



BANKNOTE ISSUANCE

Injection and withdrawal of banknotes Net injection of banknotes reached RMB 330.3 billion yuan for the whole year of 2007, up 8.7 percentage points year on year. Currency supply was faced for the first time with "double " pressures, i.e. aggregate and structural pressures. Under such circumstances, the PBC adopted a series of measures to ensure currency supply.

First, efforts were made to enhance the transfer and better allocation of reserve fund (i.e. banknote stocks in vaults). During high seasons such as from the New Year through the Spring Festival, the transfer of reserve fund was efficiently organized to ensure sufficient supply. The vertical transfers of reserve fund between key vaults and their branch vaults were intensified according to the principle of "quicker transfers to remote areas, priority transfers to injection areas and timely transfers to withdrawal areas", and as a result, the reserve fund catering the demand for individual regions was gradually in place within the year. In addition, horizontal transfer and cross-administrative region transfer in close vicinity were improved, which not only helped branch vaults to play a maximum role to store reserve fund, but also increase the efficiency by reducing the cost of transfers.

Second, the total and usable amount of reserve fund was increased through better planning and management. The PBC made additional banknote production plan in a timely manner according to the trend of currency supply and demand so as to ensure aggregate currency supply nationwide. Efforts were also made to adjust the replacement plan of worn or damaged banknotes, improve the recycling of banknotes and increase the usable amount of reserve fund.

Third, steps were taken to strengthen the injection and withdrawal of low-denomination banknotes, optimize the structure of banknotes and improve the

tidiness of banknotes in circulation. Based on specific economic development stage and diverse money circulation pattern across the country, the PBC classified the whole country into industrial, agricultural and tertiary areas, and strengthened the injection of low-denomination banknotes in a differentiated way. To provide better financial services for the Olympic games, a demonstration region covering Beijing, Tianjin and Hebei Province was set up to comprehensively recycle withdrawn banknotes, with efforts also being made to enhance both the injection of newly-produced banknotes and the transfer of withdrawn banknotes, and the tidiness of banknotes in circulation were improved across the region. Moreover, there are 406 monitoring units between the above-mentioned three locations to monitor the changes in banknote circulation. To address the untidiness of low-denomination banknotes in rural areas, the PBC encouraged the withdrawal of low-denomination banknotes in such areas.

Fourth, research and investigation were launched to promote the predictability of banknote injection and withdrawal. A package of methodology including exponential smoothing, the demand model for economic growth and ARIMA was employed to predict the net banknote injection for 2007 from different perspectives. The quality of the prediction was further improved. Steps were made to organize the PBC branches and sub-branches to investigate key issues affecting currency supply and analyze factors behind changes in demand and supply so as to precisely judge the allocation of reserve fund and the situation of currency supply across the country.

Banknote handling In 2007, a new banknote handling center at city level was established, with 4 existing centers being closed or merged. There are 22 banknote handling systems being equipped, with 11

systems being relocated or upgraded. The PBC purchased 7 automated banknote packaging systems and coordinated the examination and test of installation of 35 banknote handling equipments, indicating the mechanism of installing appropriate banknote handling system being improved. A monthly report was made to communicate the work of individual banknote handling centers. Efforts were made to promote the pilot programs of banknote recycling at all denominations and encourage "two shifts" for banknote handlers. Another pilot program of recycling at all denominations for undamaged withdrawn banknotes was further extended, with the utility of banknote handling equipment being increased and the administration of banknote handling centers being under appropriate regulation.

In 2007, there are 329 handling equipments and 36 destruction equipments in operation throughout 60 banknote handling centers. The volume of undamaged withdrawn banknotes being recycled went up by 31 percentage points and the volume of automatic destruction of damaged banknotes rose by 3 percentage points.

Banknote administration The PBC, strictly complying to the procedures of granting administrative permits, exercised its mandate on applications for the use of RMB banknote design and decorating RMB banknotes in circulation. Measures were taken to prevent and fight against "Falungong" practitioners from using RMB banknotes in illegal propaganda. Steps were taken to improve RMB cash payment and collection. An all-round quality supervision system was established for producing RMB banknotes and the production quality was obviously improved with no complaints on rejects.

Progress in combating banknote counterfeiting In 2007, the number of counterfeit banknotes seized by banks, criminal cases tackled by police force

and cases trapping peasants related to counterfeit banknotes declined. The total value of counterfeit banknotes seized nationwide reached RMB 973 million yuan, down 27.93 percentage points, among which RMB 324 million yuan was seized by the national police force in tackling counterfeit banknote cases, down 56.63 percentage points; RMB 649 million was seized by banks in their over-the-counter business, similar to that of the previous year. There were 17 counterfeit banknote cases being broken with the value involved ranging from RMB 1 million yuan to 10 million yuan, down 32 percentage points. There were 7 counterfeit banknote cases being broken with the value involved above RMB 10 million, down 50 percentage points.

Security management and institutional building Efforts were made to improve the steady establishment of key vaults and smooth progress achieved in the review of "meeting the targets and upgrading the vaults" program. There are additional 29 first class vaults nationwide in 2007, with the security management being improved. Institutional building on currency issuance was further improved. A number of institutional guidelines, handbooks and training outlines were formulated, such as *Explanation on the Introduction of Currency Issuance*, *A Brief Operational Handbook on Vault and the Supply and Emergency Resolution during Transfers of Reserve Fund*, *A Brief Operational Handbook on Emergency Resolution of Banknote Handling Centers*, *A Handbook on the Installation and Examination of Banknote Handling Equipment of the PBC*, *Administrative Rules on Gold and Silver Management*, *Operational Guidelines on Gold and Silver Business*. With the enhanced institutional building, the fundamental operation of currency issuance was improved under regulation and the research capacity on selected issues was also improved.