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¹ The English edition is an unofficial translation of the *China Financial Stability Report 2008*. In case of any discrepancies, the Chinese version shall govern.

Preface

In 2007, the Chinese economy continued to grow in a steady and rapid manner. Financial reform, financial management, financial supervision and regulation, and opening-up progressed smoothly and financial system remained stable. However, the deep-rooted structural problems in the financial and economic systems were yet to be resolved, while the economic and financial environment became even more complex both at home and abroad with uncertain factors increased. The *China Financial Stability Report 2008* aims at reflecting the latest progress the financial system has made in reform, opening-up, innovation and development, providing an objective assessment of the state of financial stability and also signaling potential financial risks.

This Report basically adopts the same structure as that of the *China Financial Stability Report 2007*, with attempts to use more quantitative analysis. After a general review of the overall state of financial stability in China, Chapter I presents an analysis of the impact of macroeconomic performance on financial stability. The next three chapters present an assessment of reform and development of the banking sector, the securities sector and capital market, and the insurance sector as well as their impact on financial stability, respectively. Chapter V focuses on the progress of financial infrastructure, and Chapter VI discusses the way systemic financial risks come into being, the framework for managing systemic risks and China's experience in managing such risks. The Report also includes 13 boxes that analyze and explore important issues that bear on China's financial stability.

In addition, the Report contains a special section titled *Fund Utilization of Insurance Companies and Development of the Insurance Sector*. The special section presents an overview of the international practice of insurance fund investment, discusses its importance to the sector's development and the

challenges of insurance fund investment in China, and puts forward relevant policy proposals.

As is always the case, there is room for improvement in this Report. We welcome comments and suggestions from all quarters, including the public sector, relevant authorities, academia and other parties. We will further improve the methodology and quality of financial stability analysis and assessment.

Financial Stability Analysis Group of the PBC
May 20, 2008

Abbreviations and Acronyms

ABC	Agricultural Bank of China
ADBC	Agricultural Development Bank of China
AML	Anti-money Laundering
BEPS	Bulk Electronic Payment System
BOC	Bank of China
BOCOG	Beijing Organizing Committee for the 2008 Olympic Games
BOCOM	Bank of Communications
BOP	Balance of Payments
CAR	Capital Adequacy Ratio
CBRC	China Banking Regulatory Commission
CCAR	Core Capital Adequacy Ratio
CCB	China Construction Bank
CDB	China Development Bank
CEB	China Everbright Bank
CEG	China Everbright Group
CEO	Chief Executive Officer
CGSDTC	China Government Securities Depository Trust & Clearing Co. Ltd
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust and Investment Corporation
CMBC	China Minsheng Banking Corp. Ltd
CNAPS	China National Automated Payment System
CPC	Communist Party of China
CPI	Consumer Price Index
CPIG	China Pacific Insurance Group

CSCC	China Securities Clearing Corporation
CSI	China Securities Index
CSRC	China Securities Regulatory Commission
CTF	Counter Terrorist Financing
EIBC	Export-Import Bank of China
FATF	Financial Action Task Force on Money Laundering
FIU	Financial Intelligence Units
GDP	Gross Domestic Product
ICBC	Industrial and Commercial Bank of China
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
JSCB	Joint-Stock Commercial Bank
LVPS	Large Value Payment System
M&A	Merger and Acquisition
MPS	the Ministry of Public Security
NPL	Non-Performing Loan
PBC	The People's Bank of China
PICC	PICC Property & Casualty Co. Ltd
PSBC	Postal Savings Bank of China
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RCC	Rural Credit Cooperative
RMB	Renminbi
ROA	Return on Assets
ROE	Return on Equity
RPS	Retail Payment System
SIA	Securities Industry Association

SME	Small- and Medium-sized Enterprise
SOCB	State-Owned Commercial Bank
TIC	Trust and Investment Company
UCC	Urban Credit Cooperative
UN	United Nations
USD	US Dollar
WB	World Bank
y-o-y	year-on-year



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