



## FINANCIAL STABILITY

In 2007, under the leadership of the CPC Central Committee and the State Council, the PBC comprehensively implemented the Scientific Approach of Development, made in-depth research on the new circumstances and problems for financial stability, properly managed financial risks, steadily strengthened the monitoring and assessment of financial risks, started designing of the deposit insurance system, enhanced the central bank asset management, earnestly fulfilled its responsibilities as the central bank, and effectively maintained financial stability.

**Remarkable progress in risk resolution and disposition of high-risk financial institutions** The PBC, in close coordination with relevant regulatory authorities and local governments, made consistent efforts in disposing some high-risk banking financial institutions, such as trust and investment companies, urban credit cooperatives and rural credit cooperatives. In addition, the market exit of the 16 high-risk financial institutions, in which the PBC took the lead, was basically concluded.

**Successful conclusion of risk resolution of high-risk securities companies** The PBC transferred its all risk disposal lending to securities companies to China Securities Investor Protection Fund Co. Ltd.. Cooperative efforts were also made by the PBC and the China Securities Regulatory Commission (CSRC) in improving the management of the PBC risk disposal lending to securities companies. According to the risk disposal schedule of securities companies and related operational rules of the PBC lending, the PBC granted loans to the China Securities Investor Protection Fund Co. Ltd. within the amount approved by the State Council. In addition, the PBC, together with relevant regulatory authorities, endeavored to complete the risk resolution of securities companies, and clarified policies on purchase of claims held by individuals, serving as the policy guidance for risk resolution.

**Steady improvement in financial risk monitoring and financial stability assessment** The PBC continued to release *the China Financial Stability Report*, conducting a comprehensive analysis on

China's economy, financial sector, financial safety net and financial infrastructure. The Report made in-depth analysis on major topics that have great practical importance for financial stability, and also made some policy proposals. Meanwhile, the PBC accelerated the work in establishing the financial risk monitoring and assessment system, including studying international advanced assessment methods, improving risk monitoring and assessment in banking, securities and insurance sectors and financial holding companies, and strengthening data collection, processing and the risk warnings capability.

**Intensified efforts in financial contingency management** The PBC compiled *the Explanation of the State Financial Contingency Plan*, which helped to speed up the promulgation and education program for this Plan. At the same time, the PBC also compiled *the Simplified Operating Manual of the Contingency Plan for Financial Institutions (for trial implementation)*, making it more instructional and exercisable. The PBC branch offices actively organized contingency management rehearsals, accumulating much experience in dealing with emergency events of financial institutions and containing contagion risks, and as a result, improving their capabilities of financial contingency management.

**Comprehensive preparation for China's participating in FSAP** The IMF and the World Bank jointly introduced the Financial Sector Assessment Program (FSAP) in 1999, aiming at strengthening the monitoring and assessment of financial soundness and

vulnerabilities of their member countries. Participating in the FSAP has become a worldwide trend, and the PBC has been making active preparation for the Program. The PBC translated and published *the Financial Sector Assessment: A Handbook* that were jointly compiled by the IMF and the World Bank, and held the Workshop on the FSAP and Financial Stability Analysis together with the IMF. By earnestly studying the FSAP assessment approaches, and drawing on successful experience of countries that have completed the FSAP assessment, the PBC has made good knowledge and personnel preparation for participating in the Program.

**Initiative designing of the deposit insurance system** In order to effectively follow the guidance of speeding up the establishment of a deposit insurance system set forth by the National Financial Work Conference, the PBC and the China Banking Regulatory Commission (CBRC), together with other relevant agencies, set up the Deposit Insurance System Working Group (referred as the Working Group below), started and promoted the establishment of a deposit insurance system in accordance with the working plan strictly. By means of subject research, field survey, expert conference and contact person meeting, the Working Group extensively drew on the opinions and suggestions of different financial institutions, local governments, experts and scholars on the establishment of a deposit insurance system, and drafted the primary blueprint for China's deposit insurance system.

At the same time, the Working Group also assisted relevant authorities in drafting the Provisions on Deposit Insurance, so as to ensure that there is legal guidance when the deposit insurance system comes into being.

In addition, during the process of establishing deposit insurance system, the PBC effectively enhanced its communication with foreign institutions. In July 2007, by invitation of the PBC, a senior delegation from the U.S. Federal Deposit Insurance Corporation headed by its Chairman, Ms. Sheila C. Bair, visited the PBC. The two authorities signed a memorandum of understanding, agreeing to strengthen their bilateral cooperation in areas of deposit insurance, financial services, staff training and information sharing, and etc..

**Strengthened management of the central bank's assets** The PBC further strengthened the management on its lending associated with financial stability. It took effective measures to reinforce the lending recovery and enhance management on its lending to financial institutions in the market exit process to protect the central bank's assets. The PBC accelerated the market-oriented disposal of assets acquired as compensation for its lending, and minimized related losses. It also strengthened regulation and examination to prevent misappropriation of the PBC lending, and assisted relevant authorities in carrying out the policy-related bankruptcy