China Financial Stability Report 2007

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

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1 The English edition is an unofficial translation of the *China Financial Stability Report 2007*. In case of any discrepancies, the Chinese version shall govern.

Preface

In 2006, China's Eleventh Five-Year Plan got off to a good start with major achievements in economic and social development. The breakthroughs in financial sector reforms and innovations, the enhanced role of financial policies and services, and the improved financial supervision, regulation, as well as legal system helped further strengthen the stability of financial system. The *China Financial Stability Report 2007* aims to reflect the latest developments in China's financial sector reforms, opening up, and innovations, providing a balanced assessment of financial stability in China.

The *China Financial Stability Report 2007* is organized as follows. Following an overview of financial stability in China, Chapter I analyzes the impact of macroeconomic environment on financial stability. The next three chapters discuss the reforms and developments in the banking industry, securities and capital market, and insurance industry, respectively, and their implications for financial stability. Chapter V focuses on the present and the future of financial innovations. Chapter VI explores financial safety net and financial infrastructure development. The *Report* contains 16 "boxes" that provide in-depth analyses and discussions on a number of issues critical to financial stability. The *Report* also includes two special topics, one on *Asset Prices and Financial Stability* and the other on *International Experience in Agricultural Insurance and Its Implications.* In addition, the *Report* for the first time introduces the Financial Sector Assessment Program (FSAP) to provide quantitative analysis on the stability of the banking industry, securities and capital market, and insurance industry. Upon this first attempt, we expect to further improve the implementation of this framework in future reports. All data cited and circumstances described in the *Report* were valid as of the end of 2006, unless otherwise stated.

Given the limitation of our knowledge and experience in this area, the *Report* is far from perfection. We welcome comments and suggestions on the *Report* to help us continually improve our methods of evaluating financial stability and monitoring financial risks.

Financial Stability Analysis Group of the PBC
May 30, 2007

Abbreviations and Acronyms

ABC	Agricultural Bank of China
ABS	Asset-Backed Securitization
ADBC	Agricultural Development Bank of China
AMC	Asset Management Corporation
AML	Anti-Money Laundering
BBA	British Bankers' Association
BOC	Bank of China
BOCOM	Bank of Communications
BOP	Balance of Payments
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
CEB	China Everbright Bank
CFFE	China Financial Futures Exchange
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust and Investment Corporation
CLN	Credit-Linked Note
CME	Chicago Mercantile Exchange
CNAPS	China National Automated Payment System
CPA	Certified Public Accountant

CPC	Communist Party of China
CPI	Consumer Price Index
CSO	Credit Spread Option
CSRC	China Securities Regulatory Commission
DVP	Delivery Versus Payment
EIBC	Export-Import Bank of China
EPS	Earnings Per Share
ETF	Exchange-Traded Fund
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSI	Financial Soundness Indicator
GDB	Guangdong Development Bank
GDP	Gross Domestic Product
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
IPO	Initial Public Offering
ISDA	International Swaps and Derivatives Association
JSCB	Joint-Stock Commercial Bank
LIFO	Last in, First out
LOF	Listed Open-ended Fund
LVPS	Large Value Payment System
M&A	Merger and Acquisition
MOF	Ministry of Finance
NDF	Non-Deliverable Forward
NPA	Non-Performing Asset
SCNPC	Standing Committee of the National People's Congress
NPL	Non-Performing Loan
OFHEO	Office of Federal Housing Enterprise Oversight

OPEC	Organization of the Petroleum Exporting Countries
OTC	Over the Counter
P/B	Price-to-Book
PBC	The People's Bank of China
P/E	Price-to-Earnings
PICC	People's Insurance Company (Group) of China
PPP	Purchasing Power Parity
PSBC	Postal Savings Bank of China
QDII	Qualified Domestic Institutional Investor
QFII	Qualified Foreign Institutional Investor
RCC	Rural Credit Cooperative
RMB	Renminbi
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
RPS	Retail Payment System
SAC	Securities Association of China
SAFE	State Administration of Foreign Exchange
SME	Small- and Medium-sized Enterprise
SOCB	State-Owned Commercial Bank
SOE	State-Owned Enterprise
TIC	Trust and Investment Company
TRS	Total Rate Swap
UCC	Urban Credit Cooperative
USD	US Dollar
WTO	World Trade Organization
y-o-y	year-on-year

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