

PBC conducted comprehensive standardization over bond financing of non-financial institutions on the interbank bond market, and successfully delegated the self-regulation responsibility to the NAFMII, which, following the above Administrative Measures, released seven self-regulation rules including *Rules on Registration of Bond Financing Instruments Issued by Non-Financial Institutions on the Interbank Bond Market* and the *Guidance on Median-term notes Business on the Interbank Bond Market*.

The introduction of median-term notes was well received by the market. Only within 2 months, 14 enterprises issued a total of 73.5 billion yuan of medium-term notes in principals. In the second half of the year, both the domestic and international economic situation experienced major changes, and the median-term notes market expanded rapidly. From October to December, 19 enterprises registered a total of 198.4 billion yuan of median-term notes, among which 17 enterprises issued 19 kinds of median-term notes, with face value amounting to 93.7 billion yuan. For the whole year, 24 enterprises issued 39 patches of median-term notes valued at 167.2 billion yuan.

FOREIGN EXCHANGE ADMINISTRATION

In 2008, China's balance of payments maintained a twin surplus for the year as a whole. Nevertheless, the first and second half of the year showed obvious changes. Net foreign exchange inflows was on a constant rise during the first half of 2008, evidenced by an increase in foreign exchange reserves amounting to \$280.6 billion by the end of June. During the second half of 2008, the increase in net foreign exchange inflows began to slow down due to various factors, including the deterioration of the global financial crisis. New increase of foreign exchange reserves amounted to \$137.2 billion, less than half of which was recorded during the first half of 2008. At the end of 2008, national foreign exchange reserves reached \$1946 billion, a rise of \$417.8 billion over that at the end of the previous year. The RMB/USD exchange rate at year-end was 6.8346 RMB/USD, with the RMB appreciating by 6.9 percent compared with that at the end of 2007.

New Progress Has Been Made to Facilitate Trade and Investment

1. Pilot operations of franchised small value currency exchange were conducted with the aim of satisfying the increasing currency exchange demands of individuals.
2. The methods and approaches of foreign exchange administration for direct investment were further improved, the procedures for examination and verification of the foreign exchange business involved in foreign investment and overseas direct investment were simplified, and corporate operational costs were lowered.
3. Guidance was provided for finance companies of enterprise groups that meet the conditions to conduct spot settlement and sales of foreign exchange so as to facilitate the internal operations of the foreign

exchange funds of the enterprise groups.

4. Enterprises were provided with support to weather the global financial crisis. The quota for foreign exchange settlement of advances on sales of enterprises was increased from 10 percent to 25 percent. Advances on small-value sales of single transactions were not subject to the settlement quotas. The amount for corporate deferred payments was increased. Procedures for the examination and approval of applications for adjustments to the foreign exchange settlement ratio were simplified, and the time for approval was reduced.
5. Every effort was made to provide foreign exchange services for the 2008 Beijing Olympic Games, to combat the Wenchuan earthquake and to carry out relief work. An efficient, convenient and smooth foreign exchange payment channel (the Green Channel) was established, and foreign exchange procedures for overseas institutions and individuals were simplified.
6. The number of entities in the interbank foreign exchange market continued to increase. In 2008, the SAFE recruited 27 spot members, 3 futures members, and 2 foreign exchange swap members, and designated one market maker. Ten banks were qualified to conduct currency swaps. Currency brokerage companies were allowed to enter the inter-bank market, providing a more flexible trading method for basic derivatives.

Supervision of Cross-border Funds Flows Has Been Further Strengthened

1. *The Regulation on the Foreign Exchange Administration of the PRC* was revised and implemented. The long-standing vulnerability of foreign exchange administration was reduced and more importance was attached to the balanced and standard management of foreign exchange funds

inflows and outflows, providing adequate legal assurance for better maintaining a balance of payments equilibrium, shielding the economy from international economic and financial risks, further deepening the reform, and promoting the opening-up policy.

2. In cooperation with the General Administration of Customs and the Ministry of Commerce, *the Measures for On-line Inspection of the Collection and Settlement of Foreign Exchange for Exports* were jointly implemented; registration and management regime for claims and debts (trade credit) under trade items were put into operation; examination of the authenticity and consistency between funds inflows and exports of goods under trade items was strengthened, and effectively preventing abnormal inflows of foreign exchange funds through trade channels.
3. Pilot operations for an off-site supervision system for the exchange business under trade in services were conducted, constituting an initial system for off-site supervision of exchange receipts and payments under trade in services. A coordinated supervisory mechanism was jointly established with the taxation authority. Pilot operations were carried out for information exchange and improved efficiency and quality of the examination of the authenticity of exchange funds flows under trade in services. Unified measures for foreign exchange administration under trade in services were formulated based on the integration of existing relevant laws and regulations.
4. Statistics, monitoring, and management of cross-border funds inflows and outflows under direct investment were further established and improved. Application of a foreign exchange administration information system under direct investment was introduced nationwide, providing foreign exchange data related to direct investment on a monthly basis to relevant authorities. Approaches of foreign exchange administration under direct investment were improved. Administration of settlement of

foreign exchange capital and debt-to-equity income of foreign-funded enterprises was strengthened to prevent abnormal inflows of foreign exchange funds under foreign direct investment.

5. Evaluation of bank implementation of foreign exchange administration rules was carried out to encourage and urge banks to operate in compliance with foreign exchange administration policies, bringing into full play of banks' role in supervising foreign exchange receipts and payments.
6. Efforts were intensified to crack down on illegal foreign exchange transactions. Eight special inspections and investigations were conducted on failure to verify and write-off export proceeds, failure to pay exchange for imports and so forth. In cooperation with relevant authorities, campaigns were launched to fight against criminal activities conducted by illegal money shops and were intensified against newly-emerging illegal activities, such as online trading of foreign exchange. In 2008, the SAFE uncovered 24 under ground banking cases and 53 cases of illegally trading and purchasing foreign exchange through fraud, and ferreted out over 90 spots for illegal foreign exchange transactions.

Foreign Exchange Reserves Management Underwent Significant Challenges

During the first half of 2008, foreign exchange inflows continued to increase rapidly. Meanwhile, due to impacts of the U.S. subprime mortgage loan crisis, financial markets, including the bond market, stock market and so forth, saw considerable fluctuations. In the midst of the complicated international financial and economic circumstances, the SAFE gave priority to safeguarding asset security with respect to the operations of foreign exchange reserves. The SAFE closely followed movements in the financial market and opportunely adjusted its investment strategies. During the second half of 2008, as the subprime mortgage loan crisis evolved into a global economic meltdown, the SAFE started a timely emergency mechanism for

foreign exchange reserves operations to cope with the crisis and took prudent and resolute measures. With considerable and arduous efforts, by the end of 2008, the security of national foreign exchange reserve assets had been safeguarded and operational earnings had been achieved.

Fundamental Work for Foreign Exchange Administration Has Been Further Strengthened

1. The statistical monitoring system for the balance of payments was further improved, and a statistical system for non-resident RMB accounts at domestic banks was set up. There was a comprehensive overview of RMB deposits of non-resident institutions and individuals held by domestic banks. The accuracy and timeliness of the foreign exchange purchase and sales statistics were improved by using the on-line position reporting platform of local banks. A monthly statistical reporting system for foreign exchange assets and liabilities of Chinese-funded financial institutions was developed to assist regulatory authorities in receiving a complete overview of the external financial investment of banks and non-bank financial institutions, and better assess investment risks for these institutions. Foreign exchange purchases by overseas individuals under current account were incorporated into an individual Foreign exchange purchase and sales management system to improve the statistical monitoring of individuals' foreign exchange purchase and sales.
2. Intensified efforts were made for research and investigation. Considering the complexity of foreign exchange receipts and payments, many special research projects and investigations were conducted

on significant subjects, including abnormal cross-border funds inflows, the policy design of the System for the On-line Inspection of the Collection and Settlement of Foreign Exchange of Exports, trade credit statistical monitoring management, appraisal of the effectiveness of the foreign exchange administration policy, risk management for the balance of payments, and so forth, which have laid a solid foundation for policy adjustments and formulation of emergency plans in a timely manner.

3. Efforts were made to reinforce business training. When making adjustments to significant regulations or policies, market entities were provided with orientations on policy adjustments and concrete procedures through video- and conferencing, training courses for banks and enterprises, and so forth.
4. Lawful administration was upheld, and supervision and discipline on administrative approval authorities were strengthened. The *Provisions on the Administrative Licensing Procedures of the SAFE* were issued, further standardizing procedures for administrative licensing, carrying out the requirements for establishing a service-oriented government, and reducing and combining administrative licensing approval issues related to foreign exchange administration. *The Procedures for Investigating Cases of Acts in Violation of Foreign Exchange Administration* were promulgated, procedures for inspections were standardized, lawful administrative inspections within the system were conducted, special inspections of government purchases were organized, and the internal control system was examined, revised, supplemented, and improved.