







# China

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## Financial Stability Report

### 2010

Financial Stability Analysis Group of  
the People's Bank of China



## Members of Financial Stability Analysis Group of PBC

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**Head:** LIU Shiyu

**Members:**

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JIN Qi	LI Bo
MU Huaipeng	OUYANG Weimin
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---

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ZHUANG Xinyi	CHEN Wenhui

## Contributors to This Report

**Chief Editors:** XUAN Changneng JIN Luo SUN Ping XIAO Yuping

**Editor:** YANG Liu

**Authors:**

Chapter I:	JI Min DENG Jining XI Yu	MA Zhiyang Li Bin WANG Ning	CHEN Yingmei PAN Hongsheng
Chapter II:	GUO Dayong LI Chao	OUYANG Changmin FU Qiang	ZHAO Min
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Special Topic III:	WANG Suzhen	WANG Zunzhou	
Appendix I:	ZHAO Min	WANG Nan	

**Other Contributors:**

AN Li	BAI Li	CHEN Xu
CHEN Yuanfu	CHU Aiwu	FAN Zhiyong
GOU Wenjun	HU Ping	LI Bolou
LIU Beibei	LIU Xiangqin	MA Junwei
QIU Bin	WANG Jianhua	WANG Xindong
XIA Jiangshan	XIE Dan	XIONG Lianhua
YE Mao	YU Mingxing	ZHANG Jing
ZHANG Tiantian	ZHAO Zengde	ZHOU Yongsheng
ZHOU Zhengqing		

## Contributors to English Edition<sup>1</sup>

---

**Chief Editor:** XUAN Changneng JIN Luo

**Editors:** YANG Liu ZHOU Zhengqing HU Ping

**Translators:**

Overview:	YANG Liu	LIU Beibei
Chapter I:	AI Ming	TENG Rui
Chapter II:	HUANG Tingting	
Chapter III:	LIU Qin	
Chapter IV:	WANG Beijie	
Chapter V:	ZHENG Yuling	
Chapter VI:	LIU Wenzhong	
Chapter VII:	QI Zhe	
Chapter VIII:	ZHOU Zhengqing	
Special Topic I:	YANG Liu	
Special Topic II:	CAO Zhihong	
Special Topic III:	QU Tianshi	
Appendix I:	LIU Beibei	
Appendix II:	LIU Beibei	

**Other Contributors:**

CHEN Min	CHEN Yan	FU Qiang
LE Linping	LIU Xiangqin	LU Kongbiao
NA Lili	QUAN Kejun	WANG Nan

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## Executive Summary

The year 2009 witnessed gradual stabilization and upturn of the global economy after the full-blown international financial crisis. Withstanding the severe impacts of the financial crisis, the Chinese economy staged a general recovery. The entire financial system has been sound with positive progress made in the reform of the financial sector, significantly enhanced strength of financial institutions, stable operation of the financial market and improvement in financial infrastructure. At present, the global financial markets are getting stabilized and the foundation of China's economic recovery was gradually consolidated. Domestic and international circumstances, however, are still complicated and potential risks and uncertain factors still exist, posing challenges for China to maintain financial stability.

**The macro-economy** as a whole has turned for the better, which laid a sound foundation for the operation of financial system. In 2009, the global economy was gradually getting stabilized and major economies experienced gradual recovery since the mid of the year. The Chinese economy navigated the most difficult year since the beginning of the 21<sup>st</sup> century. With effective implementation of a package of policy measures to address the crisis, including proactive fiscal policy and moderately loose monetary policy, China managed to reverse the significant decline in growth quickly and secure an overall economic upturn. The demand for investment and consumption kept rapid growth. Imports and exports registered moderate recovery, with a narrower trade surplus. Price level picked up after hovering low with increasing upward pressure. Major asset prices went up quickly, with housing price recording month-on-month growth. The credit increased rapidly. RMB exchange rate remained basically stable at an adaptive and equilibrium level. Currently, global economic recovery is not stable, and the Chinese economy is facing a lot of uncertainties and complex domestic and international circumstances. In the next stage, continued efforts would be made to pursue the proactive fiscal policy and moderately loose monetary policy, and polices



should be better targeted and more flexible in line with new developments, especially to strike a balance between supporting sound and relatively rapid growth, restructuring the economy and managing inflationary expectations.

**The banking sector**, in response to the changing domestic and global economic and financial conditions, strictly implemented the moderately loose monetary policy and increased credit extension, playing a positive role in supporting sustainable economic and social development. Reform of the banking sector has been deepened, resulting in strengthened risk management and resilience, improved asset quality and profitability and adequate liquidity. Thanks to such efforts, the banking sector achieved business development without negating the soundness. However, the rapid growth of loans has brought higher credit concentration, heightened difficulties for the banking sector to continuously improve asset quality, small decline in CAR and the profit structure to be improved. In the next stage, the banking sector would continue to implement macroeconomic adjustment policies, establish scientific strategic plans for development, continuously deepen various reforms and improve credit structure so as to support the economic restructuring and the shift of development pattern. The banking sector would also actively prevent and resolve potential risks, optimize profit structure and reinforce bank capital replenishment and constraint mechanism, so as to further enhance comprehensive strength, competitiveness and resilience of the banking sector.

**The securities and futures sector** continued to develop soundly, enhancing its own strength and the capability to serve the real economy. Both the number of listed companies and total market capitalization grew substantially. The profitability of securities and futures firms was notably enhanced. The leading role of institutional investors such as fund management companies was further enhanced. The GEB was successfully launched and market infrastructure and legal framework of securities and futures were improved. The opening-up was further promoted. As the capital market expanded and with the launch of new financial products such as margin trading, short selling and stock index futures, the operating environment of securities and futures firms was getting more complicated. More attention should be paid to improve the income structure,

internal control system and investor appropriateness system of fund management companies. In the next stage, the securities and futures sector should continue to deepen the reform of issuance system, advance the multi-tier capital market, promote the innovation and development of securities and futures institutions and ensure the stable and healthy development of the securities and futures sector.

**The insurance sector** generally maintained an overall healthy development, and the overall strength of the sector was markedly enhanced. The sector witnessed continued expansion in asset size, steady growth in premium income, wider scope of services provided, improved overall performance and profitability, furthered structural adjustment and opening-up and more scientific and efficient supervision. The insurance sector has played a positive role in serving society and economy. However, the inherent problems and conflicts of the insurance sector should not be overlooked, e. g. , the cost-ineffective development patterns of some insurance companies, inadequate capital replenishment mechanism of some medium or small insurance companies and potential risks in asset management, etc. In the next stage, the insurance sector should accelerate reform and development, push forward the transformation of development pattern, establish an agricultural insurance framework and a catastrophe insurance system in line with Chinese circumstances, improve insurance funds management, and achieve the goal of improving the core competitiveness and the capacity to serve the society.

**The financial markets** performed in a sound manner, with active trading and improved institutional arrangements. Money market maintained vibrant with notable growth of trading volume and low level of interest rates. Bond market grew rapidly, in which the issuance of bonds rapidly expanded, and the trading price maintained stable. Trading on the stock and futures market was active, playing a more important role in financing. Bill market extended quickly, while the level of trading price showed different characteristics in various phases. The foreign exchange market operated in a stable manner. The gold market grew steadily. Infrastructure and institutional arrangements were further strengthened, with improved IPO mechanism, progress made in infrastructure of trading and settlement arrangements and the futures market,

and enhanced basic institutional arrangements and systems on the inter-bank bond market.

**The financial analysis of the government, corporate and household sector** showed that, the financial condition of the government sector was fairly good with a generally low debt level, but the rapid growth of debts owned by local investment and financing platforms should attract concerns. The corporate sector witnessed stable improvement of production and operation, long-term debt sustainability, improved capability of paying short-term debts, continued rapid development of liquidity and strengthened capability of interest coverage. Problems, however, still remain. The liquid assets cannot be cashed in easily. The ratio of liquid liabilities was relatively high. The ratio of equity declined. Financial assets of the household sector increased rapidly with a more diversified structure, the overall debt level of household sector was relatively low, but the rise of credit card overdraft arrears should be noticed.

**Financial infrastructure** was improved. Steady progress was made in building payment system, with wider application of non-cash payment instruments and committed efforts of building rural payment environment. Financial legal infrastructure was further strengthened, and continuous progress was made in sector-specific regulation system. The new enterprise accounting standards were implemented effectively and convergence with international standards was underway. The credit environment was further improved, and construction of social credit system sped up. AML work continued to develop. The first National AML Strategy was published and international cooperation has been gradually strengthened. In the next stage, efforts would be made to further develop financial infrastructure, the payment system and legal system, improve the enterprise accounting standards, social credit information system and the AML work.

**Macro-prudential management** should be further strengthened. The international financial crisis showed that current financial supervision had severe flaws in preventing systemic risks. In order to address such flaws, strengthening macro-prudential management became the core of financial regulatory reform in the wake of the crisis. Preventing systemic risks is the fundamental target of macro-prudential management. The financial sector should

be considered as a whole to prevent risks arising from interconnectedness within the financial system and to ensure the soundness of the financial system across economic cycles. The framework of macro-prudential management is mainly composed of three aspects: macro-prudential analysis, macro-prudential policy options and application of macro-prudential tools. In recent years, according to the overall blue print of the CPC Central Committee and the State Council, PBC joined efforts with other agencies and made positive progress in macro-prudential management. Currently, in order to prevent systemic risks efficiently, efforts should be made to incorporate macro-prudential management into the toolkit of China's macroeconomic management and financial stability to coordinate macro-prudential management and micro-prudential supervision with the bid to maintain financial stability and support steady economic development in a more effective manner.

## Abbreviations and Acronyms

ABC	Agricultural Bank of China
ADBC	Agricultural Development Bank of China
AIG	American Insurance Group
AML	Anti-money Laundering
APF	Asset Purchase Facility
BCBS	Basel Committee on Banking Supervision
BOC	Bank of China
BOCOM	Bank of Communications
CAR	Capital Adequacy Ratio
CBRC	China Banking Regulatory Commission
CCAR	Core Capital Adequacy Ratio
CCB	China Construction Bank
CDB	China Development Bank
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CIES	Check Image Exchange System
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust and Investment Corporation
CLO	Collateralized Loan Obligation
CMB	China Merchants Bank
CP	Commercial Paper
CPC	Communist Party of China
CPFF	Commercial Paper Funding Facility
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
CSIPF	China Securities Investor Protection Fund Corporation Limited
CSRC	China Securities Regulatory Commission
CTF	Counter Terrorist Financing
ECB	European Central Bank

ETF	Exchange-Traded Fund
EXIM	Export-Import Bank of China
EUR	Euro
FASB	Financial Accounting Standards Board
FATF	Financial Action Task Force on Money Laundering
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
G20	Group of Twenty
GBP	Great Britain Pound
GDP	Gross Domestic Product
GEB	Growth Enterprise Board
HICP	Harmonized Index of Consumer Prices
HKD	Hong Kong Dollar
IADI	International Association of Deposit Insurers
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICBC	Industrial and Commercial Bank of China
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
JPY	Japanese Yen
JSCB	Joint-Stock Commercial Bank
LVPS	Large Value Payment System
M&A	Merger and Acquisition
MBS	Mortgage Backed Securities
MMIFF	Money Market Investor Funding Facility
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NBS	National Bureau of Statistics
NGO	Non Government Organization



NPL	Non-Performing Loan
NPC	National People's Congress
OTC	Over the Counter
PBC	The People's Bank of China
PDCF	Primary Dealer Credit Facility
PICC	People's Insurance Company ( Group ) of China
PPI	Producer Price Index
PSBC	Postal Savings Bank of China
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RCC	Rural Credit Cooperative
RCPMIS	RMB Cross-border Payment Management Information System
REIT	Real Estate Investment Trust
RMB	Renminbi
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SAR	Special Administrative Region
SEC	Securities and Exchange Commission
SINOSURE	China Export& Credit Insurance Corporation
SME	Small and Medium-sized Enterprise
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
TAF	Term Auction Facility
TALF	Term Asset-Backed Securities Loan Facility
TIC	Trust and Investment Company
TSLF	Term Securities Lending Facility
UCC	Urban Credit Cooperative
UN	United Nations
UNCTAD	United Nations Council on Trade and Development
USD	US Dollar
VAT	Value-Added Tax
WB	World Bank
y-o-y	year-on-year







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