

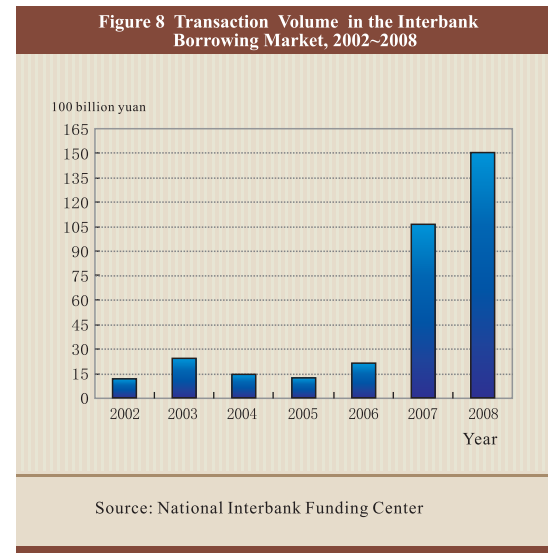
FINANCIAL MARKET

Interbank Borrowing Market Performance

Market Transaction

In 2008, trading volume on the interbank borrowing market rose remarkably, and the turnover for the full year amounted to 15.05 trillion yuan (including turnover of 1 million yuan filed with the PBC branches), an increase of 38.84 percent over the previous year (Figure 8). Transactions mainly focused on overnight and 7-day products. The turnover of overnight products registered 10.65 trillion yuan, accounting for 70.78 percent of the total trading volume, and the turnover of 7-day products (excluding overnight products) amounted to 3.5 trillion yuan, accounting for 23.26 percent.

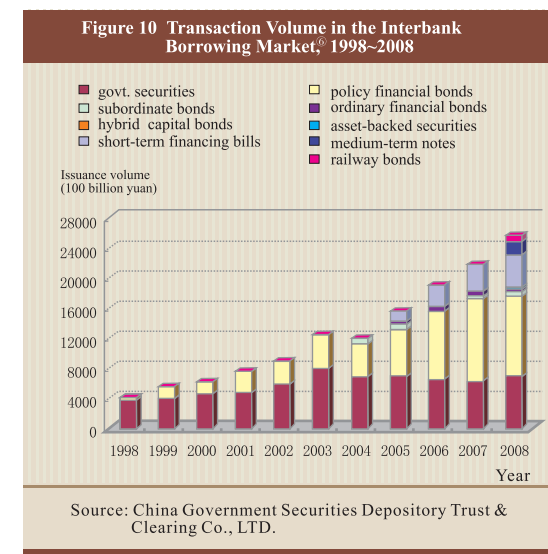
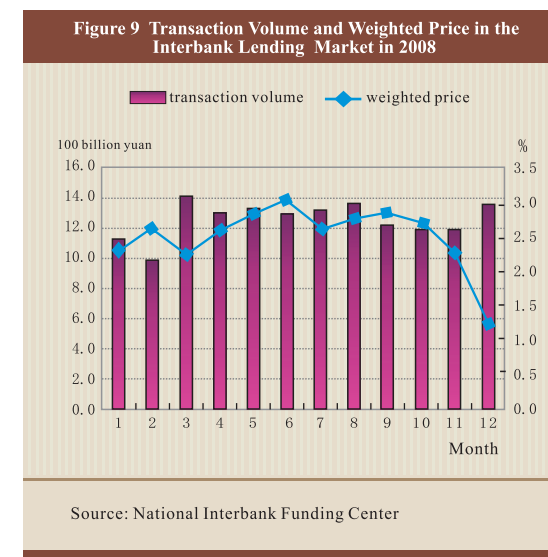
In terms of the direction of fund flow in the marketplace, state-owned commercial banks were main borrowers on the interbank borrowing market. The borrowing volume of state-owned banks amounted to 4.39 trillion yuan, an increase of 51.43 percent year on year, and accounting for 29.14 percent of total borrowings, with net borrowing volume of 2.46 trillion yuan. Other commercial banks^① were main lenders in the marketplace. The lending volume of other commercial banks amounted to 9.75 trillion yuan, an increase of 37.3 percent, accounting for 64.78 percent of the total lending volume, and with net lending of 3.58 trillion yuan. The borrowing volume of foreign financial institutions^② amounted to 3.02 trillion yuan, an increase of 66.05 percent year on year. The lending volume of other financial institutions^③ amounted to 119 million yuan, an increase of 99.2 percent year on year.



Market Interest Rate

In 2008, the interest rate on the interbank lending market was stable accompanied by smaller volatility, and IPO of large-cap stocks was one of the main factors behind some large interest rate fluctuations (Figure 9). During the first 11 months of 2008, the highest average monthly weighted interest rate registered 3.0706 percent, while the lowest was 2.2604 percent, with the gap of 81 bps, much lower than 162 bps of the previous year. In January and February, affected by IPOs of China Coal and China Railway Construction Co., the 7-day interbank weighted average lending rate hiked by 342 bps and 265 bps respectively within 5 working days. Afterwards, due to sluggish performance on the stock market, the IPO of large-cap stocks slowed down, and fluctuations and frequency of interbank lending rates both declined. In September, with heightened turbulence on the international financial market and

increased precaution, the liquidity of foreign financial institutions was impacted, and the interest rate on the interbank lending market rose marginally. From October to December, since the benchmark interest rates and required reserve ratios were cut on several occasions, the interest rates on the interbank lending market declined considerably. In December, the weighted average interest rate fell to 1.2353 percent, down 147 bps from October.



Bond Market Performance

Bond Issuance

In 2008, innovative products on the bond market developed steadily with bond issuance gradually expanding, and direct financing channels of enterprises were further broadened. In 2008, the issuance of RMB bonds on the interbank bond market amounted to 2.56258 trillion yuan for the whole year, representing a growth of 16.9 percent^④ year on year, among which the issuance of short-term financing bills, subordinate bonds and asset-backed securities increased considerably from the previous year, and the issuance of medium-term bills introduced in April also increased. At end-2008, the outstanding custody bonds on the bond market posted 10.3 trillion yuan^⑤, among which the custody bonds on the interbank market posted 10 trillion yuan, an increase of 19.7 percent year on year.

Bond products were more diversified both in variety and credit layers on the interbank bond market. With the steady issuances of financial bonds, asset-backed securities and short-term financing bills, non-financial institutions were also allowed to issue medium-term notes to raise capital directly from the interbank bond market. In 2008, the issuance of subordinate bonds by commercial banks increased considerably. 11 commercial banks issued a total of 72.4 billion yuan of subordinate bonds, representing an increase of 115.2 percent over the pervious year, and 2 commercial banks issued 25 billion yuan of ordinary financial bonds. The coverage and issuance volume of pilot asset securitization organizations increased from the previous year, and 8 organizations including commercial banks, auto financing companies and asset management companies issued a total of 30.2 billion yuan of asset-

Notes: ① Other commercial banks included joint-stock commercial banks and city commercial banks

② Foreign financial institutions included foreign banks, foreign insurance companies, foreign finance companies, foreign securities companies, foreign fund companies and other foreign financial institutions

③ Other financial institutions included policy banks, rural commercial banks, rural cooperative banks, associations of rural credit cooperatives financial companies, trust and investment companies, financial leasing companies, postal savings banks, and social security funds.

④ The issuance only referred to RMB bonds publicly issued on the interbank bond market (excluding central bank bills), without consideration of issuance of special government bonds in 2007.

⑤ The custody bonds did not included custody central bank bills.

⑥ The data did not take account of the issuance of special government bonds (the same thereafter).

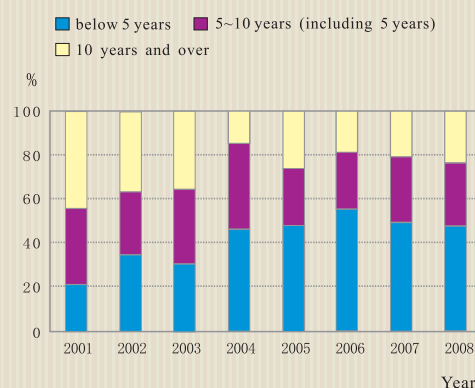
backed securities. The issuance of railway bonds further increased, and the Ministry of Railway issued 80 billion yuan of railway bonds via the bond issuance system of the PBC. The market for bond financing instruments issued by non-financial institutions developed rapidly. In 2008, 269 short-term financing bills were issued by non-financial institutions in the interbank bond market with face value registering 430.85 billion yuan; 39 medium-term bills were issued with face value registering 167.2 billion yuan (Figure 10). Bond issuers included various market participants such as the Ministry of Finance, the Ministry of Railway, policy banks, commercial banks, non-financial institutions, international development organizations and enterprises. Bond products with different credit layers had increasingly diversified.

In terms of maturity structure, the short- and medium-term bonds accounted for a lion share. The main reason was that the bond financing instruments issued by non-financial institutions developed rapidly, while short- and medium-term bills accounted for a larger share with maturity less than 7 years. Bonds with maturity less than 5 years accounted for 47.2 percent, 2.4 percentage points lower than the previous year; bonds with maturity of 5-10 years (including 5 years) accounted for 29.1 percent, at par with the previous year. Bonds with a maturity of more than 10 years (including 10 years) accounted for 23.7 percent, up 2.4 percentage points from the previous year (Figure 11).

Market Transaction Performance

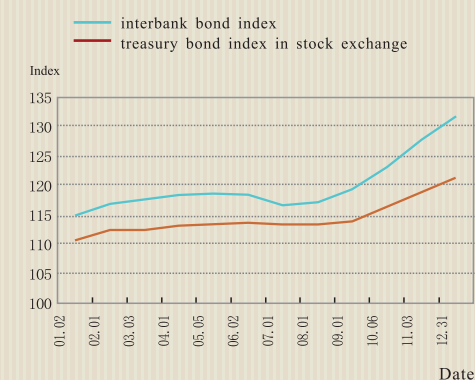
Market liquidity was abundant in 2008 in general. Since the beginning of the year, both the interbank bond index and the stock exchange treasury bonds index showed an upward trend (Figure 12). The interbank market bond index increased 14.84 percent, or 17.04 points, to 131.89 points at end-2008 from 114.85 points at the year beginning. Treasury bonds index on the stock exchange increased 9.50 percent, or 10.52 points, to 121.30 points at end-2008, from 110.78 points at the

Figure 11 Maturity Structure of New Issues in the Interbank Bond Market, 2001-2008



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

Figure 12 The Interbank Bond Index and Treasury Bond Index in the Stock Exchange in 2008



Source: www.chinabond.com.cn and www.sse.com.cn

year beginning.

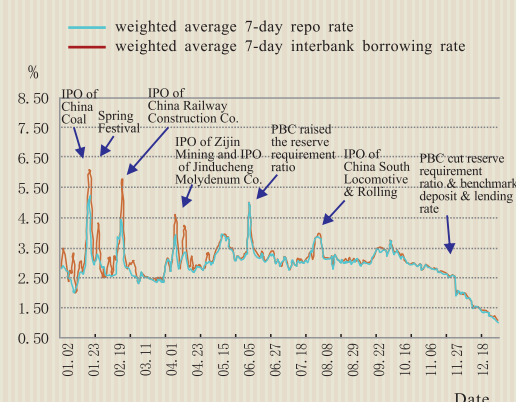
The interbank bond market traded briskly with the turnover increasing rapidly. In 2008, the turnover on the interbank market reached 101.32 trillion yuan, up 60.5 percent from a year earlier. In particular, the turnover of outright bond purchase amounted to 40.83 trillion yuan, up 161.73 percent from a year earlier; the turnover of pledged bond repos amounted to 58.24 trillion yuan, up 27.82 percent from a year earlier. The turnover of buyout bond repos amounted to 1.76 trillion yuan, up 142 percent from a year earlier.

Market Interest Rate

The movement of market interest rate could be divided into two stages. The first stage was from the year beginning to September. The market interest rate fluctuated with a wider margin in some stages, which was basically the continuation of the interest rate movement in the pervious year. At the year beginning, since both GDP and CPI increased rapidly, and in accordance with the overall arrangement of the CPC Central Committee and the State Council, the PBC conducted a tight monetary policy and took a series of monetary policy measures. Market interest rate operated at a relatively high level. Taking pledged bond repo market as an example, the monthly weighted interest rate generally remained above 2.70 percent. Meanwhile, the stock market still had some impacts on the market interest rate. The huge fund demands before the IPO of large-cap stocks were usually accompanied by phased fluctuations of the market interest rate, and when the freezing period of large funds before IPO of new stocks ended, the market interest rate rapidly returned to its original level. The second stage started from October and closed in the year end, which witnessed the continuous downward trend of the market interest rate (Figure 13). In order to cope with the impacts of the international financial crisis, the Central Government made some adjustments to macroeconomic policy, and implemented an active fiscal policy and a relatively loose monetary policy. The PBC cut the benchmark deposit and lending rates, and the market interest rate went down correspondingly. In December, the average weighted interbank lending rate registered 1.24 percent, down 108 bps from January, and the average weighted rate of pledged bond repo registered 1.22 percent, down 159 bps from January.

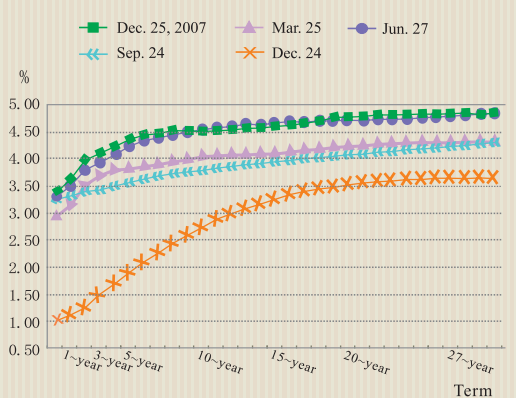
Driven by macroeconomic policy and market liquidity, the yield curve of the interbank bond market declined considerably during the year. In particular, the movement of yield curve of government bonds could be divided into three phases. The first stage was from

Figure 13 Money Market Interest Rates in 2008



Source: National Interbank Funding Center

Figure 14 Treasury Bond Yield Curve in the Interbank Market in 2008



Source: China Government Securities Depository Trust & Clearing Co., LTD.

January to March, and the yield curve saw a downward trend in parallel. At the year beginning, since the severe snow and sleet disaster in parts of the Southern China had some impacts on the national economy, the market had a weakened expectation for interest rate hike. At end-March, the yields of treasury bonds of major maturities decreased by more than 30 bps from the year beginning. The second stage was from April to June, and the yield curve shifted upward steeply. As the CPI hovered continuously at a high level, and the PBC raised the reserve requirement ratio cumulatively by 2.5

percentage points in the second quarter. During this period, the yields of treasury bonds of all major maturities increased by 30 to 60 bps. In particular, the yield of 30-year treasury bond increased most by 60 bps. The third stage was from July to the year end, and the yield curve shifted downward. In order to deal with the impacts of the global financial crisis, the Central Government made some adjustments to the macroeconomic policies, and implemented an active fiscal policy and a relatively loose monetary policy. In the meantime, as the stock market was sluggish and IPOs were suspended, the liquidity on the bond market was abundant (Figure 14).

Investors on the Interbank Bond Market

At end-2008, the number of participants including banks, securities companies, fund management companies, insurance companies, non-banking financial institutions, credit cooperatives and enterprises on the interbank bond market was 8299, 1204 more than the previous year. Among the total, there were 341 commercial banks, 801 credit cooperatives, 128 insurance companies, 117 securities companies, 1053 fund management companies, and 5681 non-financial institutions.

Financing Situation

The direction of funds flow was broadly stable. Large commercial banks, joint-stock commercial banks, city commercial banks, fund management companies, associations of rural credit cooperatives, foreign financial institutions, other financial institutions^⑦ and insurance companies actively participated in the market. The funding structure of the money market had three main characteristics. First, the direction of funds flow was basically stable. On the one hand, joint-stock commercial banks replaced large commercial banks as the largest net funds providers. Joint-stock commercial

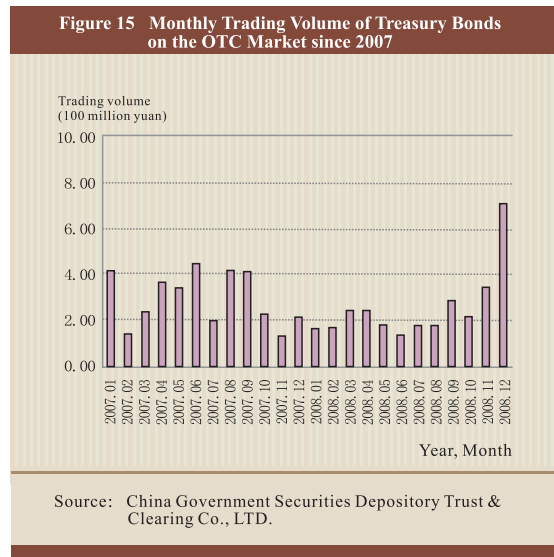
banks lent out a total of 25.73 trillion yuan, accounting for 35.2 percent of the total, with 15.97 trillion yuan on a net basis. The Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and the China Construction Bank lent out a total of 19.73 trillion yuan, accounting for 27.0 percent, with 11.21 trillion yuan on a net basis. On the other hand, city commercial banks and associations of rural credit cooperatives were the main net funds borrowers, borrowing 13.66 trillion yuan and 9.01 trillion yuan respectively on a net basis, and accounting for 39.5 percent and 26.0 percent respectively. Regional financial institutions including commercial banks and rural credit cooperatives had a relatively lower deposit/loan ratio, excess reserve ratio and large fluctuations in fund position, and they frequently sought funding via the money market. Second, large commercial banks were still the main net funds borrowers on the interbank market. State-owned commercial banks were the largest funds borrowers and borrowed a total of 2.46 trillion yuan on a net basis. On the one hand, factors such as business expansion and hike in reserve requirement ratio, resulted in shortage of liquidity of large commercial banks in some stages. On the other hand, large commercial banks had relatively higher credit standing, and could conveniently get funding from the market at a lower cost, so they mainly borrowed funds from the interbank market to meet their position demands. Third, foreign financial institutions got more involved in the interbank borrowing market. Foreign financial institutions, foreign banks in particular, became more and more active on the interbank market, and gradually became important funds borrowers. Foreign banks borrowed a total of 3.68 trillion yuan on a net basis, accounting for 10.6 percent, only second to city commercial banks and associations of rural credit cooperatives. Due to limited RMB resources, the money market became the main channel for foreign financial institutions to get funds. With the

development of the business, the demand for funds by foreign financial institutions continuously increased. Foreign financial institutions gradually became one of the main funds borrowers on the money market.

OTC Transactions

The OTC transactions of commercial banks proceeded stably. After the application for increased coverage of pilot OTC transaction of book-entry treasury bonds and the approval of more transaction products in 2007, new four eligible banks including China Merchants Bank, China Minsheng Banking Corporation, Beijing Bank and Nanjing Bank started to conduct the pilot OTC transactions of book-entry government bonds in 2008.

During the year, treasury bonds of major maturities were included into OTC transaction products. At end-2008, products traded on the OTC market included treasury bonds of 1-year, 3-year, 7-year,10-year and 15-year, and there were 46 treasury bond products traded in the OTC market, 13 more than the previous year. The turnover of treasury bonds OTC transaction declined slightly to 3.043 billion yuan, representing a decrease of 14.7 percent over the previous year. There were 128 800 newly opened accounts by commercial banks for the whole year (Figure 15).



Stock Market Performance

In 2008, the stock market went down substantially amid fluctuations with transactions shrinking considerably. IPOs were suspended in the latter half year. At end-2008, the Shanghai Composite Index closed at 1820.81, down 3440.75 points from end-2007, or 65.39 percent. According to market analyses, there were several reasons behind the large fall. First, the rapid growth in stock indices in previous period caused some burbles on the stock market. Second, the deepening of global financial crisis and uncertainty of domestic and external economic and financial environment drove down the profitability of enterprises, and investor confidence was dampened. Third, the liberalization of small and large non-tradable shares (non-tradable shares of less than 20 percent was called small non-tradable shares, while non-tradable shares of more than 20 percent was called large non-tradable shares) had some impacts on the stock market. According to statistics, a total of 2 trillion of non-tradable shares were allowed to be traded in 2008, and stockholders of non-tradable had a relative strong incentive to get cash, the stock indices were impacted to some extent. To maintain the steady and healthy development of the stock market, the regulatory authorities consecutively introduced a series of measures, such as levying stamp tax on one side rather than on two sides, and the central government-controlled enterprises were encouraged to hold more shares or buy back shares of listed companies. The stock market rebounded for some short instances before it went down further. With the rapid decrease of the stock market, stock prices of 23 industries went down to varying extents. Stock prices of non-ferrous metals, ferrous metals, automobile and automobile parts industries decreased more than 65 percent, while stock prices of electronic equipments, medicine and health care, farming, forestry, animal husbandry, and fishing industries saw a relative smaller decline.

⑦ Other financial institutions mainly included postal savings banks, finance companies and urban credit cooperatives.

The trading volume on the stock market declined substantially. The total trading volume registered 18.03032 trillion yuan on the A-share market with daily transaction averaging 73.294 billion yuan, representing a decrease of 41.48 percent and 42.43 percent respectively from the previous year. The movement of transaction volume basically kept pace with the stock indices.

Foreign Exchange Market Performance

Spot Trading of RMB Versus Foreign Exchanges

In 2008, the spot foreign exchange market operated smoothly and transaction volume increased relatively fast. The OTC transaction volume continued to dominate the market and accounted for 99 percent of the total transactions. The U.S. dollar remained the major counterpart currency, and the transactions of RMB versus USD accounted for 99 percent. The market structure remained basically unchanged as the previous year.

At end-2008, the spot central parity price of RMB versus USD was 6.8346 yuan, down 4700 bps from 7.3046 at end-2007, representing an appreciation of 6.88 percent over the previous year, which was basically at par with that in 2007. During January to June, affected by the sub-prime mortgage crisis, the exchange rate of the U.S. dollar hit historic lows on several occasions, and the RMB appreciated considerably, appreciating 6.4 percent in cumulative terms. During the latter half year, the pace of RMB appreciation slowed down notably, and the characteristic of two-way fluctuations became even prominent, appreciating 0.4 percent in cumulative terms. The daily floating band of RMB versus USD averaged 111 bps, larger than 94 bps in 2007, and the flexibility of RMB spot price improved continuously.

RMB Forward and Swap Transactions

In 2008, there were 2890 transactions on the RMB

forward market, totaling \$17.4 billion with a daily average of \$70 million, down 23.7 percent from the pervious year. The forward transactions of USD versus RMB, HKD versus RMB, JPY versus RMB and Euro versus RMB were \$16.9 billion, HK\$ 1 billion, 300 million yen and 200 million euro respectively. Among the total, forward transactions of 9 months to 1 year registered \$6.3 billion, accounting for 36.4 percent. There were less transactions for forward transaction of over 1 year, and transactions of less than 9 months distributed evenly.

There were 24000 transactions on the RMB swap market, totaling \$440.3 billion, with a daily average of \$1.8 billion, representing an increase of 37.3 percent year on year. The swap transaction of USD versus RMB, HKD versus RMB, JPY versus RMB, Euro versus RMB were \$439.4 billion, HK\$ 3.8 billion, 15.3 billion yen and 200 million euro, respectively. Transactions concentrated on maturities of less than 3 months (including overnight products). In particular, the transactions of the USD versus RMB overnight swap registered \$190.8 billion, accounting for 43.4 percent of the total, up 3 percentage points from the previous year, and reaching a highest point of 57 percent in December.

Foreign Currency Pairs Transactions

In 2008, the transactions of foreign currency pairs on the interbank market amounted to \$62 billion, with a daily average of \$250 million, down 32 percent year on year. Among the most actively traded foreign currency pairs, the Euro against the USD, the USD against the HKD accounted for 39.2 percent, 38.4 percent and 12.2 percent of the total respectively.

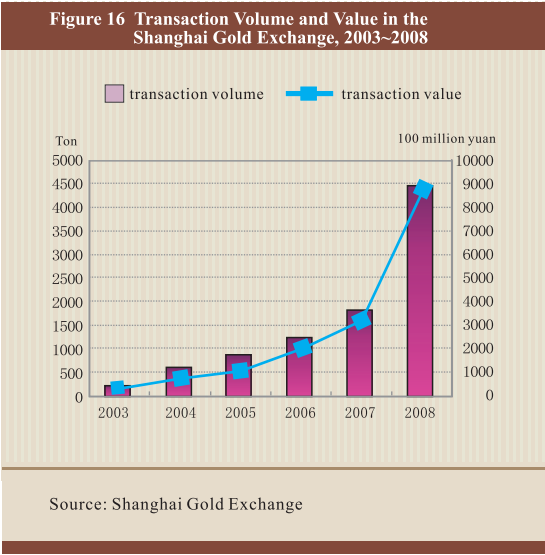
At end-2008, there were 268 participants on the interbank spot foreign exchange market, among which there were 22 market makers of commercial banks, at par with the previous year. There were 70 participating banks on the interbank foreign currency pairs market, among which there were 15 market makers. After Royal

Bank of Scotland acquired ABN AMRO Bank, the number of both participating members and market makers decreased by one. There were 154 registered foreign currency borrowing and lending intermediaries, 12 more than the previous year.

Gold Market Performance

The Gold Market Traded Briskly with the Transaction Volume Reaching A Record High

In 2008, gold transaction volume totaled 4463.77 ton, up 2635.64 ton or 144.17 percent year on year, more than twice that in 2007. The transactions valued at 869.605 billion yuan, up 553.115 billion yuan or 174.77 percent (Figure 16). Daily transaction averaged 18.15 ton, up 140.34 percent year on year. The largest daily transaction volume registered 43.19 ton, exceeding 40 ton for the first time. On January 9, the gold future got listed on the Shanghai Future Exchange, with the benchmark price being 209.99 yuan per gram, the transaction unit being 1000 gram, and the settlement unit being 3000 gram. A total of 7780.93 ton of gold futures was transacted on the future market, totaling 1495.149 billion yuan.



Gold Price Volatility Intensified

In 2008, both the volatility of international and domestic gold prices intensified, and the movements of both prices basically kept pace with each one. The lowest gold price on the international market was \$298.75 per ounce, and the lowest price on the domestic market was 72.67 yuan per gram. From January to mid-March, the gold price had been rising and reached a record high, with the price on the international market reaching \$1011.25 per ounce and price on the domestic market reaching 233.17 yuan per gram. Thereafter, the gold price showed a downward trend and reached a lowest point in October, with the price in the international market posting \$692.50 per ounce and the price in the domestic market posting 160.50 yuan per gram. In November and December, the gold price again showed an upward trend and closed at \$869.75 per ounce at end-2008 on the international market and 190.12 yuan per gram on the domestic market.

Main Policy Measures in the Financial Market

Product Innovation Was Further Advanced

The PBC promulgated *the Guideline on Issuance of Medium-term notes by Non-financial Institutions on the Interbank Bond Market*. The introduction of medium-term bills opened new channels for enterprises to get direct financing. In 2008, 39 batches of medium-term bills were issued by 24 enterprises, raising a total of 167.2 billion yuan. Efforts were made to explore direct bond financing instruments for small and medium-sized enterprises and short-term financing bills were launched. 160 million yuan of short-term financing bills were issued by 5 small and medium-sized enterprises for the whole year. On the basis of summing up experiences of pilot RMB interest rate swap business, the PBC released *the Notices on Conducting RMB Interest Rate Swaps* and the business was comprehensively launched. A total of 4040 interest rate

swaps were conducted with a notional principal of 412.15 billion yuan, representing an increase of 104 percent and 88 percent over the previous year. The expansion of pilot asset securitization work had been successfully completed, and 8 financial institutions issued a total of 30.2 billion yuan of asset-backed securities, representing an annual increase of 69.6 percent. Securities backed by automobile-guaranteed loans and securities backed by loans to small and medium-sized enterprises were newly launched.

Market Regulation Was Further Improved

Efforts were made to reinforce self-regulation of the interbank bond market. *The Administrative Measures on Debt Financing Instruments for Non-financial Enterprises on the Interbank Bond Market*, released by the PBC, clarified that the National Association of Financial Market Institutional Investors market (NAFMII), as a representative of market participants, should play an active role in organizing market participants to develop and manage direct debt financing instruments. In the meantime, the *Administrative Measures* emphasized that the NAFMII should strengthen market self-regulation in areas including registration, issuance, information disclosure and intermediary services of bond financing instruments issued by non-financial enterprises, which signaled a major transformation in the regulation of the interbank bond market. Bond registration, depository, and settlements are integral parts in preventing risks of the bond market, and its disciplined operation is an important guarantee in safeguarding the legitimate rights of market participants and promoting the healthy development of the bond market. The PBC, together with relevant market participants, on the basis of practices in the interbank bond market and international experiences, released the *Administrative Measures on Registration, Depository and Settlement of Bonds on the Interbank Bond Market*, in order to regulate the registration, depository and settlement of bonds on the interbank market.

The Scope of Market Participants on the Interbank Bond Market Was Broadened and Investors Were Diversified

The PBC actively promoted non-legal person institutional investors to participate in the interbank bond market. In April and December, the PBC successively released the *Notices on Opening Bond Depository Accounts by Insurance Companies in the Name of Products* and the *PBC Announcement No. [2008] 22* to introduce insurance products and trust products into the interbank bond market, conducive to the broadening of investors on the interbank bond market, promoting the diversification of market demands, and improving market liquidity.

The Market Fundamental Infrastructure Was Perfected

On the basis of experiences of Delivery versus Payment (DVP) settlement, the PBC released the *Announcement of the PBC on Delivery versus Payment (DVP)* to comprehensively regulate the DVP settlement on the interbank bond market, including non-financial institutions. The comprehensive implementation of the DVP settlement on the interbank bond market was a major progress in the infrastructure building of the interbank bond market, and would improve settlement efficiency, decrease and control settlement risks, and provide reliable technical support for efficient, safe operation of the bond market, and promote market buoyancy. The settlement volume on the interbank bond market amounted to 101.32 trillion yuan for the full year, among which settlement via the DVP system amounted to 60.64 trillion yuan, accounting for 59.85 percent of the total.

Opening to the Outside World Was Further Promoted

In 2008, approved by the State Council, the issuance scale and institutional coverage of RMB bonds in Hong Kong SAR increased over the previous year. The China

Development Bank, China Import and Export Bank, Bank of China, and newly permitted China Construction Bank and Bank of Communication issued a total of 15 billion yuan of bonds in the Hong Kong SAR. The local market responded actively to the RMB bond issued by commercial banks, and investors subscribed the bonds more actively than they did in the previous year, with the subscribed amount reaching about 5 times the bond issuances. The gold market made a great stride in opening up to the outside world. Four foreign financial

members, including the Hong Kong and Shanghai Bank (China), the Chartered Bank (China) Co. LTD., Guangzhou Branch of the Canadian Nova Scotia Bank and Shanghai Branch of the Australia and Zealand Banking Group Limited were accepted by the Shanghai Gold Exchange. By end-2008, the Hong Kong Shanghai Bank (China), the Chartered Bank (China) Co. LTD., Guangzhou Branch of Canadian Bank of Nova Scotia conducted transactions of a total of 2.4 tons of gold on a consolidated basis, valued at 440 million yuan.

BOX 2

Medium-term Notes

Medium-term notes usually refer to financing notes with maturity of 5 to 10 years issued by enterprises on the financial market. Medium-term notes are relatively mature products, which have a history of about 30 years in developed countries, and play an important role in financial market, especially in offshore financial market.

China's medium-term notes refer to bond financing instruments issued by non-financial institutions of legal person entity in installments on the interbank bond market as per plan, which promise to pay the principal and interest in a specified time limit. Medium-term notes have a lot of similarities to commercial notes, enterprise bonds and corporate bonds, and are very flexible in issuance mode, scale and condition, and can easily meet the market demands.

China's medium-term notes have main characteristics as follows. First, medium-term notes are issued to institutional investors on the interbank bond market, and are wholesale products. Second, the management mode of medium-term notes is market-based. The National Association of Financial Market Institutional Investors market (NAFMII) conducts self-regulation over medium-term notes, while the regulatory authorities only give business instruction, and do not specifically regulate businesses involving their underwriting, issuance, and trading. Third, medium-term notes are registered at one time and then issued in several installments. Issuing enterprises can issue medium-term notes in several installments in a time limit, bringing convenience to the financial arrangement of enterprises. Fourth, the maturity of medium-term notes is flexible and can meet all sorts of enterprises' financing demand.

On April 15, 2008, 7 enterprises were allowed to issue a total of 39.2 billion yuan of median-term notes, signaling the formal establishment of China's medium-term notes market. Prior to that, the PBC had innovated the market regulation system and modes. First, the PBC amended the *Administrative Measures on Short-term Financing notes* in 2005, and released the *Administrative Measures on Bond Financing Instruments Issued by Non-financial Institutions on the Interbank Bond Market* in 2008. The