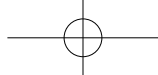


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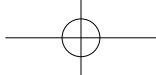


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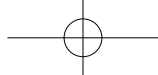
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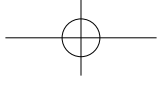


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## GOVERNOR'S MESSAGE

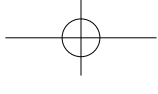
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The year of 2011 marks the beginning of China's 12<sup>th</sup> Five-year Plan. Facing harsh economic and financial challenges both at home and abroad, the State Council, uniting people of all ethnic groups, implemented the 12<sup>th</sup> Five-year Plan with a firm commitment to scientific development and shift in economic development pattern. Macroeconomic management was improved, with efforts being made to strike a right balance between sustaining steady and rapid economic development, restructuring the economy and managing inflationary expectations, to enhance the achievements made in addressing the international financial crisis, and to move steadily away from stimulus-driven growth to a self-sustaining growth. As a result, the Chinese economy grew rapidly in 2011, featuring price stability, better economic efficiency and improved livelihood, suggesting the economy stays well on track to meet the macroeconomic management objectives.

Following the arrangement of the State Council and the scientific development approach, the People's Bank of China (PBC) implemented a prudent monetary policy in 2011. It properly managed the direction, intensity and pace of macro-financial management, advanced financial reform and development, upheld financial security and stability, improved financial services and management, and deepened international financial cooperation, which greatly supported the steady and rapid economic development.

### **Notable progress in macro-financial management and in serving the real economy**

Price stability has been top on the macroeconomic management agenda. To deliver price stability, the PBC properly implemented a prudent monetary policy and enhanced macroprudential management by employing a broad mix of monetary policy tools, managing liquidity aggregate to control inflation. Moreover, measures of forward-looking adjustments and fine tunings were taken in response to domestic and global economic and financial developments to make the monetary policy better targeted, more flexible and forward-looking. At end-2011, broad money supply M2 grew 13.6 percent year on year, a deceleration of 6.1 percentage points, outstanding RMB lending expanded 15.8 percent from end-2010, down by 4.1 percentage points; aggregate financing to the real economy recorded 12.83 trillion yuan, supported by a significant rise in debt financing. The PBC strengthened guidance on credit policies by encouraging credit policy-based products, assessing the effect of credit policy guidance, ensuring better coordination between credit policy and industrial policy, and encouraging stronger support by financial institutions to agriculture, rural areas and farmers, irrigation projects, small- and medium-sized enterprises (SMEs), less developed regions, projects designed to improve people's livelihood, cultural sector, energy conservation and environmental protection, elimination of inefficient capacity, strategic emerging industries and technological upgrade in enterprises, which facilitated the growth pattern shift and economic restructuring. Financial support was strengthened for projects on promoting balanced regional growth, reconstruction in disaster-hit areas and the Going Global strategy. The PBC also ensured implementation of differentiated housing credit policies and better financial



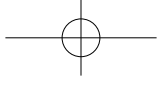
services to affordable housing projects in an effort to promote sound and stable development of the property market. As a result of various macroeconomic management measures, sharp price increase was reversed, with the consumer price index (CPI) rising 4.1 percent in December year on year, moderating for five months in a row. The steady and rapid economic growth suggests that the prudent monetary policy is taking effect.

### **Advances in financial reform and financial stability agenda**

The pilot reform of the “agro-related financial service departments” of the Agricultural Bank of China (ABC) was pushed forward steadily, with pilot provinces (autonomous regions or municipalities) expanding from eight to 12. The reform in the China Export & Credit Insurance Corporation was started. The market-based interest rate reform was continued, with market interest rates playing a stronger role, and the RMB exchange rate regime was improved. Steady progress was made in reforming the verification system for imports and exports on a pilot basis. The adoption of the policy allowing exporters to deposit their proceeds in overseas banks was expanded throughout the country. Foreign exchange administration policy on capital account was simplified. Foreign exchange reserve was managed in a sound manner, meeting the goal of preserving and enhancing the value of reserve as new investment channels were tapped. Monitoring of cross-border capital flows was strengthened and new policies were developed to fight “hot money” and other illegal capital inflows. Efforts were made to develop approaches and tools for better macroprudential regulation and more effective prevention of systemic risks. The Financial Sector Assessment Program, an initiative run by the International Monetary Fund (IMF) and the World Bank to assess financial system soundness, was completed in China for the first time. Plans for implementing the deposit insurance scheme was reviewed and improved, and financial risks and emergencies were handled effectively. Efforts were also made to review plans for oversight on the opening and operation of financial institutions as well as for compliance inspection and overall assessment. Protection of financial consumers’ rights and interests was pushed forward on a pilot basis.

### **Breakthroughs in cross-border use of RMB**

The pilot program that allows businesses to settle cross-border trade in RMB was expanded nationwide and to cover trade of goods, services and other items under the current account. RMB settlement was also introduced in outbound and foreign direct investment. In 2011, RMB settlement of cross-border trade totaled 2.08 trillion yuan, up 400 percent year on year. RMB trading against the Thai baht was launched in the interbank markets in the regions bordering Thailand, while direct trading with Korean won and four other non-major international reserve currencies was started at bank counters for retail customers. The RMB Qualified Foreign Institutional Investors scheme (RQFII) was initiated on a pilot basis, and 48 overseas institutions were granted access to invest on the Chinese interbank market. As of end-December, China has signed 1.3 trillion yuan of local currency swap agreements with monetary authorities in 14 countries or regions.



### **Continued development in financial markets**

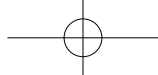
Issuance of financial bonds, short-term financing bills and medium-term notes increased. In 2011, 803.2 billion yuan of short-term financing bills, 727.0 billion yuan of medium-term notes and 5.2 billion yuan of collective SME bonds were issued in the interbank bond market. More mainland financial institutions were allowed to issue RMB-denominated bonds in Hong Kong, and mainland enterprises were encouraged to issue RMB bonds in the special administrative region. Regulatory coordination in the bond market was enhanced, and regulation on credit rating activities was improved. Bond issuance in the interbank market was put under strengthened regulation, and the market-maker system was improved to build greater market transparency. Net clearing for spot bond trading was made possible. As the supervisor for the gold market, the PBC worked with other government agencies in launching a drive to close illegal exchanges for gold and gold derivatives, cracking down on underground gold trading and other illegal trading activities. Moreover, RMB foreign exchange option products were introduced to help banks better manage their risk positions for option trading.

### **Concrete progress in improving financial infrastructure and financial services**

In 2011, the PBC added to its statistics system a new indicator, aggregate financing to the economy, with regular analysis and data releases, representing a breakthrough in financial statistics and research. The central bank balance sheet was optimized, and treasury budgetary management was better regulated. The cross-bank clearing system for online payments was introduced nationwide, while a market entry system was established in the payment industry for non-financial institutions, and management of prepaid cards was improved. Efforts were made to build a financial standard certification system, launch the bankcard chip migration process, develop financial functions for social security cards on a pilot basis, and provide military service security cards to the armed forces. Actions were taken to ensure adequate cash supply, enhance management of RMB in circulation and strengthen anti-counterfeit banknote campaigns. Progress was made in upgrading the state treasury system and managing state treasury cash. Credit reference systems for SMEs and rural areas were being built in selected regions on a pilot basis, while regulation of credit information market was strengthened, and coverage of credit reference systems for corporations and individuals was expanded. The work on anti-money laundering (AML) was deepened, as financial institutions were encouraged to set up risk-based internal control systems, and AML regulation and supervision were shifted towards a risk-oriented philosophy.

### **Deepening international exchanges and cooperation**

In 2011, the PBC actively participated in international economic and financial policy coordination and international efforts to address the financial crisis, advancing various agenda under the G20 framework and developing strategies for major issues, including reform of the international monetary system and financial sector reform. The PBC pushed for the implementation of reforms on IMF quota, governance and surveillance, continued to play its part in promoting regional financial stability by active involvement in East Asian financial cooperation, and strengthened financial cooperation

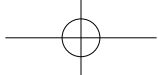


with Latin America and Africa through strong support to general capital increases in multilateral development banks. The PBC steadily advanced financial cooperation with Hong Kong and Macao while strengthening studies on cross-strait financial cooperation.

As an important juncture in carrying out the 12<sup>th</sup> Five-year Plan, the year of 2012 will be of particular significance with the 18<sup>th</sup> Congress of the Communist Party of China to be held later in the year. Following the spirit of the 17<sup>th</sup> CPC Congress and the third, fourth, fifth and sixth plenary meetings of the 17<sup>th</sup> CPC Central Committee, as well as the Central Economic Work Conference and the National Financial Work Conference, guided by the Deng Xiaoping theorem and the important philosophy of “three represents”, implementing the scientific development approach, and highlighting the overall principle of “striving for progress while securing stability”, the PBC will continue to implement a prudent monetary policy by properly pacing money and credit supply, maintaining aggregate financing to the economy at a reasonable level and optimizing credit structure to better serve the real economy. The PBC will continue to advance financial sector reform, promote sound financial market development, strengthen monitoring, assessment and resolution of systemic risks, maintain financial stability, earnestly facilitate financial service modernization, and deepen international financial cooperation as well as cooperation with Hong Kong, Macao and Taiwan, thereby supporting steady and relatively rapid economic development and securing overall price stability to contribute to the success of the 18<sup>th</sup> CPC Congress.

Governor of the PBC

April 18, 2012



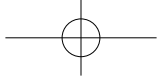
## THE MANAGEMENT OF THE PEOPLE'S BANK OF CHINA

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**Zhou Xiaochuan**  
Governor of the PBC





**Hu Xiaolian**

Deputy Governor



**Liu Shiyu**

Deputy Governor



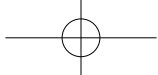
**Yi Gang**

Deputy Governor  
Administrator of the SAFE



**Du Jinfu**

Deputy Governor



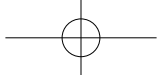
**Li Dongrong**  
Assistant Governor



**Guo Qingping**  
Assistant Governor



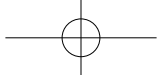
**Jin Qi**  
Assistant Governor



## MEMBERS OF THE MONETARY POLICY COMMITTEE

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	Shang Fulin
Member	Guo Shuqing
Member	Xiang Junbo
Member	Jiang Jianqing
Member	Zhou Qiren
Member	Xia Bin
Member	Li Daokui





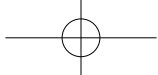
# ORGANIZATIONAL STRUCTURE OF THE PEOPLE'S BANK OF CHINA

## THE PBC HEAD OFFICE (PBCHO)

General Administration Department (General Office of the CPC PBC Committee)
Legal Affairs Department
Monetary Policy Department
Monetary Policy Department II
Financial Market Department
Financial Stability Bureau
Statistics and Analysis Department
Accounting and Treasury Department
Payment System Department
Technology Department
Currency, Gold and Silver Bureau
State Treasury Bureau
International Department (Office of Hong Kong, Macao and Taiwan Affairs)
Internal Auditing Department
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)

---

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)

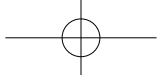
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Discipline Enforcement and Supervision Department  
(Internal Auditing Division)

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Renminbi Cross-border Business Department

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THE PBC REGIONAL BRANCHES AND OPERATIONS OFFICES

Tianjin Branch

Shenyang Branch

Nanjing Branch

Jinan Branch

Wuhan Branch

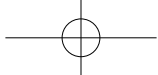
Guangzhou Branch

Chengdu Branch

Xi'an Branch

Operations Office (Beijing)

Chongqing Operations Office



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

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Shijiazhuang Sub-branch

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Taiyuan Sub-branch

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Hohhot Sub-branch

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Changchun Sub-branch

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Harbin Sub-branch

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Hangzhou Sub-branch

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Fuzhou Sub-branch

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Hefei Sub-branch

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Zhengzhou Sub-branch

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Nanchang Sub-branch

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Changsha Sub-branch

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Nanning Sub-branch

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Haikou Sub-branch

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Guiyang Sub-branch

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Kunming Sub-branch

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Lhasa Sub-branch

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Lanzhou Sub-branch

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Xining Sub-branch

---

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

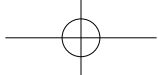
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Xiamen Sub-branch

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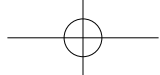
Shenzhen Sub-branch

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## ORGANIZATIONS OF THE PBC (NUMBER)

Departments and Bureaus at the PBCHO	25
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Sub-branches in Quasi Province-level Cities	5
Sub-branches in Prefecture-level Cities	314
County-level Sub-branches	1 761



## CHINA'S MACROECONOMY

In 2011, against the backdrop of complicated international political and economic environment and arduous reform and development tasks, China continued the implementation of active fiscal policy and prudent monetary policy. Macroeconomic management has been better-targeted, more flexible and proactive while remaining consistent and sound at the same time. China has maintained stable and relatively rapid economic growth with gradual decline of inflation and improved economic structure. In 2012, the recovery of world economy is full of uncertainties, and China's economic development will be facing complicated domestic and international environment. In this context, while continuing to implement active fiscal policy and prudent monetary policy, macroeconomic management will be fine-tuned at opportune times when needed. Efforts will be made to strike a balance between maintaining stable and relatively rapid economic growth, restructuring and managing inflationary expectation, so as to meet the goals for economic and social development.

## Economic Performance in 2011

## The economy grew steadily with good progress of restructuring

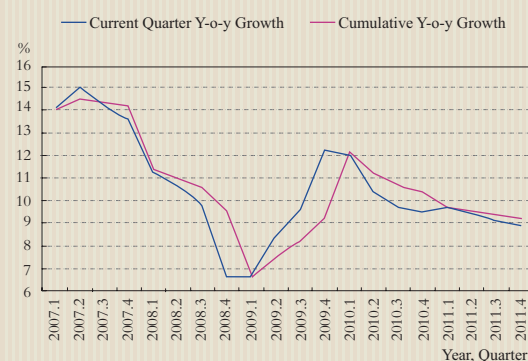
The National Bureau of Statistics estimated that China's nominal GDP registered 47.16 trillion yuan in 2011, up 9.2 percent in real terms year on year, a deceleration of 1.2 percentage points. Q1 through Q4, GDP growth stood at 9.7 percent, 9.5 percent, 9.1 percent and 8.9 percent respectively, maintaining relatively rapid growth while showing slight slowdown (Figure 1). Broken down by sectors, the primary, secondary and tertiary industry accounted for 10.1 percent, 46.8 percent and 43.1 percent respectively as a percentage of GDP. The smaller share of the primary and secondary industries and the rise in the share of the tertiary industry pointed to further improvement of the industrial structure.

## Industrial production grew steadily while corporate profits grew less rapidly

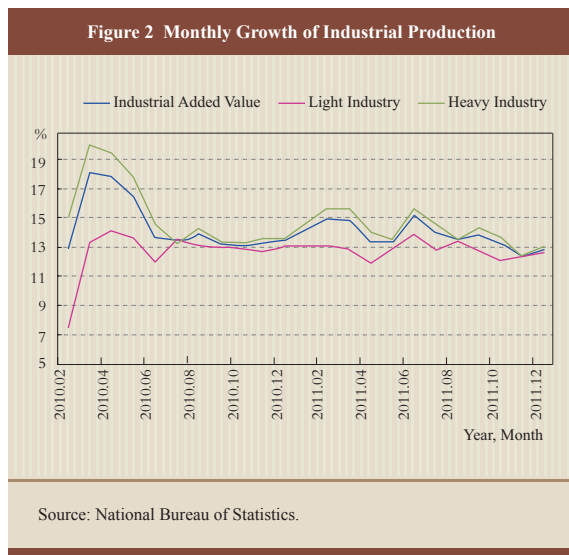
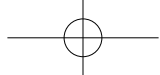
Added value of statistically large enterprises grew 13.9 percent nationwide year on year, a deceleration of

1.8 percentage points. The growth rate declined month by month. Added value of heavy and light industries was up 14.3 percent and 13.0 percent respectively over the previous year. The smaller gap between growth rates of heavy and light industries indicated the reduced role by investment growth (Figure 2). For the manufacturing industry, added value of hi-tech manufacturing industry was up 16.5 percent year on year, 2.6 percentage points more over that of statistically large enterprises, and the added value of the six major energy consuming industries

Figure 1 Y-o-y Growth of Cumulative and Current Quarter GDP



Source: National Bureau of Statistics.



including steel, cement and electrolytic aluminum rose 12.3 percent over the previous year, 1.6 percentage points lower compared with statistically large enterprises, showing improved internal structure of the manufacturing industry. Due to the high base of the previous year, abated growth and heightened cost, corporate profits grew at a much slower pace as opposed to the last year. January through November, realized profits of statistically large enterprises of the country registered 4.66 trillion yuan, up 24.4 percent year on year, a deceleration of 25 percentage points.

### Domestic demand was brisk while external demand remained relatively stable

Growth of the demand of investment, consumption and net export tended to slow down within the year, while still in the territory of stable and relatively rapid development. Fixed asset investment for the whole year was 31.1 trillion yuan, up 23.8 percent over the previous year, a deceleration of 0.2 percentage points in nominal terms, and up 15.9 percent year on year, a deceleration of 3.6 percentage points in real terms. Total retail sales stood at 18.12 trillion yuan, up 17.1 percent over the previous year, a deceleration of 1.3 percentage points in nominal terms, and up 11.6 percent, a deceleration of 3.2 percentage points in real terms.

Total export and import registered US\$3.64 trillion,

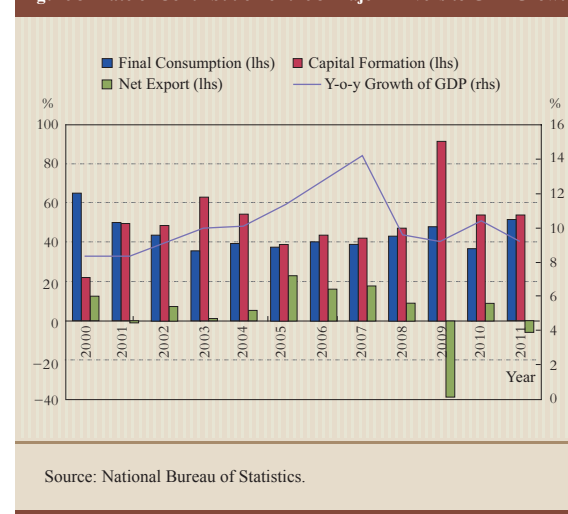
up 22.46 percent over the previous year. Broken down, total export was US\$1.9 trillion, up 20.34 percent year on year, while import totaled US\$1.74 trillion, up 24.87 percent. Trade surplus posted US\$155.14 billion, a reduction of 26.37 billion from the previous year, down 14.5 percent. As a result of RMB appreciation, expanded domestic demand and slowed global recovery, trade growth was generally on a stable decline month on month, despite temporary fluctuations at the beginning of the year due to seasonal factor.

In national account, domestic demand (including investment and consumption) contributed more to growth. Final consumption contributed 51.6 percent, 10.1 percentage points larger over the previous year. Contribution rate of capital formation was 54.2 percent, up 1.4 percentage points year on year (Figure 3).

### Fiscal revenue grew rapidly while fiscal expenditure took on a better structure

Fiscal revenue was 10.37 trillion yuan in 2011, up 24.8 percent year on year, an acceleration of 3.5 percentage points. Fiscal revenue growth reflected stable economic growth, upward trend of price level, satisfactory corporate profits, strengthened budgetary management and adjusted tax structure. Growth of fiscal revenue followed a slowdown trajectory in the year,

**Figure 3 Rate of Contribution of the 3 Major Drivers to GDP Growth**



especially in Q4 due to slower pace of economic growth, decline of price, higher threshold of personal income tax and smaller trading volume on the real estate and automobile market.

Fiscal expenditure totaled 10.89 trillion yuan, up 21.2 percent year on year, an acceleration of 3.8 percentage points. The structure of fiscal expenditure optimized, extending greater support to agriculture, farmers and rural areas, education, medical service and health care, social security and employment, affordable housing and cultural industries.

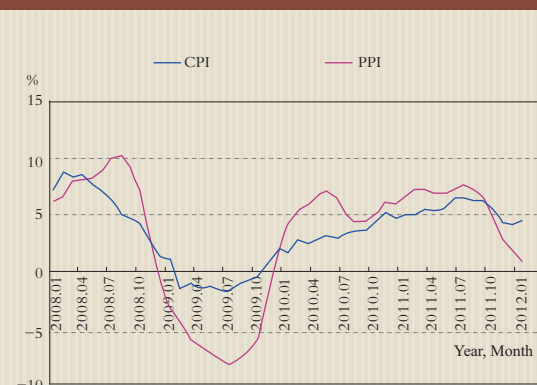
#### **Employment turned for the better and income gap between urban and rural areas was reduced**

Stable and relatively rapid economic growth and progress of the reform in distribution of income facilitated job creation and income gains of the residents. A total of 12.21 million new jobs were created in the urban area in 2011, a record high since 2006, while the registered unemployment rate in the urban area stood at 4.1 percent at the end of 2011, remaining at a subdued level. Per capita disposable income of urban residents reached 21 810 yuan, up 14.1 percent in nominal terms and 8.4 percent in real terms over the previous year. Per capita net income of rural residents posted 6 977 yuan, up 17.9 percent in nominal terms and 11.4 percent in real terms over 2010. Real growth of rural residents' income was 3 percentage points higher over that of the urban residents' income, reducing the gap between the two.

#### **Price indices edged down after a rally and inflationary pressures was moderated**

Since the beginning of 2011, higher demand and costs pushed up the price level. CPI and PPI rose 6.5 percent and 7.5 percent respectively in July year on year, hitting the record since the outburst of this round of financial crisis in 2008. In the second half of the year, domestic inflationary pressure moderated and major price indices started to decline gradually, as economic growth slowed

Figure 4 Developments of CPI and PPI



Source: National Bureau of Statistics.

after the implementation of macroeconomic management measures, prudent monetary policy started to take effect and global commodity prices retreated. In December, CPI and PPI were down to 4.1 percent and 1.7 percent respectively year on year, indicating a curbed momentum in price rise (Figure 4).

#### **Asset price growth moderated and macroeconomic management of the real estate market produced results**

Stock market fluctuated with large corrections amidst heightened uncertainties in global recovery and slower domestic growth. The Shanghai Composite Index and Shenzhen Component Index closed at 2 199.42 and 8 918.82 points respectively at the end of 2011, down 21.68 percent and 28.41 percent respectively year on year. Market capitalization was 16.49 trillion yuan, a decrease of 14.6 percent year on year. Average PE ratios on the Shanghai and Shenzhen stock markets were 13.4 and 23.11 respectively, down 37.99 percent and 48.29 percent compared with the previous year. Total turnover of the two markets was 42.16 trillion yuan, a decrease of 22.72 percent compared with 2010.

With better economic structure, stable price level, improved welfare and further reform as the general policy direction, tougher measures were taken to manage





the real estate market by curbing speculative demands and increasing the supply of affordable housing. A total of 171.3 billion yuan was invested in the affordable housing program, which was 2.2 times as much as the investment of the last year. In 2011, 4.32 million units of affordable homes were completed in the urban area, and the number of new starts stood at 10.43 million. The total area and turnover of commercial housing in 2011 were 1.099 billion square meters and 5.9119 trillion yuan respectively, up 4.9 percent and 12.1 percent year on year, continuing to decline compared with the previous year. In the December survey of the 70 large and medium sized cities nationwide, 2 cities saw month-on-month price hike of new commercial houses (excluding affordable homes), 3 cities saw month-on-month hikes of pre-owned home prices, all by no more than 0.2 percent; 34 cities saw year-on-year growth of new commercial homes by no more than 5 percent while 29 cities saw year-on-year decline. Data shows that rapid growth of housing price was preliminarily curbed.

## Economic Outlook in 2012

### Grim and complicated domestic and external environment for China's economic development

The year 2012 is a hinge year for China's implementation of the 12<sup>th</sup> Five-year Plan, and there are both favorable and unfavorable factors for maintaining stable and relatively rapid economic growth. In terms of the favorable conditions, China will still be in the strategically important time window for economic and social development. Local governments have the urge to promote urbanization, industrialization and coordinate regional development. Given the good momentum of consumption growth and huge potential of the service sector, forces driving endogenous growth remained. Unfavorable factors, however, still remain. World economic recovery will be a bumpy ride as the international financial crisis continues

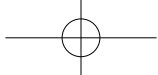
and some countries' sovereign debt crisis sees no solution in the short run. Domestically, China will face downward growth pressure, factors that may undermine price stability and some potential economic and financial risks will exist, which cannot be neglected. Regulation of the real estate market is in a key stage. The stable development of the agricultural sector and farmers' sustained income increase will face more difficulties. More jobs are to be created and the structure of employment needs improvement. During their operation, some enterprises, especially the small and micro enterprises, are going to see more difficulties. Meanwhile, overcapacity of some industries becomes a more acute problem, and the consumption of energy speeds up. Deeply-rooted and short-term problems, as well as structural and cyclical factors are intertwined, making macro management more complicated.

### Moderated inflationary pressure

Against the backdrop of imported inflationary pressure brought by abundant global liquidity and uncertainties in inflationary expectations due to tighter factor supply such as labor, the general price level is to edge up. Major driving forces for rapid price hike, however, have been checked as a result of macroeconomic management policies. With domestic demand stabilizing, monetary condition returning to normal generally, further correction of housing price, good outlook in grain production and slower global growth, changes in supply and demand as well as in economic conditions are facilitating for a stable price level.

### Mutually reinforced macroeconomic management and reform measures

Faced with complicated and uncertain domestic and international environment, macroeconomic management policies in 2012 will be consistent and stable on the one hand, and be better targeted, more flexible and forward-looking on the other hand, so as to strike a balance between relatively rapid economic growth, restructuring



and managing inflationary expectations and to let endogenous drivers gradually replace stimulus measures in driving economic growth. First, the implementation of an active fiscal policy and a prudent monetary policy will be continued. A mix of monetary policy tools including money market operations, interest rate, exchange rate and reserve requirement ratio will be adopted as appropriate in view of economic and financial operation. The framework of a counter-cyclical macroprudential policy will be improved to adjust money and credit supply, keep aggregate financing to the economy at a reasonable level and optimize credit structure so as to consolidate the achievements made in mitigating the effects of global financial crisis. Second, the financial sector will better support transformation of growth pattern and economic restructuring, paying special attention to outstanding problems in the real economy. Efforts will be made to stabilize external demand and stimulate domestic demand, and consumer demand in particular.

Measures will be taken to improve financial services to small and micro enterprises, optimize the structure and geographical deployment of industrial production in order to coordinate regional development, strengthen policy incentive for energy saving and emission reduction by leveraging on market mechanism. Third, reforms of key areas will be advanced and the opening-up will be furthered. Efforts will be made to channel private capital to set up small and medium-sized financial institutions in order to introduce more players into the competition of financial service supply, further the market-based interest rate reform, improve the RMB exchange rate regime and promote the use of RMB in the settlement of cross-border trade transactions and investment. Fourth, risk assessment will be strengthened to have in place contingent plans, speed up the establishment of a deposit insurance scheme and prevent and mitigate risks of various kinds more effectively.



## GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

In 2011, the global recovery stalled due to the escalating sovereign debt crisis and intensified downside risks. In the United States, there were signs of recovery in the latter half of the year. Fiscal and financial risks in the euro area mixed with one another and escalated, indicating dimmed growth prospects. Due to the shocks of the earthquake and tsunami, the Japanese economy slid into recession but later rebounded. Growth momentum in most emerging market economies moderated and some countries even faced risks of sharp inflation and volatile short-term capital flows. Major financial markets and commodity prices fluctuated. As estimated by the IMF in January 2012, global growth in 2011 was 3.8 percent, and the output of the United States, the euro area, Japan, and the emerging and developing economies expanded by 1.8 percent, 1.6 percent, -0.9 percent, and 6.2 percent respectively in 2011.

### Economic Development of Major Economies

#### Rebound of growth momentum in the U.S. remained but uncertain

The economy of the United States saw positive dynamics, with the GDP growth of Q1 through Q3 registering 0.4 percent, 1.3 percent and 1.8 percent respectively. The unemployment rate stood at 8.5 percent in December, down 0.2 percentage points month on month and the total unemployment claim was 13.1 million, the lowest level since 2009. Year-on-year CPI edged up by 3.0 percent in December, representing a slowdown for three consecutive months and indicating somewhat eased inflationary pressures. The trade deficit dropped steadily since July, and posted US\$558.02 billion for the whole year, up 11.6 percent year on year and hitting the record since 2008. The fiscal deficit still posed great challenges. The U.S. federal deficit in fiscal year 2011 was US\$1.3 trillion, accounting for 8.7 percent of GDP. Though lower than the 9.0 percent registered in 2010, the deficit share in GDP was third highest since 1945. Housing price remained subdued with elevated rate of foreclosure. Fiscal and trade deficit, lackluster real estate market and ongoing repair of the financial system will constrain economic recovery of the U.S.

#### Recovery momentum of euro area weakened by sovereign debt crisis

Economy of the euro area was faced with significant downside risks due to heightened uncertainties of the external environment. In particular, aggravated pressures from the European sovereign debt crisis may negatively impact the real economy of the euro area. As estimated by Eurostat, GDP growth of euro area registered 1.5 percent in 2011, slightly lower than the 1.7 percent of 2010. In Q4 2011, GDP of the euro area was down 0.3 percent quarter on quarter, a remarkable slowdown compared with the 0.1 percent growth in Q3. Inflation remained above the target of 2 percent for 13 consecutive months, while HICP rose 2.7 percent in December year on year. The GDP of Germany grew 2.0 percent in Q4, slowing down for three consecutive months while still more robust than that of the other countries in the area. GDP growth of France was up 1.4 percent in Q4 year on year. Sovereign debt crisis hit harder in Greece and Portugal, resulting in 7.0 percent and 2.7 percent of contraction in Q4 year on year. In order to have orderly resolution of the sovereign debt crisis, the EU launched a series of reform measures to enhance fiscal discipline in and crisis assistance to member countries, among them the expansion of EFSF and the inauguration of ESM, while their effectiveness



is still to be tested by the market. In December, Standard and Poor's, Moody's and Fitch lowered the sovereign credit of many euro member countries.

### Trade and debt burden worsened in Japan

Real GDP declined 0.9 percent in Japan in 2011. Core CPI went down 0.2 percent in December year on year. Yen appreciation, sluggish global recovery and the flood in Thailand undermined Japan's export, and therefore put a drag on its economic recovery. Japan's trade account registered a deficit for the first time in 31 years, amounting to 2.5 trillion yen at the end of 2011. The surge in fiscal expenditure as a result of the earthquake further aggravated the government's debt burden. At the end of fiscal year 2010, net debt burden of the central government stood at 417.8 trillion yen, exceeding 400 trillion yen for the first time in history. Its year-on-year growth was 45.2 trillion yen compared with that at the end of fiscal year 2009, marking a record high.

### Growth of major emerging market economies cooled down

The pace of expansion in the major emerging market economies cooled down against the backdrop of a tighter domestic policy, a downward cyclical impact, and declining external demand. These countries faced challenges to stabilize growth, curb inflation, and tame volatile short-term cross-border capital flows. GDP growth in India, Brazil and Russia posted 7.4 percent, 2.9 percent and 4.1 percent respectively in 2011. Furthermore, emerging market economies such as South Africa, Turkey, Indonesia, and Vietnam also experienced moderate growth. The dimmed growth outlook undermined investors' confidence in the assets of the emerging market economies. Besides, the euro area banks were also selling assets in these countries to replenish capital. As a result, some emerging market economies saw capital outflows and currency depreciation, making it more difficult for them to make macroeconomic decisions.

## Global Financial Market Development

### Foreign exchange market

The exchange rates of the major currencies fluctuated with large swings. At the end of 2011, the euro exchange rate against the US dollar was 1.2945, a depreciation of 3.23 percent compared with the last year. From January to April, the euro rose constantly against the dollar as stable economic performance in the euro area heightened market expectations of an interest rate increase. From May, with the deterioration and spread of the debt crisis, the euro fell against the US dollar. Safe-haven demand drove the price of Japanese yen higher against the US dollar. At the end of the year, the exchange rate of the Japanese yen against the US dollar stood at 76.94 yen per dollar, an appreciation of 5.47 percent from the last year (Figure 5). The Trade Weighted US Dollar Index, which is published by the Federal Reserve, gained a cumulative rise of 1.65 percent in 2011.

### International bond market

Investors' demand for safety pushed the yields of government securities down in the major countries. In the first half of the year, the yields of government

Figure 5 Movements of Major Currencies in 2011





securities of Greece, Ireland, and Italy rocketed and safe-haven demand rose, as the international rating companies reduced the credit ratings of the euro area countries in succession. Though Standard & Poor's and Moody's slashed the sovereign ratings of the United States and Japan in August, their yields of government bonds bucked the trend in an upward movement. The yields of German government bonds fluctuated downwards. In Q4, the yields of US and German bonds declined further as the crisis spread. On December 31, the yields of 10-year Treasury bonds in the U.S., Germany, and Japan closed at 1.88 percent, 1.83 percent, and 0.99 percent respectively, down 1.48, 1.14, 0.13 percentage points from the end of the last year (Figure 6).

#### International Stock Market

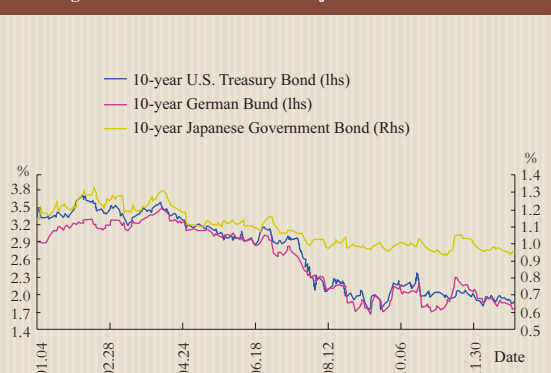
International stock-market fluctuated within a large range. In the first half of the year, with sound reading of major global economic indicators and the easing of the sovereign debt crisis, global stock market remained generally stable with temporary dip in the middle of March due to Japan's devastating earthquake. In Q3, stock indices of major economies swung up and down within a subdued range due to greater market panic brought by dispute over the U.S. debt ceiling and deterioration of the European sovereign debt crisis, and

moderated pace of global recovery. In Q4, boosted by changes in expectations about the debt crisis and the pickup of the economic performance in the United States and the EU in Q3, the stock markets in these countries squeezed up. On December 31, the Dow Jones Industrial Average, the NASDAQ, and the STOXX50 closed at 12 218, 2 605, and 2 370 respectively, up 5.5 percent, 1.8 percent, and down 8.9 percent respectively from the end of the last year. Influenced by the sluggish recovery and the devastating earthquake and tsunami, the Japanese stock market continuously moved downward in 2011, with the Nikkei 225 closing the year at 8 455, down 17.3 percent year on year (Figure 7).

#### Global commodities market

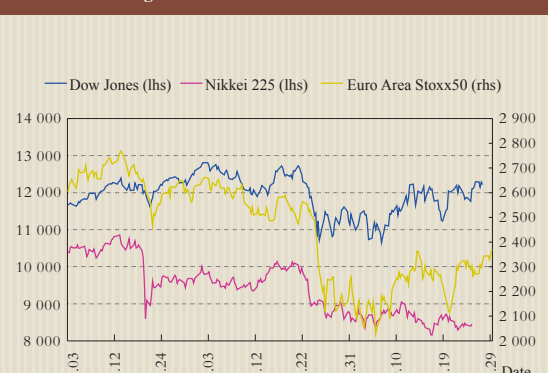
Global commodities price fell back from its peak. Amidst moderated global recovery and debt crisis in advanced countries, price of commodities declined after reaching its peak in the first half of the year. London Brent Crude Oil Futures Price touched the peak of US\$126.65 on April 8th and fluctuated downward since then, closing at US\$107.38 at the end of the year, which was up 13.3 percent year on year. Spot gold price at London Metal Exchange hit the record high of US\$1 898.99 per ounce on September 5th and dived to US\$1 563.8 per ounce at the end of 2011, up 10.2 percent year on year. The CRB

Figure 6 Yields of T-bonds in Major Economies in 2011

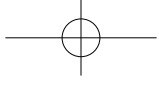


Source: Reuters.

Figure 7 Global Stock Indices in 2011



Source: Reuters.



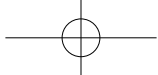
index comprised of 19 commodities on global market fell by 8.49 percent cumulatively, among which the futures price of copper, steel and stannum plummeted for more than 20 percent, and that of sugar, wheat and natural gas for more than 10 percent.

### World Economic Outlook in 2012

In 2012, Global output may continue its moderate growth with downside risks due to sovereign debt crisis and geo-political uncertainties. The U.S. economic performance has shown positive signs recently. The euro area may be subject to recession facing the spiral of fiscal and financial risks. Dragged by yen appreciation and weak external demand, Japanese economy may contract. Emerging market economies may further moderate. In its World Economic Outlook Update published in January 2012, the IMF projected that global growth would decelerate in 2012 and downside risks would intensify. Global output was projected to slow down to 3.3 percent

in 2012, compared with 3.8 percent in 2011, with U.S. output expanding by 1.8 percent, the same level as that in 2011, the euro area contracting by 0.5 percent, Japan rebounding to 1.7 percent as its industrial chain gained strength in the aftermath of the disaster, as opposed to 0.7 percent recession in 2011, and the emerging economies moderating to 5.4 percent from 6.2 percent in 2011.

Looking into the future, the major risks in global recovery stem from several sources: first, the euro area may fall into recession against the possibility of further spread and deterioration of the sovereign debt crisis; second, geopolitical conflict might trigger a surge in oil price and exert major negative impact on global economy; third, a new round of monetary easing may push up global inflationary pressures; fourth, inflationary pressures from higher price of commodities including oil, base metal and agricultural produces, as well as capital inflow may complicate macroeconomic management in emerging markets.



## MONETARY POLICY

In 2011, following the overall arrangements of the State Council, the PBC implemented a prudent monetary policy with flexible fine-tuning as appropriate in order to maintain price stability as the top priority of macroeconomic management. To this end, the PBC strengthened macro-prudential management, employed a rich mix of monetary policy tools, improved management of liquidity in the banking system, guided a steady normalization of money and credit supply, maintained the aggregate financing to the economy at a reasonable level, and encouraged financial institutions to improve the credit structures, thereby contributing to stable and sound economic and financial development. In the next stage, the PBC will continue to implement a prudent monetary policy and keep the consistency and stability of policy measures, while making the policy measures better targeted, more flexible and proactive, so as to enhance efficiency of the financial service in promoting the real economy, guard against systemic financial risks, preserve stability of the financial system, maintain price stability and relatively stable growth.

### Monetary Policy Measures in 2011

#### The deposit reserve requirement ratio has been used in a flexible manner

The PBC raised the reserve requirement ratio for six consecutive times and conducted open market operations in the first half of 2011 to sterilize excessive liquidity and to guide the normalization of monetary condition amidst large surplus under the capital and current account. Practice has shown that when at a relatively low level, reserve requirement ratio increase fails to sterilize all the liquidity released to the market due to the purchase of foreign exchange against the backdrop of abundant liquidity supply, making the adjustment more of a signal rather than a solution. Only after being raised to a certain level can such upward adjustment sterilize all the excessive liquidity in the banking sector and rein in credit extension.

#### Differentiated reserve requirement was introduced as a new macro-prudential policy instrument

By using this instrument, the PBC delivered counter-

cyclical guidance for the growth of aggregate credit in a transparent, predictable and standardized way. This mechanism links credit supply to the needed capital level asked by macroprudential management and takes into consideration macroeconomic performance, the systemic importance and soundness of a financial institution and its implementation of credit policy. Such a mechanism incentivizes financial institutions to maintain its own soundness and adjust credit supply in a counter-cyclical manner and contributes to improving credit management. The pace of credit extension has been better balanced month on month and quarter by quarter.

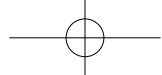
#### The interest rate has been adjusted to leverage economic performance

The PBC has always taken price-based instruments, especially interest rate, as a key tool in curbing inflation. Benchmark deposit and lending rates were raised 3 times by 0.75 percentage points, pushing up interbank market rates.

#### Reform of the RMB exchange rate regime has been furthered

Based on market supply and demand with reference to





a basket of currencies, RMB's exchange rate against US dollar appreciated in general, thus moderating domestic inflationary pressures and cushioning impact of higher commodity and oil price on the international market. Meanwhile, China's export continued growth with improved structure despite of turbulence of international market that came as a result of debt crisis in major advanced economies. Practice has shown that furthering the reform of RMB exchange rate regime in a gradual and controllable manner is a right policy choice.

**“Aggregate financing to the economy” (AFE, same hereinafter) has been introduced as an intermediate variable for monitoring**

Broad money M2 and new RMB loans were key indicators for China's macroeconomic management for a long period. Amidst vigorous innovation of financial products, diversification of financing structure and rapid market development in recent years, securities and insurance institutions played a bigger role in financing real economy. One can hardly capture the true picture of financing to the real economy by merely monitoring money supply and credit growth, other financial assets such as trust, securities and stock should also be included into the monitoring system. Introduction of the AFE statistics helps capture changes in the financing structure and total financing provided to the real economy, and therefore diverts excess attention paid to credit growth, facilitating direct financing and effective resource allocation.

**The PBC has made its policy measures better targeted, more flexible and forward-looking by fine-tuning in view of changes in economic condition**

Against the background of decline in RMB equivalent for the purchase of foreign exchange, economic slowdown and lower inflation in Q4 as a result of heightened instability and uncertainty of global recovery due to aggravated sovereign debt crisis in Europe after

September 2011, the PBC suspended the issuance of 3-year central bank bills, adjusted the issuance amount of central bank bills of other maturities, injected liquidity via reverse repo and redemption of matured central bank bills, revised down the interest rate for issuing 1-year central bank bills, and reduced reserve requirement ratio by 0.5 percentage points in December 2011. In the mean time, parameters of the dynamic adjustment mechanism of differentiated reserve requirement ratios has been improved to guide financial institutions with adequate capital, quality asset, sound corporate governance structure and credit structure in line with policy intention to lend more to ongoing key projects and weak links of national economy including small and micro-enterprises and agriculture, farmers and the rural area.

## Money and Credit Grew Steadily

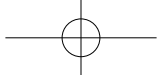
### Money and credit grew steadily

At end-2011 outstanding M2 registered 85.2 trillion yuan, up 13.6 percent year on year and a deceleration of 6.1 percentage points over the end of 2010. Outstanding M1 stood at 29 trillion yuan, an increase of 7.9 percent year on year and a deceleration of 13.3 percentage points over 2010. Currency in circulation M0 totaled 5.1 trillion yuan, up 13.8 percent year on year and a deceleration of 2.9 percentage points compared with 2010. At end-2011, outstanding RMB loans stood at 54.8 trillion yuan, up 15.8 percent year on year and a deceleration of 4.1 percentage points over end-2010. Growth in the year registered 7.47 trillion yuan, a reduction of 390.1 billion yuan from the growth in the previous year. Moreover, as financial innovation has accelerated the diversion of traditional deposits, the M2 data may be an underestimation of the real monetary conditions.

### The AFE grew at an appropriate pace

It is estimated that the AFE stood at 12.83 trillion





yuan in 2011, a reduction of 1.11 trillion yuan from 2010. A total of 1.8 trillion yuan has been financed via corporate bonds and domestic stock market, an acceleration of 118.6 billion yuan year on year. Foreign currency-denominated loans rose by an equivalent of 571.2 billion yuan, up 85.7 billion yuan over the previous year. The total value of financing via undiscounted banker's acceptances, entrusted loans and trust loans stood at 2.52 trillion yuan, 1.07 trillion yuan less compared with 2010.

#### **Credit structure continued to improve**

New loans of medium and long maturities posted 3.6 trillion yuan, 2.6 trillion yuan less compared with the previous year, and taking up 47.7 percent of the total, 29.9 percentage points lower year on year. Outstanding RMB loans extended to small enterprises went up 25.7 percent over 2010, 10.2 percentage points higher than the growth rate of aggregate loans to all enterprises. Outstanding agro-linked RMB and foreign exchange-denominated loans grew by 24.9 percent year on year, 9.2 percentage points more than the growth of all loans. The increase of credit for the middle and western region was 2.8 and 5.6 percentage points higher than that for the eastern area, mitigating regional imbalance of credit allocation. Credit to the affordable housing program was strengthened, with new loans taking a larger share in the total amidst slower growth of loans for real estate development. In 2011, a total of 175.1 billion yuan of loans was extended to the development of affordable housing program, accounting for 50.1 percent of new loans to real estate development, 31.7 percentage points more than the beginning of the year.

#### **The interest rate level generally increased**

Money market rates and lending rates of financial institutions picked up from Q1 through Q3 before turning down in Q4. In December, weighted average interest rate of bond-pledged repos and interbank lending stood at 3.37 percent and 3.33 percent respectively, down 0.38

percentage points and 0.41 percentage points compared with September, and up 0.25 and 0.41 percentage points over December 2010. In the last month of 2011, the weighted average interest rate of lending from financial institutions to non-financial institutions reached 8.01 percent, an increase of 1.82 percentage points from the beginning of 2011.

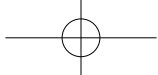
#### **Flexibility of RMB exchange rate strengthened significantly**

It rallied by a small margin in two-way floating and with generally stable market expectation. At end-2011, the yuan's central parity against the U.S. dollar closed at 6.3009 yuan per U.S. dollar, up 5.11 percent from end-2010. The BIS estimates that in 2011 the nominal effective RMB exchange rate appreciated 4.95 percent and the real effective exchange rate appreciated 6.12 percent.

### **Monetary Policy Outlook in 2012**

In 2012, the PBC will continue the implementation of a prudent monetary policy in a consistent and stable manner in order to strike a balance between stable and relatively rapid growth, restructuring and inflationary expectation in line with the decision made on the Central Economic Work Conference and the National Financial Work Conference with scientific development as the main theme and economic restructuring as a major task. The central bank will fine-tune its monetary policy conducts as appropriate based on close monitoring of international and domestic economic and financial developments, to make the policy measures better targeted, more flexible and forward-looking, so as to improve financial services to the real economy, effectively prevent systemic financial risks, maintain financial stability, keep general price level stable and facilitate relatively rapid and stable economic development.

First, a mix of monetary policy tools will be taken,



and the macroprudential policy framework improved to adjust money supply and credit extension, and keep the AFE at a reasonable level. It is projected that M2 growth will be around 14 percent in 2012.

Second, optimize credit structure to guide financial institutions provide better financial services to the real economy, especially to meet the needs of the agricultural sector, farmers, the rural areas, and small and micro enterprises.

Third, further reforms of the financial sector including that of the market-based interest rate reform, reform of RMB exchange rate regime, foreign exchange administration, and the RMB settlement of cross-border

trade transactions and investment, so as to promote well-regulated development of the financial market, deepen reforms of financial institutions and enhance the efficiency of the financial system in resource allocation.

Fourth, guard against financial risks and maintain stability of the financial system. Monitoring and analysis of private lending, the real estate sector and local government financing vehicles will be strengthened. The balance between credit growth and quality of bank loans should be handled properly by having in mind the big picture and the systemic soundness in the longer run, guarding against the spread of financial risks and moral hazard at the same time.

## BOX

### The Framework for Macroprudential Regulation

The core of macroprudential policy is to take macro and countercyclical measures to prevent systemic risks induced by cyclical swings of the financial system and cross-sector contagion of financial risks and to maintain the stability of the monetary and financial system. This approach is not new and has been adopted by some countries before this round of global financial crisis. A wider agreement on its relevance has been reached among the international community after the 2008 crisis, which was translated into faster implementation. Traditional mainstream monetary policy framework emphasizes price stability, thus leaving stability of the whole financial system unattended to some extent. With a limited set of policy instruments (mainly via adjustment of short-term interest rate), the traditional approach can hardly manage the stability of price level and the financial system as a whole at the same time. The microprudential perspective has dominated financial regulation, seeking to enhance the soundness, compliance and transparency of individual institutions. The soundness of each and every individual institution, however, does not add up to stability of the financial system as a whole. Furthermore, the microprudential approach of financial regulation may aggravate procyclicality of the financial system, and collective mistakes caused by herd effect and animal spirit will probably push up systemic fluctuations. This necessitates a macroprudential perspective for financial risk monitoring and analysis to fill the gap in the current financial regulatory system. Improving the macroprudential policy framework has become the core content of reforming the international financial regulatory system after the crisis, encompassing crucial elements pertaining to lessons drawn from the crisis and practices to reform financial regulation.

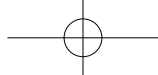


Macroprudential policy tools feature two dimensions. From the time dimension, it addresses pro-cyclical systemic risks. A set of countercyclical measures is adopted, including improving accounting standards, requiring financial institutions to hold more and higher-quality capital, set up countercyclical capital buffer, and imposing forward-looking loan loss provision. The cross-section dimension targets the systemic impact and network risk of financial institutions, especially SIFIs. The primary tools include higher liquidity and capital requirements for financial institutions of systemic importance, limits on the scale and business scope of the operation of financial institutions, cap on leverage and risk exposure, central counterparty mechanism to improve market infrastructure and its management.

Like microprudential approach, macroprudential policy also takes requirements on capital, provision and leverage as its instruments, but from a macro and countercyclical perspective and with preventing systemic risks as the primary target. Opportune and flexible countercyclical adjustments are conducted based on objective judgment of the macroeconomic environment so as to prevent aggregate macro risks, which is an integral part of macroeconomic management and efforts to maintain financial stability. Both with countercyclical effects, macroprudential policies and monetary policies differ on their focus. Monetary policies target the overall economic performance and aggregates. Macroprudential policies focus on addressing pro-cyclical fluctuation and risk contagion within the financial system. They can supplement and reinforce each other.

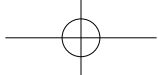
The international community's efforts in reinforcing the macroprudential policy have made progress, and feasible policy framework has emerged. At end-2010, the G20 endorsed the basic framework of the Basel III, encompassing macroprudential capital requirements such as countercyclical capital buffer and capital surcharge for systemically important financial institutions in addition to minimum regulatory capital requirement, reflecting progress in macroprudential management and countercyclical adjustment. Moreover, efforts in identification of global systemically important financial institutions (G-SIFIs), imposition of capital surcharge and the convergence of key international accounting standards have made headway. In the practice of international financial regulatory reform, central banks tend to play a major role in macroprudential regulation. The financial reform act in the U.S. endows the Federal Reserve with stronger power in regulating systemically important financial institutions. The British government has given the macroprudential supervisory authority to the Bank of England, and shifted the mandate of financial stability from the Financial Services Authority back to the central bank. The recently revised *Banking Act of the Republic of Korea* reinforced the macroprudential mandate of the central bank, providing for necessary measures and instruments to maintain financial stability. The Bank of Japan fulfills macroprudential mandates by imposing minimum down payment ratio, countercyclical capital buffer, reining in cross-border capital flows and dynamic adjustment of loan loss provisioning.

The Financial Stability Board holds that the four broad lines along which to further the progress of implementing macroprudential policy frameworks are as follows: 1) advancing the identification and measurement of systemic risks; 2) design and calibration of macroprudential toolkit with explicit



standards and assessment; 3) making governance arrangements for implementation of macroprudential policies to build capacity for policy makers; 4) reinforcing policy coordination and cooperation and establishing regional and global coordination mechanism.

China's 12<sup>th</sup> Five-year Plan has included building a countercyclical macroprudential framework for the financial system as a major task. Adopting both quantitative instruments and price-based instruments for macroeconomic management, the PBC strengthened macroprudential regulation via credit policies, differentiated reserve requirement ratio, and minimum down payment ratio, producing satisfactory results. After the outbreak of the global financial crisis, the PBC started the studies on macroprudential policy measures since mid-2009 following the overall arrangements of the central government. The introduction of dynamic adjustment of differentiated reserve requirement ratio in 2011 combined aggregate management of money, credit and liquidity with macroprudential regulation, which facilitated stable growth of money and credit supply and soundness of financial institutions at the same time. Based on country-specific context, drawing lessons from this round of global financial crisis and international best practices, the PBC will improve the macroprudential framework and build institutional arrangements that incorporate macro and micro prudential approaches in the next stage, so that the central bank, with more and better measures and instruments, could play a leading role in enhancing macroprudential regulation.



## FINANCIAL STABILITY

In line with the overall arrangement of the State Council, the PBC further improved macroprudential management as well the methodology and measures of the monitoring and assessment of systemic financial risks, successfully completed the first FSAP assessment, made timely response to unexpected financial risks, closely monitored dynamics of international financial reforms, improved international cooperation on financial stability, strengthened management of central bank asset and ensured sound operation of China's financial system.

### Enhanced financial risk monitoring and assessment

*China's Financial Stability Report (2011)* and *Regional Financial Stability Report (2011)* were published, evaluating stability of China's financial system comprehensively with improved content and methodology of financial stability assessment. Measures have been taken to improve regular reporting system including monthly report of local small and medium financial institutions, monthly report of banking sector stability, weekly report of stock market performance and quarterly report of insurance sector stability; explore risk monitoring of financial holding companies and integrated financial instruments; establish and improve major event reporting system of the banking sector, conduct on-site soundness evaluation of financial institutions and organized 17 major commercial banks to have stress tests. Efforts have also been made to improve risk monitoring over local non-financial institutions that provide financing services and private lending, improve the reporting system of micro-credit companies, pawn shops, guarantee firms and private lending, and make corresponding contingency plans.

### The first FSAP in China completed

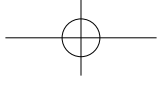
Based on results of on-site assessment and special assessment, the joint IMF-World Bank mission for FSAP in China worked out a series of reports. In November, the *Financial System Stability Assessment Report* and

*Financial Sector Assessment Report* were released on official websites of the IMF and the World Bank respectively, projecting a positive image of China's financial sector, progress of China's financial reform, and the soundness of China's financial system. This will help deepen China's financial reform, improve regulation and enhance risk management. In December, the PBC and the IMF jointly held a high-level regional symposium in Shanghai on "Financial Stability Monitoring and Management: Experiences from FSAP and Suggestions to Improve". Participants discussed experiences and lessons in FSAP exercise and how to establish a macroprudential framework, and further promote Asia-Pacific cooperation in maintaining regional financial stability.

### Further improved risk resolution of financial institutions

Efforts have been made to innovate policy tools of risk resolution, exploring management of resolved asset through share holding in certain stages as one possibility, to strengthen local governments' role in resolution of financial risks. The PBC has made joint efforts with relevant government agencies in tackling difficult problems related to individual claims on financial institutions acquired and played a part in risk resolution of insurance companies. On-site investigation was conducted to gain an insight into risk events related to private lending activities and enterprise bankruptcies to analyze underlying reasons, based on which contingency





plans were made. The PBC also joined policy making in regulating activities on exchanges of various kinds and helped clean up specific products on Chongqing Financial Asset Exchange and maintain financial stability.

### **International cooperation on financial stability promoted**

First, the PBC participated in revising and implementing international regulatory codes and standards. The PBC has played an active role in FSB, its rule making committee and resolution working group, led the compensation follow-up and deposit insurance assessments, and participated in the identification of non-cooperative countries (regions). The PBC continued its work in the BCBS as well as PDG and MPG under its auspices, and hosted the 18th meeting of PDG in Shanghai. The PBC was also deeply involved in researches on how to address the too-big-to fail problem of the systemically important financial institutions (SIFIs), worked on the determination of assessment indicators, methodology and capital surcharge of global systemically important banks, completed the self-assessment on intensity and effectiveness of regulation of SIFIs, and joined in the formulation of core elements of SIFI resolution. Second, the PBC studied developments of the reform of relevant international organizations and national financial reforms. The PBC has closely monitored progress of financial regulatory reform of major economies and analyzed their implications and lessons that can be drawn for China. Thorough studies were conducted on the reform recommendations from international organizations on macroprudential policies and tools, regulation of shadow banking system, core principles of regulation over the insurance sector, development of the reinsurance market and regulation over financial groups. Based on these studies, policy suggestions to improve financial regulation in China were put forward. Third, the PBC took an active part in multilateral and bilateral exchanges on financial stability. The PBC participated in the banking supervision working group under the EMEAP framework and helped improve its

working mechanism. The PBC took part in the activities of the Bank for International Settlements and Committee on Global Financial Stability and their working groups. Article IV consultation was conducted with the IMF. The PBC participated in the mutual assessment process (MAP) under the G20 framework. Bilateral cooperation and exchanges with the U.S., Europe, Republic of Korea and multilateral exchange with Japan and Republic of Korea were promoted. The PBC also took part in the first China-Germany Financial Stability Forum.

### **Design of deposit insurance system improved based on further studies**

Keen attention was paid to latest developments of deposit insurance scheme worldwide, and a systematic review of the background and content of post-crisis reform of national deposit insurance was made. Building on participation in deposit insurance sector assessment under the FSB framework, further studies have been carried out on *Core Principles for Effective Deposit Insurance Systems* and other international standards. The PBC continued to work on all relevant elements in having in place a deposit insurance scheme in China by leveraging on the wisdom and insights of experts and drawing on international experiences in a bid to improving the implementation plan of China's deposit insurance system. Deposit insurance legislation has been promoted and *Regulations on Deposit Insurance* was revised in cooperation with the Legislative Affairs Office of the State Council.

### **Performance of central bank asset management improved**

Efforts were made to strengthen the management of central bank loans earmarked for maintaining financial stability through day-to-day monitor and management, on-site examination and improving information management system. Steady progress has been made in the loan loss recognition and write-off of central bank loans earmarked



for maintaining financial stability. Studies were made on the possible release of *Administrative Rules on Recognizing Losses of Central Bank Loans Earmarked for Maintaining Financial Stability*. The PBC organized the work to verify, recognize and write off the losses of central bank loans for maintaining financial stability.

More effective measures were taken to recover such loans to protect the creditor's rights in accordance with the laws and ensure the safety of central bank assets. Managements of central bank loans to local governments for specific purposes were enhanced to urge local governments to fulfill repayment obligations.

**BOX**

### China's First FSAP Exercise Successfully Concluded

To fulfill the commitment made by Chinese leaders at the G20 Summit, and assess the stability of China's financial system from an international perspective, in August 2009 China formally accepted the initiative of the IMF/WB to conduct the first Financial Sector Assessment Program<sup>1</sup> (hereinafter referred to as FSAP) exercise for China. The PBC, together with 11 other ministries/commissions, established the FSAP Inter-Agency Leading Group and Inter-Agency Working Group. For the past two years and more, in accordance with the overall working arrangement, the relevant ministries/commissions worked together and successfully completed China's first FSAP exercise.

#### Progress of the FSAP exercise

China's FSAP team comprised officials from the IMF and the World Bank and external experts in fiscal and central banking fields as well as those from the banking, securities and insurance sectors. Since 2010, the IMF/World Bank FSAP team conducted two on-site assessments. In addition, some members also carried out special assessments and follow-up consultations, and held more than 400 meetings with relevant departments of the State Council, local governments, large financial institutions and intermediaries, and exchanged views on six aspects, namely macro-financial risks and financial system vulnerability; regulatory environment; systemic liquidity and financial stability; the construction of financial market infrastructure; financial development and access to finance; contingency planning and crisis management framework, laying a good basis for systematically assessing China's financial system stability.

Based on replies to FSAP questionnaires and question about information demand, and discussions at meetings, the FSAP team finished a series of reports, including the *People's Republic of China: Financial System Stability Assessment*, the *Financial Sector Assessment*, and the five detailed assessment reports on China's observance of international standards and codes in banking, securities, insurance, payment systems, and securities settlement systems, as well as a number of technology documents and

1. The Financial Stability Assessment Program (FSAP) was jointly developed by the IMF and World Bank in May 1999 to help strengthen the assessment and monitoring of financial vulnerabilities of IMF member countries (jurisdictions), so as to reduce the likelihood of financial crisis and promote financial reforms and development in member countries (jurisdictions). Since China is one of systemically important economies, the IMF will conduct an updated FSAP assessment of China every five years.



background materials. On November 15, 2011, upon consent of the Chinese side, the IMF and the World Bank posted the *People's Republic of China: Financial System Stability Assessment*, the *Financial Sector Assessment*, and the five detailed assessment reports on their websites. The publications of the reports helped readers around the world to know achievements made by China in financial sector reform and development in recent years as well as the overall stability of the financial system, deepening their understanding of China's financial sector.

#### Conclusions of China's FSAP assessment reports

FSAP assessment reports made objective evaluations of China's financial system from an international perspective, and fully acknowledged the remarkable progress in its transition to a more commercially-oriented and financially sound system, and improved oversight of financial institutions. In their view, China's financial reform proceeds smoothly, with the soundness of financial institutions steadily improving and the financial sector staying basically robust, and the system effectively withstood the impacts of global financial crisis; increasingly diversified financial services and products have provided strong support to real sector development; significant achievements have been made in regulation and supervision of the banking, securities and insurance sectors as well as the construction of payment systems. China has showed a high degree of adherence to international standards and codes, including the *Core Principles for Effective Banking Supervision*, the *Objectives and Principles of Securities Regulation*, the *Insurance Core Principles and Methodology*, the *Core Principles for Systemically Important Payment Systems* and the *Recommendations for Securities Settlement Systems*. Solid progress has also been made in building the AML/CFT system.

The assessment reports proposed that, to further develop the financial system, China needs to focus on issues such as unbalanced financing structure and insufficient degree of commercialization of the financial system, inadequate financial innovations, limited coverage of financial services and the pension system, under-development in financial infrastructure, and etc. The assessment reports also recommended that China should continue to push forward financial reform, strengthen financial regulation and supervision, improve the financial stability framework, accelerate building of a market-based financial system, coordinate macroeconomic and financial policies, expand the coverage of financial services, and further improve the financial market infrastructure.

Overall, the assessment reports present objective and positive assessment of China's financial system, and offer constructive recommendations for China's financial system reform. Relevant departments of the Chinese government will carefully study these comments and recommendations, and in accordance with the *Outline of Twelfth Five-year Plan for National Economic and Social Development* and realities in the financial system, promote financial reform, opening up and development, build a diversified, efficient, prudential and risk-controllable financial system, and enhance the functions of the financial market to accelerate the shift of economic growth pattern.





## FINANCIAL SECTOR REFORM

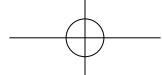
In 2011, the reform of China's financial institutions was deepened, with corporate governance becoming sounder and risk management and profitability significantly improved. The reform of large commercial banks took further steps, and the pilot reform of Agricultural Bank of China's Agro-related Financial Service Department was expanded in scope, resulting in higher capability to serve the agricultural sector, rural area and farmers. The reform of policy financial institutions was steadily pushed forward. Market-based reform of China Development Bank was deepened and the reform of China Export & Credit Insurance Corporation was approved by the State Council. The reform of other financial institutions was advanced in a stable way.

### The reform of large commercial banks was deepened

The five large commercial banks, namely the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications, continued to deepen their reform and improve corporate governance and decision-making capability and efficiency. Concentrating mainly on transforming their business models, the large commercial banks actively promoted adjustment of business structure and innovation of services, continuously improved business procedure and strengthened management, and became more efficient and capable in serving the real society. Meanwhile, the capital adequacy ratios of large commercial banks remained stable and their asset quality and profitability continued to improve. Risk management was strengthened. The five large banks maintained a relatively high profitability level and a strong capability to withstand risk in the unfavorable international environment featuring European sovereign debt crisis and the turmoil in Middle-East and North-Africa. At the end of 2011, the capital adequacy ratios of the five large commercial banks were 13.17 percent, 11.94 percent, 12.97 percent, 13.68 percent and 12.44 percent, respectively; the NPL ratios were 0.94 percent, 1.55 percent, 1 percent, 1.09 percent and 0.86percent respectively and the net profits were 208.4,

122, 130.3, 169.4 and 50.7 billion yuan respectively.

The pilot reform of Agricultural Bank of China's Agro-related Financial Service Department was expanded in scope. Jointly with other related departments, the PBC has provided supporting policies in a successive way including business tax and oversight cost reductions and exemptions, and differentiated reserve requirement policies. These measures were effective in providing incentives to county branches and greatly improved their performance. The PBC also watched closely the development of the pilot reform. At the beginning of 2011, it asked PBC branch offices in eight provinces (regions/municipalities) such as Sichuan and Chongqing, which were covered by the pilot reform, to carry out on-spot examination and assessment in order to objectively evaluate and summarize the results and existing problems of the pilot reform. In mid-May, the Reform Working Group of Agricultural Bank of China held a symposium in Nanning, Guangxi, on the pilot reform to study and discuss the accomplishments, shortcomings and next steps of the reform. In September, the PBC released the *Notice on Expansion of the Pilot Reform of Agricultural Bank of China's Agro-related Financial Service Department*, which clearly expressed that 371 county branches of Agricultural Bank of China in four provinces including Heilongjiang, Henan, Hebei and Anhui were included in the pilot, expanding the pilot reform to twelve



provinces (regions/municipalities). At the same time, the PBC required Agricultural Bank of China to continue deepening the institutional reform, increasing input in serving the agricultural sector, rural area and farmers and strengthening its ability to provide financial services to the agricultural sector, rural area, farmers and counties.

### **Reform of policy financial institutions was steadily pushed forward**

The PBC steadily pushed forward the market-based reform of China Development Bank (CDB). In April, the National Council for Social Security Fund invested 10 billion yuan in equities of CDB and acquired 2.19 percent of its shares. The investment by the National Council for Social Security Fund helped to replenish the capital of CDB and improve its capability to serve mid-to-long term national economic development strategies. It also enabled the two agencies to play to their respective advantages and deepen strategic cooperation in funding sources, project investment, trust business and entrusted project management, etc. The PBC also deepened studies on the reform plan of Export-Import Bank of China (EIBC), promoted EIBC's internal reform and helped to continuously strengthen its ability to serve the "going global" corporations and foreign trade. In May, the draft of reform plan for China Export & Credit Insurance Corporation (Sinosure) which was led by the PBC, was approved by the State Council. At the end of June, the China Investment Corporation injected 20 billion yuan of capital, in Sinosure, effectively raising the Corporation's capital adequacy and the ability to withstand risk. Currently, Sinosure is taking steps to implement the rest of its reform plan. In August, the PBC and other related departments officially established the Reform Working Group on Agricultural Development Bank of China (ADBC). The Group set up working and coordination mechanisms and clarified the key issues and responsibilities related to ADBC, which was helpful to the orderly promotion of the reform of ADBC.

### **Reform of other financial institutions was furthered**

The PBC actively cooperated with the Ministry of Finance to promote reform of asset management companies. Cinda Asset Management Corporation was encouraged to implement the State-Council approved institutional reform plans and to prepare for the introduction of strategic investors. The PBC also studied the institutional reform plan of Huarong Asset Management Corporation and promoted its transformation toward a commercialized company. In addition, the PBC actively promoted the group-wide reform, establishment of modern enterprise system and the improvement in corporate governance structure of the CITIC group. CITIC Group Corporation and CITIC Limited was formally established in December 2011. The share holding reform plan of Postal Savings Bank of China was further detailed to clarify the relationship between the Postal Savings Bank of China and the China Post Group and to promote its corporate governance and internal reform.

### **Financial Sector Reform Outlook in 2012**

In 2012, the PBC will continue to deepen financial institution reform with other related departments and promote the building-up of modern enterprise systems in financial institutions. The PBC will promote large commercial banks to further improve corporate governance, clarify the responsibilities of stockholders' meeting, board of directors, board of supervisors and senior management, improve decision-making mechanisms and procedures related to important issues, and implement corporate governance in day-to-day operations and risk controls. The PBC will continue to follow up on the pilot reform of Agricultural Bank of China on its Agro-related Financial Service Department and firmly promote institutional reform of the department in order to encourage overall improvement of financial services to the agricultural sector, rural area and farmers. The PBC will also continue its study on the reform



of policy financial institutions including EIBC and ADBC, promote commercialization reform of CDB, and appropriately solve the problems related to bond credit, funding sources and regulatory standards. The PBC

will promote deeper reform of the Postal Savings Bank of China, and steadily advance the commercialization of asset management companies by strengthening their internal management and core competitiveness.

## BOX

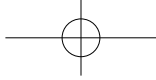
### Financial Institution Supervision and Regulation Measures: “Two Managements & Two Comprehensives”

In recent years, the PBC branch offices carried out the work in the supervision and regulation of financial institutions through business opening management and significant matters reporting (“two managements”) and comprehensive law enforcement inspection and comprehensive evaluation of financial institutions (“two comprehensives”) to better fulfill the central bank’s mandates. Thanks to the concerted efforts of the Head Office and branch offices at all levels, the work was conducted across the nation, helping to improve the PBC’s financial management and services, safeguard regional financial stability and further enhance the effectiveness and traction of the PBC in fulfilling its functions according to law.

**Institutional building.** On January 28, the PBC released *the Notice of the PBC on Issues Related to Improving the Administration of Significant Matters Reporting By Financial Institutions* [PBC Document [2011] No. 23] to regulate the significant matters reporting by financial institutions. By the end of the year, the PBC Shanghai Head Office, branch offices (operations offices) and central sub-branch offices in provincial capital cities all issued relevant administrative rules concerning “two managements and two comprehensives” in line with local circumstances. Furthermore, the PBC branch offices in 297 cities and 417 counties rolled out specific implementation measures tailored to local conditions.

**Management of business opening of financial institutions.** The PBC Shanghai Head Office, regional branches (operations offices) and sub-branches in provincial capital cities all implemented this kind of management, involving 286 branch offices in cities and 753 in counties. By the end of the year, the PBC branch offices at all levels received 3 406 business opening applications from financial institutions, which banking, insurance and securities institutions opening applications were 3 029, 120 and 119 respectively, and other institutions (including micro credit companies and finance companies) totaled 135. Breaking down by the nature of institutions, there were 787 applications for opening legal entity institutions and 2 635 applications for opening branch offices. And processing of 3 045 applications was concluded, accounting for 90 percent of the total.

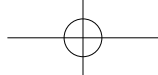
**Reporting significant matters.** By the end of the year, the PBC branch offices at all levels received 23 322 reports by financial institutions on significant matters. Among these reports, 17 106 reports were



from banking institutions, 3 798 from securities institutions, 1 299 from insurance institutions and 601 reports from other institutions (including micro credit companies and finance companies). In terms of the contents of reports, 8 909 reports were about alternation of information, 10 473 reports about operational developments, 999 reports about significant risks and 2 993 reports about other matters.

**Comprehensive law enforcement inspection.** By the end of the year, the PBC branch offices at all levels conducted a total of 2 171 comprehensive law enforcement inspections, including 2 066 inspections on banking institutions. In terms of the findings, illegal activities were mostly in account management, confiscation of counterfeit bank notes and exchange of damaged bank notes, loan card, credit information inquiries and anti-money laundering as well as foreign exchange administration.

**Comprehensive evaluation of financial institutions.** By the end of the year, seven branch offices of the PBC in Tianjin, Nanjing, Jinan, Wuhan, Guangzhou, Chengdu, Chongqing, ten branch offices in provincial capital cities including Shijiazhuang, Hohhot, Changchun, Hangzhou, Hefei, Zhengzhou, Nanchang, Guiyang, Lhasa, Yinchuan, 173 branch offices in prefecture-level cities, and 404 branch offices in counties had launched comprehensive evaluation of financial institutions. The PBC branch offices conducted 839 comprehensive evaluations over 5 357 institutions including 3 894 banking institutions, 415 securities institutions and 1 048 insurance institutions.



## CROSS-BORDER USES OF RMB

The 12th Five-year Plan has outlined the objectives of expanding the cross border uses of RMB and gradually realizing RMB capital account convertibility and supporting Hong Kong to develop into an off-shore RMB business center and international asset management center, consolidating and lifting its position as an international financial center. In line with the above requirements, the PBC, together with other agencies, worked actively to facilitate the cross-border uses of RMB and made significant progress.

### A breakthrough in Cross-border Uses of RMB

The scope of RMB settlement for cross-border trade was continuously expanded and the settlement volume substantially increased. In August, the PBC, together with the MOF, the MOFCOM, the GACC, the SAT and the CBRC, jointly issued the *Notice on Extending the Geographical Coverage of Use of RMB for Cross-border Trade Settlement*, extending the geographical coverage of cross-border trade settlement in RMB to the entire nation. The banks conducted 2.08 trillion yuan of RMB settlement for cross-border trade in 2011, an increase of 3.1 folds. In particular, the volume of trade of goods settled in RMB accounted for 6.6 percent of total trade, up 4.4 percentage points from the previous year. At the

end of 2011, cross-border RMB receipt and payment businesses covered 181 overseas countries or regions, accounting for 80 percent of the countries in the world. The balance between cross-border RMB receipt and payment improved markedly, with the ratio increasing to 1:1.7 from 1:5.5.

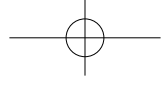
RMB settlement for direct investment was advanced in a comprehensive manner. In January, the PBC issued the *Administrative Rules for Pilot Settlement of RMB-denominated Outward Direct Investment*, allowing domestic entities to use RMB for outward direct investment business. In October, the PBC issued the *Administrative Rules for the Settlement of RMB-denominated Foreign Direct Investment*, allowing overseas investors to use RMB to make direct investment in China. With the coverage of cross-border RMB uses expanded from current account transactions to capital account transactions, the policy framework for cross-border RMB uses was largely put in place. RMB settlement for outward direct investment and inward direct investment conducted by banks reached 20.15 billion yuan and 90.72 billion yuan respectively in 2011.

RMB Loans for overseas projects were facilitated in an orderly manner. In October, the PBC issued the *Guidelines on RMB Loans for Overseas Projects by Domestic Banking Financial Institutions*, which explicitly regulated the overseas RMB project loans of domestic banks. At the end of the year, the contract value of RMB loans for overseas projects reached 53.2 billion yuan, with

Figure 8 Monthly RMB Settlement for Cross-border Trade Transactions in 2011



Source: The PBC.



the outstanding balance standing at 31.9 billion yuan, involving 21 provinces, municipalities, and autonomous regions.

The channels for overseas RMB investment in domestic financial markets were broadened. The pilot scheme of allowing three types of overseas institutions including RMB business clearing banks to invest in the interbank bond market proceeded smoothly, and investment institutions as well their investment scope expanded steadily, providing overseas institutions with channels to maintain the value of their RMB holding. By the end of the year, the PBC allowed 51 overseas institutions to invest in the interbank bond market, and the total quota approved reached 176.55 billion yuan. In December, the CSRC, the PBC, and the SAFE jointly released the *Measures for the Pilot Program of Allowing Fund Management Companies and Securities Companies Approved as Renminbi Foreign Institutional Investors (RQFII) to Invest in Domestic Securities Market*, broadening channels for RMB fund to invest in China.

#### **Hong Kong RMB markets developed rapidly**

The RMB business in Hong Kong developed rapidly. At the end of 2011, the real receipt and payment amount of cross-border trade transactions settled by RMB in Hong Kong was 64 percent of the total amount. More than 130 institutions in Hong Kong were engaged in RMB business. RMB deposits reached 588.5 billion yuan, increasing by 87 percent and accounting for 10 percent of total bank deposits in Hong Kong. RMB loans amounted to 25.6 billion yuan. RMB became the third major currency in Hong Kong, only after the HK dollar and the US dollar.

The Hong Kong RMB bond market has taken shape. In 2011, the amount of newly issued RMB denominated bonds in Hong Kong totaled 110 billion yuan, and the cumulative issuance since 2007 reached 180 billion yuan, including 34 billion yuan of bonds issued by the central government. Bond issuers were more diversified,

including the MOF, domestic banks, foreign banks, and international financial institutions and corporations. In particular, a lot of multinational business issued RMB bonds in Hong Kong.

Significant progress was made in the RMB exchange rate regime in the Hong Kong offshore market. The Treasury Markets Association formally launched the Spot USD/CNY (HK) fixing, providing a benchmark for the market exchange rates of US dollar against RMB in the offshore market. Building on this initiative, trading of spot, forward and other RMB derivative products in the offshore market grew rapidly. A variety of RMB denominated financial products including deposit certificates, insurance products and stocks enriched the RMB financial markets in Hong Kong, and trading volume increased substantially. Market participants consisted of commercial banks, investment banks, fund companies, investment institutions and corporations.

#### **RMB began trading against some non-major-reserve currencies in the foreign exchange market**

In 2011, RMB trading against the Korean won, the Vietnamese dong, the Thai baht, the Lao kip and Kazakhstan tenge were launched in Shandong, Guangxi, Yunnan, and Xinjiang respectively. In December, the regional trading of RMB against the Thai Baht in the interbank market was launched in Yunnan, marking the first case of regional interbank trading of RMB against a non-major reserve currency.

#### **New progress was made in cross-border currency cooperation**

In 2011, the PBC signed bilateral local currency swap agreements with monetary authorities in New Zealand, Uzbekistan, Mongolia, Kazakhstan, Thailand and Pakistan with a total amount of 117.7 billion yuan. The PBC renewed bilateral local currency swap agreements with the Central Bank of Korea and Hong Kong Monetary Authority in the size of 360 billion yuan and 400 billion





yuan respectively. By the end of 2011, the PBC had signed bilateral local currency swap agreements with central banks or monetary authorities in 14 countries or regions, and the agreements have been put into operation. In addition, China and Russia signed a local currency settlement agreement covering general trade in June.

### Outlook of Cross-border Uses of RMB

Efforts will be made to expand the depth and width of cross-border uses of RMB to support the real economy. The PBC will clean up relevant regulations to lift unnecessary controls, broaden the coverage of enterprises participating in the cross-border RMB uses, streamline operational procedures, and improve banks' capabilities in financial innovation and providing cross-border RMB settlement services, so as to facilitate trade and investment.

Cross-border RMB reflow channels will be steadily broadened. Taking into account the progress of RMB convertibility under capital account and the opening up of domestic financial markets as well as the stance of macroeconomic management, the PBC will gradually expand the coverage of overseas entities that are qualified to issue RMB bonds in domestic markets, allow more institutions to invest in the interbank bond market, promote the creation of commercially viable international economic cooperation RMB-denominated fund, and deliberate on administrative measures of RMB-denominated external debt in order to promote a smooth reflow of RMB fund.

Efforts will be made to further deepen central bank currency cooperation. Based on the consensus of building a more diversified and stable international monetary

system, the cooperation between PBC and foreign central banks will be further deepened to strength capacities in jointly withstanding risks and achieve a win-win outcome.

Measures will be taken to gradually improve the global RMB clearing system. With increasing coverage and scale of cross-border RMB uses, market practitioners demand more convenient, efficient and safe cross-border RMB settlement. The PBC will make efforts to understand market needs in a timely manner, research on building the RMB cross-border payment system and further improving the global RMB clearing system.

The role of RMB in cross-border transactions will be extended from a settlement currency to a pricing currency. For the RMB to become into a pricing currency, it is imperative for government departments to first use RMB as a pricing currency in the course of administrations, as this will provide an important role in supporting and guiding market entities to choose RMB as a pricing currency. Meanwhile, with the overall strength of domestic enterprises growing and the cross-border uses of RMB increasing, enterprises may try to use RMB as a pricing currency in their trade and economic activities, thus allowing RMB to play a role of pricing currency.

The Hong Kong RMB market will play a more active role. The gradually broadened cross-border RMB reflow channels will add new impetus to the Hong Kong RMB market by facilitating RMB fund movement between Hong Kong and mainland China and between Hong Kong and overseas markets such as Singapore and London. The Hong Kong RMB market will have more ways to reach out the major economies.



## FINANCIAL MARKET

In 2011, China's financial market performed in an overall stable manner. The bond market maintained its healthy development, and played an active role in ensuring the implementation of macroeconomic policies, optimizing allocation of resources, deepening reform of the financial system, and stepping up financial support for economic development. Throughout the year, the total amount of bond issues declined somewhat from the previous year, while the issues of corporate debenture bonds increased rapidly. The interbank bond market traded briskly, albeit with larger interest rate volatilities. Bond indices moved up, and the yield curves showed an overall downward trend. The number of institutional investors on the interbank bond market increased steadily. Stock market indices generally moved down, and the turnover declined. The price of gold moved up rapidly, and the volume of transactions increased.

### Money Market Performance

#### Transactions on the money market increased

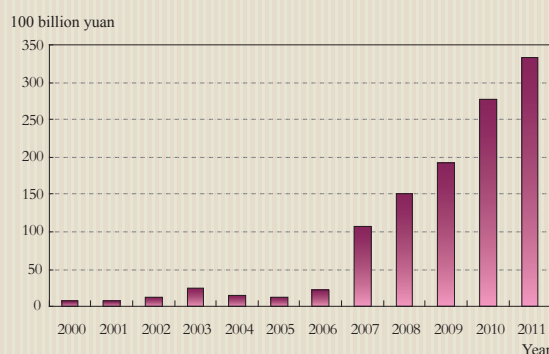
In 2011, trading volume on the interbank funding market rose remarkably with the turnover posting 33.4 trillion yuan, representing an increase of 20.0 percent year on year (Figure 9). Transactions mainly concentrated on overnight and 7-day products. The turnover of overnight products registered 27.3 trillion yuan, accounting for 81.7 percent of the total trading volume, and the turnover of 7-day products registered 4.2 trillion yuan, accounting for 12.6 percent. The turnover of bond-pledged repos

registered 96.7 trillion yuan, an increase of 14.2 percent year on year, and that of outright repos registered 2.8 trillion yuan, a decrease of 5.2 percent year on year.

#### Interest rates on the interbank funding market rose somewhat from the previous year

Interest rates on the interbank funding market rose somewhat from the previous year and saw larger volatilities. Financing condition on the money market was relatively tighter compared with the previous years, while the funding demand of financial institutions increased. Interest rates on the interbank funding market increased, and the weighted average of 7-day interbank lending rates in 2011 got close to 4 percent, the highest in the recent five years. The movement of interest rates saw larger volatilities, and both the frequency and fluctuation of interest rate movement were larger than the previous year. Taking the 7-day interbank lending rate as an example, the difference between the highest rate and the lowest rate in the year was 705 basis points, 195 basis points higher than the previous year; and the average cycle of interest rate fluctuations was approximately 20 trading days. In particular, interest rates fluctuated the most before the Spring Festival holidays and towards the end of June. Towards the end of January, due to large increase in deposit withdrawals and hikes in

Figure 9 Transaction Volume on the Interbank Funding Market, 2000–2011



Source: National Interbank Funding Center.



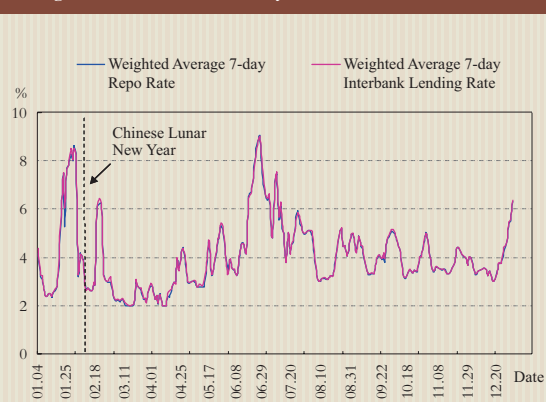


deposit reserve requirement ratio, the interbank lending rates surged within a short period. The 7-day lending rate increased from 2.83 percent on January 18 to 8.53 percent on January 27, and remained above 8 percent for 4 consecutive trading days. Towards the end of June, affected by a number of factors such as cumulative effects of several reserve requirement ratio hikes, heightened performance evaluation pressure of deposit-taking financial institutions for the first half year, absorption of liquidity by the issuances of large-scaled bonds, the interbank lending rates continued to reach new highs, and the 7-day interbank lending rate hit 9.04 percent on June 23, the highest during the year.

#### Bond-pledged repo rates fluctuated within a large range and moved in a W-typed pattern

In the run-up to the end of the year, interest rates on the money market continued to climb, and the weighted average 7-day repo rate closed at 6.33 percent at end-2011, up 214 basis points from the beginning of the year. The weighted average bond-pledged repo rate was 3.37 percent in December, shedding 92 basis points from January (Figure 10).

Figure 10 Movements of Money Market Interest Rates in 2011



Source: National Interbank Funding Center.

#### Participants in the interbank funding market further increased

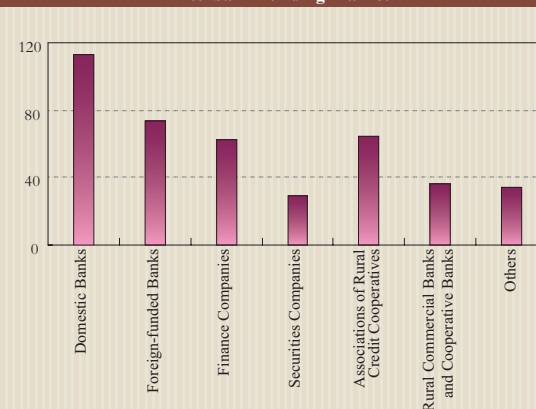
In 2011, there were 937 participants in the market, 50 more than the previous year. In particular, the numbers of associations of rural credit cooperatives and trust companies had the largest increase, 31 and 8 more than the previous year respectively. A total of 414 institutions conducted transactions, 48 more than that of the previous year, of which the numbers of securities companies, rural commercial banks and cooperative banks increased by a large margin (Figure 11), 14 and 9 more than that of the previous year respectively.

#### Flow of funds in the money market was basically stable

Joint stock commercial banks, large commercial banks<sup>1</sup> remained the major net lender, while city commercial banks remained the major net borrower, and institutions such as securities companies, insurance companies and associations of rural credit cooperatives were also net borrowers.

Non-banking financial institutions continued to increase their participation in the interbank funding market. Since non-banking financial institutions held

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



Source: National Interbank Funding Center.

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.

more bonds in recent years, they tended to conduct interbank borrowings and bond repos to get funding via the interbank market, and this was an important short-term financing channel for them.

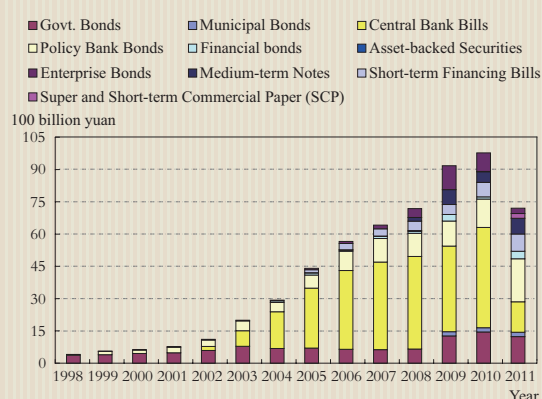
## Bond Market Performance

### Bond issuance<sup>1</sup>

Bond issuers on the interbank bond market included various types of market participants, such as the Ministry of Finance, policy banks, the Ministry of Railways, commercial banks, non-banking financial institutions, international development organizations and non-financial enterprises. Bond products were more diversified both in variety and credit standing (Figure 12). In 2011, a total of 7.8 trillion yuan of RMB bonds was issued on the bond market, representing a decrease of 20.4 percent year on year. In particular, the issuance of government bonds and central bank bills decreased somewhat from the previous year, whilst the issuance of policy bank bonds, financial bonds and corporate debenture bonds increased.

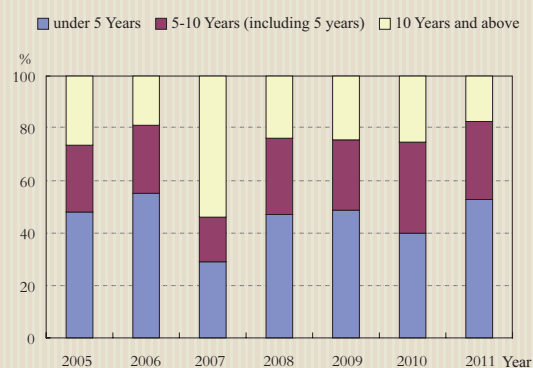
By the end of 2011, outstanding bonds in custody on the bond market<sup>2</sup> posted 22.1 trillion yuan, of which bonds in custody on the interbank bond market posted 21.4 trillion yuan, representing an increase of 7.5 percent year on year. In the year, the Ministry of Finance issued a total of 1.7 trillion yuan of government bonds, including 200 billion yuan of municipal bonds issued on behalf of local governments; the issuance of central bank bills amounted to 1.4 trillion yuan; the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China issued a total of 2.0 trillion yuan of bonds; and the issuance of financial bonds amounted to 352.9 billion yuan. Corporate debenture bonds continued to develop, the credit layer got diversified, and the financing structure became increasingly optimized. A total of 2.2 trillion yuan of corporate debenture bonds was issued, representing an increase of 38.8 percent year on year. In particular, there were 224 billion yuan of super and short-term commercial paper (SCP), 803.2 billion yuan of short-term financing bills, 727 billion yuan of medium-term notes, 5.2 billion yuan of SME collective bills, 89.9 billion yuan of private bond placements, 247.3 billion yuan of enterprise bonds,

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



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

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



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

1. It included central bank bills.  
2. It included central bank bills in custody.  
3. It did not include the special government bonds issued in 2007.



and 124.1 billion yuan of corporate bonds.

### Short- and medium-term bonds still accounted for the lion's share

In particular, issuance of bonds with maturity under 5 years accounted for 52.9 percent of the total, up 12.9 percentage points from the previous year; issuance of bonds with maturities of 5-10 years (including 5 years) accounted for 29.8 percent, down 4.9 percentage points from the previous year; and issuance of bonds over 10 years (including 10 years) accounted for 17.3 percent, down 8 percentage points from the previous year (Figure 13).

### Bond indices on the interbank market showed an upward trend, and the market traded briskly

The interbank market bond index rose 5.1 percent, or 6.82 points, to 139.75 points at end-2011, from 132.93 points at the beginning of the year; government bond index on the stock exchange rose 4.0 percent, or 5.07 points, to 131.39 points at end-2011, from 126.32 points at the beginning of the year (Figure 14). The interbank bond market traded briskly, with the turnover increasing rapidly. In 2011, the turnover on the interbank bond market posted 163.1 trillion yuan, up 7.6 percent year on year. In particular, the turnover of outright bond

purchases posted 63.6 trillion yuan, slightly less than the previous year.

### The yield curve of government bonds on the interbank market moved downward and became steeper

At end-December, the yield of 1-year, 5-year, 10-year, 20-year and 30-year products was lower than that at end-January by 44, 57, 60, 32 and 26 basis points respectively. Its movements in the whole year can be roughly divided into three phases. In the first phase from January to April, the yield curve of government bonds showed an overall downward and steepening trend. In the second phase from early May to the end of August, the yield curve of government bonds became flat and shifted upward. In the third phase from early September to the end of the year, the yield curve again became steeper and shifted downward (Figure 15).

### Investors on the interbank bond market diversified

As of end-2011, there were 11 162 participants on the market, including all sorts of financial institutions and non-financial institutions. A multi-tiered market structure, with market-makers as the essential players, financial institutions as majority participants, and other

Figure 14 The Interbank Bond Index and Government Bond Index on the Stock Exchange in 2011

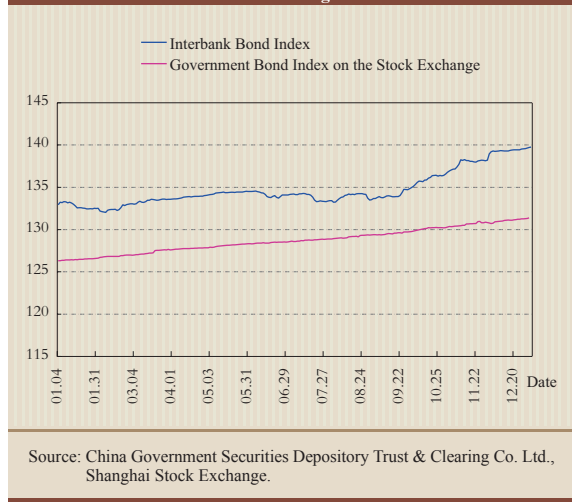


Figure 15 Movements of Government Bond Yield Curves on the Interbank Bond Market in 2011

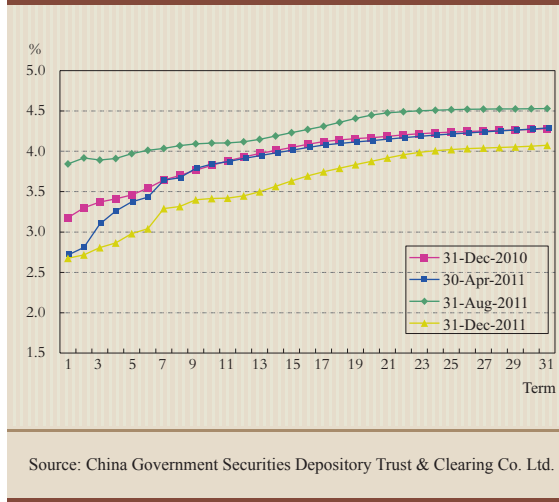
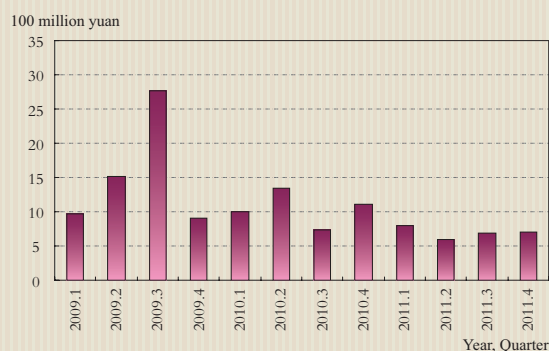


Figure 16 Quarterly Trading Volume of Book-entry Government Bonds on the OTC Market in Recent Years



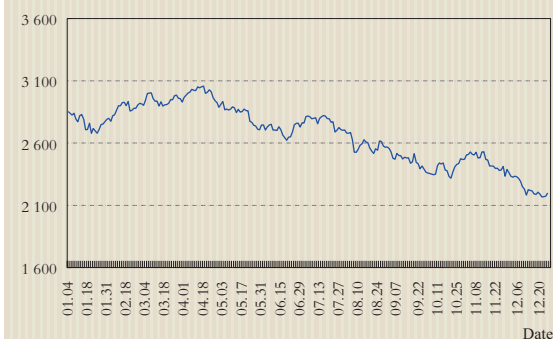
Source: China Government Securities Depository Trust & Clearing Co. Ltd.

institutional investors as active participants, continued to be optimized. The interbank bond market has become an important investment and financing platform for all sorts of market participants.

#### Transactions on the commercial banks' OTC bond market decreased, and the number of accounts steadily increased

An addition of 20 new book-entry government securities were traded on the commercial banks' OTC market, including 5 government bonds with a maturity of one year, 3 government bonds with a maturity of three years, three government bonds with a maturity of five years, 4 government bonds with a maturity of seven years, and five government bonds with a maturity of ten years. By the end of the year, government securities traded on the commercial banks' OTC market included 6 types of products, i.e. one year, three years, five years, seven years, ten years and fifteen years, and the number increased to 95 products. Turnover of government securities totaled 2.79 billion yuan on the commercial banks' OTC bond market, representing a decrease of 33.1 percent year on year (Figure 16). And the number of accounts posted 10.03 million, 1.07 million more than the previous year.

Figure 17 Movements of the Shanghai Stock Exchange Composite Index



Source: Shanghai Stock Exchange.

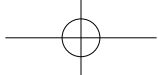
#### Trading of interest rate derivatives remained stable

During 2011, there were 20 000 transactions on the RMB swap market, with notional principle valued at 2.7 trillion yuan, representing an increase of 80 percent year on year. With regard to term structure, RMB interest-rate swaps with a maturity of one year or less than one year traded most briskly, and their aggregate notional principal amounted to 2.0 trillion yuan, accounting for 74.7 percent of the total. In terms of reference rates, the base rate of the floating end of the RMB interest-rate swaps mainly included the 7-day fixing repo rate and the Shibor, and their notional principal accounted for 51.5 percent and 45.5 percent of the total respectively. There were 436 bond forward transactions, valued at 103.01 billion yuan, representing a decrease of 67.6 percent year on year. The transactions of forward interest rate agreements were lukewarm, including only 3 transactions and notional principal totaling 300 million yuan.

### Stock Market Performance

#### The stock indices showed a downward trend

At end-2011, the Shanghai Stock Exchange Composite Index dropped 21.7 percent, or 608.7 points from end-2010, to close at 2 199.4 points. In 2011, the Shanghai Composite



Index reached the peak of 3 057.3 points and the trough of 2 166.2 points, a fluctuation of 891.1 points (Figure 17). The Shenzhen Component Index closed at 8 918.8 points at end-2011, down 3 539.8 points, or 28.4 percent from end-2010. The Shenzhen Component Index witnessed the peak of 13 233.0 points and the trough of 8 555.1 points, a fluctuation of 4 677.9 points.

#### **Trading volume on the stock market declined**

Taking the A-share market of Shanghai Stock Exchange as an example, the turnover totaled 23.9 trillion yuan in 2011 with a daily average of 97.85 billion yuan, down 21.1 percent and 21.9 percent from the previous year respectively.

### **Foreign Exchange Market Performance**

#### **The trading volume of spot RMB foreign exchange transactions increased steadily, while the trading of currencies other than the US dollar became more buoyant**

In 2011, the trading volume of spot RMB foreign exchange transactions increased 16.7 percent year on year, of which the trading volume of currencies other than the US dollar increased 64.2 percent year on year, significantly faster than the growth of the aggregate spot RMB foreign exchanges. On November 28, tradings of RMB against the Australian dollar and the Canadian dollar were launched on the interbank RMB foreign exchange market, and on December 19 the trading of RMB against the Thai Baht started. As of end-2011, the number of currency-pairs traded on the interbank market increased to 10, further facilitating the cross-border trade and investment by economic agents.

#### **RMB exchange rate characterized by two-sided fluctuations and increased exchange rate flexibility**

At end-2011, the central parity of the RMB against

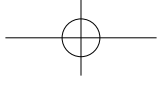
the US dollar was 6.3009 yuan per dollar, representing an appreciation of 5.11 percent compared with the end of the previous year. Among the 244 trading days, the central parity of the RMB against the US dollar appreciated in 143 trading days and depreciated in 101 trading days on the RMB foreign exchange spot market. The daily average fluctuation was around 43 basis points, 7 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 the real effective exchange rate (REER) of the RMB appreciated 4.95 percent and 6.12 percent respectively in 2011. Since the launch of RMB exchange rate regime reform in 2005 and until the end of 2011, the NEER and REER of the RMB have appreciated by 21.16 percent and 30.34 percent respectively.

#### **RMB foreign exchange derivatives market continued to develop rapidly**

In 2011, a total of US\$1.99 trillion was traded, representing an increase of 50.9 percent year on year. Among the total, RMB foreign exchange swaps amounted to US\$1.77 trillion, an increase of 38.0 percent year on year; RMB foreign exchange forwards amounted to US\$214.55 billion, an increase of 5.6 times year on year; and RMB foreign currency swaps and options amounted to US\$80 million and US\$1.01 billion respectively.

#### **The building of RMB foreign exchange derivatives market infrastructure was further improved**

On April 1, the interbank market launched the trading of yuan-forex options. Thus, China's foreign exchange derivative market has covered four types of instruments, namely forward, swap, currency swap and options, initially forming a complete product system of basic foreign exchange derivatives. Transactions of foreign currency pairs on the interbank market increased rapidly, and its turnover in 2011 amounted to US\$94.7 billion, an increase of 42.1 percent year on



year. Among the total, the transactions of spot foreign currency pairs increased 70.6 percent year on year. The most actively traded foreign currency pair was the USD/HKD, and its transactions claimed a market share of 45.2 percent.

#### **Participants in the interbank foreign exchange market further increased**

At the end of 2011, there were 318 members on the spot RMB foreign exchange market, 25 more than that at the end of 2010. There were 73, 71 and 27 members on the RMB foreign exchange forward market, swap market and foreign exchange options market respectively.

#### **Gold Market Performance**

In 2011, the price of gold continued to rise. The price of gold passed the 390 yuan per gram mark on the domestic market, while that on the international market exceeded US\$1 900 per ounce. A total of 7 438.5 tons of gold was traded on the Shanghai Gold Exchange, representing an increase of 22.9 percent year on year; total turnover posted 2.5 trillion yuan, an increase of 53.3 percent year on year. A total of 14 000 tons of gold was traded on the Shanghai Futures Exchange, representing an increase of 111.8 percent year on year; total turnover posted 5.1 trillion yuan, an increase of 178.7 percent year on year. The transaction volume of the commercial bank accounts registered 2 003 tons, the transaction volume of leasing business registered 301.3 tons, and the transactions of physical gold registered 135.6 tons.

#### **Major Policy Measures for the Financial Market**

##### **To strengthen the institutional building and ensure the orderly development of the market**

First, the *Rules for Bond Auction on the Interbank Bond Market* was promulgated to further regulate

bond auctions via the PBC bond issuance system on the interbank bond market, to ensure bond auctions to proceed in an equitable, fair and orderly manner and protect the rights and interests of market participants. Second, the PBC Announcement No. 3 [2011] was issued to strengthen the regulation on agent bond settlement business and further improve the agent settlement of bond business. Third, efforts were made to further improve the market-maker system, introduce the two-side quotation mechanism for new issued key-maturity government bonds, and constantly improve market-maker evaluation system, so as to encourage the market making activities. Fourth, efforts were made to improve the transaction information filing system, promote the effective concentration of market information, and constantly improve market transparency. The system for disclosing significant abnormal trading and ex ante reporting system for abnormal transactions were introduced, and the self-regulatory role of the market was put into full play. Fifth, the PBC, jointly with the Ministry of Public Security, the State Administration for Industry & Commerce, the China Banking Regulatory Commission, and the China Securities Regulatory Commission, promulgated the *Notice on Strengthening Regulation on Gold Exchange and Other Gold Trading Platforms*, to regulate the establishment of gold exchange and gold trading platforms in other exchanges. Sixth, administrative rules were released for the Shanghai Clearing House, the China Foreign Exchange Trade System, the China Government Securities and Clearing Co., Ltd., the National Association of Financial Market Institutional Investors (NAFMII), the Shanghai Gold Exchange, and etc, to guide and regulate the intermediary business on the interbank market. In the meantime, efforts were made to guide the Shanghai Gold Exchange to revise and improve its rules and guidelines for relevant business, and further regulate operations of the market. Seventh, efforts were made to further improve the management on the interbank funding market. In 2011, the PBC approved 36 financial institutions' access to the interbank funding





market, and revoked licenses of 18 financial institutions for interbank lending/borrowing business, approved 41 financial institutions to adjust their quota for interbank lending/borrowing, and approved 5 financial institutions to change their names for connection to the electronic trading system of National Interbank Funding Centre. Efforts were made to strengthen supervision and review over centralized disclosure and significant activities disclosure and law enforcement. In 2011, about 180 non-banking financial institutions participated in information disclosure.

#### **To promote market innovation and development**

First, efforts were made to promote the securitization of credit assets. Second, product innovation was encouraged for the Shanghai Gold Exchange, and the Exchange was approved to launch the trading of Au99.5 gold of 12.5 kilograms. Third, efforts were made to increase the channels of financing by non-financial enterprises, and accelerate the building a multi-tiered capital market system. In April, the PBC promulgated the *Rules for Private Placement of Bond Financing Instruments by Non-financial Enterprises on the Interbank Bond Market*. By the end of 2011, 26 enterprises issued a total of 89.9 billion yuan of private bond-financing instruments.

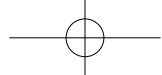
#### **To strengthen the building of market infrastructure and promote the efficient operation of the market**

Efforts were made to draw on the international financial regulatory reform, and guide the Shanghai Clearing House to formulate a plan for net clearing business of spot bond trading. On December 19, the Shanghai Clearing House formally launched the net clearing business of spot bond transactions.

#### **To advance the Opening-up of the financial markets**

First, study was conducted to promote domestic institutions to issue RMB-denominated bonds on the Hong Kong market, allowing mainland enterprises to issue RMB-denominated bonds in Hong Kong, and steadily increasing the amount of RMB-denominated bond issuances by mainland enterprises. In 2011, the State Council approved 10 Chinese Mainland financial institutions and enterprises to each issue 25 billion yuan of RMB-denominated bonds in Hong Kong respectively. Second, efforts were made to continually promote three kinds of foreign institutions including foreign central banks, RMB clearing banks in Hong Kong and Macao and offshore participating banks for RMB settlement of cross-border trade to invest in China's interbank bond market on a trial basis.





## BOX

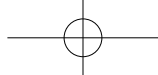
## Promoting the Development of Shanghai into an International Financial Center

**The continuous expansion of cross-border trade**

In 2011, settlement of cross-border trade in Shanghai reached 331.2 billion yuan, about 4.9 times of last year. Among that, settlement of trade in goods stood at 33.4 billion yuan, about 10 times of last year. The real receipt-to-payment ratio registered 1:2.7, compared with 1:4.6 in 2010, reflecting that RMB receipts and payments became more balanced. The cross-border RMB capital business grew steadily in Shanghai, with large increase in RMB purchase and sale and interbank lending, accounting for 76.8 percent and 85.8 percent of the national total respectively. With the launch of administrative measures on RMB settlement of outward direct investment, RMB settlement of foreign direct investment, RMB loans for overseas projects and RQFII, more channels for use of RMB in cross-border investment had been opened. In 2011, RMB settlement of cross-border trade under the capital account reached 50.3 billion yuan accumulatively in Shanghai. The agency settlement network was expanding. By the end of the year, participating overseas banks had opened 675 interbank accounts in Shanghai, 306 more than in the beginning of the year and ranking number one in China in terms of the number of accounts opened. Overseas institutions had opened 825 non-resident accounts in Shanghai, an increase of 510 from the beginning of the year. And the establishment of RMB overseas investment funds was progressing steadily.

**Breakthroughs in the building of the financial market system**

First, encourage financial institutions in Shanghai to issue bonds in the interbank market. In March, Bank of East Asia (China) Limited issued 2 billion yuan's financial bonds. In May, Bank of Shanghai issued 5 billion yuan's subordinate debts. The PBC facilitate the issuance of collective bonds by Shanghai SME. In 2011, two SME collective bonds were successfully issued in Yangpu District and Pudong District, raising a total of 1.035 billion yuan. Second, press ahead with the connection of electronic system to the interbank loan transfer platform and encourage more institutions to sign the master agreement for the loan transfer. By the end of the year, 52 institutions had connected their systems to the loan transfer platform and 53 had signed the master agreement. Third, promote three types of overseas institutions to make RMB investment in the Mainland China's interbank bond market. In 2011, 38 overseas commercial institutions were approved to invest in the interbank bond market. Fourth, increase the number of foreign currencies, which are traded directly with RMB and facilitate the innovation of foreign exchange risk management tools. In November, the China interbank foreign exchange market began to offer RMB exchange rates against Australia Dollar and Canadian Dollar, which increased the number of currencies having direct quotations with RMB for spot transactions to



nine. In April, options between RMB and foreign exchanges were formally launched on the interbank market, thus the market offered a full spectrum of rudimentary foreign exchange derivative products. Fifth, promote the development of independent and specialized net clearing services on the interbank bond and foreign exchange markets. In August, the Shanghai Clearing House started to provide net clearing services for the foreign exchange spot anonymous transactions. In December, the Shanghai Clearing House formally launched the net clearing services for cash bond transactions on the interbank market (net clearing for short-term financing bills and super and short-term commercial paper), indicating the establishment of a centralized clearing system for the interbank bond market.

#### **Further development of trade and investment facilitation**

First, pilot program of foreign exchange administration reform for the building of an international trade settlement center kicked off for the second batch of enterprises. In September, the second batch of 12 enterprises in the Shanghai Free Trade Zone began to participate in the pilot program of foreign exchange administration reform for the building of an international trade settlement center, the coverage of the program expanding to 20 enterprises. Enterprises joining the pilot program are more actively involved in the international trade with remarkably expanded business scope and improving status in their groups. And they won more businesses from the Asia Pacific area. Second, press ahead with the pilot program for the foreign-funded equity investment in Shanghai and 12 enterprises had gained the qualification for carrying out the business. Third, encourage financial leasing companies to set up subsidiaries specially for the leasing of aircrafts, ships and etc by allowing the payment and receipt of foreign exchange in the relevant transactions. Fourth, support money brokerage companies to actively apply for brokerage licenses for foreign exchange option.



## CREDIT POLICY

In 2011, in line with the decision and arrangements of the CPC Central Committee and the State Council, the PBC deepened its implementation of the scientific development approach, strengthened and improved macro-credit policy guidance, firmly promoted financial product and service innovation, optimized credit allocation, made great efforts in using credit guide policies as a tool to serve the real economy and promote stable growth and social harmony, and has made significant progress.

### **Coordination between credit policies and industry policies was enhanced to optimize credit allocation structure**

The PBC earnestly implemented the strategies and arrangements of the CPC Central Committee and the State Council on accelerating the development of service and culture industries, and cultivating strategic and emerging industries, adhered to the principle of “differentiated treatment for different industries”, and strengthened the coordination of credit policies with industry policies. It actively encouraged financial institutions to provide better financial support and services to key industries in the economy and society such as advanced equipment machinery, modern service, strategic and emerging industries and the culture industry. The PBC also limited credit support to high energy-consuming and high pollution industries, encouraged energy saving and emission reduction and the weeding-out of outdated capacity, and supported the adjustment of economic structure and transformation of economic development model. The PBC carried out pilot work on combining technology and finance, jointly determined the first group of regions to start the pilot with the Ministry of Science and Technology, motivated financial institutions to accelerate technology-related financial product and service innovation, and encouraged financial institutions to provide financial services such as intellectual property pledges, account receivable pledges, warehouse receipt pledges, equity pledges and investment and credit integration on the basis of the financing need of technology

corporations. According to the requirements of the sixth Plenary Session of the 17th CPC Central Committee, the PBC encouraged and motivated financial institutions to implement the *Guiding Opinions on Extending Financial Support to Revitalize and Develop the Culture Industry* (PBC Document [2010] No. 94) released by the PBC and other eight departments to strengthen financial services for the development and prosperity of the socialist culture. The PBC coordinated with related departments to study and formulate the “12<sup>th</sup> Five-year Plan” for industries such as strategic and emerging industries and the service industry, and motivated financial institutions to provide credit support to these industries. The PBC also improved green-credit management, encouraged financial institutions to further their financial support to areas such as environment-friendly industries, circular economy development and technology improvement related to energy saving and emission reduction, and strengthened its support to the cultivation of new economic growth drivers. By the end of 2011, the total mid-to-long term credit outstanding of all financial institutions was 32.38 trillion yuan, in which service-related balance was 14.92 billion yuan, increasing nine percent, whereas culture, sports and entertainment-related credits registered at 86.1 billion yuan, rising 20.4 percent.

### **Financial services for rural areas were improved and more funds directed to agricultural sector, rural areas and farmers**

The PBC further enhanced rural area financial product



and service innovation, established a special reporting mechanism on monitoring rural area financial product and service innovation, and motivated financial institutions to summarize and generalize successful experiences in a timely manner. The PBC also improved its work on providing financial services to facilitate the collective forestry right reform and promoted the development of forestry right pledge loans. According to the strategic arrangement of the *Decision on Accelerating the Reform of Water Conservancy by the State Council* (State Council [2011] No.1), the PBC attached greater importance to offering financial support to water conservancy reform, viewing it as a key way to support agriculture, and actively formulated guidelines on financial support to water conservancy reform with other related departments. The PBC conducted evaluations on the implementation of agriculture-related credit policies by county-level financial institutions, strengthened assessments of their implementation of the policy that county-level legal person financial institutions should make certain percentage of local loans, and offered positive incentives to promote the effective transmission of agriculture-related credit policies and boost the motives of financial institutions to better serve agricultural sector, rural areas and farmers. Under the combined effects of the above measures, the growth rate of agriculture-related credit of financial institutions significantly increased. At the end of 2011, the balance of agriculture-related credit of financial institutions was 14.6 trillion yuan, 24.9 percent higher than the last year, and was 9.2 percentage points higher than the growth rate of total credit in the same period.

#### **Efforts were made to optimize SME funding environment and strengthen financial support to these enterprises**

Taking into consideration the operational funding need and profitability of SMEs in 2011, the PBC strengthened macro-credit policy guidance, released the *Notice on Further Enhancing Credit Management and*

*Finance Services to Small and Medium-sized Enterprises* (PBC Document [2011] No.184), required legal person banking financial institutions to enhance interest rate policy management and ban extra charges or operational violations. The PBC also launched assessments on the effects of SME credit policy guidance in financial institutions at the provincial level and below so as to promote the effective transmission of these credit policies. The PBC took great effort to improve the funding environment of small and micro enterprises. It took effective and prompt measures with related departments, accelerated the establishment of credit information system and financing guarantee system of SMEs, motivated financial institutions to adjust credit structures and endeavored to direct more credits to SMEs, in particular small and micro enterprises. The PBC actively promoted innovation of direct financing tools in the interbank bond market, encouraged eligible SMEs to raise fund on the interbank bond market by issuing various bond financing instruments such as financing bills and SME collective notes to expand their funding channels. The credit extended to SMEs by the financial sector continued to grow. At the end of the year, the credit balance of SMEs in financial institutions was 21.8 trillion yuan, increasing 18.6 percent year on year, 7.1 percentage points higher than the growth rate of large enterprise credits. The credit balance of small enterprises was 10.8 trillion yuan, up 25.7 percent compared with last year, 14.2 percentage points and 12.5 percentage points higher than the growth rate of large and medium-sized enterprises.

#### **Financial support for people's livelihood was encouraged to promote inclusive growth**

Guaranteed small loans was given an active role in supporting employment and re-employment, serving urban residents who experienced difficulty in finding jobs, college graduates, rural area females, college graduate village officials and returning migrant workers. The PBC followed the requirements on *Outline for Development-*



*oriented Poverty Reduction for China's Rural Areas* (2011~2020), enhanced studies on financial service conditions in national key poverty-stricken counties and concentrated and linked poor areas, improved poverty-reducing discount loan policies, and promoted the establishment of a sustainable mechanism that facilitated credit-driven poverty reduction. The PBC also encouraged financial institutions to implement national student loan policy and accelerate the coordinated development of national student loans and student origin-based loans. At the end of the year, the balance of guaranteed small loans across the country was 43.7 billion yuan, increasing 52.7 percent year on year. And the balance of national student loans registered at 44.122 billion yuan, up 16.9 percent compared with last year.

#### **Financial support and services were provided to key regions to support China's regional economic development policies**

The PBC endeavored to implement the decisions in *Several Opinions on the In-depth Implementation of the Western Development Strategy* released by the CPC Central Committee and the State Council, actively improved financial support to the western development, deepened policy research and studies on specific topics, studied the establishment of economic and financial indicators system that would facilitate financial support to regional development, and strengthened tracking, monitoring and assessments of policy implementation. The PBC coordinated with other departments to actively study financial measures to support the economic rejuvenation of the Northeast, the rise of Central China, Xinjiang's leap-forward development and the development of minority regions. The PBC also offered support to the national strategy of establishing main-functional regions, and actively studied financial service measures that support the pilot marine economic development programs in Guangdong, Zhejiang, Shandong and Fujian, according to the National

Marine Economic Development Plan. In addition, the PBC coordinated with other departments in offering supportive financing services to the development of national key areas such as Tianjin Binhai New Area, Shanghai International Financial Center, Yiwu International Trade Reform Experimental Zone, and Henan Central Plains Economic Region. Meanwhile, the PBC took firm measures to direct financial services and support to earthquake-stricken areas in Wenchuan and Yushu and massive landslide-stricken areas in Zhouqu, urged financial institutions to strengthen credit structure adjustment in disaster-stricken areas and credit management related to post-disaster reconstruction to help those areas to sustain long-term development.

#### **Differentiated housing credit policy was implemented to promote financial services to low-income housing projects**

According to the requirement of the State Council to further promote housing market management, the PBC implemented differentiated housing credit policy, released the *Notice on Implementing Differentiated Housing Credit Policy*, and encouraged banking institutions to strictly carry out the differentiated housing credit policy and establish a working procedure that would raise the down-payment ratio and interest rate of the second housing loan based on national credit policy and the price control target and requirements of newly-constructed housing of the local governments. With the approval of the State Council and jointly with China Banking Regulatory Commission, the PBC released the *Circular on Providing Quality Financial Services for Public Rental Housing and Other Government-subsidized Housing Projects*, clarified financial supporting policies concerning public rental housing and required banking financial institutions to strengthen their efforts in supporting various low-income housing projects. As housing market management policies were underway, the growth rate of housing credit declined as a whole. At the end of 2011, the housing credit balance





of major financial institutions, rural cooperative financial institutions, urban credit cooperatives and foreign banks registered 10.73 trillion yuan, increasing 13.9 percent year on year and a reduction of 13.5 percentage points from the end of last year. New housing loans accounted for 17.5 percent of all new loans, a reduction of 9.4 percentage points from the corresponding period of last year. Against the background of significant drop of

new housing credit, low-income housing projects were promoted on a large scale, with the share of new low-income housing loans in total new loans increasing by a large margin. Over the year, new low-income housing loans amounted to 175.1 billion yuan, accounting for 50.1 percent of total new housing loans and an increase of 31.7 percentage points from that of the beginning of the year.

## BOX

### Improved SME Access to Financing since the Implementation of Prudent Monetary Policy

In 2011, to implement *Opinions of the State Council on Further Promoting the Development of Small- & Medium-sized Enterprises* and policy measures to provide financial support to SMEs, especially small and micro businesses, adopted by the State Council in the 175<sup>th</sup> state council executive meeting, the PBC strengthened guidance on monetary and credit policy, further improved credit structure, and enhanced financial support to SMEs. Since the implementation of prudent monetary policy, SME access to credit and financing has been improved.

#### Increased credit input and financial support to SMEs

First, the PBC flexibly used a mix of policy tools, including reserve requirement ratio, central bank lending and discount, and differentiated deposit reserve requirement ratio, to encourage commercial banks to increase lending to SMEs. Small- and medium- sized financial institutions with relatively higher ratio of SME loans to their total lending were allowed to have a reserve requirement ratio lower than its peers; specifically, the deposit reserve requirement ratios of small- and medium- sized commercial banks, rural cooperative banks and rural credit cooperatives were 2 percentage points, 5.5 percentage points and 6 percentage points lower respectively than that of large banks. Central bank lending was provided to small- and medium- sized financial institutions to encourage lending to SMEs. By choosing the specific kinds of bills for discount, the PBC gave priority to discount bills held by SMEs and weak links in the economy. The PBC also guided financial institutions to improve their pricing mechanism for SME loans.

Second, credit policy guidance was enhanced to encourage financial institutions to improve financial services to SMEs. In July, the PBC published *Notice on Further Enhance Credit Management and Providing Financial Services to Small- and Medium-sized Enterprises*, requiring financial institutions to implement the differentiated credit policy and satisfy the rational credit demand of those SMEs which were compatible with national policy, environment protection policy and lending requirements. The



PBC also issued *Notice on Assessing the Effects of Policy Guidance on Loans to SMEs* to assess the effects of credit policy on financial institutions' loans to SMEs from both the quantitative and qualitative perspectives, so as to promote the effective transmission of credit policy on SME loans. At the same time, the use of RMB in both cross-border trade settlement and outward direct investment were actively promoted, providing convenient financial services to SMEs in their "going-global" development.

Third, innovations in financial products were promoted with a view to providing diversified financing methods for SMEs. Financial institutions were encouraged to create and market new credit products, financing methods and services tailored for SMEs. The interbank market was improved to facilitate the issuance of new products including short-term financial bills, medium-term notes, SME collective notes and credit enhancement tools, and make them supplement each other. Financial institutions were encouraged to issue financial bonds to raise funds specifically for SMEs, and take various measures, such as waiving membership fees and establishing green passages, to create a favorable environment for SMEs' direct financing and the diversification of their financing channels.

Fourth, the development of SME credit system was promoted and the financial ecological environment of SMEs was improved. In 2010, the PBC launched *Opinions on Building a SME Credit System Pilot Zone* to facilitate the establishment of the SME credit system pilot zones in areas with favorable conditions, so as to enhance the building of SME credit system and create a good credit information service environment for the development of SMEs.

#### **Improved SME access to credit and financing**

First, the growth of SME loans was higher than that of large enterprises. At the end of 2011, outstanding SME lending by financial institutions registered 21.8 trillion yuan, up by 18.6 percent year on year, and surpassing lending to large enterprises by 7.1 percentage points. Among those, outstanding loans of small enterprises stood at 10.8 trillion yuan, up 25.8 percent compared with last year, surpassing the growth rate of large and medium-sized enterprises by 14.2 and 12.5 percentage points respectively.

Second, the proportion of SME loans in total lending continued to increase. At the end of the year, outstanding SME loans comprised 58.3 percent of the total lending to enterprises, 1.5 percentage points higher than last year and 16.7 percentage points higher than that of large enterprises at the end of the year. Among those, outstanding loans of small enterprises accounted for 26.4 percent of the total, up by 2.2 percentage points from the end of the last year. In 2011, new SME loans accounted for 68 percent of total new loans of enterprises, 36 percentage points higher than new loans of large enterprises. Among those, new loan of small enterprises comprised 40.1 percent of the total.

Third, both the growth rate and proportion of SME loans were higher than the pre-crisis levels. At the end of the year, the year-on-year growth rate of outstanding SME loans was 5.1 percentage points higher than that in 2008, and the proportion of SME loans was 4.6, 3.3 and 1.4 percentage points higher than that at the end of 2008, 2009 and 2010 respectively.





## FOREIGN EXCHANGE ADMINISTRATION

In 2011, China's balance of payments displayed a net inflow, but the imbalance was lessened. In the first half of the year, affected by external and domestic economic and financial situations, China's balance of payments registered a large inflow, similar to that in 2010. In September, and particularly in the fourth quarter of 2011, the net foreign exchange inflow gradually decreased and the balance of payments became more balanced.

### **A mix of policy instruments was used to contain abnormal cross-border capital inflows**

Firstly, SAFE prepared in advance to combat the inflow of hot money. In March, SAFE further strengthened its foreign exchange administration, enhanced the management of foreign exchange receipt of entrepot trade, advance payments for export, deferred payments and the general positions of purchase and sale of foreign exchange by banks, and further reduced the total short-term foreign debt quota of domestic financial institutions in 2011. At the same time, SAFE also used price-based instruments to motivate banks to manage their positions of purchase and sale of foreign exchange by improving the pricing of quoted foreign exchanges. Secondly, SAFE correctly guided different kinds of capital flows and further diversified cross-border capital flow management tools. In July, SAFE further strengthened its focus on reducing the excessive growth of foreign exchange purchase and sale surplus of banks, supporting the stable development of export-import trade while preventing hot money from flowing in. SAFE also took initiative in strengthening authenticity verification of trade and investment foreign exchange inflows, encouraging purchase and payments of foreign exchange based on real trade and investment need, encouraging enterprises to deposit export proceeds overseas and starting the pilot "watch list" management of purchase and sale of foreign

exchange by individuals. Thirdly, SAFE focused on work of continuing to counterstrike illegal capital inflows and hot money. Concentrating on financial institutions and large enterprises, SAFE launched special inspections on capital exchange surrender and short-term foreign debt, and pooled efforts on investigating major violations. Throughout the year, SAFE altogether investigated and handled 3 488 foreign exchange-related violation cases, imposed fines and confiscated proceeds of over 500 million yuan, more than doubling that of 2010. SAFE publicized with increasing frequency the violation cases of market participants, including the penalty imposed on those banks, enterprises and individuals that failed to conform to regulations when conducting foreign exchange business in an effort to deter more violations. Fourthly, SAFE applied various measures to further enhance its supervision of cross-border capital flows. It continuously improved balance of payments risk monitoring and market expectation survey, and established a comprehensive statistics system to collect data of trade financing through banks. It also expanded the platform of comprehensive data utilization across the country, and constructed a preliminary and relatively complete monitoring system of cross-border foreign exchange receipts, payments and business data. It improved the assessment mechanism of the implementation of foreign exchange management regulations by banks to enhance compliance of banks. It also strengthened inter-agency coordination and information exchanges to achieve synthesis effect in containing the inflow of hot money.

### **Key foreign exchange administration reform was advanced**

First of all, SAFE steadily promoted the reform of foreign exchange administration concerning trade of goods. On December 1, 2011, SAFE launched pilot reform in



seven provinces (municipalities), allowing complying enterprises to conduct regular import and export business without having to go through verification process case by case. Through aggregated screening and matching, dynamic monitoring and classified regulation of the goods and flow of funds in the enterprise trade account, SAFE improved its risk prevention mechanism and realized both trade facilitation and regulation effectiveness. The pilot reform of foreign exchange administration concerning trade of goods greatly simplified procedures that banks and enterprises had to go through, lowered their operational costs, raised accountability of banks in authenticity verification and improved incentives for enterprises to strengthen internal management. Secondly, SAFE accelerated the integration of data and systems. It unified the web portals of 15 business systems, including direct investment business, and realized standardization of access channels and login screens of SAFE, banks and enterprises. SAFE also established foreign exchange administration data base so as to collect all the data from foreign exchange administration systems and share information. Thirdly, SAFE endeavored to make the foreign exchange receipts, payments and trading of market agents more convenient. Starting from January 1, SAFE expanded the policy of depositing export proceeds overseas across the country, simplified some capital account foreign exchange administration policies and transferred some business approval power to local SAFE branches. SAFE also standardized individual foreign exchange purchase and sale through electronic banking to make it more convenient. During the year, SAFE improved the mechanisms of Qualified Foreign Institutional Investors (QFII) and Qualified Domestic Institutional Investors (QDII) as well. At the end of 2011, SAFE accumulatively approved 110 QFII with US\$21.6 billion of investment quota and 96 QDII with US\$74.9 billion of investment quota. Fourthly, SAFE took initiative in cultivating and developing foreign exchange market. It approved banks of offering business lines of currency swap and RMB foreign exchange option trade, and strengthened banks' management of exposure positions in option trade. In the inter-bank foreign exchange market,

SAFE launched the trade of Australian dollar and Canadian dollar against RMB, reducing the conversion costs of cross-border trades and investments.

#### **Foreign exchange administration according to law was improved and the transparency of administration was improved**

First of all, SAFE accelerated the clean-up and consolidation of administrative approvals and regulations. It abolished 16 administrative approval procedures concerning refunding of advance import payments, and etc. It also consolidated 29 regulations relating to international payments statistics declaration, completed the clean-up and consolidation plan of foreign exchange administrative regulations pertaining to trade of goods, trade of services and foreign direct investment, updated the *Directory of Currently Effective Foreign Exchange Administrative Regulations*, and published it on the website of SAFE. Secondly, SAFE enhanced its efforts in publicity and data publishing. For the first time, SAFE started to publish international investment position data on a quarterly basis. It also published for the first time the *Monitoring Report of China's Cross-border Fund Flows in 2010*, published three issues of *Answers to Hot Questions Concerning Foreign Exchange Reserves* in response to social concerns.

#### **Foreign exchange reserve management was further enhanced**

SAFE further improved its foreign exchange reserve management model, strengthened risk management and optimized mid-to-long term strategic asset allocation in response to the debt crisis in Europe and U.S. in a more prudent manner. SAFE also promoted foreign exchange reserve management innovation to better serve China's overall economic development. In addition, it continued to strengthen institutional and team building and optimized mechanisms of staff recruitment, promotion, development and motivation.



## BALANCE OF PAYMENTS POSITION

### An overview of balance of payments position

In 2011, China's current account and capital & financial account maintained twin-surplus, and international reserve assets increased. The current account surplus was US\$201.7 billion, declining 15 percent year on year. The surplus of capital and financial account was US\$221.1 billion, down 23 percent year on year. The total BOP surplus was US\$422.8 billion, shrinking 19 percent from that of last year and below the average surplus of US\$468.6 billion from 2007 to 2010.

The surplus of trade of goods went slightly down. Based on the statistical coverage of the balance of payments, the volume export of goods was US\$1 903.8 billion, while the import of goods reached US\$1 660.3 billion, increasing 20 percent and 25 percent year on year respectively. Trade of goods surplus was US\$243.5 billion in total, 4 percent lower than last year.

The deficit of trade of services expanded quickly. The revenues of trade of services in 2011 were US\$182.8 billion, up 13 percent year on year, while the expenditures were US\$238.1 billion, increasing 23 percent compared with last year. The overall deficit of trade of services account was US\$55.2 billion, 77 percent higher than last year. Throughout the year, the combined surplus of both goods and services trade decreased 16 percent year on year to US\$188.3 billion. The surplus to GDP ratio registered 2.6 percent and continued the downward trend after the peak in 2007.

The deficit of income account decreased. The revenue side of income account in 2011 was US\$144.6 billion, 1.5 percent higher than last year, while the expenditure side was US\$156.5 billion, down 7 percent from last year. The deficit decreased 54 percent year on year to US\$11.9 billion, including investment income deficit of US\$26.8 billion, which was 30 percent lower than last year. The net inflow of compensation of employees was US\$15

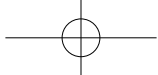
billion, a rise of 23 percent compared with last year.

Direct investment surplus has seen a reduction. In 2011, direct investment surplus was US\$170.4 billion and 8 percent lower than last year, in which foreign direct investment net inflow was US\$220.1 billion and outward direct investment was US\$49.7 billion, decreasing 10 percent and 14 percent year on year respectively.

The net inflow of securities investment declined fast. In 2011, the net inflow of securities investment was US\$19.6 billion, 18 percent lower than last year. China's outward securities investment saw a net backflow of US\$6.2 billion (whereas in 2010 there was a net outflow of 7.6 billion), and net foreign securities investment in China was US\$13.4 billion, falling 58 percent than last year.

The growth of reserve assets slowed down. Eliminating the impact of value fluctuation of non-trading factors such as exchange rates and prices (the same as below), China's newly increased reserve assets were US\$387.8 billion, US\$83.9 billion less than last year. Amid the total reserve assets, the increase of foreign exchange reserves was US\$384.8 billion, which was US\$84.7 billion less than last year. At the end of 2011, the outstanding balance of foreign exchange reserves was US\$3 181.1 billion.

Net errors and omissions were negative. The net errors and omissions occurred on the debit side with a balance of US\$35 billion, accounting for minus 1 percent of the total amount of import and export of goods based on the statistical coverage of the balance of payments, which was much smaller than the international standard of  $\pm 5$  percent. The main causes of errors and omissions included diversification of data sources, and the differences in statistical coverage, time span and valuation standard. Since 2001, net errors and omissions occurred five times on the debit side and six times on the credit side, which showed that the direction of fund flows



under this account was random and was not necessarily related to the in-and-out of hot money.

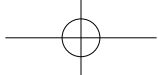
#### Analysis of the balance of payments conditions

During the year, China's external economic activities remained active. The total amount of balance of payments transactions registered a record high of US\$6.95 trillion, increasing 22 percent than last year. The ratio of total amount of balance of payments to GDP was 95 percent, 0.6 percent lower than last year. Among its components, the amount of transactions under capital and financial account was US\$2.58 trillion, accounting for 37 percent of the total, while that of the current account was US\$4.37 billion, accounting for 63 percent of the total. The surplus of capital and financial account took 52 percent of the total balance of payments surplus, and for the second year became the main source of foreign exchange reserve accumulation instead of current account surplus.

The balance of current account was further improved. Compared with last year, China's current account surplus decreased 15 percent and its ratio to GDP was 2.8 percent, which was 1.2 percentage points lower than last year.

Since 2008, the ratio of China's current account surplus to GDP has gradually declined to an internationally accepted rational range. This reflected the transformation of domestic economic development model, the effects of external economic policy adjustment, and the changes in external economic and financial situations as well.

The fluctuation of cross-border capital flows was fairly large. In the first three quarters of 2011, the surplus of capital and financial account was US\$250 billion, 62 percent higher than the corresponding period of last year. In the fourth quarter, affected by the U.S. and European Sovereign Debt Crisis, the capital and financial account experienced a net outflow of US\$29 billion. In the year, capital and financial account surplus was US\$221.1 billion, 23 percent lower than last year. The ratio of capital and financial account surplus to GDP was 3.0 percent, decreasing 1.8 percentage points compared with that of 2010. Looking at foreign exchange reserve accumulation caused by trading, in the first three quarters, reserve accumulation was US\$88.8 billion more than that in the corresponding period last year, while in the whole year, accumulation was US\$84.7 billion less than last year.



## FINANCIAL LEGISLATION

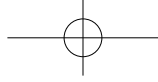
### **Progress was made in major legislation projects, with an improved legal environment for the PBC to lawfully fulfill its mandate**

First, the PBC made legislation plan for the 12<sup>th</sup> Five-year Plan period. In a systemic way, it reviewed the development of financial legal system during the 11<sup>th</sup> Five-year Plan period, reflected on the experience of international financial regulatory legislation reforms and the adjustments of major central banks' mandates in the post-crisis era. Based on these it published *the PBC Legislation Plan in the 12<sup>th</sup> Five-year Period*. According to the plan, the PBC will promote the revision or drafting of 6 laws, 16 administrative regulations and 33 other rules and regulations. It will provide guidance for future financial legislation at the macro-level. Second, the PBC promoted the special legislation on anti-terrorism financing (ATF). Closely working with the Legislation Affairs Commission of the National People's Congress (NPC) and the Legislation Affairs Office of the State Council, the PBC contributed to the publication of *the Decisions of the NPC Standing Committee on Strengthening ATF Work and Other Issues*, improving consummating the legal system for freezing terrorist funds and laying a solid foundation for China to smoothly complete the evaluation of the Financial Action Task Force (FATF). Third, the PBC conducted preliminary theoretical explorations on *the Regulation on Credit Information Services* and made preparations for its publication. After two public consultations, the PBC cooperated with the Legislation Affairs Office of the State Council and made revisions in a number of key areas, such as market access, personal data protection, the basic financial sector credit database, as well as in some major controversial issues. At present, the Draft of *the Regulation on Credit Information Services* is nearly

completed and major disputes have been eliminated, creating a favorable condition for the regulation to be released. Fourth, the PBC pushed forward the development and revision of economic and financial sector laws and regulations. Working with other ministries, the PBC promoted the amendment of *the Budget Law of the People's Republic of China*, *the Securities Investment Law of the People's Republic of China*, etc. It also promoted the development of administrative rules on cash management, deposit insurance, gold market and bankcard regulations, etc, and amended *the General Rules on Lending*. Fifth, the PBC formulated and released documents to improve the legal and institutional basis for the central bank to fulfill its mandate. During the year, the PBC issued regulatory documents on financial consumer protection, cross-border RMB business, regulation and supervision of interbank market, payment services provided by non-financial institutions and reporting requirements for financial institutions. These documents, while regulating market participants, facilitated the central bank to carry out its mandates. Sixth, the PBC cleaned up normative documents, including those released by the PBC and SAFE, and published lists of documents that are still in effect.

### **The administration according to law was improved and the administrative capacity was enhanced**

During the year, the PBC made efforts in enhancing financial consumer protection across the country. By the end of 2011, efforts were made by 563 PBC branch offices in 29 provinces (or autonomous regions / municipalities directly under the central government), with 615 regulatory documents issued and 454 institutions established. 3 963 complaints were solved, accounting for 98.51 percent of a total of



4 023 that were received. Many of the complaints were on poor banking services, unreasonable charges and fraud in sales. When dealing with the complaints, the PBC branch offices accepted the ones that were within the PBC's mandates; the rest were sent to relevant authorities for a timely solution.

The PBC continued to improve the administrative appeals and approvals. In dealing with administrative appeals, the PBC was actively engaged in relevant cases, enhanced communications with related parties and improved quality and effectiveness of processing cases. While faithfully complying with laws and regulations, the PBC actively explored ways to process administrative appeals that were more in line with the nature of the PBC's work. In carrying out administrative approvals, while complying with laws and regulations, the PBC continued its work on clean-up, check and monitoring of administrative approval subjects. Besides, in order to implement the *Compendium of Completely Implementing Administration According to Law in an All-round Way* and *Opinions of the State Council on Strengthening the Building of a Government Ruled by Law*, the PBC conducted thematic reviews to gain knowledge on how well the PBC branches administrate by law. The above measures created a favorable condition for the PBC to administrate by law.

#### **Theoretic studies were conducted and research on the latest financial legal issues was made**

Focusing on the lawmaking process and practical needs in financial legislations, the PBC studied hot topics such as the U.S. financial regulation reform, European sovereign debt crisis, RMB internationalization, gold market management,

supervision and management of payment services of non-financial institutions, civil responsibility in bankcard frauds, legal design of introducing private capital into the financial service industry and "long arm jurisdiction" of foreign courts, and etc. These researches will provide useful information and guidance for the decision that making process of laws, and laying a solid foundation for financial legislation.

The PBC also involved itself in the development of judicial interpretations. It cooperated with relevant authorities to conduct researches on property law, bankruptcy law, financing and leasing cases and bankcard fraud cases, and to provide theoretic and practical support to the Supreme Court and the Supreme Procuratorate in drafting judicial interpretations. In particular, the PBC closely followed the outstanding legal issues, such as supporting legislation for financial derivatives, financing with the operational risks over contracted land as collaterals, legal effect of financial leasing registration, and etc, to make preparations for the birth of new laws.

#### **Legal procedures were standardized and services were improved**

First, it amended and released *the Provisions of PBC's Legal Work* and clarified the mandates and working procedures of legal departments of PBC branch offices at all levels. Second, the PBC strengthened cooperations and communications with judicial authorities, administrative authorities and financial institutions, provided consulting and proposals on questions about financial legislation to relevant departments and answered inquiries from relevant institutions and individuals.





## PAYMENT AND SETTLEMENT SYSTEMS

### Guidelines for developing payment and settlement systems were issued

In January 2012, the PBC issued the *Guideline for Development of China's Payment and Settlement Systems (2011-2015)*, the first guidance for mid-term development of China's payment systems. The document set up a clear policy direction and emphasized key areas in the development of future payment systems to guide market behaviors.

### The payment and settlement systems maintained steady and smooth operations

In 2011, the High Value Payment System (HVPS) and the Bulk Electronic Payment System (BEPS) continued to operate steadily and efficiently, with a stable increase in their transaction volume. In the year, the payment systems<sup>1</sup> processed 15.523 billion transactions and the volume amounted to 1 991.90 trillion yuan. Among the total, 372 million transactions were processed by the PBC's HVPS with a total value of 1 355.28 trillion yuan, about 28.74 times of Gross Domestic Product (GDP) for 2011.

### The use of non-cash payment instruments was further extended

In 2011, 33.83 billion non-cash payment transactions with a value of 1 104.35 trillion yuan were processed, posting 22.1 percent and 22.0 percent year-on-year increase respectively. The commercial-paper transactions reached 847 million with a trading volume of 301.11 trillion yuan. Bank-card transactions totaled 31.78 billion, with a trading volume of 323.83 trillion yuan. The penetration rate of bankcard reached 38.6 percent, an increase of 3.5 percentage points from last year. At the year end, 325 institutions across

the country gained access to the Electronic Commercial Draft System (ECDS). The system processed a total of 537.4 thousand transactions including issuing notes, honoring notes, discounting and rediscounting, with a volume of 1.47 trillion yuan, increasing year on year by 86.13 percent and 44.35 percent respectively. On March 1, new bank papers (the 2010 Version) were introduced with improved counterfeiting features. The PBC also organized the nationwide introduction of cards specialized for subsidized students in secondary vocational schools and improved relevant regulation and supervision to realize timely and effectively disbursement of national scholarships.

### Infrastructure of payment and settlement systems was improved

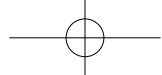
On January 24, the use of the interbank online payment system was extended to the whole country. At the year end, 120 institutions were accessed to the system, with a daily average of 211.5 thousand transactions processed, which was a 400 percent year-on-year increase. The system played an important role in improving the services of online payment and settlement and in promoting the growth of e-commerce. The construction of the second-generation payment and settlement systems was steadily pushed forward, with software development basically completed and three rounds of tests finished. The construction of the Central Bank Accounting Data Centralized System (ACS) entered an important phase, and significant progress was made in operation testing, institution design and the construction of processing centers.

### Regulation and supervision over payment and settlement systems were further strengthened

The PBC began drafting the *Guidance on Electronic Payment (No.2)* and revising the RMB account system,

1. Including HVPS, BEPS, interbank fund transfer system, interbank bankcard payment system, cross-bank clearing system for online payments, intra-city bill clearing system and foreign currency payment system.





promoted the amendment of *the Law of Negotiable Instruments and the Administrative Rules on Payment Services*, further improved the administration of new payment services and enhanced the legal basis for the payment and settlement systems. The PBC also promoted the establishment of the China Association of Payment and Settlement, as an exploration in promoting the industry's self-regulation to complement government supervision and regulation. The PBC worked with the National Development and Reform Commission and the China Banking Regulatory Commission and issued notice to regulate service charges to protect financial consumers. It timely released *Risk Warning on Payment and Settlement Business* and established a risk reporting and disclosure system. It organized reviews on the compliance of payment and settlement practices to identify risks and protect the interests of relevant parties. The PBC also worked with the public security authorities to investigate two major cases that took place on 25 March and 26 July respectively, and cooperated with the Supreme Court to improve the inquiry mechanism. These activities took advantage of the off-sight supervision capability of the PBC's RMB Settlement Account Management System. The PBC also gave out administrative approval for payment business of non-financial institutions and conducted daily supervision on them. It issued payment business license to 101 applying non-financial institutions, and push ahead with the release of *Notice of the General Office of the State Council on Forwarding the Opinions of the People's Bank of China, the Ministry of Supervision and Other Departments on Regulating the Administration of Commercial Prepaid Cards*. The PBC also worked with other seven ministries and launched inspections on multi-function prepaid cards to regulate the practices of the industry.

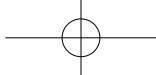
### **The payment service environment in rural areas was continuously improved**

Based on the experience gained from previous pilot programs, the PBC facilitated the promotion of bankcard

deposit withdrawal services in rural areas where financial network didn't cover. It issued *Notice on Promoting Bankcard Service for Helping Farmers Draw Money*, stipulating that by the end of 2013 such services for farmers should cover all rural townships and villages (the so-called green payment corridor) to further improve the payment services in the rural area. The PBC cooperated with local governments and commercial banks to realize an effective combination of farmer-friendly policies with convenient deposit withdrawal services, advised farmers to use modern payment and settlement tools, expanded the areas where bankcard applications could be accepted and processed, and effectively improved the financial services in rural areas.

### **International cooperation in payment and settlement witnessed new progress**

As Chairman of the Working Group on Payment and Settlement Systems (WGPPS) of the Executive's Meeting of East Asia and Pacific Central Banks (EMEAP), the PBC successfully organized the 24th meeting in Yogyakarta, Indonesia, and the 25th meeting in Xi'an respectively in 2011. As the member of the Commission of Payments and Settlements (CPSS) of the G10, the PBC attended two annual conferences and completed *the China's Payment, Clearing and Settlement System (CPSS Red Book)*, both in Chinese and English. The PBC held the second China-Europe bilateral payment and settlement conference during which the two parties exchanged experiences in system construction and supervision. The PBC also held the 9<sup>th</sup> Mainland/Hong Kong SAR Joint Conference on Financial Infrastructure Development Cooperation. It participated in the Seminar on Common Platform of the Asia Bond and SWIFT Supervision and in the SEACEN Payment and Settlement Director Generals meeting. The PBC strengthened cross-border cooperation on the payment and settlement system supervisors. These activities strengthened China's status and influence in the international payment and settlement systems.



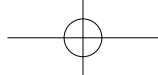
## BOX

## Establishment of the Payment and Clearing Association of China

The Payment and Clearing Association of China (PCAC) was founded on May 23, 2011 in Beijing, upon the approval of the State Council and the Ministry of Civil Affairs of China. Registered at the Ministry of Civil Affairs as a national non-profit organization, the PCAC serves as a self-regulatory body of the payment and clearing service industry, and operates under the guidance and oversight of the People's Bank of China.

In recent years, China's payment system has developed rapidly. In the payment and settlement system, the central bank is at the core and banking financial institutions, securities settlement institutions and non-financial payment institutions provide different services and supplement one another. As payment services become more market-based and specialized and with the diversification of the stakeholders in this industry, it is important to establish a market management system for payment services combining government supervision and self-regulation. Based on the international experiences, a management pattern integrating government supervision and self-regulation would help reduce supervision and market operation costs, improve efficiency of supervision, facilitate market innovation, and ensure the safe and effective function of payment and settlement system.

Committed to promoting the common interests of its membership, the PCAC, as a self-regulatory organization in the payment and clearing service industry, aims to maintain fair competition, protect the legitimate rights and interests of its members, and prevent potential risks. The establishment of the PCAC is an important step in the introduction of self-regulation and innovation mechanism by market participants, and will facilitate further improvement of management, innovation and development of the payment and clearing service industry.



## BANKNOTE ISSUANCE

### Various measures were taken to ensure enough cash supply

2011 witnessed a constant pressure for cash supply. For the whole year, 612 billion of cash was injected into the system, a y-o-y 4 percent decline. In order to secure a cash supply proper in quantity and in structure, the PBC took a series of measures. First, the PBC employed scientific methodologies to make predictions and analyses. The inventory was properly handled and preparation made to ensure adequate cash supply for the holiday seasons between the New Year and the Spring Festival. Second, the PBC improved monitoring of the RMB circulation, with indicators timely adjusted and monitoring network well designed. In the year, over 25 thousand monitor points were established to ensure a thorough and precise understanding of the RMB in circulation. Third, a reasonable combination of banknotes with different denominations was introduced. The supply of small-value banknotes was increased to meet the market's need. In the year, the supply of banknotes with denominations of less than 20 yuan increased by 25.52 percent on a year-on-year basis. Fourth, the areas selected for coin injection were extended, with Beijing and Heibei as new areas for 5 jiao and 1 jiao coin injection, and Chongqing and Henan for 1 jiao coin injection. At the same time, the PBC increased the minting capability to promote the coinization of small-denomination RMB note. Fifth, based on different patterns of cash circulation in different regions, the PBC ensured timely storage of RMB products by combining cash allocation, supply and storage at the same time. Sixth, the PBC used the programming theory to improve cash allocation and escorting, with transportation distance shortened and allotment more efficient. Seventh, the PBC worked with the Ministry of Railways to improve distribution of the

railway handling sites for convenient cash allocation and escorting.

### Innovations were encouraged to improve the tidiness of currency in circulation

In order to improve the tidiness of the banknotes in circulation, the PBC initiated explorations to increase the efficiency of withdrawing, sorting and destructing the damaged banknotes. Firstly, efforts were made to introduce the automatically online sorting and destructing of banknotes, which enhanced risk management and increased efficiency. Secondly, the PBC established a platform to withdraw damaged small-value banknotes, improved management of over-the-counter cash receipt and withdrawal by commercial banks, enhanced the banknote quality of their deposits with the PBC and improved the withdrawal and destruction of damaged small-value banknotes. Destructed banknotes with denomination under 10 yuan increased by 25 percent on a year-on-year basis. Thirdly, the PBC conducted a survey on financial institutions' detection of damaged banknotes as well as the allocation and their use of sorting equipments. By doing that, the banknotes sorted by commercial banks increased by 36 percent on a year-on-year basis. Fourthly, the PBC actively studied and improved incentives for cash processing centers, optimized the allocation of equipments and processing procedures, and improved the practices accordingly, which increased the efficiency and effectiveness of cash handling.

### The PBC strengthened the cracking down of counterfeiting activities

First, the PBC studied the possibility of establishing a system to evaluate the existing counterfeiting capabilities and to gain a precise picture of the current



forgery situation. Second, it explored the creation of an evaluation system for anti-counterfeiting designs to evaluate the techniques used in RMB's and other major currencies' banknote printing. Third, the PBC strengthened the role of joint ministerial conference in cracking down on counterfeiting activities, in which it actively promoted the cooperation between authorities of public security, procuratorate, court, customs, business administration, as well as the banking industry, making full use of their advantages. In order to facilitate checking, capturing, intercepting counterfeit money, the PBC donated banknote counters and examiners to the customs. Fourth, the PBC proactively advocated that the evaluation of anti-counterfeiting efforts be included as part of the comprehensive examination on the local governments' governance, with documents released including *Examination Measures for Anti-counterfeiting Work in Comprehensive Governance of Provinces, Autonomous Regions and Municipalities Directly under the Central Government*, *Examination Criteria for Anti-counterfeiting Work in Comprehensive Governance of Provinces, Autonomous Regions and Municipalities Directly under the Central Government, 2011* and *Examination Specifics for Anti-counterfeiting Work in Comprehensive Governance of Provinces, Autonomous Regions and Municipalities Directly under the Central Government, 2011*. This facilitated anti-counterfeiting efforts of the local governments. Fifth, the PBC followed the principle that anti-counterfeiting intensity should be maintained in urban areas and extra emphasis should be placed on rural areas. It led and promoted anti-counterfeiting public awareness events, worked with media in a timely manner to convey important information to the public, and used TV and micro-blog to disseminate anti-counterfeiting knowledge. The PBC even gave out specially designed wall calendars with anti-counterfeiting knowledge to promote anti-counterfeiting awareness and capability in middle and western China. Sixth, the PBC sent consultative delegations to explain RMB banknote circulation to banks with RMB business

in Hong Kong SAR and overseas bank branches of Banks of China.

### **The administration of RMB circulation was strengthened**

First, the PBC established an examination system for RMB receipt and payment by financial institutions and organized inspections on commercial banks in this aspect. In 2011, the PBC conducted 13 760 on-site inspections on commercial banks' network and penalized the misconducts. Second, the PBC conducted survey on satisfaction on receipt and payment services provided by commercial banks and organized colloquia to understand the clients' needs, with 53 636 questionnaires received. Third, the PBC issued commemorative coins for 90<sup>th</sup> anniversary of the Communist Party of China and gold and silver commemorative coins for the 100<sup>th</sup> anniversary of the Xinhai Revolution. During 2011, 11 categories of 64 varieties of commemorative coins made of precious metals, and 1 category of 2 varieties of common commemorative coins were issued (Table 1). Fourth, the PBC strengthened its effort in monitoring and containing the dramatic rise in the prices of the RMB collection products and in enhancing the penalization of illegal decoration of RMB products and illegal use of RMB designs. In 2011, the PBC detected 78 advertisements for illegal RMB collection products and timely contacted with media and business administration authorities for solution. The PBC conducted inspections on 615 enterprises which had been licensed for RMB in-circulation products and corrected misconducts. It worked with business administration authorities to investigate and penalize 33 sales points and discovered 380 pieces of illegal RMB in-circulation products. Fifth, the PBC further improved the overseas RMB reflow mechanism. The year 2011 witnessed a y-o-y growth of 1.5 percent in the cross-border transportation of RMB cash, which basically met the need of the overseas demand for RMB cash and improved the tidiness of the RMB banknotes



that circulated aboard. A balance between cash supply and reflow was generally achieved in Hong Kong SAR, Macao SAR and Taiwan. The demand for RMB cash grew steadily in other jurisdictions.

### The PBC enhanced institutional construction and implementation.

In 2011, the PBC enhanced institutional construction and implementation, with an emphasis on institutional development, risk control and implementation. It issued *Provisional Administrative Rules on Vaults with Shelves for Reserve Fund*, drafted *Administrative Measures for Cash Deposit and Withdrawal of Banking Institutions*, *Administrative Rules on Import and Export of Gold and Its Products*, *Operation Guideline for Banknote Sorting Centers (Draft)*, and revised *Examination Method for Upgrading of Vaults for Reserve Fund*, *Awarding Measures for Anti-counterfeiting Activities*, *Administrative Measures for Providing Special Materials, Techniques, Craftwork and Equipments to Foreign Parties*, *Administrative Measures for Counterfeiting Materials, Techniques, Craftwork and Equipments*, *Provisional Guidance for Financial Institutions Anti-counterfeiting*. With experience gained from vaults' operations, the PBC revised *Administrative Measures for*

*Vaults for Reserve Fund*. The PBC released guidance on confiscation and appraisal of commemorate coins made of precious metals and launched anti-counterfeiting work. Institutional design for gold and silver management continued to improve, providing a legal basis for the PBC to fulfill its mandates and strengthening internal management. The PBC also organized examination on cash processing centers and thematic examination on proof coin management, established working method of spot checks on vaults to ensure a well implementation of rules and regulations.

### The PBC improved management of gold, silver and currency with information technologies

With experience gained from gold, silver and currency management, based on the needs for scientific management and with reference to experience of foreign counterparties, the PBC optimized and reestablished the management procedures, set management targets and organized researches on the second-generation gold and silver management system, based on which it published *Preliminary Research Report on Second-generation System for Gold and Silver Management and Plan for the Development of Second-generation System for Gold and Silver Management*.

Table 1 Commemorative Coins Issued by the PBC in 2011

Issuing Date	Theme	Made of	Variety	Front Cover	Back Cover	Denomination (yuan)	Diameter (mm)	Issuing Amount (10 thousand sets)	Color
June 16	Common commemorative coins for 90th anniversary of the CCP establishment	Brass alloy	1	National emblem, upper edge: "the People's Republic of China" Lower edge: "2011"	CCP emblem and flag, peony, dove, pentagram. upper: "90th anniversary of the CCP establishment", lower: "1921~2011", left: "5 yuan"	5	30	6 000	Golden
June 16	Common commemorative coins for New Year 2011	Brass alloy	1	"The People's Bank of China", "1 Yuan", and "2011"	A girl holding pinwheel, rabbit light, and the year "Xinmao"	1	25	3 000	Golden





## STATE TREASURY MANAGEMENT

### **The PBC provided the accounting services for state treasury management to support receipt and payment in budget implementation at all levels of governments**

The PBC strengthened the accounting and management for the state treasury and faithfully carried out basic treasury work including receipt, distribution, retention, disbursement and repayment. It strengthened monitoring of the treasury accounts and attached great importance to the verification of abnormal data, to ensure the timeliness and effectiveness of the treasury management information and improve the quality of the accounting work. In 2011, the PBC processed collections of 16.85 trillion yuan, a y-o-y increase of 18 percent, and disbursed 16.69 trillion yuan, a y-o-y increase of 21 percent. The PBC processed a total of 916 million receipt and payment transactions, up 20 percent year on year. These provided support to budget implementation at all levels of the governments.

### **Efforts were made in the institutional development of the state treasury and in promoting the fiscal and tax reforms**

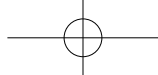
The PBC contributed to the amendment of *the Budget Law of the People's Republic of China*, in which PBC's recommendations and rationales were fully incorporated. It actively supported the work of fiscal and tax authorities and involved itself in the development of a series of rules and regulations related to budget management, including those on water resources fee, receipts and expenditures related to state-owned land, corporate income tax, accounting verification for centralized treasury payments, etc. The PBC organized qualification of agent banks for central treasury payment services (2012~2013) and the signing of payment and settlement contracts (2011~2013). It comprehensively reviewed the existing administrative system and released regulatory documents, such as *Principles for State Treasury Accounting*

*Management and Guidance for Specialized Staff Positions for State Treasury Business in PBC Branches*. It also published *Plans for Development of State Treasury Business in the 12<sup>th</sup> Five-Year Plan Period*, as an action plan for state treasury business in the next five years.

### **The construction of the electronic state treasury information system was steadily promoted and its efficiency and safety continued to improve**

The PBC accelerated the nationwide introduction of the Treasury Information Processing System (TIPS), which was extended to 3 batches of provinces (cities/regions) according to plans. At the end of 2011, 33 provinces (autonomous regions / municipalities) and 229 financial institutions were linked to the TIPS. A total of 152 million payment transactions were conducted through the TIPS with a total volume of 3.58 trillion yuan, up 78 percent and 95 percent year on year respectively. The pilot program of linkage of the state treasury with the custom system was completed in Beijing, and an initial agreement was reached with the Ministry of Finance on system linkage and the non-paper arrangement, with functions such as withdrawal, correction and non-paper custody-free business already in place. The PBC also upgraded the Treasury Centralized Balancing System (TCBS) seven times and clarified the use of TCBS by agent treasury branches. The plan for promoting the use of TCBS was developed in light of the experience gained from previous TCBS operations. The PBC continued the construction of TMIS modules and its statistics sub-module for state treasury will be completed and put into use by July and the sub-module for treasuries of all levels to be formally put into operation on December 21. The PBC continued to improve the T-bond management sub-module and completed the reconstruction of the system, answering to the new issue methodology of certificated T-bonds. It initiated the development of the sub-module of state treasury





information management system, evaluated the business need and submitted the project plan. It drafted measures for operation and maintenance of TCBS and TIPS to strengthen daily management and ensure the smooth functioning of the system. The PBC also enhanced the system's emergency management, improved contingency plans for TCBS and TIPS, held training courses on national state treasury contingency management, and organized emergency response practices in Jiangsu and Hebei to improve the capability of dealing with emergencies.

### **The PBC strengthened oversight to ensure the security of treasury funds**

The PBC strengthened supervision of agent treasuries, agent banks for centralized payments as well as agent offices for treasury fund receipts. It published *the PBC Notice on Further Strengthening the Management of State Treasury Fund and Prevention of Risks*, enhanced supervision by treasuries at all levels on commercial agent banks within their jurisdictions, intensified penalties on misconducts and improved service quality of agent institutions. The PBC carried out on-site inspections on 14 state treasury sub-branches across the country to ensure compliance in financing organizations, internal control, accounting and auditing system and year-end final accounting, urged and guided them to take corrective measures based on the findings. The PBC explored innovative ways to improve supervision of state treasuries, promoted the use of internal information exchange platforms by treasuries at all levels and encouraged them to find new ways to improve supervision within their own jurisdictions. The PBC also encouraged some local treasuries to use their auxiliary on-spot accounting inspection system to improve the efficiency of inspections.

### **The PBC made full use of the information resources advantages and improved data analysis of the state treasury statistics**

The PBC compiled state treasury statistics report in a timely and precise manner and improved the content of the reports to reflect the dynamics of the state treasury's payments

and receipts. It strengthened the analysis of the state treasury data to timely reflect the payments and receipts of the state treasury, which provided useful information to macro-economic policy makers. The PBC organized treasury teams at all levels to launch a review on problems existing in auditing and statistics of the payments and receipts of the state treasury system, analyzed factors that contributed imbalances in the state treasury statistics reports, payment and transfer of state treasury funds. It published methodologies to regulate the auditing and statistics of the payments and receipts, laying a foundation for improving the quality of the auditing and statistic work and the timely and precisely reporting of the state treasury information. The PBC used the data collected from the state treasury system, analyzed current macro-economic development and policy environment, and conducted thematic researches from the perspective of the state treasury, including those on personal income tax policy adjustment, land and public finance, private economy, electricity shortage in Guangxi, financial support to irrigation and government subsidized housing projects. These researches reflected the effect of the macro-economic policies problems in economic performance from the angle of the state treasury and provided useful information to the PBC's senior management as well as to relevant authorities.

### **The PBC strengthened management and smoothly completed the issuance and redemption of saving-type government bond**

In 2011, 4 certificate government bonds and 18 electronic savings bonds were issued with a total volume of 140 billion and 155 billion yuan respectively (Table 2), completing 96 percent of the issuance plan, a considerable improvement from the previous year, when the completion ratios were 88 percent and 46 percent respectively. The PBC redeemed 275.1 billion yuan of matured certificated government bonds and 5.23 million yuan of government bearer bonds and receiving vouchers. Based on *Tentative Examination Measures for the Members of the Certificate Government Bond Underwriting Syndicates*, the PBC established the government bond underwriting syndicates for 2012~2014 and strengthened examinations on them. The



PBC also led on-spot examinations on the redemption practices of 6 state treasury branches including Guangdong branch, organized self-examinations by state treasury branches at all levels and conducted selective examinations on more than 30 percent of the central sub-branches.

### The PBC enhanced research and management of the state treasury cash business

The PBC steadily pushed forward the cash management of the central state treasury and conducted 11 time deposit operations through bidding by commercial banks for cash management of the central state treasury, and 450 billion yuan were deposited with winning commercial banks (Table 3).

320 billion yuan of matured time deposits were withdrawn from commercial banks in 10 transactions (Table 4). The PBC strengthened risk monitoring and organized on-spot examinations on commercial banks which participated in cash management of the central state treasury, with risk prevention mechanism improved and analysis on costs and profits conducted. The PBC also studied the problems, difficulties, administrative system and specific features in cash management of local treasury branches, improved the communication and cooperation between local treasury branches and fiscal authorities and enhanced coherence of the monetary policy and local needs.

Table 2 Issuance of Government Savings Bonds in 2011

Categories	Issues	Issuing Date	Actual Issuing Amount (100 million yuan)	Repayment Period					
				1 year		3 years		5 years	
				Amount (100 million yuan)	Interest Rate (percent)	Amount (100 million yuan)	Interest Rate (percent)	Amount (100 million yuan)	Interest Rate (percent)
Certificated Bonds	1st Issue	03.01~03.21	600	120	3.45	300	5.18	180	5.75
	2nd Issue	06.10~06.23	300	60	3.70	150	5.43	90	6.00
	3rd Issue	08.10~08.23	300	60	3.85	150	5.58	90	6.15
	4th Issue	11.10~11.23	200	20	3.85	100	5.58	80	6.15
Electronic Savings Bonds	1st Issue	04.15~04.28	91.93	91.93	3.70				
	2nd Issue	04.15~04.28	231.98			231.98	5.43		
	3rd Issue	04.15~04.28	148.79					148.79	6.00
	4th Issue	05.10~05.23	59.27	59.27	3.70				
	5th Issue	05.10~05.23	149.30			149.30	5.43		
	6th Issue	05.10~05.23	89.84					89.84	6.00
	10th Issue	07.25~07.31	38.40	38.40	3.85				
	11th Issue	07.25~07.31	99.60			99.60	5.58		
	12th Issue	07.25~07.31	59.90					59.90	6.15
	13th Issue	09.10~09.23	42.10	42.10	3.85				
	14th Issue	09.10~09.23	149.60			149.60	5.58		
	15th Issue	09.10~09.23	89.97					89.97	6.15
	16th Issue	10.15~10.27	29.74	29.74	3.85				
	17th Issue	10.15~10.27	149.64			149.64	5.58		
	18th Issue	10.15~10.27	119.81					119.81	6.15

Note: The plans of 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> electronic savings bonds issuance were cancelled due to the interest rate adjustment by the PBC.

**Table 3 Cash Management Operations of Time Deposits with Commercial Banks for Central State Treasury in 2011 (depositing)**

Operation Date (interest date)	Batch of Deposits	Amount (100 million yuan)	Interest Rate (percent)	Duration	Interest Income (yuan)
2011.01.25	2011 (1)	300	5.90	6 months	882 575 342.46
2011.03.15	2011 (2)	300	6.23	6 months	931 939 726.02
2011.04.21	2011 (3)	300	5.70	9 months	1 278 986 301.34
2011.05.24	2011 (4)	400	5.50	6 months	1 096 986 301.35
2011.06.21	2011 (5)	500	5.90	9 months	2 206 438 356.14
2011.07.19	2011 (6)	300	6.03	3 months	451 010 958.90
2011.08.23	2011 (7)	300	6.50	6 months	972 328 767.13
2011.09.20	2011 (8)	300	6.15	3 months	459 986 301.37
2011.10.25	2011 (9)	600	6.83	6 months	2 043 386 301.35
2011.11.10	2011 (10)	600	6.00	6 months	1 795 068 493.19
2011.11.29	2011 (11)	600	6.00	6 months	1 795 068 493.19
Total		4 500			13 913 775 342.44

**Table 4 Cash Management Operations of Time Deposits with Commercial Banks for Central State Treasury in 2011 (withdrawal)**

Operation Date (expiry date)	Batch of Withdrawal	Amount (100 million yuan)	Interest Rate (percent)	Duration	Interest Income (yuan)
2011.01.13	2010 (7)	300	4.00	6 months	598 356 164.40
2011.04.21	2010 (10)	300	4.70	6 months	703 068 493.17
2011.05.24	2010 (11)	400	4.93	6 months	983 298 630.13
2011.06.16	2010 (12)	300	5.10	6 months	807 780 821.93
2011.06.21	2010 (9)	300	4.60	9 months	1 032 164 383.55
2011.07.26	2011 (1)	300	5.90	6 months	882 575 342.46
2011.09.13	2011 (2)	300	6.23	6 months	931 939 726.02
2011.10.18	2011 (6)	300	6.03	3 months	451 010 958.90
2011.11.22	2011 (4)	400	5.50	6 months	1 096 986 301.35
2011.12.20	2011 (8)	300	6.15	3 months	459 986 301.37
Total		3 200			7 947 167 123.28



## DEVELOPMENT OF FINANCIAL IT INFRASTRUCTURE

### New data center was put into operation

In 2011, based on the need to fulfill central bank's mandate and promote IT development, the PBC completed the construction of a new data center and put it into operation. Occupying an area of over 13 000 square meters, the new center is designed to provide a favorable IT environment for the central bank to fulfill its mandate. During the migration to the new data center, the IT department completed the migration of 5 batches of 88 application systems, during which the network and systems operated smoothly with no accidents. The PBC also chose the Treasury Management Information System (TMIS) and RMB Cross-border Payment Management Information System (RCPMIS) to test the transition and conducted emergency response practices to gain experience.

### The PBC Financial Information Center was established

Approved by the State Council Office for Public Sector Reform (SCOPSR), the PBC Financial Information Center was established in 2011 December. As a PBC affiliation, the Financial Information Center plays an important role as a hub for information processing, system operation and network security protection. The launch of the new data center and the establishment of the Financial Information Center is a milestone in PBC's IT development, marking the introduction of a professional division of labour for management, development and operation of the PBC IT system.

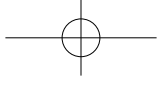
### IT research and development were orderly pushed forward

The PBC studied the common financial reporting practice and proposed the establishment of reporting exchange models and methodologies for realization. It

completed the *Data Lifecycle Management Technical Specifications* for management of basic data and data lifecycle. It undertook the research project of Contingency Cloud Service for Small and Medium-Sized Financial Institutions, a key research project of the Ministry of Science and Technology, to explore the establishment of a cloud service center and seek innovative ways to provide contingency services. It also studied how to combat online payment fraud and proposed professional solutions. The PBC completed the development of the calculation and ex-post supervision subsystems of the Central Bank Accounting Data Centralized System (ACS), continued the development of the second-generation payment system, realized the direct bank access to the RMB Cross-border Payments/Receipts Management Information System (RCPMIS) to meet the needs of the cross-border RMB business development, and extended the teleconference system to 1 170 PBC county branches. The PBC basically established information application platforms for financial sector statistics, integrated office management, auditing, and etc, which facilitates the central bank lending activities, centralized procurement, the establishment of database with central bank's features, and etc.

### New breakthroughs were made in data management and sharing

The PBC established the centralized headquarter data exchange channel and the platform for data dissemination. It realized the centralized data exchange between state treasury and related accounts. Data sharing was realized between the army and relevant ministries by sharing account data between the PBC's Operational Data Store (ODS) and the data system of PLA General Logistics Department. The PBC undertook and completed the project of National Macro-economic Information Management System, in which it integrated numerous types of economic statistics, standardized the coverage



of paper-based financial data and included them into the digital database. The PBC also organized the first annual registration of financial institutions information, with more than 250 000 institutions registered, which formed basis for the establishment of the national data repository for financial institutions.

### **Technology-based management was further enhanced**

The PBC followed the principle that decisions must be made collectively when dealing with strategic decision making, important personnel change, key projects and the use of large amount of funds. The PBC set up quantitative criteria for classifying IT projects, procedure for setting up IT projects and decision making mechanism for key project approval. The PBC reviewed various needs for IT projects, realized integration accordingly and improved project management procedures. The PBC also promoted the use of genuine software in the system and launched inspection.

### **Blueprint for financial sector IT development was published**

The PBC developed and published the plan for financial industry development during the 12<sup>th</sup> Five-Year Plan Period, with key tasks of IT development outlined. The above plan was absorbed into the grand scheme of the National Reform and Development Commission, Ministry of Technology and Ministry of Industry and Information Technology. The plan gave a clear picture for financial sector IT development during the 12<sup>th</sup> Five-Year Plan Period, indicating key tasks in nine areas such as financial infrastructure, information service for financial market, financial services for SME and agriculture sector, internationalization of financial institutions and IT risk prevention, and etc, which was a roadmap for the development of key financial IT projects in the future.

### **Significant progress was made in financial standardization**

The PBC released standard systems for insurance,

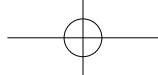
securities and printing sectors and *the Standard System for Banking Sector* was submitted for approval. Significant progress was made in financial standard setting, with 21 national financial standards and 8 financial sector standards published, the highest annual output till now. By now, China's Financial Standard Technical Committee (CFSTC) has developed 60 national financial standards. Pools for talents and experts were established for the development of financial standards and the PBC took efforts in reviewing the effects of standards making process. Working groups for sector-specific financial standard implementation were established. The PBC also promoted the implementation of standards in financial statistics, information exchanges and IC card related areas.

### **Coordinated financial IT security management was improved**

The PBC strengthened cooperation with financial regulators, financial institutions and relevant ministries to properly handle information security incidences. In 2011, the PBC coordinated actions for 28 bank information emergency incidences and released 7 warnings on financial information risks. The PBC made detailed analysis on key incidences for solutions, coordinated actions, timely reported to the State Council and effectively mitigated the negative social impacts. According to the overall arrangement of the PBC Head Office, 36 PBC central sub-branches formally established emergency reporting and response cooperative mechanisms of information security for financial networks and information system, which covered local authorities of police, security, communication, electricity and technology. An overall working arrangement was thus established, where the PBC headquarter and branches could coordinate and take concerted actions.

### **The project of IT-based bankcard was initiated**

The PBC published *the Opinions on Pushing Forward the Application of the IT-based bankcard* and initiated the



migrations to chip-based bankcard. It selected 47 cities to push forward the use of the IT-based bankcards in public services, and cooperated with 8 ministries, including National Reform and Development Commission and Ministry of Commerce, to launch the nationwide project of establishing e-commerce cities. At the end of 2011, the upgrading of POS machines was basically completed and 24.41 million IT-based bankcards were issued by commercial banks across the country, a 200 percent growth year on year. The introduction of the security cards in PLA was completed. The PBC also worked with Ministry of Human Resources and Social Security to add financial service functions to social security cards, which won warm welcome from the society.

#### More financial IT services were provided

The PBC strengthened contingency response

system building and developed automatic workflow in the disaster recovery centers for small and medium-sized financial institutions, and provided data recovery services capacity building for 70 small and medium-sized financial institutions. Approved and guided by the Certification and Accreditation Administration, the PBC established a certification center, the first of the kind which would contribute to financial sector regulation and financial services improvement. The Banking Technology Development Award has become an important platform for display and exchange of financial sector IT achievements. In 2011, 112 projects were awarded, with 1 special award, 6 first class awards, 48 second class and 57 third class awards, among which 2 projects were further proposed as candidates for national science and technology awards.

### BOX

#### IC-based Bank Card

IC-based bank card is a chip-embedded smart card with certain data processing capacity that complies with financial industry standards. It is able to store information such as key algorithms, digital certificates and fingerprints, and is safe, convenient, standard and expandable. Being widely used in the payment, medical care, transportation, education industries and entertainment by consumers, IC-based bank card integrate modern information technology with financial services, and can be loaded with applications to receive government services, such as social insurance, civil affairs, social security, commerce and industry, and taxation. It is internationally recognized that the popularization of IC-based bank card is an important way to prevent bank cards forgery caused by magnetic stripe cards and personal information theft. It could also effectively promote the realization of “one card with multiple functions and nationwide acceptance”, enhance the management in the industry and improve the contribution of financial service to the people’s livelihood.

In the principle of combining government guidance and market operation, the PBC coordinates and makes overall plan for the popularization of IC-based bank cards. Under the auspices of the PBC, commercial banks have started the migration of bankcards into IC-based cards with good results. In





March 2011, the PBC released *Opinions of PBC on Promoting the Use of IC-based Bank cards* to launch the migration of magnetic bankcards to IC-based bankcards. The Opinions set the general objective that all RMB bank cards issued in economically advanced regions and key cooperative areas should be in the form of IC-based bank cards on effect from 1st January 2015. In May 2011, the PBC launched the pilot program to introduce IC-based bank cards in 47 cities, and the popularization of IC-based bank cards was in full swing. At the end of 2011, POS terminals were upgraded national-wide, 34 commercial banks were on approval to issue IC-based bank cards, and issued 24.41million such cards, twice the volume than the year before. In August 2011, the PBC, together with the MOHRSS, released the *Circular on Loading of Financial Functions on Social Security Cards*, starting to load financial functions on social security cards. According to the Circular, social security cards will carry financial functions in about five years. The PBC branches are actively coordinating and cooperating with relevant government departments and commercial banks to facilitate the application of IC-based bank cards and have achieved some progress. For example, in Shanghai, standard grocery markets, parking lots, fast food restaurants and vending machines now accept IC-based bank cards; pilot program for using financial ID cards for subway fare payment is carried out in Chengdu; taking the geographic advantage, Guangzhou promotes the use of IC-based bank cards in both Guangdong province and Macao SAR and has realized the cross-region two-currency settlement; and in Shenzhen, IC-based bank cards could be used to pay ticket fare on the Guangdong-Shenzhen railway.

The popularization of IC-based bank cards in China has drawn worldwide attention, and been followed closely by all walks of the society. International payment brands such as VISA and Master Card are speeding up technology innovation for the migration to chip cards. The HKMA has launched the migration to IC-based bank cards in Hong Kong, in synchronization with the progress in Mainland China. The fast development of IC-based bank cards will help realize safe, convenient and easy access to payment services, improve the risk prevention of bankcards in China, meet the demand of Chinese consumers for safe payment and promote the upgrading and development of industries with strategic importance such as semi-conductor industry.



## CREDIT INFORMATION MANAGEMENT AND THE DEVELOPMENT OF SOCIAL CREDIT SYSTEM

### **The PBC pushed forward the publication of the *Regulations on Credit Management Services***

The PBC organized a nation-wide survey on the credit information market and organized seminars to consult with market participants, domestic and foreign experts. It reviewed the scientific, rational and practical aspects of *the Regulations on Credit Management Services*. Based on the review, the PBC cooperated with the Legal Affairs Office of the State Council in the amendment of *the Regulations*. In July, the Legal Affairs Office conducted the second round of public consultation on the amendment. The PBC studied the feedbacks from all walks of life, further improved *the Regulations* and submitted it to the Legal Affairs Office. The PBC also worked together with the Legal Affairs Office to prepare documents for deliberation by the National People's Congress.

### **The PBC built an identifier system for institutional credit information**

Institutional credit identifiers are codes developed for financial institutions for the convenience of storing and referring their credit information. The establishment of the identifier system is significant for implementing the real-name registration system for financial accounts, improving financial services and social management, fighting corruption and supporting the development of a harmonious society. According to *the Plan for Implementing Real-name Financial Account System and Development of Social Credit System issued by the PBC's General Administration Department and General Office of the National Bureau of Corruption Prevention of China*, the PBC established the institutional

credit identifier system, developed the coding rules and conducted pilot programs in Hunan Province. Carefully designed and deployed, the pilot program made positive progress and the use of the institutional credit identifier was promoted in commercial banks' combat against money laundering activities. The success of the pilot program has laid foundation for the use of the system across the country.

### **The PBC pursued a scientific and coordinated way in organizing the establishment of the social credit system**

The PBC conducted a wide-range of public consultation and studied the feedbacks from member ministries of the joint conference of social credit system development, as well as from local government, public and experts, based on which it developed *the Plan for Building Social Credit system (2011-2015)* and submitted it to the State Council for approval. The PBC also published *the Review and Prospects of the China's Credit Information System and Social Credit System*, which gave a holistic and systemic explanation of the overall design of the social credit system, industry credit development, local credit development and the development of the credit information market. It also gave a comprehensive overview of the prospect on China's credit information system and social credit system in the next five years. The PBC pushed forward the development of a unified financial credit information platform with the concerted efforts of relevant regulatory authorities and basically realized data exchange and sharing of personal and enterprise credit information databases with the information platforms of the CBRC and CSRC.



### **The development of credit information system for small and medium-sized enterprises (SME) and for rural areas has been promoted**

First, the PBC organized on-spot studies in Yunfu of Guangdong, Yan'an of Shaanxi and Langfang of Hebei to promote the pilot development of SME and rural area credit information systems. Second, the PBC innovated in the working methodology to collect, update and use the credit information of SMEs and farmers, and made progress in establishing credit files for them. Third, the PBC worked with the Young Farmers Department of the Youth League and initiated joint working conference. Based on the pilot work in 2010, they extended the pilot project of Rural Youth Credit Exemplar Household to the whole country, with a principle that each province will have one pilot program. At the end of 2011, credit files were established for 143 million rural families. Among them, 93.6 million were classified as credit households, and nearly 81.85 million rural families received bank loans with an outstanding volume of 1.52 trillion yuan. And 2.2654 million SMEs that had no transactions with banks had their information documented. Among them, 363.6 thousand were considered for loans and 216.6 thousand got bank loans with an outstanding balance of 4.28 trillion yuan.

### **The functions of the credit information system were improved**

First, the data coverage of the individual and enterprises credit information data base was expended. At the end of 2011, the database collected information of 805 million natural people and 18.092 million enterprises and other organizations. A total of 198 thousand users were granted access for individual information queries, and 241 million queries conducted; for enterprise credit information system, 126 thousand users were given access for queries and made 69 million queries. Second, as an important financial infrastructure for SME services,

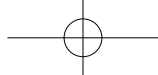
the movable property financing registration system operated smoothly, with a fast increase in the registered accounts and queries conducted. The system played an increasingly important role in financing with receivables as collaterals and financial leasing business. At the end of 2011, 501.8 thousand transactions were registered by the system as financing with receivables as collaterals, and 640 thousand queries were conducted. 47.2 thousand transactions were registered as financial leasing businesses and 12.7 thousand queries were conducted.

### **Management was improved for better data quality of the credit information system**

First, the PBC strengthened management of the credit information business of commercial banks, launched examinations on credit data reporting, queries and use, management, dispute solving and other relevant institutional development and used them to improve these institutional arrangements. Second, the PBC enhanced the management of lending cards, including the issuance and annual review of the cards and inspections on the use of cards by commercial banks. Third, the PBC took measures to facilitate access of micro credit companies and financing guarantee companies to the individual and enterprise credit information database.

### **The PBC strengthened measures for the protection of individual information and the rights and interests of the subjects**

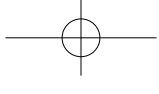
The PBC developed *the Procedures for Processing Complaints about Credit Information Business*, carried out inspections on individual complaints and their processing, guided commercial banks to deal with individual complaints properly and corrected relevant information recording. It reviewed institutional arrangements on individual right protection domestically and abroad, combined the findings with China's situations and completed the research project on Personal Rights Protection in Individual Credit Information Collection.



**The PBC supported the development of the credit rating market**

The PBC developed the regulatory system of credit rating business, organized credit rating professional exams, regulated credit rating behaviors of the industry operations to increase rating quality. It improved the functions of the credit rating default monitoring system, and carried out examination and verification on all the data in the system to improve the data's accuracy and integrity. Market self regulation mechanism was

improved, joint conference of general managers of credit rating agencies (CRAs) and expert committee for reviewing credit rating practices were established. The PBC guided the CRAs to expend their markets and make innovations in their business to develop new services and promote the use of credit rating reports. The PBC also initiated pilot programs of rating micro-credit companies. In 2011, 49.2 thousand ratings were given to transactions in the interbank bond market and credit market, up 14.97 percent year on year.



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

### **The PBC actively contributed to the state CFT legislation and improved the asset freezing mechanism of terrorist funds**

The PBC actively push ahead with the AML/CFT legislation work. According to the PBC's legislation proposals, the 23<sup>rd</sup> meeting of the 11<sup>th</sup> National People's Congress adopted the *Decisions on Strengthening Anti-terrorism Work*, which gave clear definitions to terrorist activities and organizations, etc. It empowered financial institutions and the specific non-financial institutions to immediately freeze terrorist funds once they were identified, provided a legal basis for financial institutions to freeze terrorist funds by referring to the list of terrorists provided by the public security authorities, closed the institutional gaps in anti-terrorism financing and provided legal safeguards for the implementation of the UN Security Council Resolutions No. 1267 and No. 1373 of freezing terrorist funds without delay.

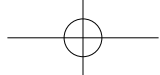
### **The PBC carried out a comprehensive review on the implementation of AML policies and made recommendations to improve the AML supervision mechanism**

In the forms of workshops, on-spot investigations and questionnaire surveys with financial institutions, the PBC reviewed and evaluated money laundering related risks and the implementation of AML core principles and made recommendations to improve the AML system. First, the PBC organized the Shanghai Head Office and nine provincial branch offices to conduct thematic studies on large-value and suspicious transactions reporting by financial institutions. From May to September, the PBC organized researches on certain topics and the branches also chose topics out of

their own interests as complements. They considered both the domestic and foreign experience, combined institutional researches with practical experience, and gained good understanding on the implementation by financial institution of reporting requirements. Based on the research and analysis, a proposal was made on the risk-based regulation in terms of financial institutions' more autonomy and allocating AML resources for prevention of money laundering. Second, the PBC made studies to improve the storage of transaction records. The PBC guided financial institutions to strengthen maintenance of customers' identity information, encourage them to preserve information by using e-images and scanned copies in line with relevant rules and regulations, and reduced duplication in the work. Third, the PBC asked financial institutions to strengthen customer identity verification measures. The PBC studied how to use institutional identifiers to verify customer identity. In September, the Changsha Central Sub-branch initiated a pilot program of using institutional credit codes, and institutional credit identifier codes were allocated to 291.2 thousand enterprises. Fourth, the PBC participated in the review and evaluation of the *Tentative Measures of Cash Management* by the State Council's Legal Affairs Office, identified problems and risks and made recommendations. Fifth, the PBC conducted specific reviews of payment and settlement organizations and corruption-related issues to evaluate money laundering risks.

### **The PBC faithfully implemented the principle of placing risk-controlling at the center of its work to enhance the effectiveness of the AML work**

The PBC adopted the risk-based philosophy in its AML work. The PBC guided branch offices to comply with this principle as well as with relevant rules and regulations, to evaluate the risks of financial institutions and to effectively



allocate their AML resources. First, it improved the guidance of the AML work for financial institutions. The PBC published *the Notice on Implementing the AML Conference Resolutions and Strengthening AML Supervision*, and asked PBC branch offices to lawfully conduct supervision. Within the year, the PBC organized on-spot inspections on 1506 financial institutions and their branches and penalized 123 of them for misconducts. Second, the PBC optimized the AML resource allocation. The PBC studied the evaluation system of financial institution's money-laundering risks, with on-site and off-site investigations combined. The target of on-site examination was identified based on off-site evaluation outcome. Third, the PBC standardized the working procedure for on-site inspections and published *the Handbook of AML On-site Inspections* to guide the on-site inspection work of the PBC branch offices. Fourth, the PBC strengthened AML supervision on the specific non-financial institutions. The PBC drafted *the Administrative Measures for AML and CFT Supervision Over Payment Institutions*, which has been publicized to solicit public comments.

#### **The PBC improve the AML investigation mechanism and strengthened financial institutions' capacity of handling related risks**

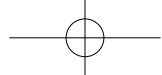
First, the PBC improved the AML investigation mechanism. In October, the PBC General Administration Department issued a notice on strictly and lawfully implementing AML investigations. In the development, the PBC identified key areas of AML investigations work, enhanced regulation over the reporting of cases, clarified responsibilities and raised awareness of confidentialities. In 2011, 3194 investigations were conducted on 733 clues of doubtful transactions and 595 were reported to the public security authorities, among which 8 were persecuted as money laundering crimes. Second, the PBC improved the AML case publicity and risks warning, with 18 issues of *Major AML Cases Publicity* published and warnings released to prevent financial institutions from the risks. Third, the PBC pushed forward drug-related AML work. The PBC organized

studies on the topic and made policy recommendations. Fourth, the PBC conducted CFT work and cooperated with the Ministry of Public Security in issuing notices on the work of strengthening CFT work. It also urged financial institutions to step up terrorism financing risk prevention. Fifth, the PBC conducted researches on new criminal activities such as unlawful fund raising, cashing credit cards and cross-border telecommunications frauds, and warned financial institutions against money laundering risks.

#### **The PBC strengthened international AML cooperation and enhanced China's voice and influence in the AML domain**

First, the PBC completed the follow-up report of China's AML progress as required by the Financial Action Task Force (FATF). In June, the FATF plenary meeting reviewed and adopted China's follow-up report, highly praised China's progress in its AML work especially in the preventative measures of the financial industry, and encouraged China to make further efforts in CFT. Second, the PBC actively participated in FATF's preparation of the fourth peer review. It attended all discussions of the expert groups and topic groups and provided recommendations from China's perspectives. Third, the PBC participated in the discussion of overall and key working arrangements of two regional organizations, namely the Eurasian group on combating money laundering and financing of terrorism (EAG) and the Asia/Pacific Group on Money Laundering (APG). In June, as approved by the State Council and authorized by the Ministry of Foreign Affairs, the PBC Deputy Governor Du Jinfu Signed *the Agreement of Asia/Pacific Group on Money Laundering* on behalf of the Chinese government. In the 14<sup>th</sup> APG annual meeting, Chinese government representative took part in the leading group as rotating chair of the organization, which demonstrated China's rising influence in the regional AML organization. Fourth, the PBC strengthened bilateral cooperation in the AML field. At the year end, the PBC signed 19 MOUs on AML/CFT Intelligence Sharing with FIUs abroad.





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

In 2011, facing complex international situations, the PBC actively conducted financial cooperation and exchanges with other countries, as well as with Hong Kong, Macao and Taiwan regions. Continuously prioritizing various work streams under G20 framework, and using the Sino-US Strategic and Economic Dialogue and other bilateral mechanisms, the PBC was actively engaged in global economic governance, and regional and bilateral financial cooperation activities.

### Participation in global economic governance under the G20 framework

In November, the G20 leaders met in Cannes, France for the sixth summit, focusing their discussion on situations of the European Sovereign Debt Crisis, “strong, sustainable and balanced growth framework”, reform of the international monetary system, and etc. Coordinating with related domestic departments and sticking to its principles, the PBC actively contributed to the process by making full exchanges and coordination with all sides on key issues of the summit and reiterating China’s proposal on economic policies, and provided strong support to Chinese leaders’ successful participation in the summit. During the year, the PBC took part in five G20 financial ministers and central bank governors meetings, seven deputies meetings, fourteen Growth Framework Working Group meetings, twelve International Monetary System Working Group meetings and the G20 high-level symposium on international monetary system in Nanjing, thoroughly discussed with all sides about issues on global economic imbalances, exchange rates, foreign exchange reserves, international monetary system, and etc., providing a favorable environment for the success of the G20 summit.

In addition, since the G20 mutual assessment process (MAP) was created at the Pittsburgh Summit in 2009, the PBC has been actively participating in G20 mutual

assessment of macroeconomic situations of member countries, conveyed the measures taken and progress made by China in transforming economic development model and expanding domestic demand so as to create a favorable international environment for the development of China.

### Comprehensive participation in international monetary and financial policy coordination and international standard setting

In 2011, the PBC encouraged the International Monetary Fund to adopt a new surveillance decision that would include multi-lateral and bilateral surveillance, more broadly cover global stability, and guide the focus of global economic and financial policy coordination. The PBC promoted the implementation of the governance structure reform of the International Monetary Fund and made new progress in running for high-level management positions in the International Monetary Fund. Throughout the year, by means of financial transactions plan and signing investment agreements and etc., the PBC actively took part in the funding reform of the International Monetary Fund, international crisis aid and continued its support to the poverty alleviation and debt reduction operations of the International Monetary Fund.

The PBC actively promoted international monetary system reform. After the global financial crisis broke out, international monetary system reform has become



a hot topic of the international community. France, the G20 chair in 2011, listed international monetary system reform as one of the main agenda items to be discussed in the summit, and contributed to the establishment of a Working Group on international monetary system reform. Joined by related domestic departments, the PBC participated in the discussions of the Working Group and other international meetings, and helped France to hold the G20 International Monetary System High-Level Symposium in Nanjing on March 31, which greatly accelerated discussions of the international community over the necessity of reform of the international monetary system and the reform of Special Drawing Rights (SDR), and etc.

Furthermore, the PBC was thoroughly and deeply involved in activities of international standard setters such as the Bank of International Settlements, the Financial Stability Board, the Basel Committee on Banking Supervision and Committee on the Global Financial System, to make international standards and codes that would apply to different countries and institutions of different levels. At the same time, China's first Financial Sector Assessment Program (FSAP) was completed, which was conducted by the International Monetary Fund and the World Bank. The FSAP exercise was a comprehensive assessment of the stability of China's financial system based on international financial rules and standards and international best practices and would help promote further reform, stable development and higher international competitiveness of China's financial sector.

#### **Earnestly enhancing regional financial cooperation and promoting new progress in regional exchanges and cooperation**

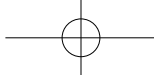
The PBC contributed to the growth of the ASEAN and China, Japan, Republic of Korea (10+3) finance ministers meeting into 10+3 finance ministers and central bank governors meeting, to promote regional financial stability. Meanwhile, the PBC continued to push forward the establishment of a regional financial safety net and

intra-regional trade local currency settlement system. In April, approved by the State Council, the PBC officially joined the South East Asian Central Banks (SEACEN) and Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries to improve cooperation and exchanges with related central banks. In May, the Asian Bond Fund (China) was transformed from a specially managed account into an open-ended securities investment mutual fund and started public offering to raise funds, which had a very positive effect on the development of China's bond market.

#### **Continued participation in bilateral high-level dialogues and international economic and financial policy coordination**

In 2011, the PBC was actively engaged in activities under important mechanisms such as the Sino-US Strategic and Economic Dialogue and the China-UK Economic and Financial Dialogue. It also promoted practical financial cooperation between China and Russian, Kazakhstan and Japan. By improving mutual trust and removing doubts, the PBC contributed to China's economic and financial cooperation and coordination with these countries.

In May, the third round of Sino-US Strategic and Economic Dialogue was held in Washington D.C. The PBC worked closely with other participating domestic departments to expand common ground, highlight consensus between the two countries, and to carefully address disagreements according to the principles of standing on just grounds, sticking to our advantages while acting with restraints. This round of economic dialogue produced 64 results. In September, the fourth China-UK Economic and Financial Dialogue in London reached agreements on 46 initiatives, in which 13 were related to the PBC, covering cooperation in areas such as financial sector reform and financial market development, international monetary and financial system, and etc. In addition, the PBC continued to deepen bilateral financial



cooperation with Russian and Kazakhstan, and actively promoted financial cooperation under the Shanghai Cooperation Organization framework. It also kept playing an active role in activities under the mechanisms of Boao Forum for Asia, the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Summit Meeting and the East Asia Summit.

**Supported the general capital increase of multi-lateral development banks and the replenishments of their soft lending windows**

In 2010, the PBC actively participated in the general capital increase of African Development Bank, the Inter-American Development Bank and the Caribbean Development Bank and consolidated and expanded cooperation with African and Latin American countries.

**Promoted financial cooperation and exchanges with Hong Kong, Macao and Taiwan**

The PBC led related departments in studying and formulating a package of financial policies to support the establishment of Hong Kong RMB offshore business center and the development of Hong Kong's economy. The package was announced during Vice Premier Li Keqiang's visit to Hong Kong in August. These policies and related measures are very important in promoting the long-term prosperity of Hong Kong's economy. The PBC also continued to promote financial cooperation with Taiwan by implementing the arrangement to provide RMB cash settlement services to Taiwan and strengthening staff and academic exchanges with the Taiwan region.



## FINANCIAL ACCOUNTING

### Strengthened balance sheet management

Effective measures were taken such as conducting survey and research, instituting bylaws and writing off losses to maintain a healthy balance sheet. The PBC also conducted comprehensive analysis of assets and liabilities as well as budget receipts and expenditures, improved financial monitoring and forecast, produced analytic reports on assets and liabilities, in order to enhance its ability in accounting analysis.

The PBC closely followed the developments of the accounting standards reform at home and abroad, participated in the reform of international accounting standards, involved itself in the accounting informatization committee, studied and improved the establishment of PBC accounting standards and the standardization of accounting information. Through involvement in the Central Bank Financial Strength Research initiative under the auspices of the Bank for International Settlements (BIS), the PBC compiled and released the Developments of the Working Group on Central Bank Finance, and produced the *Research Report on PBC's Financial Strength*. It also increased exchanges with other central banks through international conferences such as the seminar on central bank income statement and the forum on central bank governance organized by the BIS, the conference of central bank finance research working group organized by the European Central Bank (ECB), and workshops co-organized with other central banks such as the Central Bank of Kazakhstan.

### Improved financial accounting regimes

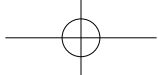
Accounting regimes were improved through such efforts as amendment of the *Administrative Measures on PBC's Basic Construction Projects*, promulgation of the *Measures on Budget Management of Large-*

*scale Renovation Projects by PBC Branch Offices, Administrative Measures on Donation by PBC-affiliated Enterprises, and the Tentative Measures on Management of State-owned Assets in the Disposal of Institutions Directly Affiliated to the PBC, Guiding Opinions of the PBC General Administration Department on Strengthening Management of Construction Projects at County-Level PBC Branch Offices, and Circular on Strengthening PBC Finance Management.*

Business procedure was further streamlined under the current institutional framework. Clarification was made with regard to the approval authority and procedure of infrastructure construction projects. Expert reviews were added to the approval process. All of these helped to make the decision-making process more scientific, rational and serious. Budget management of branch offices' large-scale renovation projects was reinforced to improve the management of construction projects. The PBC conducted a comprehensive software-enabled asset sorting and counting campaign, improved fixed-asset replacement and management of intangible assets and centralized procurement projects, reinforced procedure and conformity of centralized procurement, and put in place the regime of key projects tracking and record-keeping. Assets in the disposal of PBC affiliations were better managed with well-defined accountability in order to mitigate risks.

### Reinforced financial budget management

The PBC conducted research on central bank budget performance management and the ration standards system to make budget management more forward-looking and better organized. It also pushed forward the building of a budget standard system, in order to make budget management more scientific, standardized and meticulous. In accordance with the requirements by the State Council,



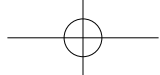
the PBC disclosed information on Head Office's and the direct affiliations' expenditures on official overseas trips, official vehicles purchasing and maintenance, and official reception, and made further efforts to cut expenditure, increase the binding power of budget management, and improve efficiency of the use of the budget fund.

Growth of expenditures on overseas official trips, official vehicles and official reception as well as on the construction of new buildings was strictly controlled. It was forbidden to decorate offices above budgetary requirements, and to construct office buildings under the disguise of buildings for business operations. The scope of centralized procurement was expanded to cover some of the procurement projects of branch offices for the sake of economies of scale. The Head Office strengthened guidance and coordination with direct affiliations by tightening supervision, urging direct affiliations to follow requirements related to decision making on business operations, decisions on personnel appointment and dismissal, decisions on key projects and use of significant amount of money, strengthening day-to-day financial management of direct affiliations, and

deepened the transformation of the institutions directly affiliated to the PBC. Managerial authority and job responsibilities of financial accounting departments at all levels were reinforced by strictly implementing all types of requirements, severely punishing irregular behaviors, increasing budget fund's efficiency, and mitigating losses and risks.

#### **Carried forward special projects to rectify problems identified**

Continuous efforts were made to carry out the special rectification project targeting extra-budgetary coffers, with more focus laid upon eliminating the problem from the source and setting up a long-term mechanism. The special project targeting official vehicles was pushed ahead, with planning, problem-shooting and inspection basically completed, and relevant regulations promulgated and revisited. Random inspection was conducted targeting prominent problems arising from construction projects, to check branch offices' compliance with related laws and regulations in order to identify and address problems in a timely manner.



## HUMAN RESOURCES

### Staff composition

As of end-2011, the PBC staff reached 133 861 (including 20 754 staff working in the China Banknote Printing and Minting Co., Ltd and its subsidiaries).

Among the total, 43 584 staff or 32.56 percent were female; 734 or 0.55 percent held Ph. D degrees (in particular, 128 in the PBC Head Office, accounting for 18.16 percent); 8 514 or 6.36 percent held master degrees (in particular, 358 in the PBC Headquarter, accounting for 50.78 percent); 64 272 or 48.01 percent held bachelor's degrees (in particular, 167 in PBC Head Office, accounting for 23.69 percent). In 2011, 2 430 new staff members were recruited from universities and other entities, and 2 479 were retired.

Among the PBC staff, 705 were in the PBC Head Office (including both the staff managed referring to civil servant law and the staff in the PBC affiliation units), 607 in the Shanghai Head Office, 2 005 in the PBC direct affiliations, 6 427 in branches and operations offices (including operations offices under branches), 9 307 in sub-branches in provincial capital cities, 1 506 in sub-branches in quasi province-level cities, 46 404 in sub-branches in prefecture-level cities and 45 419 in county-level sub-branches.

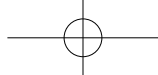
### Changes of senior officials

In September 2010, Mr. Yang Guozhong (formerly President and CPC Committee Secretary of the PBC Operations Office, and Director of the SAFE Beijing Office) became the Chief Disciplinary Officer and a member of the CPC Committee of the SAFE. In October, Mr. Ma Delun retired from the post of Deputy Governor and member of CPC PBC Committee. In November, Mr. Wang Hongzhang was appointed General Secretary of CPC Committee of the China Construction Bank, and no longer served as Deputy Governor and member of CPC PBC Committee.

### Team building

First, cadres selection was made more competitive. Seven deputy director-generals and 233 directors and deputy directors in the PBC system were selected and appointed through open and fair competition, and a number of highly-qualified young cadres stood out in the competition. Second, more cadres were given the opportunity to have fixed-term secondment within the system or exchange. About 34 (deputy) director-generals and 581 (deputy) directors in the PBC system participated in the secondment program, and about 100 young officials from branch offices and direct affiliations were seconded to the Head Office and the SAFE. Through such programs, the work experiences of the staff were optimized. Third, cadres' performance review was enhanced. The system of "one report and two reviews" was carried out in the cadre selection throughout the PBC system. In 2011, the Head Office checked the cadres selection process in 8 director-general level branch offices and 2 direct affiliations, as well as the selection of CPC Committee general secretary of 12 director-general level affiliated units before they left office to see how they managed cadres selection and appointment. Fourth, continuous efforts were made to train cadres on a large scale. The *12<sup>th</sup> Five-year Plan of the PBC Cadres Training Program* was promulgated and carried out. In 2011, the Head Office directly organized 109 training courses, which were attended by more than 9 100 cadres. Training courses targeting staff working at the prefecture-level sub-branches were arranged online, which were attended by over 50 000 people, effectively contributing to capacity building. Fifth, highly qualified staffs were recruited. In 2011, newly recruited staff with master' or doctor's degree reached 904, accounting for 37.2 percent of the new recruits, indicating improved human resource structure.





### Talents training and retention programs

The PBC issued the *Medium- and Long-term Financial Field Talents Development Plan (2010-2020)* jointly with the CBRC, the CSRC and the CIRC. Carefully implementing the strategy of “reinvigorating the bank through human resources development”, the PBC promulgated the *Medium- and Long-term Talents Development Plan of the PBC (2011-2020)*, which outlined the objectives, guiding principles and policies for talents development in the next ten years. The PBC continued to lead the efforts of attracting “thousands

of talented people” for the financial sector. As of end-2011, 27 candidates were selected. It also organized and completed the financial sector human resources statistic survey for the year 2010, which comprehensively and accurately reflected the reality of human resources in China’s financial sector by recording the stock, composition and turnover of various financial regulatory agencies and over 3 000 financial firms. Over 300 staff passed the 2011 senior-level professional qualification appraisal organized for the entire PBC system, thus further enhancing the team building.



## INTERNAL AUDITING

In 2010, the PBC's internal auditing units completed 5,135 auditing programs, and produced 18,017 proposals based on the problems identified.

### **Performance audit and end-of-tenure audit were deepened**

Internal auditing units in the PBC system completed 877 performance audits and 747 end-of-tenure audits on staff holding various managerial positions. Among the total, the Internal Auditing Department at the Head Office conducted performance and end-of-tenure audits on 11 director-general level officials at branch offices and direct affiliations. The coverage and functions of these two categories of auditing were further clarified with end-of-tenure audit emphasizing financial accountability, while performance audit strengthening overall fulfillment of duty, internal control and performance.

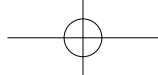
### **Effectively conducted priority ad hoc auditing programs**

First, management audit on infrastructure construction projects was carried forward. The PBC conducted audit on 117 infrastructure projects in accordance with the principles of comprehensive coverage and full-process monitoring while extending the audit to the office one level below the audited unit. Items to be audited included internal control, budget receipts and expenditures, tendering and procurement, contract management and construction management. In the audit process, a pilot program on performance audit was launched in addition to compliance audit. Second, account management audit was deepened. Audits were conducted on management of secondary accounts opened by units of 101 branch offices under or apart from their principal accounts. Third, internal control audit was continued. Internal control audit procedure and operational manual were improved

alongside with the audit methods. The PBC carried out audit on 359 units, centering on the five internal control elements namely control environment, risk assessment, control measures, information communication and monitoring. Fourth, emergency management audit was initiated. The PBC brought together 281 branch offices to audit their emergency management system, contingency plans, early warning, emergency restoration, and emergency exercise, using both peer monitoring and monitoring to the office at the next lower level. Fifth, audit on currency issuance management was conducted, with the emphasis laid upon release of certain types and editions of banknotes from the issuance vault in violation of related regulations as well as management of damaged banknotes destruction. Sixth, IT audit was deepened. Audit on IT application and system operation was carried out on 191 branch offices. Seventh, management of separation of intranet at Head Office level and branch office level was audited. In the auditing of 165 branch offices, emphasis was laid upon compliance, security, effectiveness and outcome.

### **Audit over enterprises and institutions directly affiliated to PBC Head Office was enhanced**

Audit programs were conducted in 7 such institutions and concerned parties. In addition to budget receipts and expenditures, the programs covered governance structure, internal control, business operations, finance management, remuneration, and information security. These audit programs helped to improve the internal control of the audited institutions, standardized their operational activities and enhanced their management quality. In continuous efforts to audit foreign exchange management operations, the PBC audited Huaxin Investment Co., Ltd affiliated to the Central Foreign Exchange Business Center for the first time, and gained



experiences for this new type of audit.

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

The PBC Head Office promulgated the *PBC Internal Audit Transformation Plan for 2011-2013*, which set out the objectives of internal audit transformation featuring a new model that is oriented to risks, focuses on control, and aims at governance and value added. Internal audit units at various levels actively conducted research programs and implemented the three-year transformation plan. First, the risk-based audit approach was established. The major risks the central bank faces were categorized, major issues related to risks identification and effectiveness assessment were defined, and a risk-based assessment system was created. Second, explorations were made to conduct performance audit and central bank balance sheet audit. With regard to performance audit, in addition to preliminary research findings on the meaning of economy, efficiency and result-based performance audit indicators, pilot programs were started to audit important investment projects and business activities. With regard to central bank balance sheet audit, the PBC put forward the standards of a healthy balance sheet, namely faithfulness, fair value, security, soundness and transparency, from the perspective of improving central bank governance covering accounting standards, assets, liabilities, financial strength, information disclosure, relationship between the balance sheet and monetary policies. The items to be audited and the audit framework were later defined based on the five criteria. Third, end-of-tenure audit, internal

control audit and IT audit were deepened. The coverage of end-of-tenure audit was adjusted according to the principle of “end-of-tenure audit emphasizes financial accountability”, which greatly enhanced efficiency while preserving quality. Based on the five COSO elements, the internal control audit program was revised, the audit coverage was specified, a business flow chart was drawn, and the criteria for internal control audit were established. A list of items to be covered by IT audit was completed, including 4 categories of 76 items such as infrastructure, IT management, data center, and application system. Besides, an IT audit risk assessment model was set up, and the criteria for IT audit in the PBC were drafted by drawing on COBIT. Fourth, audit methods were improved, and audit quality was raised. Using ACL software, the PBC conducted preliminary off-site audit on currency issuance, accounting, foreign exchange administration, and state treasury business, and discovered some clues. Efforts were made to develop the PBC computer-aided audit system. The PBC continued to push forward the program that required audit staff to learn audit criteria, identify areas for improvement, and promote transformation, focusing on capacity building and team building, and greater efforts in staff training. Comprehensive audit analysis was strengthened, and the findings were increasingly applied to practice. A coordination and communication mechanism between the internal auditing units and other operational units was established in order to better capitalize on internal audit’s confirmation and advisory functions.



## FINANCIAL SURVEY AND STATISTICS

### Statistics of aggregate financing to the economy (AFE)

With the reform and development of financial industry, expansion of financial system and change in its structure, as well as the evolution of linkage between finance and economy, a comprehensive statistical index is needed to fully and accurately capture the real economy and financial sector to provide reference for both policy-making and theoretical research. The PBC made a lot of efforts in 2011 to advance the work on AFE statistics in order to provide reference to macro-economic management, to capture the diversified development of financial market and measure the financial support to the real economy, and to assist the use of multiple tools in macro-economic management.

AFE is an aggregate indicator that comprehensively measures the support from the financial sector to the real economy as well as the interaction between the financial sector and the real economy. After taking into account of the testability and controllability, as well as its correlation with the ultimate goal of macro-economic management, the PBC has established a nationwide AFE statistical system and monitoring framework based on IMF's monetary and financial statistics framework and accounting principle of fund flow, releasing the AFE data on a monthly basis.

It's shown by statistical practice in the past year that the indicator of AFE is adequate to reflect the diversified development of China's financial market, and measure the support from the financial sector to the real economy. As the traditional aggregate indicator fails to keep up with the financial innovation, the AFE provides a new indicator for the use of multiple instruments in macro-economic management. The AFE has been included for two years in the documents of Central Economic Work Conference and the *Report on the Work of the Government*, and is

highly valued by users in both the State Council and local governments.

### Breakthrough in financial statistics standardization

In 2011, financial statistics standardization has made a breakthrough. The financial statistics standardization information monitoring system has started to function, enhancing the influence and implementation of the standards. Firstly, leadership and organization was strengthened and an efficient work mechanism was established. The PBC established a leadership group for financial statistics standardization, published *Guidelines on Implementation of Financial Statistics Standardization*, put in place a mechanism of designated contact banks and reinforced coordination with and guidance to financial institutions. Financial institutions made breakthroughs in the implementation of standards through establishment of execution groups, active participation in the standardization work and the step-by-step introduction of the statistics standards into business management system. Secondly, the cooperation mechanism was reinforced to promote the financial statistics standardization. The statistical index of assets and liabilities of financial institutions has been comprehensively revised according to the published statistics standards on financial institutions and financial instruments, and the integration of statistical index in both local and foreign currency has been achieved. The PBC made exploration in cross-sector financial statistics, designing the collection system of key index together with China Securities Regulatory Commission and China Insurance Regulatory Commission, and collecting data from the pilot institutions. Thirdly, statistical philosophy was innovated and the statistics standardization information monitoring system started to function. A monitoring system of



statistics on wealth management and trust fund was established to provide effective information to support the decision-making of monetary policy, appraisal of macro-economic management as well as liquidity management. The PBC started the appraisal of cross-sector financial statistics information platform as the preliminary business has emerged. Fourthly, pilot for statistics on interest rate of deposits and loans was implemented by applying sampling approaches based on standards, laying a good foundation for the future step in nationwide introduction.

#### **Improved data quality of statistics by deepening infrastructure constructions**

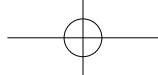
There was a significant improvement in the timeliness and comprehensiveness of financial statistics. Importance has been given to the communication with the public, establishing a good foundation for the PBC to perform its functions and appraise the effect of its policies. First of all, the quality management of statistical data was reinforced and the nationwide inspection of financial statistics was implemented. A total of 318 financial institutions were inspected in 2011 with notable achievements made from the inspection. Meanwhile, data review was strengthened and data quality was strictly managed. Working process, internal control and assessment mechanism were further implemented to fully cover data management, business processing, system management and risk response management. Meticulous efforts were made to organize and coordinate the assessment of 1 662 county-level legal-person financial institutions in 27 provinces (autonomous regions or municipalities directly under central government). Secondly, data processing system was upgraded and optimized and management of financial statistics information was enhanced. Communication with the general public was improved. On one hand, mass media was used to timely and comprehensively disseminate financial statistics data. On the other hand, Financial Statistics Research Committee under China Society of

Finance and Banking was founded to provide a platform for the communication between the financial statistics community and other government authorities, financial institutions, research institutions and enterprises. Thirdly, accurate statistical data was provided to support the implementation of monetary policy. Fourthly, the coverage of money supply statistics was improved. Fifthly, the usage of specific-item statistics was enhanced. Statistical data of loans to agriculture & rural areas & farmers and of loans to large-, medium- and small-sized enterprises have become an important reference for government authorities to implement the relevant subsidy policies.

#### **Economic and financial survey moved to a new level**

Centering around the focus of statistics, survey and analysis, the PBC endeavored to utilize its systematic advantage, improve the survey procedures and enhance the practical effect of survey to achieve the objectives of development of statistical and research professionals and production of high-quality analysis and research in the statistical field.

A survey approach for private lending by enterprises was timely established and two in-depth surveys were conducted covering 6 700 enterprises in thirty provinces excluding Tibet. Questionnaire survey over bankers, entrepreneurs and depositors was further improved and the questionnaires were simplified. The adjustment to commodities sample and enterprises sample of enterprises' commodities price index was finished as scheduled once every five years. The 5 000-enterprises survey and monitor system was optimized and the monthly monitoring of loans to medium- and small-sized enterprises was strengthened. Based on the successful compilation of house price index in ten mega cities with hedonic price approach, the new house price index in thirty big cities was compiled on a monthly basis, which effectively made up for the shortage of house price monitoring tool in China. A survey of tolerance capacity to RMB exchange rate fluctuation was conducted over



export-oriented enterprises, and the impact on enterprises and domestic economy of the exchange rate fluctuation was appraised accordingly, which provided information support to the adjustment of RMB exchange rate policy. The PBC statistics team participated actively in the process of maintaining financial stability and in counter-cyclical macro-prudent management, monitoring and analyzing financial stability and supporting the exercise of FSAP.

#### **Analysis, forecast and research produced significant results**

Firstly, in-depth analysis and research was made on critical economic and financial topics in the performance of macro-economy. The developments of macro-economy were closely followed. Monitoring on the fluctuation of key economic index, including economic growth, money and credit, as well as current account, has been conducted to

get to know the trend movements in economy and finance. Secondly, economic projection was strengthened by establishing a framework for key economic and financial index projection to improve projection accuracy. The approach of tracking the business climate and sentiment indicators was adopted to analyze economic growth, price, money and credit and to provide data, analysis and judgment on leading indicators. Thirdly, targeted specific-topic research into statistics and survey was conducted. A range of research paper has been finished by the PBC statistics team, including *on inflation measurement and monetary policy, market-based reform of interest rate, role of imports in Chinese economy, interest rate, exchange rate and fund flow in the course of interest rate liberalization, framework and tools of macro-prudential policy, research into China's capital account liberalization, analysis of China's economic growth potential, timeliness of monetary policy transmission, measurement of policy effect*, and etc.





## BOX

### The Connotation and Practical Significance of Aggregate Financing to the Economy

#### Concept and connotation of the AFE

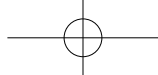
In recent years, with the fast development of China's financial market, the linkage between financial sector and real economy has experienced tremendous changes. New RMB loans were not adequate to capture aggregate financing volume of the real economy. A more comprehensive analyzing and monitoring index was needed for macroeconomic management.

At the 2010 Central Economic Work Conference, it was put forward for the first time that the AFE should be kept at a reasonable scale. The AFE refers to the total fund volume obtained from financial system by the real economy during a specific period (i.e. every month/quarter/year). Here the financial system is a concept concerning overall finance. AFE consists of three parts: i) Fund support to the real economy by the financial institutions through the use of fund. ii) Direct financing secured by the real economy through normal financial instruments at the official financial market, taking advantage of credit and service from financial institutions. iii) Other financing, e.g. loans by micro-lending companies or loan companies, etc. In terms of statistics index, AFE covers the statistical indices of RMB loans, foreign currency loans, entrusted loans, trust loans, undiscounted bankers' acceptance, net financing through corporate bonds, equity financing by non-financial corporations in the domestic market, compensation payment by insurance companies, investment-driven real estate and other financing.

#### Key characteristics of China's AFE

Data shows that China's AFE has experienced rapid expansion and the support to economy by the financial sector has increased steadily in recent years. Between 2002 and 2011, AFE grew from 2 trillion yuan to 12.83 trillion yuan, with an average growth rate of 22.9 percent per annum, 6.1 percentage points higher compared with that of RMB loans during the same period. The ratio of AFE to GDP in 2011 was 27.2 percent, up 10.5 percentage points compared with that of 2002.

The financing structure became more diversified. Firstly, the share of RMB loans has recorded a sharp decrease, while volume and share of other financing has a remarkable increase. The incremental volume of RMB loans in 2011 registered 7.47 trillion yuan, accounting for 58.3 percent of AFE, a reduction of 33.6 percentage points from that of 2002. The volume of other financing amounted to 5.35 trillion yuan, 32.7 times as much as that of 2002. Secondly, direct financing has surged, and the market allocation of fund has continuously improved. The volume of corporate bonds and equity financing by non-banking financial institutions in the domestic market totaled 1.80 trillion yuan, 18.1 times as much as that of 2002, and its share (14.0 percent) was 9.1 percentage points higher compared with that of 2002. Thirdly, the support to the real economy by non-banking financial institutions has expanded rapidly. Compensation payment by insurance companies in 2011 was 5.7 times that of 2002. Fourthly,



the off-balance-sheet financing activities by financial institutions have strengthened remarkably. The total financing volume of undiscounted bankers' acceptance, entrusted loans, trust loans amounted to 2.52 trillion yuan, while the volume was quite small in 2002.

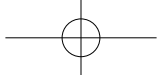
#### **Significance of analyzing and monitoring AFE**

Firstly, it helps to capture the support to real economy by financial sector and improve the effect of financial macroeconomic management. For instance, incremental volume of RMB loans in 2010 was 1.65 trillion yuan less than that of 2009, but the volume of other financing in 2010 was 1.76 trillion yuan more than that of 2009. As a measurement of the support to real economy by financial sector, AFE is more comprehensive than loans and improves the effect of financial macroeconomic management because it helps policy makers to avoid the result of curbing one form of financing to find another cropping up.

Secondly, it facilitates the development of direct financing and improves the structure of financing. Currently, equities and bonds are important financing instruments for enterprises. Insurance funds have also invested heavily to real economy. The AFE statistics will help to boost the functioning of capital market and insurance industry to satisfy the diversified financing and investment demand of the real economy.

Thirdly, it supports the mixed use of price and quantitative tools, and advances market-oriented development of financial macroeconomic management. Currently, benchmark lending rates and floating rate management are applied to RMB loans, but market-oriented pricing remains at a relatively low level. Thus quantitative tools (including open market operations) and interest rate pricing tools can be used for the management of RMB loans, while interest rate pricing tools can be used for the management of financial instruments with market-oriented pricing, including bills, bonds, stock, etc.

Fourthly, it helps the implementation of counter-cyclical macroprudential management. The use of statistical index of AFE will help to monitor risks of the whole financial system, and strengthen the monitoring and management of risks of systemically important financial institutions (SIFIs), financial market and financial instruments.



## FINANCIAL RESEARCH

**New breakthroughs in research on financial sector development and reform**

The PBC played an active role in drafting and finalizing the *Program of China's Financial Sector Development and Reform (2011-2015)*, a program assigned by the State Council on financial sector development and reform in the 12<sup>th</sup> Five-Year Plan period. Working with the China Banking Regulatory Committee (CBRC), China Securities Regulatory Committee (CSRC), China Insurance Regulatory Committee (CIRC), and the State Administration of Foreign Exchange (SAFE), the PBC started in-depth research on the 20 key issues to be addressed in the program since 2011, and held intensive discussions with eminent experts and extensive consultation with the public before submitting the final draft to the State Council for approval.

Research on and publicity of rural financial reform and financial services were advanced. Building on a nationwide survey on rural credit cooperatives (RCCs), the PBC developed plans for further pilot reforms in RCCs. Many of the featured reports on enhancing RCC capital quality received attention from senior officials in the State Council, and a number of proposals presented in those reports was deliberated and adopted at the Central Rural Work Conference and the National Financial Work Conference. The 2010 *Report on Rural Financial Service*, a publication by the PBC, was well received by the public.

Research on international finance was deepened. Studies on the sequencing of reforms of interest rate, exchange rate and capital account provided useful inputs for policy makers to make balanced progress in the reform, while the conclusions in the PBC researches on the possibility of including RMB in the SDR basket, use of RMB in neighboring countries and in the region, cross-

border RMB investment and financing, and development of the off-shore RMB market in Hong Kong were adopted by relevant government agencies. The PBC also made explorations on the direction and prospects of financial cooperation among BRICS countries and reviewed key strategic issues, including enhancing financial competitiveness internationally.

**New level in economic and financial monitoring and analysis**

Monitoring and analysis of macroeconomic as well as money and credit developments were strengthened. The PBC stepped up monitoring and analysis on macroeconomic performance and inflation developments, which were presented in the quarterly Price Monitoring and Analysis Report submitted to the Monetary Policy Committee. The PBC watched closely monetary and credit conditions by assessing the effect of monetary policy and following changes in the aggregate and structure of money and credit as well as monetary policy movements in major economies. Analysis and stress testing of the property market were enhanced and the impact of shadow banking on property finance was evaluated.

The PBC closely followed hot economic and financial issues. It explored the possibility of building a statistics system to cover private financing to better understand the issue, and continued the study on legislation of private lending. It sent research teams to areas where private lending posed intensifying risks and, informed by seminars and questionnaires, developed proposals for the State Council. The PBC studied SME financing difficulties and developed solutions to improve the environment for SME financing. It continued the pilot scheme on protecting the rights and interests of financial consumers while closely tracking latest developments in



this area in and out of China.

Development and application of macroeconomic models were enhanced. Dynamic Stochastic General Equilibrium (DSGE) models developed by the PBC were further improved, and the recently completed Financial Computable General Equilibrium (Financial CGE) model was acknowledged by experts. Based on those macroeconomic models, the PBC conducted quantitative analysis on root causes of economic fluctuations, monetary policy transmission mechanism, and coordination of monetary and fiscal policies, which provided strong theoretic and empirical support for macroeconomic management policy making.

#### **New progress in research on supporting economic restructuring and shift in development pattern**

The PBC actively participated in the research and policy making on providing financial support for regional development, including drafting the *Opinions of the PBC, CBRC, CSRC, and CIRC on Financial Measures Supporting Xinjiang in Leap-style Development*, opening the Financial Cooperation Forum under the China-Eurasia Expo and the Seminar on Financial Support for Xinjiang's Leap-style Development. The PBC strengthened studies on regional financial reform. It supported balanced development of Shanghai and Hong Kong as two international financial centers, advanced the pilot comprehensive reform in New Pudong District in Shanghai, and worked with other government agencies in developing the overall plan for comprehensive financial reform in Wenzhou. The PBC also played its part in researches on the experimental financial reform and innovation in Guangdong, financial reform and innovation in Qianhai, Shenzhen, and financial reform in Changsha, Xiangtan and Zhuzhou, Hunan province. Research was enhanced on financial support to industrial capacity relocation to less developed regions.

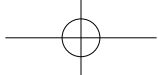
Research on industry upgrading and low carbon development was enhanced. Building on surveys on

financial support for the cultural industry, the PBC developed proposals on improving financing mechanism for the cultural industry, which informed the policy decision on institutional reform in the cultural area at the sixth plenary meeting of the 17th CPC Central Committee. The PBC produced proposals on low carbon development based on continued review of issues on cap-and-trade carbon market, climate change financing and pricing of carbon emission rights as well as analysis on the differences and debates between developed and developing countries in climate talks.

Research on mechanisms to sustain financial support for stronger domestic demand in the long-term was enhanced, including research projects on value added tax reform, individual income tax reform, tariff and price difference between China and the United States, public debt in advanced countries, financial measures for improving income distribution, and tailored policies to boost consumption based on analysis on consumption behaviors of urban and rural residents. Reports from those researches were sent to competent government agencies to help policy-making.

#### **Achievements in research on featured subjects and regional financial policies**

Research on featured subjects was expanded and deepened. Taking advantage of their locations, the PBC branches and sub-branches explored a wide range of featured issues, including off-shore financial activities, economic and financial developments in central Asian countries, financial measures designed to support the opening-up and development in regions inhabited by minority ethnic groups and regions along the border, local currency settlement of trade transactions between China and Russia, presenting first-hand information for policy-making. Databases were set up to facilitate research on featured subjects, including the database for ASEAN, county-level economic and financial data, and financial data for Hong Kong, Macao and Taiwan. Continued



research on food security, enhancing income of food-growing farmers, poverty reduction in western China, shift of development pattern in resource-rich cities and other issues provided great support for policy-making.

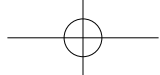
Field research activities by the PBC provided key inputs to local governments' economic development strategies, including field research programs on supporting development of the central China economic area, cross-strait and Guangdong-Hong Kong financial cooperation, financial measures for supporting development of Hainan as an international tourism island, and industrial relocation in coastal provinces.

#### **Progress in research administration and academic exchanges**

Administrative support for research projects was improved, with 77 key research programs in 7 categories being completed in 2011, exploring similar subjects from different perspectives with greater intensity. Since its connection with the National Foundation for Natural Sciences was restored, the PBC Financial Research Institute has won bids for one contingency research program and one key research program from the Foundation, as well as one major program, one key

program and two programs for young professionals from the National Foundation for Social Sciences. The bidding process and the research programs helped the PBC enhance its research teams, produce higher quality research products and build a stronger reputation.

With a stronger academic influence, the PBC enhanced academic exchanges and cooperation with the Beijing University, Tsinghua University, China Academy for Social Sciences and other research institutes. More research results were applied, and academic exchanges were enhanced, taking advantage of publications of the PBC and its branches as well as by the China Society for Finance and Banking, the Financial Accounting Society of China and local financial societies. Policy proposals were developed on economic rebalancing, RMB exchange rate, international monetary system reform and other issues, and public education on China's economic and financial policies was improved. Joint research program under the China-UK Economic and Financial Dialogue was continued. Moreover, the PBC enhanced financial cooperation with Hong Kong and Macao, and strengthened cross-strait exchanges on rural finance, consumer protection, regional economic developments and financial conglomeration.



## PUBLIC COMMUNICATION AND EDUCATION

Underpinning better public understanding of financial policies, stronger financial literacy and more efficient protection of financial consumers' rights and interests, public communication and education is a key element that will help ensure safety and sound development of the financial sector. It is an important mandate of the PBC as the central bank.

Public communication and education has been one of the key items on PBC's agenda. In 2011, in support of macro-financial management and financial reform, development and stability, the PBC enhanced communication strategies with greater initiative and strengthened news releases and public education, covering macro-financial management, financial reform and development, financial services, policy updates for foreign audience, and financial education. Those efforts helped create a favorable public opinion environment for implementing policies to consolidate the achievements in dealing with the shocks from the financial crisis and making a good start for the 12<sup>th</sup> Five-year Program.

### **Providing in-depth interpretation of financial policies to facilitate policy implementation**

A wide variety of communication channels was used to provide timely interpretations of macro-financial management policies and guide public expectations, including press conferences, online exchanges, interviews, and articles published by senior officials. A special press conference on monetary policies and financial issues is held every year during the annual sessions of the National People's Congress and the Chinese People's Political Consultative Conference, where the Governor and Deputy Governors answer questions of public interest. A special drive was launched to review achievements in the 11<sup>th</sup> Five-Year Plan and present outlook on the 12<sup>th</sup> Five-Year Plan, where the Governor, Deputy Governors

and department heads wrote articles on the fulfillment of central bank performance in the 11<sup>th</sup> Five-year Plan period and elaborated on the objectives and measures for the 12<sup>th</sup> Five-year Plan period. These articles were published on the PBC website. Communication programs were initiated to explain the PBC's policy initiatives and update the public on aggregate financing to the real economy, market-based interest rate reform, pilot program of RMB settlement in cross-border trade and publishing of the China FSAP report.

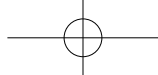
### **Stronger cooperation with media in search of new models for working with international media**

The PBC used summits, forums, expositions and other major international events as a platform for providing update and clarification on China's economic and financial policies in an effort to build a favorable external environment. Key issues of international attention were responded quickly by offering elaborations on China's positions, shaping a good image of the PBC and the Chinese financial sector. That includes timely press releases on the passage of the Budget Control Act of 2011 by the U.S. Congress and the outcomes of the Euro Area and European Union Summits. After the passage of the biased *Currency and Exchange Rate Oversight Reform Act of 2011* by the U.S. Senate, the PBC defended China's positions with a quick press release and an article, *RMB Exchange Rate Reform: Review and Outlook*, which highlights China's achievements in addressing the shocks from the global financial crisis and its contribution to global recovery.

### **Stronger protection of financial consumers' rights and interests supported by financial education**

Efforts were made to enhance public knowledge on credit reference, anti-money laundering, anti-counterfeit





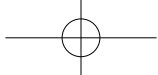
banknotes, state treasury management, payment and settlement and SME financing, including education programs on financial consumers' rights and interests launched on March 15 (Day for Consumer Rights and Interests) and on the importance of maintaining good credit records on June 14 (Credit Record Day), as well as a month-long education campaign that reached an audience of 11.69 million people on credit reference systems being developed for SMEs and rural areas and on progress in applying the individual credit information system. To help the public better understand money laundering activities, featured pamphlets on new types of money laundering cases were sent out in the fifth anniversary of the promulgation of the Anti-money Laundering Law. Education drives on anti-counterfeit banknotes were introduced, giving out specially designed anti-fake money calendars to improve public awareness on the security features of RMB notes particularly in central and western China, in line with the principle of focusing on rural areas in counterfeit banknotes education along with continued efforts in urban areas. Press conferences were given to provide latest development in adding financial functions to social security cards. Education activities were launched to help the public

better understand state treasury services, in particular the Treasury Information Processing System and savings-style treasury bonds, in an effort to enhance public understanding of the central bank's role in state treasury.

Financial education programs were launched to address key issues and problems of public attention by sending education teams to rural villages, colleges and universities, conducting education activities at the juncture of the 26<sup>th</sup> Summer Universiade, and producing videos and songs in local ethnic languages tailored to different regions.

#### Open administration with greater transparency

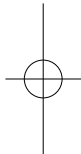
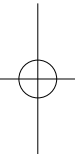
As part of the effort to improve open administration and public communication, the PBC upgraded its website by expanding information coverage through timely release of news, notices and statistics, and by offering new features such as online interviews and live coverage of important events in texts and photos, so that the public is well informed, involved and heard. The PBC also provided theme information on specific issues along with daily releases, which was well accepted by the public and the media.



The People's Bank of China

# 2011 STATISTICAL ANNEX







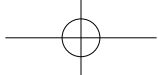
## SELECTED ECONOMIC INDICATORS

(Year-end Balance)

100 million yuan

	2007	2008	2009	2010	2011
Gross Domestic Product (GDP)	249 530.0	300 670.0	335 353	397 983.2	471 563.7
Industrial Value Added	107 367.0	129 112.0	134 625	160 030	188 572.0
Fixed Assets Investment	137 323.9	172 828.4	224 598.8	278 121.9	311 022.0
Retail Sales of Consumer Goods	89 210.0	108 488.0	125 343	156 998	183 919.0
Urban Households				136 123	159 552.0
Rural Households				20 875	24 367.0
Export & Import (100 Million of US Dollars)	21 738.0	25 616.0	22 072	29 728	36 420.6
Export	12 180.0	14 285.0	12 017	15 779	18 986.0
Import	9 558.0	11 331.0	10 056	13 948	17 434.6
Balance	2 622.0	2 955.0	1 961	1 831	1 551.4
Foreign Direct Investment (100 Million of US Dollars)	748.0	924.0	900	1 057.4	1 160.1
Foreign Exchange Reserves (100 Million of US Dollars)	15 282.5	19 460.3	23 992	28 473.4	31 811.5
Consumer Price Index (Previous Year=100)	104.8	105.9	99.3	103.3	105.4
Government Revenue	51 304.0	61 316.9	68 477	83 080	103 740.0
Government Expenditure	49 565.4	62 427.0	75 874	89 575	108 929.7
Fiscal Balance	1 738.6	-1 110.1	-9 500	-10 000	-8 500.0
Per Capita Urban Household Disposable Income (Yuan)	13 786.0	15 781.0	17 175	19 109	21 809.8
Per Capita Rural Household Net Income (Yuan)	4 140.0	4 761.0	5 153	5 919	6 977.3
Number of Employed Persons in Urban Areas (Million)	309.5	321.0	333.2	346.9	359.1
Registered Urban Unemployment Rate (%)	4.0	4.2	4.3	4.1	4.1
Total Population (Million)	1 321.3	1 328.0	1 334.7	1 341.0	1 347.4

Notes: 1. Sources from "Statistical Communiqué of the People's Republic of China on the 2011 National Economic and Social Development".  
2. Fiscal figures from "Report on the Implementation of the Central and Local Budget for 2011 and on the Draft of the Central and Local Budget for 2012".  
3. From 2011, the cut-off point of fixed assets investment statistics has been changed from a minimum of 500 thousand yuan to 5 million yuan, therefore the total volume of fixed assets investment in 2011 is not comparable with 2010, but its 2011 growth rate is calculated on comparable basis.  
4. Figures of fixed assets investment and numbers of employed persons in urban areas from 2007 to 2010 are all adjusted accordingly in line with "2011 China Statistical Yearbook".



## SELECTED ECONOMIC INDICATORS

(Growth Rates)

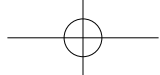
	Percentage change				
	2007	2008	2009	2010	2011
Gross Domestic Product (GDP)	11.9	9.0	8.7	10.3	9.2
Industrial Value Added	13.5	9.5	8.3	12.1	10.7
Fixed Assets Investment	24.8	25.9	30.0	23.8	23.6
Retail Sales of Consumer Goods	16.8	21.6	15.5	18.3	17.1
Urban Households				18.7	17.2
Rural Households				16.2	16.7
Export & Import	23.5	17.8	-13.9	34.7	22.5
Export	25.7	17.2	-16.0	31.3	20.3
Import	20.8	18.5	-11.2	38.7	24.9
Balance			-34.2	-6.4	-14.5
Foreign Direct Investment	13.6	23.6	-2.6	17.4	9.7
Foreign Exchange Reserves	43.3	27.3	23.3	18.7	11.7
Consumer Price Index	4.8	5.9	-0.7		5.4
Government Revenue	32.4	19.5	11.7	21.3	24.8
Government Expenditure	22.6	25.4	21.2	17.4	21.2
Per Capita Urban Household Disposable Income (After Adjusting for Inflation)	12.2	8.4	9.8	7.8	8.4
Per Capita Rural Household Net Income (After Adjusting for Inflation)	9.5	8.0	8.5	10.9	11.4
Number of Employed Persons in Urban Areas	4.5	3.7	3.8	4.1	3.5
Natural Population Growth (%)	5.2	5.1	5.1	4.7	4.8

Notes: 1. Sources from "Statistical Communiqué of the People's Republic of China on the 2011 National Economic and Social Development".

2. Fiscal figures from "Report on the Implementation of the Central and Local Budget for 2011 and on the Draft of the Central and Local Budget for 2012".

3. From 2011, the cut-off point of fixed assets investment statistics has been changed from a minimum of 500 thousand yuan to 5 million yuan, therefore the total volume of fixed assets investment in 2011 is not comparable with 2010, but its 2011 growth rate is calculated on comparable basis.

4. Figures of fixed assets investment and numbers of employed persons in urban areas from 2007 to 2010 are all adjusted accordingly in line with "2011 China Statistical Yearbook".



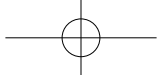
## AGGREGATE FINANCING TO THE ECONOMY

100 million yuan

Items	The First Half of 2011	The Second Half of 2011
Aggregate Financing to the Economy	77 639.96	128 286.07
Of which: RMB Bank Loans	41 718.33	74 715.47
Foreign Currency Bank Loans	3 360.72	5 712.18
Designated Loans	7 028.35	12 961.54
Trust Loans	913.20	2 034.17
Undiscounted Banker's Acceptances	13 267.40	10 270.91
Net Financing of Corporate Bonds	6 587.65	13 657.66
Domestic Equity Financing by Nonfinancial Corporations	2 677.18	4 376.79

Notes: 1. Aggregate Financing to the economy is an aggregate indicator measuring the total funding that the financial system provides to the real economy during a certain period.  
2. Sources from the PBC, NDRC, CSRC, CIRC, CCDC and NAFMII.





## SELECTED FINANCIAL INDICATORS

(Year-end Balance)

100 million yuan

	2007	2008	2009	2010	2011
Money & Quasi-money ( $M_2$ )	403 442.2	475 166.6	610 224.5	725 851.8	851 590.9
Money ( $M_1$ )	152 560.1	166 217.1	221 445.8	266 621.5	289 847.7
Currency in Circulation ( $M_0$ )	30 375.2	34 219.0	38 247.0	44 628.2	50 748.5
Total Deposits with Financial Institutions	389 371.2	466 203.3	597 741.1	718 237.9	809 368.3
Savings Deposits	172 534.2	217 885.4	260 771.7	303 302.5	343 635.9
Non-financial Enterprise Deposits	138 673.7	157 632.2	217 110.0	244 495.6	303 504.3
Total Lending by Financial Institutions	261 690.9	303 394.6	399 684.8	479 195.6	547 946.7

Notes: 1. Figures in 2011 in this table are not comparable with 2010 because of the adjustments made in January 2011 to the system of monetary and financial statistics. Figures in previous years are comparable with each other.

2. Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

3. The original "Urban & Rural Household Deposits" is renamed "Savings Deposits" and "Enterprise Deposits" is renamed "Non-financial Enterprise Deposits" in this table.

## SELECTED FINANCIAL INDICATORS

(Growth Rates)

Percentage change

	2007	2008	2009	2010	2011
Money & Quasi-money ( $M_2$ )	16.74	17.82	28.52	19.73	13.6
Money ( $M_1$ )	21.05	9.06	33.22	21.19	7.9
Currency in Circulation ( $M_0$ )	12.20	12.65	11.77	16.69	13.8
Total Deposits with Financial Institutions	16.07	19.73	28.21	20.16	13.5
Savings Deposits	6.77	26.29	19.68	16.31	13.8
Non-financial Enterprise Deposits	22.46	13.67	37.73	12.61	9.2
Total Lending by Financial Institutions	16.10	18.73	31.74	19.89	15.8

Notes: 1. On comparable basis.

2. Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

3. The original "Urban & Rural Household Deposits" is renamed "Savings Deposits" and "Enterprise Deposits" is renamed "Non-financial Enterprise Deposits" in this table.



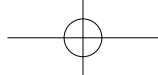
## DEPOSITORY CORPORATIONS SURVEY IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Net Foreign Assets	235 260.63	243 522.61	248 704.08	251 644.50
Domestic Credit	611 055.84	630 497.60	647 552.48	687 971.60
Claims on Government (Net)	31 899.12	26 633.55	27 862.69	42 363.92
Claims on Non-financial Sectors	542 273.59	562 821.88	579 365.69	600 634.54
Claims on Other Financial Sectors	36 883.14	41 042.17	40 324.11	44 973.15
Money & Quasi-money	758 130.98	780 820.97	787 406.24	851 590.94
Money	266 255.58	274 662.68	267 193.20	289 847.73
Currency in Circulation	44 845.32	44 477.91	47 145.32	50 748.50
Corporate Demand Deposits	221 410.26	230 184.77	220 047.87	239 099.23
Quasi-money	491 875.40	506 158.28	520 213.04	561 743.20
Corporate Time Deposits	148 781.10	159 299.78	171 105.43	166 616.04
Personal Deposits	331 308.90	337 570.62	341 792.29	352 797.47
Other Deposits	11 785.40	9 287.89	7 315.32	42 329.69
Deposits Excluded from Broad Money	21 189.81	22 774.85	22 757.37	16 809.07
Bonds	64 385.38	69 587.17	72 964.02	75 409.69
Paid-in Capital	26 982.76	27 533.08	28 008.01	28 861.75
Others (Net)	-24 372.46	-26 695.87	-14 879.09	-33 055.34

Note: Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.



## BALANCE SHEET OF THE MONETARY AUTHORITY IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	226 277.48	234 697.86	241 200.76	237 898.06
Foreign Exchange	217 476.46	226 386.73	233 853.55	232 388.73
Monetary Gold	669.84	669.84	669.84	669.84
Other Foreign Assets	8 131.18	7 641.29	6 677.37	4 839.49
Claims on Government	15 404.83	15 404.83	15 399.73	15 399.73
Of which: Central Government	15 404.83	15 404.83	15 399.73	15 399.73
Claims on Other Depository Corporations	9 561.47	9 678.04	9 556.60	10 247.54
Claims on Other Financial Corporations	11 318.75	11 253.94	11 244.81	10 643.97
Claims on Non-financial Sectors	24.99	24.99	24.99	24.99
Other Assets	6 230.52	7 018.94	7 485.33	6 763.31
<b>Total Assets</b>	<b>268 818.05</b>	<b>278 078.61</b>	<b>284 912.22</b>	<b>280 977.60</b>
Reserve Money	192 565.38	203 469.88	212 204.15	224 641.76
Currency Issue	49 272.52	48 815.89	52 203.22	55 850.07
Other Depository Corporations	143 292.86	154 653.99	160 000.93	168 791.68
Deposits of Financial Corporations Excluded from Reserve Money	978.43	802.60	860.56	908.37
Bond Issuance	31 160.33	27 266.12	22 451.01	23 336.66
Foreign Liabilities	4 579.94	4 866.43	4 671.93	2 699.44
Government Deposits	27 289.03	34 542.09	35 711.77	22 733.66
Equity	219.75	219.75	219.75	219.75
Other Liabilities	12 025.18	6 911.74	8 793.05	6 437.97
<b>Total Liabilities</b>	<b>268 818.05</b>	<b>278 078.61</b>	<b>284 912.22</b>	<b>280 977.60</b>

Notes: 1. Deposits of other financial corporations with the monetary authority have been no longer included in "Reserve Money" in line with the definition of "Reserve Money" defined by the International Monetary Fund since 2011.

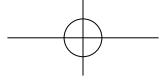
2. Deposits of overseas financial institutions with the PBC have been included in "Foreign Liabilities" instead of "Other Depository Corporations" since 2011.

## BALANCE SHEET OF OTHER DEPOSITORY CORPORATIONS IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	20 801.44	21 977.50	20 353.60	24 211.74
Reserve Assets	146 871.30	158 159.91	164 084.22	173 004.06
Deposits with Central Bank	142 444.10	153 821.93	159 026.33	167 902.49
Cash in Vault	4 427.20	4 337.98	5 057.90	5 101.57
Claims on Government	43 783.32	45 770.80	48 174.72	49 697.85
Of which: Central Government	43 783.32	45 770.80	48 174.72	49 697.85
Claims on Central Bank	35 632.30	26 612.17	23 719.83	22 323.96
Claims on Other Depository Corporations	154 449.98	166 119.01	161 523.02	179 466.04
Claims on Other Financial Corporations	25 564.39	29 788.23	29 079.30	34 329.18
Claims on Non-financial Corporations	423 349.26	436 947.86	448 124.97	465 395.19
Claims on Other Resident Sectors	118 899.33	125 849.04	131 215.73	135 214.36
Other Assets	47 948.48	50 642.68	51 949.77	54 224.67
<b>Total Assets</b>	<b>1 017 299.80</b>	<b>1 061 867.20</b>	<b>1 078 225.16</b>	<b>1 137 867.06</b>
Liabilities to Non-financial Institutions & Households	726 488.66	753 967.70	760 469.34	780 043.92
Deposits Included in Broad Money	701 500.26	727 055.16	732 945.60	758 512.74
Corporate Demand Deposits	221 410.26	230 184.77	220 047.87	239 099.23
Corporate Time Deposits	148 781.10	159 299.78	171 105.43	166 616.04
Personal Deposits	331 308.90	337 570.62	341 792.29	352 797.47
Deposits Excluded from Broad Money	21 189.81	22 774.85	22 757.37	16 809.07
Transferable Deposits	7 542.71	8 005.54	7 020.91	7 118.48
Other Deposits	13 647.10	14 769.32	15 736.46	9 690.59
Other Liabilities	3 798.59	4 137.68	4 766.37	4 722.11
Liabilities to Central Bank	4 915.11	5 262.97	6 081.67	6 763.86
Liabilities to Other Depository Corporations	62 803.91	68 211.85	69 259.03	85 081.98
Liabilities to Other Financial Corporations	40 556.52	41 217.54	40 497.75	52 210.89
Of which: Deposits Included in Broad Money	11 785.40	9 287.89	7 315.32	42 329.69
Foreign Liabilities	7 238.36	8 286.32	8 178.36	7 765.86
Bond Issue	64 385.38	69 587.17	72 964.02	75 409.69
Paid-in Capital	26 763.00	27 313.33	27 788.26	28 642.00
Other Liabilities	84 148.85	88 020.31	92 986.72	101 948.85
<b>Total Liabilities</b>	<b>1 017 299.80</b>	<b>1 061 867.20</b>	<b>1 078 225.16</b>	<b>1 137 867.06</b>



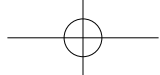
## BALANCE SHEET OF LARGE-SIZED DOMESTIC BANKS IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	15 281.24	15 803.52	14 366.83	17 393.45
Reserve Assets	93 259.40	99 021.94	102 720.53	102 283.66
Deposits with Central Bank	90 776.57	96 640.94	99 878.58	99 371.69
Cash in Vault	2 482.83	2 381.00	2 841.95	2 911.96
Claims on Government	29 660.49	31 011.54	32 664.35	33 518.21
Of which: Central Government	29 660.49	31 011.54	32 664.35	33 518.21
Claims on Central Bank	32 461.97	23 990.55	21 495.00	19 509.63
Claims on Other Depository Corporations	70 146.48	76 870.78	73 822.20	79 116.87
Claims on Other Financial Corporations	15 411.77	19 152.60	18 404.88	20 576.74
Claims on Non-financial Corporations	246 176.14	252 522.94	258 428.50	266 750.32
Claims on Other Resident Sectors	63 944.31	67 562.25	70 755.09	73 526.67
Other Assets	31 475.48	33 466.80	33 317.46	34 048.26
<b>Total Assets</b>	<b>597 817.28</b>	<b>619 402.90</b>	<b>625 974.85</b>	<b>646 723.81</b>
Liabilities to Non-financial Institutions & Households	439 940.88	453 379.95	456 075.05	458 964.23
Deposits Included in Broad Money	422 688.98	435 085.96	437 392.95	445 941.34
Corporate Demand Deposits	127 393.29	132 607.06	125 737.99	134 650.32
Corporate Time Deposits	70 306.90	74 708.19	81 606.25	76 394.95
Personal Deposits	224 988.79	227 770.70	230 048.71	234 896.07
Deposits Excluded from Broad Money	14 062.81	14 953.86	14 841.79	9 357.32
Transferable Deposits	4 279.84	4 529.33	3 833.39	3 636.14
Other Deposits	9 782.97	10 424.53	11 008.41	5 721.18
Other Liabilities	3 189.09	3 340.14	3 840.31	3 665.57
Liabilities to Central Bank	881.91	1 000.85	1 614.52	2 076.57
Liabilities to Other Depository Corporations	19 691.53	22 746.53	24 754.53	27 970.84
Liabilities to Other Financial Corporations	23 368.23	22 687.05	20 927.26	29 337.58
Of which: Deposits Included in Broad Money	8 117.14	6 403.26	4 891.68	24 374.89
Foreign Liabilities	2 940.64	3 281.30	2 913.85	2 717.53
Bond Issue	44 948.77	48 243.29	49 943.44	50 956.96
Paid-in Capital	15 835.37	15 884.36	15 915.52	15 904.68
Other Liabilities	50 209.96	52 179.56	53 830.66	58 795.41
<b>Total Liabilities</b>	<b>597 817.28</b>	<b>619 402.90</b>	<b>625 974.85</b>	<b>646 723.81</b>

Note: Large-sized Domestic Banks refer to those banks with total RMB and foreign currency assets of more than 2 trillion yuan (as of year-end 2008), including the ICBC, CBC, ABC, BOC, CDB, BOCOM and the Postal Savings Bank of China Co., Ltd.



## BALANCE SHEET OF MEDIUM-SIZED DOMESTIC BANKS IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	4 122.28	4 670.42	4 589.16	5 108.48
Reserve Assets	22 508.73	24 674.78	25 195.99	28 353.98
Deposits with Central Bank	22 129.47	24 275.59	24 758.89	27 885.83
Cash in Vault	379.26	399.19	437.11	468.15
Claims on Government	6 678.62	7 004.49	7 265.00	7 539.97
Of which: Central Government	6 678.62	7 004.49	7 265.00	7 539.97
Claims on Central Bank	2 189.68	2 005.57	1 640.42	1 956.77
Claims on Other Depository Corporations	37 012.20	38 822.06	37 468.32	44 221.39
Claims on Other Financial Corporations	4 547.57	5 090.80	4 358.14	6 670.20
Claims on Non-financial Corporations	95 328.27	99 256.57	101 305.84	105 724.99
Claims on Other Resident Sectors	20 846.22	22 209.43	23 112.61	24 081.70
Other Assets	5 194.11	5 666.44	6 742.99	7 331.55
<b>Total Assets</b>	<b>198 427.67</b>	<b>209 400.56</b>	<b>211 678.46</b>	<b>230 989.04</b>
Liabilities to Non-financial Institutions & Households	119 248.41	124 850.57	125 015.86	130 272.49
Deposits Included in Broad Money	114 766.61	119 893.68	120 014.03	125 649.30
Corporate Demand Deposits	44 731.47	45 498.71	42 946.01	46 817.74
Corporate Time Deposits	45 156.54	48 365.15	50 812.98	50 945.02
Personal Deposits	24 878.59	26 029.82	26 255.03	27 886.55
Deposits Excluded from Broad Money	4 097.32	4 422.84	4 383.85	4 025.07
Transferable Deposits	1 636.71	1 678.36	1 528.66	1 699.00
Other Deposits	2 460.61	2 744.48	2 855.19	2 326.06
Other Liabilities	384.48	534.04	617.98	598.13
Liabilities to Central Bank	2 814.02	2 928.65	2 951.05	3 096.65
Liabilities to Other Depository Corporations	22 692.91	24 399.70	21 912.37	29 889.15
Liabilities to Other Financial Corporations	15 270.30	16 103.67	17 036.50	19 783.85
Of which: Deposits Included in Broad Money	3 566.27	2 765.63	2 377.30	16 295.14
Foreign Liabilities	736.89	870.06	724.94	725.78
Bond Issue	18 591.21	20 436.40	22 098.91	23 411.06
Paid-in Capital	2 149.93	2 258.92	2 352.02	2 351.63
Other Liabilities	16 923.99	17 552.59	19 586.83	21 458.43
<b>Total Liabilities</b>	<b>198 427.67</b>	<b>209 400.56</b>	<b>211 678.46</b>	<b>230 989.04</b>

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





## BALANCE SHEET OF SMALL-SIZED DOMESTIC BANKS IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	137.29	292.85	211.96	317.34
Reserve Assets	17 655.43	19 958.71	20 781.36	24 966.11
Deposits with Central Bank	17 014.97	19 291.68	20 000.48	24 087.11
Cash in Vault	640.46	667.03	780.88	879.01
Claims on Government	5 628.49	5 752.43	6 023.69	6 234.15
Of which: Central Government	5 628.49	5 752.43	6 023.69	6 234.15
Claims on Central Bank	820.08	498.67	464.81	715.33
Claims on Other Depository Corporations	26 664.31	29 018.33	28 336.27	34 407.24
Claims on Other Financial Corporations	3 242.36	3 391.82	4 241.57	5 125.51
Claims on Non-financial Corporations	48 581.54	50 822.28	53 018.72	56 894.17
Claims on Other Resident Sectors	13 853.80	14 836.76	15 634.31	16 691.66
Other Assets	5 217.14	5 145.00	5 494.22	6 003.40
<b>Total Assets</b>	<b>121 800.44</b>	<b>129 716.85</b>	<b>134 206.92</b>	<b>151 354.91</b>
Liabilities to Non-financial Institutions & Households	91 792.69	97 610.36	99 326.44	109 208.88
Deposits Included in Broad Money	91 027.19	96 656.71	98 288.20	108 395.94
Corporate Demand Deposits	31 314.26	33 170.56	32 572.25	37 003.33
Corporate Time Deposits	21 010.17	23 405.57	24 744.21	26 081.65
Personal Deposits	38 702.76	40 080.59	40 971.75	45 310.96
Deposits Excluded from Broad Money	608.72	766.32	822.69	498.56
Transferable Deposits	242.78	270.22	253.24	263.18
Other Deposits	365.94	496.10	569.45	235.37
Other Liabilities	156.78	187.33	215.56	314.38
Liabilities to Central Bank	320.03	284.89	347.47	418.11
Liabilities to Other Depository Corporations	15 481.27	15 996.73	17 460.75	22 157.42
Liabilities to Other Financial Corporations	1 054.65	1 538.86	1 632.20	2 066.31
Of which: Deposits Included in Broad Money	101.29	118.41	45.82	1 563.25
Foreign Liabilities	35.08	108.04	125.23	174.37
Bond Issue	499.19	565.38	582.43	702.98
Paid-in Capital	3 921.99	4 192.29	4 372.60	4 903.42
Other Liabilities	8 695.54	9 420.30	10 359.78	11 723.42
<b>Total Liabilities</b>	<b>121 800.44</b>	<b>129 716.85</b>	<b>134 206.92</b>	<b>151 354.91</b>

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

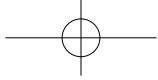


## BALANCE SHEET OF FOREIGN-FUNDED BANKS IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1 156.87	1 112.05	1 107.38	1 296.17
Reserve Assets	2 193.15	2 358.68	2 702.64	2 966.48
Deposits with Central Bank	2 183.83	2 346.97	2 692.39	2 955.73
Cash in Vault	9.32	11.71	10.25	10.75
Claims on Government	857.90	1 084.11	1 308.34	1 541.46
Of which: Central Government	857.90	1 084.11	1 308.34	1 541.46
Claims on Central Bank				
Claims on Other Depository Corporations	3 896.36	4 542.40	4 861.97	5 041.76
Claims on Other Financial Corporations	311.65	343.41	431.82	493.26
Claims on Non-financial Corporations	8 491.60	8 687.86	8 901.22	8 981.34
Claims on Other Resident Sectors	417.34	420.11	445.07	462.24
Other Assets	2 433.53	2 594.59	2 577.17	2 601.01
<b>Total Assets</b>	<b>19 758.39</b>	<b>21 143.20</b>	<b>22 335.61</b>	<b>23 383.71</b>
Liabilities to Non-financial Institutions & Households	9 971.15	10 624.69	11 338.01	12 202.23
Deposits Included in Broad Money	8 029.37	8 506.41	9 147.76	9 787.67
Corporate Demand Deposits	2 019.92	2 118.63	1 978.08	2 610.72
Corporate Time Deposits	4 726.03	4 939.40	5 567.97	5 419.74
Personal Deposits	1 283.42	1 448.38	1 601.71	1 757.21
Deposits Excluded from Broad Money	1 941.78	2 118.28	2 190.25	2 414.56
Transferable Deposits	1 007.80	1 054.12	963.16	1 091.44
Other Deposits	933.98	1 064.16	1 227.10	1 323.11
Other Liabilities				
Liabilities to Central Bank	0.96		1.90	3.45
Liabilities to Other Depository Corporations	1 150.80	1 236.68	1 368.48	1 617.61
Liabilities to Other Financial Corporations	527.80	515.55	552.55	541.97
Of which: Deposits Included in Broad Money				
Foreign Liabilities	3 525.73	4 026.90	4 414.31	4 148.17
Bond Issue	24.66	20.42	11.01	11.07
Paid-in Capital	1 526.94	1 545.09	1 583.49	1 622.54
Other Liabilities	3 030.35	3 173.87	3 065.86	3 236.68
<b>Total Liabilities</b>	<b>19 758.39</b>	<b>21 143.20</b>	<b>22 335.61</b>	<b>23 383.71</b>

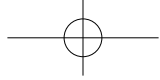


## BALANCE SHEET OF URBAN CREDIT COOPERATIVES IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets				
Reserve Assets	7.45	7.49	7.96	8.30
Deposits with Central Bank	6.92	6.95	7.30	7.58
Cash in Vault	0.53	0.55	0.66	0.72
Claims on Government	0.80	0.80	0.80	0.75
Of which: Central Government	0.80	0.80	0.80	0.75
Claims on Central Bank				
Claims on Other Depository Corporations	4.37	6.69	7.85	8.68
Claims on Other Financial Corporations				
Claims on Non-financial Corporations	16.86	17.35	18.56	19.49
Claims on Other Resident Sectors	16.34	15.88	16.06	17.39
Other Assets	4.08	4.57	6.52	8.81
<b>Total Assets</b>	<b>49.91</b>	<b>52.78</b>	<b>57.76</b>	<b>63.43</b>
Liabilities to Non-financial Institutions & Households	44.73	46.77	49.38	55.19
Deposits Included in Broad Money	44.72	46.77	49.38	55.19
Corporate Demand Deposits	8.69	8.65	9.38	10.20
Corporate Time Deposits	5.73	7.48	8.10	9.85
Personal Deposits	30.31	30.63	31.90	35.14
Deposits Excluded from Broad Money				
Transferable Deposits				
Other Deposits				
Other Liabilities	0.00	0.00	0.00	0.00
Liabilities to Central Bank				
Liabilities to Other Depository Corporations	1.80	1.59	1.29	0.86
Liabilities to Other Financial Corporations	0.04			
Of which: Deposits Included in Broad Money				
Foreign Liabilities				
Bond Issue				
Paid-in Capital	2.31	2.29	5.83	5.83
Other Liabilities	1.03	2.12	1.26	1.55
<b>Total Liabilities</b>	<b>49.91</b>	<b>52.78</b>	<b>57.76</b>	<b>63.43</b>

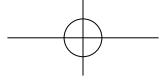


## BALANCE SHEET OF RURAL CREDIT COOPERATIVES IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	12.06	7.91	7.54	5.84
Reserve Assets	9 433.24	10 045.67	10 527.75	12 399.62
Deposits with Central Bank	8 554.32	9 167.20	9 540.73	11 568.69
Cash in Vault	878.92	878.47	987.02	830.94
Claims on Government	771.57	733.68	758.29	731.83
Of which: Central Government	771.57	733.68	758.29	731.83
Claims on Central Bank	158.88	116.24	118.32	140.76
Claims on Other Depository Corporations	11 374.63	11 517.01	11 768.07	10 755.31
Claims on Other Financial Corporations	1 757.44	1 422.99	1 334.22	1 146.73
Claims on Non-financial Corporations	17 376.29	18 035.88	18 497.36	18 528.00
Claims on Other Resident Sectors	19 656.30	20 625.10	21 053.87	20 204.37
Other Assets	3 102.08	3 256.59	3 288.96	3 687.48
<b>Total Assets</b>	<b>63 642.49</b>	<b>65 761.08</b>	<b>67 354.37</b>	<b>67 599.94</b>
Liabilities to Non-financial Institutions & Households	53 303.84	54 716.65	55 852.64	55 846.81
Deposits Included in Broad Money	53 223.37	54 627.64	55 744.81	55 702.72
Corporate Demand Deposits	9 883.03	10 269.37	10 706.73	10 876.68
Corporate Time Deposits	1 915.48	2 147.98	2 155.23	1 914.72
Personal Deposits	41 424.86	42 210.28	42 882.85	42 911.31
Deposits Excluded from Broad Money	18.40	19.01	21.30	7.16
Transferable Deposits	4.74	5.04	4.85	0.97
Other Deposits	13.66	13.97	16.45	6.20
Other Liabilities	62.07	70.00	86.52	136.92
Liabilities to Central Bank	889.29	1 042.64	1 134.23	1 107.58
Liabilities to Other Depository Corporations	3 042.35	3 132.96	3 096.90	2 652.93
Liabilities to Other Financial Corporations	308.07	344.62	308.27	412.60
Of which: Deposits Included in Broad Money				44.38
Foreign Liabilities	0.02	0.02	0.02	0.02
Bond Issue	0.10		6.78	5.98
Paid-in Capital	2 100.33	2 149.40	2 187.24	2 353.64
Other Liabilities	3 998.48	4 374.80	4 768.30	5 220.38
<b>Total Liabilities</b>	<b>63 642.49</b>	<b>65 761.08</b>	<b>67 354.37</b>	<b>67 599.94</b>

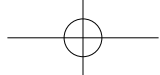


## BALANCE SHEET OF FINANCE COMPANIES IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	91.70	90.75	70.73	90.46
Reserve Assets	1 813.90	2 092.64	2 147.99	2 025.90
Deposits with Central Bank	1 778.03	2 092.60	2 147.96	2 025.86
Cash in Vault	35.87	0.04	0.03	0.04
Claims on Government	185.45	183.75	154.26	131.48
Of which: Central Government	185.45	183.75	154.26	131.48
Claims on Central Bank	1.69	1.14	1.29	1.47
Claims on Other Depository Corporations	5 351.63	5 341.75	5 258.34	5 914.80
Claims on Other Financial Corporations	293.60	386.62	308.66	316.74
Claims on Non-financial Corporations	7 378.58	7 604.97	7 954.76	8 496.88
Claims on Other Resident Sectors	165.02	179.51	198.72	230.33
Other Assets	522.05	508.69	522.44	544.16
<b>Total Assets</b>	<b>15 803.62</b>	<b>16 389.82</b>	<b>16 617.18</b>	<b>17 752.22</b>
Liabilities to Non-financial Institutions & Households	12 186.97	12 738.71	12 811.95	13 494.09
Deposits Included in Broad Money	11 720.02	12 238.00	12 308.47	12 980.58
Corporate Demand Deposits	6 059.60	6 511.79	6 097.45	7 130.26
Corporate Time Deposits	5 660.24	5 726.00	6 210.69	5 850.10
Personal Deposits	0.17	0.21	0.34	0.22
Deposits Excluded from Broad Money	460.78	494.54	497.49	506.40
Transferable Deposits	370.85	468.47	437.62	427.75
Other Deposits	89.93	26.07	59.87	78.65
Other Liabilities	6.17	6.17	6.00	7.11
Liabilities to Central Bank	8.90	5.95	32.50	61.50
Liabilities to Other Depository Corporations	743.25	697.65	664.70	793.16
Liabilities to Other Financial Corporations	27.43	27.79	40.96	68.58
Of which: Deposits Included in Broad Money	0.70	0.59	0.52	52.02
Foreign Liabilities				
Bond Issue	321.45	321.68	321.46	321.64
Paid-in Capital	1 226.14	1 280.98	1 371.56	1 500.26
Other Liabilities	1 289.49	1 317.06	1 374.05	1 512.99
<b>Total Liabilities</b>	<b>15 803.62</b>	<b>16 389.82</b>	<b>16 617.18</b>	<b>17 752.22</b>



## MONETARY AGGREGATES IN 2011

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Money & Quasi-money ( $M_2$ )	758 130.88	780 820.85	787 406.20	851 590.90
Money ( $M_1$ )	266 255.48	274 662.57	267 193.16	289 847.70
Currency in Circulation ( $M_0$ )	44 845.22	44 477.80	47 145.29	50 748.46
Corporate Demand Deposits	221 410.26	230 184.77	220 047.87	239 099.23
Quasi-money	491 875.40	506 158.28	520 213.04	561 743.20
Corporate Time Deposits	148 781.10	159 299.78	171 105.43	166 616.04
Personal Deposits	331 308.90	337 570.62	341 792.29	352 797.47
Other Deposits	11 785.40	9 287.89	7 315.32	42 329.69

Note: Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

## MONETARY AGGREGATES IN 2011

Year-on-year percentage change

	Q1	Q2	Q3	Q4
Money & Quasi-money ( $M_2$ )	16.63	15.85	13.04	13.61
Money ( $M_1$ )	15.01	13.05	8.85	7.85
Currency in Circulation ( $M_0$ )	14.78	14.36	12.68	13.76
Corporate Demand Deposits	15.06	12.80	8.07	6.67
Quasi-money	17.53	17.43	15.33	16.83
Corporate Time Deposits	23.49	23.62	21.55	18.05
Personal Deposits	17.98	17.22	14.05	16.17
Other Deposits	-31.59	-34.52	-31.24	17.68

Note: Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.



## BALANCE OF PAYMENTS IN 2011

	Line	Balance	Credit	Debit
Current Account	1	2 017	22 868	20 851
Goods & Services	2	1 883	20 867	18 983
Goods	3	2 435	19 038	16 603
Services	4	-552	1 828	2 381
Transportation	5	-449	356	804
Travel	6	-241	485	726
Communication Services	7	5	17	12
Construction Services	8	110	147	37
Insurance Services	9	-167	30	197
Financial Services	10	1	8	7
Computer & Information Services	11	83	122	38
Royalties & License Fees	12	-140	7	147
Consulting Services	13	98	284	186
Advertising & Public Opinion Polling	14	12	40	28
Audio-visual & Related Services	15	-3	1	4
Other Business Services	16	140	323	183
Government Services, n.i.e	17	-3	8	11
Income	18	-119	1 446	1 565
Compensation of Employees	19	150	166	16
Investment Income	20	-268	1 280	1 549
Current Transfers	21	253	556	303
General Government	22	-26	0	26
Other Sectors	23	278	556	277
Capital & Financial Account	24	2 211	13 982	11 772
Capital Account	25	54	56	2
Financial Account	26	2 156	13 926	11 770
Direct Investment	27	1 704	2 717	1 012
Abroad	28	-497	174	671
From Abroad	29	2 201	2 543	341
Portfolio Investment	30	196	519	323
Assets	31	62	255	192
Equity Securities	32	11	112	101
Debt Securities	33	51	143	91
Bonds & Notes	34	50	137	88
Money Market Instruments	35	2	5	4

Note: In line with the principles of the fifth edition of the IMF "Balance of Payments Manual", China's BOP uses the debit credit double entry bookkeeping technique to record all accounting transactions between residents and non-residents (excluding those of Hong Kong, Macao and Taiwan regions). This table employs rounded-off numbers.





100 million U.S. dollars

	Line	Balance	Credit	Debit
Liabilities	36	134	265	131
Equity Securities	37	53	152	99
Debt Securities	38	81	113	32
Bonds & Notes	39	30	61	32
Money Market Instrument	40	51	51	0
Other Investment	41	255	10 690	10 435
Assets	42	-1 668	1 088	2 756
Trade Credits	43	-710	0	710
Long-term	44	-14	0	14
Short-term	45	-695	0	695
Loans	46	-453	61	513
Long-term	47	-433	8	441
Short-term	48	-20	53	73
Currency & Deposits	49	-987	501	1 489
Other Assets	50	482	526	44
Long-term	51	0	0	0
Short-term	52	482	526	44
Liabilities	53	1 923	9 602	7 679
Trade Credits	54	380	454	74
Long-term	55	6	8	1
Short-term	56	374	447	73
Loans	57	1 051	7 343	6 292
Long-term	58	130	538	408
Short-term	59	920	6 805	5 884
Currency & Deposits	60	483	1 719	1 237
Other Liabilities	61	10	86	76
Long-term	62	-15	24	39
Short-term	63	24	61	37
Reserve Assets	64	-3 878	10	3 888
Monetary Gold	65	0	0	0
Special Drawing Rights	66	5	5	0
Reserve Position in IMF	67	-34	6	40
Foreign Exchange	68	-3 848	0	3 848
Other Claims	69	0	0	0
Net Errors & Omissions	70	-350	0	350



## INTERNATIONAL LIQUIDITY

Millions of the US dollars

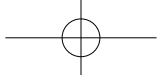
	2008	2009	2010	2011
Total Reserves (Minus Gold)	1 949 260	2 414 131	2 862 276.0	3 197 107.2
SDRs	1 199.24	12 509.61	12 344.9	11 855.2
Reserve Position in IMF	2 030.71	2 469.20	2 592.9	4 104.4
Foreign Exchange	1 946 030	2 399 152	2 847 338.0	3 181 147.6
Gold (Million Ounce)	19.29	33.89	33.89	33.89
Gold (National Valuation)	4 074	9 815	9 815	9 815
Foreign Liabilities of Other Depository Corporations	75 255	88 145	108 405.6	123 250.0

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 (%)
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
2011	3 389	31 811.5	11.7

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



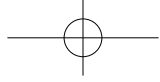
## THE EXCHANGE RATES OF RMB (YUAN)

	2008				2009			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	6.8346	0.8819	7.5650	9.6590	6.8282	0.8805	7.3782	9.7971
Change of Basis Points	-4 650	-534.5	10 344	-10 021	-64	-14	-1 868	1 381

## Continued

	2010				2011			
	USD	HKD	JPY	EUR	USD	HKD	JPY	EUR
End-period Rate (RMB/Per Unit of Foreign Currency)	6.6227	0.8509	8.1260	8.8065	6.3009	0.8107	8.1103	8.1625
Change of Basis Points	-2 055	-296	7 478	9 906	-3 218	-402	-157	-644

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



## BRIEF TABLE OF CHINA'S EXTERNAL DEBT, END-2011

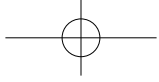
Thousands of the US dollars

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		34 197 809	511 991			2 661 349	
Chinese-funded Financial Institutions*	33 299 148		5 025 667	2 768 664	8 499	5 106 565	119 926 910
Foreign-funded Financial Institutions			38 385 540		1 157 426		2 537 705
Foreign-funded Enterprises		792 120	25 827 320	292 524	103 237 126		
Chinese-funded Enterprises		10 050	762 303	88 829	440 666	1 496 155	
Others			33 299	0	97 969		
Trade Credits							
Total	33 299 148	34 999 979	70 546 120	3 150 017	104 941 686	9 264 069	122 464 615

## 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						37 371 149
Chinese-funded Financial Institutions*	45 810 572	6 937				211 952 962
Foreign-funded Financial Institutions	11 926 012				47 041	54 053 724
Foreign-funded Enterprises		6 208 036	2 616			136 359 742
Chinese-funded Enterprises		1 654 296	1 448 009		24 951	5 925 259
Others					3 210	134 478
Trade Credits				249 200 000		249 200 000
Total	57 736 584	7 869 269	1 450 625	249 200 000	75 202	694 997 314

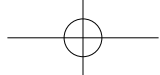
Note: \*Loans from foreign governments to Chinese-funded financial institutions (mainly referring to state-owned commercial banks and policy banks) are actually sovereign debt borrowed by the Ministry of Finance on behalf of the Chinese Government.



## RMB INTEREST RATES IN 2011

	Percent per annum				
	Jan. 1	Feb. 9	Apr. 6	Jul. 7	Dec. 31
Benchmark Rates					
Required Reserves	1.62	1.62	1.62	1.62	1.62
Excess Reserves	0.72	0.72	0.72	0.72	0.72
Loans to Financial Institutions					
20 Days or Less	3.25	3.25	3.25	3.25	3.25
3 Months or Less	3.55	3.55	3.55	3.55	3.55
6 Months or Less	3.75	3.75	3.75	3.75	3.75
1 Year	3.85	3.85	3.85	3.85	3.85
Rediscount	2.25	2.25	2.25	2.25	2.25
Official Interest Rates on Deposits & Loans of Financial Institutions					
Interest Rates on Deposits					
Demand Deposits	0.36	0.40	0.50	0.50	0.50
Time Deposits					
3 Months	2.25	2.60	2.85	3.10	3.10
6 Months	2.50	2.80	3.05	3.30	3.30
1 Year	2.75	3.00	3.25	3.50	3.50
2 Years	3.55	3.90	4.15	4.40	4.40
3 Years	4.15	4.50	4.75	5.00	5.00
5 Years	4.55	5.00	5.25	5.50	5.50
Interest Rates on Loans					
6 Months (Including 6 Months)	5.35	5.60	5.85	6.10	6.10
6 Months ~1 Year (Including 1 Year)	5.81	6.06	6.31	6.56	6.56
1~3 Years (Including 3 Years)	5.85	6.10	6.40	6.65	6.65
3~5 Years (Including 5 Years)	6.22	6.45	6.65	6.90	6.90
Longer than 5 Years	6.40	6.60	6.80	7.05	7.05
Weighted Average Rates in Interbank Market*					
Shibor					3.8855
Interbank Borrowing					3.9432
Bond-pledged Repo					4.0171

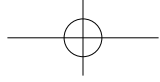
Note: \*For 7-day products in December.



## 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 since Dec.28, 2005.



## MONEY MARKET STATISTICS

100 million yuan

	2008	2009	2010	2011
Interbank Borrowing	150 491.84	193 504.97	278 684.00	334 412.04
Interbank Repurchase	581 205.24	702 898.69	875 935.60	994 534.79
Interbank Securities Trading	371 157.71	472 654.96	640 422.10	636 422.90
Repurchase in Shanghai Stock Exchange	24 268.65	35 475.87	65 877.79	199 581.50
Repurchase in Shenzhen Stock Exchange	0	0	0	0
Securities Trading in Shanghai Stock Exchange	2 075.90	2 054.90	1 590.03	1 242.90
Securities Trading in Shenzhen Stock Exchange	46.62	30.21	71.61	10.02

## STOCK MARKET STATISTICS

	2008	2009	2010	2011
Year-end Close Index				
Shanghai Composite Index (Dec.19, 1990=100)	1 820.81	3 277.14	2 808.08	2 199.42
Shenzhen Component Index (Jul.20, 1994=100)	6 485.51	13 699.97	12 458.55	8 918.82
Stock Exchange				
Number of Shares Issued in Shanghai Stock Exchange (100 Million)	15 410.39	16 659.96	21 939.51	23 466.65
Number of Shares Issued in Shenzhen Stock Exchange (100 Million)	3 441.86	3 907.56	5 044.98	6 278.46
Total Market Value in Shanghai Stock Exchange (100 Million Yuan)	97 251.91	184 655.23	179 007.24	148 376.22
Total Market Value in Shenzhen Stock Exchange (100 Million Yuan)	24 114.53	59 283.89	86 415.35	66 381.87
Total Market Value of Tradable Shares in Shanghai Stock Exchange (100 Million Yuan)	32 305.91	114 805.00	142 337.44	122 851.36
Total Market Value of Tradable Shares in Shenzhen Stock Exchange (100 Million Yuan)	12 907.99	36 453.65	50 772.97	42 069.94
Daily Average Trading Volume in Shanghai Stock Exchange (100 Million Yuan)	733.46	1 420.13	1 257.49	973.59
Daily Average Trading Volume in Shenzhen Stock Exchange (100 Million Yuan)	352.37	776.54	997.20	754.46
Capitalization (IPO, Rights Issue & Convertible Bonds, 100 Million Yuan)*	3 656.70	6 084.27	12 035.67	5 798.83
Year-end Number of Listed Companies	1 604	1 718	2 063	2 342

Note: \*2011 Figures not including net financing of convertible bonds.

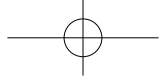




## FLOW OF FUNDS STATEMENT IN 2010

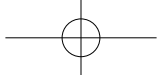
(Financial Transaction Account)

	No.	Households		Non-financial Corporations		General Government		Financial Institutions	
		Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investment	1	37 715		-15 123		5 619		-2 439	
Financial Uses	2	68 263		102 863		19 539		225 547	
Financial Sources	3		30 548		117 986		13 920		227 986
Currency	4	5 441		586		130		-40	6 507
Renminbi	5	5 441		586		130		-40	6 507
Foreign Currencies	6								
Deposits	7	44 492		62 584		19 487		3 462	130 662
Demand Deposits	8	24 610		28 771		10 690			64 071
Time Deposits	9	19 128		24 276		5 460			48 864
Fiscal Deposits	10					3 045			3 045
Foreign Exchange Deposits	11	45		2 024				-992	1 356
Other Deposits	12	709		7 513		292		4 454	13 327
Margin Deposits with Securities Trading Accounts	13	-737		-1 398		-11		-207	-2 373
Loans	14		30 548		64 264		194	97 227	251
Short-term Loans	15		9 342		15 278			24 621	
Discounted Commercial Paper Loans	16				-9 052			-9 052	
Medium & Long-term Loans	17		19 643		42 157			61 800	
Foreign Exchange Loans	18		13		3 184			5 009	
Designated Loans	19		781		7 440		276	8 748	251
Other Loans	20		769		5 256		74	6 100	
Undiscounted Banker's Acceptance Bills	21			23 346	23 346			23 346	23 346
Insurance Technical Reserves	22	5 638		667			3 835		2 470
Inter-financial Institutions Accounts	23							2 324	3 543
Required & Excessive Reserves	24							33 261	33 261
Securities	25	6 498		169	18 533	195	9 736	32 340	11 279
Bonds	26	112		169	11 063	144	9 736	27 794	7 420
Government & Public Bonds	27	112		2		144	9 736	9 478	
Financial Bonds	28			47				8 791	8 837
Central Bank Bonds	29			-8				-1 410	-1 417
Corporate Bonds	30			128	11 063			10 935	
Shares	31	6 387			7 470	51		4 546	3 859
Investment Funds	32	-457		-563		-271		-256	-1 566
Cash in Vault	33							714	714
Central Bank Loans	37							469	469
Miscellaneous (Net)	35	7 387		9 227		9		2 771	19 395
Foreign Direct Investments	36			4 072	12 529				
Changes in Other Foreign Assets & Debts	37			4 174	3 354			-1 796	28
Changes in Reserve Assets	38							31 934	
Errors & Omissions in the BOP	39				-4 040				



100 million yuan

All Domestic Sectors		The Rest of the World		Total		No.	
Uses	Sources	Uses	Sources	Uses	Sources		
25 773		-25 773		0		1	Net Financial Investment
416 213		14 203		430 416		2	Financial Uses
	390 440		39 977		430 416	3	Financial Sources
6 117	6 507	390		6 507	6 507	4	Currency
6 117	6 507	390		6 507	6 507	5	Renminbi
						6	Foreign Currencies
130 025	130 662	637		130 662	130 662	7	Deposits
64 071	64 071			64 071	64 071	8	Demand Deposits
48 864	48 864			48 864	48 864	9	Time Deposits
3 045	3 045			3 045	3 045	10	Fiscal Deposits
1 077	1 356	279		1 356	1 356	11	Foreign Exchange Deposits
12 968	13 327	358		13 327	13 327	12	Other Deposits
-2 354	-2 373	-19		-2 373	-2 373	13	Margin Deposits with Securities Trading Accounts
97 227	95 413		1 814	97 227	97 227	14	Loans
24 621	24 621			24 621	24 621	15	Short-term Loans
-9 052	-9 052			-9 052	-9 052	16	Discounted Commercial Paper Loans
61 800	61 800			61 800	61 800	17	Medium & Long-term Loans
5 009	3 197		1 813	5 009	5 009	18	Foreign Exchange Loans
8 748	8 748			8 748	8 748	19	Designated Loans
6 100	6 099		2	6 100	6 100	20	Other Loans
46 692	46 692			46 692	46 692	21	Undiscounted Banker's Acceptance Bills
6 305	6 305			6 305	6 305	22	Insurance Technical Reserves
2 324	3 543	998	-221	3 322	3 322	23	Inter-financial Institutions Accounts
33 261	33 261			33 261	33 261	24	Required & Excessive Reserves
39 203	39 547	345		39 548	39 548	25	Securities
28 219	28 218			28 219	28 219	26	Bonds
9 736	9 736			9 736	9 736	27	Government & Public Bonds
8 837	8 837			8 837	8 837	28	Financial Bonds
-1 417	-1 417			-1 417	-1 417	29	Central Bank Bonds
11 063	11 063			11 063	11 063	30	Corporate Bonds
10 984	11 329	345		11 329	11 329	31	Shares
-1 547	-1 566	-19		-1 566	-1 566	32	Investment Funds
714	714			714	714	33	Cash in Vault
469	469			469	469	37	Central Bank Loans
19 395	19 395	0		19 395	19 395	35	Miscellaneous (Net)
4 072	12 529	12 529	4 072	16 601	16 601	36	Foreign Direct Investments
2 378	3 383	3 383	2 378	5 760	5 760	37	Changes in Other Foreign Assets & Debts
31 934			31 934	31 934	31 934	38	Changes in Reserve Assets
	-4 040	-4 040		-4 040	-4 040	39	Errors & Omissions in the BOP



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

**Introduction to the Flow of Funds Statement (Financial Transaction Accounts)** In 2010, fund flow accounting coverage expanded to statistics on banker's acceptance bills, designated and trust loans of micro-credit companies and financial institutions. Figures in previous years have been adjusted to be compared with.

**Flow of Funds Statement (Financial Transaction Accounts)**<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 (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, fiscal deposits, foreign exchange deposits and others.

*Demand Deposits* Deposits which can be withdrawn on demand, including household demand savings deposits, enterprise demand deposits, government and organization demand deposits, etc..

*Time Deposits* Deposits that are not immediately disposable because they are subject to a fixed term or a period of prior notice before withdrawal, including household time savings deposits, enterprise time deposits, government and organization time deposits, etc..

*Fiscal Deposits* Deposits of the government in the banking financial institutions, including fiscal vault funds, fiscal transition deposit, fiscal funds to be settled, national vault time deposits, planning deposit and special use funds deposit.

*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* Deposits which are not classified elsewhere above, such as designated deposits, trust deposits, margin account deposits, etc..

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

② RMB circulated in foreign countries and the domestically circulated foreign currencies are not accounted temporarily.



**Costumer Margin of Securities Company** Deposits of clients in other depository corporations which is the 3rd party to reserve the deposits, for settlement of securities company clients transaction.

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

*Short-term Loans* Loans with a short-term (usually within one year or one year) maturity.

*Bills Financing* Financial institutions offered the funds to the clients by discounting the commercial papers, banker's acceptance bills and other papers they held.

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

*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.

*Designated Loans* Loans used and managed for specific targets and goals by banking financial institutions entrusted by government, enterprise, household or other designators which offer the funds.

*Other Loans* Loans which are not classified elsewhere above, such as trust loans, etc..

**Undiscounted Banker's Acceptance Bills** Banker's acceptance bills which haven't been discounted in financial institutions, equals all the banker's acceptance bills minus their discounted parts to avoid repeat accounting.

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

**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.

**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.

*Government and Public Bonds* Bonds issued by the government.

*Financial Bonds* Bonds issued by the financial institutions excluding the central bank.

*Central Bank Bonds* Bonds issued by the central bank.

*Corporate Bonds* Bonds issued by the non-financial corporate businesses.

*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.

**Investment Fund Share Benefit Voucher** Issued by securities investment fund, which indicates quantity of fund held by investor.

**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 2010

Flow of funds in 2010 had the following characteristics:

I) the volume of fund flow in the economy registered a stable increase. II) incremental volume of financial liabilities of domestic non-financial sector stayed at a moderate level, of which financial liabilities of household sector had a rapid growth. The dominant role of incremental loans in the growth of financial liability was sharply weakened, and the structure of liabilities was diversified. III) The financial liabilities and assets of financial institutions increased steadily. IV) Balance of net overseas financial assets experienced a remarkable expansion, and the fund outflow witnessed a significant increase.

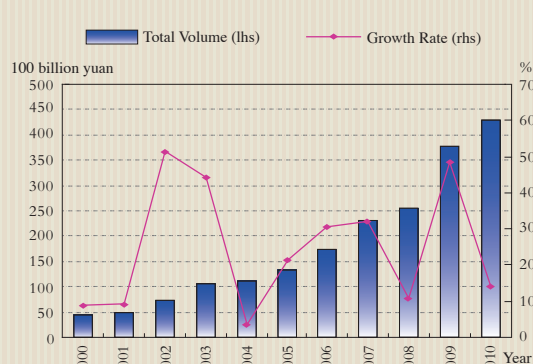
#### Fund flow volume in the whole society registered a stable increase

Fund flow volume in the economy totaled 43.04 trillion yuan in 2010<sup>1</sup>, up 5.29 trillion yuan or 14.0 percent year on year, representing a deceleration of 34.4

percentage points from that of 2009 (Figure 18). This happened due to the normalization of crisis-response money and credit policy and stronger measures of liquidity and inflation expectation management adopted by the PBC against the background of inflationary pressure and solid economic recovery in 2010, especially in the later half of 2010. As such, the deceleration of new loan from that of 2009 was remarkable. At end 2010, the new loans of financial institutions<sup>2</sup> (according to broad definition) posted 9.72 trillion yuan, a reduction of 2.39 trillion yuan or 19.7 percent year on year. Moderated increase of fund flow volume in 2010 supported stronger measures of liquidity and inflation expectation management, and kept a lid on the rise of inflation expectation. The ratio of total fund flow volume to GDP was 107.2 percent in 2010, a reduction of 3.5 percentage points year on year, but an increase of 26.2 percentage points from that of 2008 (Figure 19).

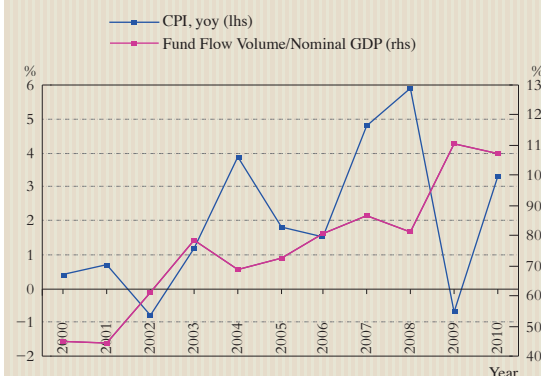
#### Incremental volume of financial liabilities of

Figure 18 The Growth of Fund Flow Volume since 2000



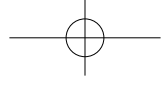
Source: The PBC.

Figure 19 The Ratio of Fund Flow Volume to GDP and CPI



Source: The PBC.

Notes: 1. To keep up with the innovation of China's financial market in recent years, the fund flow statistics was revised in 2010. Since then, banker's acceptance, designated and trust loans of micro-credit companies and financial institutions have been included in the statistics of fund flow. To ensure consistency and comparability, the statement of fund flow in 2008 and 2009 was adjusted according to the fund flow statistics in 2010. 2. In fund flow statistics, loans consists of various kinds of lendings, designated loans, trust fund plan and lending as a result of wealth management for clients by all financial institutions as well as loans by credit companies and micro-credit companies.



### domestic non-financial sector stayed at a moderate level

In 2010, the incremental volume of financial liabilities of domestic non-financial sector<sup>1</sup> (including households, non-financial corporate sector and general government, same hereinafter) totaled 16.24 trillion yuan, up by 4.0 percent year on year. The ratio of incremental volume of financial liabilities of domestic non-financial sector to nominal GDP was 40.5 percent, a reduction of 5.3 percentage points from that of 2009, but reaching the second highest level since 2000. Despite the tepid growth of financial liabilities of non-financial sector, the profitability of this sector was notably improved after the crisis. In terms of relative scale (ratio of incremental financial liabilities to GDP), the incremental volume of financial liabilities of domestic non-financial sector was at a moderate level in 2010 (Figure 20).

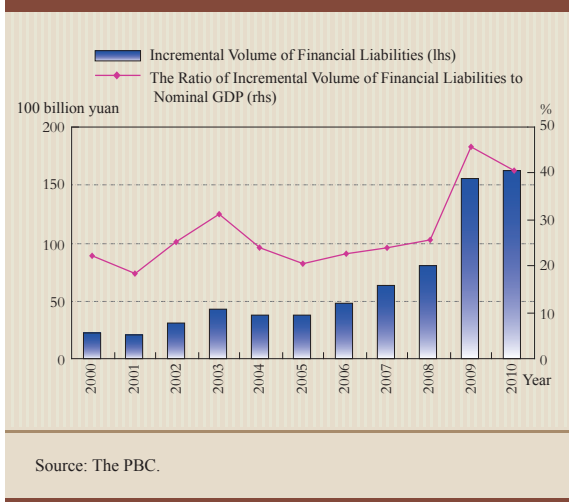
In terms of sector, the incremental volume of financial liabilities of households and general government grew rapidly while that of non-financial corporate sector remained at almost the same level as 2009. The incremental volume of financial liabilities of households, non-financial corporate sector and general government

was 3.05 trillion, 11.80 trillion and 1.39 trillion yuan respectively, accounting for 18.8 percent, 72.6 percent and 8.6 percent respectively of the total incremental volume of financial liabilities of domestic non-financial sector, of which the share of households and general government in the total was up by 2.5 and 0.8 percentage points respectively compared with that of 2009, while that of non-financial corporate sector was down by 3.3 percentage points (Table 5).

In terms of financial instruments, the dominant role of incremental loans was weakened, while the structure of financial liabilities was diversified. Among the various components of incremental volume of financial liabilities, undiscounted banker's acceptance, government bonds, equities, insurance company technical reserves and external liabilities (i.e. the FDI and other external liabilities) totaled 2.33 trillion, 973.6 billion, 747.0 billion, 383.5 billion and 1.18 trillion yuan respectively in 2010, up 406.9 percent, 19.0 percent, 40.0 percent, 31.0 percent and 158.4 percent respectively year on year, while loans and corporate bonds registered 9.52 trillion and 1.11 trillion yuan respectively, down 19.3 percent and 10.5 percent year on year. Those components whose share in the total increased from the previous year included undiscounted banker's acceptance (registering 14.4 percent), external liabilities (7.3 percent), government bonds (6.0 percent), equities (4.6 percent) and insurance technical reserves (2.4 percent), an increase of 11.4 percentage points, 4.4 percentage points, 0.8 percentage points, 1.2 percentage points and 0.5 percentage points from last year, while the share of incremental loans (58.6 percent) and corporate bonds (6.8 percent) in the total had a reduction of 17.0 percentage points and 1.1 percentage points compared with 2009 (Table 6).

1) Strong corporate demand led to significant increase in households financing, while the share of equity-related assets and wealth management assets witnessed a

Figure 20 The Ratio of Incremental Volume of Financial Liabilities of Domestic Non-financial Sector to Nominal GDP



Note: 1. The incremental volume of financial liabilities equals to the aggregate incremental volume of loans, bonds, equities, undiscounted banker's acceptance, insurance technical reserves, and external financial liabilities, of which, equities includes equity financing that can be included in the books.

**Table 5 The Incremental Volume of Financial Liabilities by Domestic Non-financial Sector in 2010**

100 million yuan, %

	Annual Increment	More than 2009	Compare with 2009	Proportion	Proportion Changes
Households	30 548	5 132	20.2	18.8	2.5
Non-financial Corporations	117 986	-516	-0.4	72.6	-3.3
General Government	13 920	1 704	13.9	8.6	0.8
Total	162 454	6 320	4.0	100.0	

Source: The PBC.

**Table 6 The Structure of Financial Liabilities by Domestic Non-financial Sector in 2010**

100 million yuan, %

	Annual Increment	More than 2009	Compare with 2009	Proportion	Proportion Changes
Loans	95 161	-22 828	-19.3	58.6	-17.0
Undiscounted Banker's Acceptance Bills	23 346	18 740	406.9	14.4	11.4
Bonds	20 799	250	1.2	12.8	-0.4
Government Bonds	9 736	1 554	19.0	6.0	0.8
Corporate Bonds	11 063	-1 304	-10.5	6.8	-1.1
Equities	7 470	2 135	40.0	4.6	1.2
Insurance Technical Reserves	3 835	908	31.0	2.4	0.5
External Liabilities	11 843	7 261	158.4	7.3	4.4

Source: The PBC.

remarkable increase

The incremental volume of financial liabilities by household sector in 2010 amounted to 3.05 trillion yuan, up by 513.2 billion yuan or 20.2 percent year on year. Among the components of households financing, the incremental volume of housing mortgage loans was 1.29 trillion yuan, a reduction of 103.4 billion yuan from that of 2009 (Figure 21), accounting for 42.4 percent of the incremental volume of households financing, 12.6 percentage points lower than that of 2009. The austerity policies for real estate sector, including *Circular of the State Council on Curbing the Excessive Rise of House Prices in Certain Cities* released in September, produced effects. Incremental volume of Individual business loans reached 984.5 billion yuan, up by 322.7 billion yuan year on year, against the backdrop of boom of business run individuals after the crisis.

The incremental volume of financial assets of the household sector was 6.83 trillion yuan in 2010, up 437.5 billion yuan or 6.8 percent year on year. The structure of household financial assets changed as a result of stock market developments and the boost of wealth management market, which was reflected in the relocation away from low-yield deposit to high-yield equity-related assets and wealth management products. The incremental volume of household deposits<sup>1</sup> amounted to 4.45 trillion yuan, accounting for 65.2 percent of the total incremental volume of incremental household financial assets in 2010, a reduction of 2.9 percentage points from the previous year. The incremental volume of equity-related assets<sup>2</sup> totaled 519.3 billion yuan, accounting for 7.6 percent of the total incremental volume of financial assets of households sector, up by 0.9 percentage point year on year. The incremental volume of wealth management

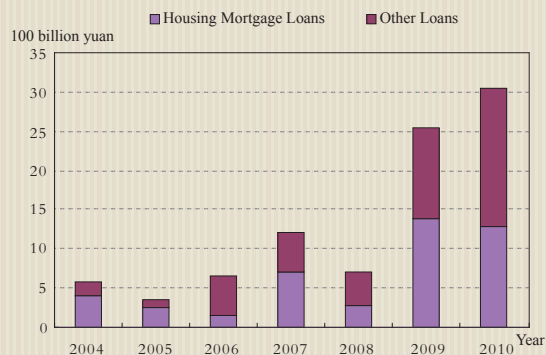
Note: 1. Statistics of deposits is processed according to broad definition, including all deposits in domestic and foreign currencies as well as entrusted deposits in the Summary of Sources and Uses of Credit Funds of Financial Institutions, same hereinafter.

2. Equity-related assets include stocks, equity holding that can be included in the books, security investment funds and clients' margin deposits with securities trading accounts, same hereinafter.



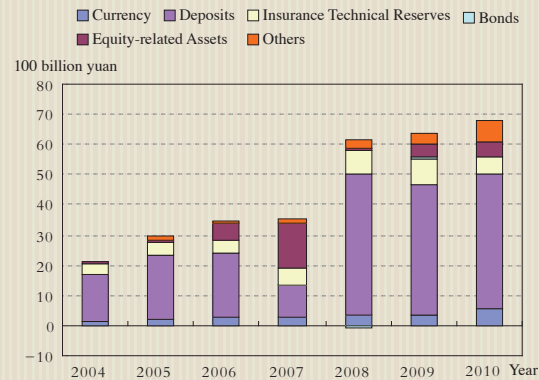


Figure 21 The Structure of Incremental Financial Liabilities by Household Sector



Source: The PBC.

Figure 22 The Structure of Incremental Financial Assets of Household Sector



Source: The PBC.

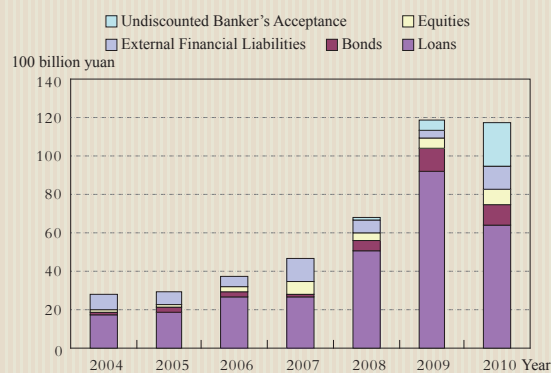
and other financial assets totaled 738.7 billion yuan, accounting for 10.8 percent of the total incremental volume of financial assets of household sector, 5.2 percentage points higher than that of 2009 (Figure 22).

2) The incremental volume of financial liabilities of non-financial corporate sector was roughly at par with that of 2009. Growth of financial assets accelerated with funding gap shrinking accordingly

The incremental volume of financial liabilities of non-financial corporate sector reached 11.80 trillion yuan in 2010, roughly unchanged from the 11.85 trillion yuan in 2009. Among the total, loans registered 6.43

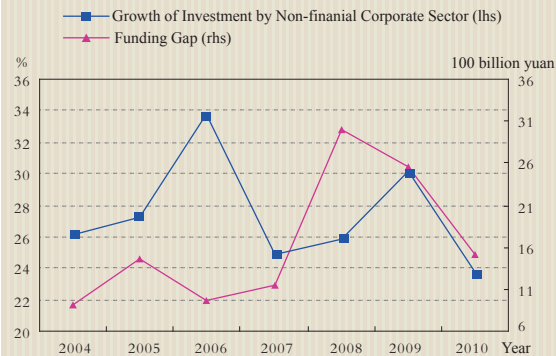
trillion yuan, a reduction of 2.74 trillion yuan from 2009, accounting for 54.5 percent in the total, shrinking by 22.9 percentage points from that of 2009; bond financing reached 1.11 trillion yuan, a reduction of 130.4 billion yuan from 2009, accounting for 9.4 percent, shrinking 1.1 percentage points from that of 2009; undiscounted banker's acceptance, equities and external financial liabilities was 2.33 trillion, 747.0 billion and 1.18 trillion yuan respectively, an increase of 1.87 trillion, 728.6 billion and 213.5 billion yuan from that of 2009, accounting for 19.8 percent, 6.3 percent and 10 percent in the total incremental volume of financial liabilities of

Figure 23 The Structure of Incremental Financial Liabilities by Non-financial Corporate Sector



Source: The PBC.

Figure 24 The Funding Gap and the Growth of Investment by Non-financial Corporate Sector



Source: The PBC and National Bureau of Statistics of China.

non-financial corporate sector, an increase of 15.9, 1.8 and 6.2 percentage points from that of 2009 (Figure 23).

The incremental volume of financial assets of non-financial corporate sector amounted to 10.29 trillion yuan, an increase of 1.01 trillion yuan or up 10.8 percent year on year. In this total, deposits posted 6.26 trillion yuan, a reduction of 950.1 billion yuan year on year, accounting for 60.8 percent, shrinking 16.8 percentage points from that of 2009.

The funding gap (i.e. net financial liabilities, and it equals to incremental financial liabilities minus incremental financial assets) was 1.51 trillion yuan, shrinking 1.06 trillion yuan from 2009. There were two reasons behind the shrinking. On one hand, the growth of investment by non-financial corporate sector moderated significantly, leading to reduced fund demand accordingly. In 2010, total fixed-assets investment in the economy increased 23.8 percent year on year, a reduction of 6.2 percentage points from that of 2009 (Figure 24). On the other hand, corporate sector profitability and financial standing improved notably as a result of the rebound of the economy.

3) The government sector had a fairly large fund surplus

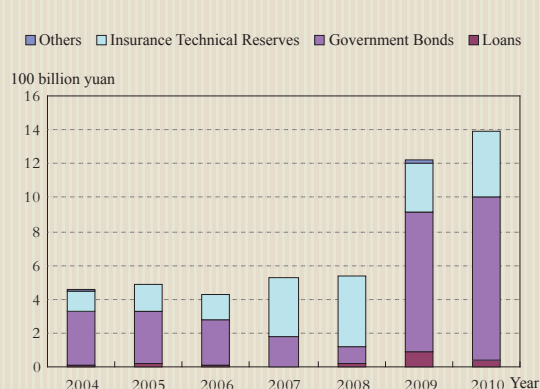
The incremental volume of financial liabilities of general government (including the central and

local governments, governmental organizations & administrative institutions and social security fund, same hereinafter) amounted to 1.39 trillion yuan, up by 170.4 billion yuan or 13.9 percent year on year, adequate to satisfy the fund demands of follow-up investments of the 4-trillion stimulus package adopted by the government in 2009. In the total of general government financing, financial liabilities in the form of government bonds and insurance technical reserves reached 973.5 billion and 383.5 billion yuan respectively, up by 155.3 billion and 90.8 billion yuan year on year, accounting for 69.9 percent and 27.6 percent in the total, an expansion of 3.0 percentage points and 3.6 percentage points from that of 2009 respectively (Figure 25).

The incremental volume of financial assets of general government was 1.95 trillion yuan, as against 2 trillion yuan registered in 2009. In this total, deposits of governmental organizations & administrative agencies and treasury was 1.26 trillion and 304.5 billion yuan respectively, accounting for 64.5 percent and 15.6 percent, with the former increasing 3.3 percentage points while the latter shrinking by 6.2 percentage points from that of 2009 (Figure 26).

Although fiscal deficit reached 649.5 billion yuan in 2010 after netting of fiscal revenues and fiscal expenditures, the net fund surplus of the government

Figure 25 The Structure of Incremental Financial Liabilities by General Government

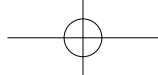


Source: The PBC.

Figure 26 The Structure of Incremental Financial Assets of General Government



Source: The PBC.



sector amounted to 561.9 billion yuan. Adequate fund surplus was registered for two years in a row by the general government.

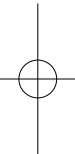
### **The financial liabilities and assets of financial institutions increased by a large margin**

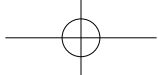
In 2010, the incremental volume of financial liabilities of financial institutions (including central bank, deposit money banks, insurance companies, securities investment fund and other financial institutions, same hereinafter) amounted to 22.84 trillion yuan, up 3.32 trillion yuan year on year, while the incremental volume of their financial assets was 22.72 trillion yuan, up 3.01 trillion yuan year on year. On the asset side, incremental assets of deposit money banks went up 2.28 trillion yuan year on year to 16.16 trillion yuan, including 9.21 trillion yuan (or 57.0 percent of incremental assets) in the form of lending (registering a reduction of 20.7 percentage points from 2009), 1.46 trillion yuan (or 9.0 percent of incremental assets) in the form of bonds (registering a reduction of 8.8 percentage points from 2009), and 3.26 trillion yuan (or

20.2 percent of incremental assets) in the form of deposit reserves (registering an expansion of 12.1 percentage points from 2009), and 2.33 trillion yuan (or 14.4 percent of incremental assets) in the form of undiscounted banker's acceptance (recording an expansion of 11.1 percentage points from that of 2009).

### **Balance of net overseas financial assets experienced a remarkable expansion and the fund outflow increased sharply**

Incremental volume of China's overseas financial assets (Chinese funds used by the rest of the world) reached 4.04 trillion yuan in 2010, up by 1.32 trillion yuan or 48.4 percent year on year, while incremental volume of China's external financial liabilities (foreign funds used by China) was 1.43 trillion yuan, up by 796.6 billion yuan year on year. Thus, formation of China's net overseas financial assets amounted to 2.61 trillion yuan, up 24.8 percent year on year, indicating that the net volume of Chinese funds used by the rest of the world increased remarkably.

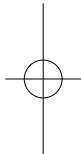
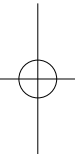




The People's Bank of China

# 2011 CHRONICLE







## 2011 CHRONICLE

## ■ January

6 Jan. With a view to supporting the pilot program of RMB settlement of cross-border trade, facilitating banking financial institutions and domestic institutions to conduct the settlement business of RMB-denominated outward direct investments, the PBC issued the *Administrative Rules for Pilot Settlement of RMB-denominated Outward Direct Investments*.

14 Jan. To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percent points, effective from Jan. 20.

## ■ February

8 Feb. The PBC decided to raise the RMB benchmark deposit and lending rates of financial institutions by 0.25 percentage points, effective from Feb.9.

17~19 Feb. PBC Governor Zhou Xiaochuan and Assistant Governor Jin Qi attended the G20 Finance Ministers and Central Bank Governors Meeting in Paris, France. The participants mainly discussed topics including global economic developments, the framework of strong, sustainable, and balanced growth, international monetary system reform, financial sector reform, and commodities price volatilities.

18 Feb. To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percentage points, effective from Feb. 24.

24 Feb. In order to improve the security features of bank commercial paper certificates and ensure their safe circulation and use, the PBC launched the 2010 version of bank commercial paper.

25~27 Feb. PBC Governor Zhou Xiaochuan attended the 46<sup>th</sup> Conference of the Governors of the South East Asian Central Banks (SEACEN) and 30<sup>th</sup> Meeting of the SEACEN Board of Governors, which was held in Colombo, Sri Lanka. Governor Zhou shared his views on challenges facing central banks of emerging economies in the post-crisis period and policy response.

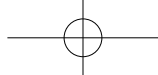
## ■ March

15 Mar. The PBC issued the *Opinions of the People's Bank of China on Promoting the Use of IC-based Bank Cards (hereinafter referred to as Opinions)*, and decided to launch the migration to IC-based bank cards nationwide and comprehensively promote the use of IC-based bank cards in the "12<sup>th</sup> Five-year Plan" period, so as to promote China's bankcard industry' upgrading and sustainable development. The Opinions highlighted the overall target, principles and timetable for migration to IC-based bank cards.

18 Mar. To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percentage points, effective from Mar.25.

25 Mar. The Monetary Policy Committee of the PBC convened its first regular quarterly meeting in 2011, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee. The participants analyzed current economic and financial developments at home and abroad. In their view, China's money and credit were moving in the direction intended by the macro-economic management policy, but still faced a complex situation. The world economy continued to recover slowly on a less solid basis, while the Chinese economy had maintained its stable and fairly rapid growth





momentum, though it was still confronted with emerging problems. It was emphasized at the meeting that it was necessary to closely monitor the latest developments in global and domestic economies and financial markets and their impacts, to give top priority to the task of inflation control, to continue the implementation of a prudent monetary policy, to make macro-economic management more targeted, flexible and effective. At the next stage, a multiple of monetary policy instruments will be used and the macro-prudential policy framework will be improved to effectively manage liquidity and to keep money aggregates and all-system financing aggregates at reasonable levels. Greater efforts will be made to optimize credit structure, to guide commercial banks to step up credit support to key areas and weak links in the economy, and strictly restrict credits to high energy-consuming and heavily polluting industries and to sectors with excess capacity. The role of direct financing will be further tapped to meet the diverse demand for investment and financing. The RMB exchange rate regime will be further improved to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

31 Mar. The G20 International Monetary System Symposium was held in Nanjing, which was hosted by France, the incumbent Chairman of the G20, and assisted by the PBC. Governor Zhou Xiaochuan and Deputy Governor Yi Gang addressed the meeting. The seminar promoted discussion on the necessity of reforming the international monetary system and SDR of the IMF.

#### ■ April

5 Apr. The PBC decided to raise the RMB benchmark deposit and loan rates of financial institutions by 0.25 percentage points, effective from April 6.

6~7 Apr. PBC Chief Disciplinary Officer Wang Hongzhang led a delegation to attend the ASEAN plus 3 Finance Minister and Central Bank Governor Deputies Meeting in Bali, Indonesia. The meeting decided to extend the ASEAN plus 3 Finance Ministers Meeting mechanism

to Finance Ministers and Central Bank Governors Meeting mechanism.

9 Apr. Upon approval of the State Council, the PBC formally joined the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries. PBC Assistant Governor Li Dongrong attended the signing ceremony and the 25<sup>th</sup> meeting of Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries.

14~15 Apr. PBC Deputy Governor Yi Gang attended the G20 Financial Ministers and Central Bank Governors' Meeting on 14~15, April and the Spring Meeting of the IMF on 15~17, April. The meetings discussed global economic developments, the framework of strong, sustainable and balanced growth, and the reform of international monetary system.

15 Apr. To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percentage points, effective from Apr. 21.

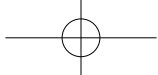
#### ■ May

6 May The PBC and the Central Bank of Mongolia signed a bilateral local currency swap agreement in the amount of 5 billion yuan. The currency swap agreement will expire in three years and can be extended with mutual consent.

9~11 May PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the 3<sup>rd</sup> Round of China-US Strategic and Economic Dialogues in Washington D.C. The dialogues yielded a total of 64 fruits.

13 May To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percentage points, effective from May 18.

27 May To regulate bond auctions via the PBC bond issuance system on the interbank bond market, and protect



the legitimate rights and interests of all participants, the General Administration Department of the PBC issued the *Rules for Bond Auction on the Interbank Bond Market*.

#### ■ June

13 Jun. The PBC and the National Bank of Kazakhstan signed a bilateral local currency swap agreement in the amount of 7 billion yuan. The currency swap agreement will expire in three years, but with mutual consent it can be extended.

14 Jun. To strengthen liquidity management of the banking system and guide the reasonable growth of money and credits, the PBC decided to raise the RMB deposit reserve requirement ratio for depository financial institutions by 0.5 percentage points, effective from Jun. 20.

16 Jun. To support the implementation of the *Administrative Measures for Payment Services Provided by Non-financial Institutions*, and make sure that the testing and certification of the payment service business system of non-financial institutions are conducted in a standard and orderly manner, the PBC issued the *Provisions on the Administration of Testing and Certification of the Payment Service Business System of Non-financial Institutions*.

Upon the approval of the State Council and with authorization from the Ministry of Foreign Affairs, PBC Deputy Governor Du Jinfu signed the *Agreement of Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)* in Moscow on behalf of the Chinese Government.

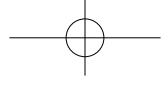
22~23 Jun. The 12<sup>th</sup> Meeting of the Financial Cooperation Subcommittee of the China-Russia Premier-Level Regular Meeting Committee was held in Nizhny Novgorod, Russia. The two sides signed the *Agreement between People's Bank of China and Central Bank of Russian Federation on Payment and Settlement*, which extended the coverage of local currency settlement from transactions in the border areas to general trade transactions between the two countries.

#### ■ July

1 Jul. The Monetary Policy Committee of the PBC convened its second regular quarterly meeting in 2011, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee. The participants analyzed the current economic and financial developments at home and abroad. In their view, both the real economy and the financial sector in China were moving in the direction intended by the macro-economic management policy, but still faced a complex situation. The world economy slowly recovered amongst a multiple of risk factors; the Chinese economy continued its stable and fairly rapid growth with inflation pressure moderated but remaining high. It was emphasized at the meeting that it was necessary to closely follow the latest developments in global and domestic economies and their impacts, to continue the implementation of a prudent monetary policy with a focus on stability, targeting and flexibility of the policy measures, and to manage the tempo and strength of policies. At the next stage, a multiple of monetary policy instruments will be used and the macro-prudential policy framework will be improved to effectively manage liquidity and to keep money aggregates and all-system financing aggregates at reasonable levels. Greater efforts will be made to optimize credit structure, to guide commercial banks to increase credit support to key areas and weak links in the economy, especially to agriculture, rural economy and farmers, and to small and medium-sized enterprises. The role of direct financing will be further tapped to meet the diverse demand for investment and financing. The RMB exchange rate regime will be further improved to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

6 Jul. The PBC decided to raise the RMB benchmark deposit and loan rates of financial institutions by 0.25 percentage points, effective from Jul 7.

13 Jul. To encourage financial institutions to better serve the agriculture, rural economy and farmers, and improve the effectiveness of policy guidance on agro-



linked loans, the PBC issued the *Notice on Assessing the Effects of Policy Guidance on Agro-linked Loans*, specifying that starting from 2011 PBC branch offices will conduct assessment of the effects of policy guidance on agro-linked loans for county-level financial institutions.

13~14 Jul. The seventh session of China-Kazakhstan Financial Cooperation Sub-committee was held in Astana, Kazakhstan. The meeting acknowledged the significance of bilateral local currency swap agreement for promoting trade and investment between China and Kazakhstan.

18 Jul. Deputy Governor Hu Xiaolian attended the 8th Plenary of FSB in Paris, France. Delegates discussed how to lessen moral hazard of SIFIs and reduce dependence on rating agencies.

20 Jul. To promote financial institutions to better serve SMEs and enhance the effectiveness of policy guidance on loans to SMEs, the PBC issued the *Notice on Assessing the Effects of Policy Guidance on Loans to SMEs*, specifying that starting from 2011 PBC branch offices will carry out assessment of the effects of policy guidance on SME loans for financial institutions at the provincial and county level.

27~29 Jul. PBC Governor Zhou Xiaochuan attended the 16<sup>th</sup> EMEAP Governors' Meeting and the 3<sup>rd</sup> Tripartite Governors' Meeting among the PBC, the Bank of Japan (BOJ), and the Bank of Korea (BOK) on Jeju Island, Korea. Delegates discussed macro-economic and financial developments, commodity prices and monetary policy, global imbalance and capital flows, and etc.

#### ■ August

3 Aug. To regulate the access to the PBC Intranet by other institutions, safeguard network security and data transfer, and ensure the normal operations of relevant business, the General Administration Department of the PBC issued the *Interim Rules for Connection to the People's Bank of China Intranet*.

9 Aug. The Ministry of Human Resources and Social Security and the PBC jointly issued the *Notice on Adding*

*Financial Service Features to Social Security Cards*, which represented a critical step in promoting the all-round functions of social security cards and urging the financial industry to better serve people's livelihood.

31 Aug. The China Financial National Rising Authentication Co., Ltd. was founded, which is the first certification agent for the financial industry. This marks the launch of financial standard certification system in China, and will play an important role in enhancing the integrity and quality of services of the Chinese financial enterprises as well as safeguarding the rights and interests of financial consumers.

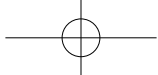
#### ■ September

5 Sept. In accordance with the 12<sup>th</sup> Five-Year Plan for National Economic and Social Development, to satisfy the need for development of China's financial IT infrastructure, the PBC issued the 12<sup>th</sup> Five-Year Plan for development of China's Financial IT Infrastructure.

7~9 Sept. PBC Governor Zhou Xiaochuan attended the 4<sup>th</sup> China-UK Economic and Financial Dialogues in London. The Dialogues yielded a total of 46 fruits, among which the PBC was involved in 13 items, covering cooperation in financial reform, financial market development, global monetary and financial system reform between the two sides.

21~28 Sept. PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the Annual Meetings of the IMF/WB in Washington, D.C., discussing global economic and financial developments and challenges, and reform of the IMF.

28 Sept. The Monetary Policy Committee of the PBC convened its third regular quarterly meeting in 2011, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee. The participants analyzed the current economic and financial developments at home and abroad. In their view, both the real economy and the financial sector in China was moving in the direction intended by the



macro-economic management policy, though the external environment remained complex with the world economy slowly recovering amongst a multiple of risk factors; the Chinese economy had continued its stable and fairly rapid growth with inflation pressure moderated but remaining high. It was emphasized at the meeting that it was necessary to closely follow the latest developments in global and domestic economies and financial markets and their impacts, to continue the implementation of a prudent monetary policy, to give top priority to inflation control, to make macro-economic management more targeted, effective and forward-looking, and to manage the pace and strength of policies. At the next stage, a multiple of monetary policy instruments will be used and the macro-prudential policy framework will be improved to effectively manage liquidity and to keep money aggregates and all-system financing aggregates at reasonable levels. Greater efforts will be made to optimize credit structure, to facilitate further industrial restructuring, to guide financial institutions to improve their financial services and enhance support to transformation of economic growth pattern. The role of direct financing will be further tapped to meet the diverse demand for investment and financing. The RMB exchange rate regime will be further improved to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

#### ■ October

13 Oct. To support the use of RMB in cross-border trade and investment and regulate banks and overseas investors in carrying out settlement for RMB-denominated foreign direct investment, the PBC issued the *Administrative Rules for the Settlement of RMB-denominated Foreign Direct Investment*.

26 Oct. The PBC signed an agreement with the Bank of Korea to renew the bilateral currency swap arrangement and to increase its size from 180 billion yuan/38 trillion won to 360 billion yuan/64 trillion won. The effective period of the renewed arrangement will be three years and

can be extended with mutual consent.

#### ■ November

1 Nov. To guide and promote the healthy and sustainable development of the state treasury business in the 12<sup>th</sup> Five-Year Plan period, the General Administration Department of the PBC issued the *12<sup>th</sup> Five-Year Plan for Development of the State Treasury Business*.

9~11 Nov. Ms. Christine Lagarde paid her first official visit to China in her new capacity as IMF Managing Director. She met with Chinese Premier Wen Jiabao, Vice President Xi Jinping and Vice Premier Wang Qishan, and exchanged views with Governor Zhou Xiaochuan on current global economic and financial situations, the European sovereign debt crisis, and role of the IMF.

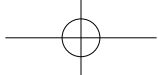
17~19 Nov. PBC Chief Disciplinary Officer Wang Hongzhang attended the 41<sup>st</sup> EMEAP Deputies' Meeting and the 10<sup>th</sup> meeting of Monetary and Financial Stability Committee in Auckland, New Zealand. EMEAP's participants mainly discussed the European sovereign debt crisis, global economic and financial developments, and building of regional safety net.

30 Nov. PBC Deputy Governor Yi Gang attended the ASEAN plus three Finance Minister and Central Governor Deputies Meeting in Sendai, Japan. Participants discussed regional financial cooperation and global and regional economic developments.

The PBC decided to cut the RMB deposit reserve requirement ratio of depository financial institutions by 0.5 percentage points, effective from Dec.5.

#### ■ December

7 Dec. The Financial Information Center of the PBC was established. The Financial Information Center is a public organization affiliated to the PBC, and is mainly responsible for management, operation and maintenance of business application systems of the PBC, collection, aggregation and analysis of information and data, network



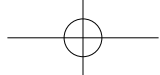
management and maintenance of information system security.

22 Dec. The PBC signed a bilateral local currency swap agreement with the Bank of Thailand in the amount of 70 billion yuan/320 billion Thai baht. The effective period of the arrangement will be three years and can be extended with mutual consent.

23 Dec. The PBC signed a bilateral local currency swap agreement with the State Bank of Pakistan in the amount of 10 billion yuan/140 billion rupees. The effective period of the arrangement will be three years and can be extended with mutual consent.

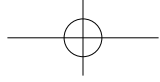
28 Dec. The PBC Monetary Policy Committee convened its fourth regular quarterly meeting of 2011, which was chaired by Zhou Xiaochuan, Governor of the PBC and Chairman of the Monetary Policy Committee. The participants analyzed current economic and financial situations at home and abroad. In their view, both the real economy and financial sector in China were moving in the direction intended by the macro-economic management policy, the economic growth and the overall price level had stabilized, and the balance of payments became more balanced. On the other hand, due to a number of factors such as the European debt crisis, with global economic growth remaining tepid, instability and uncertainty rising; the Chinese economy still faced complex domestic and external situations. It was emphasized at the meeting that it was necessary to follow the latest domestic and

international economic and financial developments and their impacts, continue the implementation of a prudent monetary policy, maintain policy stability and consistency, make macromanagement policies better-targeted, more flexible and forward-looking, properly handle the intensity, pace and focus of policy implementation, conduct fine-tunings and take preemptive measures in a timely manner in view of changing situations, strike a balance among maintaining stable and relatively fast economic growth, making economic structural adjustment and managing inflation expectation, and strengthen systemic risk prevention. A mix of monetary policy tools will be used and macroprudential policy measures will be employed to make countercyclical adjustment, to keep the money and credit aggregates and the AFE at reasonable volumes. And in line with the principle of differentiated treatment to different sectors, the PBC will vigorously guide and promote credit structure optimization, step up financial support to key areas and weak links in the economy, guide financial institutions to improve financial services so as to better support the real sector. The role of direct financing will be further tapped to meet the diverse demand for investment and funding to promote sound development of the financial markets. Efforts will be made to promote the market-based reform of the interest rates, and further improve the RMB exchange rate regime to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.



## SELECTED RULES AND ADMINISTRATIVE DOCUMENTS PROMULGATED IN 2011

No.	Document No.	Title	Organization of Issuance	Time of Issuance
1	Announcement [2011] No.1	Administrative Rules for Pilot Settlement of RMB-denominated Outward Direct Investments	PBC	January 6
2	Announcement [2011] No.2	Announcement on Launching the 2010 Version of Bank Commercial Paper	PBC	February 24
3	Announcement [2011] No.3	Announcement on Strengthening Regulation of Trading in the National Interbank Bond Market	PBC	April 9
4	Announcement [2011] No.6	Announcement on Issues Regarding Market-making of Newly Issued Key Maturities Government Securities	PBC, MOF	April 15
5	Announcement [2011] No.9	Announcement of List of Abrogated Documents	PBC	May 4
6	Announcement [2011] No.14	Provisions on the Administration of Testing and Certification of the Payment Service Business System of Non-financial Institutions	PBC	June 16
7	Announcement [2011] No.17	Announcement on the Name List of Non-financial Payment Service System Testing and Certification institutions and the Coverage of Testing and Certification	PBC	August 9
8	Announcement [2011] No.23	Administrative Rules for the Settlement of RMB-denominated Foreign Direct Investment	PBC	October 13
9	Announcement [2011] No.25	Announcement on Designation of Clearing Bank for Hong Kong RMB Business	PBC	November 2
10	Document [2011] No.9	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	January 14
11	Document [2011] No.17	The Notice on the Protection of Personal Financial Information by Banking Financial Institutions	PBC	January 21
12	Document [2011] No.32	The Notice on Raising the RMB Benchmark Deposit and Lending Rates of Financial Institutions	PBC	February 8
13	Document [2011] No.42	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	February 18
14	Document [2011] No.47	Notice on Further Regulating and Strengthening Bankcard Technology by Commercial Banks	PBC	February 23



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No.	Document No.	Title	Organization of Issuance	Time of Issuance
15	Document [2011] No.67	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	March 18
16	Document [2011] No.84	The Notice on Raising the RMB Benchmark Deposit and Lending Rates of Financial Institutions	PBC	April 5
17	Document [2011] No.98	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	April 15
18	Document [2011] No.117	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	May 13
19	Document [2011] No.145	Notice on Several Issues Concerning the Cross-border RMB Business	PBC	June 3
20	Document [2011] No.151	The Notice on Raising RMB Deposit Reserve Requirement Ratio	PBC	June 14
21	Document [2011] No.169	The Notice on Raising the RMB Benchmark Deposit and Lending Rates of Financial Institutions	PBC	July 6
22	Document [2011] No.181	The Notice on Assessing the Effects of Policy Guidance on Agro-linked Loans	PBC	July 13
23	Document [2011] No.185	The Notice on Assessing the Effects of Policy Guidance on Loans to SMEs	PBC	July 20
24	Document [2011] No.193	The Circular on Providing Quality Financial Services for Public Rental Housing and Other Government-subsidized Housing Projects	PBC, CBRC	August 4
25	Document [2011] No.280	The Notice on Lowering RMB Deposit Reserve Requirement Ratio	PBC	November 30
26	Document [2011] No.321	The Notice on the <i>Implementation of Measures for the Pilot Program Allowing Fund Management Companies and Securities Companies Approved as RMB Qualified Foreign Institutional Investors (RQFII) to Invest in Domestic Securities Market</i>	PBC	December 31
27	General Administration Department Document [2011] No.128	The Notice on Issuing the <i>Rules for Bond Auction on the Interbank Bond Market</i>	PBC General Administration Department	May 27
28	General Administration Department Document [2011] No.158	The Notice on Issuing the <i>Interim Rules for Connection to the People's Bank of China Intranet</i>	PBC General Administration Department	August 3