

7. Interest Rate Adjustments of Central Banks of the Major Economies	027
8. Transaction Volume in the Interbank Borrowing Market, 2002~2008	042
9. Transaction Volume and Weighted Price in the Interbank Lending Market in 2008	043
10. Transaction Volume in the Interbank Borrowing Market, 1998~2008	043
11. Maturity Structure of New Issues in the Interbank Bond Market, 2001~2008	044
12. The Interbank Bond Index and Treasury Bond Index in the Stock Exchange in 2008	044
13. Money Market Interest Rates in 2008	045
14. Treasury Bond Yield Curve in the Interbank Market in 2008	045
15. Monthly Trading Volume of Treasury Bonds on the OTC Market since 2007	047
16 Transaction Volume and Value in Shanghai Gold Exchange, 2003~2008	049
17. The Ratios of Flow of Funds to GDP and to Fixed Asset Investment, 1992~2007	138
18. Financing Structure of Non-financial Sectors in 2002	139
19. Financing Structure of Non-financial Sectors in 2007	139

Table

The Real GDP Growth and Projections of the Major Economies	027
--	-----

GOVERNOR'S MESSAGE

The year 2008 was extraordinary for China. Despite the shocks of severe natural disasters and the international financial crisis, the national economy maintained a momentum of stable and relatively rapid growth. The GDP grew 9 percent to over 30 trillion yuan. Price hike was contained. Achievements were made in disaster relief and post-disaster reconstruction. The Beijing 2008 Olympic and Paralympic Games were both a success. The Shenzhou-7 manned spacecraft successfully completed its flight.

To cope with the challenges in 2008, the People's Bank of China (PBC) followed the scientific development approach in a deep manner, promptly adjusted the stance, priority and strength of monetary policy in line with the State Council's overall arrangement, advanced financial reform, and made every effort to deal with the impacts of the international financial crisis. Great achievements were made in various fields. Financial stability was preserved, financial market development was promoted, innovations were made in financial services, exchanges and cooperation were enhanced with the international financial community, thus providing strong support to the high-quality and rapid growth of the national economy.

Financial Macro-adjustments Achieved Remarkable Results

At the beginning of 2008, in order to prevent the relatively fast economic growth from becoming overheated and the structural price hikes from turning into a generalized inflation process, the PBC implemented a tight monetary policy and guided financial institutions to arrange credit extensions in a balanced and well-paced manner. In the middle of the year, with the spread of US sub-prime mortgage crisis, the PBC guided financial institutions to increase credit aggregate and improve credit structure in line with the requirements of controlling price increase to constrain inflation and maintaining stable and relatively rapid economic development to avoid big fluctuations. From September on, in order to deal with the impacts of deteriorating international financial crisis, the PBC carried out the important decision of replacing the tight monetary policy with a moderately loose monetary policy, reducing the intensity of money market operations, cutting required reserve ratios on a differentiated basis for four times, the RMB benchmark lending rates of financial institutions for five times and RMB benchmark deposit rates for four times. In particular, the benchmark lending rate for one-year loans was cut by 2.16 percentage points and the benchmark deposit rate for one-year deposits by 1.89 percentage points, and the floor lending rate for individual housing loan was adjusted to 70 percent of the benchmark rate. Moreover, efforts were made to guide financial institutions to increase credit inputs into projects that would improve people's lives, the agricultural sector, major project construction, scientific and technological innovation, small- and medium-sized enterprises, the services industry, employment creation, and etc. and strictly restrict loans to enterprises with high-energy consumption, high emissions and excess capacity. Efforts were also made to further improve the RMB exchange rate formation mechanism. With the effects of financial macro-adjustment measures, growth of money and credit was generally stable, liquidity in the banking system was sufficient and credit structure was improved, supporting the sound and relatively rapid economic growth.

Remarkable Achievements Were Made in Coping with Global Financial Crisis

After the breakout of the sub-prime crisis in the U.S., the PBC promptly established a global financial crisis response-working group to monitor developments in the international and domestic markets and report the latest

developments to the State Council. The PBC, jointly with other relevant departments, compiled the overseas investment position and losses of the financial industry and established a collaborative working mechanism for supervision of foreign-funded commercial banks and small- and medium-sized commercial banks. The PBC took effective and timely measures to ease the liquidity problems of some foreign-funded financial institutions in China. Meanwhile, an emergency response mechanism was put in place for foreign exchange reserve operations to protect the safety of foreign exchange reserve assets. The PBC put forward a package of suggestions on international financial system reform and formulated policies and principles for participation in international financial crisis rescue. Bilateral domestic currency swap agreements were signed with Bank of Korea and Hong Kong Monetary Authority respectively.

Steady Progress Was Made in Financial Reform and Financial Stability

Reformed state-owned commercial banks further improved corporate governance. Their management skill, profitability and risk-resistance abilities continued to increase. The share-holding reform of the Agricultural Bank of China achieved breakthroughs. The China Development Bank Co. Ltd was officially established. The reform of rural credit cooperatives accelerated and special central bank bills were issued to the rural credit cooperatives in Hainan Province. Foreign exchange administration was strengthened and improved. Small-value currency exchange business between RMB and foreign currencies was launched on a pilot basis. Many measures were taken to facilitate trade and investment. Statistics, monitoring and management of trade, direct investment and foreign debt were improved and cross-border capital flow monitoring was enhanced. Efforts were made to explore the establishment of financial stability assessment framework and methods. The implementation plan on deposit insurance mechanism was improved.

Financial Market Continued to Grow Rapidly

The PBC launched medium term note and short-term financing paper for small- and medium-sized enterprises (SMEs) and successfully completed the pilot credit asset securitization project, promoted the RMB interest rate swap business in full scale and made preparation for conducting real estate investment trusts (REITs) on a pilot basis. The PBC approved RMB-denominated bond issuance by five commercial banks in Hong Kong, with a total value of 15 billion yuan. Furthermore, the PBC conducted research on issues pertaining to foreign currency-denominated bond issuance by overseas listed Chinese companies and RMB-denominated bond issuance by foreign institutions in domestic market, encouraged foreign-funded banks to issue financial bonds and allowed the Shanghai Gold Exchange to accept foreign-funded institutions as members. All transactions in the interbank bond market were settled on a delivery versus payment basis. Products of the insurance companies and trust products were allowed to be traded on the interbank bond market. Participants in the interbank foreign exchange market were expanded and money brokerage companies were introduced to conduct foreign exchange broker business.

Financial Services Reached A New Level

The financial statistical data centralization system smoothly completed its trial operation. Domestic foreign currency payment system was launched. The centralized emergency backup system of the City Clearing Processing Centers (CCPC) of the payment system and the emergency backup system of the National Check Clearing Center of

National Check Image System were established. The Olympics payment environment project was successfully completed. Cash supply was sufficient in the process of effectively coping with natural disasters and emergent incidents. Electronic networks of fiscal agencies, taxation agencies, treasury and commercial banks for tax revenue collection were connected in areas, and the accounting data collection system of the State Treasury was put into operation in Chongqing and Hainan Province. The PBC organized the work of the Ministerial Joint Conference on the Establishment of the Social Credit System. Credit rating cultivation and administration was strengthened for the interbank bond market and credit market, and the pilot project of credit rating for commercial acceptance paper was initiated. The anti-money laundering system was gradually improved with the large-value and suspicious transaction report system covering the entire financial industry. Positive results were achieved in cracking down on money-laundering crimes and underground banking. Furthermore, a balanced financial development in the Yangtze River Delta Region was actively promoted.

International Financial Cooperation and Interactions with Hong Kong, Macao and Taiwan Grew Further

The PBC actively advocated and participated in the international financial system reform and the making of international financial rules. China's quota was increased in the International Monetary Fund. China became a full member of the Inter-American Development Bank. The tripartite governor's meeting mechanism among the PBC, Bank of Japan and Bank of Korea was established, a major step forward in East Asian financial cooperation. Financial policy coordination and market interaction with Hong Kong, Macao and Taiwan was strengthened. Financial policy aimed at promoting economic prosperity and stability in Hong Kong and Macao was formulated and implemented.

The year 2009 presents both challenges and opportunities. The PBC will earnestly implement the decisions adopted at the 17th CPC National Congress, the 3rd Plenary Meeting of the 17th CPC Central Committee, the Central Economic Work Conference and the Central Rural Work Conference, follow the scientific development approach, make supporting stable and relatively rapid economic growth a priority task of financial macro management, carry out a moderately loose monetary policy and enhance financial support for economic development. Financial reforms will be further deepened. Financial innovation will be steadily advanced. Foreign exchange administration will be strengthened and improved. The PBC will support sound and stable function of the financial system and enhance its financial services to contribute to high-quality and rapid economic development, and celebrate the 60th anniversary of the People's Republic of China with outstanding achievements.



Governor of the PBC
April 18, 2009