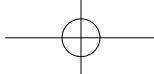


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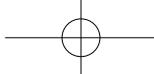


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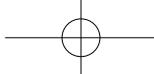
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## GOVERNOR'S MESSAGE

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The year of 2010 was the last year of the 11<sup>th</sup> Five-Year Plan period. Faced with extremely complicated economic situations and big challenges, the Central Committee of the Communist Party of China (CPC) and the State Council led the Chinese people of all ethnic groups in thoroughly applying the scientific development approach, resolutely taking the initiative in economic work, holding fast to the policy packages addressing the impact of international financing crisis, and speeding up the transformation of economic growth pattern. As a result, the national economy continued to develop in the right direction expected from the macroeconomic control and the economic recovery was on firmer footing. According to preliminary calculations, the full-year gross domestic product (GDP) was valued at 39.80 trillion yuan, up 10.3 percent from the previous year. Overall price levels were kept basically stable; grain production grew for seven consecutive years, economic restructuring accelerated, positive results were achieved in disaster relief and post-disaster reconstruction; and Shanghai World Expo as well as Guangzhou Asian Games were held successfully.

In 2010, in line with the decision and arrangement of the CPC Central Committee and the State Council, the People's Bank of China (PBC) continued to implement the appropriately accommodative monetary policy, further strengthened liquidity management, properly handled the relationship among ensuring steady and relatively fast economic growth, restructuring the economy and managing inflation expectations, further promoted financial reform, maintained financial security and stability, and upgraded financial services and management, making substantial support for the steady and relatively rapid development of the national economy.

### **Remarkable Effects Were Achieved in Macro Financial Management**

The PBC continued to adopt the appropriately accommodative monetary policy so as to ensure the continuity and stability of the policy. It made timely adjustments to the intensity of monetary policy based on new situations and circumstances in economic performance in a bid to enhance policy flexibility. Reserve requirement ratio was increased six times by a total of three percentage points and the issuance of 3-year central bank bills was resumed, freezing more liquidity in the banking system. The benchmark deposit and lending rates were increased twice by 0.5 percentage points, which eased the problem of negative interest rate. The PBC strengthened window guidance and risk warning, and made research on implementing dynamic differentiated reserve requirement ratios in an effort to guide financial institutions in properly adjusting the credit aggregate and the pace of credit supply. Efforts were also beefed up to publicize monetary policy to guide expectations of the general public. The PBC further enhanced the role of credit policy. Under the principle of differentiated treatment and supporting some sectors while controlling others, it guided financial institutions to step up credit support for the restructuring and rejuvenation of national key industries, small and medium-sized enterprises (SMEs), weak links in economic and social development, employment, consumption, energy saving and environmental protection, and emerging industries of strategic importance while strictly controlling



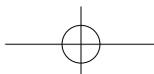
lending to industries featuring high energy consumption, high emission, and excess capacity. Efforts were made to earnestly carry out national macro adjustment policies on property market and adopt a more strictly differentiated policy on housing loans. Evaluation criteria was released to encourage county-level financial institutions to spare certain proportions of new deposits for local borrowers. Under the combined effects of macro financial control measures, the financial sector performed stably, and the growth of money and credit steadily returned to normal from high levels, which demonstrated initial effects of monetary policy adjustment.

### **Financial Reform and Development as Well as Financial Stability Were Promoted Vigorously**

With the successful initial public offering (IPO) of the Agricultural Bank of China (ABC) on Shanghai and Hong Kong stock exchanges in July 2010, the shareholding reform of large commercial banks was basically completed. The pilot reform of the ABC's "agro-related financial service departments" was pushed forward steadily so as to encourage the bank to comprehensively strengthen and improve financial services for agriculture, rural areas and farmers. The transition of China Development Bank (CDB) into a commercially-operated bank was advanced. The policy on providing fund support for the reform of rural credit cooperatives was implemented with the effects of positive incentives growing continuously. The PBC proceeded further with the reform of RMB exchange rate regime, aiming to maintain the RMB exchange rate basically stable at an adaptive and equilibrium level. Breakthroughs were made in the cross-border RMB business. From the business start to the end of the year, RMB settlement of cross-border trade transactions via banks in pilot areas hit 509.9 billion yuan. The reform of key areas in foreign exchange administration continued to deepen, including comprehensively reforming the verification and writing-off system of foreign exchange payments for imports, and launching pilot programs of depositing export proceeds overseas and allowing Chinese-funded enterprises to borrow short-term external debt. An ad hoc campaign to tackle and crack down on hot money was initiated, which effectively contained abnormal inflows of foreign exchange. Efforts were also made to probe into the establishment of counter-cyclical macro-prudential financial management framework. The PBC conducted the Financial Sector Assessment Program (FSAP) in collaboration with other authorities with two rounds of on-site assessment completed successfully. It also enhanced the monitoring and evaluation of systemic financial risks while exploring methods for evaluating systemically important financial institutions and policy measures for mitigating risks.

### **Financial Product Innovation and Market Development Gained Speed**

The PBC extended support to locally incorporated foreign banks, financial leasing companies, and auto finance companies eligible for issuing financial bonds. It launched the pilot program of SMEs short-term financing bills and collective notes, promoted the development of super and short-term commercial paper issued by non-financial enterprises, studied the pilot scheme of real estate investment trusts (REITs), and accelerated the building of loan transfer market. Credit risk mitigation (CRM) instruments were launched to enrich investors' credit risk management toolkit. The pilot program of allowing listed commercial banks to enter the exchange bond market was carried forward. The number





of market makers was increased steadily with the market maker evaluation system improved. Businesses of Shanghai Clearing House were initiated smoothly with market infrastructure further strengthened. The trading of RMB against the Malaysian ringgit and the Russian ruble was launched on the foreign exchange market while Russia started a reciprocal listed trading between RMB and rubles on its foreign exchange market so as to form a direct exchange rate between these two currencies. Net settlement was promoted in an all-round way.

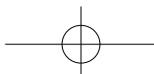
### **Financial Services and Management Improved Steadily**

The PBC developed the comprehensive financial statistical system in an attempt to vigorously facilitate the standardization of financial statistics. It launched the cross-bank clearing system for online payment, widely popularized the electronic bill of exchange system, and exercised supervision over payment services provided by non-financial corporations. The first *China Financial Standardization Report* was published as the PBC made efforts to map out the blueprint of financial informationization and promote the pilot use of financial IC cards and social security cards. Reserve funds for issuance were allocated in a scientific manner, which ensured cash supply across the year. The Treasury Information Processing System covered 33 provinces (autonomous regions and municipalities) while the TCBS was put into operation in 12 provinces (autonomous regions and municipalities). The PBC headed the inter-ministerial joint conference on developing social credit system and pushed forward the sectoral credit building. Besides, the PBC was engaged in anti-money laundering in a down-to-earth and effective way with the freezing mechanism of assets pertaining to terrorism improved further. It assisted relevant departments in cracking major criminal cases involving money laundering, terrorism, and corruption. It also triumphed in its effort to provide financial services for Shanghai World Expo and Guangzhou Asian Games.

### **Progress Was Made in the Financial Cooperation with the International Community and with Hong Kong, Macao and Taiwan**

The PBC got deeply involved in global economic governance via the platform of the Group of 20 (G20). It also joined international institutions such as the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS) to participate in setting international financial standards and making rules. China moved up to the third-largest shareholder of the International Monetary Fund (IMF) from sixth place. The PBC strengthened regional financial cooperation, facilitated the multilateralization of the Chiang Mai Initiative, and supported the general resource replenishment and soft loan financing windows of multilateral development banks. It also took an active part in major dialogue mechanisms, including China-US Strategic and Economic Dialogue, China-UK Economic and Financial Dialogue, China-Japan High-level Economic Dialogue, and the Working Group of the PBC and the European Central Bank. The revised settlement agreement on the clearing of RMB businesses in Hong Kong laid a solid foundation for the further development of RMB business in Hong Kong. RMB cash clearing services were advanced smoothly in Taiwan.

The year of 2011 is the first year of the 12<sup>th</sup> Five-Year Plan period. A good start is of great

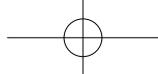




significance. The PBC will fully echo the spirit of the 17<sup>th</sup> CPC National Congress, the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> Plenary Session of the 17<sup>th</sup> CPC Central Committee, and the Central Economic Work Conference, thoroughly carry out the scientific outlook on development, and adopt a prudent monetary policy under the guidance of Deng Xiaoping Theory and the important thoughts of “Three Represents”. In the light of the requirement of achieving overall soundness, moderate adjustment, and optimized structure, the PBC will exercise control over the liquidity floodgate to keep the size of social financing at a reasonable level, and will give a more prominent role to price stability in macro financial adjustment. Efforts will be made to rein in monetary conditions for excessive price hikes and channel more credit to the real economy, particularly to agriculture, rural areas and farmers as well as SMEs, in a bid to bolster the transformation of economic growth pattern and the strategic economic restructuring. In the meantime, the PBC will step up its effort to further promote financial reform, accelerate financial innovation, prevent systemic financial risks, safeguard financial stability, enhance financial services as well as management, and promote rapid but sound economic and social development so as to make excellent achievements in the run-up to the 90<sup>th</sup> anniversary of the founding of the CPC.

Governor of the PBC

April 18, 2011

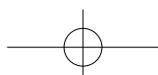


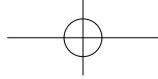
## THE MANAGEMENT OF THE PEOPLE'S BANK OF CHINA

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**Zhou Xiaochuan**  
Governor of the PBC





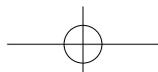
**Wang Hongzhang**  
Chief Disciplinary Officer

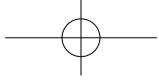


**Hu Xiaolian**  
Deputy Governor



**Liu Shiyu**  
Deputy Governor





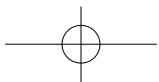
**Ma Delun**  
Deputy Governor

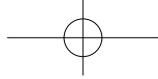


**Yi Gang**  
Deputy Governor  
Administrator of the SAFE



**Du Jinfu**  
Deputy Governor





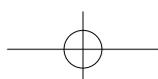
**Li Dongrong**  
Assistant Governor

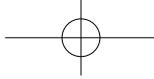


**Guo Qingping**  
Assistant Governor



**Jin Qi**  
Assistant Governor





## MEMBERS OF THE MONETARY POLICY COMMITTEE

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Chairman	Zhou Xiaochuan
Member	You Quan
Member	Zhu Zhixin
Member	Li Yong
Member	Hu Xiaolian
Member	Yi Gang
Member	Du Jinfu
Member	Ma Jiantang
Member	Liu Mingkang
Member	Shang Fulin
Member	Wu Dingfu
Member	Jiang Jianqing
Member	Zhou Qiren
Member	Xia Bin
Member	Li Daokui



# ORGANIZATIONAL STRUCTURE OF THE PEOPLE'S BANK OF CHINA

## THE PBC HEAD OFFICE (PBCCHO)

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

Personnel Department (Organization Division of the CPC PBC Committee)

Research Bureau

Credit Information System Bureau

Anti-money Laundering Bureau (Security Bureau)

Education Department of the CPC PBC Committee

Disciplinary Committee of the PBC

CPC Committee of the PBC Head Office

Retired Staff Management Bureau

Office of Senior Advisors

Staff Union Committee

Youth League

## GOVERNMENT AGENCY DIRECTLY UNDER THE PBC

State Administration of Foreign Exchange



## THE PBC SHANGHAI HEAD OFFICE (PBCSHO)

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

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Open Market Operations Department

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Financial Market Management Department

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Financial Stability Department

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Statistics and Research Department

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International Department

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Financial Service Department I

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Financial Service Department II

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Foreign Exchange Management Department

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

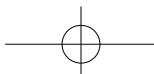
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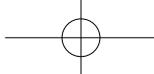
Discipline Enforcement and Supervision Department  
(Internal Auditing Division)

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Renminbi Cross-border Business Department

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## THE PBC REGIONAL BRANCHES AND OPERATIONS OFFICES

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Tianjin Branch

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Shenyang Branch

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Nanjing Branch

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Jinan Branch

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Wuhan Branch

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Guangzhou Branch

---

Chengdu Branch

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Xi'an Branch

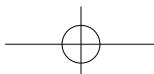
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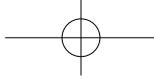
Operations Office

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Chongqing Operations Office

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## SUB-BRANCHES IN BOTH PROVINCIAL CAPITAL CITIES AND QUASI PROVINCE-LEVEL CITIES

---

Shijiazhuang Sub-branch

---

Taiyuan Sub-branch

---

Hohhot Sub-branch

---

Changchun Sub-branch

---

Harbin Sub-branch

---

Hangzhou Sub-branch

---

Fuzhou Sub-branch

---

Hefei Sub-branch

---

Zhengzhou Sub-branch

---

Nanchang Sub-branch

---

Changsha Sub-branch

---

Nanning Sub-branch

---

Haikou Sub-branch

---

Guiyang Sub-branch

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Kunming Sub-branch

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Lasa Sub-branch

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Lanzhou Sub-branch

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Xining Sub-branch

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Yinchuan Sub-branch

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Urumqi Sub-branch

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Dalian Sub-branch

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Qingdao Sub-branch

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Ningbo Sub-branch

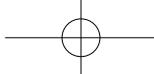
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Xiamen Sub-branch

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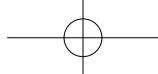
Shenzhen Sub-branch

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## ORGANIZATIONS OF THE PBC (NUMBER)

Departments and Bureaus at the PBCHO	25
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Sub-branches in Prefecture-level Cities	312
County-level Sub-branches	1 763



## CHINA'S MACROECONOMY

In 2010, faced with complex and constantly changing international and domestic environment, China continued to implement a package of measures to fight the international financial crisis. It speeded up its economic growth pattern transformation and economic restructuring, and the economy grew at a steady and relatively rapid pace. Domestic demand constantly expanded and overseas demand evidently recovered. Household income grew steadily and employment performed well. The economy developed in the direction as intended by the macroeconomic management policies. In 2011, the beginning year of the 12<sup>th</sup> Five-Year Plan, China would face complicated and capricious international circumstance and challenges like accelerating the growth pattern transformation. Factors that might cause instability and uncertainty would remain. The inflationary pressure and asset bubble risks should be paid much attention. China would need to properly handle the intensity, pace and focus of the macroeconomic management policies, push forward economic growth pattern shifts, improve the efficiency and quality of the economy and promote a rapid and healthy economic growth.

### Overview of China's Economy in 2010

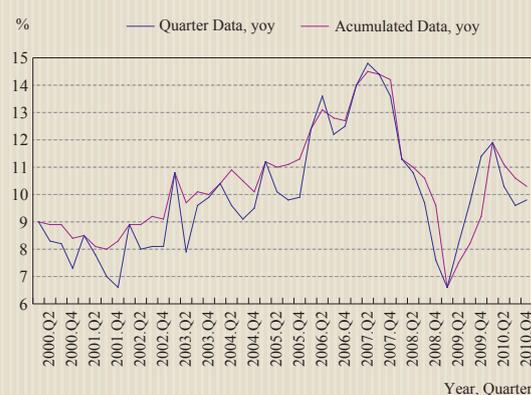
#### The economy grew in a stable and relatively rapid speed with the economic structure further improved

According to the preliminary estimation of National Bureau of Statistics of China, China's GDP registered 39.80 trillion yuan in 2010, gaining a year-on-year growth of 10.3 percent based on comparable prices, up 1.1 percentage points from the previous year, which almost resumed its historical trend (Figure 1). During the first quarter, the economic growth kept its accelerating momentum, which gathered quarter by quarter in the previous year. As the economic base increased and due to the adjustment of macroeconomic management policies, the growth decelerated in the second and the third quarters but the growth momentum was regained in the fourth quarter. In general, the economy grew in parallel with the intensity and pace of the macroeconomic management, reflecting an adequate momentum in its growth.

Driven by a series of policies and projects, such as domestic demand expansion, people's livelihood

improvement, energy reservation and pollution reduction and key industries revitalization, the economic restructuring gradually bore fruits. In respect of the demand structure, the contribution of capital formation to the GDP growth went up 5.6 percentage points, down 3.1 percentage points from 2009, and consumption continued to play a more important role. In respect of the industrial structure, the growth of the primary and the tertiary industries kept accelerating,

Figure 1 Accumulated GDP and Quarterly GDP



Source: National Bureau of Statistics of China.

while the proportion of sectors with high energy consumption in the secondary industry continued to fall. The target of energy reservation and pollution reduction in the 11<sup>th</sup> Five-Year Plan was achieved. With regard to the investment structure, investment continued to grow in areas related to people's well-being, such as rural and urban infrastructures and government-subsidized housing, whereas the proportion of investment in the general manufacturing industry kept falling.

**Industrial productivity grew fast and corporate profits fell from the peak**

The added value of statistically large enterprises grew 15.7 percent year on year, representing an acceleration of 4.7 percentage points from the previous year. The quarterly growths, in annual terms, were respectively 19.6 percent, 15.9 percent, 13.5 percent and 13.3 percent, showing a tendency of declining from the height to a stable level. Heavy industry and light industry grew respectively by 16.5 percent and 13.6 percent, and the difference between the two growth rates decreased from that of 2009, demonstrating a diminishing role of investment in driving the economy (Figure 2). Although falling from the peak, the growth

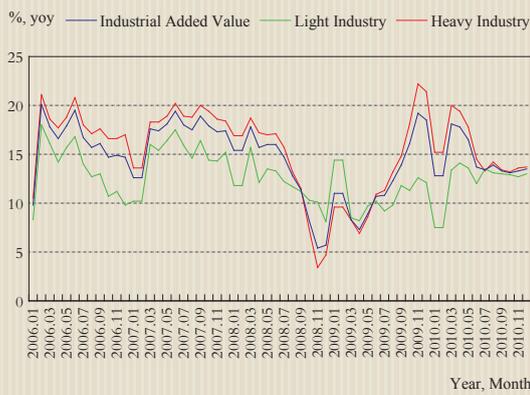
of corporate profits remained high above that of the same period of 2009. From January to November<sup>①</sup>, national statistically large enterprises realized a total profit of 3.88 trillion yuan, a year-on-year increase of 49.4 percent, 41.6 percentage points higher than that of the same period of 2009.

**Investment fell from the climax and consumption grew steadily while external demand recovered remarkably**

Investment growth decelerated due to the previous year's high base and the macroeconomic management policy adjustment. Social fixed-asset investment of the year reached 27.81 trillion yuan, a year-on-year increase of 23.8 percent, down 6.2 percentage points as compared with the growth of 2009. The real increase was 19.5 percent, decelerating 13.8 percentage points from 2009.

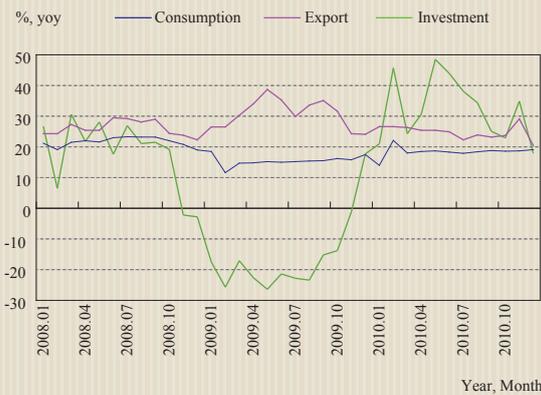
Driven by the increased household income, improved consumption structure and policies of encouraging consumption, consumption continued to grow in a steady and relatively rapid manner. Retail sales of social consumer goods totaled 15.70 trillion yuan, up 18.3 percent from 2009. The real increase

Figure 2 Monthly Industrial Growth



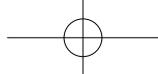
Source: National Bureau of Statistics of China.

Figure 3 Monthly Nominal Increases of Three Types of Demands



Source: National Bureau of Statistics of China.

① National Bureau of Statistics of China only release profit data of February, May, August and November of national statistically large enterprises.



stood at 14.8 percent, decelerating by 2.1 percentage points and yet still remaining above the recent five-year trend.

As the world economy recovered and external demand rebounded, China's external trade grew rapidly. The annual export reached US\$1.58 trillion, up 31.3 percent, and import amounted to US\$1.39 trillion, up 38.7 percent. Trade surplus decreased by US\$12.6 billion to US\$183.1 billion, with its proportion in GDP decreased by 0.9 percentage points to 3 percent. Monthly data showed that the export maintained a relatively rapid growth since it began to grow in December 2009, the growth rate fluctuated, though. The export structure continued to be improved, with a steady growth in exports of machinery and electronic products and exports to non-OECD countries, which enhanced China's export stability (Figure 3).

### Household's income grew steadily and employment performed well

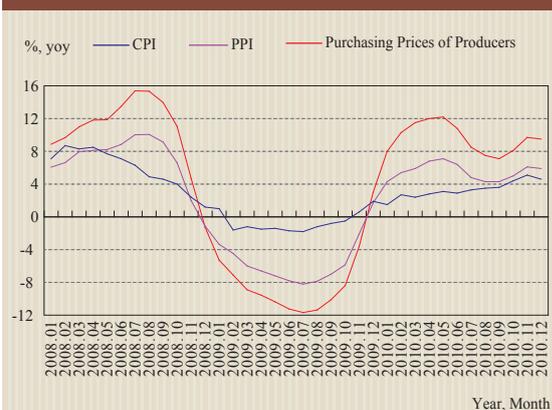
Supported by the steady and relatively rapid economic growth and the reform of income distribution system, the employment continued to be improved and the rural as well as urban household income kept growing. 11.68 million jobs were created, up 6 percent from 2009, which equaled 130 percent of the yearly target of 9 million. The urban registered unemployment rate decreased by 0.2 percentage points to 4.1 percent by the end of the year. The disposable income per capita of urban households reached 19,109 thousand yuan, up 11.3 percent from the previous year. Net income per capita of rural residents increased by 14.9 percent to 5,919 thousand yuan. The real increase was 10.9 percent, up 2.4 percentage points from the previous year. The real income of rural and urban residents grew faster than the GDP.

### Consumer price index remained persistently high with relatively heavy inflationary pressure

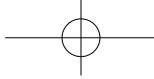
In 2010, influenced by the economic recovery, imported inflation as well as rising costs of labor and land, the general price level went up accordingly. The second half of the year, especially the fourth quarter, witnessed an obvious inflationary pressure.

On the side of consumer prices, driven by rising food and housing prices, CPI increased by 3.3 percent year on year, up 4 percentage points from the previous year. Quarterly growths of CPI were respectively 2.2 percent, 2.9 percent, 3.5 percent and 4.7 percent, showing an accelerating tendency. Food price rose by 7.2 percent, 6.4 percentage points higher than that of 2009. Non-food price increased by 1.4 percent, 2.8 percentage points higher than that of 2009. Consumer goods price went up by 3.7 percent, up 4.3 percentage points from 2009. Service price jumped by 2.0 percent, up 3.1 percentage points from 2009. With regard to producer prices, as the base increased and international commodity prices experienced fierce fluctuations, the PPI growth continued to accelerate in the first half year, decelerated in the third quarter and bounced back in the fourth quarter. The year's PPI gained 5.5 percent year on year, 10.9 percentage points higher than that of the previous year. Purchasing prices of producers surged by 9.6 percent year on year, up 17.5 percentage points from the previous year (Figure 4). The Corporate Goods Price

Figure 4 Trends of Main Price Indexes



Source: National Bureau of Statistics of China.



Index (CGPI) monitored by the PBC gained 6.5 percent year on year, an acceleration of 11.5 percentage points compared with the previous year .

### Outlook for the Chinese Economy in 2011

#### China's economy would be expected to continue developing at a stable and relatively rapid pace

China's economy would face an extremely complicated environment in the year of 2011. In respect of external circumstances, the pace of world economic recovery is still slow. The world unemployment rate remains high, and potential risks of the sovereign debt crisis in some countries have not been removed. The loose monetary policies in major developed economies have created a largely expanded global liquidity. The international commodity prices and the exchange rate of main currencies fluctuate more violently. Emerging markets face asset bubbles and inflationary pressures. Protectionism keeps rising. Factors that may cause instability and uncertainty still exist. From the international perspective, fluctuations caused by international financial crisis are generally mitigated and global economic recovery could be expected. In respect of domestic economy, long and short-term problems intertwine and institutional and structural problems overlap, which would pose challenges to macroeconomic management. However great enthusiasm for development and investment have already been seen everywhere in the beginning of 2011, which is the first year of the 12<sup>th</sup> Five-Year Plan. The various policy measures adopted earlier, such as the boosting of new strategic industries, the building of government-subsidized housing and the renovation of shanty towns, the encouraging and guiding of private investments, and the implementation of local development strategies are taking effect. The investment growth would remain relatively rapid due to the strong

investment capacity of our government with optimized structure. Household consumption would be further promoted, as income distribution continues to improve and consumption structure is constantly updated.

#### General price pressure would remain relatively strong

Despite the fact that China has various advantages in maintaining a stable price level, the easy global monetary conditions have not shown any obvious change. As the global economy continues to recover, the cyclical inflationary pressure would rise. Affected by a range of factors, the international commodity price would be likely to grow, and China faces imported inflationary pressures that could not be ignored. Moreover, driven by medium and long-term factors such as labor cost, land cost and resources pricing reforms, it would be inevitable for the general price level to rise. In general, it would be challenging to stabilize the general price. It would be set as the primary target of macroeconomic management to stabilize the general price.

#### Policies to promote the shift of economic growth pattern would be strengthened

The 12<sup>th</sup> Five-Year Plan sets a 7 percent target for annual average economic growth on the basis of improved quality and efficiency. The key to this target is to speed up the transformation of the economic growth pattern and the adjustment of the economic structure. While in 2011, the government would take the adjustment of the economic structure as the first priority. It would expand the domestic demand, particularly the household consumption demand, strengthen and consolidate the fundamental status of agriculture, promote energy reservation and ecological development, focus on improving people's livelihood, further open up to the outside world and continue to advance the sound and relatively rapid economic development.



## GLOBAL ECONOMIC AND FINANCIAL SITUATION

In 2010, the global economy kept recovering, but with unbalanced speed; and the European sovereign debt crisis has added to the uncertainty of this recovery. Major developed economies have been recovering slowly, with high unemployment rate, relatively low inflation, and alarming debt conditions. The U.S. economic condition has turned better, but the economies of the Euro Area and Japan were still relatively weak. Emerging economies experienced strong growth, with signs of overheating in some economies and rising pressure of capital inflows and inflation. Major financial markets have undergone much volatility. Global trade growth has recovered to its pre-crisis level, and the prices of commodities steadily rose. The International Monetary Fund projected in January 2011 a 5 percent growth rate for the global economy in 2010.

### Performance of Major Economies

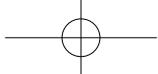
#### The U.S. economic condition has turned better, but with uncertain prospect

The U.S. GDP growth rate in 2010 was 2.9 percent, and its quarterly GDP growth rates were 3.7 percent, 1.7 percent, 2.6 percent and 3.2 percent. Stimulated by the new round of fiscal stimulus and quantitative easing policy, consumption and export improved in the fourth quarter, and unemployment rate fell to 9.4 percent in December, much lower than the previous three quarters. The inflation rate remained low. In 2010, CPI increased 1.5 percent year on year, lowest in the past two years, and core CPI only rose 0.8 percent year on year. Trade deficit and debt problems were severe. Trade deficit posted US\$497.8 billion in 2010, rising 32.8 percent year on year. The U.S. federal deficit rose to US\$1.3 trillion in the 2010 fiscal year, only slightly lower than 2009, when the federal deficit reached a record high level of US\$1.4 trillion since WWII. In addition, the debt of local governments was as high as US\$2 trillion. Real estate prices remained low, and foreclosure rate showed no signs of declining. The twin-deficit in fiscal and trade, the sluggish real estate market and the recovery of financial system will continue to impede the recovery of

the U.S. real economy.

#### Sovereign debt crisis weighed down economic recovery of the Euro Area

In 2010, the GDP growth rate of the Euro Area was 1.7 percent, a great improvement from its previous year figure of -4.1 percent. However, its GDP growth rates in the third and fourth quarter month on month were both 0.3 percent, much lower than the one percent growth rate of the second quarter. The employment condition was severe, with unemployment rate as high as 10 percent in December. The pressure of rising prices were also increasing: in December, HICP rose 2.2 percent year on year, breaking the target band of 2 percent set by the European Central Bank, and the inflation rate of the whole year was 1.1 percent. The economic performance of member countries varied greatly. The recovery of Germany was much better than other Euro Area countries. In 2010, the GDP growth rate of Germany was 3.6 percent, and its unemployment rate went down to 7.5 percent, both reaching the best level since 1991 and making Germany the main driver of the recovery of Euro Area. However, other Euro Area countries lacked momentum in their recovery, and the economies of Greece, Ireland and Spain were stuck in negative or zero growth. Greece and Ireland received assistance from



European Union and IMF, and peripheral countries such as Portugal and Spain were also severely affected by the sovereign debt crisis. Even core members like Germany and France suffered from surges in their government bond yields and CDS spreads. As a result, the European Union has strengthened fiscal discipline and crisis aid for member countries, and promoted the establishment of European Financial Stability Facility (EFSF), European Financial Stabilization Mechanism (EFSM) and a permanent European Stability Mechanism (ESM).

### **Japan's deflation and employment conditions showed no evidence of improvement**

Japan's GDP growth rate was 3.9 percent in 2010, but its fourth quarter growth rate was -0.3 percent month on month, the first quarter of negative growth in the past five quarters. Unemployment rate was still high, with the annual average reaching 5.1 percent. Core CPI declined 1 percent year on year, falling for a second year and showing no escape from the deflation dilemma. Export sector recovered relatively fast, and trade surplus was increased. The total export of the year reached 67.4 trillion yen, rising 24.4 percent year on year; and the trade surplus was 6.8 trillion yen, up by 153.4 percent compared with the previous year. Nevertheless, affected by the slowing down of global demand and the appreciation of the Japanese yen, the growth rate of export in the second half of the year kept declining, and its contribution to economic growth tended weaker accordingly. Government debt risk was on the rise. At year-end, the total debt of the Japanese government was 919 trillion yen, reaching a record high and ranking the first among developed countries in terms of debt-to-GDP ratio. According to the IMF projection, Japan's total public debt in 2011 will be as high as 227.5 percent of its GDP. Recently, Standard & Poor's downgraded Japan's long-term sovereign credit rating from "AA" to "AA-".

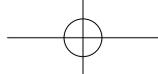
### **Emerging economies became main drivers of global recovery**

In 2010, due to increasing domestic demand and steadily rising commodity prices, emerging and developing economies in areas like Asia and Latin America had recovery. The annual economic growth rates of India, Brazil and Russia were 8.5 percent, 7.5 percent and 4.0 percent respectively, and the growth rates of Korea and Indonesia were both 6.1 percent, far better than those of the developed economies. Resulting from excessive global liquidity and weak recovery of developed countries, capital inflows surged in emerging economies where economic growth was relatively strong and interest rate spreads were higher. According to the prediction of Institute of International Finance (IIF), net private capital inflows to emerging economies in 2010 would reach US\$908 billion, much higher than the inflows of US\$581 billion last year. Capital inflows led to increased pressure of import inflation in emerging economies, and raised the prices of assets including equities and real estate, which added to the pressure of domestic currency appreciation. In 2010, the CPI of India, Russia and Brazil increased 7.0 percent, 8.7 percent and 5.9 percent year on year respectively, and that of Indonesia and Korea rose 6.9 percent and 3.5 percent year on year in December 2010. In order to contain inflation and rising asset prices, some emerging market economies entered the interest rate cycle, and have strengthened controls of foreign exchange market and capital flows.

## **International Financial Market**

### **International foreign exchange market**

The exchange rates between major currencies fluctuated in a broad range. During 2010, affected by factors such as European sovereign debt crisis and the second round of quantitative easing policy of the U.S., the exchange rate of US dollar strengthened before weakening and became strong again, while the exchange rate of Japanese yen surged dramatically. At the end of 2010, the exchange rate of USD/EUR and that of JPY/



USD were 1.3377 and 81.15 respectively, reflecting a depreciation of 6.6 percent of EUR and a 14.5 percent appreciation of JPY in 2010. As published by the U.S. Federal Reserve, the broad trade-weighted index of USD depreciated 2.4 percent accumulatively (Figure 5).

### International bond market

Yield of major government bonds went down and then up. In the first half of the year, along with the growing concern of the market about the deterioration of Greek sovereign debt crisis and the prospect of global economic recovery, the demand for risk haven rose and caused major government bond yields to fluctuate and fall. Since late August, the negative effects of European sovereign debt crisis gradually lessened, and the Federal Reserve announced several times that it would further its accommodative monetary policy, leading to market expectation of rising inflation pressure in the medium and long term and improved economic prospect of the United States. Large amount of capital flowed from government bond markets to equity and commodity markets where yields were higher, and this change of investors' asset allocation pushed up the rates of government debt markets. Since the Federal Reserve announced its second

round of quantitative easing policy in November 3, the yield of ten-year US government bond rose almost 100 basis points from 2.57 percent. At the end of the year, the yield of ten-year government bonds of the United States, Euro Area and Japan was 3.36 percent, 2.97 percent and 1.12 percent respectively, down 0.43, 0.41 and 0.17 percentage points compared with the end of the previous year, but up 0.85, 0.71 and 0.18 percentage points compared with the end of the previous quarter (Figure 6).

### International equity market

The trend of major equity indices differentiated. In the first half of the year, European sovereign debt crisis added to the uncertainty in global economic recovery, leading to large fluctuation in major equity markets and slump in equity indices for several trading days in a row in early May and late June. In the third quarter, as the negative effect of debt crisis faded away, the United States passed financial regulatory reform act and Europe published pressure test result of commercial banks, the equity markets of Europe and the U.S. rallied. In the fourth quarter, due to positive news such as the second round of quantitative easing policy of the United States, the good reading of economic data, and improving of

Figure 5 Exchange Rate Trends of Major Currencies in 2010



Source: Reuters.

Figure 6 Yield of Major Government Bonds in 2010



Source: Reuters.

public companies' earnings reports, the equity market of the United States went up. At the end of the year, the Dow Jones Index, Standard & Poor 500 and NASDAQ closed at 11 578, 1 258 and 2 653 points respectively, which were 10.9 percent, 12.8 percent and 6.9 percent higher than the levels at last year end. The equity markets of the United States recovered to their September 2008 levels when the Lehman Brothers went bankrupt. Negatively affected by sluggish economic recovery, debt crisis and appreciation of the Japanese yen, the equity market of Europe and Japan performed relatively weak. The STOXX 50 Index of the Euro Area closed at 2 601 points at the year-end, rising 0.85 percent compared with the end of the previous year. Nikkei 225 Index closed at 10 229 at the year end, falling 3.0 percent than the previous year. The equity market of major emerging market economies differentiated evidently. Russia's blue-chip index MICEX rose 22 percent, while other BRIC countries performed relatively weak, with India's Bombay BSE Index rising 17 percent, Brazil's BOVESPA Index down by 1 percent, and China's SZSE falling 16 percent (Figur 7).

#### International commodity markets

The prices of commodities moved up in 2010. During the year, due to rising demand from global economic

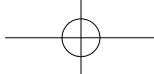
recovery, excessive liquidity and rising geopolitical risks in the Middle-East Area, the global oil price rose dramatically. At the end of the year, New York's international crude oil future closed at 91.38 USD/barrel, rising 15.1 percent from the previous year, while Brent Crude future closed at 94.75 USD/barrel, up by 22 percent. Affected by continuing accommodative policies of major economies and rising inflation expectation, the investment in gold as a risk haven increased. COMEX gold future closed at US\$1421.4 per ounce, rising 29.7 percent in the whole year, a record high since 2007. Future price of major metals such as copper, tin and nickel also experienced strong gains ranging from 30 to 60 percent. Prices of main agricultural produces also increased sharply, caused by factors such as the picking up of global demand, the decreasing output of Russia, Brazil and Australia due to extreme weather, increased food export control by some countries and speculation. Global prices of wheat, rice and corn all reached the highest level since financial crisis. In particular wheat future rose 46.7 percent, raw sugar future rose 19.2 percent, and cotton future was up by 91.5 percent.

#### Global Economic Prospects for 2011

Looking into 2011, many unstable and uncertain factors will continue to affect global economy. Although global trade has recovered to its pre-crisis growth level, global economic imbalance has not been largely improved. The unstable geopolitical conditions in Middle East and Korean Peninsula, and the rising geopolitical risk will also affect global recovery. In the short term, it is hard to see evident change in the slow and jobless growth of developed economies, and the credit market will still be tight. Sovereign debt crisis, fiscal consolidation and high unemployment will also affect growth of demand. Rising commodity prices and continuing excessive liquidity may further intensify global inflationary pressure. As emerging economies speed up their paces of stimulus exit policy and their economic growth

Figure 7 Global Trends of Major Equity Indices in 2010





decline, the risk of international capital flow reversal will increase. In IMF's *World Economic Outlook* published in January 2011, it is forecasted that the world economic growth will be 4.4 percent in 2011, 0.6 percent lower than 2010. Growth rate of emerging markets and developing

economies will be 6.5 percent, slightly less than the 7.1 percent growth rate of 2010. And developed countries are predicted to grow by 2.5 percent, which is still lower than their pre-crisis growth level.

## BOX

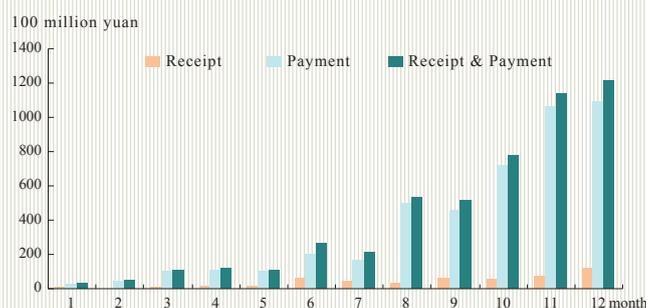
### Information Concerning Overseas Usage of RMB

In 2010, the PBC carried out the strategic plan of "Going Global" set by the Central Committee of the Communist Party of China and the State Council, and actively implemented the Pilot Program of RMB Settlement for Cross-border Trade Transactions and Pilot Projects of RMB settlement for cross-border investment and financing. In the meantime, the PBC appropriately broadened the returning channel of overseas RMB funds, guiding cross-border RMB flows into a benign circulation. The PBC also intensified the monitoring work on relevant information. All the cross-border RMB work made positive progress, vigorously facilitated the convenience of trade and investment.

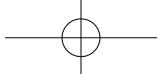
#### The area of the Pilot Program of RMB Settlement for Cross-border Trade Transactions was enlarged, and settlement volume increased rapidly

In June 2010, after the approval by the State Council, the PBC, the Ministry of Finance, the Ministry of Commerce, the General Administration of Customs, the State Administration of Taxation jointly promulgated *the Circular on Enlarging the Pilot Program of RMB Settlement for Cross-border Trade Transactions*. The area of the Pilot Program of RMB Settlement for Cross-border Trade Transactions was enlarged from Shanghai and four cities of Guangdong province to 20 provinces/autonomous regions/municipalities including Beijing, Tianjin, Inner Mongolia, Liaoning, Shanghai, Jilin, Heilongjiang, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Yunnan, Xizang and Xinjiang. The eligible transactions were enlarged to cross-border trade of goods and services, and other current account transactions. All the enterprises domiciled in the above 20 provinces/autonomous regions/municipalities were allowed to conduct RMB settlement for goods import, services trade, and other current account transactions, while RMB settlement for goods export was still regulated with a eligible pilot enterprises list. The restrictions on eligible overseas area were lifted, and enterprises could make their own choice about whether to use RMB settlement or not.

In December, the PBC and five



Monthly Volumes of RMB Settlement for Cross-border Trade Transactions in 2010



other ministries jointly issued *Letter on Approving the List of the Second Batch of Exporting Enterprises Eligible for the Pilot Program of RMB Settlement for Cross-border Trade Transactions*, increasing the number of pilot exporting enterprises from 365 to 67 724, which further putting forward the RMB settlement of goods exports, and facilitated the convenience of trade and investment.

The volume of RMB settlement for cross-border trade transactions increased rapidly. In 2010, the accumulated amount of RMB settlement for cross-border trade transactions was 506.343 billion yuan, accounting for about 2 percent of the aggregate foreign trade volume of the same period. The monthly volumes of RMB settlement for cross-border trade transactions are shown by the chart.

#### **Case by case pilot projects of RMB settlement for cross-border investment and financing proceeded stably**

In order to support the pilot program of RMB settlement for cross-border trade transactions, to support big overseas projects of “Going Global” enterprises, and to pushing forward the RMB “Going Global” process, the PBC conducted pilot projects of RMB settlement for cross-border investment and financing using a case by case approach. By the end of 2010, the transactions of RMB settlement for cross-border investment and financing conducts by all pilot regions totaled 386 cases and 70.17 billion yuan. There were 16 overseas RMB financing projects with approved lending amount of 81.45 billion yuan, in which 13 projects had entered the real loan process with loans totaled 27.53 billion yuan. In October 2010, the PBC sub-branch of Urumqi promulgated *Temporary Regulation on RMB Settlement for Cross-border FDI Transactions in Xinjiang Uiger Autonomous Region*, which took the lead in the whole country to conduct RMB settlement for cross-border FDI transactions. This was one of the important measures to implement the spirit of the Fifth Plenary Session of the Seventeenth Central Committee of the CPC and the Symposium on Xinjiang Work of the CPC Central Committee, and would have a positive effect on the leaping-forward development and long-term peace and order of Xinjiang.

#### **New progresses were made in cross-border currency cooperation**

In 2010, the currency swap agreements between China and three foreign countries or regions entered real usage process, marking an important step toward real facilitation of international trade and investment through domestic currency swap, except for the benefit of addressing the threat of the financial crisis. In the meantime, China signed currency swap agreements with Iceland and Singapore, with a total amount of 153.5 billion yuan, and domestic currency settlement agreement with Belarus. By the end of 2010, the PBC had signed currency swap agreements of 803.5 billion yuan in total with central banks of eight countries or regions, domestic currency settlement agreements with nine countries or regions and there had been sixteen more agreements in negotiation. In addition, the PBC made innovations in ways to conduct currency cooperation, creating outright currency purchase method on the basis of currency swap. The cooperative counterparties enlarged from neighboring countries to all around the world, and from developing countries to developed countries. Besides, progresses were made in using RMB as a reserve currency by central banks of some other countries.

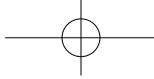


### **The RMB business in Hong Kong developed rapidly**

In order to support the enlargement of the pilot program of RMB settlement for cross-border trade transactions, the PBC and BOC HK revised the *Clearing Agreement on RMB Business* in July 2010 again, allowing native banks in Hong Kong to conduct RMB business for corporations and institutions according to Hong Kong laws and regulations and market conditions. Taking this advantage, the RMB business in Hong Kong developed rapidly. Since the beginning of the pilot program of RMB settlement for cross-border trade transactions, Hong Kong has always been the major region of overseas RMB receipts. By the end of 2010, the real receipt and payment amount of cross-border trade transactions settled by RMB in Hong Kong was 74.1 percent of the total amount. RMB deposits in Hong Kong increased continuously, with the outstanding balance reached 314.938 billion yuan by the end of 2010. The amount of newly issued RMB denominated bonds in Hong Kong totaled 35.66 billion yuan, and the accumulated issuance volume since 2007 totaled 73.66 billion yuan. In the meantime, financial enterprises domiciled in Hong Kong explored actively to conduct all kinds of RMB transactions, and introduced various RMB denominated financial products consecutively. The development of RMB market in Hong Kong broadened the channel of RMB supply and usage in the overseas market.

### **The auxiliary policies supporting the pilot program improved gradually**

On August 17, 2010, the PBC issued the *Circular on Relevant Issues Concerning the Pilot Program of Allowing Three Types of Overseas Institutions Including RMB Clearing Banks to Invest Their RMB Funds in the Mainland's Interbank Bond Market*, stipulating that the three type of institutions including overseas central banks (or monetary authorities), RMB clearing banks in Hong Kong and Macao, and oversea participating banks in RMB cross-border trade settlement, are allowed to use their RMB acquired through currency swap and RMB settlement for trade or investment transactions to invest in the Chinese interbank bond market. Allowing overseas institutions to invest in the Chinese interbank bond market could build up an appropriate channel for them to keep the value of the RMB acquired through legal channel, help promoting the acceptability and recognition of RMB in the oversea market, and facilitate the opening up of the returning channel of the oversea RMB funds, and thus pushing forward the "Going Global" of RMB. In August 31, 2010, the PBC promulgated the *Administrative Rules on RMB Bank Settlement Accounts of Overseas Institutions*, allowing non-resident accounts to be used in various cross-border RMB bank settlement transactions. The opening of the RMB settlement accounts for overseas entities provided a new and more convenient method to conduct RMB settlement for cross-border transactions, and increased means to indirectly manage the flowing direction and prices of overseas RMB funds.



## MONETARY POLICY

In 2010, China consolidated and expanded the achievements in addressing the international financial crisis. Facing complex and changing economic and financial situations at home and abroad, the PBC continued the appropriately accommodative monetary policy in line with the arrangements of the CPC Central Committee and the State Council, made policies better targeted and more flexible in accordance with new situations by using multiple monetary policy instruments, and promoted a gradual normalization of monetary conditions. Going forward, the PBC will implement a prudent monetary policy, make the policy measures well-targeted, more flexible and effective in line with the general principle of a prudent stance featuring proper measures of macroeconomic management and supporting structural optimization, strike a balance between maintaining stable and relative fast economic growth, adjusting economic structure and managing inflation expectation, give greater priority to keeping the stability of overall price level, preserve sound and safe performance of the financial system, and contribute to the stable and healthy economic development.

### Monetary Policy Measures in 2010

In 2010, the last year of the 11<sup>th</sup> Five-Year Plan period, China consolidated and expanded the achievements of addressing the international financial crisis. Facing complex and changing economic and financial situations at home and abroad, the PBC continued the appropriately accommodative monetary policy in line with the arrangements of the CPC Central Committee and the State Council, made policies better targeted and more flexible in accordance with new situations by using multiple monetary policy instruments, and promoted a gradual normalization of monetary conditions.

#### Flexible open market operations

Based on close analysis and monitoring of domestic and global economic and financial situation and liquidity in the banking system, in 2010, the PBC conducted flexible open market operations and improved the mix of tools to keep liquidity in the banking system at an appropriate level. First, the PBC managed the intensity and pace of open market operations with flexibility,

which, in combination with the effect of reserve requirement policy, helped withdraw more liquidity. In 2010, the PBC issued 4.2 trillion yuan of central bank bills and conducted 2.1 trillion yuan of repurchase operations. Outstanding central bank bills at end-2010 stood at around 4 trillion yuan. Second, based on analysis of market environment and liquidity supply and demand, the PBC optimized the mix of diversified tools for open market operations. In early April, the PBC resumed the issuance of 3-year central bank bills to freeze more liquidity. It flexibly arranged the maturities for short-term repurchase operations and used both short- and long-term tools to effectively adjust liquidity in the banking system. Third, the PBC increased the flexibility of open market operation interest rates to guide market expectation. In line with the macro-management requirement of monetary policy and taking into consideration market environment and interest rate movements, the PBC increased the flexibility of open market operation interest rates to guide market expectation when appropriate. In the first six months, interest rates for operations with maturity shorter than one year went up in line with the upward movements of interest rates in the money market. In the second



half of the year, interest rates for all operations rose as benchmark lending and deposit rates were hiked. As of end-2010, interest rates for 3-month and 1-year central bank bills recorded 2.0156 percent and 2.5115 percent respectively, up 64.72 and 75.10 basis points from early 2010. Fourth, to strengthen coordination and cooperation with fiscal policy, the PBC increased the frequency and scale of state treasury cash with commercial banks in the central treasury cash management operations. The PBC deposited a total of 400 billion yuan of state treasury funds in commercial banks in 12 separate operations throughout 2010, with an outstanding amount of 160 billion yuan at end of the year.

#### **Required reserve ratio increases**

As there was an excess of liquidity in the banking system in 2010 due to loose liquidity condition on the global level and a large BOP surplus, and because the open market operations' effect was partly constrained by the purchasing willingness of commercial banks. The PBC increased the use of required reserve ratio as a policy instrument, taking advantage of its capability of freezing an enormous amount of liquidity. Complemented by flexible open market operations, the use of this instrument was designed to give the central bank greater initiative in managing liquidity in the banking system and facilitate its effort to normalize money and credit growth and manage inflationary expectations. In 2010, the PBC raised the RMB reserve requirement ratio for depository financial institutions for 6 times by a total of 3 percentage points, with 0.5 percentage points for each time, respectively on January 18, February 25, May 10, November 16 and 29, and December 20. The combination of required reserve ratio, open market operations and other instrument was needed to sterilize part of excessive liquidity, and was a reflection of the targeted and flexible nature of monetary policy in the banking system.

#### **Interest rate as policy leverage**

Interest rate policy remained stable in the first three quarters in 2010. In the fourth quarter, in order to stabilize inflation expectations and guide appropriate growth of money and credit, the PBC raised benchmark deposit and lending rates on October 20 and December 26, bringing the 1-year benchmark deposit rate from 2.25 to 2.75 percent, and the 1-year benchmark lending rate from 5.31 to 5.81 percent, both up by 0.5 percentage points cumulatively. Interest rates for central bank lending were also raised on December 26. The PBC lifted the interest rate for 1-year central bank lending from 3.33 to 3.85 percent, 1-year central bank lending to Rural Credit Cooperatives (RCCs) from 2.88 to 3.35 percent, and increased the rediscount rate from 1.80 to 2.25 percent.

In 2010, the PBC focused on product innovation in its effort to build benchmark interest rate in the money market. More products based on Shibor were developed, and Shibor had a growing role in pricing lending, repurchase, bond issuance, interbank financing as well as derivative transactions and other market-based products. With its improving performance as a benchmark, Shibor provided a sound reflection of capital cost, market supply and demand, and monetary policy expectation, and gradually became an important benchmark interest rate in the market as well as the internal pricing benchmark for financial institutions.

#### **Guiding financial institutions to appropriately manage the pace of credit provisions, and to optimize credit structure**

The PBC enhanced window guidance on financial institutions, improved credit policy guidance, encouraged financial institutions to properly adjust credit structure and manage the pace of credit provisions so as to provide greater support to economic restructuring and development pattern shift. Following the requirement to make differentiated credit policies, the PBC guided financial institutions to enhance financial support to key industries, areas and regions, including key industrial



reinvigoration programs, energy conservation and environmental protection, strategic emerging industries, service sector, weak links in the economy, employment, consumption, balanced regional economic development, and disaster response and reconstruction, improved agro-supporting financial service as well as financial service to SMEs. While ensuring credit to key projects under construction, the PBC cut back lending to high energy-consuming and polluting industries and industries with excessive capacity, and restricted unauthorized lending to local government financing platforms. It implemented a differentiated mortgage policy, promoting healthy and stable development of the property market. The PBC encouraged financial institutions to improve their performance evaluation scheme and properly pace credit supply to avoid lending fluctuations between months and quarters. The PBC used rediscount to optimize credit structure and expand financing for agriculture, rural areas, farmers and SMEs. Rediscount operations totaled 171.2 billion yuan in 2010, up 146.32 billion year on year, and outstanding rediscount at end-2010 registered 79.1 billion, a year-on-year hike of 60.98 billion yuan. About 32 percent of the rediscounted bills were linked to agriculture, and 87 percent of the total was papers issued or held by SMEs.

#### **Breakthroughs in RMB settlement of cross-border trade**

In June 2010, with the approval of the State Council, the scope of pilot program of RMB settlement of cross-border trade was extended. The volume grew rapidly since then. Supportive policies and measures were improved. The settlement volume totaled 506.34 billion yuan in 2010. To support this program, and to help Chinese enterprises finance their large overseas projects, the PBC initiated the pilot cross-border RMB investment and financing program on a case-by-case basis. As end-2010, 70.17 billion yuan of investment and financing transactions were conducted under the new program.

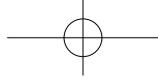
In October 2010, the PBC launched the pilot RMB settlement of cross-border direct investment in Xinjiang.

#### **Improving the RMB exchange rate regime**

In line with economic and financial conditions both at home and abroad as well as China's BOP position, the PBC decided in June 2010 to further reform the RMB exchange rate regime. Focusing on the role of market supply and demand, the reform was designed to make the RMB exchange rate more flexible with reference to a basket of currencies, and to keep it basically stable at an adaptive and equilibrium level.

#### **Strengthening monitoring over cross-border capital flows**

Efforts were stepped up to monitor and manage cross-border capital flows and curb irregular capital inflows. Since February 2010, a special campaign was launched to deter hot money inflows in 13 provinces (municipalities) with large amount of foreign exchange transactions. As a result, 197 cases were identified, involving US\$7.34 billion. The campaign also led to the punishment of 97 banks and corporations and 10 individuals, with 29.713 million yuan being seized. In addition, foreign exchange operations in 12 bank branches were suspended and 2 senior executives were penalized. Annual quota for outstanding short-term foreign debt for domestic financial institutions was cut by 1.5 percent from 2009. Assessment of banks' implementation of foreign exchange related policies was improved to encourage closer examination of the authenticity of cross-border capital flows. Online selling and purchasing of foreign exchange by individuals was included as part of the annual quota of foreign exchange transaction by individual. Management of foreign exchange used for house purchasing by overseas institutions and non-resident individuals was improved. In November, a contingent plan to address abnormal capital inflow was initiated in an effort to discourage hot money inflows.



### Currency cooperation with other monetary authorities

To promote cross-border trade and investment, the PBC signed 153.5 billion yuan worth of domestic currency swap agreements with monetary authorities in Iceland and Singapore in 2010. At end-2010, overall volume of currency swap agreements reached 803.5 billion yuan. The PBC also conducted 30 billion yuan of local currency swap operations at the request of a number of monetary authorities. The PBC and the relevant monetary authorities made innovations in the functions of domestic currency swap so that the swaps played a role in promoting the use of local currencies in cross-border trade settlement and in investment. The swap operations signaled a new level of currency cooperation between the PBC and other monetary authorities, and lay the groundwork for future currency cooperation.

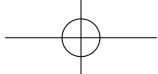
### The Growth of Money and Credit Supply Trended Normal

Money and credit growth stabilized gradually. At end-2010, outstanding M2 registered 72.6 trillion yuan, up 19.7 percent year on year, a deceleration of 8 percentage points over the end of 2009. Outstanding M1 stood at 26.7 trillion yuan, an increase of 21.2 percent year on year, and a deceleration of 11.2 percentage points. Outstanding M0 totaled 4.5 trillion yuan, up 16.7 percent year on year, an acceleration of 4.9 percentage points over the end of the previous year. Net cash injections reached 638.1 billion yuan, 235.4 billion yuan more year on year. At end-2010, outstanding RMB loans stood at 47.9 trillion yuan, up 19.9 percent year on year, a deceleration of 11.8 percentage points, and 7.95 trillion yuan more over the beginning of 2010, a deceleration of 1.65 trillion yuan. The pace of loan extension was more balanced quarter by quarter, with new loans registering 2.60 trillion yuan, 2.03 trillion yuan, 1.67 trillion yuan and 1.64 trillion yuan respectively from Q1 through Q4.

Credit structure continued to improve. Agro-

supportive lending and lending to SMEs increased while mortgage loans fell, but long- and medium-term loans still accounted for a large share of the total. At end-2010, outstanding RMB and foreign currency loans to rural areas reached 9.8 trillion yuan, up 31.5 percent year on year and 11.9 percentage points higher than the growth of total RMB and foreign currency loans at the same period. RMB bank lending to SMEs increased 3.3 trillion yuan from early 2010, and the outstanding amount at end-2010 expanded 22.4 percent compared with the same period of 2009. In particular, lending to small enterprises increased 1.7 trillion yuan from early 2010, and the outstanding loans at end of the year rose 29.3 percent, which outpaced outstanding lending to medium-sized enterprises and large enterprises by 11.5 and 16.0 percentage points respectively. Mortgage loan supply increased heavily at the beginning of the year, with an average of 180 billion yuan being granted each month in the first five months. It nevertheless dropped noticeably since June as policies began to have an impact on the property market. Mortgage loans went up by 1.3 trillion yuan from January to December 2010, making up 45 percent of household loans. New loans with long- and medium-term maturities registered 6.17 trillion yuan, accounting for 78 percent of the total new loans, an acceleration of 7.8 percentage points from the previous year. However, the loans were remarkably long maturity and very large. In particular, new loans for fixed-asset investments totaled 2.67 trillion yuan, accounting for 33.6 percent of the total new loans, and a large amount of loans were to finance long-term fixed-asset investment projects.

Demand deposit accounted for a larger share. At end-2010, new RMB deposits registered 12.0 trillion yuan, a deceleration of 1.1 trillion yuan from the previous year. In particular, new household deposit registered 4.3 trillion yuan, a deceleration of 32.3 billion yuan. New RMB deposit of non-financial institutions reached 4.0 trillion yuan, a deceleration of 2.0 trillion yuan year on year. The share of demand deposit generally increased. Throughout the whole year, demand deposit increased by



2.5 trillion yuan, accounting for 58 percent of the new deposits, an acceleration of 6 percentage points from the previous year. Demand deposit of enterprises rose by 2.4 trillion yuan, accounted for 61 percent of the total deposit increase of enterprises, nearly the same as the level of the previous year. At end-2010, fiscal deposits increased by 304.5 billion yuan, and the outstanding balance registered 2.5 trillion yuan.

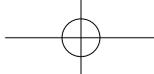
Interest rates moved up noticeably, the RMB exchange rate became more flexible, and the real effective exchange rate appreciated. Interest rates on the money market moved up markedly amid fluctuations. In December 2010, the weighted average interest rates of bond-pledged repo and inter-bank borrowing posted 3.12 percent and 2.92 percent respectively, up 0.73 and 0.61 basis points from June 2010, and up 1.85 and 1.67 basis points from December 2009. The yield curve of government securities flattened and shifted steadily upward. Lending interest rates of financial institutions edged up. In particular, the upward trend accelerated due to the hike of deposit and lending benchmark interest rates on two occasions in the fourth quarter, with the weighted average lending interest rates reaching 6.19 percent in December, an acceleration of 0.94 percentage points over the beginning of the year. Since the decision was made in June to further advance the RMB exchange rate regime reform, the RMB exchange rate appreciated modestly, and moved in both directions, with increasingly strengthened flexibility and generally stable expectations for its value. At end-2010, the central parity of the RMB against the US dollar was 6.6227 yuan per US dollar, up 3 percent over end-2009. According to the Bank for International Settlements (BIS), the RMB real effective exchange rate has revalued by 4.7 percent in the whole year.

### Monetary Policy Outlook for 2011

Going forward, the PBC will implement the decisions adopted at the 5<sup>th</sup> Plenum of the 17<sup>th</sup> CPC Central Committee and the Central Economic Work Conference, follow the theme of sustainable development

and transforming economic growth pattern, implement prudent monetary policy, make the policy measures well-targeted, more flexible and effective in line with the general principle of a prudent stance featuring proper measures of macroeconomic management and supporting structural optimization, strike a balance between maintaining stable and relative fast economic growth, adjusting economic structure and managing inflation expectation, give greater priority to keeping the stability of overall price level, preserve sound and safe performance of the financial system, and contribute to stable and healthy economic development. As the share of direct financing increases continuously, the share of bank lending in all system financing aggregate will gradually decline. In the package of policies of macroeconomic management, it is necessary to attach more importance to the role of aggregate money supply in guiding expectations, give more considerations to measuring the support of financial sector to real economy from the perspective of all system financing aggregate. And, it is necessary to keep all system financing aggregate at a proper volume, strengthen the role of market in resource allocation, and further build the endogenous drivers of economic growth. In 2011, the preliminary projection of growth of broad money M2 is about 16 percent.

First, measures will be adopted to continue to strengthen liquidity management and to keep growth of money and credit at appropriate levels. In light of the changes in economic and financial conditions, as well as in the flow of foreign exchange fund, a multiple of monetary policy instruments will be adopted, the mix and maturity structure of these instruments as well as the strength of operation properly arranged, to strengthen liquidity management, keep liquidity in the banking system at appropriate levels, properly manage aggregate liquidity, and keep the reasonable growth of money and credit. Efforts will be made to monitor and adjustment of all system financing aggregate will be strengthened to keep the size and pace of financing at appropriate levels. While making sure that the demand for capital is met



to support economic growth, it is necessary to create a favorable monetary condition that helps to keep the general price level stable.

Second, the establishment of a macro-prudential policy framework will be promoted to supplement conventional monetary policy instruments. In accordance with the decision of the State Council to create a counter-cyclical financial macro-prudential regulatory framework, management and adjustment of aggregate money, credit and liquidity will be combined with stronger measures of macro-prudential regulation, including adjustment of the differentiated required reserve ratio. The adoption of this measure will be based on to what extent the growth of bank lending has diverged from what is needed in the development of economy and the consideration of systemic importance and soundness of different financial institutions, and aims at guiding and encouraging financial institutions to have sound performance and manage their lending. As a flexible mechanism providing positive incentive, it is expected to make measures of macro-economic management more targeted and effective, help improve liquidity management, promote the reasonable growth of money and credit, and strengthen the resilience of financial institutions against shocks.

Third, efforts will be made to guide financial institutions to manage the pace of lending, improve credit structure in accordance with credit policy of differentiated treatment. Also, it is necessary to guide financial institutions to increase support to strategic and emerging industries, energy-conservation and environmental protection industries, modern service sectors, and projects of independent innovation, strictly control lending to industries that consume excessive energy and pollute heavily, and industries with excess capacity, and support development of low-carbon economy. More funds will be channeled to the rural areas, agricultural sector, farming households and the SMEs, and financial services will be provided to support job creation, students in need and poverty reduction. The consumer credit services will be developed to boost domestic demand. Financial support

will be continued to support balanced development among the different regions in China. The stock and growth of borrowing by local government financing platforms will be closely monitored to strengthen credit risk signaling. The differentiated mortgage credit policy will be implemented to promote a healthy development of real estate finance.

Fourth, the market-based interest rate reform and the RMB exchange rate regime reform will be advanced. The role of interest rate leverage will be strengthened in the management of aggregate demand and inflation expectations. Efforts will continue to develop benchmark interest rate on the money market, and improve the pricing capability of financial institutions, advance market-based interest rate reform in a well-sequenced manner through various measures such as selecting financial institutions with strong discipline and gradually liberalize prices of substitutive financial products, according to the overall arrangements of the 12<sup>th</sup> Five-Year Plan. The PBC will, in accordance with the principle of reforming the RMB exchange rate regime in a self-initiated, controllable and gradual manner, further improve the RMB exchange rate regime based on market supply and demand with reference to a basket of currencies, allow market demand and supply play a fundamental role in the exchange rate regime, increase the flexibility of RMB exchange rate, keep the exchange rate basically stable at an adaptive and equilibrium level and promote the balance of the BOP account. The PBC will promote the development of the foreign exchange market and promote innovation in tools for managing exchange-rate risks. It will steadily promote the use of RMB in cross-border trade and investment, and expand channels for the RMB to go out of and return to China. Measures will be taken to contain the inflow of hot money through illegal channels, closely monitor the cross-border flow of capital, and prevent risks. Reform of import and export verification practices in the management of foreign exchange will be accelerated to facilitate trade. Reform of the capital account will be advanced. The management of foreign exchange reserve



will be improved to preserve and increase the value of the foreign reserve assets. The methods of foreign exchange administration will be reformed to make it more effective, including through exploration in supervision of the foreign exchange entities, the consolidation of data and systems and off-site supervision.

Fifth, the PBC will continue to promote product innovation in financial market and support sound development of the market. Financial market will play a fundamental role in resource allocation. Direct financing will be expanded through product innovation so that the financial market supports the growth of real economy. The institutional framework and infrastructure of the financial market will be improved. A larger variety of foreign institutions will be allowed to issue bonds in the

Chinese market, and the opening-up of interbank bond market will be advanced actively and prudently.

In addition, it will be necessary to strengthen coordination among fiscal, industrial, and monetary policies, with a focus on promoting reform and economic restructuring, so as to enhance the endogenous growth dynamics in the economy. Continued efforts should be made to reform the fiscal and tax systems, to further relax restrictions on investments and financing, to improve the income distribution structure, to build a more dynamic private sector, and to increase the disposable income of households. The market mechanism should be improved as well so that the market fully plays a fundamental role in resources allocation.

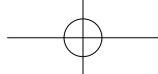
## BOX

### Further Advance the RMB Exchange Rate Regime Reform

Starting from July 21, 2005, China moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. In the following years, the reform of the RMB exchange rate regime has been making steady progress, producing the anticipated results and playing a positive role. Especially when the current round of international financial crisis was at its worst, the exchange rate of a number of sovereign currencies to the US dollar depreciated by varying margins, while the stability of the RMB exchange rate played an important role in mitigating the crisis' impact, contributing significantly to Asian and global recovery, and demonstrating China's efforts in promoting global rebalancing.

With the gradual recovery of the global economy, the upturn of the Chinese economy became more solid with the enhanced economic stability. On June 19, 2010, the PBC announced to further advance the RMB exchange rate regime reform, with emphasis placed on reflecting market supply and demand with reference to a basket of currencies. Since the further reform of the RMB exchange rate regime, the RMB exchange rate floated in two ways with noticeably greater flexibility. By the end of 2010, the central parity of RMB against the US dollar appreciated by 3 percent from the level on June 19. The reform of the RMB exchange rate regime played a generally positive role in supporting the real economy.

Foreign trade remained in rapid expansion, and the excessive trade surplus growth was brought under control. The appreciation of RMB in an appropriate level reduced the price of consumer goods and

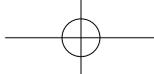


primary products, and supported the import expansion directly. Since June, the monthly import volumes remained around the level of US\$120 billion; and export growth remained strong despite of many uncertain factors, and has return to the pre-crisis level completely. During 2010, monthly export volumes hit historic high from time to time, with 8 months seeing exports exceeding US\$130 billion. The trade surplus in 2010 was US\$183.1 billion, decreasing by 6.4 percent yoy.

The structure of imported and exported products was optimized further, and the regional distribution became more appropriate. Among the imported products, primary products imports grew rapidly. In 2010, the import volume of crude oil was 240 million tons, increasing 17.5 percent yoy, and increasing 33.8 percent than the amount of 2008. The increasing exchange rate flexibility urged enterprises to promote research and innovation, to improve product quality, and to step up the pace of product upgrading and innovation, so as to enhance their competitiveness in the international market. In 2010, the export volumes of machinery, electronic products and high-tech products increased by 30.9 percent and 30.7 percent respectively, much higher than the previous year. Enterprises also began to pay attention to other settlement currencies instead of the US dollar, and actively cultivated emerging markets. The concentration ratio of exports decreased, and the regional distribution was improved. The share of exports to the US and Europe dropped from 18.6 percent and 19.8 percent in June to 17.0 percent and 18.8 percent in December, respectively.

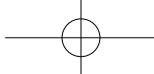
Enterprises' ability to mitigate impacts from the fluctuation of exchange rates was enhanced. After experiencing the 2005 exchange rate regime reform, enterprises have had better understanding of exchange rate fluctuations, and actively addressed the impact by adopting measures including increasing the added value of products and using risk mitigating financial derivatives. In November, the PBC conducted a survey on 2181 outwardly oriented SMEs and 2038 outwardly oriented manufacturing enterprises. It showed that exporting enterprises were in good operation, and the average profit of outwardly oriented manufacturing enterprises has increased 0.6 percent since the further reform of the RMB exchange rate regime. The overall competitiveness of enterprises was enhanced, and the employment in the foreign trade sector remained stable. Although the moderate appreciation of RMB had some negative impact on the profits of exporting enterprises, there were no massive closures or production suspension in the corporate sector. A joint survey conducted by the Ministry of Commerce, the PBC and the SAFE showed that the capacity utilization ratios of 78.4 percent enterprises had no noticeable change or increased as compared with the same period of 2009. Labor-intensive enterprises were most sensitive to RMB appreciation, and they absorbed the largest employment population. Even these enterprises have seen their exports exceeding the pre-crisis level completely.

Enterprises have speeded up the "Going Global" steps. The improved exchange rate regime has enhanced the enterprises' efficiency in utilizing the both the foreign and domestic resources and markets, thus supporting the "Going Global" strategy, and played a positive role in enlarging capital outflows and implementing the national energy and resources strategy. In 2010, China's overseas director investments in the non-financial sector totaled US\$59 billion, increasing 36.3 percent yoy.



The foreign exchange market developed rapidly. The flexibility of the RMB exchange rate was increased, quotations in the interbank foreign exchange market were active, trading volume increased quickly, and the resource allocation mechanism of the foreign exchange market was further utilized. Derivatives markets including forward and swap developed quickly, and enterprises actively used financial derivatives to mitigate exchange rate risks. In 2010, spot transactions in the interbank foreign exchange market totaled US\$3.05 trillion, increasing 3.5 percent yoy; forward transactions totaled US\$32.7 billion, increasing 234 percent; and swap transactions totaled US\$1.28 trillion, increasing 60 percent yoy; the aggregate transactions totaled US\$4.36 trillion increasing 16 percent.

As a whole, the further reform of the RMB exchange rate regime has shown positive influence on the real economy. Combined with other structural policies, the reform will further demonstrate its effect on promoting the restructuring of China's foreign trade, optimizing the economic structure, upgrading the industrial sector, and realizing the sustainable development of the economy. In the meantime, notice should be given to the fact that enterprises, residents and financial institutions should enhance their foreign exchange rate risk management after the remarkable increase of the flexibility of the RMB exchange rate. In the next step, the PBC will further promoting the reform of the RMB exchange rate regime in line with the self-initiated, controllable, and gradual approach, accelerate the development of the foreign exchange market, promote the innovation of the exchange rate risk management tools, improve the foreign exchange management, guide enterprises to enhance the restructuring process, and urge financial institutions to provide better financial services for enterprises to manage their foreign exchange risks.



## FINANCIAL STABILITY

In 2010, in accordance with the overall arrangements of the State Council, the PBC made active efforts to make institutional arrangements for the prevention of systemic financial risks. Pressing ahead with “Financial Sector Assessment Program”(FSAP), the PBC improved financial stability monitoring and assessment by keeping well informed of latest international financial developments and strengthening international cooperation. The PBC also continued to build the deposit insurance system and improved the management of central bank assets to ensure the sound operation of the financial system.

### **Conducted researches on building institutional arrangements to prevent systemic financial risks**

First, according to the overall arrangements of the State Council, the PBC strived to establish a set of institutional arrangements to effectively prevent systemic financial risks. To this end, the PBC has drawn lessons from the international financial crisis, conducted in-depth researches on the monitoring, assessment and resolution of systemic financial risks and studied China's practice in preventing systemic financial risks. Both macro and micro prudential regulation will be strengthened to have a comprehensive policy framework and effective working procedures. Second, the universal operation of financial institutions, especially those which are too big to fail, was studied intensively. Investigations on banking, securities, insurance sectors, financial holding companies and enterprise groups combined industry with finance were conducted to take stock of the cross-sector operation of the financial sector, in order to make informed decision on how to take policy measures on lowering risks of domestic systemically important financial institutions. In collective efforts with other relevant regulators, the PBC continued the study on formulating administrative measures of financial holding companies, got down on making detailed operational rules on capital adequacy ratio and related-party transactions. Third, the coordination mechanism of financial regulation was pressed ahead steadily. Coordination and cooperation

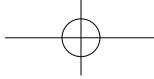
among macroeconomic management departments and financial regulators was enhanced in making monetary policies, maintaining financial stability and optimizing financial services, contributing to the standardization and normalization of information sharing.

### **Steady progress was made in the FSAP in China**

In joint efforts with relevant ministries and commissions, the PBC has completed the questionnaires, provided required data and participated in 2 on-site assessment negotiations. A stress test covering 17 major commercial banks was carried out to take stock of their credit risk, market risk, liquidity risk and contagion risk. Upon these, IMF and World Bank preliminarily assessed Chinese financial system as effectively regulated by the PBC and other relevant authorities, and acknowledged some major reforms taken in China's financial system. The joint mission also made recommendations on the focus and sequencing of financial reform in China in the next stage.

### **Further enhanced monitoring and assessment of the financial system**

First, the *Financial Stability Report of China (2010)* and *Regional Financial Stability Report of China (2010)* were published, providing overall evaluation of the financial system stability in China with further improvement of methodology and content of financial



stability assessment. The assessment has been more comprehensive with improved methodology. Drawing upon the experiences of the IMF, Asian Development Bank (ADB) and other international organizations and countries, the framework of monitoring and analyzing financial stability in China was basically in place. Second, continued efforts were made to follow up and study the influences of the international financial crisis on Chinese and foreign financial sectors. Monitoring of the risks in the banking, securities, insurance sectors, financial holding companies and cross-financial business was enhanced. Risk monitoring report has been published on a regular basis. Third, analysis and researches on key issues and in vital areas were strengthened. Efforts were made to establish a system for comprehensively assessing the soundness of the banking sector, to study issues like the securitization of loans extended on local government financial platforms, risk weight of capital calculation, and to analyze deeply the challenges faced by SMEs during the expansion of their commercial presence. In-depth researches was conducted on the key issues in capital market and insurance market like the A-share international board, OTC market (property exchange), private equities, agricultural insurance, solvency, banking insurance business, annuity with deferred taxation and the influences of the implementation of new accounting standard on the insurance sector.

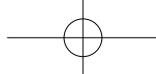
#### **Took an active part in international cooperation to maintain financial stability**

First, the PBC played its role in amending, formulating and implementing international regulatory rules and standards. On the platform of the Financial Stability Board (FSB), the PBC organized relevant departments to undertake the peer reviews on remuneration, risk disclosure of market participants and the practice of issuing and originating mortgage loans. Under the framework of Basel Committee of Banking Supervision (BCBS), the PBC made China's voice heard

during the formulation of Basel III accord and other new regulatory rules, safeguarding national interests. The PBC also actively engaged in studying and formulating the policies on Systemically Important Financial Institutions (SIFI) initiated by international organizations, conducted in-depth studies on the indicators and methodology for the evaluation of SIFIs, and participated in making policies concerning self-assessment of the supervision over SIFIs as well as SIFI resolution. Second, the PBC was committed to international communication to maintain financial stability on both the multilateral and bilateral level. Continued efforts were made to fulfill the responsibilities in the EMEAP Working Group on Banking Supervision and to have successfully held its 27<sup>th</sup> meeting. Communication and cooperation were conducted with ADB, Federal Deposit Insurance Corporation (FDIC) and relevant institutions. Bilateral exchanges on financial stability were promoted with the U.S., Germany, India, Japan and South Korea. Third, timely studies were conducted to follow and analyze the latest developments in the reform of other relevant international organizations and the financial regulatory reform in major economies. The PBC closely followed and studied the suggestions on improving financial regulation proposed by Committee on Global Financial Stability (CGFS), the Group of 30 (G30), International Organization of Securities Commissions (IOSCO), the International Agency on Insurance Supervision (IAIS) as well as other standard-setting institutions after the financial crisis. It also made efforts to follow the latest developments in financial regulatory reform in the U.S., UK and France so as to be well informed of their differences, to leverage on their experiences, and to gain an insight into their influence on China and whether such policies can be applied to domestic financial regulatory reform.

#### **Promoted steadily the building of deposit insurance system**

The PBC studied the role of deposit insurance



arrangements played in the U.S. and other countries, and the reforms of deposit insurance systems abroad after the crisis, and analyzed the influences of newly issued international standards such as the *Core Principles of Effective Deposit Insurance System*. Efforts were made to study the feasibility of building a deposit insurance system in China based on domestic realities and drawing upon international experiences on the reforms of deposit insurance systems. The PBC also laid the foundation for the institutional arrangements for setting up deposit insurance system and actively coordinated relevant departments in refining the implementation plan and submitted the finalized version to the State Council for approval.

#### **Strengthened the management of central bank assets**

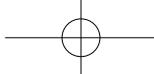
The PBC further improved the management of central bank lending for financial stability. Case-specific measures were taken to claim the loans so as to maintain the safety of central bank assets. The PBC improved continuously its post-loan management of central bank lending for financial stability and the reporting and registration of central bank claims. Special loan repayment programs were carried out to tackle the problems in the management of central bank lending for financial stability. The review of central bank lending for financial stability was strengthened to prevent misuse. Daily monitoring and basic management were improved to make better statistical analysis based on relevant data. Continued efforts were made to strengthen the management of central bank assets relating to financial stability.

### **BOX**

#### **Interim Achievement of China Financial Sector Assessment Program**

Financial Sector Assessment Program (FSAP) was jointly developed by IMF and the World Bank to help assess on the systemic financial stability of IMF member countries (jurisdictions), which covers a number of aspects of the financial system as well as various types of financial institutions. In 2008, the leadership of China announced China's readiness to participation in the FSAP. In August of 2009, the PBC formally launched China FSA, and, together with other related agencies, established the Inter-Agency Leading Force and Inter-Agency Working Force.

In 2010, interim achievement was made in China FSAP. Pre-assessment works were preceded steadily, with the FSAP technical visit to China for the seminars and meetings on the contents of the assessment and reply to FSAP questionnaires; The *China FSAP Memorandum on the Scope of Work* was signed as the guidance for China FSAP; FSAP Questionnaire, Data and Information Requirements were replied in 6 batches with high quality and efficiency, providing robust data and information for FSAP assessment; *China FSAP Implementation Plan for Stress Testing* was made, and the first comprehensive stress testing covering 17 major commercial banks was accomplished, which delivered quantitative analysis on the soundness and resilience of the banking sector. During the two on-site assessment missions, around 400 meetings have been successfully held, involving 15 government agencies, 63 financial institutions and 44 other institutions and corporations. Such discussions covered 6 fields,



namely macro-financial risks and financial system vulnerability, supervisory conditions, systemic liquidity framework and financial stability, financial market infrastructure, financial development issues and access to finance, and contingency planning and crisis resolution arrangements.

The FSAP Mission has primarily reached the assessment conclusion that, benefiting from the financial system reform promoted by the Chinese government and the effective regulation and supervision conducted by the PBC and other regulators, China's financial system has been significantly improved in the past three decades, which had contributed to the withstanding the crisis. The FSAP Mission also made suggestions on the emphasis and sequencing of financial reform in the next stage.

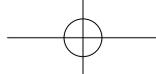
In 2011, the PBC, together with other related authorities, will proceed with FSAP and its follow-up work. Continued efforts will be made to analyze the assessment documents submitted by the FSAP Mission, provide in-time feedbacks, and update related fact and data and the results of stress testing on the 17 commercial banks on a discretionary basis in accordance with Article IV Consultation performed by the IMF. The overall FSAP process will be concluded in August 2011.

### Stress Testing Covering 17 Major Banks

As an important part of China FSAP, stress testing on banking system aimed at analyzing the soundness and risk profile of China's banking system quantitatively, assessing the resilience of banks and discovering potential risks. In order to press ahead with the stress testing, the PBC and CBRC jointly set up a FSAP stress test working group and organized a stress test covering 17 major commercial banks.

China FSAP stress testing, conducted both top-down and bottom-up, focused on credit risks, market risks, liquidity risks as well as contagion risks. Specifically, credit risk stress testing analyzed the adverse impacts on banks of the deterioration of aggregate and structural credit assets; market risk stress testing studied the adverse impacts on banks inflicted by the changes of benchmark interest rates, horizontal movement of bonds market yield curves, and the changes in RMB exchange rate; liquidity risk stress testing examined the adverse impact of the scenario where a bank encounters deposit draining, raised reserve requirement ratio, asset price decrease and smaller size of interbank funding; contagion risk stress testing reviewed the inter-linkage and contagion risks among large commercial banks.

According to the results of China FSAP stress testing, benefiting from the continuous improvement of internal management systems and asset quality since the shareholding reform, the Chinese banks have adequate capital and liquidity, and prudential management of risk exposure. The Chinese banking system is generally stable with the capability of withstanding various risks.



## FINANCIAL SECTOR REFORM

In 2010, the reform of China's financial institutions was furthered, improving their corporate governance, the quality of decision-making and efficiency of services. The successful public offering of the Agricultural Bank of China (ABC) marked the completion of the share-holding reform of large commercial banks in China. The Industrial and Commercial Bank of China (ICBC), Bank of China (BOC), China Construction Bank (CCB) and Bank of Communications successfully delivered the issuance of convertible bonds and rationed shares on the A-share and H-share markets, further enhancing capital adequacy ratio and capital quality. The reform of policy financial institutions and other financial institutions was pressed ahead with China Development Bank (CDB) as a good example.

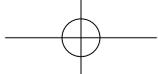
### **The ABC completed the IPO and the pilot reform of the "agro-related financial service departments" was continuously deepened**

According to the overall arrangements of the State Council, the PBC promoted the ABC to improve its corporate governance, strengthen its risk control system, and accelerate the upgrade of internal control system, so as to pave the way for the IPO. The plan for the IPO of the ABC was formulated to coordinate efforts made by relevant parties and to help the ABC capture the opportune time window to get listed in order to set up market-based capital replenishment and constraint mechanism. Shares of the ABC started trading on Shanghai Stock Exchange and Hong Kong Stock Exchange respectively on the 15th and 16th in July, raising a total of US\$22.1 billion. The IPO of the ABC marked the completion of share-holding reform of large commercial banks in China. Meanwhile, the PBC guided the ABC to explore effective ways to provide market-based financial services for agriculture, rural areas and farmers. The PBC, in collective efforts with relevant authorities, made the pilot reform plan on the "agro-related financial service departments" of the ABC. Eight provinces (municipalities or autonomous regions) including Sichuan, Chongqing, Hubei, Guangxi, Gansu, Jilin, Fujian and Shandong were chosen as the pilot areas. The ABC was urged to delegate decision-

making concerning agriculture, rural areas and farmers to county-level branches. The PBC, joined by member units of the Reform Working Group of the ABC, held workshops and symposiums on the institutional reform on the "agro-related financial service departments" of the ABC in Zhongxiang County of Hubei Province and Dazu County of Chongqing Municipality to summarize the field investigations, capture the big picture of the progress and bottlenecks, and to make suggestions on how to deepen the reform. Advantageous policies were granted to pilot areas of the reform to add vitality for the ABC to provide better financial services for agriculture, rural areas and farmers.

### **The ICBC, BOC, CCB and Bank of Communications have enhanced the quality of capital and the risk resilience after the reform**

Efforts were made to enhance the capital replenishment of large commercial banks. A total of 263.6 billion yuan was replenished to the four banks through the issuance of rationed shares on the A+H markets, convertible bonds and subordinate loans. The PBC continued to urge the four banks to improve their corporate governance, decision-making and efficiency, to strengthen capital, cost-effectiveness and risk management, to optimize the structure of assets, liabilities



and earnings, to prevent the resurgence of non-performing loans (NPL) and deterioration of performance, and to ensure sound operation. At the end of 2010, the capital adequacy ratios of the four banks mentioned above stood at 12.27 percent, 12.58 percent, 12.68 percent and 12.36 percent. Their NPL ratios registered 1.08 percent, 1.10 percent, 1.14 percent and 1.12 percent respectively, while their profits before tax posted 215.4 billion yuan, 142.1 billion yuan, 175.2 billion yuan and 50 billion yuan.

### **The transformation of CDB from a policy financial institution into a commercial bank continued steadily**

The PBC promoted CDB to implement macroeconomic policies and serve the medium and long term national development strategies by improving corporate governance and organizational system, actively making business adjustments, exploring medium and long term business development models and optimizing the comprehensive risk management framework. The PBC carefully studied and appropriately handled the credit of CDB-issued bonds and its business development to escort steadily its transformation. On August 25, the CDB Securities Co. Ltd was set up in Beijing, mainly engaging in securities business. The business model of separate operation of banking and securities business of CDB was established, marking an improvement in its organizational structure.

### **The reform of policy financial institutions was furthered**

The PBC, together with relevant authorities, continued the efforts to work out the reform plans for the Export-Import Bank of China and China Export & Credit Insurance Corporation, to amend and study the feasibility of the overall operational plan of the two institutions as well as their draft *Articles of Association*, in accordance with the case-specific principle and focusing on their functions, scopes of business, government capital

injection, corporate governance, internal reform, external supervision and supporting reform measur. Such efforts aimed to enhance their capability to facilitate foreign trade and to support enterprises "going global". Meanwhile, efforts were made to conduct in-depth studies on the reform and development of Agricultural Development Bank of China and to promote its internal reform, so as to lay a solid foundation for its comprehensive reform.

### **The reform of other financial institutions went smoothly**

The PBC coordinated relevant departments to implement the reform plan approved by the State Council, to optimize the organizational structure of the China Everbright Group. Efforts were also made to facilitate the successful listing of China Everbright Bank and the restructuring of China Everbright Group. On August 18, stocks of China Everbright Bank began trading on the Shanghai Stock Exchange, raising a total of 21.3 billion yuan and its capital adequacy ratio was increased to 11.94 percent. Taking into consideration the future development direction of the four asset management companies after their commercialized transformation, the PBC worked together with relevant authorities in studying the plans for their financial restructuring and shareholding reform. The pilot reform of China Cinda Asset Management Co. Ltd. was launched in a timely manner to pave the way for its commercialized reform. On June 29, the China Cinda Asset Management Co. Ltd. was inaugurated with a preliminary modern corporate governance structure in place. The PBC joining hands with other authorities, also studied the overall reform of the CITIC Group and how to deepen the reform of Postal Savings Bank of China to promote their sustainable and robust performance.

In 2011, the PBC will continue to promote the reform of financial enterprises to lay a solid foundation for financial stability on the micro level. Progress made on the reform of large commercial banks will be consolidated and deepened. The PBC will urge the large commercial banks and CDB to make market-based decisions,



improve their corporate governance, internal control, risk management, and appropriate pace in credit growth. Emphasis will be laid on the reform of "agro-related financial service departments of the ABC. Experiences based on the pilot operation" of the "agro-related financial service departments of the ABC will be summarized and evaluated to reform the management system, to further improve the "agro-related financial service departments" and to make institutional and structural arrangements of financial services for agriculture, rural areas and farmers with the purpose of upgrading rural financial services. Further studies will be conducted on the reform of policy

financial institutions as well as other financial institutions. Reform of the Export-Import Bank of China and China Export & Credit Insurance Corporation will accelerate with the aim to better serve the national development strategy. Efforts will be made to study the feasibility of the reform plan of Agricultural Development Bank of China, promote the improvement of its internal system, and choose an opportune time to launch its overall reform. Further studies will be conducted to promote the reform of CITIC Group, China Everbright Group, Postal Savings Bank of China, and other financial institutions such as asset management companies.

## FINANCIAL MARKET

In 2010, China's financial market performed in an overall stable manner, and the bond market maintained its healthy development, playing an active role in ensuring the implementation of macroeconomic policies, optimizing allocation of financial resources, deepening reform of the financial system, and stepping up financial support for economic development. Throughout the year, the total amount of bond issues grew steadily, and the scale of direct financing increased remarkably. Transactions on the interbank bond market were brisk with the turnover growing remarkably compared with the previous year. Bond prices showed an overall upward trend, while the yield curves flattened and moved up. The types of institutional investors on the bond market further diversified. Stock market indices generally moved down, but trading remained brisk. Both the foreign exchange market and the gold market operated stably.

### Money Market Performance

#### Transactions on the money market increased rapidly

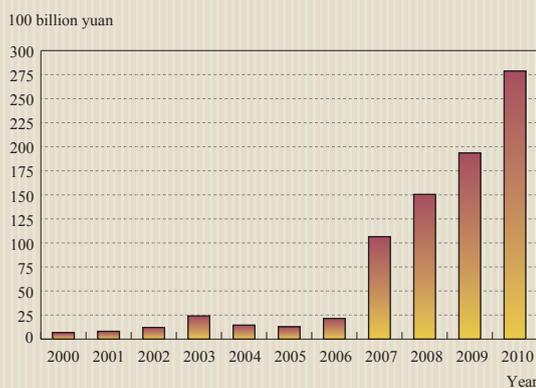
In 2010, the cumulative turnover on the interbank borrowing market posted 27.9 trillion yuan, representing an increase of 44 percent over the previous year (Figure 8). Transactions mainly focused on overnight and 7-day products, and the turnover of overnight and 7-day products accounted for 96.6 percent of the total trading volume, of which the turnover of overnight products

registered 24.5 trillion yuan, accounting for 87.9 percent, and the turnover of 7-day products registered 2.4 trillion yuan, accounting for 8.7 percent. The turnover of bond-pledged repos amounted to 84.7 trillion yuan, an increase of 25 percent year on year, and the turnover of buyout repos amounted to 2.9 trillion yuan, an increase of 13.6 percent year on year.

#### Interest rates showed an upward trend

Interest rates on the interbank market remained stable and gradually moved up, and witnessed two relatively large fluctuations at mid-year and year-end (Figure 9).

Figure 8 Transaction Volume on the Interbank Borrowing Market



Source: National Interbank Funding Center.

Figure 9 Transaction Volume and Weighted Price on the Interbank Borrowing Market in 2010



Source: National Interbank Funding Center.

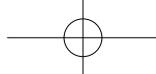
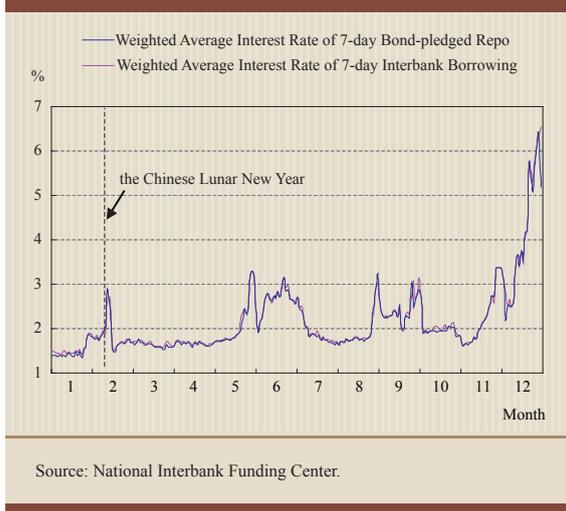


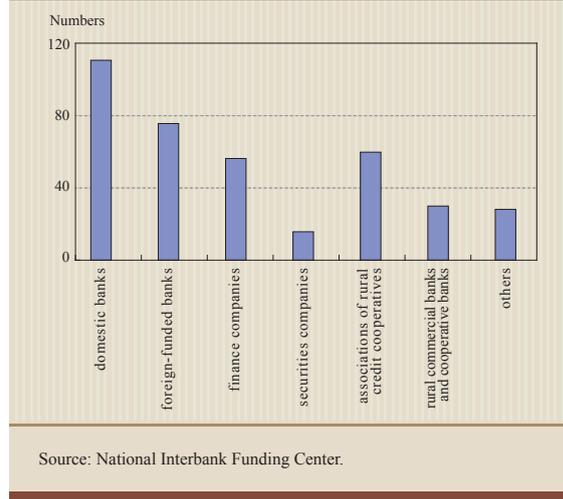
Figure 10 Movements of Money Market Interest Rates in 2010



Early 2010, due to relatively abundant liquidity on the interbank market, the monthly weighted average interest rate from January to April maintained below 1.5 percent, from May to June, due to a number of factors such as hikes in reserve requirement ratio and issuance of convertible bonds by large commercial banks, the interbank borrowing rates began to pick up; the interbank borrowing rates declined steadily from July to November; at end year, under the combined effect of factors, such as hikes in reserve requirement ratio, heightened expectation for tighter liquidity condition, examination of bank's loan/deposit ratio, the interbank borrowing rates picked up on a continuous basis, and the monthly weighted average interbank borrowing rate in December reached a yearly high of 2.92 percent, up 176 basis points from 1.16 percent in early 2010.

Interest rates of bond-pledged repo showed an upward trend. At end-2010, the weighted average interest rate of 7-day bond-pledged repo closed at 5.17 percent, up 377 basis points from the beginning of the year. From the perspective of the full year, in December the weighted average interest rate of bond-pledged repo was 3.12 percent, up 193 basis points from January (Figure 10).

Figure 11 Numbers of Different Types of Financial Institutions on the Interbank Borrowing Market



### Number of market participants in the interbank market further expanded

In 2010, the number of participants on the interbank borrowing market posted 887, of which 366 institutions actually conducted transactions, and domestic banks and foreign-funded banks accounted for the lion's share (Figure 11). During the year, two new overseas financial institutions, namely the Bank of China (Hong Kong) and the Macao Branch of Bank of China, entered market.

### Flow of funds was basically stable

Throughout the year, institutions such as large commercial banks<sup>①</sup>, urban commercial banks, policy banks, joint stock commercial banks frequently participated in the market, and the funding structure showed the following main characteristics:

First, the direction of funds flow was basically stable. On the one hand, large commercial banks remained the major net lender, and policy banks became the second largest net lender in place of joint stock commercial banks. On the other hand, urban commercial banks remained the major net borrower.

① Large commercial banks include the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and the China Construction Bank.

Second, non-bank financial corporations continued to increase their participation in the interbank borrowing market. Since non-bank financial corporations held more bonds in recent years, they conducted interbank borrowing and bond repo to get funded via the interbank market, which has been an important short-term financing channel for them.

### Bond Market Performance

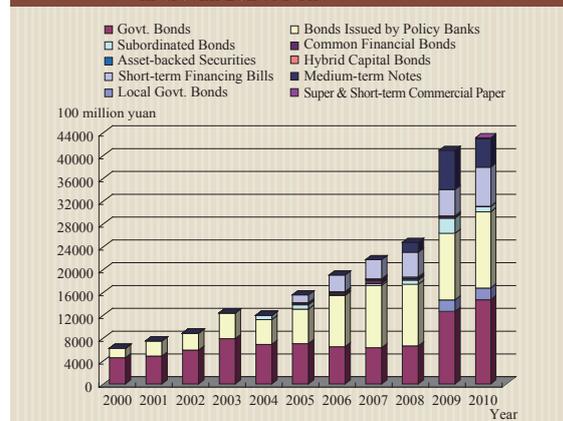
#### Bond issuance<sup>①</sup>

In 2010, a total of 5.1 trillion yuan of RMB bonds was issued on the bond market, representing an increase of 3.1 percent year on year. In particular, the issuance of government bonds, policy bank bonds, and short-term financing bills increased somewhat from the previous year. By end of the year, outstanding bonds in custody<sup>②</sup> on the bond market posted 16.3 trillion yuan, of which bonds in custody on the interbank market posted 15.8 trillion yuan, representing an increase of 21.5 percent year on year.

During the year, the Ministry of Finance issued a total of 1.7 trillion yuan of bonds on the interbank bond market, including 200 billion yuan of municipal bonds issued on behalf of local governments; the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China issued a total of 1.3 trillion yuan of bonds on the interbank bond market; the Central Huijin Investment Ltd. issued 109 billion yuan of bonds on the interbank market; the scope of financial bond issuers further expanded, and locally incorporated foreign-funded banks were allowed to issue financial bonds on the interbank market. The Bank of Tokyo-Mitsubishi UFJ (China), Ltd. issued 1 billion yuan of bonds on the interbank bond market. Efforts were made to actively expand the financing

channel for financial leasing companies and automobile finance companies, and 3 financial leasing companies and 1 automobile finance company issued a total of 5 billion yuan of financial bonds. The issuance of corporate bonds based on credit standing continued to develop, and a total of 1.6 trillion yuan of corporate bonds based on credit standing was issued, of which there were 674.2 billion yuan of short-term financing bills, 492.4 billion yuan of medium-term notes, 4.66 billion yuan of small and medium-sized non-financial enterprise collective bills, 362.7 billion yuan of enterprise bonds, and 51.15 billion yuan of corporate bonds. In the meantime, in order to improve liquidity management capacity of enterprises, the super & short-term commercial paper (SCP) was launched on a pilot basis, and the total issuance volume of such paper reached 15 billion yuan. Bond issuers on the interbank market included various market participants, such as the Ministry of Finance, policy banks, the Ministry of Railways, commercial banks, non-bank financial institutions, international development organizations and non-financial corporations. Bond products became more diversified both in variety and credit layer (Figure 12).

Figure 12 Issuance Volume of Major Bond Products<sup>③</sup> on the Interbank Bond Market

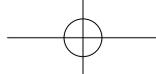


Source: China Government Securities Depository Trust & Clearing Co. Ltd.

① It only refers to RMB bonds issued on China's bond market, excluding central bank bills.

② The bonds in custody do not include central bank bills.

③ It does not include the special government bonds issued in 2007.



The maturity structure of bond issuance on the interbank bond market did not change much from the previous year, and short- and medium-term bonds still accounted for the lion's share. In particular, issuance of bonds with maturities under 5 years accounted for 40 percent, down 8.8 percentage points from the previous year; issuance of bonds with maturities of 5-10 years (including 5 years) accounted for 34.7 percent, up 7.9 percentage points from the previous year; and issuance of bonds over 10 years (including 10 years) accounted for 25.2 percent, up 0.8 percentage points from the previous year (Figure 13).

#### Indices on the bond market showed an upward trend, and transactions were brisk

The interbank market bond index rose 1.9 percent, or 2.51 points, to 132.74 points at end-2010, from 130.23 points at the beginning of the year. Government bond index on the stock exchange rose 3.2 percent, or 3.94 points, to 126.28 points at end-2010, from 122.34 points in early 2010 (Figure 14).

In 2010, the transaction volume of the interbank bond market continued to increase rapidly with a total turnover of 151.6 trillion yuan, representing an increase of 28.9 percent year on year. In particular, the turnover of

cash bonds amounted to 64 trillion yuan, representing an increase of 35.5 percent year on year.

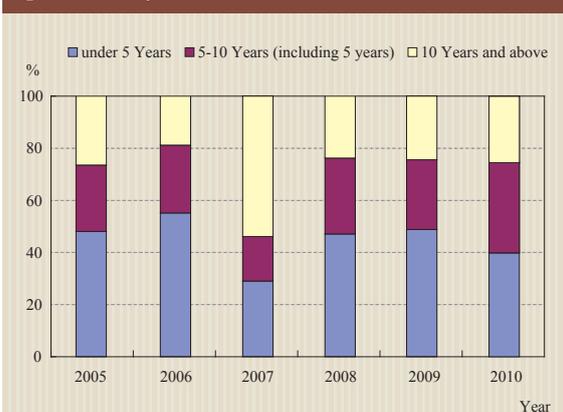
#### The yield curve of government bonds showed a flattening and upward trend on the interbank bond market

Over the year, the movements of yield curve of government bonds on the interbank bond market can be mainly divided into three stages. In the first stage (from January to end-August), the yield curve saw an overall rise at the short-term end and a steadily declining trend at the medium- and long-term end. In the second stage (from early September to mid-November), the yield curve steepened noticeably and shifted upward, with yield curve of medium-term products moving up most. In the third stage (from late November to end-2010), the yield of short-term products increased rapidly and the yield curve in general flattened and steadily shifted upward, with the yield of all maturities reaching their yearly highs (Figure 15).

#### Participants in the interbank bond market expanded

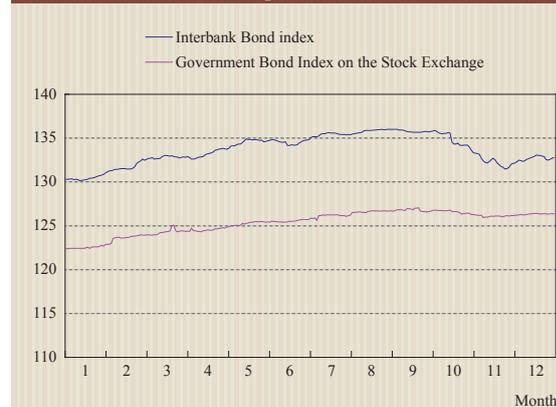
As of end-2010, there were a total of 10 235 participants in the interbank bond market, including all sorts of financial institutions and non-financial investors. A multi-

Figure 13 Maturity Structure of New Issues on the Interbank Bond Market



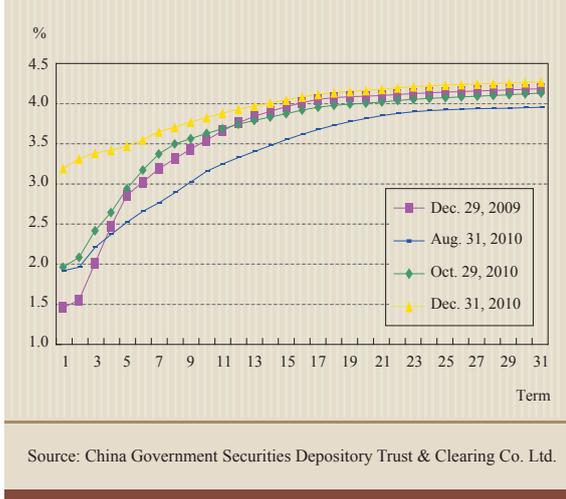
Source: China Government Securities Depository Trust & Clearing Co. Ltd.

Figure 14 The Interbank Bond Index and Government Bond Index on the Stock Exchange in 2010



Source: China Government Securities Depository Trust & Clearing Co. Ltd.

Figure 15 Movements of Government Bond Yield Curves on the Interbank Market in 2010

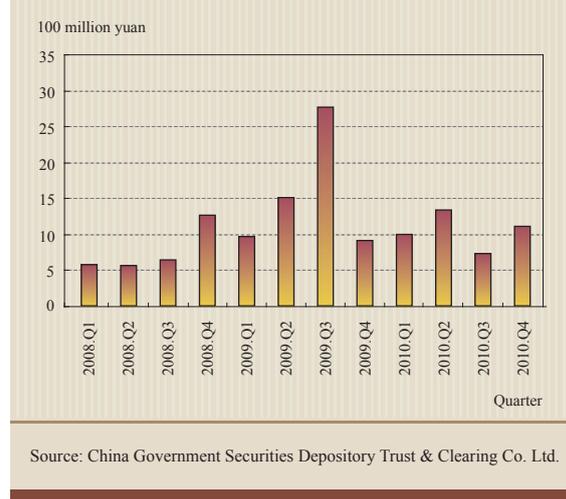


tier market structure, constituted by the market maker, financial institution and other institutional investors, has further improved. The interbank bond market has become an important investment and financing platform for all sorts of market participants. The types of participants in the interbank bond market further diversified with the number of collective investors and non-financial enterprises increasing rapidly. Among new investors, there were 581 fund management companies, 309 enterprises, 54 banks, 26 credit cooperatives, 11 non-bank financial institutions, and 4 insurance companies. In addition, overseas central banks or monetary authorities, RMB clearing banks in Hong Kong and Macao, and participating banks for the pilot RMB cross-border trade settlement outside the Mainland were allowed to invest in the interbank bond market under a pilot scheme.

#### The OTC transaction of commercial banks proceeded stably

Over the year, 8 eligible commercial banks conducted the pilot OTC transaction of book-entry government bonds. At end-2010, government bonds traded on the OTC market included 1-year, 3-year, 7-year, 10-year and 15-year products, with 86 government bond products being traded on the OTC market. The turnover of

Figure 16 Quarterly Trading Volume of Book-entry Government Bonds on the OTC Market

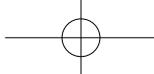


government bond transaction on the OTC market declined somewhat from the previous year to 4.17 billion yuan in 2010, representing a year-on-year decrease of 32.3 percent (Figure 16). There were 8.96 million accounts opened with commercial banks as of end-2010.

#### Stock market

The stock indices showed a downward trend. At end-2010, the Shanghai Stock Exchange Composite Index dropped 14.3 percent, or 469.06 points from end-2009, to close at 2 808.08 points. In 2010, the Shanghai Composite Index reached the peak of 3 306.75 points and the trough of 2 319.74 points, leaving a gap of 987.01 points. The Shenzhen Component Index closed at 12 458.55 points, down 1 241.42 points, or 9.1 percent from end-2009. The Shenzhen Component Index witnessed the peak of 13 936.08 points and the trough of 8 945.2 points, leaving a gap of 4 991.68 points.

Trading volume on the stock market declined noticeably. Taking the A-share market as an example, the turnover on the A-share market totaled 30.3 trillion yuan in 2010, with a daily average of 125.3 billion yuan, down 12.2 percent and 11.5 percent respectively from the previous year. The movement of trading volumes was basically consistent with the stock index.



## Foreign Exchange Market Performance

### The RMB foreign exchange spot market developed stably

In 2010, the trading volume of spot RMB foreign exchange transactions increased 3.5 percent year on year, of which the transaction of the US dollar increased somewhat, while that of the Hong Kong dollar, the yen, the euro and the pound increased to a larger extent. On August 19, trading of the first currency from emerging market was launched on the interbank RMB foreign exchange market, i.e., China started the trading of the RMB against the Malaysian ringgit; on November 22, the trading of the RMB against the Russian ruble was launched. As of end-2010, the number of currency-pairs traded on the interbank market increased to 7, further facilitating the cross-border trade and investment by economic entities.

Since the further reform of RMB exchange rate regime, the RMB exchange rate showed a stable and slightly appreciating trend, and the flexibility of the RMB exchange rate was evidently enhanced. At end-2010, the central parity of the RMB against the US dollar was 6.6227 yuan per dollar, representing an appreciation of 3 percent compared with that at the end of the previous year. Among 242 trading days of the RMB foreign exchange spot market, the central parity of the RMB against the US dollar appreciated in 133 trading days, remained unchanged in 6 trading days, and depreciated in 103 trading days. The daily average fluctuation amounted to around 36 basis points, 26 basis points more than in the previous year. According to the calculation by the Bank for International Settlements, the nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the RMB appreciated 1.8 percent and 4.7 percent respectively in 2010. Since the launch of RMB exchange rate regime reform in 2005 until the end of 2010, the NEER and REER of the RMB have appreciated by 14.7 percent and 23.2 percent respectively.

### Trading on the RMB foreign exchange forward and swap market was brisk

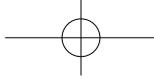
In 2010, the turnover on the RMB foreign exchange forward market amounted to US\$32.7 billion, with a daily average of US\$135 million, representing an increase of 234.5 percent year on year. Forward transactions mainly focused on 1-year and 1-month products, which accounted for 17.1 percent and 11.6 percent of the total trading volume respectively, or 28.7 percent combined.

The turnover on the RMB foreign exchange swap market totaled US\$1.3 trillion, with a daily average of US\$5.3 billion, representing an increase of 60.1 percent year on year. Swap transactions mainly concentrated on maturities of less than three months. In particular, the transactions of the US dollar versus RMB overnight swap registered US\$741.2 billion, accounting for 57.8 percent of the total, up 42.7 percent from the previous year.

### The transactions of foreign currency pairs increased rapidly

In 2010, transactions of foreign currency pairs on the interbank market amounted to US\$66.6 billion, with a daily average of US\$275 million, an increase of 63.9 percent year on year. On June 7, the trading of USD/SGD was introduced into the interbank market, bringing the number of foreign currency pairs to 9, among which the most actively traded foreign currency pair was the US dollar/Hong Kong dollar, and its transaction accounted for 60.4 percent of the total transactions of 9 foreign currency pairs, up 9.5 percentage points from the previous year.

Participants in the interbank foreign exchange market further expanded. By the end of the year, there were 293 members on the RMB foreign exchange spot market, 18 more than that at the end of 2009, and new members were mainly finance companies and small-and medium-sized banks; there were 75 and 73 members on the RMB foreign exchange forward market and swap market, 2



more than that at the end of 2009 respectively; there were 79 members on the foreign currency pairs market, 10 more than that at the end of 2009; and there were 16 market-makers, same as the previous year.

### Gold Market Performance

#### The transaction volumes of the Shanghai Gold Exchange reached a historical high

In 2010, a total of 6051.5 tons of gold was traded on the Shanghai Gold Exchange, representing an increase of 28.46 percent year on year; total turnover posted 1615.78 billion yuan, an increase of 57.04 percent year on year; and the average daily trading volume was 25 tons, an increase of 29.47 percent year on year.

#### The price of gold showed an upward trend

In 2010, the price of gold on the international market continued to reach record highs, exceeding the US\$1 300 per ounce mark and then the US\$1 400 per ounce mark and hitting a record high of US\$1 421 in November. Similarly, the price of gold on the Shanghai Gold Exchange also witnessed an upward trend, hitting a record high of 306 yuan per gram. At end-2010, the price of gold closed at 301.17 yuan per gram, up 24.9 percent from that at the beginning of the year; and the weighted average price of gold was 265.84 yuan per gram, 50.49 yuan more than that in the previous year.

### Major Policy Measures for the Financial Market

#### Continuing to promote market innovation

First, the super & short-term commercial paper (SCP) was launched to further broaden direct financing channels for non-financial enterprises, to improve the capacity of enterprises in liquidity management, and

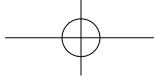
to meet diversified investment demands of investors. Second, efforts were made to promote the building of the loan transfer market. In September 2010, the national interbank market loan transfer trading platform was launched in Shanghai, which has enriched the types of products in the interbank market, and will help commercial banks shift their loan management mode and enhance risk management capability. Third, the credit risk mitigation tools were formally put into use, which has enriched the tools for investors to manage credit risks and improved the credit risk-sharing mechanism for the bond market. Fourth, efforts were made to steadily expand the scope of issuers of financial bonds, and support as well as approve eligible locally incorporated foreign-funded banks, financial leasing companies and automobile finance companies to issue financial bonds.

#### Further Standardizing Bond Issuance

To ensure an orderly, fair, equitable, and transparent environment for bond issuance, in June 2010, the PBC issued the *Notice of the People's Bank of China on the Relevant Matters Concerning the Issue of Bonds by Tender through the Issue System of the People's Bank of China*, which standardized the issuance of bonds by tender by non-financial corporations through the issue system of the PBC, and provided more choices for issue of bonds by non-financial corporations. In 2010, a total of 299 billion yuan of bonds was issued by non-financial corporations by tender through the issue system of the PBC.

#### Promoting clearing of financial derivatives on a consolidated basis

To keep up with the development of international financial regulation and supervision reform in the aftermath of the financial crisis, and to promote clearing of OTC financial derivatives on a consolidated basis, efforts were made to promote and guide the Shanghai Clearing House to conduct research on the clearing



system and scheme of OTC derivatives on a consolidated basis.

#### **Expanding the scope of overseas bond issuers on the domestic market**

In September 2010, with the approval of the State Council, the PBC, the Ministry of Finance, the National Development and Reform Commission and the CSRS jointly made the announcement on *Rectifying the Interim Measures for the Issuance of RMB Bonds on the Domestic Market by International Development Institutions*, allowing issuers to expatriate the funds raised through the bond issuance to other countries and regions, and adjusting the requirement on accounting standards and credit ratings for bond issuers. The measures apply to multilateral, bilateral and regional international development financial institutions. Building on the Notice, more efforts were made to conduct research on issuance of RMB bonds by overseas financial institutions on the domestic market.

#### **Steadily promoting overseas institutions to invest in the interbank bond market on a pilot basis**

In parallel with the pilot program for RMB cross-border trade settlement, in August 2010, the PBC issued the *Circular on Relevant Issues Concerning the Pilot Program of Allowing Three Types of Overseas Institutions Including the RMB Clearing Banks to Invest Their RMB Funds in the Mainland's Interbank Bond Market*. Under the pilot scheme, overseas central banks or monetary authorities, RMB clearing banks in Hong Kong and Macao, and overseas participating banks in the RMB cross-border trade settlement, can make use of their RMB funds to invest in the Mainland's interbank bond market, which opens a channel for these institutions to preserve the value of their RMB holdings.

#### **Continually promoting domestic banks to issue RMB bonds in Hong Kong**

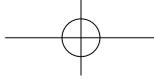
In order to deepen the RMB business in Hong Kong, promote the development of the RMB market in Hong Kong, and support the pilot scheme for RMB cross-border trade settlement, with the authorization of the State Council, the Bank of China, the China Development Bank, the Export and Import Bank of China were approved to issue a total of 15 billion yuan of RMB bonds in Hong Kong. By the year end, 7 Mainland banks had issued a total of 47 billion yuan of RMB bonds in Hong Kong. In the meantime, efforts were made to support the Ministry of Finance to reissue RMB bonds in Hong Kong. On November 30, the Ministry of Finance issued 8 billion yuan of RMB government bonds in Hong Kong.

#### **Promoting listed commercial banks to trade bonds on the stock exchanges on a pilot basis**

In October, the PBC, CSRC and CBRC jointly issued the *Circular on Issues Concerning Pilot Participation of Listed Commercial Banks in Bond Trading on the Stock Exchanges*, so as to promote interconnectedness of the bond market, improve operating efficiency of the bond market and promote healthy and coordinated development of the bond market.

#### **Beefing up the institutional building of the gold market**

The PBC, together with the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Finance, the State Administration of Taxation and the CSRC published *Opinions on Promoting the Gold Market Development*, clearly spelling out the overall path of development and major tasks in further promoting the gold market.



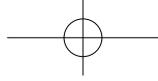
## CREDIT POLICY

In 2010, the PBC earnestly carried out the macroeconomic management strategy of the Central Committee of the Communist Party of China and the State Council to enhance the macro guidance role of the credit policy, to improve its way of implementation, to accelerate the innovation of financial products and service modes, to implement differentiated credit policy on the real estate sector, to emphasize on the optimization of credit allocation, so as to fully exert the positive effect of credit policy on facilitating the stable and fast growth of the economy and the harmony and stabilization of the society.

### Cooperation and coordination between credit policy and industry policies were enhanced

Following the overall requirement of the restructuring and revitalization plans for key industries stipulated by the State Council, the PBC promptly studied and set out the polices and measures for supporting the restructuring and revitalization of key industries through financial services. The PBC, the Publicity Department of the Central Committee of the Communist Party of China and seven other ministries jointly promulgated *Guiding Opinions on Extending Financial Support to Revitalize and Develop the Cultural Industry*, setting several requirements for financial institutions: i.e., to actively develop tailor-made credit products according to the different features of cultural enterprises and suitable to the characteristics of the cultural industry, so as to increase effective credit supply; to establish flexible differentiated pricing mechanism in compliance with regulatory requirements, and in accordance with practical conditions of different cultural enterprises; to establish and improve scientific and appropriate credit rating and scoring rules, and to establish special evaluation system for financial services that particularly serving the cultural industry; to set up expert teams and special service departments, so as to proactively provide high quality financial services to cultural enterprises; to actively develop cultural consumption credit products, and to provide convenient

payment and settlement services for cultural consumption; to vigorously develop the multi-layer capital market and to increase the direct financing volume of cultural enterprises. The PBC also carried out the arrangement of the breeding and developing emerging industries with strategic importance stipulated by the Central Committee of the Communist Party of China and the State Council, and actively implemented the tasks related to supporting the development of emerging industries with strategic importance and self-innovation in science and technology through financial services. The PBC encouraged and guided financial institutions to actively explore and develop credit products and service solutions suitable to the characteristics of the development of the service industry, and to vigorously improve and perfect financial services to industries including services, tourism, service outsourcing, housekeeping, etc. By the end of 2010, the mid-to-long-term loans extended by financial institutions nationwide to the services industries including transportation, storage and postal service, information transmission, computer service and software, wholesale and retail business, accommodation and catering, rental and business services, resident services, etc. totaled 6.17 trillion yuan, up 1.48 trillion yuan from the beginning of the year, or 31.56 percent yoy, which was 5.7 percentage points higher than the aggregate growth rate of all mid-to-long-term loans.



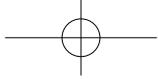
### **Multiple measures were taken to enhance the financial services to agriculture, rural areas and farmers**

The PBC drew a complete and systematic conclusion on the experiences of the pilot programs on innovation of financial products and services for rural areas carried out in six central provinces and the three northeastern provinces, and promulgated *Guiding Opinion on Comprehensively Promoting the Innovation of Financial Products and Service Modes in Rural Areas* together with the CBRC, CSRC and CIRC. The document called for comprehensively putting forward the innovation of financial products and services for rural areas in the whole country, required financial institutions actively carry out innovation on financial products and services concerning key rural development aspects, including supporting self-employment and incoming-enhancing efforts by farmers, developing modern agriculture, increasing rural area consumption, supporting infrastructure construction in rural areas, putting forward the ownership system reform of the collectively-owned forest and the development of the forestry, etc., so as to emphasize on fulfilling the demand for financial services originated from the real characteristics of agriculture, rural areas and farmers. The document also required financial institutions to broaden the area of financial services, and to appropriately use various financial instruments to manage and diversify risks of the agriculture industry. In the meantime, the PBC made it clear that various measures, including strengthening policy coordination and organizational leadership, comprehensively using various monetary policy instruments, improving rural area payment and settlement services, strengthening the construction of rural area credit system, etc., should be taken to form a favorable supporting policy environment for financial innovation related to rural areas. The PBC promulgated *Urgent Circular on Financial Services for Spring Agricultural Production and Anti-drought and Disaster-alleviation in the Southwestern Provinces*,

guiding and urging financial institutions to provide good services for spring agricultural production and anti-drought and disaster-alleviation in the five southwestern provinces, and to increase credit supply for infrastructure development for farmland and water conservation. The PBC called for the improvement of financial services to support the ownership system reform of the collectively owned forest, and put forward the development of forestry property backed loans. The PBC also established the evaluation mechanism for encouraging financial enterprises residing as legal persons in county-level areas to use certain proportion of their incremental deposits to extend loans in the local region, so as to support the economic development of the county-level areas. By the end of 2010, agriculture-related loans extended by nationwide financial institutions totaled 11.77 trillion yuan, accounting to 23.1 percent of all outstanding loans, increasing by 28.9 percent yoy, or 9.2 percentage points higher than the growth rate of the aggregate loans. The incremental loans related to agriculture totaled 2.64 trillion yuan, accounting to 31.5 percent of all incremental loans in 2010.

### **The guidance on financial services to SMEs were intensified**

The PBC, the CBRC, CSRC and CIRC jointly promulgated *Opinions on Further Improving the Work of Financial Services to SMEs*. The document urged and guided financial institutions to enhance credit management, to improve service manner, so as to improve financial services for SMEs. The document also called for the further development of the multi-layer direct financing market system suitable to the demand of SMEs, the innovation of debt-financing instruments for SMEs, and the steadily increase of the volume of direct debt-financing instrument issuance. The PBC also cooperated with relevant ministries in actively putting forward the development of the credit system of SMEs and related pilot zones, guided SMEs to improve internal control



system, to enhance credit worthiness and information transparency, and made efforts in improving and optimizing the financial environment for SMEs. Thanks to the joint effort of various measures, the financing conditions of SMEs improved noticeably. By the end of 2010, the outstanding amount of loans to SMEs (including discount of commercial notes) extended by financial institutions totaled 17.7 trillion yuan, increased by 24.4 percent yoy. The volume of debt-financing instruments issued by SMEs in the interbank market increased steadily. By the end of 2010, the amount of non-financial-corporation debt-financing obtained by 105 SMEs totaled 6.477 billion yuan.

#### **Establishing and improving the green credit mechanism supporting energy conservation, emission reduction and closing down backward production facilities**

The PBC drew a complete and systematic conclusion on the representative experiences and conducts on supporting energy conservation and emission reduction through financial services, by which the PBC actively putting forward the establishment/improvement of the green credit management mechanism. The PBC promulgated *Opinions on Further Improving the Financial Services to Support Energy Conservation, Emission Reduction and Closing Down Backward Production Facilities*, encouraging and guiding financial enterprises to further increase credit support to environmental protection, recycling economy development, technological reconstruction of energy conservation and emission reduction, etc., and vigorously supporting the promotion of new economic driving forces. The PBC also enhanced policy communication and coordination with other ministries, and established inter-ministry information exchange and sharing mechanism on energy conservation, emission reduction and closing down backward production facilities, and helped financial institutions improve their capability on steering credit

supply and enhancing risk monitoring and identification.

#### **Sorting out and standardizing local government financing platforms**

The PBC promulgated documents including *Circular on Issues Related to the Implementation of the Circular of the State Council on "Enhancing the Management of Local Government Financing Platform Companies"* and *Circular on the Further Verification of the List of Local Government Financing Platform Companies and Their Outstanding Debts*, jointly with the Ministry of Finance and other related ministries. The documents clarified the detailed policy measures for sorting out and standardization of local government financing platforms. The PBC also urged local governments to verify the data of the outstanding debts of local government financing platforms, and to accurately record the incremental debt of these companies. Making in-depth study of international experiences, the PBC actively explored the way to broaden the market-based local government financing channel.

#### **Further improving and perfecting financial services to the increasing of people's welfare**

The PBC further improved and perfected the regulation policy for micro-credit collateralized loans, and enlarged the covering area of micro-credit collateralized loans, so as to support the increase of employment of urban residents who were difficult to get employed, college graduates, migrant workers and women in rural areas. The PBC continued to perfect the policy on poverty alleviating interest-subsidizing loans, and emphasized on the construction of the sustainable development mechanism for poverty alleviation through financial credits. The PBC established and perfected the reporting system on the special monitoring project of supporting the college graduates serving as village leaders to start their own business and to bring prosperity to the local residents, and researched and stipulated policy measures



to support the college graduates serving as village leaders to start their own business and to bring prosperity to the local residents through financial services. In 2010, the PBC branches put forward the working mechanism of micro-credit collateralized loans, student-supporting loans, poverty alleviating interest-subsidizing loans, and loans supporting college graduates serving as village leaders to start their own business and to bring prosperity to the local residents in their administrative regions, and made remarkable positive achievements. By the end of 2010, micro-credit collateralized loans extended by all financial institutions totaled 32.267 billion yuan, increasing 71 percent yoy. Interest-subsidizing loans subsidized by the central government totaled 23.028 billion yuan, and the incremental amount increased from 1.811 billion yuan in 2005 to 11.719 billion yuan in 2010, showing an accelerating momentum.

#### **Actively enhancing the financial support and services to addressing catastrophic disasters and supporting the post-disaster reconstruction**

The PBC promulgated *Guiding Opinions on Further Improving the Financial Support and Services for the Post-disaster Reconstruction after the Wenchuan Earthquake*, and further enhanced the quality and intensity of the financial support and services to the post-disaster reconstruction in the Wenchuan earthquake-stricken area. The PBC also promulgated policy documents including *Emergent Circular on Providing Financial Services with All Efforts to the Yushu Earthquake-stricken Area*, and *Guiding Opinions on Providing Financial Support and Services to the Housing Reconstruction in the Areas in Gansu and Sichuan Provinces Stricken by the Mega Size Mountain Torrents and Debris Flows*, which made clear that preferential and concessionary credit policy measures should be applied to the earthquake-stricken area of Yushu, Qinghai province, and Zhouqu, Gansu province, which was stricken by the mega size mountain torrents and debris flows.

#### **Promoting the balanced economic development between regions**

The PBC systematically concluded and evaluated the practical experiences on supporting the balanced economic development between regions through financial services during the Eleventh Five Year Plan Period, and further explored the effective policy measures on supporting the development of the western region, the reemergence of the central region, the reinvigoration of the northeastern region and the development of key areas including minor ethnic regions through financial services. The PBC actively supported relevant ministries in studying and stipulating supporting financial measures for putting forward the development of the Shanghai international financial center, and for accelerating the development of the Tianjin Coastal New Region. The PBC actively supported provinces including Shandong, Zhejiang, and Guangdong to conduct pilot programs on developing marine economy. The PBC also improved financial services specifically to the old revolutionary areas, border areas and concentrated and connected poverty-stricken areas.

#### **Promoting the stable and healthy development of the real estate market**

The PBC urged financial institutions to intensify the management on housing consumption loans, to enhance the pre-lending evaluation and post-lending management on real estate development loans, and to actively support the construction of low-income housing projects. The PBC and the CBRC jointly promulgated the *Circular on Issues Regarding to the Improvement of the Differentiated Housing Credit Policies*. The PBC cooperated with the Ministry of Housing and Urban-rural Development in setting the standard for identification of the second house purchase applying for commercial personal housing mortgage loans, and cooperated with relevant ministries in promulgating *Guiding Opinions on Accelerating the*



*Development of Public Leasing Houses*, encouraging financial institutions to extend mid-to-long-term loans for public leasing houses. The PBC and the CBRC jointly promulgated the *Circular on Providing High Quality Financial Services to Urban and Run-down Areas of State-owned Factories and Mines*, urging financial institutions to actively support the renovation of run-down areas according to relevant regulations. With the

implementation of the management policies, the growth rate of real estate loans decreased continuously since May. By the end of 2010, the real estate loans extended by major financial institutions nationwide totaled 9.35 trillion yuan, increasing 27.5 percent yoy, which was 10.6 percentage points lower than that in the same period of the previous year.

**BOX**

### Promoting the Development of Shanghai International Financial Center

In 2010, the PBC actively supported and vigorously promoted the building of Shanghai into an international financial center with substantive progress achieved in relevant aspects.

**A series of breakthroughs were made in the development of financial market system**

First, progress was made in allowing locally incorporated foreign-funded banks, financial leasing companies, and auto finance companies to issue bonds in the interbank market. Bank of Tokyo-Mitsubishi UFJ (China), Ltd., Bank of Communications Finance Leasing Co., Ltd., and GMAC-SAIC successfully issued RMB bonds in the interbank market to the tune of 1 billion yuan, 2 billion yuan, and 1.5 billion yuan respectively in May, July and October. Second, the loan transfer trading system was launched. On September 25, the National Interbank Loan Transfer Trading System was put into operation in Shanghai. 21 Chinese and foreign-funded banking institutions signed the *Loan Transfer Master Agreement* and concluded smoothly the first batch of three loan transfer transactions. Third, efforts were made to facilitate the investment of RMB funds in domestic bond market by overseas institutions. As of the year-end, five overseas institutions had already invested in the interbank bond market involving 15.1 billion yuan cumulatively. Fourth, innovative financial instruments were launched in the interbank market, such as credit risk mitigation (CRM) instruments and super & short-term commercial paper (SCP). On November 5, the first batch of CRM warranties (CRMW) was officially issued. On December 21, the interbank bond market began to accept the enterprises' registration of SCP issuance. Shanghai Clearing House (SCH) provides back-office services for innovative instruments, such as registration and clearance. Fifth, the listed trading of RMB against the Malaysian Ringgit and the Russian Ruble was launched in the interbank foreign exchange market in August and November. Sixth, efforts were made to encourage commercial banks to locate their bill centers of headquarter-level in Shanghai. During 2010, the bill center of China Minsheng Banking Corp., Ltd. was officially settled in Shanghai with the PBC Shanghai Head Office providing it with rediscount service.

**Cross-border RMB business continued to swell**

Across the year, the number of pilot enterprises in Shanghai engaged in the RMB settlement for export trade surged from 92 to 16 472, accounting for 24 percent of the country's total. From the beginning of the pilot program to end-2010, the RMB settlement in cross-border trade in Shanghai registered 76.908 billion yuan, ranking among top performers nationwide. The cross-border RMB buy/sell added up to 26.357 billion yuan and the interbank financing reached 16.313 billion yuan, both accounting for over three quarters of the country's total. 315 RMB non-resident accounts were opened with the balance totaling 10.543 billion yuan. Besides, progresses were also made in cross-border RMB investment and financing, such as cross-border RMB direct investment, RMB-denominated external debt, and the payment of RMB-denominated dividends to overseas shareholders by domestic non-bank financial corporations. As of the year-end, Shanghai witnessed 55 cases of cross-border RMB business under the capital account with the total value approximating 13.726 billion yuan. Shanghai's clearing network built upon correspondent banks continued to expand as the market gradually accepted the model of correspondent bank-based clearing. By the end of 2010, overseas participating banks from 67 countries and regions opened a total of 369 interbank RMB accounts, about half of the country's total.

**Trade and investment facilitation was advanced further**

First, a breakthrough was made in the pilot foreign exchange management of building the international trade settlement center. On October 8, a pilot scheme of launching international trade settlement center was put into operation targeting eligible enterprises in Shanghai Free Trade Zones. According to the pilot scheme, enterprises meeting certain requirements can provide centralized management of regional or international settlement funds for international trade orders (contracts), which has enabled enterprises to act as the fund settlement center, a role consistent with the function of order (contract) management. Second, the pilot program of establishing foreign equity-invested enterprises was launched on December 7. State Administration of Foreign Exchange (SAFE) Shanghai Bureau provides foreign equity-invested enterprises with convenience regarding foreign exchange registration, account opening, and foreign exchange surrender for investment. Third, supporting foreign exchange policy was formulated to actively promote the pilot bonded futures delivery business officially initiated on the Shanghai Futures Exchange on December 24. Fourth, support was extended to large state-owned enterprises in accessing international financing market. During 2010, the SAFE Shanghai Bureau helped Baosteel Co., Ltd. and Baosteel Resources Co., Ltd. to obtain overseas financing by arranging the quotas for the use of short-term external debt. Fifth, the pilot program of allowing non-financial institutions to provide currency exchange services for individuals was expanded. By the end of the year, the number of pilot institutions and outlets in Shanghai jumped to 4 and 25 respectively.



## FOREIGN EXCHANGE ADMINISTRATION

In 2010, China's balance of payments displayed a certain degree of fluctuation, but with positive improvements to reverse the 2009 disequilibrium. As the world gradually recovered from the international financial crisis, from January to April 2010 there were continual increases in the net inflows of foreign exchange. However, due to the European debt crisis, in May and June 2010 there was a rapid decline in the net inflows of foreign exchange. During the second half of the year, the net inflows of foreign exchange accelerated.

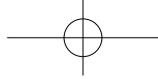
### **Launching a special campaign to combat “hot money” and effectively curbing the inflows of abnormal funds**

In February 2010, a special campaign was launched for combating “hot money” in provinces (municipalities) with larger foreign exchange operations. Targeted efforts were made to investigate and impose penalties on the inflows of “hot money” through the principal entities and channels. The campaign achieved positive results by investigating 3.47 million cross-border trade deals, involving a total amount of more than US\$440 billion. The investigations found 197 cases of suspected irregularities, involving a total amount of US\$7.34 billion. Information about the penalties for irregular foreign exchange operations by some banks, enterprises, and individuals was circulated in five batches, imposing a powerful deterrent to the inflow of “hot money”. In order to address the major problems identified in the special campaign, since November 2010, the SAFE has carried out special inspections of the key channels for the net inflows of foreign exchange, such as banks, capital settlement for foreign-funded enterprises, and feed processing trade. Efforts were targeted on the key regions, industries, and enterprises with “hot money” inflows. Efforts were also intensified to inspect other kinds of

illegalities and irregularities. In 2010, 3 807 cases of illegalities and irregularities were closed, involving total penalties of 239 million yuan. The SAFE collaborated with the Ministry of Public Security in ferreting out thirteen cases of underground money shops, eight cases of online foreign exchange speculation, and five important cases of illegal foreign exchange transactions, as well as in uncovering more than fifty nests of illegal foreign exchange transactions, involving about 23.6 billion yuan.

### **Strengthening the monitoring and administration of cross-border fund flows and preventing risks from cross-border fund flows**

First, reducing by 1.5 percent the quotas for the outstanding short-term external debts of domestic financial institutions and alerting the banks that have rapidly extended foreign exchange loans to keep a watchful eye over the risks of foreign exchange credits. Efforts were made to improve the measures for assessing the banks' compliance with the foreign exchange administrative policies, to urge banks to strengthen the authenticity examinations of cross-border fund flows, and to incorporate in a unified manner the banks' online settlement and sale of foreign exchange for individuals into the annual aggregate administration, so as to prevent inward or outward remittances by individuals of above-quota funds for the settlement and sale of foreign exchange through online channels. Second, making adjustments to the policies in seven areas, i.e., the banks' positions for the settlement and sale of foreign exchange, collection and settlement of foreign exchange from exports, short-term external debts, foreign direct investment, overseas listings, round-tripping investment, and foreign exchange penalties, in order to address the increasing severity of the accelerated foreign exchange inflows during the second half of



2010. The move is aimed at directing the flows of cross-border funds and reducing the pressures on the central bank to purchase exchange. Third, regularizing the administration of foreign exchange for domestic home purchases by overseas institutions and non-resident individuals, and strengthening the administration of foreign exchange inflows for real estate. Fourth, strengthening the monitoring and analyses of cross-border funds. Efforts were made to modify the relevant systems and operational instructions for BOP statistical declarations and verifications, to carry out wide-scale inspections of the regulatory compliance of the foreign exchange statistics, and to perfect the early-warning system for the monitoring of BOP risks. Fifth, promoting a nationwide off-site inspection system, strengthening the comprehensive utilization of existing data and information, and increasing the precision of screening for clues about abnormalities and irregularities.

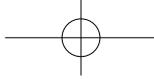
#### **Promoting reform in key areas of foreign exchange administration and facilitating the transformation of foreign exchange administration mode**

First, implementing reform of the verification and writing-off system for imports. In May, a pilot reform for the verification and writing-off system for imports was implemented in seven provinces (municipalities). As a result, over 95 percent of import enterprises were free from verification and writing-off procedures for routine exchange payments, and the procedures for the banks' online inspections of exchange payments for imports by enterprises were completely cancelled. With practical experience attained from the pilot reform, on December 1, the SAFE began to implement the reform on a nationwide scale. Second, carrying out pilot supervision over foreign exchange entities. The SAFE conducted pilot supervision over foreign exchange entities in some of its branches and central sub-branches, held meetings to exchange information about the practical experiences gained from the pilot supervision, and actively explored

the management framework for the supervision of foreign exchange entities.

#### **Further facilitating foreign exchange receipts and payments by market entities and promoting the healthy development of the foreign-related economy**

First, implementing pilot operations for overseas deposits of export proceeds. In October, the SAFE initiated pilot operations for overseas deposits of export proceeds in four provinces (municipalities), allowing enterprises to deposit in their overseas accounts export proceeds with real and legitimate transactional backgrounds. These deposits were used for external payments under trade in goods, some categories of trade in services, and approved capital account projects, in an effort to increase enterprise efficiency in the use of funds. Second, giving a green light to Chinese-funded enterprises to borrow short-term external debt within the regional quotas. The funds were used for the enterprises' overseas financing with regard to imports and exports so as to diversify the financing channels of Chinese-funded enterprises. Third, reforming the policies for the administration of external guarantees in an effort to satisfy the needs of overseas investment enterprises for credit support by domestic institutions. Fourth, implementing pilot operations for external direct investments in RMB, external credit extensions, external guarantees, and so forth, in the form of individual cases. Fifth, refining the system for qualified foreign institutional investors (QFII) and qualified domestic institutional investors (QDII). In 2010, the SAFE approved quotas of US\$3.05 billion for 22 QFIIs and US\$7.02 billion for 19 QDIIs. Sixth, steadily expanding pilot operations for franchised domestic and foreign currency exchange operations for individuals. By the end of the year, 29 institutions operating in 15 regions had been approved to engage in franchised domestic and foreign currency exchange operations for individuals. In addition, a "green



channel” was established to support the earthquake relief work and the reconstruction of the quake-hit areas. Administration of a maximum amount of US\$ 50 000 of foreign exchange purchases by overseas individuals was implemented during the World Expo in Shanghai and the Asian Games in Guangzhou, with the aim of facilitating foreign exchange purchases by overseas individuals.

#### **Improving the operation and management of foreign exchange reserves and ensuring the maintenance and increase in the value of the reserve assets**

The SAFE continued to place priority on the prevention of risks and implemented various tasks in a prudent manner. Efforts were made to closely track and analyze market changes and economic trends, adjust investment strategies in a flexible manner, seize investment opportunities, and optimize the structure of currency assets based on a comprehensive assessment of the risks and prudent research and judgments. Constant efforts were made to improve the management framework and mechanisms, to integrate various kinds of platforms, channels, and resources for investment, and to further improve the efficiency of performance and expertise. The SAFE continued to improve the construction of ancillary facilities, establish and perfect the systems for early warning of risks and internal grading system, further strengthen inspections of regulatory compliance, broaden the coverage of the inspections, and constantly optimize the construction of infrastructure with the aim of consolidating a foundation for prudent operations.

#### **Actively promoting law-based administration and increasing the transparency of foreign exchange administration**

First, strengthening law-based administration and

continuing to intensify efforts to integrate and organize the laws and regulations. Since the beginning of 2010, 141 normative documents had been abolished or declared invalid, and seven general categories of administrative approval were cancelled. The power of examination and approval for some businesses under the capital account was delegated to lower levels and a directory of currently-in-force laws, regulations, and administrative licensing items was announced. Second, intensifying the dissemination of information. During the 2010 period of the National People's Congress and the Chinese Political Consultative Conference, the SAFE expressed its views on the hot issues concerning foreign exchange administration during the group interview on the subject of “Foreign Exchange Administration and Foreign Reserve” held by the Press Center. The *Q&A on Hot Issues Regarding Foreign Exchange Administration Policies* was released in 6 consecutive issues, disseminating in a systematic manner the basic knowledge and policies about foreign exchange administration and foreign exchange reserves operations. Efforts were intensified to disseminate information about hot issues related to foreign exchange administration, especially about the special campaign to combat “hot money,” through a broad range of channels, such as interviews with SAFE leaders and both online and offline news media. Third, increasing the transparency of statistical data regarding foreign exchange. Data on the banks' monthly settlement and sale of foreign exchange on behalf of their clients, the banks' monthly foreign-related receipts and payments, and quarterly BOP statements were released for the first time, along with the issuance of parallel interpretive articles. The above measures have achieved positive results in providing rapid responses to social concerns and in further enhancing the understanding and support of the society about the work of foreign exchange administration.



## BALANCE OF PAYMENTS POSITION

In 2010, China's balance of payments continued to post a twin surplus. Specifically, the surplus under the current account totaled US\$305.4 billion, an increase of 17 percent over 2009; the surplus under the capital and financial account totaled US\$226 billion, an increase of 25 percent over 2009. By the end of 2010, China's foreign exchange reserves reached US\$2847.3 billion, a rise of US\$448.2 billion over that at the end of 2009.

### **The surplus under the current account experienced a modest increase**

In 2010, the surplus under the current account reached US\$305.4 billion, an increase of 17 percent over 2009. In 2009 the surplus under the current account had declined by 37 percent over that in the previous year.

In 2010, China's surplus of trade in goods was almost equal to that in the previous year. According to the statistical coverage of the balance of payments, China's goods exports amounted to US\$1581.4 billion, a rise of 31 percent, whereas goods imports reached US\$1327.2 billion, a rise of 39 percent. The surplus of trade in goods, reaching US\$254.2 billion, increased by 2 percent.

The deficit in trade in services posted a decline. Receipts from trade in services amounted to US\$171.2 billion, an increase of 32 percent over 2009; payments reached US\$193.3 billion, an increase of 22 percent over 2009. The deficit totaled US\$22.1 billion, a drop of 25 percent. The continual expansion of surplus items, including other commercial services, construction services, and computer and information services, are the major contributing factors to the decline in the trade in services deficit.

The surplus in income registered a dramatic increase. In 2010, receipts in income reached US\$144.6 billion, an increase of 33 percent, whereas payments reached US\$114.2 billion, a rise of 13 percent. The surplus totaled

US\$30.4 billion, a rise of 320 percent. With the sustained expansion of China's total scale of external assets, net receipts in investment income reached US\$18.2 billion, as opposed to US\$100 million in the previous year. Meanwhile, the services income of China's overseas workers continued to rise. Net inflows of compensation of staff and workers amounted to US\$12.2 billion, a rise of 70 percent over 2009.

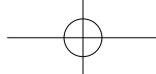
### **The surplus under the capital and financial account increased significantly**

China's inflows under the capital and financial account totaled US\$1108 billion, an increase of 42 percent; outflows reached US\$882 billion, an increase of 47 percent. The surplus reached US\$226 billion, a rise of 25 percent.

The surplus in direct investments increased. The surplus in direct investments was US\$124.9 billion, a rise of 78 percent. Specifically, net inflows of inward foreign direct investment to China approached US\$185.1 billion, an increase of 62 percent. Net outflows of China's external direct investments reached US\$60.2 billion, an increase of 37 percent.

Net inflows of portfolio investment posted a decline. Net inflows of portfolio investment amounted to US\$24 billion, a drop of 38 percent from 2009. Specifically, China's overseas portfolio investment recorded a net outflow of US\$7.6 billion, while in 2009 it recorded a net flowback of US\$9.9 billion. Inward portfolio investment from abroad recorded a net inflow of US\$31.7 billion, an increase of 10 percent over 2009.

The surplus in other investment posted a slight increase, reaching US\$72.4 billion, an increase of 7 percent over 2009. Specifically, the deficit in the assets of other investments reached US\$116.3 billion, compared to a surplus of US\$9.4 billion posted in 2009. The surplus



in the liabilities of other investments reached US\$188.7 billion, an increase of 220 percent over 2009.

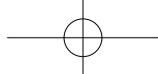
#### **Reserve assets maintained a steady increase**

After excluding factors affecting valuation such as exchange rates and asset prices, China's international reserve assets increased by US\$471.7 billion, a rise of 18 percent over the increase in the previous year. Specifically, foreign exchange reserves registered an increase of US\$469.6 billion and the reserve position in

the IMF and special drawing rights registered an increase of US\$2.2 billion.

#### **Net errors and omissions occurred on the debit side**

Net errors and omissions occurred on the debit side, reaching US\$59.7 billion, equivalent to 2 percent of the combined value of exports and imports of goods based on the balance of payments statistical coverage. The ratio is well within the internationally accepted benchmark of 5 percent.



## LEGAL DEVELOPMENT

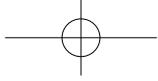
### **Strengthened financial legislation to improve the financial legal system**

First, the PBC actively participated in the work of the legislative body to push ahead with drafting or amending laws related to the mandate of the PBC. It took part in amending the *Budget Law of the People's Republic of China*, putting forward suggestions on strengthening budgetary surveillance and adhering to and improving state treasury management of the PBC. It also participated in amending the *Law of the People's Republic of China on Funds for Investment in Securities*, putting forward suggestions from the perspective of developing financial markets, advancing financial reform and innovation, and guarding against financial risks. Second, the PBC quickened its pace in advancing formulation or amendment of administrative regulations related to its mandate in collaboration with the legislative department of the State Council. It promoted formulation of the *Administrative Regulations on Credit Information Collection* and the *Administrative Regulations on the Gold Market* with a view to laying the legal foundation for standardizing the credit information collection sector and the gold market. It promoted comprehensive amendment of the *General Rules on Lending* to guide the healthy development of private lending and standardize development of the credit market. It promoted rolling out implementation plans of the deposit insurance scheme and deliberated on formulating the *Administrative Regulations on Deposit Insurance* to accelerate building the deposit insurance scheme and strengthen the financial safety net in China. Third, the PBC issued various rules and normative documents, providing legal support to PBC's administering and performing its functions by law. During the year, two administrative rules and around 20 major normative

documents were promulgated. Fourth, it cleaned up normative documents in an all-round way to safeguard the authority and relevance of legal documents. Upon communication and coordination with relevant agencies, the PBC abolished 367 documents.

### **Standardized law enforcement and promoted administration by law**

First, efforts were made in reviewing and standardizing its administrative law enforcement. It issued the *Directory of the PBC Law Enforcement Inspection* based on a comprehensive review of the PBC law enforcement inspection matters and conducted research on training and evaluation methods of administrative law enforcement qualifications of the PBC branches. Second, efforts were made in improving law enforcement effects and quality. Building on enhancing services and administration of opening new financial institutions, the PBC progressively conducted operations management centering on reports of significant events and comprehensive law enforcement and evaluation over banking institutions. It standardized services and administration of financial institutions in the fields of money and credit, financial market, financial stability, financial survey and statistics, accounting, payment and settlement, financial technology, banknote issuance, fiscal agent, credit information collection, anti-money laundering, foreign exchange administration and so on. Efforts were made to promote PBC administering and performing functions by law, strengthen financial surveillance and administration, and effectively safeguard financial stability. Third, efforts were made to do a good job on handling administrative reconsideration cases. Through proper application of laws and regulations and better communication with reconsideration parties,



the PBC conscientiously dealt with reconsideration cases and effectively settled administrative disputes. Fourth, efforts were made to improve bill punishment and settle bill punishment disputes. In response to many disputes about large number of penalties of the PBC against bill violations, the PBC issued the *Implementation Opinions on Certain Issues Concerning the Administrative Punishment against Check Issuance Violations (Trial)*, distinguishing different cases and setting standards for reduced punishment, punishment waiver, and no punishment relating to practices in violation of check issuance regulations, and hence effectively reduced administrative disputes.

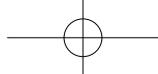
#### **Strengthened legal research to provide theoretical support for financial legislation**

The PBC actively conducted forward-looking and innovative research on legal issues in response to post-crisis economic and financial developments both at home and abroad. First, the PBC actively participated in the significant research projects and put forward policy advice on deepening financial reform and improving financial legal system. Second, the PBC conducted in-depth research on the issue of US administrative and judicial departments misusing “long-arm jurisdiction” which disturbed several Chinese financial institutions and foreign regulation barriers as well as related WTO disputes, safeguarding national interests and legitimate rights and interests of Chinese financial institutions in collaboration with relevant agencies. Third, the PBC paid close attention to issues directly bearing on public interests such as bank card fraud, commercial banking fee, loopholes of electronic business payment platform and made research preparations for policy design. Fourth, the PBC closely monitored international financial reform trends and studied legislation developments of financial regulation and supervision reform in major countries and regions so as to promote continuous improvement of China's financial legal system.

#### **Improved legal services and explored financial consumer protection**

The PBC made efforts in improving legal services and doing a good job in cleaning up long-pending enforcement cases in cooperation with relevant agencies. Having issued the *Joint Notice of the Supreme People's Court and the People's Bank of China (PBC) on the People's Court's Inquiry and the PBC's Assistance in Such Inquiry about the Bank Name of the RMB Bank Settlement Account of a Judgment Debtor*, the *Opinions on Questions of Establishment and Perfection of Joint-action Mechanism for Enforcement*, the *Notice on Further Improving the Procedure of Inquiring about and Freezing Fund Related to Cases*, the PBC standardized account inquiry and freeze of judicial departments and relevant authorities to safeguard social fairness and justice.

The PBC explored building financial consumer protection system tailored to China's reality and launched pilot programs to guard against financial risks and maintain financial stability. The PBC made efforts in collecting domestic cases of encroachment of financial consumer rights and organized financial and law experts to study those cases. The PBC also sent missions to the US and Canada to discuss with local supervisors, law offices and academia about legal system and institutional setting of financial consumer protection, strengthening financial consumer education and putting in place deposit insurance scheme, etc. The PBC instructed its Xi'an Branch, Nanjing Branch and Wuhan Branch to launch pilot programs in protecting consumers' rights of being informed, standardizing services fees and commissions of financial institutions, strengthening management of client information and implementation of interest rate policies. The PBC paid close attention to the developments of financial reform on legislation related to consumer protection in some countries (regions). With an emphasis on studying *Wall Street Reform and Consumer Protection Act* as



well as its implications on US financial sector and relevance to China, the PBC put forward policy advice

on building financial consumer protection system in China.

## BOX

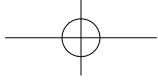
### Special Campaign to Combat Hot Money

In 2010, with the changes in the global economic and financial environments, China faced relatively greater pressures from the net inflows of foreign exchange. The inflows of "hot money" through various channels for speculation and arbitrage purposes can be considered a contributory factor to these pressures. To prevent the inflow of illegal and irregular funds and to maintain national economic and financial security, the SAFE complied with the scientific development approach to further transform the concepts and methods of foreign exchange administration, carried out inspections and imposed punishments by targeting the major areas, regions, and channels of "hot money" inflows, and cracked down accurately on the irregular flows of cross-border funds, resulting in a powerful deterrent to the inflow of "hot money".

Since the end of February, the SAFE has made unified efforts to crack down on "hot money" in the provinces (municipalities) with relatively large foreign exchange operations. The main channels for "hot money" inflows were inspected, including trade, foreign direct investment, external debts, and trade in services. In addition, market entities, such as banks, enterprises, and individuals, were also inspected. The inspections achieved positive results by examining 3.47 million cross-border trade deals, involving a total amount of over US\$440 billion. The examinations revealed 197 cases of foreign exchange irregularities, involving a total of US\$7.34 billion. The special campaign achieved the desired results by identifying the major items and channels through which "hot money" was flowing into China and by imposing penalties on an array of typical irregular cases, resulting in marked improvements in combating "hot money." In general, the inflows of abnormal and irregular funds were characterized by "multiple points of fund inflows and a high degree of penetration." In many cases, "hot money" inflows were disguised as a series of smaller transactions, with the traditional areas of trade and investment being the major channels for the "hot money" inflows. There were frequent irregular fund inflows through processing and entrepot trade channels. "Hot money" inflows through trade in services and individual transactions occurred in various forms. Meanwhile, the illegal and irregular inflows of "hot money" funds were closely associated with the real estate sector. Special attention should be paid to the provision of alternatives by banks for irregular fund inflows for profit-making purposes. The special campaign cracked down severely and promptly on irregular fund inflows, achieving the goals of inspecting "hot money" inflows, preventing irregular business operations, and closing policy loopholes.

#### **Inspecting and seriously punishing irregular foreign exchange operations by financial institutions**

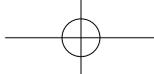
The inspections revealed that some banks frequently committed irregularities in their foreign exchange operations, including irregular management of short-term external debts and irregular settlement and sale of foreign exchange, by providing access to individuals' foreign exchange settlement by splitting large amounts of money into smaller parts, and so forth. These irregularities fueled the



inflows of "hot money" either directly or indirectly. In 2010, the SAFE continuously intensified efforts to inspect the foreign exchange operations of financial institutions. First, it carried out special inspections of compliance with the quotas for short-term external debts by some commercial banks, regulation compliance inspections of the foreign exchange operations of some commercial banks, investigations of the sources and utilization of foreign exchange funds by the headquarters of some banks, and investigations on a wider scope of the branches and sub-branches of the inspected banks within the jurisdictions of the 23 SAFE branches. Second, it implemented special inspections of banks' short-term external debts and off-balance sheet businesses in some provinces (municipalities) during the second half of 2010, based on the results of the special inspections during the first half of 2010. Third, it continued to conduct special inspections of foreign exchange inflows through bank channels, involving the headquarters of three commercial banks, branches and sub-branches of 33 Chinese-funded banks and nine foreign-funded banks, covering the banks' settlement and sale of foreign exchange, short-term external debts, offshore financing, the sources and utilization of foreign exchange funds, and so forth. The inspections revealed that some banks had serious problems with above-quota short-term external debts, errors and omissions in data submission, and some banks had been involved in irregular receipts and payments of funds under the capital and current accounts, irregular settlement and sale of foreign exchange, irregular operations of foreign exchange loans, violations of the regulations on the administration of foreign exchange accounts, violations of the regulations on the administration of foreign exchange registration, failure to fulfill the obligation to carry out authenticity examinations, and so forth. The SAFE imposed penalties on banks involved in such irregularities and intensified punishment of banks with serious irregularities or frequent irregularities by imposing fines, suspending certain categories of foreign exchange operations, imposing penalties on bank senior management, and so forth.

#### **Inspecting and severely punishing illegal and irregular business operations of enterprises**

First, carrying out special inspections of the capital exchange settlement of foreign-funded enterprises in provinces (municipalities) including Fujian, Zhejiang, Hubei, Tianjin, Ningbo, Xiamen, and so forth. The inspections showed that foreign-funded enterprises were usually involved in irregularities in the form of conducting illegal settlement of exchange and changing the purposes of RMB funds for exchange settlement. Exchange settled with capital funds was used to extend financing loans to affiliated enterprises or was transferred to the property sector and individual accounts; some funds made a detour into areas restricted by the state. Second, carrying out special inspections of feed processing trade in provinces (municipalities) including Guangdong, Shenzhen, Jiangsu, and so forth. The inspections showed that some enterprises specializing in processing trade had managed to attain greater amounts of exchange receipts and settlement by declaring larger amounts of processing fees, inflating the quotas for foreign exchange collection, transferring pricing, and so forth. Third, seriously investigating and dealing with important cases uncovered in the special campaign on combating "hot money." A special task force was formed to investigate and deal with the important cases of foreign exchange irregularities uncovered in the special campaign to combat "hot money" and to crack down firmly on foreign exchange operations that were involved in serious illegalities and irregularities.



## PAYMENT AND SETTLEMENT SYSTEMS

### **The payment and settlement systems maintained steady and efficient operation**

In 2010, the High Value Payment System (HVPS) and the Bulk Electronic Payment System (BEPS) continued to maintain steady and efficient operation. By providing sound and efficient payment services for both the banking sector and the financial market, in 2010, the payment systems<sup>①</sup> processed 12.004 billion transactions and the volume amounted to 1 663.86 trillion yuan, of which, 290 million transactions were processed by the PBC's HVPS with a total value of 1 104.4 trillion yuan which reached 28 times of Gross Domestic products (GDP) for 2010.

### **Noncash payment instruments widely used**

In 2010, 27.704 billion payment transactions with a value of RMB 905.18 trillion yuan were made with noncash payment instruments, posting 29.4 percent and 26.5 percent year-on-year increase respectively. The commercial-bill payment transactions were constantly growing with increasingly frequent fund transfer. The commercial-paper transactions reached 897 million with a trading volume of RMB 284.52 trillion uan. By June 28, the Electronic Commercial Draft System (ECDS) was rolled out to the whole country. The ECDS greatly promoted the development of the bank bills business and laid the corner stone for a well-regulated and efficient nationwide commercial bill market by reducing the transaction cost and risks effectively while improving the efficiency of transactions. Bankcards were increasingly popular as payment instruments. The significantly improved merchant acceptance and card processing infrastructure contributed greatly to promote the development of the retail market. In 2010, 4 849 million bankcard transactions with a value of 10.43 trillion yuan were made, reporting 38.9 percent and 52.0 percent year-

on-year growth respectively. The penetration rate of bankcard is as high as 35.1 percent, posting an increase of 3.1 percent comparing with last year. The retail market was further enlivened.

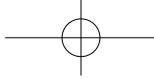
### **The payment system infrastructure enhanced steadily**

The Online Interbank Payment and Clearing System was launched by the PBC on August 30. The system operated as a uniform platform which offered interbank clearing services and business innovation capacity. It facilitated the rapid development of the e-commerce and satisfied the demands for conducting payments anytime at home. The software coding of the second-generation payment system and Central Bank Accounting Data Centralized System (ACS) started. The draft software testing plan and cases were under development. The functions of the existing systems would be further improved. The PBC would take full advantage of the HVPS as the corner stone of the financial market and the BEPS as the pillar of the retail market.

### **The payment infrastructure and service in rural areas significantly improved**

In 2010, the PBC Payment System Department attached great importance on improving the payment infrastructure and service in rural areas in all respects. In early 2010, in line with rules including keeping balanced regional distribution, the PBC chose 10 focal points, including Shouguang city in Shandong province, for rural payment infrastructure and service development. In July, the PBC organized a workshop in Shouguang city to exchange views and share experiences on rural payment service. As instructed by the PBC Head Office, local branches and sub-branches performed due diligence in

<sup>①</sup>Including HVPS, interbank fund transfer system, interbank bankcard payment system, BEPS, intra-city bill clearing system and foreign currency payment system.



rural areas, consulted all the parties concerned and seek their support. They implemented localized innovative measures. By the end of 2010, corporate settlement accounts and personal settlement accounts reached 1 017 600 and 163 204 400 respectively in the 145 provincial-level model counties for rural payment service, registered 16.89 percent and 20.86 percent year-on-year increase respectively. The number of bankcards per capita was 1.07, registering 30.83 percent year-on-year growth. Bankcards payments grew by 49.37 percent to 183 429 million yuan. The numbers of merchants, ATMs and POS devices (including telephone POS) were 86800, 11 383 and 264 600, which increased by 47.93 percent 23.92 percent and 61.43 percent year on year respectively.

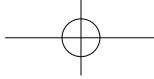
#### **Regulation and supervision on payment and settlement systems further strengthened**

In order to achieve sustainable development of the payment and settlement systems while safeguarding social rights/interests, the PBC continuously improved the regulations concerned and strengthened regular monitoring. In 2010, the PBC launched a 10-month joint campaign against bankcard-related crimes in cooperation with the public security agencies. The commercial banks and the China UnionPay contributed significantly by providing information, tracking down the criminals, checking for suspicious accounts and freezing accounts. 21 000 cases were filed, 19 000 of them (90 percent) were solved and 580 million yuan was recovered during the campaign. The campaign served as a crime deterrent and kept the bankcard market safe and sound by combating bankcard-related crimes. The PBC kept improving the regulation and supervision on the payment service provided by non-financial corporations and made significant achievements in this regards. With an in-depth due diligence, wide-ranging consultation and international experience, the PBC issued the *Administrative Rules on Payment Services Provided by Non-financial Corporations in June*, the *Implementation Measures for the Administrative Rules on Payment Services Provided by Non-financial Corporations* in December. The PBC initiated the certification and

issuance of the first payment service business license and continued to strengthen the management of bank settlement accounts. The PBC implemented a pilot project of personal identity verification for bank accounts in Xinzhou City of Shanxi Province and Zhuzhou City of Hunan Province. The project pushed forward the implementation of the real-name policy for bank accounts. In 2010, banking institutions verified personal identity for 2.77 billion times with the online identity verification system. The number of inquiries rose by 34.6 percent from the previous year and reached 6.65 million times per day. The identity verification system effectively deterred crimes such as fraud, tax evasion, corruption and bribery, money laundering, etc.

#### **International cooperation in payment and settlement further strengthened**

The PBC demonstrated the accomplishments in payment and settlement systems construction through proactive international exchange and cooperation and achieved great successes in cross-border cooperation on payment system as well as supervision and regulation. In 2010, the PBC was elected as the chair of the WG/PPS (Working Group on Payment and Settlement Systems) under the EMEAP (Executive's Meeting of East Asia and Pacific Central Banks) and hosted the 23<sup>rd</sup> meeting of the WG/PPS in Tokyo, Japan. As a member of the G10 Committee on Payment and Settlement Systems (CPSS), the PBC attended the committee regular meetings and conducted surveys of operational risk policy, cross-border and off-shore payment systems, credit risk and liquidity risk. The PBC continued to comply with international standards and coordinated with the central banks and monetary authorities concerned to conduct regulation and supervision of cross-border payment and settlement systems. The PBC held the 8th Mainland/Hong Kong SAR Joint Conference on Financial Infrastructure Development Cooperation. The conference strengthened economic and financial ties between the two sides. China's international status and influence in the payment system enhanced steadily.



## BANKNOTE ISSUANCE

In 2010, the PBC made rather great progress in the promotion of banknote issuance through firmly centering on the objective of "meeting social demand in aggregate volume, guaranteeing reasonable denomination structure and neatness of banknotes, and making the banknote holders rest assured".

### Cash injection and withdrawal

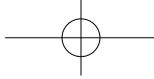
In 2010, confronting the continuous rise in the amount of cash injection as well as various kinds of emergent accidents, the PBC decisively adopted a series of measures to guarantee cash supply. Net injection of cash nationwide accumulated to 638.1 billion yuan, up 58.5 percent from the previous year, hitting historical high again.

First, efforts were made to coordinate and solve new problems and new situations related to the minting & printing, escorting & allocation, circulation & destruction, withdrawal & storage of RMB in order to guarantee cash supply. The printing plan was issued in line with the printing capacity, exploiting maximum productive potential. The reform on storage of banknotes in vaults was actively promoted and the *implementation program on the improvement of business process of banknotes storage in vaults other than those located close to printing companies* was formulated. The allocation of the reserve fund between adjacent vaults located at different administrative regions was further promoted to improve the allocation efficiency. The avoidance of the reserve fund allocation under extreme climatic conditions such as high temperature and alpine cold was timely introduced. The swap system on various denomination banknotes in circulation and the injection plan of various denomination banknotes were formulated, and the booking system of commercial banks on cash deposit and withdrawal got improved. The plan of banknote handling

and that of the destruction of damaged banknotes were scientifically formulated to increase the neatness of banknotes in circulation. The bottom quote of reserve fund was reasonably determined based on further study. Being well prepared, the cash supply was adequate during the holiday season through the New Year to the Spring Festival.

Second, the PBC actively responded to major events and emergent accidents. During the Expo 2010 Shanghai, the PBC fulfilled the task of cash support through carefully planning the escort of reserve fund. The financial service satisfaction stood first on the list for two times in the survey of and assessment on window service industries for the Expo. Confronting the emergent accidents such as the earthquake in Yushu city, Qinghai province, the massive mudslide in Zhouqu, Gansu Province, floods in southern China, the PBC promptly launched the emergency response mechanism, coordinated with the Ministry of Railways to ensure the smooth operation of escort through railways, adopted the measures such as allowing financial institutions in disaster areas to withdraw cash in vaults located at other administrative regions and permitting storage of reserve fund in vaults other than those located at disaster areas to alleviate the difficulties of depositing and withdrawing cash which arose from disasters and perplexed financial institutions, and ensured the adequacy of cash supply in disaster areas.

Third, the PBC actively promoted the coinization of fractional currency of RMB. Compared to paper banknotes with the same denomination, coins have lower issuance cost and longer circulation life, help to increase the neatness of banknotes and adapt to the tendency of automated fee-based services, and thus have better economic benefits. In order to accelerate the coinization of low-denomination banknotes, the PBC formulated



its "12<sup>th</sup> five year" plan on the coinization of low-denomination banknotes which arranges the printing of coins during the "12<sup>th</sup> five year" period. Meanwhile, the PBC enlarged the injection area and volume of coins, restricting storage volume of coins.

### Banknote handling

Efforts were made to further reinforce technique study and technique application, pushing forward the increase of recognition and detection capability of sorting equipments with low configuration. A pilot program on on-line mechanical sorting of damaged banknotes was introduced to promoting the shift of focus on banknote handling. The pilot program on sorting process optimization in banknote handling centers was launched to substantially increase the utility of equipments. In 2010, the volume of withdrawn banknotes sorted by banknote handling centers nationwide went up to 13 percent year on year, and that of damaged banknotes destructed by machinery was up 43 percent year on year.

### Cracking down on counterfeit currency

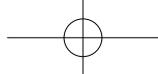
In 2010, a total of 4 309 thousand sheets of counterfeit banknotes amounting to 338 million yuan were seized nationwide in circulation by financial institutions, a decrease of 46 percent year on year. In particular, the number of sheets with denomination of 100 yuan and that of sheets with denomination of 10 yuan respectively went up to 71.5 percent and 11.4 percent of the total. 5 756 thousand pieces of counterfeit coins amounting to 5 741 thousand yuan were seized, down 52 percent year on year.

First, the PBC fully strengthened the role of joint conference on cracking down on counterfeit currency to enhance its resultant force. The PBC took the lead to convene the thirty-ninth & fortieth liaison meeting of joint conference on cracking down on counterfeit currency under the State Council to arrange various tasks. The PBC unified the views of the departments including the

Supreme Court, the supreme procuratorate and the public security, analyzing the scheme of externally releasing the information on counterfeit currency seized by deposit-taking financial institutions. The PBC actively pushed forward the process of incorporating anti-counterfeit currency into the evaluation system on comprehensive management of public security, coordinated and met the demand of banknote counters and examiners used in regulatory site for the customs, and actively cooperated with the supreme court in introducing the judicial interpretation on anti-counterfeit currency. The PBC completed the topics on anti-counterfeit currency under the framework of the China-US Strategic and Economic Dialogues, bringing about the seminar on anti-counterfeit currency under the framework of the China-US Strategic and Economic Dialogues, which was held in Beijing.

Second, the PBC deepened the investigation on anti-counterfeit currency and actively promoted the anti-counterfeit currency information system on-line. The PBC finished the research on *new ways towards effective implementation of RMB cash management and anti-counterfeit currency*, compiled and distributed *Overseas News on Anti-counterfeit Currency*, introduced the *Opinions on Strengthening the Work of Anti-counterfeit Currency abroad*, and brought forward the concept of concentration of counterfeit currency to make clearer the basic situation of crimes relating to counterfeit currency in China and its relative degree worldwide. The PBC strengthened monthly, quarterly and annual analysis on counterfeit currency seizure as well as the monitoring on illegal circulation of counterfeit currency. The anti-counterfeit currency information system was online in July 2010 after one and a half years' development and test.

Third, the PBC innovated the form of training, regulated the seizing of counterfeit currency, and strengthened the defense of financial institutions to prevent and intercept counterfeit currency. All branches of the PBC on one hand, adapted the form of hierarchically training and implementing at every level



to provide professional training for the employees of banking institutions engaging in anti-counterfeit currency; on the other hand, actively utilized two networks on anti-counterfeit currency to enhance the education on volunteers in urban and rural areas.

Fourth, the PBC kept track on new counterfeiting techniques, new types of counterfeit banknotes and relevant cases, conducted technical analysis on counterfeit banknotes with new crown characters & numbers and those with unique characteristic, and provide technical support for the public security departments in their case investigations related to counterfeit currency.

### Banknote administration

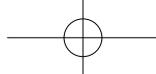
In 2010, 4 kinds of ordinary commemorative coins including calligraphic Chinese character "Harmony", environmental protection, 2010 lunar New Year and Expo 2010 Shanghai China (Table 1), and 10 categories of 54 varieties of commemorative coins made of precious metals were smoothly issued. The sampling database for RMB banknotes in circulation was established. The PBC organized on-site inspection on financial

institutions handling business for RMB deposits and withdrawals, satisfaction survey on payment service provided for customers by commercial banks and investigation on commercial banks' cash payments and the allocation and employment of sorting equipments. The dynamic monitoring system on money market was initially established in most large and medium-sized cities nationwide, and the system of monthly report and weekly report on money market information took shape. The PBC cooperated with the industry and commerce administration to examine and penalize illegal engagement in and decoration of RMB in circulation.

The PBC actively carried out the research on the plan of overseas business management of RMB cash and improved the detection system on RMB cash cross-border flow and three modes of overseas RMB cash supply and withdrawal. The PBC organized inspection on the business of generation custody vault of BOC Hong Kong, compiled *Compilation of Overseas RMB Cash Business*, formulated and revised the *Settlement Agreement on Providing RMB Cash Business for Taiwan*, the *Settlement Agreement on RMB Business*, etc. RMB cash supply and

**Table 1 The Commemorative Coins Issued by the PBC in 2010**

Issuing Date	Name	Material	Piece	Front Cover	Back Cover	Face Value (yuan)	Diameter (mm)	Total Issuance (10 thousand sets)	Color
Nov. 9	Commemorative Coin for Expo 2010 Shanghai China	Nickel-plated Steel	1	The Emblem of Expo 2010 Shanghai China, Country Name, the Year 2010	The Mascot of "Haibo", City Buildings	1	25	6000	Silvery White
Nov. 9	Ordinary New Year Commemorative Coin for 2010	Brass Alloys	1	Name of Issuing Bank, Face Value, Chinese Phonetic "Yi Yuan", the Year 2010	Tiger-head Hat, Child, Drum, Firecracker, Cloth Tiger, Chinese Words "Geng Yin"	1	25	3000	Golden Yellow
Nov. 9	Calligraphic Chinese Character "Harmony" (II)	Brass Alloys	1	National Emblem, "Yi Yuan", Country Name, the Year 2010	Several Calligraphic Forms of the Chinese Character "Harmony"	1	25	1000	Golden Yellow
Nov. 9	Ordinary Commemorative Coin for Environmental Protection (II)	Brass Alloys	1	National Emblem, "Yi Yuan", Country Name, the Year 2010	Three People Holding Hands, Leaves, the Earth	1	25	1000	Golden Yellow



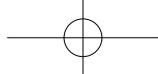
withdrawal mechanism was basically established and the supply and withdrawal channels have covered Hongkong, Macao, Taiwan and neighboring countries, extending to Europe, North America and Oceania.

### Security management and institutional building

Efforts were made to strengthen security management on key positions and critical parts such as reserve fund vaults, banknote-handling centers, and damaged banknotes destruction. The PBC organized the creation of first-grade vaults and ensured their exemplary role, reengineered the process of reserve fund storage and withdrawal to reduce the physical flow procedures, and improved business operations of vaults to increase working efficiency. The contact system on information submission with state-owned commercial banks was established. The monthly and quarterly reports on cash movement analysis and RMB circulation monitoring were completed with high quality. The *research on M0 developing trend during 12<sup>th</sup> Five-Year period* was written. The PBC improved the approval process and management methods of gold import and export, strengthened regulation and supervision on commercial banks' gold import, increased in the number of pilot commercial banks importing gold, and further opened channels for importing gold. The PBC carried out

preparation work for pre-research on the second-generation information management system of monetary, gold and silver.

The PBC combed and improved monetary, gold and silver system, and constructed the standard system and report system of monetary, gold and silver. The administrative rules including *Administrative Rules of the People's Bank of China for the Seizure and Verification of Counterfeit Currency*, *Rules on Incentives for Anti-counterfeit Currency*, *Administrative Rules on Import and Export of Gold and Its Products* were revised and improved. *Administrative Rules on Vaults with Shelves for Reserve Fund*, *Administrative Procedures for Checking and Examining Silver Dollars* were formulated. The PBC set about establishing monetary, gold and silver standard framework, drafted *Design Proposal for Bags for Reserve Fund and Withdrawal Banknotes and Design proposal for Special Tray of Reserve Fund*, compiled *Handbook of Technology Assessment on Banknote Sorting Equipments*, and initially established technology assessment system on banknote sorting equipments. The anti-counterfeiting scheme of currency and simulation evaluation system on counterfeit currency were set about establishing to make quantitative analysis on judging the anti-counterfeiting schemes of the world's major currencies and increase the level of RMB anti-counterfeiting technology.



## STATE TREASURY MANAGEMENT

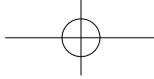
### **The basic work of state treasury management reinforced to provide support to budget implementation**

The PBC strictly reinforced the accounting and verification function of the state treasury and provided assistance to financial and taxation authorities to facilitate the collection of budgetary revenue. The PBC accurately carried out basic treasury business such as reception, distribution, retention, disbursement and repayment, played an important role in supporting budget implementation, ensured smooth implementation of fiscal and taxation system reform and supported the social and economic development. In 2010, the PBC processed collections of 8 292 billion yuan as general budgetary revenue, 3,603.8 billion yuan as budgetary funds revenue, 72.7 billion yuan as state-owned capital revenue, and 1,982 billion yuan as government bonds proceeds. The PBC disbursed 9 389.4 billion yuan as general budgetary expenditures, 2 892.2 billion yuan as budgetary funds expenditures, 62.6 billion yuan as operational expenditure for state-owned capital, and redeemed government bonds with an amount of 1,061 billion yuan. The PBC processed a total of 762 million collection and expenditure transactions, up 27.35 percent year on year.

### **The construction of the electronic state treasury information system steadily pushed forward and efficiency continuously improved**

First, the PBC speeded up nationwide introduction of the Treasury Information Processing System (TIPS). In 2010, nine provincial branches of national taxation bureau (including the taxation authority of Shanghai municipality), six provincial tax authorities and 15 fiscal bureaus, as well as the China UnionPay, the Bank of East Asian and 36 local commercial banks gained access to the TIPS. By the end of the year, 31 provincial branches

of the national taxation bureau, 31 provincial taxation authorities, 30 provincial fiscal bureaus, 16 nation-wide commercial banks (state-owned and joint-stock banks) and 195 local commercial banks and credit unions were linked to the TIPS. More than 85 million tax payment transactions were conducted through the TIPS with a total amount of 1,836.5 billion yuan, up 134 percent and 97 percent year on year respectively. The peak daily transactions were 1.03 million with an amount of nearly 104 billion yuan. Second, the Treasury Centralized Balancing System (TCBS) was further promoted. In 2010, the TCBS was launched in seven state treasury sub-branches in Liaoning, Zhejiang, Dalian, Ningxia, Hebei, Jiangxi and Shanxi. By the end of the year, the TCBS was launched in a total of 12 sub-branches and the system operated smoothly. A total of 73.80 million collection transactions were conducted through the TCBS with an amount of 1,388.7 billion yuan. And 1.21 million fund transfer transactions were processed with an amount of 2,195.1 billion yuan, and 270 thousand repayments were processed with an amount of 99.5 billion yuan. Third, the pilot program of the Treasury Management Information System (TMIS) analytical module was launched across the country. After pilot programs in Jiangsu, Hubei and Chongqing and three groups of tests in all levels of sub-branches across the country, the pilot program of the TMIS analytical module was launched nationwide in September, which highly improved the frequency and the accuracy of the statistics analysis, effectively advanced the construction of the electronic state treasury information system, and improved the overall utilization of the data in the database of state treasury information system. Fourth, the internal control system of the PBC state treasury was launched successfully in December 2010, which realized the automatic processing of in-and-after-event supervision, and provided technical support to



stronger internal control and risk prevention for the state treasury.

### **Laws and regulations continued to strengthen, and the smooth implementation of the reforms actively promoted**

The PBC made contribution to amend *the Budget Law of the People's Republic of China* and maintain the PBC state treasury management system. In line with the state council's requirements of improving the socialist market economy and reforming the administrative system, the PBC did research on main issues in the perspective of preserving national interests, and expressed the PBC's opinion of insisting on the system of state treasury management by the PBC, and opposing to the inclusion of other transitional measures of centralized collection and payment system into the Budget Law.

Working with the fiscal and taxation authorities on relevant regulations and arrangements, the PBC contributed to the smooth implementation of the reforms. In line with the State Council policies relating to economic development and taxation, the PBC worked with the fiscal and taxation authorities and studied on a series of measures such as strengthening payment and expenditure management on land transfer, incorporating extra-budgetary funds into budgetary management and participating in researches on governmental funds managements, government non-tax revenue management and fiscal oversight system.

### **Innovations in direct collection and payment of the state treasury promoted to support people's livelihood improvement**

Relying on TIPS and other technical supports, more public funds managed by the government, such as all kinds of non-tax revenue, social security funds and trade union funds, were managed by the state treasury. The fiscal and refunding expenditures, such as those related to agriculture, natural disaster relief and social

security, were transferred directly and efficiently through the state treasury system, reflecting a better role of the state treasury in supporting local economy and people's livelihood. In 2010, four state treasury sub-branches, 118 central sub-branches and 542 county branches in 30 provinces processed direct collection and payment, totally 13.71 million transactions with an amount of 9.08 billion yuan. Social security funds in 16 provinces were collected to the state treasury, with an amount of 417.5 billion yuan.

### **Treasury oversight further strengthened and the risks of treasury funds prevented**

First, in line with *the Guidelines on On-site Inspection of Treasury Accounting Operation*, the PBC carried out on-site inspections on the internal control system and fund management in 12 state treasury sub-branches across the country, standardized accounting business and enhanced internal control and management. Second, the PBC strengthened supervision over treasury agents, the tax collecting offices and the commercial banks that centralized collection and payment as the agent of state treasury. In 2010, the PBC requested nine sub-treasury agents and eight township treasuries that broke relevant rules and regulations, to take remedial actions within fixed time. It also disqualified one sub-treasury agent and ten township treasuries that had severe violation behaviors. The PBC identified 29 thousand transactions of revenue collection held back by banks with a total amount of 4.086 billion yuan, and 163 misappropriations of fiscal funds with an amount of 271 million yuan, and imposed a total fine of 4.04 million yuan. The PBC also cleared up 250 irregular accounts opened by commercial banks for tax collection authorities, involving a total amount of 441 million yuan, promoting the accurate and timely implementation of government budget at all levels.

### **Statistical analysis improved and the treasury's role of information counselor strengthened**

The PBC complied treasury fund statistical statements, which comprehensively captured fund flow, and provided authorities with payment and expenditure information of the state treasury, for them to know the performance of the fiscal policies and its influence on market liquidity, helping make more accurate and targeted policies. The PBC prepared special statistical reports in response to specific needs from relevant departments. Based on the treasury data, the PBC made research on important economic and financial issues and did a series of thematic studies, such as reallocation of coal resources in Shanxi, taxation and credit scale of commercial banks in Zhejiang, import taxation on iron ore in Shandong, revenues from land transfer in Ningbo, etc. These studies reflected the progress and problems during the implementation of the macroeconomic policies, providing authorities with information for policy-making.

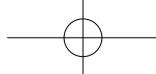
#### Issuance and redemption of government bonds

#### implemented and bond management strengthened

Cooperating with the Ministry of Finance, the PBC made proper arrangements for government bonds issuance with bonds products diversified. In total, five issues of Government Certificated Bonds with an amount of 190 billion yuan and 11 issues of Government Electronic Savings Bonds with an amount of 129.6 billion yuan were implemented, and the redemption of Government Electronic Savings Bonds with an amount of 260 billion yuan was handled (Table 2). The PBC explored new government bonds investment channels, enlarged investor groups and strengthened issuance advertisements. It arranged issuance targets for underwriting agents flexibly and pushed forward Government Electronic Savings Bond issuance to targeted investors in rural areas, providing farmer investors with safe investment instruments. The PBC, together with the Ministry of Finance, released the *Tentative Qualifying*

Table 2 Issuance of Government Savings Bonds in 2010

Categories	Issues	Issuing Date	Actual Issuing Amount (100 million yuan)	Repayment Period					
				1 Year		2 Years		3 Years	
				Amount (100 million yuan)	Interest Rate (%)	Amount (100 million yuan)	Interest Rate (%)	Amount (100 million yuan)	Interest Rate (%)
Certificated Bonds	1 <sup>st</sup> Issue	Mar. 1~ Mar. 21	500	250	2.60	250	3.73		
	2 <sup>nd</sup> Issue	May 13~ May 27	400	200	2.60	200	3.73		
	3 <sup>rd</sup> Issue	Jul. 12~ Jul. 26	400	200	2.60	200	3.73		
	4 <sup>th</sup> Issue	Sep. 13~ Sep. 27	400	200	2.60	200	3.73		
	5 <sup>th</sup> Issue	Dec. 6~ Dec. 20	200	40	2.85	100	4.25	60	4.60
Electronic Savings Bonds	1 <sup>st</sup> Issue	Apr. 10~ Apr. 25	200	200	2.60				
	2 <sup>nd</sup> Issue	Apr. 10~ Apr. 25	200			200	3.73		
	3 <sup>rd</sup> Issue	Jun. 13~ Jun. 26	200	200	2.60				
	4 <sup>th</sup> Issue	Jun. 13~ Jun. 26	100			100	3.73		
	5 <sup>th</sup> Issue	Aug. 16~ Aug. 29	120	120	2.60				
	6 <sup>th</sup> Issue	Aug. 16~ Aug. 29	80			80	3.73		
	7 <sup>th</sup> Issue	Oct. 15~ Oct. 28	43.66	43.66	2.60				
	8 <sup>th</sup> Issue	Oct. 15~ Oct. 28	52.61			52.61	3.73		
	9 <sup>th</sup> Issue	Nov. 15~ Nov. 28	60	60	2.85				
	10 <sup>th</sup> Issue	Nov. 15~ Nov. 28	150			150	4.25		
	11 <sup>th</sup> Issue	Nov. 15~ Nov. 28	90					90	4.60



*Measures for the Members of the Certificate Government Bond Underwriting Syndicates*, finished the first round of qualification work and accordingly adjusted proportions of the underwriting allocations of the members. The PBC improved the issuance of government bonds and strengthened the management of government bonds underwriting syndicate members. The PBC also improved the performance of t-bond management module in the treasury management information system and enhanced its electronic management.

**The treasury cash management steadily improved and the level of treasury funds management enhanced**

The PBC continued to promote and improve the central treasury cash management operations. In 2010,

400 billion yuan was deposited into commercial banks as time deposits in 12 transactions, expected to gain the yield of 7.466 billion yuan at maturity. A total of 360 billion yuan was withdrawn from banks through 11 operations, with a realized interest income of 4.316 billion yuan.

The PBC also improved cash management of the local treasuries. It drafted the *Cash Management Measures of Local Treasuries*, *Cash Management Procedures of Commercial Banks Time Deposit of Local Treasuries*, and *System Requirements of Cash Management of Local Treasuries*, which improved local treasuries projecting capability of cash flows and encouraged them to study on feasible local cash management measures.



## DEVELOPMENT OF FINANCIAL IT INFRASTRUCTURES

### **The infrastructure layout of "Three Centers at Two Sites" began to take shape**

The PBC completed the infrastructure construction of the Head Office Data Center, the Beijing Disaster Recovery Center and the Remote Disaster Recovery Center in Shanghai and made preparations for equipment installation and system migration of the three centers. The infrastructure layout of "Three Centers at Two Sites" began to take shape, while the technique frameworks of provincial data centers across the country were developed and laid the technical foundation pillar for regional financial service.

### **The PBC network redesigned and reconstructed**

In line with the national information security requirements, the PBC redesigned the network layout and reconstructed the intranet to separate the administrative intranet from the business intranet. The PBC head office and 357 branches synchronously switched to the new network without business interruption.

### **Applications developed for most of the PBC business**

In 2010, 18 major applications went live. 13 systems, including the systems for state treasury, statistics and credit reporting, were developed and deployed for major functions of the PBC by far. After the Electronic Commercial Draft System (ECDS) and the Online Payment Interbank Clearing System go-live, an integrated payment and settlement system took shape. The RMB Cross-border Payments/Receipts Management Information System (RCPMIS) was updated and rolled out nationwide. The newly deployed video-conferencing system saved 341 million yuan. The new online contests system introduced innovative contest model. New version of the PBC website went live and promoted transparency

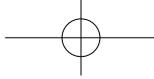
and creditability of the PBC. The computerized surveillance was also improved by the E-register system, the Onsite Surveillance and Management System and the E-reconciliation System.

### **Data integration and framework development made achievements**

The PBC and SAFE launched the corporate archives sharing project and completed corporate data migration and update for 1.28 million foreign exchange accounts, by integrating the data of the RMB and foreign exchange accounts. The PBC developed the Operational Data Store (ODS), which linked the Accounts Management System, State Treasury System, RCPMIS and Financial Institutions Management Information System together for data exchange, and promoted data integration. The PBC established uniform message formats for the existing data with standardization principal. The PBC created 148 standard payment message templates and 36 standard general message templates, which laid the foundation for the uniform message formats database. By launching the ACS, the PBC were building an Accounting Framework with IT platform as the cornerstone, workflow management system as the backbone and general ledger system as the keystone.

### **Financial standardization entered a new stage**

The PBC released the *2009 China Financial Standardization Report* for the first time. The report reviewed the development of China's financial standardization comprehensively, and briefed on the work mechanism of standardization. The report also drew a blueprint for the future. The report created a milestone in the China's financial standardization history. To satisfy the demands for national standards system and the banking sector development, the PBC issued the *Framework for*



*Banking Sector Standards*, which defined the overall framework and roadmap for the formulation and revision of the standards through directory management. More than 14 financial sector standards, including the *China Financial Integrated Circuit Card Specifications (2010)* were released. The PBC held the ISO 20022 International Financial Standards Forum to promote the ISO 20022 in the financial sector.

### **Accomplishments made in financial information security**

In cooperation with the Ministry of Public Security, the Ministry of State Security, the Ministry of Industry and Information Technology and the State Electricity Regulatory Commission (SERC), the PBC formulated *Coordination Work Program of the Financial Sector Information Security*, which established an early warning system and an emergency mechanism for regional electricity and telecommunication interruption. The PBC properly handled dozens of information security incidences and issued financial information security alerts on those incidences to raise information security awareness of the financial sector. The PBC helped safeguarded the stable operation of the financial network and information systems during the Shanghai 2010 Expo and Guangzhou 2010 Asian Games. The PBC was awarded as the Outstanding Institution of Information Security by the National Network and Information Security Warning Center for the 4th consecutive year. Aiming at the security threats to online banking, the PBC formulated and issued the *General Specifications for Information Security of Online Banking Systems (Trial)* and launched a program to review the online banking security issues.

### **Financial IT innovation progressed significantly**

The PBC issued the *Information Management Rules for Financial Institutions* and developed the Financial Institution Information System and the first Financial Institution Directory of China, which covered 230 thousand financial institutions. The PBC promoted

financial IC card for public services payment. In 2010, more than 4 million financial IC cards were issued. The IC cards were multifunctional and could make payments for education, medical, retail and highway toll. With the PBC's help, the commercial banks and the General Logistics Department of the People's Liberation Army jointly issued and promoted the Military Social Security Cards. The PBC and the Ministry of Human Resources and Social Security jointly set a target for development of the financial social security card and the pilot project worked well. The PBC established the technical management framework of the payment services provided by non-financial corporations and conducted on-site inspection and technical testing of 16 non-financial payment corporations. The measures above laid the cornerstone for the technical management system of the payment services provided by non-financial corporations. The PBC established the disaster recovery outsourcing center for small and medium financial institutions. The center was contracted to build disaster recovery systems for more than 10 small and medium financial institutions. The PBC also established the Institute of Financial Information and Technology, which could facilitate financial information technology theoretical researches and major IT projects due diligence.

### **The Banking Technology Innovation Prize encouraged the banking sector to upgrade information technology**

The Banking Technology Innovation Prize served as an important platform that could encourage banking sector's technical development, recommend outstanding IT projects and demonstrate financial IT achievements. In 2010, seven projects, including the SAFE Trade Credit Registration Management System, the PBC Data Integration Project of the Financial Statistics Monitoring and Management Information System, the ICBC IT Costing and Cost-Effectiveness Analysis Project, the ABC JavaEE Integrated Application Platform, the BOC Credit Management System, the CCB Online Banking and E-Credit System and New Watermarking Technique etc., won the first prize of Banking Technology Innovation (2010).



For the first time, the Banking Technology Innovation Prize Committee recommended China Banknote Printing and Minting Corporation's project to the National Office

for Science and Technology Awards. The project won the first prize of State Technical Invention Award, which was a historical breakthrough in the financial sector.

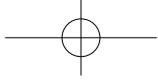
## BOX

### Financial Standardization

Financial standardization is defined as formulating rules on the realistic or potential issues in financial area, which can be used commonly and repeatedly, and therefore realizing the best financial orders within certain scope. It consists of: a) uniform requirements in financial area including terminology, metadata, symbol, code, document format, etc; b) normative application requirements for communication, data processing, safety, general message templates, etc; c) requirements for financial products, and d) requirements for management, operation and service in financial activities.

Established in 1991, China's Financial Standardization Technical Committee (CFSTC) is responsible for technically organizing the national standardization work within financial area, and centralizing the financial system standardization techniques. Entrusted by Standardization Administration of China, CFSTC is also in charge of the domestic centralized management of ISO Technical Committee 68 on Banking, Securities and other Financial Services (ISO/TC68) and ISO Technical Committee 222 on Personal Financial Planning (ISO/TC222). Currently CFSTC has 54 committee members, coming from the PBC and its direct affiliations, CSRC, CIRC, China UnionPay, banking financial institutions and standardization research institutes. Located in PBC, the secretariat of CFSTC takes charge of CFSTC daily affairs. China Financial Computerization Corporation establishes the standardization center to assist the secretariat of CFSTC.

The CPC Central Committee and the State Council attach high importance to financial standardization, and regard it as the strategic priority of facilitating the development of national economy and the society, as well as improving the capability of self-innovation. Complied with the schedule of national standardization strategy, the PBC fulfills the responsibilities of organization, coordination and management entrusted by the State Council to continuously satisfy the requirements of financial reform and development and treats the implementation of financial standardization strategy as an important action of improving the competitiveness of financial industry. Besides, the PBC sets the goal of "improving standards, accelerating standard adoption and ensuring the implementation of the essential points", and firmly pushes forward the research, publicity and implementation of financial standards. The financial standards are infiltrating into various levels of economic and financial activities. During the period of "11<sup>th</sup> Five-Year" Plan, CFSTC issued and implemented 29 national financial standards and 52 industrial financial standards, accounting for 70.73 percent of total issued national financial standards and 64.2 percent of total issued industrial financial standards respectively, basically realizing the synchronous trace and transformation with the international financial standards. It is proved by the practices that the financial standardization plays a positive effect on the interconnection of financial system and the standardization of management, facilitates the progress of financial techniques and financial management, reduces transaction costs, improves the economies of scale, and above all, lays down a solid foundation for the sustainable development of financial industry.



## REGULATION OF CREDIT INFORMATION SERVICE INDUSTRY AND DEVELOPMENT OF SOCIAL CREDIT SYSTEM

### Develop and improve laws, regulations and standards of credit information service industry

In 2010, with the support of the Legal Affairs Office of the State Council, legislation on credit information service made progress. First, investigations and research regarding the issues reflected in *Regulation on Credit Information Service* (hereinafter referred to as the *Regulation*) were conducted to identify the concrete role of the PBC in credit information service regulation, the PBC's relationship with other agencies and local governments in credit information service regulation, the necessity of licensing credit information service provider, the protection of individuals' rights in credit information service activities. These efforts helped well solving relevant regulatory problems and contributed to the revision of the *Regulation* and other relevant institutional development. Second, in accordance with the *Regulation's* requirement on credit information service providers and the information safety of database, the PBC drafted regulatory methods on market access and exit, business operation, personnel management, information distribution, law-breaking behavior punishment and some implementation rules, including *Guiding Opinions on the Management of Information Technology of Credit Information Service Providers (Proposal)*.

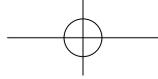
Regulation system of credit information service industry was further improved. First, in order to solve the problems in information collection and distribution, the PBC began to develop information collection record system, regular reporting system and rules of non-bank information collection in credit information database; meanwhile, given the identity theft in loan application found in credit reports, the PBC improved the management dispute handling and required financial

institutions to strengthen credit business review. Second, in order to regulate business activities, the PBC developed and issued *Notice on the Access of Microfinance Company to Credit Information Database and Relevant Management Work*; jointly issued *Provisional Regulation on the Access of Financing Collateral Company to Credit Information Database* with China Banking Regulatory Commission; drafted *Rules and Procedures on Handling Credit Information Service Complaints* (draft version); and began to modify *Provisional Methods on the Management of Personal Credit Information Database*.

Credit information service industry standardization was pushed forward. Three credit rating standards, including *Credit Rating Standards on Credit Market and Interbank Bond Market*, were modified and proposals on several new standards, including *Basic Credit Information Service Glossary*, *Credit Reporting Data Element ~Commercial Credit Reporting Data Element*, *Personal Credit Reporting Data Distribution Format* have also been made. Three Standards, including *Standards on Credit Subject Flag*, *Credit Information Catalogue-Law Enforcement Verification Information*, *Standards on Credit Information Service Industry Information Safety Management*, were submitted to Financial Standardization Committee for opinions.

### Actively push forward the social credit system building

The PBC continued to fulfill its obligations as the leading ministry of the Ministerial Joint Conference on the Building of Social Credit System (hereafter referred as "Joint Conference"), including strengthening coordination with Joint Conference member ministries, drafting *Opinions on Further Accelerating Industrial*



*Credit Building* and submitting it to the State Council for distribution to other ministries. Together with other Joint Conference member ministries, the PBC developed Social Credit System Development Plan—one of the key specific plans reviewed by the State Council during the 12<sup>th</sup> five-year period. Now the draft plan has been completed. Social credit code development was kicked out. *Social Credit Code Development Plan* was made out and put into trial implementation in Changsha.

Branches and sub-branches took active part in local social credit systems building. By the end of 2010, the PBC took the leading role in developing joint conference mechanism or leading group of local social credit system establishment in 18 provinces (cities and regions); relevant joint conference leading mechanisms were also set up in some cities.

#### **Foster and regulate the credit information service market**

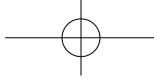
Focusing on credit rating, the PBC actively pushed forward credit information service market development. First, credit rating on borrowers in the credit market was pushed forward proactively. The PBC branches and sub-branches were guided to find the proper entry point by referring to local realities and take various measures to promote credit rating in credit market. Coordination with other government agencies was strengthened to promote the usage of credit rating report, which expanded the credit rating market and helped facilitate the establishment of credit rating system. Second, credit rating of guarantee companies was greatly pushed forward. As rating results of guarantee companies were integrated into the PBC's comprehensive assessment of financial institutions, financial institutions began to pay more attention to guarantee companies' rating. Many branches or sub-branches of the PBC issued local *Management Methods on Financing Guarantee Companies* with local SME Administrative Bureaus, which fostered the PBC's leading role in credit rating of guarantee companies and

laid the institutional foundation for carpeting guarantee companies credit rating throughout the country. In 2010, an aggregate of 42 815 credit ratings were completed, of which 973 were ratings of bond and 41 842 were ratings of borrowers in the credit market.

In order to better cultivate credit information service market, the PBC strengthened the regulation of credit information service. First, regulations related to credit rating were improved. Some branches and sub-branches established professional credit rating result review system, and convened enterprise credit rating professional review meeting, where experts examine credit reports provided by rating agencies through on site Q&A and scoring. This helped improve the quality of their reports. Second, daily credit rating monitoring was further strengthened. Credit rating default examination system developed by the PBC was put into formal operation. Most basic functions of the system began to work and became important measures in daily monitoring. Third, in order to enhance the self-discipline of credit information service market, the PBC made active preparation for the establishment of China Credit Information Service Industry Association.

#### **Improve the building of the SME credit system and rural area credit system**

In recent three years, the PBC took innovative ways to develop SME credit system and rural area credit system through multi-channels. Effective working mechanism and models were put into use in Nantong (Jiangsu Province), Suining (Sichuan Province), Lishui (Zhejiang province), Tangshan (Hebei Province), Jining (Shandong Province), Tiandong (Guangxi Autonomous Region), Tongcheng (Anhui Province), Yunfu (Guangdong Province) and generated sound effects. To further encourage and guide SME and rural area credit system building, in 2010, the PBC formulated *Guiding Opinions on the Establishment of SME Credit System Pilot Zone*, which guided the usage of SME credit files by commercial banks and supported SME financing



through comprehensive usage of credit information. The PBC also convened National On-site Meeting on Rural Credit System Development to guide branches and sub-branches to establish rural area credit information system models applying to each locality. Together with Central Committee of Chinese Communist Youth League, the PBC carried out creditworthy young people demonstration activity in rural areas in Liaoning, Jiangxi and 4 other provinces.

As SME and rural credit system development deepens, information of SME and rural household credit files were constantly enriched, which contributed a lot to alleviating the financing difficulties of SMEs and rural households. By the end of 2010, 2.15 million SMEs without bank credit contracts have their credit information collected. 156 thousand of them got bank loans with a total worth of 2.9263 trillion yuan. 134 million rural households had their credit files established, more than 83 million of them had credit ratings and 74 million of them got loans from banks with a total worth of 1.29 trillion yuan.

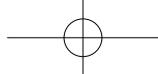
#### **Strengthen oversight over credit information service**

The main regulatory obligation of the PBC in credit information service industry is to oversee and examine the implementation of relevant regulations and protect the rights of data subjects. This is in line with the requirement of the development of credit information service system and social credit system. In 2010, the PBC organized branches and sub-branches to examine the data reporting of commercial banks, the usage of credit information database and relevant institutional building, dispute handling; strengthened the management of administrative licensing of loan card issuance; convened credit information service work seminar to discuss how to improve the regulatory system of credit information

service; required branches and sub-branches to handle credit information related to disputes; organized specific examination over Guangdong Development Bank and required the PBC Guangzhou Branch to punish misbehaviors; required relevant branches and sub-branches to examine the credit information reporting behavior of regulated financial institutions

#### **Credit information database plays a prominent role in social credit system building**

National integrated Enterprise and Personal Credit Information Database has become an important infrastructure in China's social credit system. In recent years, due to the PBC's effort in strengthening cooperation with other agencies, administrative punishment information regarding product quality, environmental protection, social security and foreign exchange was reported to credit information database. Credit report, focusing on credit information and reflecting contract creditworthiness of enterprises and individuals and their legal obligation fulfillment conditions, has become an important economic ID of individuals and enterprises in their social and economic life. By the end of 2010, 17 million enterprises and more than 777 million individuals had credit files in credit information database. The aggregated inquiry volume of enterprise credit information database was 152 million times, and individual credit information database 812 million times. According to the survey made by Credit Reference Center of the PBC, in the third quarter of 2010, by referring to the credit information database, commercial banks declined 66.19 billion yuan worth of credit applications, gave alert to high-risk loans worth of 48.07 billion yuan and collected 4.73 billion yuan worth of non-performing loans.



## ANTI-MONEY LAUNDERING AND COMBATING THE FINANCIING OF TERRORISM (AML/CFT)

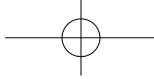
### Implemented the Risk-Based Approach and initiated the assessment of national ML/FT risks

In recent years, the Financial Action Task Force (FATF) has been promoting the Risk-based Approach (RBA) in the AML/CFT sphere. In this context, a dynamic and systematic assessment of global ML/FT activities has been initiated by the FATF, and FATF members are also encouraged to conduct national ML/FT risk assessment. In order to implement the RBA in China's AML/CFT work, the PBC initiated the assessment of national ML/FT risks of China. At the national level, the assessment of ML/FT risks related to sectors, products, channels and regions was conducted on the basis of ML/FT cases detected in the past 10 years. As shown by the preliminary analysis, financial crimes, drug-related crimes and crimes by taking advantage of duty are dominant predicate offences of ML activities in China, while the share of gambling and tax crimes are also relatively high. The main channels of money laundering include bank accounts, bankcards, cash and investment. The ML activities in China are notably well organized. Though most ML activities are conducted by the perpetrator of predicate offences, ML activities have been to an extent specialized. The ML/FT risks in financial sector are remarkably higher than those in other sectors. Among the various financial business and products, business involving cash, cross-border business, electronic business, foreign exchange business, and investment and wealth management business pose higher ML/FT risks, especially ML/FT risks of cash business and electronic business are especially severe. Geographically speaking, the ML/FT risks of China mainly lie in the relatively developed coastal regions. In particular, some coastal regions pose higher risks of cross-border ML activities.

### Preliminarily established the mechanism of freezing terrorism-related assets in the financial sector and continuously improved the quality of Suspicious Transaction Reports (STRs)

The PBC played an active role in improving the AML/CFT legislations and other legal measures, and the terrorism-related assets freezing mechanism in the financial sector took its initial shape. In early May 2010, the PBC issued the *"Circular of the People's Bank of China on Implementing the Circular of Ministry of Foreign Affairs on Implementing Relevant Resolutions of UN Security Council"*, which specifies requirements on financial institutions of monitoring against related sanction lists, taking transaction restriction measures and reporting to law enforcement agencies immediately. The issuance of this Circular is an important step towards a more comprehensive anti-terrorism legislative framework and a solid terrorism-related assets freezing mechanism. Furthermore, a special column of "Financial Sanctions and Risk Indications" was set up under "AML/CFT" on the PBC website and updated timely to incorporate all relevant financial sanction lists and risk indications. This measure helps to improve the accuracy and completeness of related information and the accessibility by financial institutions as well.

In accordance with the RBA principle, the PBC directed financial institutions to improve the quality of STRs by enhancing their CDD measures and internal operational procedures. To address the problem of too large amounts of STRs, the *Circular of the People's Bank of China on Clarifying Implementation Issues of Suspicious Transaction Reporting Regime* was issued in February, which clarifies requirements on financial institutions to report unusual transactions in



the framework of suspicious transaction reporting. As a result, the numbers of unreasonable STRs of the financial institutions decreased significantly, while the quality of STRs filed increased gradually. In 2010, local branches of the PBC detected and received 8 240 suspicious clues.

#### **Further improved the AML/CFT supervision and strengthened AML/CFT investigation**

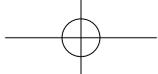
In 2010, the PBC strengthened the coordination of on-site inspections and improved procedures in this regard. The PBC conducted on-site inspections on headquarters of GDB, Essence Securities and Sunshine Life Insurance Company in early 2010. The inspections, focusing on the AML/CFT internal controls and procedures, were designed to fit the business of financial institution headquarters. The inspected institutions were directed to improve their capability of AML/CFT management and control by seeking for the twin objective of compliance management and risk control. Following the instruction of the PBC Head Office, the branches of the PBC stuck to risks, management, quality and effectiveness as the focus of their AML/CFT supervision. Additionally, the PBC Head Office strengthened coordination of on-site inspections conducted by its branches, including strictly reviewing all on-site inspection annual plans filed, so as to prevent the executive risks that might arise during the AML/CFT supervision. At the end of 2010, the PBC and its branches conducted on-site inspections on 2 426 financial institutions and their branches, among which 260 were sanctioned for incompliance with fines of 21.80 million yuan imposed and 163 staff members punished. In order to improve off-site supervision and monitoring of large amount cash transactions, the PBC developed an interactive IT system for AML/CFT supervision, which has been operating since October 2010 in both the PBC and financial institutions.

The year of 2010 also saw significant progress in the quality of AML investigative clues. The PBC assisted

relevant agencies in detecting a number of ML cases involving corruption and criminal syndicate, and also participated in a special campaign against illegal on-line gambling. In line with the national annual plan on anti-terrorism of 2010, the PBC Shanghai Head Office and Guangzhou Branch of the PBC focused their CFT work on safeguarding the World Expo 2010 (Shanghai) and the Asian Games (Guangzhou). In 2010, the PBC branches carried out 3 602 AML investigations on 1 038 highly suspicious transaction clues, among which 911 were reported to the law enforcement agencies. There are overall 12 cases ended with conviction of ML offences in 2010.

#### **Actively participated in AML/CFT international standards setting, and improved international influence continuously**

In the year of 2010, China's participation in AML/CFT international cooperation was deepened and expanded. The focus of international cooperation shifted gradually from improving domestic AML/CFT regime based on current AML/CFT international standards to participating in the discussions on international standards and other activities. China submitted the follow-up report to the FATF on time and took an active part in preparing the 4<sup>th</sup> round of evaluations of the FATF and setting the its procedures. In line with the operational principle of international bodies on AML/CFT, the PBC took over the Vice Presidency of the Eurasian Group on AML/CFT (EAG) in December 2010, and will act as the co-presidency of Asia-Pacific Group on AML/CFT (APG) from 2012 to 2014. These developments indicate China's important role in the regional AML/CFT bodies. By the end of 2010, China AML Monitoring and Analysis Center (CAMLMAC) has signed 16 MOUs on AML/CFT intelligence sharing with FIUs abroad, hence broadens bilateral cooperation between China and other jurisdictions on financial intelligence.



## COOPERATION WITH OTHER COUNTRIES, HONG KONG, MACAO AND TAIWAN REGIONS

In 2010, facing with complex international situations, the PBC actively conducted financial cooperation and exchanges with other countries, as well as Hong Kong, Macao and Taiwan regions. Prioritizing various work streams under the G20 framework, and leveraging the Sino-US Strategic and Economic Dialogue and other essential bilateral mechanisms, the PBC was actively engaged in global economic governance, and regional and bilateral financial cooperation activities, in a bid to create a favorable international economic and financial environment, to prolong the important strategic opportunity for China's development, to increase China's voice and influence in the international financial arena, and to break new grounds for cooperation with other countries, Hong Kong, Macao and Taiwan regions.

### **Took part in global economic governance by taking G20 mechanism as a main platform**

In the fourth G20 Summit in Toronto, Canada on June 26 and 27, 2010, heads of states and governments focused their discussions on “strong, sustainable and balanced growth framework”, coordination of macroeconomic policies and “exit strategies”, strengthening financial regulation and supervision, promoting the reform of international financial institutions, fight against trade protectionism, cancelation of fossil fuel subsidies, and etc.. Among the topics such as “strong, sustainable and balanced growth framework”, financial regulatory reform and reform of international financial institutions, the PBC studied in depth such issues as economic rebalancing, financial reform and financial regulation, cost sharing of crisis rescue, and rendered strong support to participation of China's top leaders in the summit.

On November 11 and 12, 2010, G20 leaders held the fifth summit in Seoul, Korea. Given the changes in the global situation, the priorities of discussion shifted gradually from crisis response to global economic rebalancing and economic restructuring. The PBC worked closely with other government agencies concerned, exchanged information thoroughly with developed

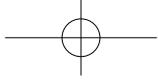
countries with regard to issues such as exchange rate, quantitative indicators of current account, and guidelines for reference, and safeguarded national interests the best it could.

In 2010, the PBC attended three G20 financial ministers and central bank governors meetings, five deputies meetings and several working group meetings, seminars and etc., held difficult consultations with various parties concerned, which lead to the creation of favorable external environment for China's participation in G20 summits.

In addition, since the G20 mutual assessment mechanism was set up at the Pittsburg Summit in 2009, the PBC was actively involved in G20 mutual assessment of macroeconomic situations of member countries, through which it strengthened macroeconomic policy dialogue and coordination with other countries.

### **Participated in the reform and standard-setting process of the international financial sector and the coordination of international monetary and financial policies**

In 2010, the PBC comprehensively and deeply participated in strategy setting of the financial sector



reform, and the setting and revisiting of specific financial regulatory standards including capital and liquidity requirements of the banking system, macro-prudential management framework, and financial infrastructure construction through its involvement in the Financial Stability Board (FSB), the FSB Steering Committee, and the Vulnerability Assessment Committee, the Standing Committee for Supervisory and Regulatory Cooperation, and Standards Executive Committee. It also drew on experiences of reform of international financial institutions in the implementation of international standards in the domestic market, in order to promote the domestic financial reform, stipulate regulatory requirements for cross-sector financial instruments, strengthen management of financial holding companies, and build a macro-prudential management framework.

Furthermore, the PBC was more thoroughly and deeply involved in BIS operations through its participation in the decision-making process of essential issues, grip of new developments and financial policy trends of the major economies, coordination of policy response measures, analysis of medium- and long-term challenges faced by the global financial system and national central banks. Its engagement in the BIS operations has promoted its communication with other economies, in particular with emerging market economies in the Asia Pacific region and the world at large.

Since the IMF quota reform entered a key stage after the G20 Pittsburgh Summit set the objectives for the reform, the PBC had made active efforts to push forward the reform. In November, the Seoul Summit finalized reform program, according to which China's quota would increase by 2.398 percentage points to 6.394 percent, bringing China forward from the sixth to the third in the rank among the IMF member states. In May, Mr. Zhu Min, Deputy Governor of the PBC, was appointed Special Advisor to the IMF Managing Director, the first Chinese to take over such a senior management position in the IMF's history.

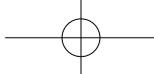
### **Enhanced financial cooperation in East Asia to bring regional financial exchanges onto a new stage**

First, the Asian Bond Fund (China) made substantive progress. Since 2010, the PBC has been forging ahead with the Asian Bond Fund (China) to bring it onto the second phase, which is of great significance for promoting the development of the Chinese bond market, improving reserve investment structure and strengthening regional financial cooperation in a practical manner.

Second, earnest efforts were made to carry out initiatives under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) framework. These contributed to financial stability and financial market development in East Asia, the building of payment systems and improved regulatory cooperation in banking sector. In particular, after it took the chairmanship of the EMEAP Payment and Settlement Working Group in July 2010, the PBC made active efforts to promote exchanges and cooperation in payment and settlement in the region.

Third, breakthroughs were made to improve the effectiveness of the Chiang Mai Initiative Multilateralization (CMIM). The CMIM Agreement took effect on March 24, totaling US\$120 billion. As a component of the regional financial safety net, the official launch of the CMIM would effectively stabilize the regional financial market.

Besides, the PBC actively participated in the China-Japan-South Korea Central Bank Governors meetings to deepen tripartite financial cooperation; made substantial progress in gaining the membership of Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries, and South East Asian Central Banks (SEACEN); actively participated in the Boao Forum, which was used as a platform to advocate China's policy for regional financial cooperation, and to strengthen monetary and financial cooperation with other Asian countries; strengthened communication and cooperation with Islamic countries, and maintained friendly exchanges with those countries.



### **Continued participation in high-level dialogues, and actively conducted international dialogues in economic and financial issues**

In 2010, the PBC was actively engaged in activities under important mechanisms between China and the US, between China and the EU, between China and the UK, between China and Japan and etc., to consult with one another about such topics as macroeconomic policies, global economic imbalances, in order to create a favorable international environment for China's reform and opening-up.

In May 2010, the second round of China-US Strategic and Economic Dialogue kicked off in Beijing. The PBC worked closely with other government agencies to expand common ground, highlight consensus between the two countries, and to meticulously address disagreements, and the efforts yielded good results. In November, the Third China-UK Economic and Financial Dialogue held in Beijing achieved progress in 41 initiatives, 15 of which were involved with the PBC, covering cooperation in various areas such as monetary policy, financial stability, international monetary and financial system and etc. In August, the Third China-Japan High-Level Economic Dialogue was held in Beijing, which strengthened the relationship of financial authorities of the two countries, and yielded good outcome. In addition, the PBC continued to deepen bilateral financial cooperation with Russia and Kazakhstan, and actively promoted financial cooperation within the Shanghai Cooperation Organization framework.

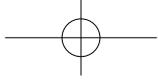
### **Actively supported the general capital increase**

### **of multilateral development banks China joined in, and the replenishments of their soft lending windows**

In 2010, the PBC actively participated in the sixth general capital increase of the African Development Bank (ADB), the ninth general capital increase of the Inter-American Development Bank (IDB), and the general capital increase of the Caribbean Development Bank. It also supported the replenishments of the African Development Fund (ADF)~the soft lending window of the ADB, and the Fund for Special Operations (FSO)~the soft lending window of the IDB, making due contributions to the ADF~12 and the FSO Haitian debt relief initiative.

### **Effectively promoted financial cooperation and exchanges with Hong Kong, Macao and Taiwan**

First, the PBC actively pushed forward the RMB business in Hong Kong and Macao, and the RMB settlement of cross-border trade transactions; second, the PBC continued to support the development of RMB bond issuance in Hong Kong; third, the PBC conducted the pilot programs of allowing overseas institutions to invest in the interbank bond market, so as to provide a channel of value preservation of RMB funds held by institutions in Hong Kong, Macao and other countries, which has injected new vitality to the RMB-related business in Hong Kong and Macao; fourth, the PBC promoted financial cooperation with Taiwan, carried out the arrangements for RMB cash clearing services to Taiwan, and strengthened personnel and academic exchanges with Taiwan.



## FINANCIAL ACCOUNTING

### **Enhanced the research on accounting theory and management on balance sheet in order to improve the accounting system**

The PBC tracked post-crisis accounting standards reform of financial tools, carried out topical research on “reform and development of international accounting standards and its implication on the financial industry in China”. The PBC actively promoted the convergence of China's accounting standards with the international standards, and promoted the application of XBRL in China's financial sector. Efforts were made to enhance the analysis on the PBC's balance sheet and forecast on financial income and expenditure, as well as profit and loss. And, the PBC discussed on the establishment of sustainable and healthy balance sheet of a central bank. The *Rules Governing the People's Bank of China Accounting* was implemented to cooperate with central bank's monetary policy conduct, such as currency swap.

### **Further strengthened financial budget management**

The PBC optimized budget expenditure structure, and gave support to priority work. Efforts were made in response to the emergent accidents as Yushu Earthquake and Zhouqu Debris Flow, and providing financial support to safeguard the normal operation of institutions at each level. The PBC formulated the *Guidance on Strengthening Budget Management* to standardize the budget preparation, execution and supervision, and to improve the efficiency of capital utility. The PBC implemented relevant regulations on thrift by the State Council, cut the number of meetings, official papers, ceremonies and commendation activities to a minimum. Efforts were made to reduce administrative operation expenditure, which included strict management on overseas business fees, expenditure on business vehicle

procurement and maintenance, as well as expenditure on business reception.

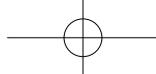
### **Reinforced management, supervision and guidance on infrastructure construction projects**

The PBC strictly implemented the *Responsibility and Regulations of the Examination and Approval Committee of Infrastructure Construction Projects*, enhanced restriction mechanism on examination and approval of infrastructure construction. The PBC formulated the *Notice on Further Strengthen Management of Infrastructure Construction Projects*, to improve the system of approval, bidding, financial, examination and auditing supervision. The PBC also carried out examination on infrastructure construction projects under the jurisdiction of some branches and sub-branches, and timely detected and corrected problems.

### **Improved management on fixed assets and centralized procurement**

The *Fixed Asset Management System of the People's Bank of China* and the *Government Procurement Statistics and Planned Administration System* were implemented in the branches and sub-branches in an all-round way. And the *Operational Procedures on the Fixed Asset Management System* was issued to realize the centralized operation of fixed asset statistics, constitution and conduct of government procurement plan, and systematization of information statistics. The range of centralized procurement was further broadened, and the vehicles for business purpose in branches and sub-branches were all purchased by branches and sub-branches in cities above quasi-provincial level.

### **Further strengthened financial management on affiliated enterprises**

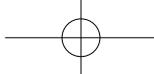


The PBC formulated the *Administrative Rules on Donation Affairs of Direct Affiliations Affiliated to the People's Bank of China* to standardize the donation and organize affiliations to regulate charging behaviors including administrative fees and operational and service fees, as well as social group fees. In order to enhance the management on performance assessment of affiliations, the PBC completed the result measurement for 2009 and the evaluation criteria release for 2011 on performance assessment program. The transformation of China's Financial Publication House has been pushing forward in line with the requirements of the CPC Central Committee for the reform of news publishing agencies.

#### **Enhanced the construction of accountant team**

Workshops on accounting theory and practice, and

management on infrastructure construction projects were held, and internet training on banks' financial and accounting knowledge was carried out in branches and sub-branches. These had helped deepen the understanding of accountants on accounting and financial regulations. The PBC organized the internet contest on accounting business and knowledge among nationwide PBC branches and sub-branches to further push forward the activities of accountants' excelling in performance. Efforts were made to enhance international communications and improve the comprehensive quality of accountants, such as selecting officials to go abroad to the USA and Germany to attend workshops, and co-organize accounting management seminars with the Hong Kong Monetary Authority, as well as to send officials to attend seminars organized by international institutions.



## HUMAN RESOURCES

### Staff composition

As of December 31, 2010, the PBC staff (including 20 760 staff of the China Banknote Printing and Minting Co. Ltd and its subsidiaries) reached 134 481, of which 43 568 or 32.40 percent were female.

Among the total, 643 or 0.49 percent held Ph. D degrees (in particular, 129 in the PBCHO, accounting for 15.91 percent); 7 603 or 5.63 percent held master degrees (in particular, 427 in the PBCHO, accounting for 52.65 percent); 62 239 or 46.28 percent held bachelor degrees (in particular, 190 in PBCHO, accounting for 23.43 percent). In 2010, 3 180 new staff were recruited from universities and other entities, and 2 698 were retired.

Among the PBC staff, 811 were in the PBCHO (including both the staff managed referring to civil servant law and the staff in the PBC attached units), 597 in the PBCSHO, 1 869 in the PBC direct affiliations, 6 256 in branches and operations offices (including operations offices under branches), 8 855 in sub-branches in provincial capital cities, 1 463 in sub-branches in quasi province-level cities, 45 584 in sub-branches in prefecture-level cities and 45 711 in county-level sub-branches.

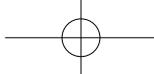
### Changes of senior officials

In May 2010, Mr. Du Jinfu was promoted from Assistant Governor of the PBC and member of CPC PBC committee to Deputy Governor of the PBC and member of CPC PBC committee; Mr. Su Ning no longer served as Deputy Governor of the PBC and member of CPC PBC committee; Mr. Zhu Min was appointed as Special Advisor to Managing Director of the International Monetary Fund (IMF) and no longer served as Deputy Governor of the PBC and member of CPC PBC Committee. In October 2010, Madam Jin Qi was

promoted from Director-General, General Administration Office of the PBC and Director-General, Office of CPC PBC Committee to Assistant Governor of the PBC and member of CPC PBC committee.

### Team building

Personnel administration work of the PBC including selecting cadres, restaffing the leading bodies, building the team and gathering the talents, was closely concentrated on satisfying the needs of the central bank in performing its functions and pushing forward scientific advancement of the central bank. As a result, prominent achievements were made in building the team of officials and that of talents. First, steps were taken to build the team of officials. In 2010, a number of outstanding young cadres stood out in competition, and 9 deputy director-generals and 233 directors and deputy directors in the PBC system were selected and appointed through open and fair competition. More efforts were made to enhance the exchange of officials and their working experiences got continuously optimized; in 2010, 29 director-generals and deputy director-generals, 417 directors and deputy directors in the PBC system exchanged their positions, and 85 young officials in branches and direct affiliations were seconded to the PBCHO. Second, new progresses were achieved in building the team of talents. The PBC held the Talents Conference of the People's Bank of China, on which the PBC passed on and learned the gist of the National Talents Conference, and deployed its talents strategy; formulated "medium and long-term financial talent development plan" jointly with CBRC, CSRC, CIRC; took the lead to organize the reporting of, evaluation and review on candidates for "thousands of talent people plan" in 2010. The reporting and review of senior professional qualification in the PBC system were carried on, and a total of 306 candidates passed the



review. Third, the entry of new staff was standardized, and a number of high-quality talents were recruited. In 2010, among the new staff, 1 238 or 39 percent held master degrees or Ph. D degrees. The structure and quality of the PBC staff was further improved.

### Staff training

The PBC made more efforts to train its staff and gradually enhanced the relevance and effectiveness of training through further integrity of training resources and extension of training channels. First, centering on the central tasks of the PBC and focusing on the increase of cadres' ability, the training of officials at all levels, high-level talents and young back-bone staff got strengthened. In 2010, the PBCHO directly arranged 91 training courses which were attended by more than 7 200 cadres. Among the above training courses, 9 were for officials at all levels which were attended by 194 director-generals and deputy director-generals, 203 for heads of sub-branches in prefecture-level cities and directors of the PBCHO, 450 for heads of county-level sub-branches. 6 training

courses were arranged for high-level talents including senior economists, senior accountants, foreign exchange managerial talents which were attended by 631 high-level talents. 11 training courses were arranged for young professionals which were attended by 762 young back-bones. The PBC successfully held 2 domestic training courses and 1 overseas training course for cadres at provincial and ministerial level which were attended by 120 cadres at provincial and ministerial level as well as part of those at bureau-level, fulfilling the task assigned by the Organization Department, CCCPC. Second, the utility of distance training system was actively promoted. The functional adjustment and upgrading of distance training system was finished, and its application gradually extended to sub-branches at grass-roots level. Newly high-quality training resources were continuously on line and the role of distance training system in the sub-branches at grass-roots level was significantly enhanced. In 2010, the PBCHO held 5 special training courses via distance training system, and more than 16 000 staff attended various training courses, lessons and lectures provided via distance training system.



## INTERNAL AUDITING

In 2010, the PBC internal auditing units completed 4 889 auditing programs, and produced 5 527 reports on findings and opinions, as well as 17 975 proposals for improvement.

### **Performance audit and off-office audit were strengthened**

The Internal Auditing Department at the PBCHO conducted performance audits and off-office audits on 22 director-general level officials at 4 branches, 13 branch offices at provincial capitals and sub-provincial cities, and 4 direct affiliations under the PBCHO. Internal auditing units at branches and branch offices completed 1 040 performance audits on presidents of subordinate branch offices and senior officials at fellow units at the same level, and conducted 923 off-office audits. These audits boosted surveillance over performance of leading officials at various levels, and encouraged technical functions to enhance internal control and risk prevention to improve overall performance, contributing to better organizational and personnel management across the PBC system.

### **A wide range of special audit programs were conducted**

First, audits on capital project management were continued. In line with the principle of “full coverage, through-process surveillance” and “stronger surveillance over subordinate offices”, internal auditing units audited 133 capital projects in 4 branches, 43 branch offices and 76 county-level branch offices, effectively improving capital construction management system and practices. Second, a special audit program was started to review financial management in payment and settlement institutions that perform independent accounting. The program covered 25 such institutions within the PBC system, helping improve their financial systems and internal control and boost their ability to ensure sound

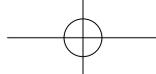
operation and prevent financial risks. Third, internal audits were enhanced to improve the internal control system. A total of 30 city branch offices, 178 county-level branch offices and 158 peer technical units underwent internal control audits, and were advised on the adequacy, relevancy, compliance and efficiency of their internal control measures. Fourth, audit on the application of information technology and the operation and maintenance of IT systems was started in 1 branch and 73 branch offices. It improves IT management, and supports the secure, stable and efficient functioning of the PBC technical systems. Fifth, a special audit program was launched to examine the wrap-up of regulating 554 funding centers and self-managed economic entities at 3 branches, 156 branch offices and 154 county-level branch offices, contributing to proper solutions to historical issues.

### **Audit-based surveillance over enterprises and institutions directly under PBC Head Office was enhanced**

Different audit programs were conducted in a number of such companies and institutions, including the China Gold Coin Inc., China Numismatic Museum, China Great Wall Coin Investment Ltd., Beijing Renyin Tech-Trading Co., Ltd, China Anti-Money Laundering Monitoring and Analysis Center, National Association of Financial Market Institutional Investors, Central Foreign Exchange Business Center, and Credit Reference Center, which helped improve their internal control, risk management, decision-making and treasury management.

### **Efforts were made to promote internal audit transformation and development**

First, theoretical study was strengthened by launching a campaign on learning international internal audit

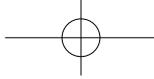


principles and standards, with the aim of identifying gaps and finding ways to promote the transformation and development of internal audit in the PBC. Second, seminars were organized to discuss approaches and priorities in internal audit transformation. Third, applied studies were enhanced. In this regard, studies and pilot programs on a range of key subjects were started, including off-office and performance audit for senior officials, risk-oriented audit, internal control and risk management audit, information system audit, operational audit and audit on balance sheet soundness, as well as IT-based internal audit. Fourth, function of internal audit was expanded. Drawing on the PBC coordination mechanism for internal control security management, internal audit's advisory function was developed, and post-audit risk analysis was enhanced. A consultation and communication mechanism with related departments was also put in place at the Head Office to ensure internal audit plays its advisory role in institutional building. Fifth, more information technology was introduced to further modernize the audit function. This includes the introduction of ACL, a computer-aid audit software

widely used in other countries, the development of the ACS system, and the improvement of the comprehensive internal audit management system.

#### **Fundamental work was strengthened to better support the development of internal auditing**

First, communication of audit information was enhanced. The web pages on internal auditing at the PBC website were constantly updated to provide latest, comprehensive and forward-looking information. Second, theoretical study was strengthened to push forward internal audit transformation and development. Internal auditing units at various levels completed 582 research programs and produced 818 papers. Third, various training programs were launched. In 2010, a total number of 8 571 officials received training, helping improve the overall professionalism of internal auditing officials. Fourth, international exchange was boosted. Internal auditing officials were sent to 8 countries, including Germany, the U.S. and UK, for research, study and training, which proved quite successful.



## FINANCIAL SURVEY AND STATISTICS

### Scientifically developed and established comprehensive financial statistics system

In order to satisfy the need of macro-management under the new situation and ensure the implementation of statistics on social financing aggregate, the PBC, based on the combination of international statistic practices and China's realities, put forth the goal of establishing a “comprehensive, unified, balanced and flexible” financial statistics, initiated the establishment of a statistics framework coinciding with international standards and focusing on monetary survey, and carried out the construction of comprehensive financial statistics.

Comprehensive financial statistics consists of five categories: statistics of financial corporation's assets and liabilities, statistics of financial development, statistics of financial corporations' soundness, statistics of financial market and statistics of external finance. On the basis of financial statistics standardization in 2010, the PBC integrated all statistics systems and built the data warehouse-based comprehensive financial statistics information platform. Meanwhile, the PBC started to compile the quarterly fund flow statement, and adjusted the grouping of institutions, the approach of report preparation and categories of loans, further improving the definition of relevant statistical indicators.

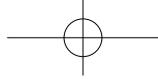
### Facilitated the basic work of financial statistics with pioneering and innovating spirit

The PBC issued the *Information Management Rules for the Financial Institutions* in 2010 to regulate and strengthen the information management of financial institutions. The coding was fulfilled for more than 26 thousand financial institutions nation-wide in the management system and for the first time a standardized, complete and accurate financial institution directory

was established in China. The PBC organized 87 financial institutions to conduct the pilot and inspection of financial statistics reporting in accordance with standardized organization coding in three batches. The monitoring system of statistics on wealth management and fund trust based on standardization was established to collect the line transaction data of wealth management and fund trust in terms of metadata. Standard of financial institution coding, standard of SPV coding and statistical classification standard of financial instruments were applied in the monitoring system, which realized in a real sense the standardized collection of statistical information on wealth management and fund trust business and took a substantial step towards the construction of financial statistics standardization.

The Financial Statistical Data Centralization System realized the centralized collection and processing of the statistical data of approximately 800 independent legal entities with 18 categories and 30 000 outlets of the policy banks, state-owned commercial banks and joint-stock commercial banks as well as the statistical data of the PBC system from the head-office through out to its county-level sub-branches. Approximately 320 000 reports were generated and 11 000 indicators were collected through the systematic combination of institutions and regions. 700 000 legitimacy validations and nearly 10 000 logic validations were maintained within the system to guarantee the data quality.

From June to September 2010, the PBC organized a nation-wide inspection on financial statistics, with 1 135 financial organizations being inspected. In September, the PBC, jointly with China Banking Regulatory Commission, released the *Performance Appraisal Measures on Encouraging County Financial Legal Entities to Use a Certain Proportion of New Deposits for Local Lending (Trial)*, and established



an inter-ministerial leading group on performance appraisal, which played an active role on encouraging county-level financial institutions to use new deposits for local lending, expanding credit funds in counties and further improving rural financial services.

### **Continuously improved economy monitoring and survey system**

Relying on the survey on 5 000 enterprises and the business prosperity survey on urban depositors, entrepreneurs and bankers, the PBC fully exploited the potential of survey data, actively explored and established the analytical framework of microeconomic performance, and continuously improved the coordination between micro-operation and macro-management. An indicator system consisting of leading, synchronous and lagging indicators of prosperity cycle for 5 000 enterprises was established through the study of 5 000 enterprises climate cycle, which further prompted the study on indicators including inventory indicators, small-sized enterprise indicators through fitting with macroeconomic indicators. The mechanism of communication and service between the PBC and the entities including survey respondents, research institutes and the associations of key-focused industries was established to strengthen the sensitivity of industrial analysis and enlarge the influences of surveys conducted by the PBC. The coverage of the survey on enterprise product prices covered 4 600 reporting enterprises located in 250 cities to timely reflect the price fluctuations of investment products and consumption products intensively traded among enterprises. In order to get a prompt understanding of the influences of the reform of RMB exchange rate formation mechanism on

small and medium-sized export-oriented enterprises, a special survey was conducted among 12 provinces in 2010 involving more than 2 000 small- and medium-sized export-oriented enterprises. Through the survey, the PBC put forth the policy suggestions that the transition path of RMB exchange rate be maintained in a gradual manner, that the RMB settlement of cross-border trade be further pushed forward, and that the financial environment for the risk hedging of enterprises be improved.

### **Persistently consolidated the monitoring, analyzing and predicting of macro economy**

The seasonal adjusted month-on-month and quarter-on-quarter change calculations transformed from year-on-year change for major economic indicators were strengthened and the construction of *Dynamic Stochastic General Equilibrium* (DSGE) model was advanced. Work on the construction of a medium-sized yearly and quarterly macroeconomic model as well as the monetary monitoring & analyzing model was also set up. A macroeconomic indicator system based on month-on-month or quarter-on-quarter change analysis was set up and the *Monthly Express Statistics Report of Core Macroeconomic Indicators* was compiled according to the month-on-month change ratio data, which vigorously promoted the calculation and publicity of the month-on-month or quarter-on-quarter change indicators in the national statistics system. According to the analysis of economic data and policy for the past few years, prospective policy recommendations were put forth by the PBC concerning the issues of interest rate liberalization, timely transition to sound monetary policy, unfavorable factors existed in the current economic development, etc.



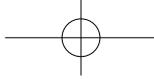
## BOX

## Comprehensive Financial Statistics

Financing aggregate in China has been expanding rapidly in recent years. This expansion is accompanied by diversification in financial structure and innovation in financial products and financing instruments. In addition to bank credit and other indirect financing, a wide range of financing channels for the real economy have emerged, including the capital market, money market, bond market and intermediary business. Financing support for the real economy from securities and insurance companies also has increased. As financial and economic linkages undergo dramatic transformation, there is a strong need to build a financial statistics system that is more comprehensive than the current money and banking statistics to support financial management and to prevent systemic risks. At the 2010 Central Economic Work Conference, it was put forth that the aggregate financing to the real economy in 2011 should be kept at a reasonable scale, making the aggregate financing to the real economy one of the intermediate targets for macro-financial management. In response to this change, and to ensure sound statistics on the aggregate financing to the real economy, the PBC decides to build a comprehensive financial statistics system that is all-encompassing, integrated, coordinated and responsive. Efforts to move toward this objective are now underway.

Comprehensive financial statistics covers statistics of financial sector assets, liabilities, earnings and risks. More specifically, it covers five categories: financial corporations' assets and liabilities, financial development, financial corporations' soundness, financial market and external finance. Based on standardization, comprehensive financial statistics focuses on both products and institutions, representing a major shift from the traditional emphasis on institutions. This makes it a valuable input not only for monetary policy, which uses aggregate and price as intermediary targets, but also for macro-prudential management, which focuses on asset quality and on risks across institutions, markets and national borders. It covers traditional financial institutions such as banks, securities and insurances companies, and includes new financial institutions, i.e., finance holding corporations and financing guarantee companies. It includes on-balance sheet items as well as off-balance sheet items, covering both traditional business like deposits, loans and settlement as well as new business like derivatives and structural products. It supports monetary and financial statistics, and serves financial stability statistics. Moreover, by setting up institutional arrangements, it provides consistency among banking, securities and insurance statistics, ensuring its full coverage and making it a standard-based and rule-guided process.

Based on intensive studies, and drawing on international experiences while taking into account China's circumstances, the PBC aims to develop the comprehensive financial statistics from the following four aspects.



### **I. Financial statistics standardization**

Standardization represents the trend of financial statistics development on the global level. Compared with decentralized management of data attributes, standardization makes sure that financial statistics are objective and consistent, thereby providing a search engine for monitoring transactions across institutions, markets and borders. Guided by function statistics, standardization follows the process of data collecting, storing, compiling, sharing and distributing, and focuses on statistics from institutions, instruments, products and clients. This allows it to capture economic functions, liquidity, profitability and security in greater detail, and set standards for financial institutions, financial instruments and products, metadata, terminology as well as data exchange. Standardization of financial statistics will significantly strengthen the harmonization between current economic and financial statistics and micro-data sources, improve the efficiency of financial statistics, and avoid repetitive data collection by allowing data sharing.

### **II. Financial survey to present financial sector hologram**

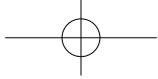
On the basis of financial statistics standardization, financial survey covers overview of the central bank, depository corporations and financial corporations, and provides data on base money, money supply, credit aggregate and the aggregate financing to the real economy. It not only depicts money creation, finance volume and destination in all financial institutions, but also presents liquidity changes in the financial system. It provides key aggregate indicators like total assets, total liabilities and net foreign assets of the financial sector, and also reflects key relative indicators, including overall liquidity ratio, leverage ratio, dynamic provisioning ratio and net stable finance ratio in financial institutions. This makes it a sound basis for making objective and comprehensive evaluation of the development of financial market and the internal and external relevance in the financial system, supporting macroeconomic decision-making and prevention of systematic risks.

### **III. Information platform that supports data exchange**

On the basis of financial statistics standardization, the current statistics systems will be integrated to build a data-warehouse based comprehensive financial statistics information platform. This platform will include modules for financial statistics standards registration and operation, as well as functions such as centralized collection, maintenance and processing of financial statistics. Moreover, it allows efficient data searching and analysis, making data exchange and sharing possible.

### **IV. Sound regulation to ensure implementation**

Scientific and effective organization of comprehensive financial statistics needs to be supported by laws and regulations. In line with requirements of the State Council, and working together with other government agencies, the PBC conducts a thorough study on laws and regulations concerning the implementation of the comprehensive financial statistics system, data management and data quality control, and presents a series of comments and suggestions for formulating regulations on financial statistics.



## FINANCIAL RESEARCH

### Reinforced research on major and heated issues in economic and financial development

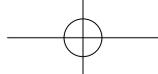
All-round monitoring analysis was conducted on macro economy, money and credit and financial market. A four-in-one monitoring analysis platform has taken shape in a mechanism manner to integrate macro economy forecast, inflation monitoring, money and credit monitoring, and financial market observation. Through this platform, a monitoring analysis system was set up to combine specific and all-round issues, macro and micro economy as well as regular monitoring and featured study. In 2010, more than 20-featured reports were produced to probe into new issues such as excessive growth of money and credit, stronger expectation of inflation, and structural rise of prices. Dozens of reports were used by the General Offices of CCCPC and the State Council, playing a meaningful role in policy support.

In-depth research was conducted on financial support to rural areas. Working with related agencies, the PBC launched comprehensive survey on rural credit cooperative organizations in China and submitted to the General Office of the State Council the *Report on Considering and Guiding the Healthy Development of Rural Credit Cooperatives*. In addition, a survey was carried out on the operation and reform of rural credit cooperatives. Thorough study was unfolded on the performance appraisal measures on encouraging county financial institutions to support local economic development. The *Performance Appraisal Measures on Encouraging County Financial Legal Entities to Use a Certain Proportion of New Deposits for Local Lending (Trial)* was issued and will be put into pilot in 2011. The *2010 China Rural Financial Service Report* was compiled to summarize the achievements in rural financial service since 2008. Coordinated with the State Commission

Office for Public Sector Reform, the PBC studied the regulatory framework for micro-credit companies. Greater guidance was given to the reform of county-level rural financial reform with the completion of the *Pilot Program on Rural Financial Reform in Tiandong County*. Relevant research remarkably advanced the improvement of rural financial services.

Greater efforts were made on the observation on financial innovation, risk prevention and financial legislation. In light with the cooperative program under Sino-Britain Economic and Financial Dialogue framework, the PBC actively explored the feasibility of issuing high yield bonds and credit derivatives in the interbank market. Furthermore, exploration was made on pushing forward the construction of SME credit system. Legislation was under way for non-deposit-taking lenders. Monitoring and analysis was bolstered on the evolution and risks of private financing. Close watch was kept on financial consumer protection at home and abroad. Jointly with International Finance Corporation, the PBC reviewed the growth and promotion of mobile bank in China. Sustained observation was made on the relationship of monetary policy and asset prices. The *Journal of Monetary Policy and Asset Prices Research* was compiled. In-depth study was conducted on the quasi-fiscal function of the central bank as well as its impact on monetary management and financial stability. And the PBC embarked on survey on innovation of moveable property guarantee and compiled the *Typical Cases on Innovation of Movable Property in China*. Moreover, study was developed on the legislation of negotiable instrument market and personal bankruptcy.

The PBC also carried out timely monitoring on heated issues in international financial field over the post-crisis period, including major topics like global rebalancing



and further opening-up of financial sector. The joint research program proceeded smoothly among BRICS countries. The relationship between RMB exchange rate and factor price reform was thoroughly studied. Based on the systematical consideration on the policy measures to facilitate the “going global” of enterprises and financial institutions, the PBC took the lead in drawing up documents to further advance trade financing, receiving positive social response.

Further research was unfolded on issues of carbon finance, such as market transaction mechanism on carbon emission, allocation mechanism of carbon quota and criteria for low-carbon enterprises. The PBC and Municipal Government of Tianjin co-held the first Global Low-carbon Finance Summit to facilitate and deepen the global dialogue and cooperation in low-carbon finance.

#### **Kept sustained study on projects of basic theories and medium- and-long term major reforms**

Breakthrough progress was realized in the development and application of economic model. In light with the latest international achievement and China's situation, the PBC developed or renewed quarterly macro-economic econometric model, dynamic stochastic general equilibrium model (DSGE model) and computable general equilibrium model (CGE model), with remarkable advancement in the reliability of macro economic forecast and analysis.

Remarkable insight was given into issues of medium-and-long reform. With observation on the theory and practice, the PBC brought out policy suggestion on advancing the market-based interest rate reform. Other research covered such areas as fiscal and taxation issues like macro taxation and local government bond, efficiency of banking sector, household balance sheet, financial contagion mechanism, systemic importance of financial institutions and macro prudential management framework. Focusing on international monetary system reform and RMB convertibility, the PBC also worked on

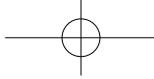
China's opening-up strategy in a comprehensive way.

New progress was achieved in the refinement of monetary financial history. The PBC endeavored to push forward the salvage of financial historical records by collecting first-hand material from the witnesses of financial reform and development. Over 50 people were interviewed, producing over 5 000 minutes of video and 500 000 words of written record. The materials introduced arduous exploration and great achievement of financial sector over the past 60 years, with invaluable historical value. Documentary film *Shanxi Old-style Bank* was shot to summarize the unique financial historical resource. Sponsored by China Society for Finance and Banking, the *Almanac of China's Finance and Banking* and the *Journal of Financial Research* acted as critical platforms of historical records and academic research for the research of basic theories and medium- and-long term major reforms.

#### **Kicked off the design of 12<sup>th</sup> Five-year Plan on reform and development of financial sector**

The PBC completed the “*Research on Financial Development and Security Strategy*” and “*Research on Income Allocation Reform in the 12<sup>th</sup> Five-year*”, both of which were major projects in the 12<sup>th</sup> Five-year Plan assigned by the Office of Central Financing Work Leading Group. Policy suggestions of the above reports were adopted in the 12<sup>th</sup> Five-year Plan, draft of the State Council on income allocation reform and addresses of the senior officials on the central economic working conference. The 12<sup>th</sup> Five-year Plan for financial sector reform and development was drew up through intensive survey and soliciting of opinions from experts and the public, with completion of over 20 major research projects relating to the plan. The PBC branches also played an active role in drawing up the 12<sup>th</sup> Five-year Plans of local governments.

#### **Pushed forward featured research and financial**



### policy research tailored for regional economies

In the context of local economies, the PBC branches made achievable strides in advancing policy research for local economic growth and regional balanced development. In 2010, the PBC branches engaged in financial policy designs for over ten national-level regional development plans. Policies were put into effect on supporting frog-leap development of Xinjiang and Tibet. The preparation went smoothly for the Financial Cooperative Forum of China Eurasia Expo to be held in 2011. Major regional financial policies were taking shape to promote the construction of dual centers in Shanghai, balanced development of Yangtze River Delta, Chengyu economic region plan, Pearl River Delta development plan, industrial transfer to Mid- and-West China, economic and social development in Inner Mongolia, urban and rural integrated reform in Chengdu.

### Refined research institutional system

Over the past seven years since its advent, the PBC major research project system functioned effectively in accumulating research results, cultivating research team, standardizing research methods, and enhancing research capability. Altogether 76 major research projects were accomplished over 2010, covering nearly all emerging issues in financial areas. Out of these projects, research on inflation, banking sector efficiency and cross-border funds flow were highly received. In 2010, the PBC Financial Research Institute was approved for Executive Unit of National Funds of Natural Science. Meanwhile, China Society for Finance and Financial Accounting Society of China made new initiatives to promote the academic cooperation. The Library & Information Center of the People's Bank of China provided resources and information for the all-round research work.



## SOCIAL PUBLICITY AND PUBLIC EDUCATION

### **Elaborated macroeconomic policies to appropriately guide public expectation**

Serving the themes of macroeconomic management, financial reform, development and stability, the PBC strengthened the elaboration on policies of financial macroeconomic management and enhanced policy transparency to appropriately guide public expectation. An array of channels, including news release, media interview and press conference, was employed to explain in detail financial policies and development in RMB exchange rate regime reform, RMB settlement for cross border trade, appropriately accommodative monetary policy and financial performance.

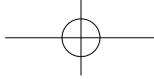
The specific exhibitions were held on Review the Eleventh Five-year Plan and Expect the Twelfth Five-year Plan to wrap up the achievements made by the PBC in the Eleventh Five-year Plan and look forward to prospects in the Twelfth Five-year Plan. The PBC website opened featured column to release policies of the central government, papers of the PBC Governors, introduction on departments and bureaus of the PBC, and the media reports. In special interviews from the central news media for columns of Achievements in the Eleventh Five-year Plan, Interview of Governors and Ministers, and Two Decades of Capital Market, Governor Zhou Xiaochuan introduced the role of the PBC in advancing macroeconomic management, financial sector reform and opening-up, and financial support to economic growth.

During the Period of the National People's Congress and the Chinese People's Political Consultative Conference, Governor Zhou Xiaochuan of the PBC attended the press conference to answer questions from the press on addressing international financial crisis, managing inflation expectation, and maintaining stable and rapid economic growth. Deputy Governor Yi

Gang accepted media interviews on foreign exchange management. Through over 50 interviews from the media and more than 20 news releases in the PBC website, the PBC made timely response to public concerns on heated issues, introduced macroeconomic management policies and achievements, and helped the public to have a thorough understanding of financial policies. In order to further advance the implementation of RMB exchange rate regime reform, a row of 5 papers of Deputy Governor Hu Xiaolian which discussed in detail the policies on RMB exchange rate regime reform, was posted on the PBC website, arousing extensive attention at home and abroad.

### **Ensured financial publicity on major events to promote orderly provision of financial services**

Publicity on financial services was orderly organized during 2010 Expo Shanghai China and the 16<sup>th</sup> Asian Games in Guangzhou. Through a variety of channels including service manual, advertisement, media interview, news releases, the PBC Shanghai Head Office and Guangzhou Branch introduced preferential policies and convenience measures of financial services to the public and travelers to ensure the orderly provision of financial services such as bankcard payments, money supply and exchange. In the wake of Yushu Earthquake in Qinghai, the PBC spared no efforts to fulfill the requirements of the State Council on disaster relief and launched featured publicity on disaster relief. The featured press conference was convened to introduce the measures and activities of the PBC in earthquake relief and to explain the policies in the *Emergent Circular on Providing Financial Service with All Efforts to Yushu Earthquake-stricken Area* (jointly issued by the PBC, CBRC, CSRC and CIRC). A special column of the PBC about Yushu Earthquake Relief was opened in the website to release



the information in no minute and promote the speedy and orderly recovery of economic and financial performance in Yushu.

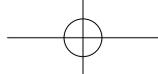
### **Advanced financial knowledge publicity to expand financial literacy**

Tailored financial education programs were provided to enhance the public financial literacy and capability on access to financial business. On the 25<sup>th</sup> anniversary of the *Regulation on the National Vault in 2010*, the PBC held a series of exhibitions with the theme of State-agent Development and Public Benefit to sum up the achievements of the PBC in acting as the agent of the state treasury, to introduce the information of the functions of state-agent with the help of the media, enabling the public to have a better understanding of the role of the state-agent in serving the society. In 2010, the PBC also sponsored activities such as Credit Information Publicity Week and Credit Record Day. A series of written materials were compiled, namely *Papers of the International Symposium on Credit Reporting Legislation*, *Who Moved My Credit*, and *Make Fortune by Credit*. Optional courses on credit reporting and related financial knowledge were opened in pilot colleges. Thanks to extensive publicity activities, the credit awareness of the public saw remarkable enhancement. The proactive inquiry of credit report by individuals soared to 1.275 million in 2010 from 0.766 million in 2009. Publicity on anti-counterfeit currency was conducted through producing brochures including *Pamphlet of Anti-counterfeit Currency for Volunteers*, *Security Guide for the Fifth Series of the Renminbi* as well as 3D

animation game named as *Legends of Anti-counterfeit Currency Heroes*. In addition, the PBC branches took consideration of the local situation to organize extensive publicity programs on anti-counterfeit currency, anti-money laundering, bankcard and e-payment to improve the financial literacy. Targeting rural financial institutions, rural enterprises and farmers, the PBC branches provided featured publicity activities on financial support to agriculture, rural areas and farmers, rural financial products and service innovation. As to foreign-related banks and enterprises, the PBC branches introduced new policies in foreign exchange management and RMB settlement for cross border trade to help them familiarize new policies and business.

### **Updated the PBC website to enhance transparency of central bank information**

Adapting with changing situation and central bank mandate, the PBC updated its electronic platform for administrative information, improved the website performance, and reinforced publicity through its website. On September 16, the new version of the PBC website was put in operation. With additional information and convenient functions, the new website provided easy access for the branches to release information. Since its operation, the new website satisfied the demands of news media, research institutions and the public to get access to information from the website of the PBC, and functioned well in introducing financial policies, enhancing the disclosure of administrative information, strengthening communication, and guiding public expectation.

**BOX**

### The Exhibition on Anti-corruption in the Financial System

From August 10 to August 22 in 2010, the Exhibition on Anti-corruption in the Financial System was held in Beijing Exhibition Center. On the morning of August 10, Mr. Li Yufu, Deputy Secretary of the CPC Discipline Inspection Committee, Governor Zhou Xiaochuan of the PBC, Chairman Shang Fulin of CSRC, Chairman Wu Dingfu of CIRC, Chairman & CEO Lou Jiwei of China Investment Corporation and Secretary Wang Huaqing of the CPC Discipline Inspection Committee of CBRC and other representatives with a total of 600 people from the financial sector attended the opening ceremony of the Exhibition. On the morning of August 11, Mr. He Guoqiang, Standing Member of the Politburo of the CPC Central Committee and Secretary of the CPC Discipline Inspection Committee, Vice Premier Wang Qishan, Mr. He Yong, Member of the Secretariat of the CPC Central Committee and Deputy Secretary of the CPC Discipline Committee paid an on-site visit and spoke highly of the exhibition.

From early November to mid-December in 2010, the tour exhibition has covered 26 provinces, municipalities and autonomous regions (excluding Xinjiang, Tibet, Gansu, and Qinghai).

The exhibition was jointly sponsored by the PBC, CBRC, CSRC and CIRC, and co-sponsored by the SAFE, China Development Bank, Agricultural Development Bank of China, the Export-Import Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Everbright Group and CITIC Group.

The exhibition was composed of an introduction and 6 major themes. In the introduction part, there exhibited photos featuring top leaders of the CPC Central Committee, including Mao Zedong, Deng Xiaoping, Jiang Zemin and Hu Jintao as well as their insights on how to fight corruption. The pictures capturing Wen Jiabao, Wang Qishan, He Guoqiang and He Yong in meetings were also on the exhibition, accompanied by their comments on building a clean government. Theme one was about anti-corruption campaign in the financial sector from the Third Plenary Session of the CPC's Eleventh Congress to the Sixteenth Congress. Part two exhibited the punishment and prevention mechanism in the financial sector since the convening of the CPC's Sixteenth Congress in the principle of curing both symptom and root causes, taking both penalizing and preventative measures while emphasizing the latter. A mix of measures was adopted to fight corruption, including education, improving institutional arrangements, supervision, conducting reform, building an anti-corruption environment and exercising strict punishment. The third area told about 44 typical corruption cases in the financial system since the reform and opening-up. In-depth analysis was made from the legal perspective. The fourth theme was contribution of the financial system to fighting corruption and supporting economic and social development. The fifth aspect demonstrated how the discipline inspection and supervision departments in the financial sector honored their



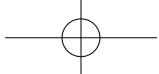
duties and built their capacity. Theme six exhibited a general conclusion.

There were also 9 documentaries, e-map and 4 electronic touch-screens<sup>2</sup> movies aiming to warn audience against corruption and 1. The application of hi-tech made the exhibition more impressive by giving diversified access to information.

The exhibition was well-received nationwide. 88 thousand people in Beijing watched the show and the mainstream media spoke highly of its convention. A total of 550 thousand visitors from the financial sector visited the exhibition, given a lively lecture on fighting corruption and building a clean and honest government. More than 10 thousand entries of comments were left, showing their support to and hope of cracking down on corruption. Representatives from all the financial institutions in cities where the exhibition were held paid a visit.

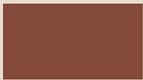
During more than three decades since the beginning of the reform and opening-up, great achievements in the financial system were made in fighting corruption. It is in this context that this exhibition was held, marking the first theme exhibition on anti-corruption and clean government held by authorities governing the financial sector. Its successful convention is of far-reaching significance to learning from the history of fighting corruption in the financial system and to having outreach education program on building a clean government.

A series of follow-up activities were organized to consolidate what was learnt from the exhibition, such as writing contest with the theme of Fighting Corruption and Building a Clean Financial System, and Join Hands on Fighting Corruption, symposiums entitled Let's Talk about Anti-corruption, and workshops on exchanging views and comments after visiting the exhibition. Thank to the above-mentioned efforts, staff members and officials working in the financial-related institutions and authorities were given the chance to have a vivid and visualized lesson on fighting corruption, and thus are more aware that due to its special characteristic, that the financial sector is more vulnerable to corruption, and that when convicted, it is more damaging to national interests as well as the offender himself. The aim of the exhibition was to further foster the awareness of law and the importance of self-discipline, so as to provide a solid base for the healthy development of the financial sector.



The People's Bank of China

# 2010 STATISTICAL ANNEX



## SELECTED ECONOMIC INDICATORS

(Year-end Balance)

100 million yuan

	2006	2007	2008	2009	2010
Gross Domestic Product (GDP)	211 923.0	249 530.0	300 670.0	335 353	397 983.2
Industrial Value Added	90 351.0	107 367.0	129 112.0	134 625	160 030
Fixed Assets Investment	109 870.0	137 239.0	172 291.0	224 846	278 140
Retail Sales of Consumer Goods	76 410.0	89 210.0	108 488.0	125 343	156 998
Urban Households*					136 123
Rural Households*					20 875
Export & Import (100 Million of US Dollars)	17 607.0	21 738.0	25 616.0	22 072	29 728
Export	9 691.0	12 180.0	14 285.0	12 017	15 779
Import	7 916.0	9 558.0	11 331.0	10 056	13 948
Balance	1 775.0	2 622.0	2 955.0	1 961	1 831
Foreign Direct Investment (100 Million of US Dollars)	694.7	748.0	924.0	900	1 057.4
Foreign Exchange Reserves (100 Million of US Dollars)	10 663.0	15 282.5	19 460.3	23 992	28 473.4
Consumer Price Index (Previous Year=100)	101.5	104.8	105.9	99.3	103.3
Government Revenue	39 343.6	51 304.0	61 316.9	68 477	83 080
Government Expenditure	40 213.2	49 565.4	62 427.0	75 874	89 575
Fiscal Balance	-869.6	1 738.6	-1 110.1	-9 500	-10 000
Per Capita Urban Household Disposable Income (Yuan)	11 759.0	13 786.0	15 781.0	17 175	19 109
Per Capita Rural Household Net Income (Yuan)	3 587.0	4 140.0	4 761.0	5 153	5 919
Number of Employed Persons in Urban Areas (Million)	283.1	293.5	302.1	311.2	
Registered Urban Unemployment Rate (%)		4.0	4.2	4.3	4.1
Total Population (Million)	1 314.5	1 321.3	1 328.0	1 334.7	1 341.0

Note: Sources from National Bureau of Statistics of China.

Fiscal figures from "Report on the Implementation of the Central and Local Budget for 2009 and on the Draft of the Central and Local Budget for 2010".

\*According to the program pertaining to trade related statistic reform initiated by the National Bureau of Statistics of China in October 2009, from Jan 2010, the new category of "Retail Sales of Consumer Goods" has been adopted, which consists of "Urban Households" and "Rural Households". The previous contents of "Urban" and "County & below" had not been used any more. Therefore, figures in this year can't be comparable to the historical ones.

## SELECTED ECONOMIC INDICATORS

(Growth Rates)

	Percentage change				
	2006	2007	2008	2009	2010
Gross Domestic Product (GDP)	11.6	11.9	9.0	8.7	10.3
Industrial Value Added	12.5	13.5	9.5	8.3	12.1
Fixed Assets Investment	24.0	24.8	25.5	30.1	23.8
Retail Sales of Consumer Goods	13.7	16.8	21.6	15.5	18.3
Urban Households*					18.7
Rural Households*					16.2
Export & Import	23.8	23.5	17.8	-13.9	34.7
Export	27.2	25.7	17.2	-16.0	31.3
Import	20.0	20.8	18.5	-11.2	38.7
Balance				-34.2	-6.4
Foreign Direct Investment	-4.1	13.6	23.6	-2.6	17.4
Foreign Exchange Reserves	30.2	43.3	27.3	23.3	18.7
Consumer Price Index	1.5	4.8	5.9	-0.7	
Government Revenue	24.3	32.4	19.5	11.7	21.3
Government Expenditure	18.5	22.6	25.4	21.2	17.4
Per Capita Urban Household Disposable Income	10.4	12.2	8.4	9.8	7.8
Per Capita Rural Household Net Income	7.4	9.5	8.0	8.5	10.9
Number of Employed Persons in Urban Areas	3.6	3.7	2.9	3.0	
Natural Population Growth (%)	5.3	5.2	5.1	5.1	4.7

Note: Sources from National Bureau of Statistics of China.

Fiscal figures from "Report on the Implementation of the Central and Local Budget for 2009 and on the Draft of the Central and Local Budget for 2010".

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## SELECTED FINANCIAL INDICATORS

(Year-end Balance)

100 million yuan

	2006	2007	2008	2009	2010
Money & Quasi-money (M2)	345 603.6	403 442.2	475 166.6	610 224.5	725 851.8
Money (M1)	126 035.1	152 560.1	166 217.1	221 445.8	266 621.5
Currency in Circulation (M0)	27 072.6	30 375.2	34 219.0	38 247.0	44 628.2
Total Deposits with Financial Institutions	335 459.8	389 371.2	466 203.3	597 741.1	718 237.9
Urban & Rural Household Deposits	161 587.3	172 534.2	217 885.4	260 771.7	303 302.5
Enterprise Deposits	113 239.0	138 673.7	157 632.2	217 110.0	244 495.6
Total Lending by Financial Institutions	225 347.2	261 690.9	303 394.6	399 684.8	479 195.6

## SELECTED FINANCIAL INDICATORS

(Growth Rates)

Percentage change

	2006	2007	2008	2009	2010
Money & Quasi-money (M1)	16.95	16.74	17.82	28.52	19.73
Money (M2)	17.49	21.05	9.06	33.22	21.19
Currency in Circulation (M0)	12.65	12.20	12.65	11.77	16.69
Total Deposits with Financial Institutions	16.83	16.07	19.73	28.21	20.16
Urban & Rural Household Deposits	14.56	6.77	26.29	19.68	16.31
Enterprise Deposits	17.78	22.46	13.67	37.73	12.61
Total Lending by Financial Institutions	15.10	16.10	18.73	31.74	19.89

Note: On comparable basis.

## DEPOSITORY CORPORATIONS SURVEY IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Net Foreign Assets	202 280.02	207 272.61	215 974.12	226 044.95
Domestic Credit	521 017.53	540 682.50	559 825.36	587 324.02
Claims on Government (Net)	29 318.27	23 749.32	24 892.00	34 604.25
Claims on Non-financial Sectors	463 375.35	485 821.49	504 410.51	521 658.47
Claims on Other Financial Sectors	28 323.92	31 111.70	30 522.85	31 061.30
Money & Quasi-money	649 947.46	673 921.72	696 471.50	725 851.79
Money	229 397.93	240 580.00	243 821.90	266 621.54
Currency in Circulation	39 080.58	38 904.85	41 854.41	44 628.17
Demand Deposits	190 317.35	201 675.15	201 967.50	221 993.37
Quasi-money	420 549.53	433 341.73	452 649.59	459 230.25
Time Deposits	122 943.73	131 673.96	142 865.49	143 232.08
Savings Deposits	280 350.33	287 474.10	299 136.35	303 093.01
Other Deposits	17 255.48	14 193.66	10 647.75	12 905.15
Deposits Excluded from Broad Money	12 389.58	12 721.92	13 641.34	13 566.09
Bonds	53 417.61	55 230.31	58 304.82	59 105.24
Paid-in Capital	23 524.93	24 061.74	25 393.57	26 726.53
Others (Net)	-15 982.02	-17 980.59	-18 011.74	-11 880.67

Note: Unlike "Other Deposits" in Monetary Aggregates, "Other Deposits" in this table has not included margin deposits of non-financial corporations ever since 2006.

## BALANCE SHEET OF THE MONETARY AUTHORITY IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	192 118.96	198 356.34	204 810.61	215 419.60
Foreign Exchange	182 310.84	188 703.99	195 222.49	206 766.71
Monetary Gold	669.84	669.84	669.84	669.84
Other Foreign Assets	9 138.28	8 982.51	8 918.28	7 983.06
Claims on Government	15 625.89	15 621.19	15 551.85	15 421.11
Of which: Central Government	15 625.89	15 621.19	15 551.85	15 421.11
Claims on Other Depository Corporations	8 618.22	8 966.50	9 136.40	9 485.70
Claims on Other Financial Corporations	11 514.57	11 498.54	11 465.79	11 325.81
Claims on Non-financial Sectors	43.96	43.96	43.96	24.99
Other Assets	8 169.07	8 445.52	7 675.26	7 597.67
<b>Total Assets</b>	<b>236 090.67</b>	<b>242 932.04</b>	<b>248 683.87</b>	<b>259 274.89</b>
Reserve Money	150 032.84	154 234.48	161 320.34	185 311.08
Currency Issue	42 836.09	42 566.89	46 219.81	48 646.02
Deposits of Financial Corporations	107 196.75	111 667.58	115 100.53	136 665.06
Other Depository Corporations	107 057.69	111 506.39	114 945.69	136 480.86
Other Financial Corporations	139.06	161.19	154.84	184.20
Deposits of Financial Corporations Excluded From Reserve Money	649.58	612.40	639.62	657.19
Bond Issuance	43 442.31	46 975.16	44 005.15	40 497.23
Foreign Liabilities	746.69	719.10	715.70	720.08
Government Deposits	23 251.03	31 023.02	32 458.79	24 277.32
Equity	219.75	219.75	219.75	219.75
Other Liabilities	17 748.46	9 148.14	9 324.50	7 592.23
<b>Total Liabilities</b>	<b>236 090.67</b>	<b>242 932.04</b>	<b>248 683.87</b>	<b>259 274.89</b>

## BALANCE SHEET OF OTHER DEPOSITORY CORPORATIONS IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	16 957.97	16 310.33	18 575.25	18 524.81
Reserve Assets	109 344.86	114 018.75	117 271.51	136 834.97
Deposits with Central Bank	105 589.35	110 356.71	112 906.11	132 817.12
Cash in Vault	3 755.51	3 662.05	4 365.41	4 017.85
Claims on Government	36 943.41	39 151.14	41 798.94	43 460.46
Of which: Central Government	36 943.41	39 151.14	41 798.94	43 460.46
Claims on Central Bank	52 990.72	47 761.69	45 570.79	40 274.18
Claims on Other Depository Corporations	119 775.94	122 929.95	132 375.61	134 452.82
Claims on Other Financial Corporations	16 809.34	19 613.16	19 057.06	19 735.50
Claims on Non-financial Corporations	370 545.60	384 817.29	397 254.45	409 539.12
Claims on Other Resident Sectors	92 785.79	100 960.24	107 112.10	112 094.36
Other Assets	51 415.87	50 855.59	53 942.42	46 692.41
<b>Total Assets</b>	<b>867 569.51</b>	<b>896 418.15</b>	<b>932 958.14</b>	<b>961 608.63</b>
Liabilities to Non-financial Institutions & Households	608 534.84	636 131.66	660 345.87	684 857.78
Deposits Included in Broad Money	593 611.40	620 823.22	643 969.33	668 318.47
Enterprise Demand Deposits	190 317.35	201 675.15	201 967.50	221 993.37
Enterprise Time Deposits	122 943.73	131 673.96	142 865.49	143 232.08
Household Savings Deposits	280 350.33	287 474.10	299 136.35	303 093.01
Deposits Excluded from Broad Money	12 389.58	12 721.92	13 641.34	13 566.09
Transferable Deposits	5 371.65	5 509.83	5 493.65	6 081.93
Other Deposits	7 017.93	7 212.09	8 147.69	7 484.16
Other Liabilities	2 533.86	2 586.52	2 735.20	2 973.22
Liabilities to Central Bank	5 569.57	5 215.44	5 328.49	5 629.00
Liabilities to Other Depository Corporations	52 269.98	51 927.35	55 221.08	55 748.40
Liabilities to Other Financial Corporations	44 984.13	43 373.08	40 139.83	44 255.17
Of which: Deposits Included in Broad Money	17 255.48	14 193.66	10 647.75	12 905.15
Foreign Liabilities	6 050.21	6 674.97	6 696.04	7 179.38
Bond Issue	53 417.61	55 230.31	58 304.82	59 105.24
Paid-in Capital	23 305.17	23 841.99	25 173.82	26 506.78
Other Liabilities	73 437.99	74 023.36	81 748.19	78 326.87
<b>Total Liabilities</b>	<b>867 569.51</b>	<b>896 418.15</b>	<b>932 958.14</b>	<b>961 608.63</b>

## BALANCE SHEET OF LARGE-SIZED DOMESTIC BANKS IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	12 787.89	12 307.15	14 366.21	14 033.96
Reserve Assets	70 747.89	72 707.20	75 199.09	82 875.61
Deposits with Central Bank	68 655.47	70 710.92	72 723.53	80 573.48
Cash in Vault	2 092.42	1 996.28	2 475.56	2 302.12
Claims on Government	25 018.31	26 379.19	28 154.28	29 350.00
Of which: Central Government	25 018.31	26 379.19	28 154.28	29 350.00
Claims on Central Bank	48 580.77	43 469.42	41 438.10	36 484.06
Claims on Other Depository Corporations	59 848.63	59 333.79	63 047.25	62 085.65
Claims on Other Financial Corporations	11 484.97	12 697.02	11 878.57	12 056.74
Claims on Non-financial Corporations	217 133.58	223 910.50	230 665.53	236 938.25
Claims on Other Resident Sectors	49 753.73	54 177.36	57 538.19	60 572.72
Other Assets	36 074.07	34 527.37	38 313.67	31 055.00
<b>Total Assets</b>	<b>531 429.84</b>	<b>539 509.00</b>	<b>560 600.90</b>	<b>565 451.99</b>
Liabilities to Non-financial Institutions & Households	379 411.73	389 902.02	402 775.08	409 775.68
Deposits Included in Broad Money	369 316.54	379 653.83	392 069.96	399 275.42
Enterprise Demand Deposits	112 972.86	117 787.93	117 644.72	125 919.75
Enterprise Time Deposits	61 699.50	64 084.03	68 454.54	66 650.50
Household Savings Deposits	194 644.18	197 781.88	205 970.69	206 705.16
Deposits Excluded from Broad Money	7 993.68	8 189.43	8 558.92	8 180.90
Transferable Deposits	3 221.77	3 246.54	3 014.89	3 306.31
Other Deposits	4 771.90	4 942.89	5 544.03	4 874.58
Other Liabilities	2 101.52	2 058.76	2 146.20	2 319.37
Liabilities to Central Bank	1 206.18	625.88	660.88	898.10
Liabilities to Other Depository Corporations	19 190.42	19 273.88	20 155.93	19 677.92
Liabilities to Other Financial Corporations	30 441.77	28 234.11	25 620.64	27 722.69
Of which: Deposits Included in Broad Money	12 221.35	9 866.25	7 595.82	8 774.55
Foreign Liabilities	2 228.50	2 553.23	2 437.33	2 557.88
Bond Issue	37 204.36	38 313.53	40 874.77	41 058.61
Paid-in Capital	14 196.13	14 326.77	15 190.12	15 849.59
Other Liabilities	47 550.73	46 279.59	52 886.14	47 911.51
<b>Total Liabilities</b>	<b>531 429.84</b>	<b>539 509.00</b>	<b>560 600.90</b>	<b>565 451.99</b>

Note: 1. As of January 2010, the PBC compiles monetary and financial statistics on the basis of the RMB and foreign currency statistical data of domestically operating financial institutions in line with the concept, definition and classification of the IMF "Manual of Monetary and Financial Statistics".

2. Large-sized Domestic Banks refer to all the domestic banks with the total RMB and foreign currency asset volume more than 2 trillion yuan (as of year-end 2008), including the Industrial and Commercial Bank of China Ltd, China Construction Bank Corporation, the Agricultural Bank of China Ltd, Bank of China Ltd, China Development Bank Corporation, Bank of Communications Corporation Ltd and Postal Savings Bank of China.

## BALANCE SHEET OF MEDIUM-SIZED DOMESTIC BANKS IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	2 652.91	2 745.06	2 799.86	3 002.18
Reserve Assets	17 000.82	18 391.56	18 391.31	22 243.69
Deposits with Central Bank	16 687.38	18 067.89	18 017.18	21 871.47
Cash in Vault	313.44	323.67	374.12	372.22
Claims on Government	5 592.09	6 287.05	6 568.44	6 888.04
Of which: Central Government	5 592.09	6 287.05	6 568.44	6 888.04
Claims on Central Bank	3 372.76	3 103.18	2 887.10	2 562.48
Claims on Other Depository Corporations	29 119.17	29 877.28	32 393.38	30 820.03
Claims on Other Financial Corporations	2 573.60	3 924.27	3 686.60	3 931.70
Claims on Non-financial Corporations	82 792.97	86 425.24	89 536.81	93 795.25
Claims on Other Resident Sectors	15 775.13	17 334.18	18 515.54	19 963.28
Other Assets	6 090.58	6 665.08	5 141.31	4 654.02
<b>Total Assets</b>	<b>164 970.02</b>	<b>174 752.91</b>	<b>179 920.34</b>	<b>187 860.66</b>
Liabilities to Non-financial Institutions & Households	96 455.68	105 559.82	109 470.96	115 141.33
Deposits Included in Broad Money	93 894.01	102 873.13	106 466.36	112 158.22
Enterprise Demand Deposits	38 076.94	41 579.26	40 148.41	45 372.86
Enterprise Time Deposits	36 757.87	40 268.44	43 701.90	43 772.83
Household Savings Deposits	19 059.20	21 025.43	22 616.05	23 012.53
Deposits Excluded from Broad Money	2 246.75	2 317.64	2 600.07	2 582.98
Transferable Deposits	953.28	1 000.52	1 056.24	1 161.61
Other Deposits	1 293.47	1 317.12	1 543.83	1 421.37
Other Liabilities	314.92	369.05	404.54	400.13
Liabilities to Central Bank	3 662.09	3 680.01	3 708.72	3 727.42
Liabilities to Other Depository Corporations	20 239.77	18 740.66	19 872.04	19 590.93
Liabilities to Other Financial Corporations	12 531.58	12 918.89	12 637.29	14 221.19
Of which: Deposits Included in Broad Money	4 919.62	4 240.42	2 997.35	4 027.38
Foreign Liabilities	928.74	1 079.29	1 097.95	1 218.59
Bond Issue	15 448.10	16 135.17	16 638.67	17 247.21
Paid-in Capital	1 926.02	1 993.11	2 132.42	2 160.92
Other Liabilities	13 778.04	14 645.95	14 362.29	14 553.07
<b>Total Liabilities</b>	<b>164 970.02</b>	<b>174 752.91</b>	<b>179 920.34</b>	<b>187 860.66</b>

Note: Medium-sized Domestic Banks refer to all the domestic banks with the total RMB and foreign currency asset volume more than 300 billion yuan but less than 2 trillion yuan (as of year-end 2008), including China Merchants Bank Corporation Ltd, Agricultural Development Bank of China, Shanghai Pudong Development Bank, China CITIC Bank Corporation Ltd, Industrial Bank Corporation Ltd, China Minsheng Banking Corporation, China Everbright Bank Corporation Ltd, Hua Xia Bank Corporation Ltd, the Export-Import Bank of China, Guangdong Development Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Shanghai and Bank of Jiangsu.

## BALANCE SHEET OF SMALL-SIZED DOMESTIC BANKS IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	92.29	104.87	104.40	134.57
Reserve Assets	11 773.19	12 924.90	13 442.89	17 920.42
Deposits with Central Bank	11 278.90	12 424.21	12 834.27	17 287.35
Cash in Vault	494.29	500.70	608.62	633.06
Claims on Government	4 457.68	4 489.67	4 983.06	5 267.40
Of which: Central Government	4 457.68	4 489.67	4 983.06	5 267.40
Claims on Central Bank	921.35	1 059.26	1 054.63	1 094.95
Claims on Other Depository Corporations	15 185.50	17 825.18	19 727.46	24 197.48
Claims on Other Financial Corporations	1 613.13	1 800.80	2 197.25	2 048.11
Claims on Non-financial Corporations	39 837.06	42 553.33	44 521.13	45 570.74
Claims on Other Resident Sectors	9 435.71	10 612.37	11 641.32	12 465.35
Other Assets	4 032.95	4 276.18	4 796.67	4 719.48
<b>Total Assets</b>	<b>87 348.86</b>	<b>95 646.57</b>	<b>102 468.80</b>	<b>113 418.50</b>
Liabilities to Non-financial Institutions & Households	68 644.71	74 690.94	79 363.08	87 198.85
Deposits Included in Broad Money	68 382.23	74 344.34	78 927.84	86 639.78
Enterprise Demand Deposits	24 153.34	26 584.62	27 564.72	31 951.51
Enterprise Time Deposits	14 952.09	16 701.06	18 877.21	20 345.26
Household Savings Deposits	29 276.81	31 058.66	32 485.91	34 343.02
Deposits Excluded from Broad Money	178.27	228.82	295.52	369.10
Transferable Deposits	104.54	138.08	195.31	273.54
Other Deposits	73.73	90.74	100.21	95.56
Other Liabilities	84.21	117.79	139.72	189.96
Liabilities to Central Bank	120.63	169.73	186.34	215.49
Liabilities to Other Depository Corporations	8 452.41	9 579.43	10 854.50	12 398.41
Liabilities to Other Financial Corporations	894.78	1 206.08	1 019.94	1 508.71
Of which: Deposits Included in Broad Money	110.91	83.67	53.67	102.10
Foreign Liabilities	16.76	23.14	27.42	36.71
Bond Issue	390.77	408.10	417.07	477.92
Paid-in Capital	2 851.65	3 093.58	3 282.49	3 627.13
Other Liabilities	5 977.14	6 475.56	7 317.97	7 955.29
<b>Total Liabilities</b>	<b>87 348.86</b>	<b>95 646.57</b>	<b>102 468.80</b>	<b>113 418.50</b>

Note: Small-sized Domestic Banks refer to all the domestic banks with the total RMB and foreign currency asset volume less than 300 billion yuan (as of year-end 2008), including Evergrowing Bank, China Zheshang Bank, China Bohai Bank, small-sized urban commercial banks, rural commercial banks, rural cooperative banks, rural banks.

## BALANCE SHEET OF FOREIGN-FUNDED BANKS IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1 246.53	1 109.53	1 253.90	1 280.40
Reserve Assets	1 324.19	1 421.09	1 570.46	2 023.68
Deposits with Central Bank	1 315.90	1 413.35	1 560.90	2 014.56
Cash in Vault	8.29	7.74	9.55	9.12
Claims on Government	987.71	1 074.68	1 106.28	1 004.47
Of which: Central Government	987.71	1 074.68	1 106.28	1 004.47
Claims on Central Bank				
Claims on Other Depository Corporations	2 624.39	2 841.09	2 908.98	3 630.10
Claims on Other Financial Corporations	101.76	140.52	189.60	244.95
Claims on Non-financial Corporations	7 112.40	7 494.01	7 818.87	8 236.27
Claims on Other Resident Sectors	296.43	344.33	366.48	408.97
Other Assets	1 539.50	1 718.19	1 897.60	2 187.31
<b>Total Assets</b>	<b>15 232.92</b>	<b>16 143.44</b>	<b>17 112.18</b>	<b>19 016.15</b>
Liabilities to Non-financial Institutions & Households	6 689.25	7 300.62	8 125.14	9 677.71
Deposits Included in Broad Money	5 198.91	5 777.51	6 483.11	7 808.77
Enterprise Demand Deposits	1 672.93	1 836.25	1 749.82	2 272.77
Enterprise Time Deposits	3 087.42	3 468.01	4 215.86	4 962.52
Household Savings Deposits	438.56	473.25	517.44	573.48
Deposits Excluded from Broad Money	1 490.34	1 523.11	1 642.03	1 868.93
Transferable Deposits	885.90	882.89	916.49	999.48
Other Deposits	604.45	640.22	725.53	869.46
Other Liabilities				
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	1 673.47	1 533.10	1 388.30	1 212.89
Liabilities to Other Financial Corporations	532.37	597.79	506.31	531.51
Of which: Deposits Included in Broad Money				
Foreign Liabilities	2 861.69	2 996.81	3 109.44	3 341.68
Bond Issue				
Paid-in Capital	1 425.16	1 430.25	1 482.66	1 515.15
Other Liabilities	2 050.98	2 284.86	2 500.34	2 737.21
<b>Total Liabilities</b>	<b>15 232.92</b>	<b>16 143.44</b>	<b>17 112.18</b>	<b>19 016.15</b>

## BALANCE SHEET OF URBAN CREDIT COOPERATIVES IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets				
Reserve Assets	43.54	33.25	18.76	11.90
Deposits with Central Bank	40.94	31.68	17.59	10.92
Cash in Vault	2.61	1.57	1.17	0.98
Claims on Government	8.51	4.34	5.27	4.03
Of which: Central Government	8.51	4.34	5.27	4.03
Claims on Central Bank	0.51	0.51	3.21	3.21
Claims on Other Depository Corporations	42.67	37.77	32.26	17.77
Claims on Other Financial Corporations	0.21	0.01	0.98	
Claims on Non-financial Corporations	139.76	104.71	68.44	50.89
Claims on Other Resident Sectors	48.92	33.18	31.43	16.91
Other Assets	58.49	45.81	23.56	11.26
<b>Total Assets</b>	<b>342.61</b>	<b>259.58</b>	<b>183.90</b>	<b>115.97</b>
Liabilities to Non-financial Institutions & Households	297.76	227.44	152.07	96.75
Deposits Included in Broad Money	297.74	227.43	152.04	96.73
Enterprise Demand Deposits	72.21	64.01	38.09	16.45
Enterprise Time Deposits	19.41	16.88	14.16	8.98
Household Savings Deposits	206.12	146.54	99.79	71.31
Deposits Excluded from Broad Money				
Transferable Deposits				
Other Deposits				
Other Liabilities	0.02	0.01	0.04	0.01
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	14.00	6.44	11.56	6.21
Liabilities to Other Financial Corporations	1.11	1.27	0.70	0.54
Of which: Deposits Included in Broad Money				
Foreign Liabilities				
Bond Issue				
Paid-in Capital	11.61	10.95	8.88	5.75
Other Liabilities	18.13	13.47	10.68	6.73
<b>Total Liabilities</b>	<b>342.61</b>	<b>259.58</b>	<b>183.90</b>	<b>115.97</b>

## BALANCE SHEET OF RURAL CREDIT COOPERATIVES IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1.29	1.74	2.18	1.89
Reserve Assets	7 352.95	7 278.17	7 318.47	10 191.25
Deposits with Central Bank	6 497.38	6 434.61	6 406.93	9 474.45
Cash in Vault	855.57	843.56	911.54	716.80
Claims on Government	670.05	721.34	771.42	742.99
Of which: Central Government	670.05	721.34	771.42	742.99
Claims on Central Bank	113.29	129.32	187.24	128.51
Claims on Other Depository Corporations	8 372.24	8 288.71	8 813.04	8 353.12
Claims on Other Financial Corporations	836.54	858.55	880.85	1 164.34
Claims on Non-financial Corporations	17 216.29	17 567.10	17 730.33	17 511.84
Claims on Other Resident Sectors	17 364.24	18 326.09	18 870.25	18 504.48
Other Assets	3 181.71	3 202.39	3 330.08	3 607.90
<b>Total Assets</b>	<b>55 108.61</b>	<b>56 373.41</b>	<b>57 903.85</b>	<b>60 206.32</b>
Liabilities to Non-financial Institutions & Households	46 955.76	47 695.33	48 862.40	50 563.73
Deposits Included in Broad Money	46 925.60	47 655.81	48 818.88	50 500.49
Enterprise Demand Deposits	8 370.06	8 751.32	9 325.70	10 083.20
Enterprise Time Deposits	1 830.07	1 916.15	2 046.73	2 029.78
Household Savings Deposits	36 725.47	36 988.34	37 446.46	38 387.51
Deposits Excluded from Broad Money	3.46	4.62	4.89	6.13
Transferable Deposits	0.73	1.10	1.01	1.32
Other Deposits	2.73	3.52	3.88	4.81
Other Liabilities	26.70	34.89	38.62	57.11
Liabilities to Central Bank	577.18	732.03	766.76	780.80
Liabilities to Other Depository Corporations	2 156.23	2 318.39	2 428.46	2 403.10
Liabilities to Other Financial Corporations	350.68	327.18	262.44	204.94
Of which: Deposits Included in Broad Money				
Foreign Liabilities				0.30
Bond Issue	0.10	0.10	0.10	0.10
Paid-in Capital	1 916.89	1 936.89	1 959.16	2 152.07
Other Liabilities	3 151.75	3 363.48	3 624.53	4 101.28
<b>Total Liabilities</b>	<b>55 108.61</b>	<b>56 373.41</b>	<b>57 903.85</b>	<b>60 206.32</b>

## BALANCE SHEET OF FINANCE COMPANIES IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	177.05	41.99	48.70	71.81
Reserve Assets	1 113.42	1 274.09	1 345.74	1 584.91
Deposits with Central Bank	1 113.38	1 274.05	1 345.70	1 584.89
Cash in Vault	0.04	0.04	0.04	0.03
Claims on Government	209.06	194.88	210.19	203.53
Of which: Central Government	209.06	194.88	210.19	203.53
Claims on Central Bank	2.05		0.50	0.97
Claims on Other Depository Corporations	4 583.36	4 726.11	5 453.24	5 348.66
Claims on Other Financial Corporations	199.14	191.98	223.23	289.67
Claims on Non-financial Corporations	6 313.53	6 762.40	6 913.34	7 435.88
Claims on Other Resident Sectors	111.62	132.73	148.89	162.65
Other Assets	427.43	409.06	424.33	440.95
<b>Total Assets</b>	<b>13 136.65</b>	<b>13 733.24</b>	<b>14 768.17</b>	<b>15 539.04</b>
Liabilities to Non-financial Institutions & Households	10 079.95	10 755.48	11 597.14	12 403.74
Deposits Included in Broad Money	9 596.38	10 291.17	11 051.15	11 839.05
Enterprise Demand Deposits	4 999.02	5 071.77	5 496.04	6 376.84
Enterprise Time Deposits	4 597.36	5 219.40	5 555.11	5 462.22
Household Savings Deposits				
Deposits Excluded from Broad Money	477.08	458.29	539.91	558.06
Transferable Deposits	205.43	240.70	309.71	339.68
Other Deposits	271.65	217.60	230.20	218.38
Other Liabilities	6.49	6.02	6.08	6.63
Liabilities to Central Bank	3.48	7.79	5.79	7.20
Liabilities to Other Depository Corporations	543.67	475.44	510.29	458.94
Liabilities to Other Financial Corporations	231.83	87.75	92.50	65.59
Of which: Deposits Included in Broad Money	3.60	3.32	0.92	1.12
Foreign Liabilities	14.53	22.50	23.90	24.23
Bond Issue	374.27	373.41	374.22	321.40
Paid-in Capital	977.71	1 050.42	1 118.09	1 196.17
Other Liabilities	911.22	960.44	1 046.23	1 061.77
<b>Total Liabilities</b>	<b>13 136.65</b>	<b>13 733.24</b>	<b>14 768.17</b>	<b>15 539.04</b>

## MONETARY AGGREGATES IN 2010

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Money & Quasi-money (M <sub>2</sub> )	649 947.46	673 921.72	696 471.50	725 851.79
Money (M <sub>1</sub> )	229 397.93	240 580.00	243 821.90	266 621.54
Currency in Circulation (M <sub>0</sub> )	39 080.58	38 904.85	41 854.41	44 628.17
Demand Deposits	190 317.35	201 675.15	201 967.50	221 993.37
Quasi-money	420 549.53	433 341.73	452 649.59	459 230.25
Time Deposits	91 564.03	97 624.33	107 460.73	105 858.65
Household Deposits	281 047.23	288 130.13	299 282.91	303 302.49
Other Deposits	47 938.27	47 587.26	45 905.95	50 069.11

## MONETARY AGGREGATES IN 2010

Year-on-year percentage change

	Q1	Q2	Q3	Q4
Money & Quasi-money (M <sub>2</sub> )	22.49	18.46	18.97	19.73
Money (M <sub>1</sub> )	29.94	24.56	20.88	21.19
Currency in Circulation (M <sub>0</sub> )	15.81	15.65	13.77	16.69
Demand Deposits	33.28	26.44	22.46	22.14
Quasi-money	18.77	15.32	17.97	18.90
Time Deposits	33.71	28.86	28.44	28.65
Household Deposits	15.62	15.54	17.04	16.31
Other Deposits	12.70	-6.03	3.60	15.99

Note: On comparable basis.

## BALANCE OF PAYMENTS IN 2010

	Line	Balance	Credit	Debit
Current Account	1	3 054	19 468	16 414
Goods & Services	2	2 321	17 526	15 206
Goods	3	2 542	15 814	13 272
Services	4	-221	1 712	1 933
Transportation	5	-290	342	633
Travel	6	-91	458	549
Communication Services	7	1	12	11
Construction Services	8	94	145	51
Insurance Services	9	-140	17	158
Financial Services	10	-1	13	14
Computer & Information Services	11	63	93	30
Royalties & License Fees	12	-122	8	130
Consulting Services	13	77	228	151
Advertising & Public Opinion Polling	14	8	29	20
Audio-visual & Related Services	15	-2	1	4
Other Business Services	16	184	356	172
Government Services, n.i.e	17	-2	10	11
Income	18	304	1 446	1 142
Compensation of Employees	19	122	136	15
Investment Income	20	182	1 310	1 128
Current Transfers	21	429	495	66
General Government	22	-3	0	3
Other Sectors	23	432	495	63
Capital & Financial Account	24	2 260	11 080	8 820
Capital Account	25	46	48	2
Financial Account	26	2 214	11 032	8 818
Direct Investment	27	1 249	2 144	894
Abroad	28	-602	76	678
From Abroad	29	1 851	2 068	217
Portfolio Investment	30	240	636	395
Assets	31	-76	268	345
Equity Securities	32	-84	115	199
Debt Securities	33	8	154	146
Bonds & Notes	34	19	128	110
Money Market Instruments	35	-11	25	36

Note: According to international convention, from the third quarter of 2010 the SAFE records the undivided profits and non-repatriated profits earned by the foreign-funded enterprises in China's Balance of Payments. Therefore, the SAFE has made retroactive adjustments to the historical data from 2005 to 2009 and to every quarterly data in 2010.

100 million U.S. dollars

	Line	Balance	Credit	Debit
Liabilities	36	317	368	51
Equity Securities	37	314	345	32
Debt Securities	38	3	22	19
Bonds & Notes	39	3	22	19
Money Market Instrument	40	0	0	0
Other Investment	41	724	8 253	7 528
Assets	42	-1 163	750	1 912
Trade Credits	43	-616	5	621
Long-term	44	-43	0	43
Short-term	45	-573	4	578
Loans	46	-210	197	407
Long-term	47	-277	0	277
Short-term	48	66	197	131
Currency & Deposits	49	-580	303	883
Other Assets	50	244	245	1
Long-term	51	0	0	0
Short-term	52	244	245	1
Liabilities	53	1 887	7 503	5 616
Trade Credits	54	495	583	88
Long-term	55	35	41	6
Short-term	56	460	542	81
Loans	57	791	5 860	5 069
Long-term	58	100	264	163
Short-term	59	691	5 596	4 906
Currency & Deposits	60	603	1 038	435
Other Liabilities	61	-3	22	25
Long-term	62	-4	1	5
Short-term	63	1	22	20
Reserve Assets	64	-4 717	0	4 717
Monetary Gold	65	0	0	0
Special Drawing Rights	66	-1	0	1
Reserve Position in IMF	67	-21	0	21
Foreign Exchange	68	-4 696	0	4 696
Other Claims	69	0	0	0
Net Errors & Omissions	70	-597	0	597

## INTERNATIONAL LIQUIDITY

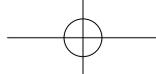
Millions of the US dollars

	2007	2008	2009	2010
Total Reserves (Minus Gold)	1 530 279	1 949 260	2 414 131	2 862 276
SDRs	1 190.79	1 199.24	12 509.61	12 344.9
Reserve Position in IMF	839.45	2 030.71	2 469.20	2 592.9
Foreign Exchange	1 528 249	1 946 030	2 399 152	2 847 338
Gold (Million Ounce)	19.29	19.29	33.89	33.89
Gold (National Valuation)	4 074	4 074	9 815	9 815
Foreign Liabilities of Other Depository Corporations	82 676	75 255	88 145	108 405.6

Note: The PBC made adjustments to RMB purchase of gold in April 2009.

## GOLD AND FOREIGN EXCHANGE RESERVES

	Gold (10 Thousand Ounce)	Foreign Exchange Reserves (100 Million US Dollars)	Change in Foreign Exchange Reserves (%)
1998	1 267	1 449.6	3.6
1999	1 267	1 546.8	6.7
2000	1 267	1 655.7	7.0
2001	1 608	2 121.7	28.1
2002	1 929	2 864.1	35.0
2003	1 929	4 032.5	40.8
2004	1 929	6 099.3	51.3
2005	1 929	8 188.7	34.3
2006	1 929	10 663.4	30.2
2007	1 929	15 282.5	43.3
2008	1 929	19 460.3	27.3
2009	3 389	23 991.5	23.3
2010	3 389	28 473.4	18.7

**THE EXCHANGE RATES OF RMB (YUAN)**

	2007				2008			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	7.3046	0.9364	6.4064	10.6669	6.8346	0.8819	7.565	9.659
Change of Basis Points	-5 027	-660	-1 368	3 887	-4 650	-534.5	10 344	-10 021

**Continued**

	2009				2010			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	6.8282	0.8805	7.3782	9.7971	6.6227	0.8509	8.1260	8.8065
Change of Basis Points	-64	-14	-1 868	1 381	-2 055	-296	7 478	9 906

Note: The exchange rate of RMB (yuan) against Japanese yen: RMB/100 Japanese yen.

## BRIEF TABLE OF CHINA'S EXTERNAL DEBT, END~2010

Thousands of the US dollars

Debtor/Debt	Loans from Foreign Governments	Loans from International Financial Institutions	Loans from Foreign Banks and Other Financial Institutions	Buyers' Credit	Loans from Foreign Exporters, Enterprises and Individuals	Bonds Issued Abroad	Trade Related Credit
Ministries under the State Council		34 630 749	502 615			3 660 790	
Chinese-funded Financial Institutions*	32 083 978		3 390 465	3 047 931	6 541	5 061 270	83 276 083
Foreign-funded Financial Institutions		77 600	36 779 787		660 294		1 743 393
Foreign-funded Enterprises		835 319	15 142 763	327 014	88 151 367		
Chinese-funded Enterprises		2 730	499 876	88 752	398 336	1 508 013	
Others			87		98 770		
Trade Credits							
Total	32 083 978	35 546 398	56 315 593	3 463 697	89 315 308	10 230 073	85 019 476

## Continued

Debtor/Debt	Non-resident Deposits	International Financial Leasing	Liabilities to be Paid with Foreign Exchange in Compensation Trade	Trade Credits	Others	Total
Ministries under the State Council						38 794 154
Chinese-funded Financial Institutions*	8 267 820	6 948			191 821	135 332 857
Foreign-funded Financial Institutions	8 831 553				51 837	48 144 464
Foreign-funded Enterprises		4 925 579	2 596		190 951	109 575 589
Chinese-funded Enterprises		1 664 289	1 620 921		5 757	5 788 674
Others					3 222	102 079
Trade Credits				211 200 000		211 200 000
Total	17 099 373	6 596 816	1 623 517	211 200 000	443 588	548 937 817

Note: \*Loans from foreign governments to Chinese-funded financial institutions (mainly referring to state-owned commercial banks and policy banks) are actually sovereign debt borrowed by the Ministry of Finance on behalf of the Chinese Government.

## RMB INTEREST RATES IN 2010

	Percent per annum		
	October 20, 2010	December 26, 2010	December 2010
Benchmark Rates			
Required Reserves	1.62	1.62	
Excess Reserves	0.72	0.72	
Loans to Financial Institutions			
20 Days or Less	2.79	3.25	
3 Months or Less	3.06	3.55	
6 Months or Less	3.24	3.75	
1 Year	3.33	3.85	
Rediscount	1.80	2.25	
Official Interest Rates on Deposits & Loans of Financial Institutions			
Interest Rates on Deposits			
Demand Deposits	0.36	0.36	
Time Deposits			
3 Months	1.91	2.25	
6 Months	2.20	2.50	
1 Year	2.50	2.75	
2 Years	3.25	3.55	
3 Years	3.85	4.15	
5 Years	4.20	4.55	
Interest Rates on Loans			
6 Months (Including 6 Months)	5.10	5.35	
6 Months ~1 Year (Including 1 Year)	5.56	5.81	
1~3 Years (Including 3 Years)	5.60	5.85	
3~5 Years (Including 5 Years)	5.96	6.22	
Longer than 5 Years	6.14	6.40	
December Weighted Average Rate in Interbank Market			
Interbank Borrowing			2.92
Bond Repos			3.12

## INTEREST RATES ON SMALL-VALUE US DOLLAR DEPOSITS

	Percent per annum						
	Demand Deposits	Deposits at 7 Days' Notice	1 Month	3 Months	6 Months	1 Year	2 Years
Jan. 5, 2001	1.5000	2.5625	3.6875	3.8750	4.0625	4.1250	4.1875
Feb. 7, 2001	1.5000	2.4375	3.4375	3.6250	3.7500	3.8125	3.8750
Mar. 29, 2001	1.0000	2.0000	3.0625	3.2500	3.3750	3.4375	3.5000
May 1, 2001	1.0000	1.1825	2.6250	2.7500	2.9375	3.0000	3.0625
May 23, 2001	1.0000	1.6875	2.3750	2.5000	2.6250	2.6875	2.7500
Jul. 5, 2001	1.0000	1.6250	2.2500	2.3750	2.4375	2.5000	2.5625
Aug. 30, 2001	0.7500	1.3750	2.0000	2.1250	2.1875	2.3125	2.3750
Sep. 22, 2001	0.5000	1.1438	1.7875	1.1925	1.9375	2.0000	2.0625
Nov. 12, 2001	0.4375	0.8125	1.1500	1.1625	1.1875	1.2500	1.2500
Nov. 19, 2002	0.1250	0.2500	0.5000	0.5625	0.6875	0.8125	0.9375
Jul. 2, 2003	0.0750	0.1250	0.2500	0.4375	0.5000	0.5625	0.6875
Nov. 18, 2004	0.0750	0.2500	0.3750	0.6250	0.7500	0.8750	
May 20, 2005	0.0750	0.2500	0.6250	0.8750	1.0000	1.1250	
Jul. 22, 2005	0.1500	0.3750	1.0000	1.3750	1.5000	1.6250	
Aug. 23, 2005	0.2750	0.5000	1.2500	1.7500	1.8750	2.0000	
Oct. 15, 2005	0.7750	1.0000	1.7500	2.2500	2.3750	2.5000	
Dec. 28, 2005	1.1500	1.3750	2.2500	2.7500	2.8750	3.0000	

Note: No adjustments in the year of 2006, 2007, 2008, 2009 and 2010.

## MONEY MARKET STATISTICS

100 million yuan

	2007	2008	2009	2010
Interbank Borrowing	106 465.70	150 491.84	193 504.97	278 684 .03
Interbank Repurchase	447 925.00	581 205.24	702 898.69	875 935.56
Interbank Securities Trading	156 043.40	371 157.71	472 654.96	640 422.08
Repurchase in Shanghai Stock Exchange	1 845.08	24 268.65	35 475.87	65 877.79
Repurchase in Shenzhen Stock Exchange	0.00	0.00	0.00	0 .00
Securities Trading in Shanghai Stock Exchange	1 195.49	2 075.90	2 054.90	1 590 .03
Securities Trading in Shenzhen Stock Exchange	5.10	46.62	30.21	71.61

## STOCK MARKET STATISTICS

	2007	2008	2009	2010
Year-end Close Index				
Shanghai Composite Index (Dec.19, 1990=100)	5 261.56	1 820.81	3 277.14	2 808 .08
Shenzhen Component Index (Jul.20, 1994=100)	17 700.62	6 485.51	13 699.97	12 458.55
Stock Exchange				
Number of Shares Issued in Shanghai Stock Exchange (100 Million)	14 173.10	15 410.39	16 659.96	21 939.51
Number of Shares Issued in Shenzhen Stock Exchange (100 Million)	2 781.72	3 441.86	3 907.56	5 044.98
Total Market Value in Shanghai Stock Exchange (100 Million Yuan)	269 838.90	97 251.91	184 655.23	179 007.24
Total Market Value in Shenzhen Stock Exchange (100 Million Yuan)	57 302.02	24 114.53	59 283.89	86 415.35
Total Market Value of Tradable Shares in Shanghai Stock Exchange (100 Million Yuan)	64 532.17	32 305.91	114 805.00	142 337.44
Total Market Value of Tradable Shares in Shenzhen Stock Exchange (100 Million Yuan)	28 532.18	12 907.99	36 453.65	50 772.97
Daily Average Trading Volume in Shanghai Stock Exchange (100 Million Yuan)	1 262.13	733.46	1 420.13	1 257.49
Daily Average Trading Volume in Shenzhen Stock Exchange (100 Million Yuan)	641	352.37	776.54	997.20
Capitalization (IPO, Rights Issue & Convertible Bonds, 100 Million Yuan)	8 521.50	3 656.70	6 084.27	12 035.67
Year-end Number of Listed Companies	1 550	1 604	1 718	2 063

## FLOW OF FUNDS STATEMENT IN 2009

(Financial Transaction Account)

	No.	Households		Non-financial Corporations		General Government		Financial Institutions	
		Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investment	1	35 907		-25 326		8 264		2 066	
Financial Uses	2	60 796		75 031		19 651		170 913	
Financial Sources	3		24 889		100 357		11 387		168 847
Currency	4	3 358		364		81			4 046
Renminbi	5	3 358		364		81			4 046
Foreign Currencies	6								
Deposits	7	43 160		65 916		19 591		3713	132 764
Demand Deposits	8	21 808		37 202		11 419			102 609
Time Deposits	9	21 087		28 376		3 806			21 087
Fiscal Deposits	10					4 367			4 371
Foreign Exchange Deposits	11	265		345		-1		215	1 136
Other Deposits	12			-6				3 498	3 563
Loans	13		24 889		78 990		107	107 619	441
Short-term Loans	14		7 391		18 613			26 004	
Medium & Long-term Loans	15		17 489		49 882			67 371	
Foreign Exchange Loans	16		9		7 555		52	11 240	441
Other Loans	17				2 940		55	3 005	
Insurance Technical Reserves	18	8 396		395			2 927		5 864
Inter-financial Institutions Accounts	19							1 165	6 312
Required & Excessive Reserves	20							11 507	11 507
Securities	21	4 507		-184	16 810	-40	8 182	25 301	4 786
Bonds	22	746		-184	11 475	-141	8 182	23 273	4 037
Government & Public Bonds	23	746		-19		-141	8 182	7 596	
Financial Bonds	24			-73				9 904	9 831
Central Bank Bonds	25			-98				-5 697	-5 795
Corporate Bonds	26			5	11 475			11 470	
Shares	27	3 762			5 335	101		2 028	749
Investment Funds	28	-1 035		-5		-1		-166	-1 206
Margin Deposits with Securities Trading Accounts	29	2 356		2 545				1 370	6 272
Cash in Vault	30							416	416
Central Bank Loans	31							-1 589	-1 589
Miscellaneous (Net)	32	54		-717		20	146		-788
Foreign Direct Investments	33			2 999	5 341				
Changes in Other Foreign Assets & Debts	34			3 717	2 190		26	-5 640	25
Changes in Reserve Assets	35							27 216	
Errors & Omissions in the BOP	36				-2 975				

Note: There are notes to this table in P132.

100 million yuan

All Domestic Sectors		The Rest of the World		Total		No.	
Uses	Sources	Uses	Sources	Uses	Sources		
20 911		-20 911				1	Net Financial Investment
326 391		6 300		332 691		2	Financial Uses
	305 481		27211		332 691	3	Financial Sources
3 803	4 046	243		4 046	4 046	4	Currency
3 803	4 046	243		4 046	4 046	5	Renminbi
						6	Foreign Currencies
132 380	132 764	383		132 763	132 764	7	Deposits
21 808	21 808			21 808	21 808	8	Demand Deposits
21 087	21 087			21 087	21 087	9	Time Deposits
4 367	4 367			4 367	4 367	10	Fiscal Deposits
824	1 136	312		1 136	1 136	11	Foreign Exchange Deposits
3 492	3 563	71		3 563	3 563	12	Other Deposits
107 619	104 428	256	3 448	107 875	107 875	13	Loans
26 004	26 004			26 004	26 004	14	Short-term Loans
67 371	67 371			67 371	67 371	15	Medium & Long-term Loans
11 240	8 057	256	3 439	11 496	11 496	16	Foreign Exchange Loans
3 005	2 995		9	3 005	3 005	17	Other Loans
8 791	8 791			8 791	8 791	18	Insurance Technical Reserves
1 165	6 312	617	-4 530	1 782	1 782	19	Inter-financial Institutions Accounts
11 507	11 507			11 507	11 507	20	Required & Excessive Reserves
29 585	29 778	193		29 778	29 778	21	Securities
23 694	23 694			23 694	23 694	22	Bonds
8 182	8 182			8 182	8 182	23	Government & Public Bonds
9 831	9 831			9 831	9 831	24	Financial Bonds
-5 795	-5 795			-5 795	-5 795	25	Central Bank Bonds
11 475	11 475			11 475	11 475	26	Corporate Bonds
5 891	6 084	193		6 084	6 084	27	Shares
-1 206	-1 206			-1 206	-1 206	28	Investment Funds
6 272	6 272			6 272	6 272	29	Margin Deposits with Securities Trading Accounts
416	416			416	416	30	Cash in Vault
-1 589	-1 589			-1 589	-1 589	31	Central Bank Loans
-643	-643			-643	-643	32	Miscellaneous (Net)
2 999	5 341	5 341	2 999	8 340	8 340	33	Foreign Direct Investments
-1 922	2 241	2 241	-1 922	319	319	34	Changes in Other Foreign Assets & Debts
27 216			27 216	27 216	27 216	35	Changes in Reserve Assets
	-2 975	-2 975		-2 975	-2 975	36	Errors & Omissions in the BOP



## NOTES TO THE SECTORS AND ITEMS IN FLOW OF FUNDS STATEMENT

**Introduction to the Flow of Funds Statement** There were some changes over the basic data of BOP in terms of sector categories that were used for compiling the Flow of Funds Statement of 1997. Therefore, some financial transaction categories of Flow of Funds Statement of 1997 were adjusted. Specific changes were as follows: the scopes of the Foreign Exchange Deposits and Loans were adjusted; the transaction category of international capital account, including two sub-items, Short-term Capital and Long-term Capital, was deleted; transaction categories for Foreign Direct Investment and the Changes in Other Foreign Assets and Debts were added. From 2006, two items namely Securities Investment Funds and Margin Deposits with Securities Trading Accounts were added to the transaction categories.

**Financial Account**<sup>①</sup> Presented in matrix format, Financial Account encompasses all financial transactions among 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 are mainly classified by 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. All flows are measured according to their exchanges value. The terms "sources" and "uses" are employed to reflect the changes in financial liabilities and in financial assets of each sector.

**Households** Includes urban households, rural household and individual enterprises. The sector is mainly engaged in final consumption, self-served production and some market-oriented production activities.

**Non-financial Corporations** Consists of profit-making resident corporations whose principal activity is the production of goods and non-financial services.

**General Government** Includes central government, local governments and social security funds. They produce and supply non-market output for public and individual consumption. They also bear the responsibilities of redistribution of national income and wealth.

**Financial Institutions** Includes central bank, banks and other financial institutions. They supply financial services including insurance.

**The Rest of the World** Non-resident units which have financial transactions with resident units.

**Financial Uses** The total of amounts in the uses column of each sector.

**Financial Sources** The total of amounts in the sources column of each sector.

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

**Currency**<sup>②</sup> Notes and coins in circulation.

*Renminbi Currency* Notes and coins in circulation issued by the resident monetary authority (the PBC).

*Foreign Currencies* Notes and coins in circulation issued by non-resident monetary authorities and held by residents.

**Deposits** All types of deposits denominated in local and foreign currencies, including demand deposits, time deposits, savings deposits, fiscal deposits, foreign exchange deposits and others.

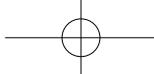
*Demand Deposits* Deposits which can be withdrawn on demand.

*Time Deposits* Deposits that are not immediately disposable because they are subject to a fixed term or a period of prior notice before withdrawal.

*Savings Deposits* Deposits of households with financial institutions and postal departments. In 2009, according to the latest

① Some financial transactions are not accounted temporarily, such as equity, trade credit and some accounts receivable/payable.

② The domestically circulated foreign currencies are not accounted temporarily.



statistical regulations, savings deposits were classified into demand deposit account or time deposit account under households departments. Correspondingly, savings deposit account of household was terminated.

*Fiscal Deposits* Deposits of the central government with the central bank.

*Foreign Exchange Deposits* Foreign exchange denominated deposits of non-financial residents with domestic financial institutions and the rest of the world, and those of non-residents with domestic financial institutions.

*Other Deposits* Designated deposits, trust deposits, margin account deposits and deposits which are not classified elsewhere.

**Loans** All kinds of Loans including short-, medium- and long-term loans, fiscal loans, foreign exchange loans and other loans.

*Short-term Loans* Loans with a short-term (usually within one year) maturity to enterprises and households.

*Medium-and Long-term Loans* Loans with a long-term (usually beyond one year) maturity to enterprises and households.

*Fiscal Loans* Lending by the central bank to the government or overdraft of the central government on the accounts with the central bank. In 2007, it was terminated.

*Foreign Exchange Loans* Loans in foreign currencies by domestic financial institutions to non-financial residents and the rest of the world, and those to residents by the rest of the world.

*Other Loans* Designated loans, trust loans, financial leasing and loans which are not classified elsewhere.

**Securities<sup>①</sup>** All bonds and shares.

**Bonds** Negotiable and bearer instruments which give the holder the unconditional right to a fixed or contractually determined variable interest on a specified date or dates, and do not grant the holder any ownership rights in the institutional unit issuing them. They include government and public bonds, financial bonds, central bank bonds and corporate bonds.

**Shares<sup>②</sup>** Documents which represent property rights on corporations and entitle the holders to a share in the profits of the corporations and to a share in their net assets.

**Insurance Technical Reserves** The net equity of social insurance and commercial insurance funds, prepaid insurance premium and outstanding claim reserve.

**Settlement Funds** Funds in float. The use of HVPS and BEPS improves the speed of liquidation and the amount of settlement funds in float is relatively small, so Settlement Funds was terminated in 2008.

**Inter-financial Institutions Accounts** Consists of nostro and vostro accounts, interbank lending and securities repurchase among financial institutions.

**Required and Excessive Reserves** Financial institutions' deposits with the PBC and required reserves.

**Cash in Vault** Local and foreign cashes reserved for business by banks.

**Central Bank Lending** Lending to financial institutions by the PBC.

**Miscellaneous (Net) Other** Domestic financial transactions not included elsewhere.

**Foreign Direct Investment** The investments from abroad by the rest of the world and that in the rest of the world by domestic residents.

**Other Direct Assets and Debts** The foreign assets and debts that are not included in Foreign Exchange Deposits and Loans or in Reserve Assets.

**Changes in Reserve Assets** Consists of gold, foreign exchange, special drawing rights, reserve positions with IMF, use of IMF credit, and etc..

**Errors and Omissions in the Balance of Payments<sup>③</sup>** Arising from insufficient coverage, the differences of accounting timing, scope, classification, valuation and source materials with the process of compiling the Balance of Payments.

① Equity and unlisted shares are not included temporarily.

② Only includes listed shares.

③ Because it is difficult to identify the proportion of this item on the current account to that on the capital account, all the errors and omissions in the Balance of Payments are presented on the Flow of Funds Accounts temporarily.

## FLOW OF FUNDS IN 2009

China's fund flow volume in 2009 showed the following characteristics: I) Fund flow volume achieved a rapid increase. II) The incremental volume of financial liabilities by domestic non-financial sector achieved a substantial growth, of which the proportion of volume by the households sector was increased sharply, the leading status of incremental loans was strengthened persistently, and the status of bonds financing was raised notably. III) The assets and liabilities volume of financial institutions increased remarkably. IV) Balance of net overseas financial assets was shrunk, with a sharp decrease of fund flow abroad.

**Fund flow volume achieved a rapid increase**

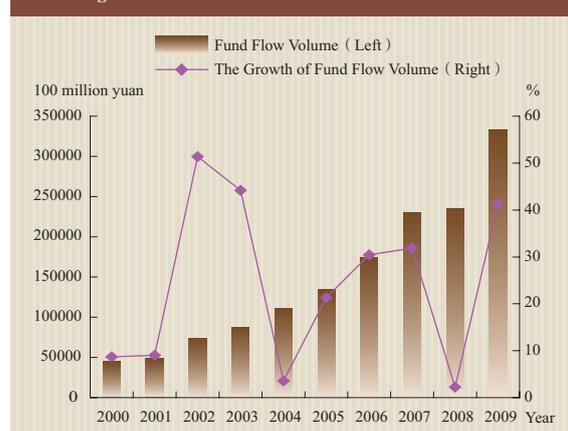
Fund flow volume in the whole society totaled 33.3 trillion yuan in 2009, increased by 9.7 trillion yuan or 41.4 percent compared with the previous year. The growth rate was 39.2 percentage points higher than that of the previous year, reaching the highest level as from 2005. The ratio between the fund flow volume in the whole society and GDP was 97.7 percent, 22.8 percentage

points higher than that of 2008. The real GDP growth rate in 2009 was 9.1 percent, 0.5 percentage points lower compared with 2008, showing a noticeable decline in its downward momentum (Figure 17 and 18).

**The incremental volume of financial liabilities by domestic non-financial sector achieved a substantial growth, of which the proportion of volume by the households sector was increased sharply, the leading status of incremental loans was strengthened persistently, and the status of bonds financing was raised notably**

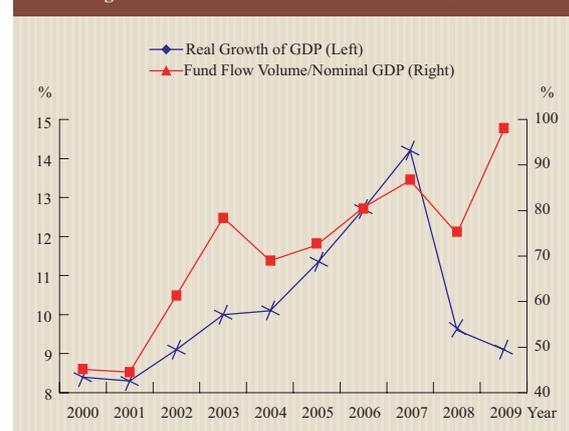
In 2009, the incremental volume of financial liabilities by domestic non-financial sector (including households, non-financial corporate sector and general government, same hereinafter) totaled 13.7 trillion yuan, up by 90 percent year on year, achieving the highest level in recent years. The incremental volume of financial liabilities by households, non-financial corporate sector and general government was 2.5 trillion, 10 trillion and 1.1 trillion yuan respectively, up by 250 percent, 70 percent and 100 percent respectively (Table 3).

Figure 17 The Growth of Fund Flow Volume in China



Source: The PBC.

Figure 18 Fund Flow Volume and the Growth of GDP



Source: The PBC.

Note: The incremental volume of financial Liabilities equals the aggregate incremental volume of loans, government bonds, corporate bonds, equities, insurance technical reserves, and external liabilities, of which equities include accountable equity financing.

**Table 3 The Incremental Volume of Financial Liabilities by Domestic Non-financial Sector in 2009**

100 million yuan, %

	Annual Increment	More than 2008	Compare with 2008 (Times)	Proportion	Proportion Changes
Households	24 889	17 877	2.5	18.2	8.3
Non-financial Corporations	100 357	42 397	0.7	73.5	-8.4
General Government	11 387	5 590	1.0	8.3	0.1
Total	136 633	65 865	0.9	100	

**Table 4 The Instruments of Financial Liabilities Used by Domestic Non-financial Sector in 2009**

100 million yuan, %

	Annual Increment	More than 2008	Compare with 2008 (Times)	Proportion	Proportion Changes
Loans	103 987	54 212	1.1	76.2	5.8
Government Bonds	8 182	7 155	7.0	6.0	4.5
Corporate Bonds	11 475	6 134	1.1	8.4	0.9
Equities	5 335	1 943	0.6	3.9	-0.9
Insurance Technical Reserves	2 927	-1 170	-0.3	2.1	-3.6
External Liabilities	4 587	-2 548	-0.4	3.4	-6.7

In terms of the instruments of financial liabilities used by the domestic non-financial sector, the incremental volume of financial liabilities in the form of loans, corporate bonds, government bonds and equities was 10.4 trillion, 1.1 trillion, 818.2 billion and 533.5 billion yuan respectively, or up by 110 percent, 110 percent, 700 percent and 60 percent year on year respectively. On the other side, the incremental volume of financial liabilities in the form of insurance technical reserves and external liabilities (i.e. the FDI from abroad and other external liabilities) was 292.7 billion and 458.7 billion yuan respectively, down by 28.6 percent and 35.7 percent year on year respectively. The incremental volume of loans accounted for 76.2 percent of the total incremental volume of financial liabilities by domestic non-financial sector, 5.8 percentage points higher than that of 2008. The incremental volume of government bonds and corporate bonds accounted for 6 percent and 8.4 percent respectively of the total incremental volume of financial liabilities by domestic non-financial sector, 4.5 and 0.9 percentage points respectively higher than that of 2008 (Table 4).

1. Boost of desire for house purchase led to significant increase in household financing and the proportion of incremental equity-related assets increased

Impacted by the rapid rise of housing price and the noticeable boost of desire for house purchase, the incremental volume of financial liabilities by household in 2009 amounted to 2.5 trillion yuan, up by 250 percent, or accounting for 18.2 percent of the total incremental volume of financial liabilities by domestic non-financial sector, 8.3 percentage points higher than that of 2008. Among the households financing, the incremental housing loans reached 1.4 trillion yuan, up by 1.1 trillion yuan year on year, or accounting for 56.1 percent of the incremental volume of financial liabilities by household, 15.4 percentage points higher than that of 2008 (Figure 19).

The incremental volume of household financial assets was 6.1 trillion yuan, up by 6.1 percent year on year. The upward momentum was prominently slowed down, owing to the decline of household's income increase and the abundance of housing expenditures. In terms of assets structure, there was a significant tendency

that assets were shifted from deposits and insurance technical reserves to equities. The incremental volume of household's deposits and insurance technical reserves was 4.3 trillion and 839.6 billion yuan, accounting for 71 percent and 13.8 percent of the total incremental volume of household financial assets respectively, 10.2 and 0.3 percentage points lower than that of 2008 respectively. The incremental volume of equities and clients' margin deposits with securities trading accounts was 376.2 billion and 235.6 billion yuan respectively, totally accounting for 10.1 percent of the incremental volume of household financial assets, or 15.3 percentage points higher than that of the previous year (Figure 20).

2. Non-financial corporate sector increased financing via a variety of channels, supporting the rapid growth of investments

The incremental volume of financial liabilities by non-financial corporate sector in 2009 totaled 10 trillion yuan, up by 70 percent year on year. Of which, I) Incremental volume of loans was 7.9 trillion yuan, up by 3.7 trillion yuan year on year, or accounting for 78.7 percent of the total incremental volume of financial liabilities by non-financial corporations, 6.1 percentage points higher than that of 2008. II) Incremental volume of bonds and equities was 1.1 trillion and 533.5 billion yuan respectively, accounting for 11.4 percent and 5.3 percent

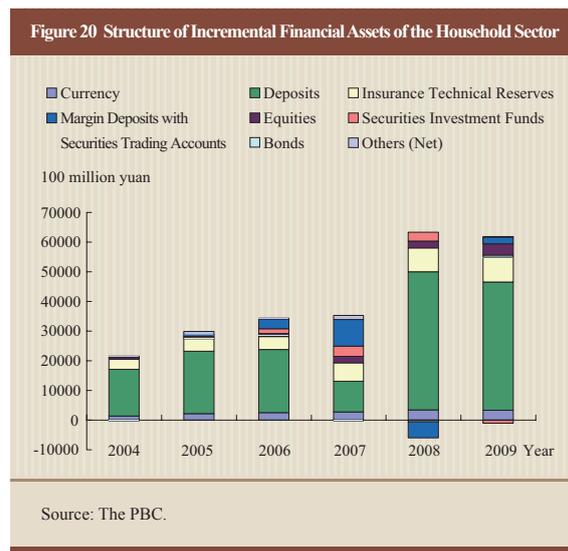
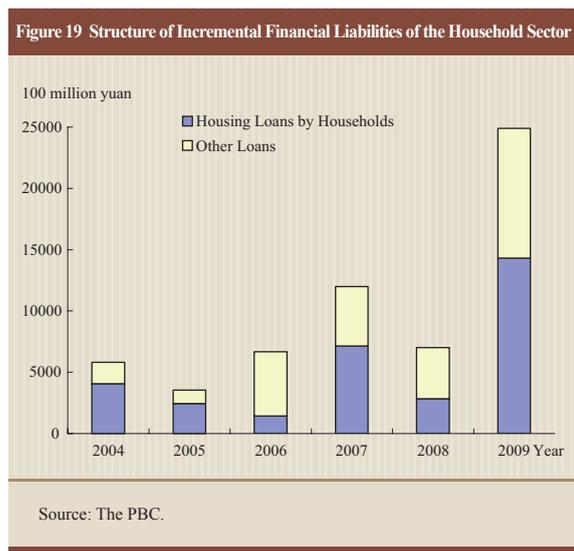
of the total incremental volume of financial liabilities by non-financial corporate sector, 2.8 percentage points higher than that of 2008 for both. III) Incremental volume of external financial liabilities was 455.6 billion yuan, down by 257.9 billion yuan year on year (Figure 21).

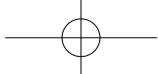
The incremental financial assets volume of non-financial corporate sector was 7.5 trillion yuan, up by 150 percent year on year, in which incremental deposits volume was 6.6 trillion yuan, up by 4.3 trillion yuan year on year, or accounting for 93.3 percent of the total incremental financial assets of non-financial corporate sector, 16.3 percentage points higher than that of the previous year.

The fund gap (the source of fund minus the use of fund) of non-financial corporate sector was 2.5 trillion yuan, shrunk by 222 billion yuan compared with the previous year, providing vigorous support for the rapid growth of investment by non-financial corporate sector. The investments of domestic non-financial corporate sector in 2009 were increased by 30.1 percent year on year, or 4.6 percentage points higher than that of 2008 (Figure 22).

3. Fund surplus of general government achieved a substantial increase

In 2009, the incremental volume of financial liabilities by general government (including treasury,





governmental organizations, administrative institutions and social security funds, same hereafter) totaled 1.1 trillion yuan, up by 100 percent year on year. Of which, I) the incremental volume of financial liabilities in terms of government bonds was 818.2 billion yuan, accounting for 71.9 percent of the total, 54.1 percentage points higher than that of 2008; II) the incremental volume of financial liabilities in terms of insurance technical reserves was 292.7 billion yuan, accounting for 25.7 percent of the total, 45 percentage points lower than that of the previous year (Figure 23).

Owing to the rapid growth of proceeds from the transfer of land-use rights and abundant deposits by governmental organizations & administrative institutions derived from the local investment-financing platform, the incremental volume of financial assets of general government amounted to 1.97 trillion yuan, up by 240 percent year on year. Of which, incremental deposits by governmental organizations & administrative institutions and by treasury was 1.2 trillion and 436.7 billion yuan respectively, accounting for 63.1 percent and 22.2 percent of the total incremental volume of financial assets of general government sector, 42.6 percentage points and 17.6 percentage points higher than that of 2008 respectively (Figure 24).

Although the deficits for the year was 950 billion

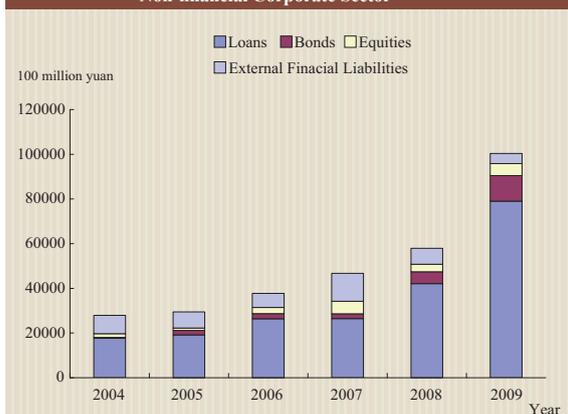
yuan after the netting of fiscal revenues and fiscal expenditures, reaching the historical highest level, the fund surplus by the whole general government sector amounted to 824.6 billion yuan (incremental volume of financial assets minus that of financial liabilities), up by 820.3 billion yuan year on year, being the highest level since 2000.

### The assets and liabilities volume of financial institutions increased remarkably

In 2009, financial institutions (including central bank, other depository corporations, insurance companies, securities investment funds and other financial institutions, same hereafter) increased their financial liabilities by 16.9 trillion yuan, up by 40 percent year on year.

Meanwhile, the financial institutions increased their financial assets by 17.1 trillion yuan, up by 30 percent year on year. Of which, other depository corporations increased their financial assets by 13.3 trillion yuan, up by 3.7 trillion yuan year on year. In terms of structure, incremental loans by other depository corporations was 10.7 trillion yuan, accounting for 80 percent of their total incremental volume of financial assets, 26.1 percentage points higher than that of 2008. Incremental reserves was 1.1 trillion yuan, accounting for 8.5 percent of their total

Figure 21 Structure of Incremental Financial Liabilities of Non-financial Corporate Sector



Source: The PBC.

Figure 22 Fund Gap and the Investment Growth of Non-financial Corporate Sector



Source: The PBC.

incremental volume of financial assets, 13.3 percentage points lower than 2008. Central bank bonds purchased by other depository corporations was decreased by 14.1 billion yuan, and its proportion in their total incremental volume of financial assets was 11.8 percentage points lower than that of the previous year.

**Balance of net overseas financial assets was shrunk, with a sharp decrease of fund flow abroad**

Incremental volume of China's overseas financial

assets (China's funds used by foreign sector) in 2009 reached 2.7 trillion yuan, down by 1.5 trillion yuan, while incremental volume of China's external financial liabilities (China using foreign funds) reached 630 billion yuan, down by 415.6 billion yuan. Then, China's net overseas financial assets (incremental volume of overseas financial assets minus that of external financial liabilities) amounted to 2.1 trillion yuan, down by 30 percent year on year, which indicated that the net volume of China's funds used by foreign sector was shrunk substantially.

Figure 23 Structure of Incremental Financial Liabilities of General Government

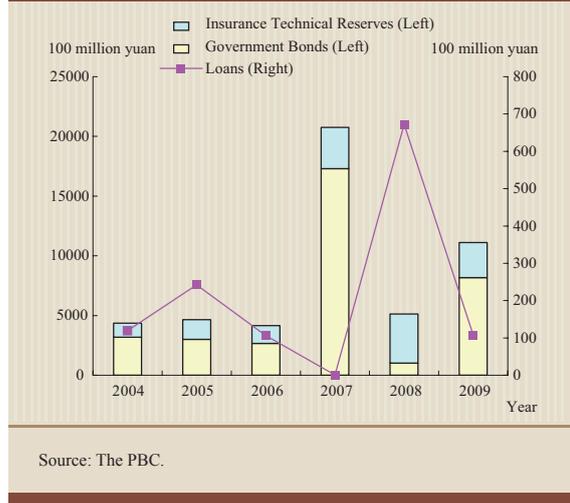
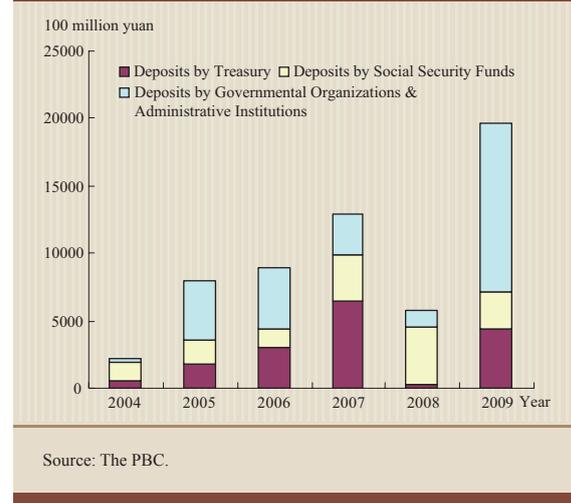


Figure 24 Structure of Incremental Financial Assets of General Government

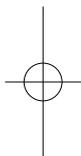
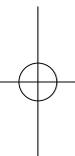
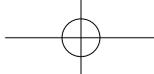


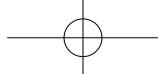


The People's Bank of China

# 2010 CHRONICLE







## 2010 CHRONICLE

### ■ January

9~11 Jan. Governor Zhou Xiaochuan of the PBC attended the regular Governors' Meeting of the BIS, the Plenary Meeting of the FSB and the Basel Committee of Banking Supervision (BCBS) Governing Body meeting in Basel, Switzerland.

12 Jan. The PBC decided to raise the RMB reserve requirement ratio for depository financial institutions by 0.5 percentage point as of Jan. 18, 2010, upon approval of the State Council.

14 Jan. The PBC issued the *Standard on Classification and Coding of Financial Instrument for Statistical Purpose (Trial)* with a view to strengthening macro economic management and assessing development and stability of financial institutions and markets in an objective manner. *The Standard* unifies recognition and classification of financial instruments, representing an important step to building a comprehensive financial statistical system. *The Standard* will help compile balance sheets of various financial corporations, obtain accurate measurements of aggregate financial assets, liabilities and money aggregates of various sectors of the economy, and thus provide reliable grounds for monitoring the process and effects of monetary policy transmission, capturing risks of various financial assets and supporting the building of macro prudential policy framework.

18 Jan. The PBC issued the *General Specifications for Information Security of On-line Banking System (Trial)* with a view to strengthening on-line banking management, promoting healthy development of the on-line banking business and effectively enhancing the capabilities of on-line banking systems in safeguarding security.

22 Jan. With a view to standardizing centralized procurement of the PBC, improving efficiency of procuring funds and promoting clean government construction,

the PBC issued the *Rules of the PBC on Centralized Procurement* in line with relevant laws and regulations including *the Law of the Government of the People's Republic of China on Procurement*, *the Law of the People's Republic of China on Tenders and Bids* and the *Implementation Rules on Centralized Procurement of Central Government Departments* issued by the Ministry of Finance (MOF).

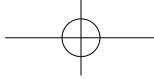
### ■ February

3~6 Feb. Mr. Donald Kaberuka, the African Development Bank Group (AfDB) President led a delegation to visit China. He paid a visit to Vice Premier Wang Qishan, and held meetings with Mr. Wang Hongzhang, Chief Disciplinary Officer of the PBC and Mr. Yi Gang, Deputy Governor of the PBC.

10 Feb. Governor Zhou Xiaochuan of the PBC attended the fifth EMEAP-Eurosystem High Level Seminar, discussing exit strategy, modality and structure of global economic growth, challenges of the cross-border banking and possibilities of more macro-prudential management. He also attended the EMEAP Special Governors' Meeting.

12 Feb. To strengthen banking liquidity management, the PBC decided to raise the RMB reserve requirement ratio for depository financial institutions by 0.5 percentage point, effective from Feb. 25, 2010, upon approval of the State Council.

22~24 Feb. Deputy Governor Liu Shiyu of the PBC, as Interim Governor of China to the AfDB, attended the consultation meetings of the 12<sup>th</sup> Replenishment of the African Development Fund and of the General Capital Increase of the AfDB among non-regional members in Cape Town, South Africa, and paid a visit to the Central Bank of Egypt after the meetings.



24 Feb. With a view to strengthening management of information security inspections and promoting regular and standardized inspections, the General Office of the PBC issued the *Measures of the PBC on Information Security Inspection (Trial)* in line with the *Measures on Government Information System Security Inspection (The General Office of the State Council Document [2009] No. 28)*, the *Rules of the PBC on Information Security (PBC Document [2005] No.211)* and PBC's specific circumstances.

27~28 Feb. Deputy Governor Yi Gang of the PBC attended the G20 Finance Ministers and Central Bank Governor Deputies' Meeting in Incheon, Korea. Deputies discussed global economic developments, the framework of strong, sustainable, and balanced growth, financial regulation, and reforms of international financial institutions.

#### ■ March

8 Mar. With a view to ensuring smooth and effective operations of RMB cross-border payment and receipt information management system, the PBC issued the *Provisional Administrative Rules for RMB Cross-border Payment/Receipt Management Information System* in line with relevant regulations such as the *Administrative Rules on Pilot Program of RMB Settlement of Cross-border Trade Transaction* and its relevant implementation measures.

12 Mar. For the purpose of reducing disputes arising from administrative punishment over issuing rubber check or using a seal inconsistent with the specimen given to banks, solving social problems and maintaining stable financial order, the PBC issued the *Implementation Opinions on Certain Issues Concerning the Administrative Punishment against Check Issuance Violations (Trial)* in line with the principle of "Combination of Punishment and Education" established by the *Law on Administrative Punishment of the People's Republic of China* and relevant regulations.

19~23 Mar. Governor Zhou Xiaochuan of the PBC attended the 51<sup>st</sup> Annual Meeting of the IDB and the 25<sup>th</sup> Annual Meeting of the Inter-American Investment Corporation. The Cancun Declaration was released to complete the ninth general capital increase, marking the largest outcome of the annual meeting. Governor Zhou paid a visit to the Central Bank of Costa Rica after the meetings.

23~26 Mar. Deputy Governor Su Ning of the PBC led a delegation to visit the National Bank of the Republic of Belarus, signing the *Agreement on Trade Settlement in Local Currencies* with Governor Prokopovic, as witnessed by the leaders of the two countries.

30 Mar. The monetary policy committee of the PBC convened its first quarterly meeting in 2010, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the monetary policy committee. Representatives held that China was facing complex economic and financial situations both at home and abroad. It was put forward on the meeting that, according to the overall arrangements of the State Council, the PBC should make continued efforts to implement the appropriately accommodative monetary policy and properly handle the relationship among supporting sound and rapid economic growth, restructuring the economy, and managing inflation expectations.

#### ■ April

6~7 Apr. Deputy Governor Yi Gang of the PBC and Deputy Finance Minister Li Yong, leading the Chinese delegation composed of representatives from the PBC, the MOF, the MFA, and the HKMA, attended the 10+3 Finance Minister and Central Bank Governor Deputies Meeting in Vietnam.

9~10 Apr. Governor Zhou Xiaochuan of the PBC attended the Boao Forum for Asia Annual Conference 2010. The theme of the conference was "Green Recovery, Asia's Realistic Choice for Sustainable Growth".

14 Apr. With a view to promoting the PBC and its



branches to perform their mandates by law, standardizing law enforcement inspection behavior, and protecting legitimate rights and interests of financial institutions, agencies and individuals, the PBC issued the *Rules of the People's Bank of China on the Procedures of Law Enforcement Inspection*, which was drafted in line with relevant laws and regulations such as the *Law of the People's Republic of China on the People's Bank of China*, and approved by the fourth Governors' meeting on March 19, 2010, effective on the day of its issuance.

23 Apr. Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Finance Minister and Central Bank Governors' Meeting and Deputies' Meeting and the Spring Meeting of the IMFC on 24~25, September, discussing global economic developments, the framework of strong, sustainable and balanced growth, financial regulation, the reform of international financial institutions, macro financial risks and energy subsidies etc.

28~29 Apr. The eleventh meeting of the China-Russia Financial Cooperation Sub-commission was held in Hangzhou, co-chaired by Deputy Governor Ma Delun of the PBC and Deputy Governor Melnikov of the Central Bank of Russian Federation.

30 The PBC decided to raise the RMB reserve requirement ratio for depository financial institutions by 0.5 percentage point, effective from May 10, 2010, upon approval of the State Council.

## ■ May

9~11 May Governor Zhou Xiaochuan of the PBC attended the BIS Governor's Meeting and the High-Level Conference on the International Monetary System co-organized by Swiss National Bank and the IMF in Zurich, Switzerland. The conference discussed the sources of instability in the IMF, improving the supply of reserve assets, dealing with volatile capital flows and alternatives to self-insurance.

13~15 May Deputy Governor Yi Gang of the PBC

attended the 38<sup>th</sup> EMEAP Deputies' Meeting and the 7<sup>th</sup> Monetary and Financial Stability Committee Meeting. Delegates discussed the outlook of public debt and credit rating methods.

19~20 May Deputy Governor Du Jinfu of the PBC attended the 40<sup>th</sup> Governors' Meeting of the Caribbean Development Bank in Nassau, Panama, which adopted the decision of 150 percent general capital increase of the Caribbean Development Bank.

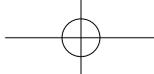
24 May The State Council decided to appoint Mr. Du Jinfu Deputy Governor of the PBC, and relinquished the positions of Mr. Su Ning and Mr. Zhu Min of Deputy Governor of the PBC.

27 May In order to unify the definition and classification of lending by macroeconomic management departments, financial regulators and financial institutions, improve the homogeneity and comparability of lending data, facilitate information sharing, and promote the establishment of financial statistical standard system, the PBC released the *Classification and Coding Standard of Loans Statistics (Trial)*.

28~29 May The 23<sup>rd</sup> Meeting of Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries was convened in Almaty, Kazakhstan. At the invitation of Governor Grigori Marchenko of National Bank of the Republic of Kazakhstan and the Club Chairman-in-office, Governor Zhou Xiaochuan attended the conference as a keynote speaker. After the meeting Governor Zhou visited the National Bank of Azerbaijan and held a meeting with President of Azerbaijan.

## ■ June

4 Jun. The PBC decided to construct the experimental zone for SME credit information system and released the *Guiding Opinions on Construction of Experimental Zone for SME Credit Information System* to implement the policies of the CPC Central Committee and the State Council on promoting SME development, support growth of SMEs with good market potential, profitability and



credit record, bring the role of credit information services in lessening the difficulties of SMEs in access to finance to a full play and explore long-run mechanism of SME credit information system construction with local characteristics.

4~5 Jun. Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Finance Minister and Central Bank Governors' Meeting and Deputies' Meeting in Busan, Korea. Global economic developments, the framework of strong, sustainable and balanced growth, financial regulation, and the reform of international financial institutions were discussed and the joint communiqué was released at the conclusion of the meetings.

11 Jun. The PBC released the *Information Management Rules for the Financial Institutions*. The PBC developed the information management system of financial institutions to build the first database of financial institutions in China. The database covered information of 230 thousand financial institutions, unifying identity code of financial institutions by expanding the use of new codes of financial institutions.

13 Jun. The General Office of the PBC issued the *Provisional Measures of the People's Bank of China on the Work of Contingency Plan Assessment* to make the work of emergency management more forward-looking, proactive and targeted, enhance its capabilities in handling emergency events, standardize procedures of contingency plan assessment, and improve the work mechanism of contingency plan assessment.

14 Jun. The PBC released the *Administrative Rules on Payment Services of Non-financial Corporations* in line with relevant laws and regulations such as the *Law on the People's Bank of China* to promote healthy development of the payment service market, standardize payment services of non-financial institutions, prevent payment risks and protect legitimate rights and interests of involved parties. The rules were approved by the seventh Governors' Meeting on May 19, 2001, effective upon the date of release.

14~15 Jun. Deputy Governor Yi Gang attended the

plenary meeting of the FSB and the meeting of FSB Standard Implementation Committee in Toronto, Canada. Delegates discussed the progress in implementing G20 recommendations on the financial sector reform and the work plan for the next stage.

25 Jun. The General Office of the PBC issued the *Rules on Electronic Certificates of the People's Bank of China Intra-net* to strengthen management of electronic certification of the PBC intra-net and standardize the management of issuance and use of electronic certificates.

26~27 Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Summit in Toronto, Canada. The theme of the Toronto summit was "Recovery and New Beginnings." The leaders gathered to discuss cooperation and police responses to deal with main challenges of the world economy.

## July

6 Jul. The General Office of the PBC issued the *Rules on Management Remuneration of Enterprises Directly under the People's Bank of China* to improve incentive and discipline mechanism of management remuneration of enterprises directly under the PBC, promote the enterprises to put in place a remuneration system with proper structure, sound level and standardized management, improve decision-making and economic efficiency, and thus keep and increase the value of state-owned assets.

7 Jul. The monetary policy committee of the PBC convened its second quarterly meeting in 2010, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the monetary policy committee. Representatives held that the world economy was facing great uncertainties despite gradual recovery. In the first half of 2010, money and credit recorded proper growth, with banking liquidity standing at a proper level. Financial performance was stable with the RMB exchange rate formation mechanism reform advanced steadily. It was emphasized at the meeting that, according to the overall arrangements of the State Council, continued efforts should



be made to implement a relatively easy monetary policy, maintain policy continuity and stability, make macro-management better targeted and flexible, and properly handle the intensity, pace and focus of policy conduct.

21~23 Jul. The 15<sup>th</sup> EMEAP Governor's Meeting was held in Sydney, Australia. Deputy Governor Yi Gang attended the meeting as Special Representative of Governor Zhou Xiaochuan of the PBC. The governors noted the report of the EMEAP Deputies' Meeting and the Meeting of the Monetary and Financial Stability Committee and working groups, and discussed the implications of the proposed changes to international regulatory standards proposals for financial systems in the region and the outlook for inflation in the region.

22~23 Jul. Deputy Governor Hu Xiaolian of the PBC led a delegation to attend the 26<sup>th</sup> Annual Governors' Meeting of the Eastern and Southern African Trade and Development Bank in Seychelles.

23 Jul. The General Office of the PBC issued the *Measures on Law Training and Evaluation for Staff of the People's Bank of China Branches Acquiring Administrative Law Enforcement Qualifications* to step up the work of training and evaluation for staff of the PBC branches acquiring administrative law enforcement qualifications and ensure the PBC branches to perform their functions by law.

#### ■ August

3 Aug. Governor Zhou Xiaochuan attended the second Tripartite Governors' Meeting among the PBC, the Bank of Japan (BOJ), and the Bank of Korea (BOK) in Tokyo, Japan. Governor Zhou, Governor Masaaki Shirakawa of the BOJ and Governor Choongsoo Kim of the BOK reviewed recent economic and financial developments in the three countries, and exchanged views on macro-prudential management, financial stability, regional cooperation and other issues of common interest.

17 Aug. The General Office of the PBC issued the *Provisional Rules on the People's Bank of China General*

*Finance Management System and the Contingency Plan for the People's Bank of China General Finance Management System (Trial)* to standardize operational management of the general finance management system and ensure safe and stable performance of the system.

The General Office of the PBC issued the *Notice on the Administrative Rules Related to Cross-bank Settlement System for On-line Payment* to ensure sound operations of the cross-bank settlement system for on-line payment, define rights, obligations and responsibilities of various parties and prevent payment risks.

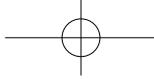
27 Aug. In order to unify the definition and classification of deposits by macroeconomic management departments, financial regulators and financial institutions, improve the homogeneity and comparability of deposits data, facilitate information sharing, and promote the establishment of financial statistical standard system, the PBC released the *Classification and Coding Standard of Deposits Statistics (Trial)*.

31 Aug. With a view to standardizing the opening and use of RMB bank settlement accounts of overseas institutions, the PBC released the *Administrative Rules on RMB Bank Settlement Accounts of Overseas Institutions* in accordance with relevant regulations such as the *Administrative Rules on RMB Bank Settlement Accounts*.

#### ■ September

2 Sep. The Financial Computerization Research Institute, the PBC Intra-city Disaster Back-up Center and the Disaster Back-up Outsourcing Service Center for Small and Medium-sized Financial Institutions were inaugurated at the China Financial Computerization Corporation.

4~5 Sep. Deputy Governor Yi Gang of the PBC attended the G20 Finance Minister and Central Bank Governors Deputies' Meeting in Gwangju, Korea. The Deputies discussed global economic developments, the framework of strong, sustainable and balanced growth, financial regulation, the reform of international financial institutions, and so on.



6~13 Sep. Deputy Governor Hu Xiaolian of the PBC attended the regular BCBS meeting and the CGFS meeting in Basel, Switzerland and visited Australian and Ukraine Central Bank.

7 Sep. The General Office of the PBC issued the *Guideline on Making Contingency Plans for the People's Bank of China Network and Information Systems* to further improve the work of contingency management of PBC network and information systems and boost the PBC's capabilities in dealing with emergency events.

10 Sep. The PBC and the CBRC jointly issued the *Performance Appraisal Measures on Encouraging County Financial Legal Entities to Use a Certain Proportion of New Deposits for Local Lending (Trial)* to encourage county legal entities of financial institutions to use the bulk of new deposits for local lending, promote county credit and improve rural financial services.

12~14 Sep. Governor Zhou Xiaochuan of the PBC attended the regular Governor's Meeting of the BIS, the BCBS Governing Body meeting, the FSB Steering Committee Meeting and the PBC-ECB Working Group Meeting in Basel, Switzerland.

21 Sep. The PBC released the *Statistical Rules and Standards on Wealth Management and Fund Trust* in order to monitor the developments of wealth management and fund trust business of financial institutions in a comprehensive and accurate manner, and assess the impact on money supply, credit aggregates and monetary policy transmission mechanism.

24 Sep. The PBC released the *Rules on the People's Bank of China Internet Website* to strengthen the management of PBC Internet website (www.pbc.gov.cn) and push ahead with government website construction.

27 Sep. With a view to strengthening information security management of the PBC computer systems, prevent computer and information technology risks and ensure information security and stable operations of the PBC computer systems, the PBC issued the *Rules on Information Security of the People's Bank of China*

*Computer Systems* in accordance with relevant regulations such as the *Regulations of the People's Republic of China on Security Protection of Computer Information Systems*.

28 Sep. The monetary policy committee of the PBC convened its third quarterly meeting in 2010, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the monetary policy committee. Representatives held that the world economy witnessed a gradual recovery with structural problems and risks remaining evident. It was emphasized at the meeting that, according to the overall arrangements of the State Council, continued efforts should be made to implement a relatively easy monetary policy, maintain policy continuity, and make macro-management better targeted and flexible.

#### ■ October

2~6 Oct. Governor Zhou Xiaochuan of the PBC accompanied Premier Wen Jiabao to visit Greece and Belgium, participating in the meetings of Chinese and EU Leaders, China-EU High-level Cultural Forum, China-EU Business Summit and meeting with the Euro Group Troika.

8~9 Oct. Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Finance Minister and Central Bank Governors' Meeting and Deputies' Meeting and the Annual Meeting of the IMF/WB, discussing global economic developments, quota and governance reform of the IMF and so on.

9 Oct. Deputy Governor Hu Xiaolian of the PBC attended the first meeting of the International Monetary System (IMS) Reform Group, which discussed world economic and financial developments, surveillance, liquidity and so on.

15 Oct. With a view to enhancing the management of PBC fixed assets and standardizing the operations of PBC fixed assets management system the General Office of the PBC issued the *Operational Procedures of the People's Bank of China Fixed Assets Management System* in accordance with the *Rules on the People's Bank of China*



#### *Fixed Assets Management.*

18 Oct. The State Council decided to appoint Madam Jin Qi Assistant Governor of the PBC.

19 Oct. The PBC decided to raise RMB benchmark deposit and loan rates of financial institutions as of Oct. 20, 2010, and launched the reform of benchmark deposit and loan rate formation to gradually set the rates at integral multiple of 0.05 percent.

22~23. Oct. Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Finance Minister and Central Bank Governors' Meeting and Deputies' Meeting in Kyung Ju, Korea. The meeting released the joint communiqué, reaching agreement on the IMF Quota Reform. China's quota would be raised to the third highest.

#### ■ **November**

2 Nov. The PBC and the Logistics Department of the People's Liberation Army held a video conference call to arrange for the work of expanding the the Military Social Security Card.

4 Nov. The PBC issued the *Rules Governing the People's Bank of China Accounting* to strengthen PBC accounting management, standardize surveillance of accounting and improve the level of accounting.

9 Nov. The PBC Assistant Governor Li Dongrong attended the Third China-UK Economic and Finance Dialogue.

10 Nov. Upon approval of the State Council the PBC decided to raise the RMB reserve requirement ratio for depository financial corporations by 0.5 percentage point, effective from Nov. 16, 2010, to strengthen banking liquidity management.

11 Nov. The PBC released the *Measures of Follow-up Surveillance and Evaluation of Payment of Pilot Special Central Bank Notes for the Rural Credit Cooperatives Reform* to implement the *Notice of the State Council on Issuing the Pilot Program of the Rural Credit Cooperatives Reform*, strengthen the work of follow-up surveillance and

evaluation of payment of pilot special central bank notes for the rural credit cooperatives reform, and consolidate the achievement of the previous stage of the RCC reform. *The Measures* also aim to continue to deepen the reform, enhance capabilities for sustainable development and improve the level of rural financial services.

11~12 Nov. Governor Zhou Xiaochuan and Deputy Governor Yi Gang of the PBC attended the G20 Summit in Seoul, Korea. The theme of the Seoul summit was "Shared Growth Beyond Crisis". The Leaders reviewed the progress made in implementing the outcome of the previous four Summits, and focused their discussions on global economic developments, the framework of strong, sustainable and balanced growth, the reform of international financial institutions, financial regulation, global financial safety net, development and trade. Governor Zhou Xiaochuan also attended the FSB plenary meeting in Seoul in run-up to the Summit.

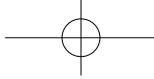
19 Nov. In order to strengthen liquidity management and control moderately money and credit supply, upon approval of the State Council the PBC decided to raise the RMB reserve requirement ratio for depository financial corporations by 0.5 percentage points, effective from Nov. 29, 2010.

26~27 Nov. Deputy Governor Yi Gang of the PBC attended the 39<sup>th</sup> EMEAP Deputies Meeting and the 8<sup>th</sup> MFSC Meeting. Delegates discussed capital flow management and improving the framework of crisis management in the region, and agreed on the shift of ABF2 China Fund to an open-ended structure.

#### ■ **December**

2 Dec. The PBC issued the *Reporting Rules for Financial Statistical Matters* to strengthen standardized and institutionalized financial statistics, improve management efficiency and data quality of financial statistics and provide timely and accurate information for macro economic and financial policy decision making.

2~4 Dec. Governor Zhou Xiaochuan of the PBC



attended the 64<sup>th</sup> Plenary Meeting of the G30 in New York, USA, which discussed quantitative easy monetary policy, European sovereign debt crisis, IMS imbalance, regulatory reform, the BASEL III and the G30 work plan.

4 Dec. The PBC successfully completed the nationwide network shift, which was the largest ever in its history, ensuring smooth transfer of information and business systems. All information systems of 357 outlets of the PBC across the country were shifted from the old network to the office network and the business network at the same time. The network structure was changed to the special network and the office network which were separated physically, and the business network and the internet which were separated logically. Technology supporting systems were put in place for the office network and the business network respectively to ensure security protection and sound performance after separation of the networks.

5~6 Dec. Deputy Governor Hu Xiaolian of the PBC attended the second meeting of the IMS Reform Group in New York, USA, which discussed reform recommendations.

7 Dec. The PBC issued the *2009 China Financial Standardization Report*, the first official annual report to review the development of China's financial standardization. The report introduced the working mechanism, and recorded achievements on the research, development, promotion and implementation of standards, the adoption of international standards, and the participation in the practices of international standardization. It also analyzed the context and challenges that China's financial standardization faced, and proposed the basic guidelines on future development.

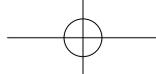
9~10 Dec. The sixth session of China-Kazakhstan Financial Cooperation Sub-commission was held in Sanya, China. Deputy Governor Ma Delun of the PBC and Deputy Governor Tadzhiyakov of the National Bank of Kazakhstan co-chaired the meeting. The two sides agreed to set up working groups to study cooperation in

the international border cooperation center of Khorgos, cooperation of payment systems in the two countries and trade settlement in local currencies.

10 Dec. Upon approval of the State Council the PBC decided to raise the RMB reserve requirement ratio for depository financial corporations by 0.5 percentage point, effective from December 20, 2010.

23 Dec. The PBC and the CBRC jointly issued the *Provisional Rules on Financing Guarantee Companies' Access to the Credit Information System* to implement the *Provisional Administrative Rules on Financing Guarantee Companies* and standardize financing guarantee companies' access to the credit information system.

24 Dec. Upon approval of the State Council the PBC decided to raise RMB benchmark deposit and loan rates of financial institutions and central bank lending and rediscounting rates as of Dec. 26, 2010. (1)The benchmark deposit rates were raised, with the one-year deposit rate raised by 0.25 percentage points to 2.75 percent from 2.50 percent and deposit rates of other maturities raised respectively. (2)The benchmark loan rates were raised, with the one-year loan rate raised by 0.25 percentage points to 5.81 percent from 5.56 percent and loan rates of other maturities raised respectively. (3)The rates on personal housing provident fund loan were raised, with that of maturities below 5 years raised by 0.25 percentage points to 3.75 percent from 3.50 percent and that of maturities over 5 years raised by 0.25 percentage points to 4.30 percent from 4.05 percent. (4)The central bank lending rates to financial institutions were raised, with the one-year liquid central bank lending rate raised by 0.52 percentage points to 3.85 percent from 3.33 percent, and the central bank lending rate on RCC (excluding emergency loans) raised by 0.47 percentage points to 3.35 percent from 2.88 percent. The rates of central bank lending to support the agriculture in earthquake hit areas including Wenchuan and Yushu and flush flood and debris flow disaster hit areas in Gansu and Sichuan were temporarily exempted from the hike. (5) The central bank discounting rates to financial



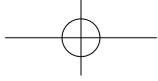
institutions were raised by 0.45 percentage points to 1.80 percent from 2.25 percent

The Monetary Policy Committee of the PBC held its fourth quarterly meeting of 2010, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the monetary policy committee. The Committee held that recovery of the global economy was likely to continue in 2011, although with a lot of unstable factors and uncertainties. It was noted at the meeting that efforts should be made to implement the prudent monetary policy, make the financial management measures more targeted, flexible and effective, and give more priority to stabilizing the general price level in 2011.

28 Dec. To strengthen information security

management of computer systems, standardize reporting procedures of information security of computer systems and improve resolution efficiency of information security events and risks, the PBC issued the *Rules on the Reporting of Information Security of the People's Bank of China Computer Systems* in line with the *Rules of the People's Bank of China on Information Security of Computer Systems*.

29 Dec. The PBC issued the *Provisional Measures of Pilot Differentiated Reserve Requirement Ratios for the Agro-related Financial Service Department Reform of the Agricultural Bank of China* to deepen the shareholding reform of the ABC and push forward the pilot reform of the agro-related financial service departments.



## SELECTED RULES AND ADMINISTRATIVE DOCUMENTS PROMULGATED IN 2010

No.	Document No.	Title	Organization of Issuance	Time of Issuance
1	Decree [2010] No.1	Rules of the PBC on the Procedures of Law Enforcement Inspection	PBC	April 14
2	Decree [2010] No.2	Administrative Rules on Payment Services of Non-financial Corporations	PBC	June 14
3	Announcement [2010] No.2	Normative Documents Clean-up	PBC	March 23
4	Announcement [2010] No.10	Provisional Administrative Rules on RMB Bond Issuance of International Development Institutions	PBC, MOF, NDRC CSRC	September 16
5	Announcement 2010] No.12	Abolished Normative Documents	PBC, CIRC	September 29
6	Announcement [2010] No.15	Abolished and Invalidated Normative Documents	PBC, CBRC	October 26
7	Announcement [2010] No.17	Implementation Measures for Administrative Rules on Payment Services Provided by Non-financial Corporations	PBC	December 1
8	Document [2010] No.11	The Notice on Raising RMB Reserve Requirement Ratio	PBC	January 12
9	Document [2010] No.52	The Notice on Raising RMB Reserve Requirement Ratio	PBC	February 12
10	Document [2010] No.79	The Notice on Issuing the <i>Provisional Administrative Measures on RMB Cross-border Payment/Receipt Management Information System</i>	PBC	March 8



No.	Document No.	Title	Organization of Issuance	Time of Issuance
11	Document [2010] No.88	The Notice on Issuing the <i>Implementation Opinions on Certain Issues Concerning the Administrative Punishment against Check Issuance Violations (Trial)</i>	PBC regard	March 12
12	Document [2010] No.94	Guiding Opinions on Extending Financial Support to Revitalize and Develop the Cultural Industry	The Publicity Department of the CPC Central Committee, PBC, MOF, Ministry of Culture, State Administration of Radio Film and Television, General Administration of Press and Publication, CBRC, CSRC, CIRC	March 19
13	Document [2010] No.137	The Notice on Raising RMB Reserve Requirement Ratio	PBC	April 30
14	Document [2010] No.175	The Notice on Issuing the <i>Information Management Rules for the Financial Institutions</i>	PBC	June 8
15	Document [2010] No.193	Opinions on Further Improving the Work of Financial Services for SMEs	PBC, CBRC, CSRC, CIRC	June 21
16	Document [2010] No.198	Guiding Opinions on Comprehensively Promoting the Innovation of Financial Products and Service Modes in Rural Areas	PBC, CBRC, CSRC, CIRC	May 19
17	Document [2010] No.211	Opinions on Promoting the Gold Market Development	PBC, NDRC, Ministry of Industry and Information Technology, MOF, State Administration of Taxation, CSRC	July 22
18	Document [2010] No.262	The Notice on Issuing the <i>Performance Appraisal Measures on Encouraging County Financial Legal Entities to Use a Certain Proportion of New Deposits for Local Lending (Trial)</i>	PBC, CBRC	September 10
19	Document [2010] No.273	The Notice on Advancing Grant Card for Middle Vocational Schools in an All-round Way and Enhancing Supervision of National Scholarship Payment for Middle Vocational Schools	PBC, MOF, Ministry of Education, Ministry of Human Resources and Social Security	September 27

No.	Document No.	Title	Organization of Issuance	Time of Issuance
20	Document [2010] No.275	The Notice on Issues Regarding to the Improvement of the Differentiated Housing Credit Policies	PBC, CBRC	September 29
21	Document [2010] No.294	The Notice on Raising RMB Benchmark Deposit and Lending Interest Rates of Financial Institutions	PBC	October 19
22	Document [2010] No.311	The Notice on Raising RMB Reserve Requirement Ratio	PBC	November 10
23	Document [2010] No.316	The Notice on Issuing the <i>Follow-up Monitoring and Appraisal of Redemption of Special Central Bank Notes under the Pilot Program Initiated the PBC for the Reform of RCCs</i>	PBC	November 11
24	Document [2010] No.324	The Notice on Raising RMB Reserve Requirement Ratio	PBC	November 19
25	Document [2010] No.325	The Notice on Issues Regarding the Administration of Trading Exchange Rates in the Interbank Foreign Exchange Market and the Listing Exchange Rates of Designated Foreign Exchange Banks	PBC	November 19
26	Document [2010] No.330	Guiding Opinions on Expanding Check Credit Business	PBC	November 25
27	Document [2010] No.336	The Notice on Issuing the <i>Reporting Rules for Financial Statistical Matters</i>	PBC	December 2
28	Document [2010] No.343	The Notice on Raising RMB Reserve Requirement Ratio	PBC	December 10
29	Document [2010] No.359	The Notice on Raising RMB Benchmark Deposit and Lending Interest Rates of Financial Institutions and the PBC Lending (Rediscounting) Rates	PBC	December 24