STATEMENT

Flow of Funds Statement (Financial Transaction Accounts)[1]: Presented in matrix format, financial accounts encompass all financial transactions among the domestic sectors and with the rest of the world. In the accounts, all institutional units are grouped under five sectors: households, non-financial corporations, general government, financial institutions, and the rest of the world, and all financial transactions taking place among the five sectors are classified by the financial instruments. The sectors and financial transactions are listed on the rows and columns of the matrix, respectively. The double-entry flow of funds accounting is based on an accrual basis. In principle, all financial transaction flows are recorded according to the transaction prices. The terms “sources” and “uses” are employed to reflect changes in the financial assets and the financial liabilities of each sector.

Households: Include urban households, rural households, and individual enterprises. This sector is mainly engaged in final consumption, self-serving production, and several profit-making production activities.

Non-financial Corporations: Consist of profit-making resident corporations that have independent accounting and whose principal activity is the production of goods and non-financial services.

General Government: Includes the central government, local governments, government organizations, and social security agencies. They produce and supply non-profit output for public and individual consumption. They also assume responsibilities for redistributing national income and wealth.

Financial Institutions: All financial corporations and quasi-corporations that are mainly engaged in financial intermediary or relevant financial activities. These institutions provide financial services in banking, insurance, and securities sectors.

Rest of the World: Non-resident units that have financial transactions with resident units.

Financial Uses: The total amount in the uses column of each sector.

Financial Sources: The total amount in the sources column of each sector.

Net Financial Investment: The differences between financial uses and financial sources.

Currency[2]: Notes and coins in circulation.

Deposits: All types of deposits of the depository institutions, including demand deposits, time deposits, fiscal deposits, foreign exchange deposits, and others.

Demand Deposits: Deposits that can be withdrawn on demand.

Time Deposits: Deposits that cannot be readily withdrawn because they are subject to a fixed term and prior notice before withdrawal.

Fiscal Deposits: Deposits of the government in banking institutions.

Foreign Exchange Deposits: Foreign exchange-denominated deposits of domestic institutions with domestic financial institutions and the rest of the world, and those of external sector with domestic financial institutions.

Other Deposits: Deposits that are not included in the above categories, such as designated deposits and trust deposits.

Loans: All kinds of loans including short-term loans, bills financing, medium and long-term loans, foreign exchange loans, designated loans, etc.

Short-term Loans and Bills Financing: Loans provided by financial institutions with a short-term maturity (usually within one year or one year) are short-term loans. Bills financing means that the financial institutions offer funds to the clients by discounting the commercial papers, bankers’ acceptance bills, and other papers held by the clients.

1. Some financial transactions are not yet available, such as equity, commercial credit, and certain receivables payable.
2. The volumes of RMB circulation in foreign countries and of foreign currency circulation in our country are limited because statistical investigations are more difficult, hence capital flow accounting does not include the above content.

Medium and Long-term Loans: Loans from financial institutions to enterprises and households with longer maturities (usually more than one year).

Foreign Exchange Loans: Loans in foreign currencies made by domestic financial institutions to non-financial residents and the rest of the world and loans to residents by the rest of the world.

Designated Loans: Loans used and managed for specific targets and goals by banking institutions entrusted by the government, enterprises, households, or other designators that have offered the funds.

Other Loans: Loans that are not classified elsewhere above, such as trust loans, such as trust loans, financial leasing, advances, etc.

Undiscounted Bankers' Acceptance Bills: Bankers' acceptance bills that have not been discounted in financial institutions, which equal all the bankers' acceptance bills minus their discounted parts.

Insurance Technical Reserves: The net equity of social insurance and commercial insurance funds, prepaid insurance premiums and outstanding claim reserves.

Inter-Financial Institution Accounts: Consist of nostro and vostro accounts, interbank lending, and securities repurchases among financial institutions.

Required and Excessive Reserves: Financial institution deposits with the PBC and required reserves.

Bonds: Securities issued by institutions to raise funds and repaid in line with stipulated terms and conditions, including government bonds, financial bonds, central bank bonds, corporate bonds, etc.

Government Bonds: Bonds issued and guaranteed by the government institutions with interest and principal repaid on dates as agreed.

Financial Bonds: Bonds issued by financial institutions, excluding the Central Bank.

Central Bank Bonds: Bonds issued by the Central Bank.

Corporate Bonds: Bonds issued by non-financial corporations.

Stocks[3]: Documents that represent property rights on corporations and entitle the holders to a share of the profits of the corporations and to a share of their net assets.

Securities Investment Fund Shares: Issued by securities investment funds, which represent the quantity of beneficiary certificates to which the investors are entitled.

Cash in Vault: Local and foreign cash reserved for business by banks.

Central Bank Loans: Loans extended by the PBC to financial institutions.

Direct Investments: Foreign direct investments from abroad and outward direct investments made by domestic residents.

Changes in Other Foreign Assets and Debts: Foreign assets and debts that are not included in foreign exchange deposits and loans or in reserve assets.

International Reserve Assets: Refer to external assets held by China's central bank, including foreign exchange, monetary gold, special drawing rights, and reserve positions at the International Monetary Fund (IMF).

Errors and Omissions in the Balance of Payments[4]: Arise from inconsistencies between current account and capital and financial account due to differences in sources and point of time during the process of compiling the Balance of Payments through double-entry accounting.

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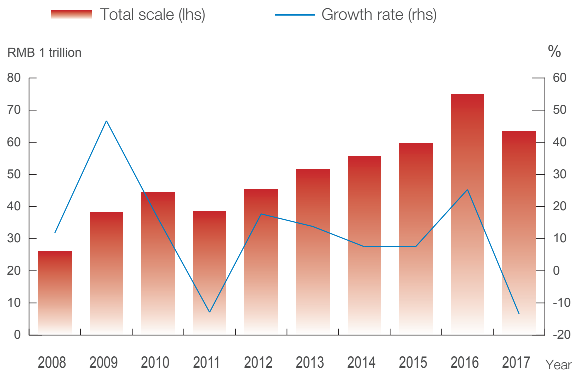
3. Currently only includes the amount of funds financed through listed shares.
4. As it is difficult to identify the size of this item in the current account and that in the capital account, all errors and omissions in the Balance of Payments are presented in the Financial Transaction Accounts of the Flow of Funds Statement.

ANALYSIS OF CHINA'S FLOW OF FUNDS IN 2017

The scale of the flow of funds in the real economy contracted significantly

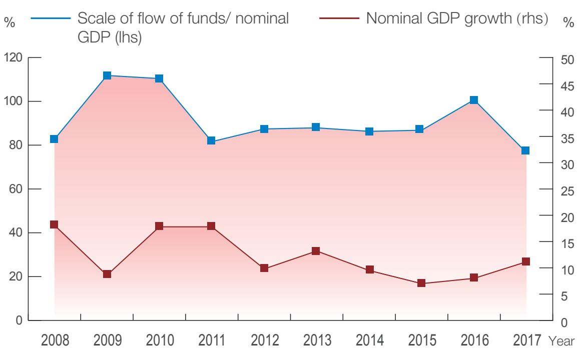
In 2017, China's total flow of funds amounted to RMB63.3 trillion, RMB9.8 trillion less than that in the previous year, down by 13.4 percent. The flow of funds in the real economy was equivalent to 76.6 percent of GDP, 21.7 percentage points lower than that in the previous year (see Figure 1, Figure 2).

Figure 1. Total Scale and Growth of the Flow of Funds in China



Source: People's Bank of China

Figure 2. The Ratio of the Scale of the Flow of Funds to GDP and Nominal GDP Growth



Sources: People's Bank of China and National Bureau of Statistics

There was a slight decrease in the amount of new liabilities and equity financing by domestic non-financial institutions, among which the share of households increased and that of non-financial enterprises and governments decreased

In 2017, new liabilities and equity financing (hereinafter referred to as "new financing") of domestic non-financial institutions (including households, non-financial enterprises, and governments, the same below) amounted to RMB25.1 trillion, which was RMB415.8 billion, or 1.6 percent, less than that during the previous year. New financing of domestic non-financial institutions was equivalent to 30.4 percent of nominal GDP, down by 3.9 percentage points over the previous year.

By sectors, the share of new financing of enterprises and governments was 3.7 and 0.3 percentage points lower than that in the previous year respectively, while that of households was 3.9 percentage points higher. In 2017, the amount of new financing of households, non-financial enterprises, and governments was RMB7.9

Table 1. New Liabilities and Equity Financing of Domestic Non-Financial Institutions in 2017 (By Sector)

	New Increase (RMB100 Million)	YOY Change (RMB100 Million)	YOY Growth (%)	Share (%)	YOY Change (Percentage Points)
Total	251 038	-4 158	-1.6	100.0	–
Households	79 488	8 660	12.2	31.7	3.9
Non-financial Enterprises	128 791	-11 453	-8.2	51.3	-3.7
Governments	42 759	-1 366	-3.1	17.0	-0.3

Source: People's Bank of China

1. Newly increased liabilities and equity financing of the domestic non-financial sector include new loans, bond financing, equity financing, undiscounted banker's acceptance, insurance reserves, external liabilities, and etc..

trillion, RMB12.9 trillion, and RMB4.3 trillion respectively, which was RMB866 billion more, RMB1.1 trillion less, and RMB136.6 billion less than that in the previous year, respectively. In terms of the financing structure, the three sectors accounted for 31.7 percent, 51.3 percent, and 17.0 percent respectively of all new financing of domestic non-financial institutions respectively. Compared with the previous year, the share of households increased by 3.9 percentage points, while that of non-financial enterprises and governments decreased by 3.7 and 0.3 percentage points respectively (see Table 1).

By financing instruments, the scale of loans, undiscounted bankers' acceptances, and insurance reserves were significantly higher than those in the previous year, while bond and equity financing was significantly lower. In 2017, new loans to domestic non-financial institutions, undiscounted bankers' acceptances, and insurance reserves stood at RMB17 trillion, RMB538.1 billion, and RMB825.6 billion respectively, up by 16.4 percent, -127.6 percent, and 4.4 percent respectively over the previous year. Bond and equity financing recorded a net decrease of RMB4.9 trillion and RMB349.2 billion respectively, or 45.7 percent and 26 percent respectively. In terms of the structure of financing instruments, the share of loans (67.7 percent), undiscounted bankers' acceptances (2.1 percent), and insurance reserves (3.3 percent) increased by 10.5, 9.8, and 0.2 percentage points over the previous year respectively, while that of bonds (23.3 percent) and equity financing (4 percent) decreased by 18.9 and 1.3 percentage points respectively (see Table 2).

Table 2. New Liabilities and Equity Financing of Domestic Non-Financial Institutions in 2017 (By Instrument)

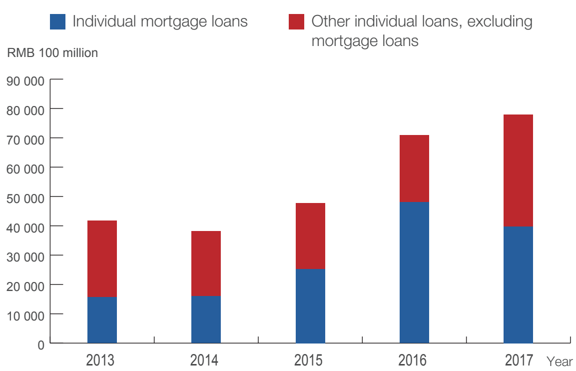
	New Increase (RMB100 Million)	YOY Change (RMB100 Million)	YOY Growth (%)	Share (%)	YOY Change (Percentage Points)
Total	251 038	-4 158	-1.6	–	–
Loans	169 850	23 959	16.4	67.7	10.5
Undiscounted Bankers' Acceptances	5 381	24 912	-127.6	2.1	9.8
Insurance Reserves	8 256	350	4.4	3.3	0.2
Bonds	58 414	-49 130	-45.7	23.3	-18.9
of Which: Corporate Bonds	2 607	-33 730	-92.8	1.0	-13.2
Government Bonds	55 807	-15 400	-21.6	22.2	-5.7
Stocks	9 922	-3 492	-26.0	4.0	-1.3

Source: People's Bank of China

Marginal demand for financing by households was weakened due to factors such as stronger restrictions on housing purchases

In 2017, new liabilities of households amounted to RMB7.9 trillion, RMB866 billion, or 12.2 percent more than that during the previous year, but the growth rate dropped 36.2 percentage points from the previous year. Affected by restrictions on purchases, sales, and loans, the sales of residential commercial housing in China posted RMB11 trillion in 2017, an increase of 11.3 percent, 24.8 percentage points lower than that in the previous year. Personal mortgage loans increased RMB4 trillion, RMB827 billion less than in 2016 (see Figure 3), accounting for 51.1 percent of the new liabilities of households. Although the share decreased by 16.8 percentage points over the prior year, mortgage loans remained the main source of household liabilities.

Figure 3. Structure of New Households' Increased Liabilities



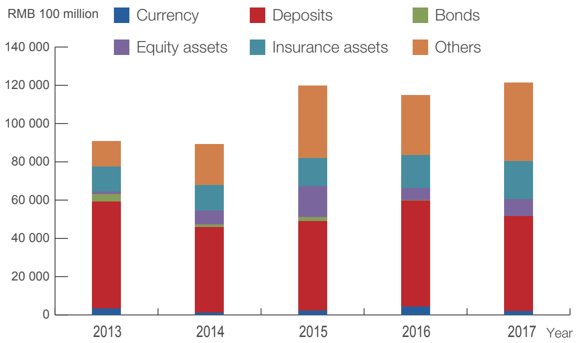
Source: People's Bank of China

2. In flow of funds accounting, loans is a wide-ranging concept, including general loans, entrusted loans, trust loans, wealth management loans, and loans provided by micro lenders and other lenders. Same below.

3. Financing by undiscounted bankers' Acceptances in 2016 was RMB-2 trillion.

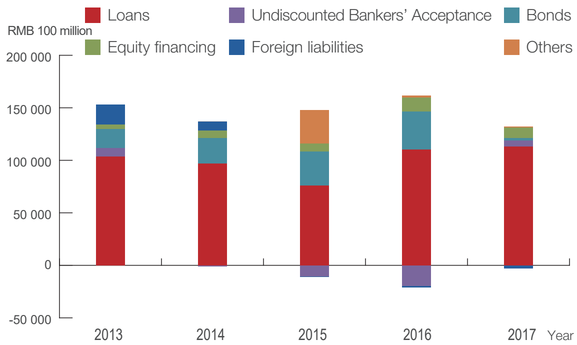
4. In flow of funds accounting, deposits is a wide-ranging concept, including local and foreign currency deposits of financial institutions and entrusted deposits, same below.

Figure 4. Structure of New Households' Increased Financial Assets



Source: People's Bank of China

Figure 5. Structure of Increased New Liabilities and Equity Financing of Non-Financial Enterprises



Source: People's Bank of China

In 2017, new financial assets of the household sector registered RMB12.2 trillion, an increase of RMB327.2 billion over the previous year, or 2.8 percent. From a structural point of view, the allocation of new assets was adjusted, as the share of currency and depository assets decreased, and the share of bonds, wealth management products, and other assets increased. New household deposits posted RMB5 trillion, which was RMB973.1 billion less than that in the previous year, accounting for 40.7 percent of all new financial assets of households, 9.3 percentage points lower than that in the previous year. The incremental amount of other types of household assets, including wealth management products, stood at RMB4.1 trillion, an increase of RMB982.9 billion from that in the previous year, accounting for 33.7 percent of all new financial household assets held, 7.4 percentage points higher than that in the previous year. Incremental stock assets posted RMB172.1 billion during the year, RMB67.5 billion less than that in the previous year, accounting for 1.4 percent of the total and 0.6 percentage point lower than that in the previous year (see Figure 4).

New financial assets and liabilities of non-financial enterprises decreased, and the funding gap continued to grow

In 2017, non-financial enterprises recorded an increase of RMB12.9 trillion in financing, RMB1.1 trillion, or 8.2 percent, less than the increase in the previous year. Among this, loans and undiscounted bankers' acceptances increased compared with the previous year, while bonds and equity financing decreased. New loans issued to non-financial enterprises reached RMB11.3 trillion, an increase of RMB313.3 billion over the previous year, accounting for 87.8 percent of the total new financing of non-financial enterprises, 9.4 percentage points higher than that in the previous year. New bond financing registered an increase of RMB260.7 billion, RMB3.4 trillion less than the increase in the previous year. Undiscounted bankers' acceptances increased by RMB538.1 billion, compared with a net decrease of RMB2 trillion in the last year. Although the IPO in the stock market increased by RMB80.5 billion compared with the previous year, the funds raised through targeted additional share issuances and rights offerings decreased significantly. Equity financing of non-financial enterprises posted RMB992.2 billion in 2017, which was RMB349.2 billion less than the increase in the previous year. The share of indirect financing of non-financial enterprises increased, while that of direct financing decreased correspondingly. Other financial liabilities of non-financial enterprises recorded an increase of RMB81.8 billion, RMB101.7 billion less than the increase during the same period of the previous year (see Figure 5).

Financial assets held by non-financial enterprises posted an increase of RMB7.3 trillion, RMB5.2 trillion, or 41.6 percent, less than the increase in the previous year. Among that, new deposits amounted to RMB5.1 trillion, RMB3.3 trillion less than that in the previous year, accounting for 69.8 percent of the total incremental financial assets of non-financial enterprises, 2.8 percentage points higher than in the previous year. In 2017, the net financial liabilities of non-financial enterprises added RMB5.6 trillion, RMB4 trillion more than that in the previous year.

The incremental liabilities of governments were basically stable and the use of funds was more balanced

In 2017, new liabilities of governments (including governments, government organizations, administrative institutions, and social security funds, same below) stood at RMB4.3 trillion, RMB136.6 billion, or 3.1 percent, less than the increase in the previous year. Among that, loans decreased by RMB2.1 trillion, RMB1.4 trillion less than the decrease in the previous year, and government bond financing increased by RMB5.6 trillion, RMB1.5 trillion less than the increase in the previous year. Insurance reserves increased by RMB825.6 billion, RMB34.96 billion more than the increase in the previous year.

New financial assets of governments stood at RMB4.3 trillion, RMB687.3 billion more than the increase in the previous year. Of this amount, the increase in fiscal deposits reached RMB568.4 billion, RMB487.9 billion more than that in the previous year. The increase in fiscal deposits was mainly due to an 8.14 percent increase in government public revenue, 3.32 percentage points higher than that in the previous year, and a 34.8 percent-increase in government fund revenue, 22.9 percentage points higher than that in the previous year. In addition to fiscal deposits, other deposits increased by RMB3 trillion, RMB77.7 billion less than the increase in the previous year. Other assets increased by RMB687.6 billion, RMB277.1 billion more than the increase in the previous year, which was mainly due to a year-on-year increase of RMB134.6 billion in bonds and other investments by social security departments.

Although there was a balance of RMB3 trillion between fiscal revenue and expenditures, general governments ran a surplus of RMB15.5 billion (fund surplus equals new financial assets minus new liabilities), compared with a deficit of RMB808.4 billion in the previous year, which indicated that the source and use of funds by general governments became more balanced.

The growth of new liabilities and equity financing of financial institutions slowed down significantly

In 2017, new liabilities and equity financing of financial institutions (including the central bank, depository monetary institutions, insurance companies, securities investment funds, and other financial institutions, the same as below) amounted to RMB35.7 trillion, RMB10.5 trillion, or 22.7 percent, less than the previous year, with the decrease expanding by 52.2 percentage points. Among them, deposits increased by RMB14.2 trillion, RMB3 trillion less than the increase during the same period of the previous year; required reserves increased by RMB1.1 trillion, RMB1.6 trillion less than the increase during the same period of the previous year; and bond financing increased by RMB4.1 trillion, RMB753.9 billion less than the increase during the same period of the previous year.

New financial assets held by financial institutions posted RMB38.1 trillion, RMB6.9 trillion, or 15.4 percent, less than the previous year, mainly due to the sharp decline in the growth of bonds, reserve deposits, and central bank loans. In 2017, the amount of bonds held by financial institutions increased by RMB9.1 trillion, RMB6.6 trillion less than the increase in the previous year, accounting for 23.9 percent of the total incremental financial assets of financial institutions, 11 percentage points lower than that in the previous year. The increase in central bank loans amounted to RMB2.5 trillion, RMB1.4 trillion less than that in the previous year, accounting for 6.5 percent of the total, down 2.1 percentage points over the previous year. Due to the lower growth in deposits, the reserve deposits in the financial sector increased by RMB1 trillion, RMB1.6 trillion less than the increase in the previous year, accounting for 2.7 percent of the total, down 3.2 percentage points from the previous year. Loans issued by financial institutions registered an increase of RMB17.8 trillion in 2017, RMB2 trillion more than the increase during the same period of the previous year, comprising 46.7 percent of the total incremental financial assets of financial institutions, up 11.6 percentage points over the previous year.

The increase in China's net foreign financial assets was smaller than that in 2016

In 2017, China's foreign financial assets recorded an increase of RMB2 553.8 billion (Chinese funds used by the external sector), among which ODI increased by RMB688.1 billion, RMB754.6 billion less than the increase during the same period of the previous year. Among China's external transactions, the amount of liabilities and equity financing (foreign funds used by China) increased by RMB1 441.2 billion. Net foreign financial assets increased by RMB1.1 trillion, RMB189.4 billion less year on year.

APPENDIXES

Chronology

January

4 Jan. The People's Bank of China (PBC) and the Bank of China Taipei Branch renewed the *Agreement on RMB Clearing Business*.

5 Jan. The PBC and Bank Indonesia signed the *Agreement on the Establishment of a Bank Indonesia Representative Office in Beijing*.

To implement the *Notice of the State Council on Several Measures for Promoting Foreign Trade Growth* and to optimize policies on cross-border RMB business, the PBC published the *Notice on Further Improving Policies for Cross-Border RMB Business to Promote Trade and Investment Facilitation*, clarifying that cross-border transactions that could be legally settled in foreign currencies may also be settled in RMB.

7~8 Jan. Zhou Xiaochuan, then Governor of the PBC, attended the All Governors' Meeting of the Bank for International Settlements (BIS) in Basel, Switzerland.

11 Jan. National commercial banks began to access the 30-day contingent reserve arrangement.

12 Jan. The PBC published the *Guiding Opinion on Services to Open Corporate Accounts*, requiring that PBC branches and financial institutions optimize corporate account opening services by taking into account both efficiency and risk prevention, and enhancing corporate account-opening management to help improve the business environment and to promote high-quality development of the corporate sector.

The PBC published the *Notice on Issues Concerning Improving Classified Management of Personal Bank Accounts* in an attempt to deepen the reform of personal bank accounts and to optimize personal bank account services by effectively implementing classified management.

19 Jan. The PBC, the State Oceanic Administration, the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology, the Ministry of Finance (MOF), the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC) jointly released the *Guiding Opinion on Improving and Enhancing Financial Services for the Development of the Oceanic Economy*, which will coordinate financial assets to improve and enhance financial services for the development of the oceanic economy to pursue a move toward quality and efficiency in the oceanic economy.

22~25 Jan.

Yi Gang, then Deputy Governor of the PBC, accompanied Liu He, then Director of the General Office of the Central Leading Group for Financial and Economic Affairs, to Switzerland to attend the 2018 World Economic Forum Annual Meeting.

25 Jan.

Targeted cuts in the reserve requirement ratios for financial inclusion were introduced on a full scale.

30 Jan.

The PBC and the CBRC sent a joint letter to the European Commission, the Council of the European Union (EU), and the European Parliament, commenting on the EU's proposal on the supervision of intermediate parent undertakings.

31 Jan.

The PBC approved the business application of Baihang, which became China's first market-oriented personal credit reference firm.

February

5 Feb.

The PBC published the *Notice on the Special Clean-up of Wrongdoings in Poverty Alleviation through Financial Support*, announcing its plan to spend about one year to address various problems in poverty alleviation through financial support. This is intended to strengthen the synergy of financial support for poverty alleviation and to ensure its success.

The PBC published the *Notice on Issues Concerning Stronger Supervision and Regulation of Green Financial Bonds Before Maturity* to improve supervision and regulation throughout the maturity of green financial bonds and to improve information transparency.

5~6 Feb.

The 2018 Work Conference of the PBC was held in Beijing. All delegates studied Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era as well as the decisions of 19th National Congress of the Communist Party of China (CPC), the Central Economic Work Conference, and the National Financial Work Conference. During the meeting, the PBC reviewed its work in 2017, analyzed current economic and financial developments, and formulated the 2018 work plan.

9 Feb.

The PBC decided to appoint JP Morgan Chase & Co. as one of the RMB clearing banks in the US.

11 Feb.

The China financial inclusion report, *Toward Universal Financial Inclusion in China: Models, Challenges, and Global Lessons*, was jointly released by the PBC and the World Bank Group.

27 Feb.

The PBC published Public Notice No. 3 of 2018, which regulates bond issuances of banking institutions to replenish capital in a bid to improve their capacity to absorb losses.

27 Feb.~ 3 Mar.

Yi Gang, then Deputy Governor of the PBC, accompanied Liu He, then Director of the General Office of the Central Leading Group for Financial and Economic Affairs, to the US for consultations on Sino-US economic and trade cooperation.

March

15 Mar.

The PBC published the *Notice on the Pilot Program for Verifying Expired Resident IDs and Non-Resident IDs* to provide effective technical means for banking institutions to identify the validity of resident IDs and the authenticity of non-resident IDs presented by clients.

17~18 Mar.

Zhou Xiaochuan, then Governor of the PBC, attended the All Governors' Meeting of the Bank of International Settlements in Buenos Aires, Argentina.

19~20 Mar.

Zhou Xiaochuan, then Governor of the PBC, attended the first G20 Finance Ministers and Central Bank Governors' Meeting in 2018 in Buenos Aires, Argentina.

21 Mar.

The PBC published Public Notice No. 7 of 2018, which eased market access for foreign-invested payment firms and established market access rules and regulatory requirements.

22~25 Mar.

Chen Yulu, Deputy Governor of the PBC, attended the 59th Annual Meeting of the Board of Governors of the Inter-American Development Bank (IDB) held in Mendoza, Argentina. The Board of Governors voted unanimously in favor of holding its 60th Annual Meeting in Chengdu, China, from March 28 to 31, 2019.

23 Mar.

Approved by the State Council, the PBC decided to end the circulation of the 4th series of RMB, including banknotes in denominations of RMB 100, 50, 10, 5, 2, 1, and 0.2, and coins denominated in RMB 0.1, effective from May 1, 2018.

26 Mar.

China launched trading of RMB-denominated crude oil futures contracts on the Shanghai International Energy Exchange.

30 Mar.

The PBC issued the *Announcement on Open Market Operations* No. 2 of 2018 and adjusted the assessment framework for primary dealers in open market operations.

The PBC and the Reserve Bank of Australia renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB200 billion/AU$40 billion.

31 Mar.

The second generation of the Treasury Information Processing System (TIPS) was launched.

April

3 Apr.

The PBC and the Bank of Albania renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB2 billion/34.2 billion Albanian leke.

8~11 Apr.

Yi Gang, Governor of the PBC, attended the opening ceremony of the 2018 Boao Forum For Asia Annual Conference and the session on “Monetary Policies: Back to Normal.” Governor Yi announced specific measures and a timetable for the further opening up of China’s financial sector, and he answered questions from the press regarding China’s monetary policy, Sino-US trade tensions, and financial regulation.

11 Apr.

The PBC and the South African Reserve Bank renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB30 billion/54 billion South African rand.

12 Apr.

A ceremony to launch the China-International Monetary Fund (IMF) Capacity Development Center was held in Beijing.

18 Apr.

The PBC published the *Opinion on Strengthening Macro Credit Policy Guidance and Promoting Better Financial Services for the Real Economy* to provide guidance to macro credit policy so as to boost its impact on structural economic adjustments. This was intended to encourage banking institutions to return to their original mandate of serving the real economy and preventing risks.

18~22 Apr.

Yi Gang, Governor of the PBC, visited Washington DC, for the 2018 Spring Meetings of the IMF and the World Bank Group, the second G20 Finance Ministers and Central Bank Governors’ Meeting in 2018, and the first BRICS Finance Ministers and Central Bank Governors’ Meeting in 2018.

20 Apr.

The General Office of the PBC published the *Notice on Further Clarifying Issues Concerning the Administration of Overseas Portfolio Investments by RMB Qualified Domestic Institutional Investors* to further regulate overseas portfolio investments by RMB Qualified Domestic Institutional Investors (RQDII).

25 Apr.

The PBC published the *Notice on Further Strengthening Security Management of Credit Information*.

The PBC cut the reserve requirement ratios for RMB deposits by 1 percentage point for large commercial banks, joint-equity commercial banks, city commercial banks, non-county-level rural commercial banks, and foreign banks in a move to replace the maturing medium-term lending facility and to support the financing of small and micro businesses.

27 Apr.

The PBC, the China Banking and Insurance Regulatory Commission (CBIRC), and the CSRC jointly published the *Guiding Opinion on Strengthening Regulation of Investments in Financial Institutions by Non-Financial Enterprises* as part of the efforts to strengthen supervision of investment behavior of non-financial enterprises.

The PBC and the Central Bank of Nigeria signed a bilateral local currency swap agreement. The size of swap facility is RMB15 billion/720 billion Nigerian Naira.

28 Apr.

The PBC, the CBIRC, the CSRC, and the State Administration of Foreign Exchange (SAFE) jointly published the *Guiding Opinion on Regulating the Asset Management Business of Financial Institutions* in an attempt to regulate the asset management business of financial institutions and to converge regulatory standards for the same type of asset management product.

May

2 May. The RMB Cross-Border Interbank Payment System (Phase II) was put into operation. Eligible direct participants simultaneously began operations.

3~4 May. Yi Gang, Governor of the PBC, accompanied Vice Premier Liu He to discuss Sino-US economic and trade issues with the US delegation headed by US Treasury Secretary Steven Mnuchin.

4 May. The Dalian Commodity Exchange introduced overseas players to the trading of RMB-denominated iron ore futures.

6~7 May. Yi Gang, Governor of the PBC, attended the All Governors' Meeting of the BIS in Basel, Switzerland. Governor Yi was elected a voting member of the Board and appointed a member of the BIS Banking and Risk Management Committee by the Board of Directors.

8~10 May. Chen Yulu, Deputy Governor of the PBC, attended the 27th Annual Meeting of the European Bank for Reconstruction and Development (EBRD) in Jordan.

9 May. The pilot RMB Qualified Foreign Institutional Investor (RQFII) scheme was expanded to Japan, with an investment quota of RMB200 billion.

Yi Gang, Governor of the PBC, accompanied Premier Li Keqiang to Japan for the 7th China-Japan-South Korea Trilateral Summit.

10 May. The PBC and the National Bank of the Republic of Belarus renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB7 billion/2.22 billion Belarusian rubles.

16 May. The General Office of the PBC published the *Notice on Issues Concerning Further Improving Management of Cross-Border Fund Flows and Supporting the Opening up of the Financial Market* to further improve cross-border flow management and advance the opening-up of the financial market.

17~18 May. Yi Gang, Governor of the PBC, accompanied Vice Premier Liu He to the US for continued consultations on Sino-US economic and trade issues.

21~25 May. Chen Yulu, Deputy Governor of the PBC, attended the Annual Meetings of the Boards of Governors of the African Development Bank Group in Busan, South Korea.

22~24 May. Pan Gongsheng, Deputy Governor of the PBC, attended the 54th Deputies' Meeting and related meetings of the Executives' Meeting of East Asia Pacific Central Banks (EMEAP) in Singapore.

22~25 May. The PBC hosted the 28th Plenary and Working Group meetings of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) in Nanjing, Jiangsu. Liu Guoqiang, then Assistant Governor, attended the plenary session and delivered remarks.

23 May. The PBC and the State Bank of Pakistan renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB20 billion/351 billion Pakistani rupees.

25 May. The PBC and the Banco Central de Chile renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB22 billion/2 200 billion Chilean pesos.

28 May. The PBC and the National Bank of Kazakhstan renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB7 billion/350 billion Kazakhstani tenges.

June

1 Jun. The PBC decided to accept assets including AA and AA-and-above rated financial bonds backed by credit to small businesses, the green economy, agriculture, farmers, rural areas, and corporate bonds with AA+ and AA ratings, and quality loans to small and green businesses as collateral for the medium-term lending facility (MLF).

2~3 Jun. Yi Gang, Governor of the PBC, accompanied Vice Premier Liu He to discuss Sino-US economic and trade issues with the US delegation headed by US Secretary of Commerce Wilbur L. Ross.

6 Jun. The CPC PBC Committee endorsed the *Guiding Opinion on Strictly Splitting Official and Personal Affairs When the Staff of the People's Bank of China Fulfills their Mandate, the Regulations on Avoiding Conflicts of Interest When the Staff of the People's Bank of China Fulfills its Mandate (Provisional)*, and the *Regulations on Accountability of the People's Bank of China in Fulfilling its Mandate* as part of its efforts to firmly improve party governance. It intends to continuously intensify oversight and constrain the exercise of power to efficiently accomplish the mandate of the central bank.

11 Jun. The PBC and the SAFE jointly published the *Notice on the Administration of Domestic Portfolio Investments by RMB Qualified Foreign Institutional Investors* to regulate domestic portfolio investments by RMB Qualified Foreign Institutional Investors (RQFII).

23~24 Jun. Chen Yulu, Deputy Governor of the PBC, attended the All Governors' Meeting of the BIS in Basel, Switzerland.

25 Jun. The PBC, the CBIRC, the CSRC, the NDRC, and the MOF jointly released the *Opinion on Further Deepening Financial Services for Small and Micro Businesses*, announcing 23 policy measures in 8 dimensions to optimize financial services for small and micro business and to improve access and the adequacy of financing to these businesses. The move was expected to help achieve the objective of boosting financial services for small and micro businesses and lowering their financing costs.

27 Jun. The Monetary Policy Committee (MPC) of the PBC held its second quarterly meeting in 2018.

28 Jun. The General Office of the PBC published the *Notice on Boosting Central Bank Lending and the Central Bank Discount Window to Encourage Financial Institutions to Increase Loans to Small and Micro Businesses* to further step up central bank lending and discounts by improving credit policy and accepting AA-and-above rated financial bonds of small businesses, the green economy, agriculture, farmers, rural areas, and corporate bonds with AA+ and AA ratings as collateral for credit-policy oriented central bank lending and the standing lending facility (SLF). In the meantime, the quota for central bank lending and discounts was increased by RMB150 billion to encourage financial institutions to increase the credit supply to small and micro businesses.

29 Jun. The PBC and four other authorities jointly held a teleconference on a national initiative to deepen financial services for small and micro businesses, pointing out that financial services for small and micro businesses are crucial to serve the real economy and to prevent and mitigate financial risks. It is required that implementation of the policies should be enhanced in a move to substantially improve financial services for small and micro businesses.

July

5 Jul. The PBC cut the reserve requirement ratios for RMB deposits by 0.5 percentage point for large state-owned commercial banks, joint-equity commercial banks, postal savings banks, city commercial banks, non-county-level rural commercial banks, and foreign banks in a move to support market-oriented and law-based debt-for-equity swaps as well as financing by small and micro businesses.

5~8 Jul. Yi Gang, Governor of the PBC, accompanied Premier Li Keqiang on an official visit to Bulgaria for the 7th Summit of China and the Central and Eastern European Countries.

9 Jul. Yi Gang, Governor of the PBC, accompanied Premier Li Keqiang to Germany for the Fifth Round of Sino-German Inter-governmental Consultations.

9~27 Jul. The Financial Action Task Force (FATF) evaluation team conducted an on-site evaluation of China's anti-money laundering and combating against the financing of terrorism (AML/CFT). Yi Gang, Governor of the PBC， attended a briefing on the preparatory work and gave guidance on follow-up work arrangements. Guo Shuqing, Secretary of the CPC PBC Committee, met with the evaluation team, and Liu Guoqiang, Deputy Governor of the PBC, attended the opening session of the evaluation meeting and delivered some remarks.

12 Jul. The PBC released a Public Notice on cracking down on behavior that refuses cash payments to further regulate payments selections by economic agents.

20 Jul. The PBC published the Notice on Further Clarifying the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions.

21~22 Jul. Chen Yulu, Deputy Governor of the PBC, attended the third G20 Finance Ministers and Central Bank Governors Meeting in 2018, and the second BRICS Finance Ministers and Central Bank Governors Meeting in 2018 in Buenos Aires, Argentina.

25~27 Jul. The 10th BRICS Summit was held in Johannesburg, South Africa. Yi Gang, Governor of the PBC accompanied President Xi Jinping to the Summit. Discussions were held on the theme of the "BRICS in Africa: Collaboration for Inclusive Growth and Shared Prosperity in the 4th Industrial Revolution." The Summit acknowledged positive progress in financial cooperation, such as preparations for establishing a BRICS Local Currency Bond Fund and improving contingency arrangements.

August

1 Aug. The PBC held a teleconference on work plans for the second half of 2018. The meeting was held to thoroughly implement the arrangements of the CPC Central Committee and the State Council on economic and financial work, review performance in the first half of 2018, analyze current economic and financial developments at home and abroad, and identify priorities for the second half of the-year.

3 Aug. The PBC published the Notice on Adjusting Policies on Foreign Exchange Risk Reserves, raising the ratio of the foreign exchange risk reserve requirement from 0 to 20 percent, effective August 6, 2018, in a move to strengthen macro-prudential management and prevent macro financial risks.

20 Aug. The PBC and the Bank Negara Malaysia renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB180 billion/110 billion Malaysian ringgits.

27 Aug. The PBC, the CBIRC, and the Office of the Central Cyberspace Affairs Commission launched a campaign dubbed the Financial Knowledge Outreach Month and Bringing the Financial Knowledge to Households, which is also known as Improving Public Financial Literacy and Aspiring to Be Good Financial-Net-Citizens.

September

4 Sep.

The PBC and the CSRC jointly published Public Notice No. 14 of 2018 to further promote bond market connectivity and to regulate development of the credit-rating industry.

The PBC published the Notice on Optimizing the Administration of Central Bank Lending for Poverty Alleviation and selected 12 provinces (autonomous regions and municipalities), such as Henan and Yunnan provinces, as pilot regions for a loan pricing mechanism to optimize central bank loans for poverty alleviation.

The PBC and the All-China Federation of Industry and Commerce co-hosted a symposium on financial services for private, small, and micro businesses. This was intended to better understand the situation of financial services for such firms, build a communications platform for banks and enterprises, and promote synergy so as to step up support for private, small, and micro businesses.

9~10 Sep.

Guo Shuqing, Secretary of the CPC PBC Committee, attended the All Governors' Meeting of the BIS in Basel, Switzerland.

11 Sep.

The PBC and the MOF jointly published the Interim Measures for the Administration of Bond Issuances by Overseas Institutions in the Interbank Bond Market to promote the opening-up of China's interbank bond market and to regulate bond issuances by overseas institutions.

12 Sep.

The China gold panda coin was listed on the Shanghai Gold Exchange.

16~21 Sep.

Pan Gongsheng, Deputy Governor of the PBC, accompanied Vice Premier Han Zheng to Russia for a regular China-Russia bilateral meeting, and to Singapore for the 14th meeting of the China-Singapore Joint Council for Bilateral Cooperation and related meetings.

20 Sep.

The PBC and the Hong Kong Monetary Authority signed the Memorandum of Cooperation on Using Central Money-Market Units for Issuance of PBC Bills as part of efforts to facilitate bill issuances in Hong Kong, which will help diversify RMB financial products with high credit ratings and improve the RMB bond yield curve in Hong Kong.

26 Sep.

The MPC of the PBC held its third quarterly meeting in 2018.

27~28 Sep.

Chen Yulu, Deputy Governor of the PBC, attended the 19th meeting of the Financial Cooperation Subcommittee under the Committee for Regular Meetings between the Chinese and Russian prime ministers in Shenzhen.

29 Sep.

The PBC, the CBIRC, and the CSRC jointly promulgated the Administrative Measures for Anti-Money Laundering and Combating the Financing of Terrorism on Online Financial Institutions (Provisional).

October

9 Oct.

The PBC, the CBIRC, the CSRC, and the SAFE co-hosted a national work conference in Beijing on anti-money laundering in the financial sector. Yi Gang, Governor of the PBC, delivered a speech at the conference, and Liu Guoqiang, Deputy Governor of the PBC, chaired the conference.

10~14 Oct.

Yi Gang, Governor of the PBC, and Chen Yulu, Deputy Governor of the PBC, attended the IMF-World Bank Annual Meetings in Bali, Indonesia. Governor Yi and Deputy Governor Chen also attended the G20 Finance Ministers and Central Bank Governors Meeting. Governor Yi joined the Group of Thirty (G30) International Banking Seminar, and Deputy Governor Chen attended the BRICS Finance Ministry and Central Bank Deputies' Meeting.

11 Oct.

The PBC issued a Public Notice on launching tri-party repos in the interbank bond market.

13 Oct.

The PBC and the Bank of England renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB350 billion/£40 billion.

15 Oct.

The PBC cut the reserve requirement ratios for RMB deposits by 1 percentage point for large commercial banks, joint-equity commercial banks, city commercial banks, non-county-level rural commercial banks, and foreign banks in a move to replace the maturing medium-term lending facility and to support the financing of small, micro, private, and innovative firms.

15~16 Oct.

Yi Gang, Governor of the PBC, visited Hong Kong for a high-level seminar commemorating the 20th Anniversary of the BIS Representative Office for Asia and the Pacific. Governor Yi also attended a conference on the exchange rate and the monetary policy framework co-hosted by the Hong Kong Monetary Authority and the BIS.

22 Oct.

Approved by the State Council and in line with law-based and market-oriented principles, the PBC offered guidance to develop bond-financing tools for private businesses to stabilize and promote bond financing by private businesses.

The PBC and the Bank of Japan signed the Memorandum of Cooperation on Establishing RMB Clearing Arrangements in Japan and appointed the Bank of China Tokyo Branch as a RMB clearing bank in Japan.

23 Oct.~ 9 Nov.

The Office of State Council Financial Stability and Development Commission conducted on-site inspections of financial services for private, small, and micro businesses in 7 key provinces, including Guangdong, Fujian, Anhui, Zhejiang, Jiangsu, Liaoning, and Sichuan.

26 Oct.

The PBC and the Bank of Japan signed a bilateral local currency swap agreement. The size of the swap facility is RMB200 billion/JP¥3.4 trillion.

The PBC published the Notice on Stepping up Central Banking Lending and the Central Bank Discount Window to Support Small Businesses and to Encourage Financial Institutions to Increase Loans to Small, Micro, and Private Businesses. The quota for central bank lending and discounts was raised by RMB150 billion to encourage financial institutions to increase the credit supply to small, micro, and private businesses.

November

6 Nov. The third "1+6" Roundtable was held in Beijing. Yi Gang, Governor of the PBC, accompanied Premier Li Keqiang to meet with Jim Yong Kim, then President of the World Bank Group; Christine Lagarde, IMF Managing Director; Roberto Azevedo, Director-General of the World Trade Organization; Angel Gurria, Secretary-General of the Organization for Economic Co-operation and Development; Mark Carney, Chairman of the Financial Stability Board, and Deborah Greenfield, Deputy Director-General of the International Labor Organization .

7 Nov. The PBC issued RMB20 billion worth of bills through the Central Money Market Unit in Hong Kong, including RMB10 billion in 3-month bills and RMB10 billion in 1-year bills, with coupon rates of 3.79 percent and 4.20 percent respectively.

9~10 Nov. Yi Gang, Governor of the PBC, visited Budapest, Hungary, for the meeting of central bank governors from China and the Central and Eastern European countries.

11~12 Nov. Yi Gang, Governor of the PBC, attended the All Governors' Meeting of the BIS in Basel, Switzerland.

12 Nov. Chen Yulu, Deputy Governor of the PBC, attended the first China-Canada Economic and Financial Strategic Dialogue.

14 Nov. Chen Yulu, Deputy Governor of the PBC, attended the Central Asia Investment Forum co-hosted by the PBC and the EBRD and exchanged views on the Belt and Road Initiative, EBRD activities, and connections with the development strategies of the Central Asian countries.

15 Nov. The PBC, the MOF, and the CBIRC jointly published the Notice on Introducing Over-the-Counter Local Government Bond Business in the Interbank Bond Market to diversify OTC bond products and to promote a multi-tiered bond market.

16 Nov. The PBC and the Bank Indonesia renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB200 billion/440 trillion Indonesian rupiah.

20 Nov. The PBC and the Bangko Sentral ng Pilipinas signed the Memorandum of Cooperation on Establishing RMB Clearing Arrangements in the Philippines.

23~24 Nov. Yi Gang, Governor of the PBC, attended the 10th Tripartite Governors' Meeting among the PBC, the Bank of Japan, and the Bank of Korea, in Tianjin, China.

26 Nov. The PBC, the CSRC and the NDRC jointly published the Opinion on Further Enhancing Bond Market Law Enforcement to intensify law enforcement, strengthen coordination and cooperation, and build up a single bond market law enforcement mechanism.

By integrating its networks, the TIPS achieved full coverage in terms of geographic locations, collection agencies, and business varieties.

26~27 Nov. Yi Gang, Governor of the PBC, accompanied Vice Premier Liu He to the 8th Hamburg Summit of the China-Europe Forum.

27 Nov. The PBC, the CBIRC and the CSRC jointly published the Guiding Opinion on Improving Regulation of Systemically Important Financial Institutions.

28~30 Nov.

Chen Yulu, Deputy Governor of the PBC, hosted the 55th Executives' Meeting of Deputies of East Asia Pacific Central Banks (EMEAP) and attended the 24th EMEAP Monetary and Financial Stability Committee Meeting, the 27th Pan Asia Index Fund Supervisory Committee Meeting and the 31st EMEAP Asian Bond Fund Oversight Committee Meeting in Kunming.

30 Nov.

Overseas investors were given access to futures trading of RMB-denominated Pure Terephthalic Acid.

30 Nov.~ 1 Dec.

The 13th G20 Leaders' Summit was held in Buenos Aires, Argentina. President Xi Jinping, accompanied by Yi Gang, Governor of the PBC, attended the Summit and delivered important speeches. The Summit endorsed a number of documents, including the G20 Buenos Aires Communiqué and the Buenos Aires Action Plan. During the Summit, Governor Yi also attended the bilateral meeting between President Xi and US President Trump.

December

4 Dec.

The General Office of the PBC published the Notice on the Gold Asset Management Business, stipulating that only financial institutions are allowed to engage in gold asset management and to register with the PBC and clarifying that only financial institutions and gold exchanges approved by the State Council and the financial regulatory authorities are allowed to provide registration and custodian services.

7 Dec.

The 6th China-France High-Level Economic and Financial Dialogue was held in Paris, France. Vice Premier Hu Chunhua and French Minister of the Economy and Finance Bruno Le Maire co-chaired the dialogue. Chen Yulu, Deputy Governor of the PBC, as a member of the Chinese delegation, delivered remarks during the dialogue. The dialogue was concluded with 68 outcomes.

10 Dec.

The PBC and the National Bank of Ukraine renewed the bilateral local currency swap agreement. The size of the renewed swap facility is RMB15 billion/62 billion Ukrainian hryvnia.

10~14 Dec.

A Chinese delegation headed by the PBC held a consultation with the evaluation team comprising the IMF and the FATF in Washington DC. China's AML/CFT mutual evaluation report saw a substantial increase in its overall rating, marking a major breakthrough in mutual assessments.

11 Dec.

The General Office of the PBC published the Interim Administrative Measures for Online Gold Business at Financial Institutions and the Interim Administrative Measures for Gold Deposits, which clearly spell out the connotation of online gold business and gold deposits, who can engage in the business, the minimum unit of gold deposits, qualifications for selling gold products, and prohibited matters.

21 Dec.

The PBC published the Notice on Establishing a Targeted Medium-Term Lending Facility to Support Financing by Small, Micro, and Private Businesses, deciding to add the targeted medium-term lending facility starting from January 2019 to encourage financial institutions, including commercial banks, to allocate more funds to the real economy, especially to key sectors, such as small, micro, and private businesses.

25 Dec.

The Office of the State Council Financial Stability and Development Commission held a special meeting on exploring multi-pronged support for capital replenishments by commercial banks, including initiating the issuance of perpetual bonds as soon as possible.

The meeting of the PBC leading group on poverty alleviation and development and the symposium on targeted poverty alleviation were simultaneously held in Beijing and Tongchuan.

26 Dec.

The MPC of the PBC held its fourth quarterly meeting in 2018.

MAJOR RULES AND ADMINISTRATIVE DOCUMENTS PROMULGATED IN 2018

No.	Document Number	Title (Main Content)	Date
1	Decree [2018] No. 1	Announcements on the results of the regulatory clean-ups	02.12
2	Decree [2018] No. 2	Revision of the *Administrative Measures for Large-Value and Suspicious Transactions Reported by Financial Institutions*	07.26
3	Decree [2018] No. 3	PBC rule-making procedures and administration	10.08
4	Announcement [2018] No. 1	Designation of an RMB clearing bank in the US	02.11
5	Announcement [2018] No. 2	Announcement on the results of the cleanup of normative documents	02.24
6	Announcement [2018] No. 3	Issues concerning the issuance of capital replenishment bonds by banking financial institutions in the interbank bond market	02.27
7	Announcement [2018] No. 6	Ending the circulation of some of the 4th series of RMB banknotes and coins	03.23
8	Announcement [2018] No. 7	Issues concerning foreign investment in payment agencies	03.21
9	Announcement [2018] No. 14	Issues concerning the administration of credit-rating agencies	09.07
10	Announcement [2018] No. 15	Abolition the *Interim Administrative Measures for RMB Bond Issuances by International Development Agencies*	09.11
11	Announcement [2018] No. 16	*Interim Measures for the Administration of Bond Issuances by Overseas Institutions in the Interbank Bond Market*	09.11
12	Announcement [2018] No. 18	Launching tri-party repos in the interbank bond market	10.11
13	Announcement [2018] No. 21	Designating an RMB clearing bank in Japan	10.24
14	Document [2018] No. 3	*Notice on Further Improving Policies on Cross-Border RMB Business to Promote the Facilitation of Trade and Investment*	01.05
15	Document [2018] No. 7	*Guiding Opinion on Improving and Enhancing Financial Services for the Development of the Ocean Economy*	01.19
16	Document [2018] No. 16	*Notice on Issues Concerning Improving the Classified Management of Personal Bank Accounts*	01.12
17	Document [2018] No. 29	*Notice on Issues Concerning Stronger Supervision and Regulation of Green Financial Bonds Before Maturity*	02.05
18	Document [2018] No. 60	*Notice on the Pilot Program for Verifying Expired Resident IDs and Non-Resident IDs*	03.15
19	Document [2018] No. 72	*Notice on Publishing the Business Rules for the Cross-Border Interbank Payment System*	03.23
20	Document [2018] No. 102	*Notice on Further Strengthening Security Management of Credit Information*	04.25
21	Document [2018] No. 106	*Guiding Opinion on Regulating the Asset Management Business of Financial Institutions*	04.28
22	Document [2018] No. 107	*Guiding Opinion on Strengthening Regulation of Investments in Financial Institutions by Non-Financial Enterprises*	04.27
23	Document [2018] No. 125	*Notice on Cancelling the Issuance of Licenses for the Opening of Corporate Bank Accounts on a Trial Basis*	05.18
24	Document [2018] No. 152	*Notice on Revising the Administrative Measures for the Electronic Commercial Draft System and Three Other Regulations*	06.06
25	Document [2018] No. 157	*Notice on the Administration of Domestic Portfolio Investments by RMB Qualified Foreign Institutional Investors*	06.11
26	Document [2018] No. 159	*Notice on Improving Administration of the Buying and Selling of RMB*	06.13
27	Document [2018] No. 162	*Opinion on Further Deepening Financial Services for Small and Micro Businesses*	06.25
28	Document [2018] No. 163	*Notice on the Requirements for Reporting of Large-Value Transactions by Non-Bank Payment Agencies*	06.26
29	Document [2018] No. 164	*Notice on Issues Related to Better Identifying Beneficial Ownership*	06.28

No.	Document Number	Title (Main Content)	Date
30	Document [2018] No. 171	*Approval of the Pilot Program for Innovations in Financial Standards in Chongqing Municipality and Zhejiang Province*	07.09
31	Document [2018] No. 176	*Notice on Strengthening Administration of the Cross-Border Financial Network and Information Services*	07.17
32	Document [2018] No. 180	*Notice on Launching Evaluations of the Performance of Green Credit by Banking Depository Financial Institutions*	07.18
33	Document [2018] No. 230	*Administrative Measures for Anti-Money Laundering and Combating the Financing of Terrorism at Online Financial Institutions (Provisional).*	09.29
34	Document [2018] No. 237	*Notice on Publishing Technical Standards for Rural Financial Inclusion and Outlets for Payment Service*	10.15
35	Document [2018] No. 243	*Notice on Implementing Industrial Standards on the Classified Statistics and Codes on Financial Consumer Complaints about Banking Financial Institutions*	10.16
36	Document [2018] No. 283	*Notice on Introducing the Over-the-Counter Local Government Bond Business in the Interbank Bond Market*	11.15
37	Document [2018] No. 296	*Opinion on Further Enhancing Law Enforcement of the Bond Market*	11.26
38	Document [2018] No. 297	*Notice on Strengthening the Administration of Required Reserves*	11.26
39	Document [2018] No. 301	*Guiding Opinion on Improving Regulation of Systemically Important Financial Institutions*	11.27
40	Document [2018] No. 310	*Notice on Publishing Standards for the Description of Basic Information on Collateral at Commercial Banks*	12.11
41	Document [2018] No. 343	*Opinion on Implementing the Action Plan for Advancing the Extensive Deployment of Internet Protocol Version 6 (IPv6) in the Financial Sector*	12.27
42	Document [2018] No. 345	*Notice on Publishing the Overall Plan for Building the Guangxi Zhuang Autonomous Region into a Financial Opening-up Gateway to the Association of Southeast Asian Nations*	12.28
43	Document [2018] No. 349	*Notice on Publishing the Elements and the Interpretation of Large-Value Transaction Reporting by Non-Bank Payment Agencies*	12.29
44	General Office Document [2018] No. 81	*Notice on Further Clarifying Issues Concerning the Administration of Overseas Portfolio Investments by RMB Qualified Domestic Institutional Investors*	04.20
45	General Office Document [2018] No. 96	*Notice on Issues Concerning Further Improving Management of Cross-Border Fund Flows and Supporting the Opening-up of the Financial Market*	05.16
46	General Office Document [2018] No. 114	*Notice on Requiring Payment Agencies to Deposit 100 Percent of Total Client Funds with a Central Custodian*	06.29
47	General Office Document [2018] No. 129	*Notice on Further Clarifying the Guiding Opinion on Regulating the Asset Management Business of Financial Institutions*	07.20
48	General Office Document [2018] No. 130	*Notice on Furthering the Strengthening of Anti-Money Laundering and Combating the Financing of Terrorism*	07.24
49	General Office Document [2018] No. 215	*Notice on the Gold Asset Management Business*	12.04
50	General Office Document [2018] No. 221	*Interim Administrative Measures for Online Gold Business at Financial Institutions*	12.11
51	General Office Document [2018] No. 222	*Interim Administrative Measures for Gold Deposits*	12.11

PRESS RELEASES ON QUARTERLY MEETINGS OF THE MONETARY POLICY COMMITTEE IN 2018

On June 27, the Monetary Policy Committee (MPC) of the People's Bank of China (PBC) held its second quarterly meeting in 2018 (its 81st meeting in total) in Beijing

The meeting analyzed the domestic and international economic and financial situations. It was noted at the meeting that the fundamentals of the Chinese economy were good, the economy had maintained a stable growth momentum with strong resilience, overall supply and demand remained broadly balanced, and the change to new growth drivers had gathered pace. Domestic demand had become an increasingly stronger driver for economic growth, the degree of dependence on foreign trade had declined significantly, and the economy had become more resilient against external shocks. The prudent and neutral monetary policy had produced positive outcomes, as structural deleveraging was steadily advanced, the measures adopted to prevent and mitigate financial risks had produced results, and the financial sector had provided solid support for the real economy. The real economy and the financial sector both had made good progress in structural adjustments, yet deep-seated problems and critical contradictions still persisted and the international economic and financial situations had become more complex. The Chinese economy still faced great challenges and uncertainties.

It was pointed out at the meeting that the PBC would continue to closely monitor developments in global and domestic economy and financial sector, and to strengthen forward-looking judgments and make pre-emptive adjustments and fine-tuning. The prudent monetary policy would remain neutral, money supply would be properly managed to keep liquidity at a reasonably ample level, and steps would be taken to guide the reasonable growth of money supply, credit, and aggregate financing to the real economy. The reform of the financial system would be deepened, and the two-pillar framework of monetary and macro-prudential policies and the monetary-policy transmission mechanism would be improved. Based on the requirements to deepen supply-side structural reforms, efforts would be made to guide improvements in financing and credit structures and to enhance the capacity of the financial sector to serve the real economy. Meanwhile, the financial opening-up would continue in a pro-active and orderly manner to boost the vitality and resilience of the financial sector.

It was emphasized at the meeting that the PBC would, following Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era on economic work, earnestly implement the principles of the 19th National Congress of the Communist Party of China (CPC) and the Government Work Report and adhere to the principle of pursuing progress while ensuring stability in accordance with the decisions and arrangements by the CPC Central Committee and the State Council. The PBC would use a combination of monetary policy instruments to properly manage the strength and pace of structural deleveraging, facilitate the stable and sound development of the economy, stabilize market expectations, prevent and defuse financial risks, and adhere to the bottom line for preventing systemic financial risks.

On September 26, the MPC of the PBC held its third quarterly meeting in 2018 (its 82nd meeting in total) in Beijing

The meeting analyzed the domestic and international economic and financial situations. It was noted at the meeting that the Chinese economy had maintained a stable growth momentum with strong resilience, overall supply and demand remained broadly balanced, and the change to new growth drivers had gathered pace. Domestic demand had become an increasingly stronger driver for economic growth, the RMB exchange rate and market expectations had remained stable, and the economy had become more resilient against external shocks. The prudent and neutral monetary policy had brought about positive outcomes, as the macro leverage ratio had stabilized, the measures adopted to prevent and mitigate financial risks had produced results, and the financial sector had provided solid support for the real economy. The real economy and the financial sector both had made good progress in structural adjustments, yet deep-seated problems and critical contradictions still persisted and the international economic and financial situations had become more complex. The Chinese economy still faced tough challenges.

It was pointed out at the meeting that the PBC would continue to closely monitor developments in global and domestic economy and financial sector as well as new changes, attach great importance to counter-cyclical adjustments, make forward looking judgments on the situation, and take pre-emptive adjustments and fine-tuning measures when necessary. The prudent monetary policy would remain neutral, money supply would be properly managed to keep liquidity at reasonably ample levels, and steps would be taken to guide the reasonable growth of money supply, credit, and aggregate financing to the real economy. The financial system reform would be deepened, and the two-pillar framework of monetary and macro-prudential policies and the monetary policy transmission mechanism would be improved. Based on the requirements for deepening supply-side structural reforms, efforts would be made to guide improvements in the financing and credit structures, to enable private enterprises to receive financial support that is consistent with their contributions to economic and social development, to enhance the financial sector's capacity to serve the real economy, and to nurture a virtuous circle of economic and financial development. Meanwhile, the financial opening-up would continue in a pro-active and orderly manner to boost the vitality and resilience of the financial sector.

It was emphasized at the meeting that PBC would, following Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era on economic work, earnestly implement the principles of the 19th National Congress of the CPC and the Government Work Report and adhere to the principle of pursuing progress while ensuring stability in accordance with the decisions and arrangements by the CPC Central Committee and the State Council. The PBC would work to maintain stability in job creation, preserve financial stability, support stable growth of foreign trade and foreign direct investment, and stabilize investments and market expectations. The PBC would use a combination of monetary-policy instruments to properly manage the strength and pace of structural deleveraging, strike a balance among interest rates, exchange rates, and the balance of payments, facilitate the stable and sound development of the economy, stabilize market expectations, prevent and defuse financial risks, and adhere to the bottom line for preventing systemic financial risks.

On December 26, the MPC of the PBC held its fourth quarterly meeting in 2018 (its 83rd meeting in total) in Beijing

The meeting analyzed the domestic and international economic and financial situations. It was noted at the meeting that the Chinese economy had maintained a stable growth momentum with strong resilience, overall supply and demand had remained broadly balanced, and the change to new growth drivers had gathered pace. The RMB exchange rate and market expectations had remained stable, and the economy had become more resilient against external shocks. The prudent and neutral monetary policy had produced positive outcomes, as the macro leverage ratio had stabilized, the measures adopted to prevent and mitigate financial risks had produced results, and the financial sector had provided stronger support for the real economy. Both the domestic economy and the financial sector had made good progress in structural adjustments, yet deep-seated problems and critical contradictions still persisted and the international economic and financial situations had become more complex. The Chinese economy still faced great challenges.

It was pointed out at the meeting that the PBC would continue to closely monitor the marginal changes in the economic and financial situations both at home and abroad, strengthen the sense of crisis, amplify counter-cyclical adjustments, and make monetary policies more forward-looking, flexible, and targeted. The prudent monetary policy would be more properly managed to keep liquidity at a reasonably ample level and to maintain reasonable growth of money supply, credit, and aggregate financing to the real economy. The financial-system reform would be deepened, and the two-pillar regulatory framework of monetary and macro-prudential policies and the monetary policy transmission mechanism would be improved. Based on the requirements for deepening supply-side structural reforms, efforts would be made to improve financing and credit structures, to enable private enterprises to receive financial support that is consistent with their contributions to economic and social development, to enhance the capacity of the financial sectors to serve the real economy by implementing comprehensive policies, and to foster a virtuous cycle among keeping monetary policies prudent, enhancing the vitality of micro entities, and giving play to the functions of the capital market, so as to nurture an overall virtuous cycle in the national economy. Meanwhile, the financial opening-up would be further expanded to boost the vitality and resilience of the financial sector.

It was emphasized at the meeting that PBC would, following Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, earnestly implement the principles of the 19th National Congress of the CPC and the Central Economic Work Conference and adhere to the principle of pursuing progress while ensuring stability in accordance with the decisions and arrangements of the CPC Central Committee and the State Council. The PBC would work to maintain stability in job creation, preserve financial stability, support stable growth of foreign trade and foreign direct investment and stabilize investments and expectations. The PBC would innovate and improve macro adjustments and use a combination of monetary-policy instruments to keep the RMB exchange rate generally stable at an adaptive and equilibrium level, strike a balance among interest rates, exchange rates, and the balance of payments, facilitate the stable and sound development of the economy, stabilize market expectations, prevent and defuse financial risks, and adhere to the bottom line to prevent systemic financial risks.