

FINANCIAL STABILITY

In 2008, faced with the sleet and snow disaster and the devastating Wenchuan earthquake which were major natural disasters rarely seen in the domestic history, as well as external shocks from the global economic slowdown and deterioration of the international financial crisis, the PBC, under the leadership of the CPC Central Committee and the State Council, resolutely studied and implemented the scientific development approach, earnestly fulfilled its responsibilities as the central bank, responded promptly to the intense impact of the international financial crisis, pressed ahead with developing the coordination mechanism for financial regulation, strengthened the monitoring and assessment of financial risks, speeded up the designing of the deposit insurance system, enhanced the central bank asset management, promoted healthy development of wealth management products, and effectively maintained financial stability and safety.

Prompt Response to the International Financial Crisis

Since September 2008, the US sub-prime crisis deteriorated and evolved into a global financial crisis. The PBC was highly alert to the situation, and established the International Financial Crisis Emergency Working Group and the Financial Crisis Emergency Task Force under it, closely monitoring the international financial crisis and the potential financial risks in China, setting out contingency plans and acting on emergency risks timely. First, the PBC coordinated with financial regulatory authorities to monitor risks. It conducted real-time monitoring of the international market and overall screening for potential financial risks in China, and made thorough analysis on potential systemic risks and possible solutions, together with other parties. It also required all its branch offices to report on potential financial risks monthly, and to strengthen risk monitoring on small- and medium-sized financial institutions, especially high-risk institutions and institutions with a legal person status. Second, the PBC resolutely dealt with emergency financial risks. By enhancing coordination and cooperation with other related agencies, the PBC took effective measures to address liquidity stress experienced by some foreign-

funded financial institutions in China, and properly resolved the temporary liquidity risks of certain insurance companies that were insolvent for a while and certain domestic institutions that got into trouble because of derivatives trading. Third, the PBC worked together closely with financial regulatory authorities in other countries and regions to jointly tackle the crisis. It coordinated with relevant parties to set up cross-border standby liquidity arrangement between the mainland and Hong Kong, among other measures to help Hong Kong and Macao to cope with the crisis. The PBC properly responded to the aid requests of the international community, and brought forward a framework of proposals and principles for participating in the bailout initiatives to overcome the international financial crisis. It also established currency swap arrangements with other countries, and signed a bilateral currency swap agreement with the Bank of Korea involving RMB180 billion / KRW38 trillion, manifesting the willingness of both parties to make concerted efforts to cope with the crisis.

Actively Promoting the Establishment of the Coordination Mechanism for Financial Regulation

The PBC, together with other financial regulatory authorities, spared no effort in establishing and improving the coordination mechanism for financial regulation, coordinating regulatory policies and instruments, enhancing information sharing and fending off cross-sector and cross-market financial risks. First, in order to strengthen coordination, the State Council initiated the financial meeting in June attended by the PBC, the three regulatory commissions and the State Administration of Foreign Exchange (SAFE) and held once every ten days, through which the participating parties could regularly exchange information and make joint research on key issues which could have impact on China's financial stability. Second, the General Office of the State Council issued the *Rules on Key Mandates, Internal Organizations and Personnel Arrangement of the PBC* in July, which clarified that under the leadership of the State Council and together with the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC), the PBC should take the lead in establishing the coordination mechanism for financial regulation, and enhancing coordination between monetary policy and regulatory policies and coordination between regulatory policies and regulations by means of a joint ministerial conference mechanism. Third, the information sharing mechanism among the PBC and the three regulatory commissions was further improved. In September, the PBC led the efforts in issuing the *Provisional Rules on Information Sharing among the PBC, CBRC, CSRC and CIRC*, to reinforce information exchange and sharing among the four agencies. In addition, in order to cope with further impact of the international financial crisis, at the end of the year, the PBC and the CBRC signed two memoranda of understanding on establishing regulatory coordination mechanism for foreign-funded banks and small- and medium-sized commercial banks, aiming at strengthening regulation on foreign-funded banks in China and small- and medium-sized commercial banks and safeguarding financial market stability.

Steadily Strengthening the Monitoring and Assessment of Financial Risks

The PBC strengthened financial risk monitoring and assessment, with improvement in monitoring and assessment methods. First, it continued to release the *China Financial Stability Report* and *China Regional Financial Stability Report*, which presented comprehensive assessments on China's financial stability, monitored and assessed systemic risks and came out with policy suggestions. Second, the PBC accelerated its pace in establishing the financial risk monitoring and assessment system, including exploring monitoring indicators and analyzing methods for different sectors, enhancing real-time monitoring on the banking, securities and insurance sectors and financial holding companies, and strengthening data collection and processing to improve the early risk warning mechanism and fend off systemic risks. Meanwhile, the PBC branch offices actively probed the way to monitor and assess regional financial risks and strengthened risk monitoring on small- and medium-sized financial institutions, especially financial institutions incorporated within their respective jurisdictions. Third, the PBC made all-out efforts to strengthen risk monitoring in earthquake-hit areas. Immediately after the Wenchuan earthquake, the PBC promptly activated the contingency plan for financial institutions, monitoring real-time status of financial risks in earthquake-hit areas, and trying to prevent emergency events of financial institutions, such as run on deposits and securities transaction settlement fund, collective withdrawal of insurance policies or other forms of emergent debt collection. At the same time, the PBC, together with the CBRC, made thorough checkup on the real situation of losses to credit assets of banking institutions in the earthquake-hit areas to fully understand the potential risks and support the post-quake reconstruction of financial institutions. Forth, the PBC made comprehensive preparations for participating in the Financial Sector Assessment Program (FSAP). It