

BALANCE OF PAYMENTS

Balance of Payments Performance in 2007

In 2007, China's economic performance was favorable, with the features of rapid economic growth, optimized structure, enhanced efficiency and improved livelihood of the people. With the economy being further opened up, China's balance of payments continued to expand and post a twin surplus. Specifically, the surplus under the current account totaled US\$371.8 billion, rising by 47 percent compared with the previous year; the surplus under the capital and financial account totaled US\$73.5 billion, while that in the previous year was US\$6.7 billion. By the end of 2007, China's foreign exchange reserves reached US\$ 1528.2 billion, a rise of US\$461.9 billion over that at the end of the previous year.

The surplus under the current account continued to expand In 2007, the surplus under the current account reached US\$371.8 billion, a rise of 47 percent. The big increase can be attributed to the sustained and rapid growth of the trade surplus in goods.

China's trade surplus in goods hit a new record high, while the growth dropped slightly. According to the statistical coverage of the balance of payments, China's exports in goods amounted to US\$1 220 billion, a rise of 26 percent; while imports reached US\$904.6 billion, a rise of 20 percent. The trade surplus reached US\$315.4 billion, a rise of 45 percent.

Trade in services registered a decreased deficit for the third consecutive years. In 2007, receipts of trade in services reached US\$122.2 billion, a rise of 33 percent, while payments reached US\$130.1 billion, a rise of 29 percent. The deficit amounted to US\$7.9 billion, a drop of 11 percent. In terms of the composition of services, transportation, insurance, royalties and licensing fees were the main contributing factors to the deficit.

Specifically, in 2007, China's deficit under transportation totaled US\$11.9 billion, a drop of 11 percent; the deficit under insurance totaled US\$9.8 billion, a rise of 18 percent; the deficit under royalties and licensing fees totaled US\$7.8 billion, a rise of 22 percent. Travel and other businesses were the main surplus items. In 2007, China's surplus under international tourism totaled US\$7.4 billion, a drop of 23 percent; and the surplus under other business totaled US\$8.7 billion, almost equal to that in 2006.

The surplus in income and current transfers continued to grow rapidly. In 2007, receipts in income reached US\$83.0 billion, increasing by 52 percent, while payments reached US\$57.3 billion, a rise of 45 percent. The surplus reached US\$25.7 billion, a rise of 69 percent. In 2007, receipts in current transfers reached US\$42.6 billion, a rise of 35 percent, while payments reached US\$4.0 billion, a rise of 67 percent. The surplus reached US\$38.6 billion, a rise of 32 percent. The rapid increase in the salaries of overseas Chinese workers and the continuous expansion of China's external assets were the main reasons for the rising surplus in current transfers.

The surplus under the capital and financial account increased significantly In 2007, inflows under the capital and financial account reached US\$922 billion, a rise of 41 percent, while outflows reached US\$848.5 billion, a rise of 31 percent. The surplus reached US\$73.5 billion, while that in the previous year was US\$6.7 billion. The rise of the surplus under the capital and financial account was attributed to the massive inflows of foreign direct investment.

The surplus in direct investment increased dramatically. In 2007, the surplus in direct investment reached US\$121.4 billion, up by 1 fold. Specifically, net inflows under foreign direct investment in China



amounted to US\$138.4 billion, a rise of 77 percent, while net capital outflows under overseas direct investment were US\$17 billion, a drop of 20 percent. The significant growth of surplus in direct investment indicated that China maintained a good momentum of economic growth and continuously improving investment environment, which were still strongly attractive to foreign capital.

The balances in portfolio investment and other investment reversed. In 2007, the portfolio investment registered a surplus of US\$18.7 billion, while it witnessed a deficit of US\$67.6 billion in the previous year. Specifically, China's external portfolio investment recorded a net outflow of US\$2.3 billion, while its inward portfolio investment from abroad recorded a net inflow of US\$21 billion. In 2007, China's other investment registered a deficit of US\$69.7 billion, while it recorded a surplus of US\$13.3 billion in the previous year.

The increases in reserve assets hit a record high In 2007, China's international reserves continued to grow rapidly. Of which, the national foreign exchange reserves increased by US\$461.9 billion, an additional increase of US\$214.4 billion compared with that of 2006, reaching a historical high in terms of increment. At the end of 2007, China's foreign exchange reserves reached US\$1528.2 billion.

Net errors and omissions occurred on the credit side In 2007, net errors and omissions occurred on the credit side and reached US\$16.4 billion, equivalent to 0.77 percent of the combined value of exports and imports of goods based on the balance of payments statistical coverage. The ratio was well within the internationally accepted benchmark of 5 percent.

Balance of Payments Outlook for 2008

From the international perspective, in 2008, the world economy will be confronted with increasing risks and uncertainties due to the impact of the sub-prime crisis in the US. In particular, the economic growth of advanced economies such as the US may further slow down. According to the IMF forecast in April, 2008, the US economy may experience a slight recession and growth of developing and emerging market economies will decelerate. The sliding growth of the trade of the US and other industrialized economies may have some influence on world economic growth. As a result of continuous interest rate cuts by the Federal Reserve, the expanding positive interest rate spread between the RMB and US dollar may attract more capital inflows. Although the trade of emerging market economies will continue to rise, international trade frictions and trade protectionism may aggravate. With food and energy prices going up, the inflationary pressures may increase worldwide.

As far as the domestic situation is concerned, in 2008, the state will strengthen and improve macro-management, following the guideline of controlling macro-aggregates, stabilizing prices, adjusting economic structure and enhancing balanced growth, so as to prevent rapid growth from becoming overheated and prevent structural price hikes from becoming overall inflation. The step-by-step implementation of various macro-management measures will be favorable to maintain a sound and fast economic development, to accelerate the change of economic growth pattern and structural adjustment, to promote harmonized domestic and external demand and balanced consumption and investment as well, and thereby to improve the balance of payments situation.

In conclusion, China's balance of payments in 2008 will maintain a large surplus due to the combined impact of domestic and external factors.