

BALANCE OF PAYMENTS POSITION

In 2008, China's balance of payments continued to post a twin surplus despite the slowdown in the overall growth of the balance of payments caused by the impact of the global financial crisis. Specifically, the surplus under the current account totalled \$426.1billion, rising 15 percent compared with that in the previous year, while the surplus under the capital and financial account totalled \$19 billion, decreasing by 74 percent as compared with that in the previous year. China's balance of payments position improved. At the end of 2008, China's foreign exchange reserves reached \$1946 billion, a rise of \$417.8 billion over that at the end of the previous year, and decreased by \$44.1billion in terms of the annual increase as compared to that in 2007.

The Surplus under the Current Account Continued to Expand

In 2008, the surplus under the current account reached \$426.1 billion, a rise of 15 percent as compared to that in the previous year, but the growth rate dropped by 32 percentage points.

The surplus in trade in goods registered modest growth. In 2008, the surplus in trade in goods recorded a new historical high, while the growth rate of the surplus decreased by 31 percentage points as compared to that in 2007. According to the statistical coverage of the balance of payments, China's goods exports amounted to \$1434.6 billion, a rise of 18 percent, whereas goods imports reached \$1073.9 billion, a rise of 19 percent. The trade surplus reached \$360.7 billion, a rise of 14 percent.

Trade in services registered an increased deficit. In 2008, receipts of trade in services reached \$147.1 billion, a rise of 20 percent, whereas payments reached \$158.9 billion, a rise of 22 percent. The deficit reached \$11.8 billion, a rise of 49 percent. The rise in the deficit under trade in services was mainly due to the drop in the

surplus under tourism and other commercial services as well as to the rise in the deficit under insurance, and royalties and licensing fees. In terms of the composition of services, transportation, insurance, and royalties and licensing fees were the main contributing factors to the deficit in trade in services. Specifically, China's deficit under transportation totaled \$11.9 billion, almost equal to that in the previous year; the deficit under insurance totaled \$11.4 billion, a rise of 16 percent; and the deficit under royalties and licensing fees totaled \$9.7 billion, a rise of 24 percent. Building services and tourism were the main surplus items. Specifically, the surplus under building services reached \$6 billion, an increase of 142 percent; the surplus under tourism was \$4.7 billion, down by 37 percent.

The surplus in income and current transfers continued to grow rapidly. In 2008, receipts in income reached \$91.6 billion, increasing by 10 percent, while payments reached \$60.2 billion, a rise of 5 percent. The surplus reached \$31.4 billion, a rise of 22 percent. In 2008, receipts in current transfers reached \$52.6 billion, a rise of 23 percent, while payments reached \$6.8 billion, an increase of 70 percent. The surplus reached \$45.8 billion, a rise of 18 percent.

The Surplus under the Capital and Financial Account Diminished Significantly

In 2008, inflows under the capital and financial account amounted to \$769.9 billion, decreasing by 16 percent, while outflows amounted to \$750.9 billion, dropping by 11 percent. The surplus reached \$19 billion, down 74 percent as compared to that in 2007.

The surplus in direct investment declined. In 2008, the surplus in direct investment reached \$94.3 billion, dropping by 22 percent. Specifically, net inflows under foreign direct investment in China rose 7 percent to \$147.8 billion, maintaining a relatively high level in

terms of the total amount, while net capital outflows under overseas direct investment increased 215 percent to \$53.5 billion, indicating the intensified go-global efforts by Chinese enterprises.

Net inflows under portfolio investment doubled. Triggered by flow back of external portfolio investment by domestic institutions (the majority of which was from the banking sector), net inflows under portfolio investment in 2008 were on a constant rise. The surplus in portfolio investment amounted to \$42.7 billion, increasing by 128 percent over 2007. Specifically, China's external portfolio investment recorded a net inflow of \$32.7 billion, while its inward portfolio investment from abroad recorded a net inflow of \$9.9 billion.

The deficit in other investment further expanded. In 2008, the deficit in other investment amounted to \$121.1 billion, rising by 74 percent.

The Increase in Reserve Assets Slowed down

In 2008, China's international reserves continued to grow. Specifically, national foreign exchange reserves registered an increase of \$417.8 billion, down by \$44.1 billion as compared to the increase posted in 2007. China's foreign exchange reserves reached \$1946 billion at the end of 2008.

Net Errors and Omissions Occurred on the Debit Side

In 2008, net errors and omissions occurred on the debit side and reached \$26.1 billion, equivalent to 1.04 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.