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GOVERNOR'S ADDRESS

The year 2012 is a pivotal year for the implementation of the 12th Five-Year Plan. Under the leadership of the CPC Central Committee and the State Council, in line with the principle of seeking progress amid stability, and attaching great importance to the stabilization of economic growth, the People's Bank of China (PBC) implemented prudent monetary policy, accelerated financial reform, opening-up and development and made strenuous efforts to maintain financial stability and safety, playing an important role in promoting sustainable and healthy development of national economy.

Strengthening and improving macro-financial management

Both domestic and international economic and financial situations were complicated and grim in 2012, posing great challenges and pressures to macro-financial management. Upholding market-orientation in macroeconomic management, the PBC developed more monetary policy instruments, took maintaining the stability of RMB as the priority, and strove for a balance among promoting stable and relatively rapid growth, economic restructuring and managing inflationary pressure. Amid the slowdown of domestic growth and lower inflation in the first months, the PBC fine-tuned its policy proactively through measures including two cuts of the reserve requirement ratio, flexible open market operations in both directions, two cuts in benchmark lending and deposit rates, and counter-cyclical adjustments using dynamic adjustment of differentiated reserve requirement to guide market interest rates to decline and promote reasonable and appropriate growth of money and credit. Since the beginning of the second half of 2012, the PBC carried out reverse repos on consecutive occasions in response to supply and demand of liquidity, which helped maintain reasonably abundant liquidity in the financial system and stable movement of market interest rates. The year 2012 saw M2 grow at 13.8 percent, RMB-denominated loans increase by 8.2 trillion yuan, and all-system financing aggregate reach 15.76 trillion yuan, which were in line with expectations. While strengthening the adjustment and management of aggregate money and credit, the PBC also attached

great importance to using macro-credit policies in transforming growth pattern and adjusting economic structure. Financial institutions have been guided to bolster financial support to the development of agriculture, rural area and farmers, micro and small-sized enterprises, energy conservation and environmental protection, and ongoing or follow-up key national projects that have a significant impact on the economy. As the mix of macroeconomic management measures took effect, the GDP grew by 7.8 percent and CPI went up by 2.6 percent year on year. The prudent monetary policy had achieved remarkable results.

Promoting financial reform and development and maintaining financial stability

We have always attached great importance to financial reform, development and stability, taking financial reform as the source of dynamism for promoting scientific development of the financial sector, and viewing risk prevention as the lifeline of financial work. Reforms have hugely enhanced the overall strength, international competitiveness and resilience of our financial sector. In 2012, the RMB exchange rate regime was further improved as the floating band of RMB against the US dollar exchange rate on the spot interbank foreign exchange market was widened from 0.5 percent to 1 percent. Moreover, RMB became directly tradable with Japanese yen on the interbank foreign exchange market. Important steps were taken in promoting the market-based interest rate reform. The upper limit of the floating range for deposit interest rates was adjusted to 1.1 times the benchmark rates and the lower limit for loan interest rates 0.7 times the benchmark rates. Shibor's role as a market benchmark was further enhanced. Efforts were made to press ahead with the reform of large commercial banks, and progress was made in carrying out pilot programs of Agriculture-related Financial Services Department of Agricultural Bank of China (ABC). The PBC also guided and coordinated local pilot financial reforms such as comprehensive financial reform pilot program in the city of Wenzhou, Zhejiang Province. Moreover, the PBC has examined potential financial risks, improved the system for the monitoring, assessing, early warning and resolving systemic financial risks, so as to guard the bottom line of averting systemic and regional financial risks.

Promoting cross-border use of RMB

Since the outburst of this round of global financial crisis, we have removed unnecessary policy restrictions and promoted cross-border use of RMB as required by international and domestic development and market demand. Cross-border RMB business has expanded from current account to include some capital account items. The channels for cross-border flow and use of RMB increased, enhancing the importance of RMB internationally. At present, the settlement of cross-border trade transactions in RMB was fully underway. All export and import enterprises can choose RMB as the pricing, settlement and payment currency. The total volume of RMB settlement grew by 41 percent for the year, and the trade of goods settled in RMB

accounted for 8.4 percent of total value of export and import at the Chinese Customs. The value of RMB settlement of cross-border investment increased significantly, and RMB lending to overseas projects achieved steady progress. International currency cooperation further expanded. The PBC signed bilateral local currency swap agreements with central banks and monetary authorities in 18 countries and regions including Republic of Korea and Malaysia. Offshore RMB markets in Hong Kong, Taiwan, London and Singapore were in a good shape.

Promoting innovation in developing interbank bond market

In recent year, in line with the objective principle for the development of bond market, and on the basis of drawing upon experiences and lessons, the PBC had focused on fostering an OTC market with institutional investors as major participants, made efforts in reducing administrative approval and strengthening market discipline, cultivating institutional investors, accelerating innovation in financial products and institutional arrangements, and improving infrastructure. As a result, the interbank bond market witnessed remarkable development. In 2012, the PBC led the efforts in establishing the Corporate Debenture Bonds Inter-ministerial Coordination Mechanism. Measures were taken to promote securities firms and securities finance companies to issue short-term financing bills, expand the pilot program of credit assets securitization, and launch asset-backed bills. The PBC also supported foreign institutions to participate in the interbank bond market. By end-2012, the size of China's bond market reached 26 trillion yuan with the interbank bond market accounted for 96.2 percent of the total, making it one of the largest in the world.

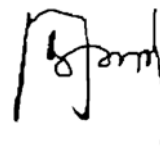
Strengthening financial service and management

The PBC has always taken promoting the modernization and standardization of central bank financial services and management as the foundation work for improving financial services to the whole society and protecting the rights and interests of the general public. In 2012, in addition to routine financial services and management efforts, the PBC took a series of new measures, and achieved fruitful results, including the approval of *Regulations on Credit Information Industry (Draft)*, by the State Council, the further standardization of financial statistics, improvement in accounting practice, the progress in constructing the second-generation payment system and Accounting Data Centralized System (ACS), steady migration from magnetic stripe cards to IC cards and wider use of IC cards, enhanced tidiness of banknotes in circulation and success in the campaign of "zero-tolerance" to fraudulent banknotes, improved supervision and management over state treasury, better credit information service and nationwide application of Institutional Credit Code, promotion of risk-based anti-money laundering supervision, and the establishment of Financial Consumer Rights Protection Bureau in an effort to set up a mechanism to protect consumer rights in financial affairs.

Deepening international exchange and cooperation

China's rise in aggregate national strength and international status highlighted the increasing importance of promoting international macroeconomic and financial policy coordination. The international community is also calling for China to become more involved in international economic and financial affairs. Guided by strategic national interests and in cooperation with the overall diplomatic strategy, the PBC had conducted international financial cooperation in a comprehensive, multi-layered, flexible and practical manner, gaining a bigger voice and stronger influence in international financial affairs. In 2012, efforts were made to carry out the assignments under the G20 framework and get deeply involved in global economic and financial policy coordination and rule-making; the PBC promoted cooperation of BRIC countries to enter the substantive stage of monetary cooperation and development financing; it also actively engaged in increasing IMF's resources, pushing for the implementation of the reform of quota and governance structure, and improving the legal framework for surveillance. On the regional level, the PBC promoted increasing the pool of Chiang-Mai Initiative Multi-lateralization, explored and expanded economic and financial cooperation with the Africa, Latin America and the Caribbean, continued pushing forward financial cooperation with Hong Kong and Macao, and made significant progress in setting up cash settlement mechanism across the Taiwan Straits.

The year 2013 marks the first year for the implementation of the principles set by the 18th Plenary Session of CPC, which is a pivotal year for China to construct a solid foundation for a well-off society. The PBC will attentively study and implement the principles and assignments specified on the 18th Plenary Session of CPC and the Central Economic Work Conference, take Deng Xiaoping Theory, the important thought of "Three Represents", and the approach of scientific development as our guidance, follow the principle of seeking progress among stability, continue to implement prudent monetary policy, maintain policy continuity and stability, further financial reform and opening-up, advance the development of financial markets, enhance financial services and management, step up efforts in building a modern financial system that helps maintain macroeconomic stability and support the real economy, effectively prevent financial risk and maintain overall price stability, so as to promote sustained and healthy development of national economy.



Governor of the PBC
April 18, 2013

THE MANAGEMENT OF THE PEOPLE'S BANK OF CHINA



Zhou Xiaochuan
Governor of the PBC



Hu Xiaolian
Deputy Governor



Liu Shiyu
Deputy Governor



Yi Gang
Deputy Governor
Administrator of the SAFE



Wang Huaqing
Chief Disciplinary Officer



Pan Gongsheng

Deputy Governor



Li Dongrong

Deputy Governor



Guo Qingping

Assistant Governor



Jin Qi

Assistant Governor

MEMBERS OF THE MONETARY POLICY COMMITTEE OF THE PBC

Chairman	Zhou Xiaochuan
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Member	You Quan
--------	----------

Member	Zhu Zhixin
--------	------------

Member	Li Yong
--------	---------

Member	Hu Xiaolian
--------	-------------

Member	Yi Gang
--------	---------

Member	Du Jinfu
--------	----------

Member	Ma Jiantang
--------	-------------

Member	Shang Fulin
--------	-------------

Member	Guo Shuqing
--------	-------------

Member	Xiang Junbo
--------	-------------

Member	Jiang Jianqing
--------	----------------

Member	Qian Yingyi
--------	-------------

Member	Chen Yulu
--------	-----------

Member	Song Guoqing
--------	--------------

ORGANIZATIONAL STRUCTURE OF THE PBC

ORGANIZATIONS OF THE PBC (NUMBER)

Departments and Bureaus of the Head Office	26
Enterprises and Institutions Directly under the PBC	21
Overseas Offices	10
Departments of the Shanghai Head Office	12
Regional Branches and Operations Offices	10
Sub-branches in Provincial Capital Cities	20
Sub-branches in Quasi Province-level Cities	5
Sub-branches in Prefecture-level Cities	314
County-level Sub-branches	1 762

THE PBC HEAD OFFICE (PBCHO)

General Administration Department (General Office of the CPC PBC Committee)

Legal Affairs Department

Monetary Policy Department

Monetary Policy Department II

Financial Market Department

Financial Stability Bureau

Statistics and Analysis Department

Accounting and Treasury Department

Payment System Department

Technology Department

Currency, Gold and Silver Bureau

State Treasury Bureau

International Department (Office of Hong Kong, Macao and Taiwan Affairs)

Internal Auditing Department

Human Resources Department (Organization Division of the CPC PBC Committee)

Research Bureau

Credit Information System Bureau

Anti-money Laundering Bureau (Security Bureau)

Financial Consumer Protection Bureau

Education Department of the CPC PBC Committee

Disciplinary Committee of the PBC

CPC Committee of the PBC Head Office

Retired Staff Management Bureau

Office of Senior Advisors

Staff Union Committee

Youth League

GOVERNMENT AGENCY DIRECTLY UNDER THE PBC

State Administration of Foreign Exchange

THE PBC SHANGHAI HEAD OFFICE (PBCSHO) PLUS SUB-BRANCHES IN PROVINCIAL CAPITAL CITIES AND QUASI PROVINCE-LEVEL CITIES

General Administration Department
(General Office of the CPC Committee, PBCSHO)

Open Market Operations Department

Financial Market Management Department

Financial Stability Department

Statistics and Research Department

International Department

Financial Service Department I

Financial Service Department II

Foreign Exchange Management Department

Human Resources Department
(Organization and Education Division of the CPC Committee, PBCSHO)

Discipline Enforcement and Supervision Department
(Internal Auditing Division)

Renminbi Cross-border Business Department

Hangzhou Sub-branch

Fuzhou Sub-branch

Ningbo Sub-branch

Xiamen Sub-branch

THE PBC BRANCHES AND OPERATIONS OFFICES PLUS SUB-BRANCHES IN PROVINCIAL CAPITAL CITIES AND QUASI PROVINCE-LEVEL CITIES

Tianjin Branch

Shijiazhuang Sub-branch
Taiyuan Sub-branch
Hohhot Sub-branch

Shenyang Branch

Changchun Sub-branch
Harbin Sub-branch
Dalian Sub-branch

Nanjing Branch

Hefei Sub-branch

Jinan Branch

Zhengzhou Sub-branch
Qingdao Sub-branch

Wuhan Branch

Nanchang Sub-branch
Changsha Sub-branch

Guangzhou Branch

Nanning Sub-branch
Haikou Sub-branch
Shengzhen Sub-branch

Chengdu Branch

Guiyang Sub-branch
Kunming Sub-branch
Lhasa Sub-branch

Xi'an Branch

Lanzhou Sub-branch
Xining Sub-branch
Yinchuan Sub-branch
Urumqi Sub-branch

Operations Office (Beijing)

Chongqing Operations Office

CHINA' S MACROECONOMY

In 2012, against the backdrop of sluggish world economy and affected by both cyclical and long-term structural factors of domestic economy, China' s economic growth slowed down. China continued to implement active fiscal policy and prudent monetary policy, attached more importance to “stable growth” while properly handling the relationship of growth, structure and inflation, and actively promoting the adjustment of economic structure. The economic growth exceeded expectations in 2012; the overall prices stability was maintained; the employment situation remained generally stable; balance of payments improved further; further progress was made in the structural adjustment.

In 2013, the world economy is expected to continue the trend of slow growth. Although the domestic economy has the potential to achieve rapid growth, yet there are plenty of uncertainties that may affect economic growth and price stability. China will maintain the continuity and stability of macroeconomic policies, make policy measures more forward-looking, targeted and flexible, properly handle the relationship among stable growth, economic restructuring, inflation control and risk prevention, continue to deepen reform in order to lay a solid foundation for long-term sustainable economic development.

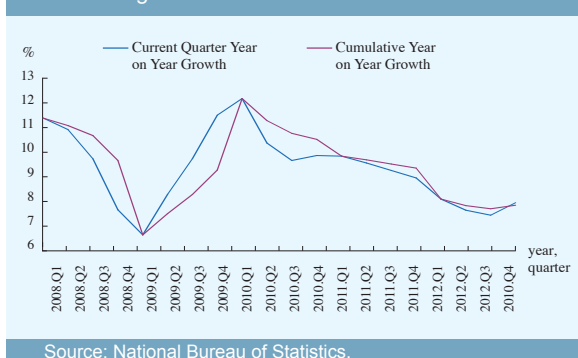
Economic Performance in 2012

The economy grew steadily and industrial restructuring was further optimized

The National Bureau of Statistics estimated that China's nominal GDP registered 51.93 trillion yuan in 2012, up 7.8 percent in real terms year on year and 1.5 percentage points lower than in 2011. The GDP growth rate in the four quarters stood at 8.1 percent, 7.6 percent, 7.4 percent and 7.9 percent respectively, which maintained a relatively

stable growth while showing signs of slow-down (Figure 1). In terms of industries, the value-added by the primary, secondary and tertiary industries reached 5.24 trillion yuan, 23.53 trillion yuan and 23.16 trillion yuan respectively, up 4.5 percent, 8.1 percent, and 8.1 percent year on year, and representing growth of 0.2, -2.2, -1.3 percentage points. The shares of the three industries in GDP were 10.1 percent, 45.3 percent and 44.6 percent respectively, growing by 0.1, -1.3 and -1.2 percentage points year on year.

Figure 1 China's Economic Growth

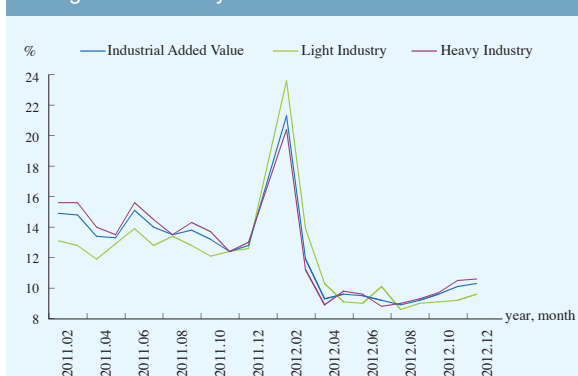


Source: National Bureau of Statistics.

Industrial production grew steadily and corporate profits registered a positive growth

In 2012, the value-added of statistically large enterprises increased 10 percent year on year, with a deceleration of 3.9 percentage points. The month by month change showed that, beginning in August, the growth rate started to go upward, from 8.9 percent in August to 10.3 percent in December (Figure 2). Consequently, the corporate profits turned for the better. The main business revenue of statistically large industrial enterprises reached 91.6 trillion yuan, up 11 percent year on year, accelerated by 0.8 percentage points compared with that of the

Figure 2 Monthly Growth of Industrial Production



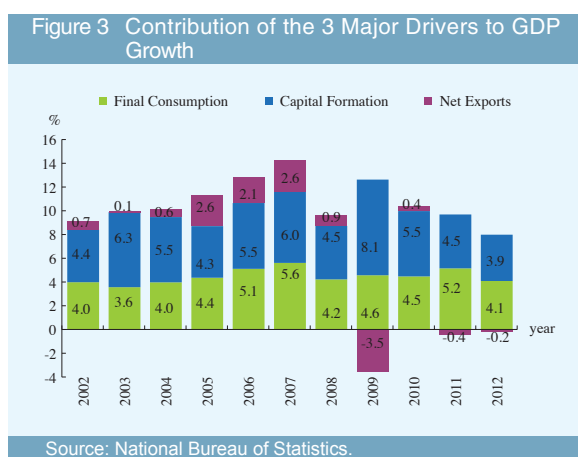
Source: National Bureau of Statistics.

previous eight months. The annual profits reached 5.6 trillion yuan, up 5.3 percent year on year. Although the growth rate came down drastically by 20.1 percentage points, it represented an apparent rebound comparing to the accumulated year on year decline of 3.1 percent of the previous eight months.

Domestic demand grew rapidly while external demand grew slowly

Since the beginning of 2012, investment growth continuously slowed down. However, as the “stable growth” policies started to take effect, investment growth rebounded gradually after August. Among these, the real estate investment growth stabilized and accelerated somewhat as the housing sales recovered. Fixed asset investment for the whole year was 37.47 trillion yuan, up 20.3 percent over that of the previous year, and up 19.0 percent in real terms. Real estate investment was 7.18 trillion yuan, up 16.2 percent year on year. Total retail sales stood at 20.03 trillion yuan, up 14.3 percent year on year, and up 12.1 percent year on year in real terms. The growth of export fell sharply because of the slowdown of global economy dragged by the European debt crisis. Total exports and imports registered US\$ 3.87 trillion, up 6.2 percent year on year. Total exports were US\$ 2.05 trillion, up 7.9 percent, with a deceleration of 12.4 percentage points. Total imports were US\$ 1.82 trillion, up 4.3 percent. Trade surplus increased US\$ 231.1 billion because of the fall in import

prices. The role of final consumption contributed more to the growth than investment. The final consumption and investment contributed 4.1 percent and 3.9 percent respectively to the economic growth. Meanwhile, due to the slowdown of external demand, the net export of goods and services contributed a -0.2 percent to GDP growth, remaining a negative contributor (Figure 3).



Growth of fiscal revenue slowed down and expenditure structure continued to improve

Fiscal revenue reached 11.72 trillion yuan in 2012, up by 1.33 trillion yuan or 12.8 percent year on year, but the growth rate fell by 12.2 percentage points. The slower growth of the fiscal revenue was mainly affected by factors such as the slower growth of the economy, lower corporate profit growth, moderate rise in price level, especially the fall in prices of industrial production and the structural tax reduction policies. The growth of revenue in the four quarters was 14.7 percent, 10.0 percent, 8.1 percent and 19.9 percent respec-

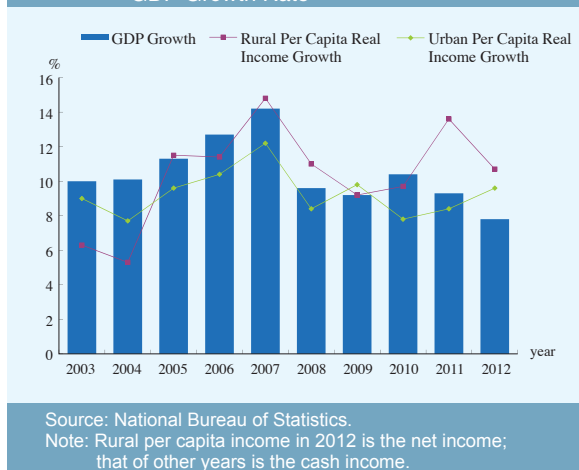
tively, with a noticeable acceleration in Q4. Fiscal expenditure totaled 12.57 trillion yuan, increased by 1.65 trillion yuan or 15.1 percent from the previous year, with a deceleration of 6.5 percentage points. In terms of fiscal expenditure structure, rapid growth was seen in spending directed to education, agriculture, forestry and water affairs, culture, sports and media, rural and urban community affairs and affordable housings, up 28.3 percent, 19.8 percent, 18.9 percent, 18.4 percent and 16.4 percent respectively year on year.

The employment situation maintained generally stable and household income grew rapidly

Optimization of industrial structure, especially the development of the service industry was helpful to job creation. A total of 12.66 million new jobs were created in the urban area in 2012, with an increase of 450,000 over the previous year, far more than the expected 9 million. Per capita disposable income of urban residents reached 24,565 yuan, up 12.6 percent in nominal terms and 9.6 percent in real terms over that of the previous year. Specifically, the real growth was 1.2 percentage points higher than that in 2011, and 1.8 percentage points higher than the GDP growth rate. Per capita net income of rural residents reached 7,917 yuan, up 13.5 percent in nominal terms and 10.7 percent in real terms, with the real growth 0.7 percentage points lower than that of 2011 but 2.9 percentage points higher

than that of the GDP (Figure 4). This was the second consecutive year that the rural per capita income grew faster than the GDP.

Figure 4 Urban and Rural Residents' Income and GDP Growth Rate

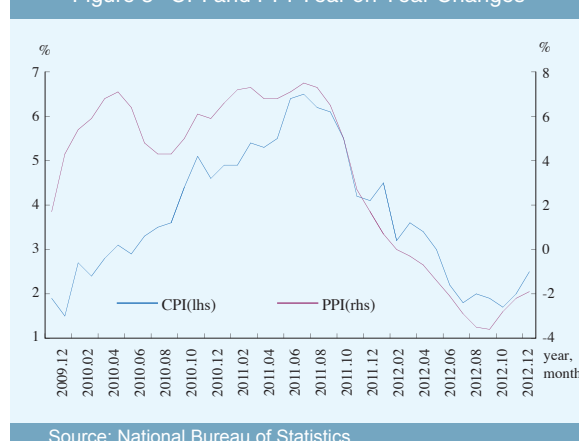


Inflation was effectively contained and CPI fell into the target range

At the beginning of 2012, the government work report set the target of controlling the CPI growth to around 4 percent over that of 2011. In 2012, major price indices continued to slow down, as a series of comprehensive measures such as the prudent monetary policy gradually took effect. After September, the economy started to recover and the major price indices rebounded gradually. CPI rose by 2.6 percent over that of the previous year, decelerating by 2.8 percentage points, and returned to the target range. In terms of classification, food prices rose by 4.8 percent, a deceleration of 7 percentage points; non-food prices rose by 1.6 percent, a deceleration of 1.1 percentage points. In terms of monthly growth, CPI rose by 4.5 percent in January and fell gradually to 1.7 percent in

October, hitting a record low since February of 2010. Henceforth, the CPI trended higher, and rose to 2.5 percent in December. In 2012, year on year PPI declined by 1.7 percent, and producers purchasing price declined by 1.8 percent. In terms of monthly growth, year on year PPI began to decline after March, and continued to trend lower to 3.6 percent in September, which was the biggest fall since November in 2009, and shrunk to 1.9 percent in December of 2012 (Figure 5).

Figure 5 CPI and PPI Year on Year Changes



China's Economic Outlook in 2013

China's economy will maintain a relatively rapid growth

In 2013, China's economy is likely to continue the trend of stable and fairly rapid growth. Although the moderate recovery of world economy can hardly change the weak external demand, yet it can form a relatively stable external environment. Within China, there are many positive factors to boost domestic demand. Reform of income distribution will bring rapid income growth for

rural and urban households and enhance their willingness to consume. Consumption will play a more important role in driving economic growth. In the process of urbanization, informationization, industrialization and modernization of the agricultural sector, the investment demand in areas such as infrastructure, industrial upgrading and technology innovation will still be rather strong. Nonetheless, China's economic development is also faced with many risks and problems. The basis of economic recovery is not yet solid; the endogenous growth momentum remains to be enhanced; the excess capacity of some industries is rather serious; rising operating costs and lack of innovation ability for enterprises co-exist; the tension between economic development, resources constraint and environmental protection becomes more prominent; there are potential risks in the financial sector.

Moderate inflationary pressure coexist with uncertainties

In 2013, there are many favourable conditions for keeping prices basically stable, such as the relatively mild expansion of aggregate demand, ample food stock and sufficient supply of major agricultural products and excessive supply of industrial products. Yet factors that are likely to push prices upward need to be watched closely. First, the negative spillover effects of quantitative easing monetary policy of major developed economies will gradually emerge. Second,

both the rising costs of labor and land and prices of resource products will push prices higher. Third, the expectation for price to rise remains strong. Fourth, as the current prices are sensitive to changes in aggregate demand, it takes lesser time for changes in aggregate demand to affect the CPI. Against the background of continuing loose global monetary environment and the upward pressure of domestic prices, close attention shall be paid to the impact of expansion of demand upon inflation. This is to prevent reinforcing domestic and international factors and intertwining cost-driven and demand-pulled pressures from working together to push up inflation.

Macroeconomic management needs to well handle the relationship among preserving fairly rapid stable growth, economic restructuring, managing inflation and preventing risks

In 2013, China will continue to implement a prudent monetary policy and active fiscal policy, deepen reform, make efforts to improve the quality and efficiency of economic growth, and lay the foundation for long-term sustainable economic development. It is important for the prudent monetary policy to create an appropriate monetary and financial environment for the healthy development of economy. Proactive fiscal policy shall continue to optimize the structure of revenue and expenditure, playing a guiding role in the structural adjustment of economy.

Meanwhile, China will further accelerate reform, improve institutional building, give full play to the market in the allocation of resources, and promote the rational allocation of resources. China will take advantage of the new industrialization, informationization, urbanization and agricultural modernization to strengthen supply management, further

break monopoly, liberalize market access, enhance the role of innovation in stimulating economy, and promote the optimization and upgrading of industrial structure. Thus, a virtuous cycle featuring mutually reinforcing and constantly-growing demand and supply will be formed.

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

In 2012, a deep global economic correction was underway. The U.S. economy recovered moderately, but with slow progress in fiscal consolidation. Conditions in Europe turned for the better but the sovereign debt crisis was increasingly taking its toll on the real economy. Weak external demand and insufficient domestic consumer demand led to a grim prospect in Japan. The growth momentum in a majority of the emerging economies moderated due to increased uncertainties. Major financial markets and commodities markets experienced marked fluctuations during the year. The IMF projected that global economy would grow by 3.3 percent in 2013, while the growth rate for the U.S., Euro-area, Japan and emerging markets would be 1.9 percent, -0.3 percent, 1.6 percent and 5.3 percent respectively.

Economic Developments in the Major Economies

The U.S. economy experienced a moderate recovery but with uncertain prospects

Beginning in early 2012, the housing market turned increasingly for the better, and by the end of the year the process of deleveraging in the financial sector was almost completed. The energy and hi-tech sectors grew robustly, and inflationary pressures were lessened. Recovery was unstable due to policy uncertainties caused by the stalled progress in fiscal consolidation which dampened investment and consumption growth.

The quarter on quarter GDP grew 2.0 percent, 1.3 percent, 3.1 percent and 0.4 percent respectively from Q1 to Q4 at an annualized rate, and the GDP grew 2.2 percent in real terms for the whole year. The year on year growth of CPI fell from 2.9 percent in January to 1.7 percent in December. Unemployment rate stood at 7.8 percent in December, which was flat with that in November and was the lowest since the beginning of 2009. The trade deficit registered US\$ 540.36 billion, a reduction of 3.5 percent year on year. The deficit was still large, posting US\$ 1.1 trillion, and stood at 7.0 percent of the GDP. Though lower than the 8.7 percent of the

previous year, it remained elevated. In the short term, the U.S. economy remains vulnerable to policy uncertainties stemming from the negotiations over government expenditure reductions. Meanwhile, the weak labor market will continue to put a drag on the recovery of market confidence.

The Euro area entered a second recession

Development of the European sovereign debt crisis was full of twists and turns, and its adverse impacts on the real economy increased. At the beginning of 2012, the launch of the second 36-month issue under LTRO, the completion of the PSI and the signing of the Fiscal Compact by the 25 EU countries relieved market concerns. Condition of the European sovereign debt crisis turned stable temporarily. However, the increasingly worsening crisis of Spain aggravated the situation, and the negative impacts spilled over to Italy. Meanwhile, affected by the political impasse after the election of the congress, the risk for Grexit was also intensified.

To curb further spread of the crisis, the EU and euro area responded with a series of measures, including the launch of the European Stability Mechanism, the progress made in promoting a Fiscal Union and a Banking Union, and the ECB's Outright Monetary Transaction. Entering the second half of 2012, the European sovereign debt crisis calmed down. However, the effects of such response measures remained to be seen as the crisis was having a deepening impact

on the real economy. The GDP grew at 0, -0.2 percent, -0.1 percent and -0.6 percent (largest contraction since the beginning of 2009) in real terms quarter on quarter from Q1 to Q4, and the GDP decreased by 0.6 percent for the whole year. Inflation went down among fluctuations, and the HICP edged down from 2.7 percent in January to 2.2 percent in December year on year. In the final month of 2012, the unemployment rate reached 11.7 percent for the euro area, remaining on the level of record high for the third consecutive month. The quarter on quarter GDP growth rate of Germany and France entered the negative territory in Q4, standing at -0.3 percent and -0.6 percent respectively. The growth of heavily-indebted countries such as Italy and Portugal also deteriorated, contracting by 0.9 percent and 1.8 percent respectively in the fourth quarter.

Trade and indebtedness continued to worsen in Japan

The Japanese economy declined sharply after a robust but brief rebound in the first quarter. The GDP grew 6.0 percent, -1.0 percent, -3.8 percent and -0.4 percent quarter on quarter at an annualized rate Q1 through Q4, and the GDP grew 2.0 percent for the whole year in real terms. The deflation didn't turn for better, with core CPI declining 0.2 percent year on year in December. The fading effects of the reconstruction efforts after the earthquake and tsunami in 2011 and the falling household consumer confidence index

pointed to insufficient domestic demand in the Japanese economy. Meanwhile, contracting external demand and higher demand for energy led to a large trade deficit of US\$ 78 billion in 2012, hitting record high. Moreover, there remained uncertainties with regard to the implementation of the Consumption Tax Reform Act under the new administration and the accumulation of government debt might grow and heighten fiscal risks. According to IMF projections, the total outstanding debt of the Japanese government would register 1,132.2 trillion yen at end-2012, accounting for 237.9 percent of its GDP.

Growth of major emerging markets slowed down

Since the beginning of 2012, growth in the major emerging markets slowed down due to declining external demand and cyclical factors. They were also challenged by inflationary pressures and large volatility of short-term cross-border capital flows. The growth rate of India, Brazil, Russia and South Africa registered 4.0 percent, 0.9 percent, 3.4 percent and 2.5 percent respectively, all declining from the levels of the previous year. At the same time, some emerging markets including India and Russia were facing inflationary pressures. Impact of the quantitative easing monetary policy of the advanced economies on cross-border capital flow of emerging markets was already felt. This may further push up commodity prices, which will heighten inflationary pressures

and complicate macroeconomic policy in the emerging-market economies.

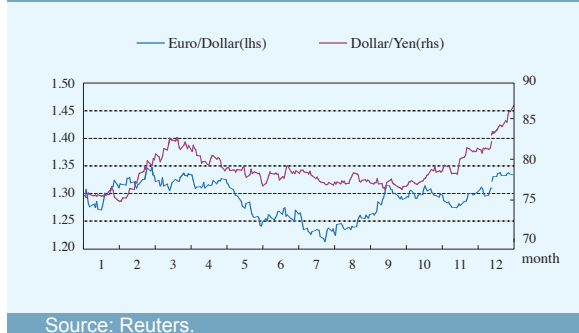
Developments of the Global Financial Markets

International foreign exchange markets

Capital flowed back and forth between the major advanced economies and the emerging markets along with the changes in the economic conditions, and the exchange rates of the major currencies fluctuated substantially. In the first two months, most major currencies appreciated against the dollar due to the improved conditions in Europe. From March through June, driven by risk aversion, capital moved away from Europe and the emerging markets to the U.S. and Japan. As a result, the US dollar and the yen appreciated against the euro and the currencies in the emerging markets. After July, with progress in addressing the European sovereign debt crisis and the launch of a new round of quantitative easing by the major economies, capital flowed from the US back to the emerging markets, and many currencies appreciated against the US dollar. In Q4, as a result of the expansion of the asset-purchase program by the Bank of Japan and market expectations of the exchange-rate policy to be adopted by the new administration, the yen depreciated substantially against the US dollar. By end-2012, the exchange rates of the euro and the yen against the US dollar were 1.3194 dollar per euro

and 86.74 yen per dollar, appreciating 1.92 percent and depreciating 11.3 percent respectively year on year (Figure 6). Developments in the currencies of the emerging markets diverged: the Korean won, Chilean peso, and Mexican peso appreciated by more than 8 percent against the US dollar in 2012, whereas the Argentine peso and the Brazilian real depreciated against the US dollar by more than 9 percent.

Figure 6 Exchange Rate of Major Currencies in 2012

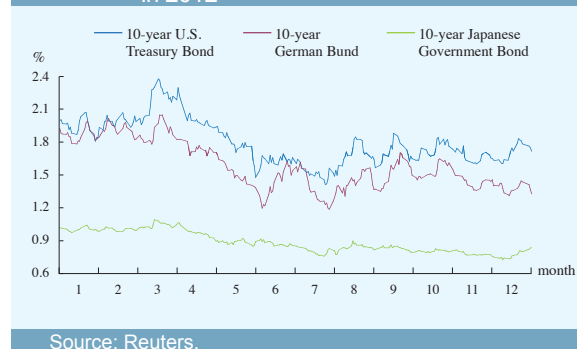


International bond markets

Yields of traditional safe-haven Treasury bonds remained subdued, while those of heavily-indebted sovereigns were on a decline. The lackluster global recovery fanned up risk aversion, and T-bond yields in the U.S., Germany, and Japan were pushed to the year high in March before heading downward and remained subdued since May (Figure 7). Affected by domestic banking crisis, the yield of ten-year government securities in Spain hit a high of over 7.5 percent. Later on, the yield declined gradually with the easing of the sovereign debt crisis. The dollar Libor continued to decline in 2012, and the Euribor decreased to a historical low due to the ECB

rate cut and the further easing of its monetary policy stance. On December 31, the one-year Libor was 0.8435 percent, lowered by 0.285 percentage points from the previous year; the one-year Euribor was 0.5420 percent, down by 1.405 percentage points.

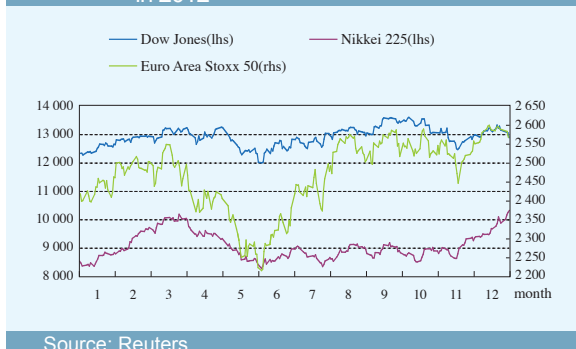
Figure 7 Treasury Bond Yield of Major Economies in 2012



International stock markets

The major stock indices went up with fluctuations. In Q1, with the adoption of rescue measures in Europe, the stock indices rallied in the U.S., European, and Japanese markets. In April and May, due to the worsening of the banking crisis in Spain and the situation in Greece, stock indices declined around the globe. Since July, with the fiscal cliff looming in the U.S., uncertainties about negotiations over the Greek rescue plan, and the change of government in Japan, global stock markets fluctuated wildly (Figure 8). With stronger expectations of a further easing of monetary policies in the advanced economies, the stock markets in the U.S., Europe, and Japan rebounded, and the U.S. stock market was even restored to its pre-crisis level.

Figure 8 Stock Market Indices of Major Economies in 2012



International commodities markets

The price of crude oil rose after a period of decline, while the price of gold fluctuated at an elevated level. Affected by the tensions in the Middle-east and the release of economic data of the U.S., Europe and other advanced economies, the price of crude oil and gold fluctuated widely throughout the year. At end-2012, the price of Brent oil futures remained flat with that at the beginning of 2012, while the price of gold closed at US\$ 1,674 per ounce, up 7 percent compared with the beginning of 2012. Throughout the year, the price of international industrial metals fell due to the performance of the global economy, and the price of agricultural produce surged as a result of the extreme weather conditions.

World Economic Outlook and Major Risks in 2013

Going forward, major risks in the global economy include: First, the sovereign debt crisis remains the most prominent risk threatening the global recovery. Second, uncertainties regarding U.S. fiscal policy might continue to pose risks for U.S. and global growth. Third, the impacts on the global economy of a fresh round of accommodative monetary policies adopted by the advanced economies are not clear. Fourth, trade and investment protectionism may come to the fore. Fifth, geopolitical risks are on the rise, which might affect bilateral economic and trade ties and regional economic cooperation.

Therefore, global growth is expected to be slow in 2013 and the outlook will involve major uncertainties. In its updated *World Economic Outlook* in April, the IMF revised downward its projection of the global growth rate to 3.3 percent. Specifically, growth projections for the U.S., the euro-area, Japan, and the emerging markets were lowered to 1.9 percent, -0.3 percent, 1.6 percent, and 5.3 percent respectively.

• BOX •

Addressing the Impact of the European Sovereign Debt Crisis

The European sovereign debt crisis continued fomenting during 2012. In the first half of the year, risks exacerbated as Greece was considered increasingly likely to exit the euro area and banking crisis and local government debt problems emerged in Spain. This caused tremendous turbulences in the financial market and fanned market's worry about the possibility of euro-zone's breakdown. Influenced by the crisis, heavily-indebted countries fell into recession and faced great challenges in dealing with their short-term debts, carrying out difficult fiscal consolidation and structural reforms. Social pressure was also mounting against fiscal consolidation. Moreover, more spillovers were felt by core European countries and non-EU economies. Germany and France both witnessed negative growth in the fourth quarter, whereas the UK and emerging economies were evidently impacted.

To curb the spreading crisis, the Troika, namely the EU, the ECB and the IMF, provided financial assistance to the indebted countries and monitored progress in their reform. Besides, the EU and the Euro zone countries also stepped up with measures to address the crisis and strengthened relevant institutional arrangements. First, in February, Euro area finance ministers approved the debt restructuring plan agreed by the Greek government and private sector representatives. This prevented a disorderly default of the Greek public debt. Second, 25 EU member countries signed the "New Fiscal Compact", which enhanced their fiscal discipline. Third, in September, the ECB carried out the Outright Monetary Transactions (OMT) and committed itself to purchasing the treasury bonds of crisis-hit countries, as long as they meet certain pre-conditions. Fourth, in October, the Euro group formally launched the European Stability Mechanism (ESM), the permanent bail-out mechanism, making the Euro area more capable of preventing and addressing crisis. Fifth, the EU developed a roadmap to strengthen the economic governance of the Economic and Monetary Union, including the establishment of a banking union in the financial domain. In December, an agreement was also reached on the Single Supervisory Mechanism (SSM). These measures removed obstacles for the ESM to directly inject fund into banks.

The crisis' influence on China becomes increasingly clear. It not only directly impacted China-EU trade and thus China's economic growth, increased fluctuation of cross-border capital flows, but also brought negative effect on China's economy by

slowing down global growth. In order to cope with the risks and challenges, the PBC carried out the following measures:

First, the PBC closely monitored the international financial market and crisis-hit economies and researched on the EU, the ECB and the IMF's rescue measures and their impact. These factors were taken into consideration when the PBC developed and implemented policies, with a special emphasis on the prevention of systemic and regional financial crisis. The PBC continued its prudent monetary policy and put in the first place the task of stabilizing the economic growth. It strengthened proactive fine-tuning in a forward-looking manner, employed a combination of various monetary policy tools, improved the macro-prudential policy framework, continued working on financial reforms such as RMB exchange rate mechanism, and well managed the relationship among a fairly fast and stable economic growth, the structural adjustment and the inflation expectation. At the same time, the PBC managed the foreign exchange reserves in line with the principle of "safety, liquidity and profitability". It enhanced mid- and long-term strategic planning, improved the diversified currency and asset allocation framework and explored new channels and methods to use foreign reserves, achieving the operational goals.

Second, the PBC strengthened cooperation with the international community and contributed to fighting the crisis. It enhanced coordination with EU, the ECB and the IMF as well as related countries and closely monitored the development of the situation. It also offered help to the crisis-hit countries through bilateral and multilateral channels. By doing these, the PBC also created a favorable external environment for China to carry out its structure adjustment and economic stabilizing policies.

Third, the PBC actively participated in the development of the global financial safety net. As always, it supported the IMF in playing a critical role in combating the crisis. It worked with other authorities on fighting the crisis and actively communicated with them on the issue of providing the IMF with additional funds. The PBC provided the IMF with US\$ 43 billion.

The active role the PBC played in fighting the crisis supported market confidence. It strengthened China's ties with the European countries and improved China's international status. It also provided China with the opportunity to reduce negative external impact and maintain a stable economic growth.

MONETARY POLICY

In 2012, following the overall arrangements of the CPC Central Committee and the State Council, the PBC continued to implement a prudent monetary policy. In view of the changes such as deceleration of economic growth and decrease of inflation rate, fine-tuning and preemptive adjustments were carried out in a forward-looking manner. The PBC twice lowered the reserve requirement ratio, flexibly carried out open market operations in both directions, twice lowered the benchmark lending and deposit rates, gave full play to the counter-cyclical adjustments through dynamic adjustment of differentiated reserve requirements to promote reasonable growth of money and credit. Moreover, the PBC strengthened the coordination between credit policy and industrial policies, and promoted financial institutions to optimize their credit structure. Significant progress was made in market-based reform of interest rate and exchange rate. In the next stage, the PBC will continue to implement a prudent monetary policy, maintain the continuity and stability of policies, make policy measures more forward looking, targeted and flexible, properly handle the relationship among stable growth, economic restructuring, inflation control and risk prevention, and maintain the stability of the monetary environment.

Monetary Policy Measures in 2012

The year 2012 was a year when the 18th National Congress of the Communist Party of China (NCCPC) was successfully held and was also a key transitional year in implementing the 12th Five-Year Plan. Faced with complex and fast-changing economic and financial situations both at home and abroad, the PBC followed the overall arrangements of the CPC Central Committee and the State Council, continued to

implement a prudent monetary policy, made efforts to make the policy measures more forward-looking, targeted, and flexible. According to changes in the economic situation, the PBC attached more importance to the goal of stable growth and properly enhanced policy fine-tunings and preemptive adjustments in a timely manner.

Reserve requirement ratio and open market operations were combined to properly adjust the liquidity of the banking system

In 2012, as both the balance of payments and the RMB exchange rate moved toward an equilibrium level, and the European sovereign debt crisis caused turbulence in the international financial market, the inflow of foreign exchange declined. Consequently, the central bank liquidity management needed to improve in the great changes took place in the supply of liquidity in the banking system. In the first half of 2012, along with twice cuts of the reserve requirement ratio by 0.5 percentage points in February and May, 2012, the PBC conducted two-way open market operations by using repo as the main tool supplemented by reverse repo operations. In the latter half of 2012, reverse repo operation became the main channel to provide liquidity, effectively smoothing out liquidity fluctuations caused by a multiple of factors.

The dynamic adjustment mechanism of differentiated reserve requirements were used in counter-cyclical management to promote stable and proper credit growth

In 2012, taking into consideration of developments in economic and financial situations at home and abroad, the soundness of financial institutions and their records of implementing the credit policy, the PBC adjusted the parameters of the dynamic adjustment mechanism of differentiated reserve requirements to carry out countercyclical adjustments, to guide the growth of credit at a stable and reasonable pace, and to enhance

risk prevention capacity of financial institutions. At the beginning of 2012, in response to the slowdown of economic growth and the decline in CPI growth, the PBC timely reduced the parameters of macroeconomic condition. Meanwhile, the PBC guided rural financial institutions to take into full account of seasonal credit demand of agricultural cycle and to timely extend agricultural loans to support farming activities in spring in an effort to meet the credit demand of the agriculture, rural areas, and farmers. Starting from May, in line with the requirement to maintain stable growth, the PBC strengthened preemptive and fine tunings and encouraged local financial institutions which had complied with the credit policy and had relatively abundant liquidity to increase lending.

Benchmark deposit and lending rates were timely lowered and the floating bands of deposit and lending rates were expanded

In light of changes in economic situation, the PBC cut the RMB benchmark deposit and loan interest rates of financial institutions in June and July respectively. As a result, the one-year RMB benchmark deposit rate was cut from 3.5 percent to 3 percent, with a cumulative decline of 0.5 percentage points; the one-year benchmark loan rate was cut from 6.56 percent to 6 percent, with a cumulative decline of 0.56 percentage points. In the meantime, the ceiling of

the floating range for deposit interest rates of financial institutions was adjusted to 1.1 times the benchmark deposit rates, and the floor of loan interest rates was adjusted to 0.7 times the benchmark loan rates. The PBC continued to promote improvement in SHIBOR mechanism and strengthened quality control of quotations, as a result, SHIBOR's credibility and status as a benchmark was enhanced.

Window guidance and credit policy guidance was strengthened to promote credit structure optimization

To support the financial sector in providing services to the real economy, the PBC brought into full play the role of macro-credit policies in transforming economic growth pattern and adjusting economic structure, while strengthening adjustment to money and credit aggregates. Financial institutions were encouraged to step up financial support to agriculture, rural areas, and farmers, small- and micro-sized enterprises, energy conservation and environmental protection, and the ongoing or follow-up key projects that have a significant impact on the overall economy. The PBC, in line with requirements of regional development policy of the state, guided reasonable credit allocation to promote regional economic restructuring and optimization of industrial layout. Financial support was strengthened for scientific and technological innovation, strategic emerging industries, tourism industry, cultural indus-

try and other industries that are important to social and economic development, as well as programs affecting people's livelihood, including employment and poverty alleviation. The PBC continued to support the construction of affordable housing and modest-sized commercial residential properties, and purchases of first-time home buyers.

Central Bank loans and discounts played a role in guiding credit to the agricultural sector and small- and micro-sized enterprises

At the beginning of 2012, the PBC further improved the management of agro-linked central bank loans to support sustainable development of the rural economy. In August, the PBC conducted a pilot program of agro-linked central bank loans in Shaanxi and Heilongjiang provinces, in which recipients eligible for agro-linked central bank loans were expanded from deposit-taking financial institutions incorporated in counties and townships such as rural commercial banks, rural cooperative banks, rural credit cooperatives, and village and township banks, to the aforementioned four kinds of financial institutions incorporated in urban areas whose agro-linked loans accounted for no less than 70 percent of their total loans, so as to guide and support those institutions to expand agro-linked credit. Meanwhile, in view of changes in demand and supply of liquidity, the PBC explored the use of central bank loans and discounts to inject liquidity,

complemented by other monetary policy tools, to ensure ample supply of liquidity in the banking system.

RMB exchange rate regime was further improved and the floating flexibility of RMB exchange rate was enhanced

The PBC further improved the RMB exchange-rate regime reform in line with the principle of making it a self-initiated, controllable, and gradual process. Focusing on the role of market supply and demand and making adjustments with reference to a basket of currencies, the PBC enhanced the flexibility of the RMB exchange rate and kept it basically stable at an adaptive and equilibrium level. From April 16, 2012, the PBC widened the floating band of the RMB trading price against the US dollar on the interbank spot foreign exchange market from 0.5 percent to 1 percent. Furthermore, the PBC continued to promote the development direct trading between RMB and other currencies of emerging markets, and opened the direct trading between RMB and yen on the interbank foreign exchange market.

Money and Credit Growth were Consistent with Expectations

Money supply registered relatively fast growth

At the end of 2012, outstanding M2 was 97.4 trillion yuan, up 13.8 percent year on year. The growth rate rose by 0.2 percentage

points from that of the previous year. Outstanding M1 was 30.9 trillion yuan, up 6.5 percent year on year. Currency in circulation M0 totaled 5.5 trillion yuan, up 7.7 percent year on year.

Growth of RMB loans was stable

At the end of 2012, outstanding RMB loans stood at 63.0 trillion yuan, up 15 percent year on year. The fluctuation of RMB lending growth in 2012 was notably lower than that of the previous two years. The outstanding RMB loans increased 8.2 trillion yuan over that at the beginning of the year, and rose by 732 billion yuan from that of the previous year. In general, credit provision within the year was balanced under the guidance of macro-prudential policy instruments, and proportion of newly-added loans in the four quarters 2012 was 30 percent, 30 percent, 20 percent, and 20 percent respectively.

Social financing structure was diversified

The preliminary statistics showed that in 2012 the all-system financing aggregate hit a historical high and reached 15.76 trillion yuan, up 2.93 trillion yuan year on year. Comparing to the previous year, corporate bonds financing increased 2.25 trillion yuan, up 884 billion yuan; trust loans grew by 1.29 trillion yuan, up 1.09 trillion yuan; loans denominated in foreign currency rose by an equivalent of 916.3 billion yuan, up 345.1 billion yuan; undiscounted banker's acceptances grew by 1.05 trillion yuan, up 22.7

billion yuan; entrusted loans increased 1.28 trillion yuan, down by 12.5 billion yuan; financing by domestic non-financial institutions through the domestic stock markets stood at 250.8 billion yuan, down by 186.9 billion yuan.

Credit structure continued to improve

Credit support to small- and micro-sized enterprises and to agriculture, rural areas and farmers maintained strong momentum. By the end of 2012, outstanding RMB loans to these enterprises increased 16.6 percent, outpacing that of loans to all enterprises by 1.6 percentage points. Outstanding agro-linked loans in both the domestic and foreign currencies grew 20.7 percent from that of the previous year, higher than the growth of all loans by 5.7 percentage points. In 2012, credit support for affordable housing was gradually reinforced with new loans reaching 179.6 billion yuan, accounting for 89.3 percent of the total real estate development loans.

Overall interest rate level declined

In December, the weighted average lending rate was 6.78 percent, down by 1.23 percentage points from that at the beginning of the year. The share of loans with lower interest rate increased. In December, the share of loans with interest rates lower than the benchmark rate was 14.16 percent, up by 7.14 percentage points compared with that at the beginning of the year. In December,

the weighted average interest rate of bond-plledged repos and of interbank lending stood at 2.62 percent and 2.61 percent respectively, down by 75 and 72 basis points from that of the previous year.

The flexibility of RMB exchange rate increased significantly

In 2012, the RMB exchange rate appreciated slightly, moved in both directions and was consistent with the expectations. At the end of 2012, the central parity of the RMB against the US dollar closed at 6.2855 yuan, with an appreciation of 154 basis points or 0.25 percent from that of 2011. The BIS estimated that in 2012 nominal effective exchange rate of the RMB appreciated 1.73 percent and real effective exchange rate appreciated 2.22 percent.

Outlook of Monetary Policy in 2013

In 2013, the PBC will follow the overall arrangements of the CPC Central Committee and the State Council, implement the decisions made at the Central Economic Work Conference, take sustainable development as the central theme and acceleration of the shift in growth pattern as the core policy, put high priority on higher quality economic growth and efficiency, follow the principle of making progress while maintaining stability, continue to implement a prudent monetary policy, preserve the continuity and stability of policy, make the policy measures more forward-looking, targeted and flexible,

properly handle the relationship among relatively rapid and stable growth, structural adjustment, management of inflation and risk prevention, strengthen policy coordination, preserve a stable monetary environment, improve financial services to the real economy, maintain overall price stability, create conditions for the self-adjusting and self-stabilizing mechanisms of market economy to work effectively, and promote the sustainable and sound development of the economy.

First, a mix of monetary policy tools will be used, and the macro-prudential policy framework will be improved to keep market liquidity at reasonable levels and guide the stable and proper growth of money, credit and the all-system financing aggregate. It is expected that M2 growth will be around 13 percent in 2013.

Second, credit resources allocation will

be optimized and structural adjustments of the credit assets in stock will be enhanced to support structural adjustments in the economy and to better serve the real economy.

Third, the market-based interest rate reform and RMB exchange rate regime reform will be promoted to improve the efficiency of credit resource allocation and to improve the macro-financial management framework.

Fourth, effective measures will be adopted to mitigate systemic financial risks and to maintain stability of the financial system. Macro-prudential regulation will be enhanced to guide financial institutions to operate soundly. Financial institutions will be urged to strengthen internal control and risk management. Efforts will continuously be made to better monitor the potential risks in financial innovation and development of business.

CREDIT POLICY

In 2012, in line with the decisions of the CPC Central Committee and the State Council, the PBC implemented the scientific outlook on development in an in-depth manner and adhered to the essential requirement that finance should serve real economy, fulfilling mandates of the central bank. Efforts were made to enhance coordination and cooperation between credit policy and industrial policies, to promote structural optimization of regional economy, to speed up innovation of rural financial products and services, and to improve financial services for small- and medium- sized enterprises (SMEs), especially small- and micro-businesses, to focus on financial services related to people's livelihood, to continue to implement differentiated housing credit policy, and to prevent and alleviate local debt related risks. All of these efforts had achieved remarkable results.

Efforts were made to enhance coordination and cooperation between credit policy and industrial policies so as to support and promote the shift of economic growth pattern and the strategic adjustment of economic structure

Implementing the macroeconomic policy of the CPC Central Committee and the State Council, the PBC required banking financial institutions to continue implementing prudent monetary policy and to allocate financial resources in a rational way, so as to better serve stable and rapid economic development. The PBC also guided financial institutions to intensify financial support to the important areas of economic and social

development, such as scientific and technological innovation, emerging industries of strategic importance and service industry. Financial institutions were urged and guided to extend credit support to key industries and sectors, such as railways, shipping, thermal power and steel, under the precondition of preventing credit risk and in accordance with the principle of adjusting structure, guaranteeing key industries, supporting enterprises that performed well and limiting lending to loss-making enterprises. Financial institutions were encouraged to follow the principle of taking controllable risk and doing sustainable business, and to use credit products flexibly to enhance support for

export-oriented enterprises that were able to attract orders, profitable and meet prudential credit conditions. In line with the principle of “differentiated treatment for different industries”, financial institutions were guided to increase “green” credit, that was to say, to intensify credit and financing support to sectors that promoted energy conservation, emission reduction, and development of circular economy, and to explore how to establish and improve the long-term mechanism of extending financial support to energy saving and emission reduction industries. Increased efforts were made to adjust the credit structure to facilitate the development of modern service industry. Financial institutions were guided and urged to implement the policy that required the financial industry to support the development of service industry, cultural industry, service outsourcing, tourism and household services. They were also required to start with the improvement and innovation of guaranteeing method and explore credit products and services that fit industries’ development features. Together with National Development and Reform Commission (NDRC), China National Tourism Administration (CNTA) and CBRC, the PBC formulated and promulgated *Opinions on Stepping up Financial Support to Facilitate the Rapid Development of Tourism Industry*, requiring financial institutions to support the development of tourism industry through improving credit management, and innovatively developing credit products

and business models that are in line with the characteristics of tourism. In accordance with the policy requirements of the CPC Central Committee and the State Council to invigorate circulation and stimulate domestic demand, the PBC strengthened credit support toward circulation sectors and encouraged credit sales to grow. Study was made on supporting policies for the extension of financial support to scientific and technological innovation, and efforts were made to actively promote the pilot program of combining technology with finance, so as to improve financial service for technological innovation.

Efforts were made in using credit policy to guide regional economic structure optimization

The PBC made great efforts in implementing the national policy for regional economic development. Credit policy was made to play a guiding role to a further extent in promoting the implementation of the strategies of Western Development, Revitalization of Old Industrial Bases in Northeast China, Rise of Central China, etc. Attention was focused on financial support and services for the development of key areas, so as to make the economy of eastern, central and western areas complement each other and to promote structural adjustment of regional economy and optimization of industrial layout. Efforts were made to promote rational distribution, optimization and upgrading of industrial

structure within a region, and to facilitate overall competitiveness enhancement. The PBC continued to work on financial services for post-disaster reconstruction in the earthquake and landslide stricken areas. Efforts were also made to implement the strategic plan for the National Principal Function Region and to contemplate plans for providing financial service support for the key regions, including Fujian Straits Blue Economy Pilot Area, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone in Shenzhen, Guangzhou Nansha New District, Wuhan City Circle, City Group of Changsha, Zhuzhou and Xiangtan, Huoerguosi Economic Development Zone in Kashi, Comprehensive Experiment Zone for Ecological Conservation in Sanjiangyuan and the like. In order to make full use of preferential loan policy for frontier and civilian production and trade, measures were taken to improve financial services for ethnic areas, and research on drafting detailed policy measures was underway.

Measures were taken to accelerate innovation of rural financial products and services, so as to promote rural financial services

Job was done to implement the policy of CPC Central Committee on strengthening agriculture, benefiting rural residents, and allowing people in rural areas to prosper. Efforts were made to speed up innovation of rural financial products and services, and to

enhance financial support for key sectors, including agriculture related science and technology development, water conservation reform and development, and collective forest tenure reform. To implement the CPC Central Committee Document No.1 in 2012, the PBC promulgated, jointly with NDRC, MOF, Ministry of Water Resources and three other ministries, *Opinions on Further Improving Financial Services for Water Conservation Development and Reform*, encouraging and guiding financial institutions to improve and enhance financial support and services for water conservation reform and development in an all-round way. Efforts were made to strengthen communication and coordination with related agencies such as State Forestry Administration, so as to deepen cooperation between forestry and finance, and to promote healthy development of mortgage loan business for collective forest rights. Measures were taken to promote the innovation of rural financial products and services, with specific monitoring system being established for summarizing and disseminating innovation experience. In 2012, the model innovative products and practices were compiled and promulgated, such as Hunan Leiyang camellia forest right mortgage loan, Shanxi order-driven agriculture and supply chain financing, building demonstration counties of rural financial innovation in Henan, and Hubei Xianning “1+1” financial model innovation, which played a positive role in further improving financial services in rural

areas. Thanks to these measures, agriculture-related loans grew steadily. By the end of 2012, outstanding balance of agriculture-related loans with financial institutions in local and foreign currencies stood at 17.62 trillion yuan, accounting for 26.2 percent of the total loans, up 20.7 percent year on year. New agriculture-related loans registered 3 trillion yuan, accounting for 33 percent of the total new loans.

Further efforts were made to improve financial services for SMEs, especially small- and micro-enterprises

The PBC worked to implement the *Opinions of the State Council on Further Supporting the Healthy Development of Small- and Micro-Enterprises*, to guide financial institutions to enhance support for the development of SMEs, especially small- and micro-enterprises, and to improve financial services for SMEs. A variety of monetary policy instruments, such as differentiated required reserve ratio, were used in a comprehensive manner to improve credit policy implementation. The PBC improved evaluation of SME credit policy effectiveness, guided financial institutions to implement policies and measures in an earnest way and to increase lending to SMEs and micro-enterprises. In September, the PBC and CBRC promulgated *Notice on Implementing the Spirit of the CPC Central Committee with Regard to Improving Financial Services and Related Issues*, requiring financial institutions to improve

and strengthen weak financial services to the sectors related to agriculture, farmers and rural areas, and small- and micro-enterprises, so as to effectively meet reasonable financing needs of the real economy. As of end-2012, outstanding loans extended to small- and micro-enterprises by financial institutions (including discounted bills) stood at 11.58 trillion yuan, up 16.6 percent year on year, 8 and 1 percentage points higher than those of large and medium-sized enterprises respectively, and 1.6 percentage points higher than the growth of all loans.

Attention was focused on providing financial services for people's livelihood to promote inclusive growth

Regarding the key issues of promoting employment by encouraging entrepreneurship and alleviating poverty among the disabled population, the PBC strengthened guidance on implementing the policy of small-value secured loans. With the attention focused on employment and self-employment of rural women, college graduates-turned-village officials, and migrant workers returning home, efforts were made to promote sound development of small-value secured loan, so as to create a facilitating environment for the financial sectors to support employment, re-employment and people's livelihood. As of the end of the year, the outstanding value of small-value secured loans issued by financial institutions registered 71.1 billion yuan, a year on year growth of

62.6 percent, 47 percentage points higher than that of the average. The newly issued loans recorded 27.4 billion yuan, up 12.5 billion yuan year on year. Meanwhile, in line with the *Outline for Development-oriented Poverty Reduction for China's Rural Areas (2011~2020)*, in-depth research was carried out on key issues in extending financial support for poverty alleviation in the new era. In addition, increased efforts were made on the thematic study on the issues of extending financial support to the development of contiguous poverty-stricken areas, alleviating poverty and helping the disabled out of poverty, in an effort to improve the discount loan system for poverty reduction and rehabilitation of the disabled, building a sustainable development mechanism for poverty relief with credit.

Continued efforts were made to implement differentiated housing credit policy, and to enhance support for small- and medium-sized ordinary residential housing and government-subsidized affordable housing projects

In 2012, according to the deployment of the State Council on regulating the real estate market, the PBC continued to urge and guide financial institutions to strictly implement differentiated housing credit policy, to improve financial services and optimize the structure of interest rates to achieve reasonable pricing, so as to meet household demand for mortgages for first-

time purchase of ordinary residential housing. The PBC also continued to track and monitor the interest rates and down payment ratio for the first-time purchases, borrowers' indebtedness, and implementation of policies related to mortgages for the second and more purchases and mortgages for non-local residents. The PBC continued to provide financial support and services for affordable housing projects, kept track of local construction and operation models and financing methods, identified existing problems and adjusted policy measures accordingly. Measures were taken to promote the use of medium-term notes and other debt financing instruments for affordable housing construction and to promote the pilot program of using provident fund for affordable housing construction. Meanwhile, window guidance was strengthened to guide banking financial institutions to support reasonable credit needs of small- and medium-sized ordinary residential housing projects and from government land reserve institutions on the basis of risk prevention, so as to increase effective supply in the market. The PBC promulgated the *Guiding Opinions of the PBC on Further Improving Loan Management for Rural Housing Reconstruction in Wenchuan Earthquake-stricken Areas*, aiming to ensure good practice in post-lending management.

Progress were made with regard to preventing and mitigating local government debt related risks

In cooperation with MOF and other relevant ministries, the PBC continued with verifying data on local government debt, closely tracking the development and features of bank funding flowing into the local government financing platform, so as to re-

inforce early warning of credit risk for financial institutions. Jointly with MOF, NDRC, CBRC and other ministries, the PBC drafted the *Notice of Restraining Local Governments from Carrying out Illegal Financing Activities* and other documents.

• BOX •

Agro-linked Loans Grew Rapidly and Greatly Supported the Development of Agriculture, Rural Area and Farmers

Under the leadership of the CPC Central Committee and the State Council, PBC made unwavering efforts to promote the reform of rural financial system and improve the financial service for the development of agriculture, rural area and farmers. A system of evaluation standards and methodology had been put in place after in-depth studies, which has effectively promoted the financial institutions to lend more to the agricultural sector, rural area and farmers. In 2007, the PBC joined efforts with CBRC in formulating *Statistical System on Agro-linked Loans*. The system set up a statistical framework which presents the data on all-inclusive agro-linked loans in three dimensions, namely the location, borrower and purpose. It helped improve the institutional infrastructure for rural finance, and provided an important indicator system for making and implementing policy incentives and supporting measures. In 2010, guided by the *Decisions of the CPC Central Committee on Several Major Issuers Concerning the Promotion of Reform and Development in Rural Areas* endorsed at the 3rd plenary session of the 17th National Congress of the CPC, the PBC joined CBRC in formulating *Evaluation Measures on Encouraging County-Level Legal Person Financial Institutions to Extend a Certain Proportion of New Deposits to Local Programs (Provisional)*, providing that county-level legal person financial institutions be rewarded in case they meet the standards set in the Evaluation Measures. The launch of the Evaluation Measures helped put in place an evaluation system and incentive mechanism for rural lending, promoting county-level financial institutions to increase lending to local programs.

In recent years, the PBC applied differentiated reserve requirement ratios to major agro-linked financial institutions, increased agro-linked central bank lending, and guided the extension of agro-linked loans. At present, the reserve requirement ratios for Rural Commercial Banks, Rural Cooperative Banks and Rural Credit Cooperatives (RCC) are respectively 2 percentage points, 5.5 percentage points and 6 percentage points lower than that for large commercial banks. The county level branches of the ABC that issue large-size of agro-linked loans enjoy a reserve requirement ratio of 2 percentage points lower than the ABC as a whole. The county-level legal person

financial institutions whose extension of local loans reach a percentage of new deposits as required can enjoy a reserve requirement ratio that is one percentage point lower than financial institutions of the same kind. More central bank lending will be provided to county level legal person financial institutions that meet the standards of both appropriating a certain proportion of new deposits to local loans and continuing to meet lending thresholds after the redemption of central bank bills provided to RCCs. In 2012, 43.3 percent of the county-level legal person financial institutions that met the requirements of extending a certain proportion of new deposits to local loans were rewarded a total of 30 billion yuan of central bank lending. Moreover, for financial institutions whose local lending exceeded the required proportion, the fiscal and taxation authorities implemented policies to provide incremental reward, give earmarked subsidies for key programs, and carried out write-off, restructuring and relief of non-performing agro-linked loans, in order to reduce regulatory fees and enhance fiscal and taxation policy support for the rural area. Governments of various levels were actively making supporting policy incentives to encourage small rural financial institutions to lend more to agriculture, rural areas and farmers.

Bolstered by the improving incentive mechanisms, local financial institutions increased agro-linked lending rapidly, providing greater financial support to the development of agriculture, rural areas and farmers. By end-2012, the outstanding balance of all inclusive agro-linked loans, loans extended to the rural area (county level and below), loans for the rural households and loans extended to agricultural, forestry, animal husbandry and fishing industries denominated in domestic and foreign currencies issued by financial institutions were 17.6 trillion yuan, 14.5 trillion yuan, 3.6 trillion yuan and 2.7 trillion yuan respectively, accounting for 26.2 percent, 21.6 percent, 5.4 percent and 4.1 percent of the same period total outstanding loans. Since 2008, the average annual growth rates of all inclusive agro-linked loans, loans extended to the rural area (county level and below), loans for the rural households and loans extended to agricultural, forestry, animal husbandry and fishing industries registered 24.3 percent, 24.4 percent, 22.3 percent and 13.4 percent respectively. The average annual growth of all inclusive agro-linked loans, loans extended to the rural area (county level and below), loans for the rural households exceeded the 20.3 percent average annual growth rate of all loans of the same period.

FINANCIAL LEGISLATION

In 2012, in line with the requirements of Central Economic Work Conference and National Financial Work Conference, the PBC continued to improve financial legal system by taking into account the need of financial system reform and requirements of building a law-governed government. The PBC effectively enhanced the capacity to fulfill its mandates according to law, conducted in-depth studies on cutting-edge and topical issues in financial legislation, and properly handled international financial legal affairs. All of this witnessed desirable outcomes.

Actively promoted key pieces of financial legislation

First, the PBC actively cooperated with the Legislative Affairs Office of the State Council in promoting the formulation of *Regulations on Credit Information Industry*. Approved by the meeting of the Standing Committee of the State Council on December 26, 2012 and unveiled on January 21, 2013, the *Regulations on Credit Information Industry* would take effect on March 15 2013, marking the official debut of regulations on credit information industry after ten years of preparation and the start of law-governed development of credit information industry in China. Second, the PBC actively cooperated with other relevant agencies in amending economic and financial laws and regulations, such as the *Budget Law of the*

People's Republic of China, the *Law of the People's Republic of China on Securities Investment Fund* and the *Regulations on the Administration of Futures Trading*, steadily promoting the drafting of regulations on bank cards and deposit insurance, and pushing forward the revision of the *Provisional Regulations on Cash Management*. Third, rules and regulations as well as normative documents pertinent to the fulfillment of PBC's mandates were unveiled, including measures for freezing terrorist assets, the administration of prepaid cards and the administration of export and import of gold and gold products, and administrative rules on cross-border RMB businesses.

Further enhanced law-based administration and promoted “two managements & two comprehensives”

The PBC continued to promote law-based administration. First, the building of institutional arrangements for law-based administration was stepped up. In line with the *Compendium of Completely Implementing Law-based Administration in an All-round Way and Opinions of the State Council on Strengthening the Building of a Government Ruled by Law* and taking into consideration the capacity of the PBC branches in fulfilling its mandates, the PBC formulated the *Guiding Opinions of the People's Bank of China on Promoting Law-based Administration of Branch Offices*, putting forward specific requirements for law-based administration at branch offices in ten aspects, including strengthening the organizational arrangements and enhancing the awareness of law-based administration. Second, efforts were made to adjust and straighten out items that require administrative approval. To carry out the principles set at the meeting of the State Council on reforming administrative approval system and meet the requirements of the office of joint-ministerial meeting on reforming administrative approval system, the PBC further adjusted and cleaned up items involving administrative approval. Third, the PBC improved administrative appeals. While following the law in dealing with appeals, the PBC enhanced mediation and focused on solving problems through explanation

and persuasion. As a result, many cases were solved through reconciliation or because the litigant gave up or withdrew the appeal. The PBC ensured that disputes were settled upon the close of each case, which effectively dissolved social conflicts in the financial sector.

“Two managements and two comprehensives”^① were actively promoted. Following the philosophy of “promulgating experiences on the basis of carrying out pilot projects” and “giving discretion to local branch offices without imposing any compulsory requirements”, the PBC continued to prompt its branches to carry forward “two managements and two comprehensives” through onsite investigation and research, statistical analysis and experience sharing.

Strictly guarded against legal risks

First, the PBC improved rules on the work relating to legal affairs. The PBC clarified key issues concerning the implementation of *Rules of the People's Bank of China on Legal Affairs*, facilitating the transition to a new model in which legal affairs were handled on a province-by-province basis. Second, the PBC carefully studied legal issues in a bid to provide better legal counsel. It conducted researches on various issues and provided legal advice accordingly, including the investment by foreign central banks in China's interbank bond market and

^①Namely, business opening management, major issue reporting management, comprehensive law enforcement inspection and comprehensive evaluation of financial institutions.

the signing of agency agreement with the PBC, crackdowns on underground speculation on gold, the debut of mobile payment standards, the issuance and expansion of financial IC cards, the adjustment of commission charged for using bank cards, and the licensing practice under *Payment Business Licensing* as well as change of information about payment institutions. Third, efforts were made to conduct legal reviews of public information disclosure and continuously improve rules and regulations in this regard.

Properly handled and engaged in legal affairs involved in international finance

First, the PBC actively participated in the Fourth China-US Strategic and Economic Dialogue. It carried out an in-depth study on the impact of the US *Foreign Account Tax Compliance Act* (FATCA) on China's financial sector and corresponding responses, and continued to address the issue of "long-arm jurisdiction" adopted by foreign courts when dealing with Chinese financial institutions. Second, the PBC cooperated with relevant departments in responding to the electronic payment service case at the World Trade Organization (WTO). At the beginning of the year, the WTO electronic payment service case entered the final phase of reaching a verdict after consultations, preliminary review by the expert group, and two rounds of written submission and hearings. Upon the release of final report by the expert group, the PBC actively studied plans to imple-

ment the verdict of expert group so as to effectively safeguard national interest and the overall interest of relevant industries. Third, the PBC took part in the Financial Stability Board (FSB) Working Group on Data Gaps and Systemic Linkages. Fourth, it actively backed up international cooperation in anti-money laundering (AML), and assisted in China's graduation from the follow-up procedures of the Financial Action Task Force (FATF), which made China the first developing country that graduated from FATF's follow-up procedures after becoming basically compliant with FATF's core and key recommendations.

Conducted in-depth studies on cutting-edge and topical issues in financial legislation

The PBC continued to watch closely legislative developments and implementation in financial regulatory reform in major countries and regions, conducted in-depth studies on cutting-edge and topical issues in financial legislation, and published various research papers, including the *Adjustment of Central Bank Functions in Major Countries and Regions since the Outbreak of Financial Crisis and Its Implications*, the *Regulatory and Legal Framework on Private Lending in the US: An Example from Online Lending*, the *Protection of Financial Privacy: A US Example*, the *First M&A in the US by a Chinese Bank with the Approval from the US Federal Reserve*, the *US Unveils Final Rules on Identifying Systemically Important Non-*

bank Financial Institutions, and the Latest Developments in Implementing the Dodd-Frank Act in the US, which provided timely policy reference.

Continuously deepened law-related education and trainings

The year of 2012 was the first year for administering financial legal affairs on a province-by-province basis and also a key year in the 6th Five-Year Plan period for law-related education and trainings. The

PBC held legal training courses in various forms, including lectures, panel discussions and simulated courts, which improved the professionalism of officials specializing in financial legal affairs and their capacity to fulfill mandates according to law. In the meantime, efforts were made to beef up exchange on information related to legal affairs in the financial sector, and to encourage the exchange and promotion of good practices and experience.

FINANCIAL STABILITY

In 2012, the PBC closely monitored systemic and regional financial risks and took measures to address them, thoroughly examined potential risks in key areas, explored ways to conduct on-site inspections and stress tests of financial institutions, steadily promoted cooperation in financial supervision and set up a financial stability coordination mechanism, actively engaged in international cooperation in financial stability, enhanced China's financial soundness standards, made progress in building a deposit insurance system, improved management of central bank lending for financial stability purposes, boosted its capacity in risk monitoring, evaluation, early warning and resolution, ensuring the smooth and healthy operation of China's financial system.

Enhanced financial risk monitoring and assessment

The PBC released *China Financial Stability Report (2012)* and *China Regional Financial Stability Report (2012)*, in which it fully reviewed the soundness of China's financial system. It continued monitoring and evaluating risks in the financial institutions in banking, securities and futures and insurance sectors and securities market. It strengthened the risk monitoring of small- and medium-sized local financial institutions and expanded the monitoring scope by establishing a risk reporting system for non-financial institutions with financing functions. The reporting system covered financial guarantee companies, pawn shops, micro-credit companies and rural financial organizations

for mutual assistance. It also strengthened monitoring and analysis of the internal connectedness of financial system, as well as the linkage between the financial system and the real economy. It closely monitored the development of comprehensive business operation of financial institutions, contemplating issuing guidance on risk monitoring for financial holding companies, and enhanced risk monitoring on financial holding companies and cross-sector financial instruments such as wealth management products.

Thoroughly examined risks in key financial areas

The PBC and its regional branches fully examined and conducted thematic reviews of risks in China's financial system, in which

they considered factors such as slow global economic growth, turbulences in the international financial market and downward pressure on domestic economy that emerged in 2012. The PBC also worked with financial supervisory authorities to study China's economic and financial development and risks, based on which they made targeted preventive measures and contingent plans.

Explored ways to conduct on-site stability inspections and stress tests

The PBC developed *Guidelines for Conducting On-site Inspections on Soundness of Banking Institutions* and *Provisional Guidelines for Conducting On-site Inspections on Soundness of Insurance Institutions*, with which it standardized on-site inspection practices. It conducted on-site thematic inspections on commercial banks' off-balance sheet operations and their evaluation systems of personnel performance. It conducted on-site inspections on some municipal commercial banks and county branches of rural credit unions. It also selected certain areas and carried out on-site soundness inspections on securities firms. It kept using stress tests to evaluate risks in the financial system and conducted tests of credit risk on 17 major commercial banks.

Actively participated in international cooperation on financial stability issues

First, the PBC fully participated in the work of the Financial Stability Board (FSB)

and its Standing Committee on Standard Implementation and Resolution Steering Group; Basel Committee on Banking Supervision and its Policy Development Group and Macro-Prudential Group. It organized and conducted the FSB peer reviews of risk governance and resolution regimes in China. It deeply involved itself in researching, designing and implementing policies to reduce risks of systemically important financial institutions (SIFIs) and established their resolution regimes. Second, the PBC studied international supervisory standards, based on which it improved China's standards for sound practices in the financial sector. It promoted the adoption of Basel III capital accord in an active and steady manner. It also worked with relevant domestic authorities and developed a framework for recognition and evaluation of domestic systemically important financial institutions (D-SIFI), and their regulation and supervision were also enhanced. The PBC studied and organized work on resolution plans and resolvability assessment of domestic systemically important banks (D-SIBs). It closely followed the development of international financial regulation and supervision reforms, deeply analyzed reform trends in major economies and studied and improved PBC's administrative mandates. Third, the PBC actively participated in regional and bilateral cooperation on financial stability issues. It worked with EMEAP's bank supervision working group and promoted exchanges of views on financial supervision, regulation

and stability issues between China and other economies, including the U.S., the EU and Germany, and etc.

Steadily promoted institutional building in supervisory cooperation and financial stability coordination

The PBC worked with the CSRC and the CIRC on strengthening supervisory cooperation. The PBC and the CSRC signed *the PBC-CSRC Memorandum of Understanding on Strengthening Supervision on Securities and Futures to Maintain Financial Stability*, with which both sides solved the problem of insufficient supervisory capability over securities and futures at municipal and county levels by delegating the supervisory power to the PBC branches. This is aimed at improving the supervision efficiency and to maintain financial stability. The PBC worked with the CBRC and the CSRC on pilot programs of commercial banks setting up fund management companies, which created new channels for deposits to flow to the capital market in an orderly manner. It also organized seminars on strengthening regional financial stability with financial bureaus/offices at local governments to study ways to further develop local financial management system and maintain regional financial stability.

The publication of detailed China's Financial Sector Assessment Program report for the first time

China's first Financial Sector Assessment Program (FSAP) was completed in November 2011. In April 2012, the IMF and the World Bank released detailed report on China's compliance with international standards in the areas of banking, securities and insurance sectors, payment systems and securities settlement systems. The report further promoted China's image as strictly complying with international standards, and showed that China, as member of the Financial Stability Board (FSB), had honored its commitment of "leading by example". In the future, China will accept the FSB country peer review and regular FSAP follow-up reviews.

Steadily advanced the development of a deposit insurance system

After the 2012 Fourth National Financial Work Conference, the PBC worked with relevant authorities on the establishment of a deposit insurance system. It studied and developed plans for implementation, made preparations and considered the timing and effects of the program. It conducted a survey on deposit accounts nation-wide to study the relevant auxiliary measures. The PBC also worked with the State Council's Legislative Affairs Office, studied international experience and pushed forward with drafting *Regulations on Deposit Insurance*.

Strengthened administration on central bank lending to maintain financial stability

The PBC strengthened supervision and inspections, enhanced statistics and data analysis, and improved the administration of central bank lending for financial stability purposes. It looked at the practical needs of borrowing financial institutions and took various effective measures, such as restructuring and debt-equity conversion, to pro-

mote the loan repayments. By doing that, the PBC used legal measures to ensure the safety of central bank's asset and its rights as creditor. In line with *the Administrative Measures of Recognizing Losses in Central Bank Lending for Financial Stability Proposes*, the PBC recognized loan losses and wrote off bad loans.

• BOX •

Establishing the Monitoring, Evaluation and Early Warning System on Systemic Financial Risks

After the outburst of the international financial crisis in 2008, the international community widely acknowledged that, systemic financial risks can be examined in two dimensions: the first is time or cyclical dimension, which focuses on the risks in a financial system relative to its capital and liquidity situation during a period of time. The second is the cross-sectional or structural dimension, which focuses on financial system's vulnerability caused by structural features such as inter-connectedness and risk distribution. Meanwhile, various "amplifiers" in the financial system, such as wrong pricing of loans, excessive leveraging, maturity mismatches, linkage, risk concentration, lack of transparency and complications, magnify such risks. Targeting the above-mentioned sources of risk, three kinds of monitoring and evaluation indicators have been designed: first, quantitative indicators such as credit to GDP ratio gaps and leverage ratio; second, price indicators such as the price of stocks, corporate bonds, real estate, etc, as well as real interest rate; third, comprehensive and model-based indicators, such as Systemic Risk Diagnosis (SRD) indicator developed by the ECB, the Risk Assessment Model of Systemic Institutions (RAMSI) designed by the Bank of England (BOE) and stress tests. In addition, market and institution specific regulatory information also help identify systemic risks. Major economies have also sped up their efforts in building systems and mechanisms on monitoring and evaluating systemic risks. For example, the Financial Stability Oversight Council was set up in the USA; The BOE established the Financial Policy Committee; The European Union (EU) founded the European Systemic Risk Board (ESRB). All the institutions are mandated to identify systemic risks in the financial system.

Over recent years, the PBC has been following international practices closely, and made active efforts in setting up a system of monitoring, evaluation and early warning of systemic risks in the financial sector which was tailored to China's specific circumstances on the basis of in-depth analysis of difficulties and risks in China's economic and financial operation and drawing upon risk prevention and mitigation experiences accumulated since 1997. First, borrowing from the IMF on Financial Soundness Indicators and Financial Sector Assessment Program (FSAP), and learning from major

economies on financial risk monitoring and evaluation, the PBC had preliminarily formulated a financial stability monitoring system covering macro-economic environment, the banking, securities and insurance sectors, financial markets, the government, corporate and household sectors, and financial infrastructure. The system will also gradually incorporate indicators covering non-bank financial institutions, such as financing guarantee companies, pawn shops and micro-credit companies, and private lending. Moreover, financial holding companies and cross-sector financial products will be monitored more closely to evaluate cross-market and cross-industry risks. Second, on-site evaluations of financial institutions' soundness were conducted. Since 2011, the PBC carried out on-site evaluations by reviewing statements and other documents of operational activities, and interviewing with relevant staff, so as to make an on-site assessment of corporate governance, internal control, risks of major business lines, contagious risks and resilience of financial institutions, especially those of systemic importance from the macro-prudential perspective. Such on-site evaluations played an important role for understanding the operation of financial institutions, and discovering potential financial risks in a timely manner. Third, the PBC has organized financial stability stress tests. Since 2010, the PBC stress-testing group ran regular stress tests on 17 major commercial banks nationwide. Both external^① and internal^② stress tests had been carried out, testing credit risks, market risks and liquidity risks of major commercial banks via sensitivity analysis and by running different scenarios. The stress test results helped discover the potential risks and resilience of China's banking sector. Fourth, cross-agency coordination and cooperation was strengthened. The PBC, in joint efforts with other financial regulators and macroeconomic management authorities, have been watching macroeconomic developments and the operation of the financial sector closely, so as to reinforce analysis and study on systemic risk factors, and formulate well-targeted risk prevention and resolution mechanisms and plans. Meanwhile, in order to engage local governments in maintaining regional financial stability, the PBC worked closely with local governments in exploring local financial management systems.

①For external stress tests, the PBC collected all data and ran the stress tests.

②For internal stress tests, the commercial banks ran the stress tests themselves, and the PBC stress test group gathered and analyzed the results.

FINANCIAL SECTOR REFORMS

In 2012, China continued deepening its financial reforms, promoting the establishment of a modern financial institutions system, and effectively improved financial sector's role in supporting the real economy. Encouraging progress was made in overseas operations of large commercial banks. The Agricultural Bank of China (ABC) further strengthened its Agriculture-related Financial Service Department, with its management and operation improved. Policy financial institutions and other financial institutions also pushed forward with their reforms.

Large commercial banks continued deepening their reforms

The Industry and Commercial Bank of China (ICBC), the ABC, the Bank of China (BOC), the China Construction Bank (CCB) and the Bank of Communications continued deepening their reforms, improving growth models and building modern financial institutions. The PBC conducted stress tests on systemically important banks, explored ways for on-site financial stability inspections and encouraged large commercial banks to strengthen their risk management. Through deepening reforms, the large commercial banks had strengthened their governance, business operation and risk management. This helped them maintain relatively high

profits and risk management capability, even in times of rising European sovereign debt crisis, worsening global recession and slowing domestic growth. By the year end, capital adequacy of the aforementioned five largest banks respectively registered 13.66 percent, 12.61 percent, 13.63 percent, 14.32 percent and 14.07 percent. Their NPL ratios were 0.85 percent, 1.33 percent, 0.95 percent, 0.99 percent and 0.92 percent, and their net income amounted to 238.691 billion yuan, 145.131 billion yuan, 145.522 billion yuan, 193.602 billion yuan and 58.373 billion yuan^①.

Large commercial banks also made progress in expanding their overseas operations. In 2012, with the approval of local supervi-

^①Resource: 2012 annual reports of large commercial banks.

sors, the ICBC established its subsidiary in Brazil and the ABC and the BOC set up their branches in New York and Chicago, respectively. The ICBC's applications were also approved by foreign authorities for acquiring the Bank of East Asia (U.S.) and the Standard Bank Argentina, respectively in May and November, 2012. These progresses, especially the ICBC becoming the first Chinese bank to make bank acquisitions in the U.S. and the Latin America, are important breakthroughs of Chinese banks to start operations in overseas financial markets. The PBC played a key role in facilitating the above efforts, through working with relevant authorities to carry out China's first Financial Sector Assessment Program (FSAP). For example, the U.S. Federal Reserve quoted paragraphs in the conclusion of the FSAP report in its warrants issued to the three banks, and relied on it as important reference in recognizing China's financial management framework. Moreover, the PBC used multiple platforms, such as the China-U.S. Strategic and Economic Dialogue (SED), to communicate with the U.S. and Brazilian authorities through face-to-face meetings or written forms, which largely quickened the authorization process.

The ABC continued to make progress in reforming its Agriculture-related Financial Service Department. The PBC had established a quarterly reporting system, supervising and providing guidance to the reform; it developed new implementation standards

for the ABC's Agriculture-related Financial Service Department to carry out the differentiated reserve requirements, making policies more effective in providing incentives and guidance; It carried out in-depth research on the pilot programs in deepening reforms of agriculture-related financial service in 12 provinces, and promoted the ABC to further strengthen related administrative and operational systems. The aim is for the ABC to explore and build a sustainable business model for agriculture-related financial services that is different from the urban business operations. By the end of the year, the outstanding loans extended by the 943 county-level business departments of 12 ABC's piloted provinces (regions and cities) registered 844 billion yuan, up 19.30 percent on a year on year basis, 5.5 percentage points higher than the general loan growth at these branches. The increased loan-to-deposit ratio reached 53.75 percent; the net profit after provision and amortization stood at 18.514 billion yuan; NPL ratio dropped from 2.34 percent in 2011 to 1.93 percent, with the provision ratio reaching 322.12 percent.

More progresses were made to promote reforms in policy financial institutions and other financial institutions

Progress was made in reforms of policy financial institutions. The PBC continued studying issues related to the credit and funding resources of the China Development Bank (CDB), reviewed and revised

reform plans of the Export-Import Bank of China (EIBC) and the Agriculture Development Bank of China (ADBC), and steadily worked on the reform plan for the China Export and Credit Insurance Cooperation (SINOSURE). In December, the SINOSURE held the ceremony for launching its reform and recapitalization program. It also convened the first meeting of board of directors and basically established a standard corporate governance framework.

The transformation and reform of asset management companies witnessed new progress. In March, the China Cinda Asset Management Co.(Cinda) successfully introduced four strategic investors, namely the National Council for Social Security Fund, UBS, CITIC Capital and Standard Chartered. The capital injection improved Cinda's equity structure and further enhanced its capital strength. At the beginning of the year, China Huarong Asset Capital Management Co.(Huarong)'s transformation plan was approved by the State Council. In October, Huarong formally went listed and made progress in its transformation and reform.

The PBC worked with other agencies to promote the reform of the Postal Savings Bank of China (PSBC), the listing of China Life Insurance Group (China Life) and the restructuring of China Taiping Insurance Group (China Taiping). In January, PSBC was transformed into an incorporated company. At present, it is steadily improving corporate governance, deepening internal

reforms and straightening out its relations between the postal and banking businesses. China Life successfully went listed on the Hong Kong Stock Exchange in December. Its equity structure was improved and capital strength was enhanced. The restructuring and reform plan of China Taiping is also under review for further improvement.

Financial sector reform outlook for 2013

The PBC will continue working with relevant authorities to deepen financial sector reforms on large commercial banks and other large financial institutions. It will steadily improve the institutional building of the modern financial entities, strengthen their internal governance and risk management, change their growth and profit models, promote the intensive business model and the quality of services, and enhance their abilities to make innovations as well as their international competitiveness. The reform of the ABC's Agriculture-related Financial Services Department will be carried on, and its management and operation system will be further improved, so as to comprehensively strengthen financial services in the agriculture-related areas and at the county level. The PBC will comply with the principles that institutions should be guided according to their types and each of the banks will be given specially-tailored policies. The PBC will push forward with the CDB's reform, aiming at solving problems related to its credit and funding resources as well as its supervision

standards. The PBC will also push forward with the EIBC's and the ADBC's reforms, in which emphasis will be given to principles of keeping policy lending as the main business, separate accounts management and separate accounting. A healthy system will be formed,

where policy banks and commercial banks have a reasonable division of labor and can complement each other. The PBC will also promote the commercialization of asset management companies.

FINANCIAL MARKET

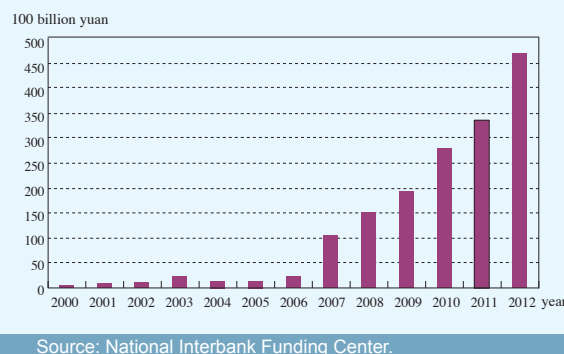
In 2012, China's financial market, in general, performed steadily. Institutional building and product innovation were promoted smoothly. The trading volume on money market increased while interest rates on the market dropped overall. The issues of bond expanded, as the interbank bond index presented an upward trend. The stock indexes went up despite a moderate decline in stock trading volume. The flexibility of RMB exchange rate increased markedly and the turnover on RMB/foreign exchange derivatives market rose rapidly. Gold price fluctuated while the trading volume on gold market dwindled slightly.

Money Market Performance

Market trading volume rose substantially

Trading on the interbank borrowing market grew sharply, as the full-year trading volume gained 39.3 percent (Figure 9) from the previous year, hitting 46.7 trillion yuan. Overnight and 7-day interbank borrowing dominated the interbank borrowing market, both together accounted for 95.2 percent of the total. Among it, overnight borrowing totaled 40.3 trillion yuan, taking up 86.3 percent of the total, while 7-day borrowing amounted to 4.2 trillion yuan, comprising 9.0 percent of the total. Bond repurchases (repos) jumped 42.4 percent year on year to 141.7 trillion yuan cumulatively. Among it, pledged bond repos surged 41.3 percent from the previous year to 136.6 trillion yuan, whereas

Figure 9 Changes in the Trading Volume on Interbank Borrowing Market



outright bond repos posted 5.1 trillion yuan, up 82.8 percent from the year earlier.

Interest rates on money market declined moderately

First, the interbank borrowing rates dropped a bit amid lower volatility (Figure 10). The annual weighted average rate of 7-day interbank borrowing was 3.43 percent, sinking 54 basis points (bps) from the previ-

ous year, and the spread between the highest and lowest rates narrowed by 70 bps compared with 2011 to 635 bps. In particular, the interest rates showed relatively high volatility around the Chinese Lunar New Year due to the buoyant demand for funds during the holiday. The borrowing rates spiked, as the 7-day interbank borrowing rate surged from 4 percent at the start of the year to 8.51 percent on January 18, the highest during the year, and precipitated to 3.55 percent on January 21, 2012. Afterwards, the borrowing rates stabilized under the combined effect of central bank's policy mix, including cuts of benchmark rates and reserve requirement ratio as well as reverse repos on open market. The borrowing rates edged up temporarily at the ends of March, June, September and December by around 100 bps, showing reduced volatility and obvious seasonal features.

Second, the interest rate of bond-pledged repo dropped considerably amid high volatility in the first half-year, but remained relatively stable amid mild fluctuation in the second half-year. In December, the weighted average interest rate of pledged repo was 2.62 percent, down 206 bps from the beginning of the year and 75 bps from the same period of the previous year (Figure 10).

Number of participants on the interbank borrowing market further increased

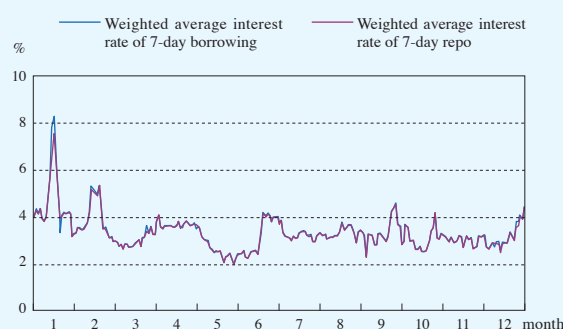
During the year, the number of institu-

tions on the interbank borrowing market totaled 1,022 (Figure 11), an increase of 85. Among them, the numbers of rural credit unions and banking institutions increased remarkably, up by 53 and 12 respectively. A total of 486 institutions actually got involved in funding operations, rising by 72. Among them, the numbers of banking institutions and securities companies witnessed the biggest increase, adding 36 and 15 respectively.

Flows of funds remained stable broadly

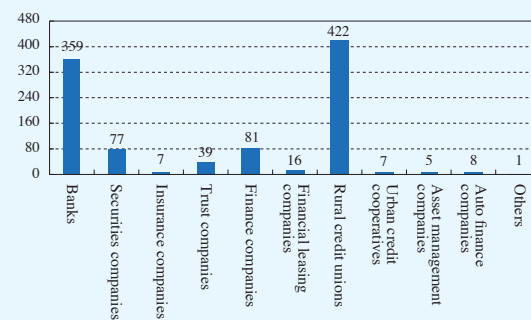
Institutions, such as large commercial banks^①, joint-equity commercial banks, ur-

Figure 10 Movement of Interest Rates on Money Market in 2012



Source: National Interbank Funding Center.

Figure 11 Number of Institutions on the Interbank Borrowing Market in 2012



Source: National Interbank Funding Center.

①Large commercial banks include six commercial banks, namely, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications and the Postal Savings Bank of China.

ban commercial banks, policy banks, rural commercial banks and cooperative banks, rural credit unions, securities companies and insurance companies, were active market players. During the year, the financing structure on the money market showed the following major features. First, large commercial banks remained the major net fund providers. On the one hand, large commercial banks remained the biggest lender, while policy banks surpassed joint-equity commercial banks, becoming the second largest net fund provider. On the other hand, urban commercial banks and urban credit cooperatives were the major borrowers, while rural commercial banks as well as funds, securities and insurance institutions also borrowed heavily. Second, the financing needs of funds, securities and insurance institutions grew markedly. With the persistent diversification of products on the bond market and the ever-increasing number of institutional investors, the money market is becoming a major platform for the above-mentioned institutions to meet short-term financing needs.

Bond Market Performance

Bond issuance

The issuance of RMB bonds on the bond market amounted to 8.0 trillion yuan, adding 2.4 percent^① year on year. Among it, issuance of RMB bonds on the interbank bond

market stood at 7.5 trillion yuan, rising 1.7 percent from the previous year. Compared to the previous year, issuance of corporate debenture bonds increased markedly. As of end-2012, bond custody^② on the bond market reached 26.0 trillion yuan. Among it, bond custody on the interbank bond market jumped 16.8 percent from the previous year to 25.0 trillion yuan.

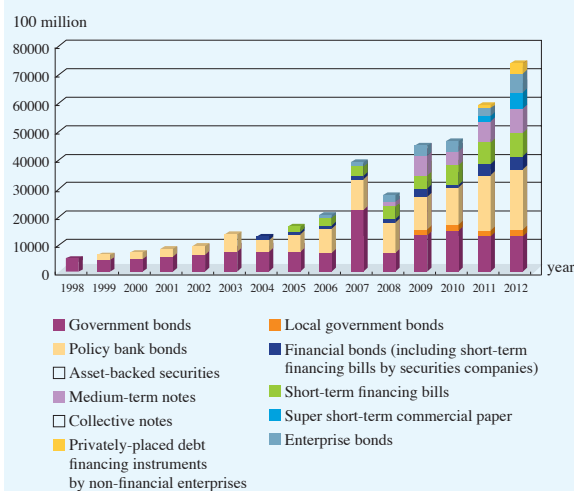
With the ever-diversifying bond products and increasing credit levels, the variety of issuers on the interbank bond market was also broadened to a wider range of institutions, including the MOF, policy banks, commercial banks, non-bank financial institutions, international development agencies and non-financial enterprises (Figure 12). During the year, the MOF issued 1.4 trillion yuan worth of bonds on the interbank bond market (including 250 billion yuan of local government bonds); CDB, EIBC and ADBC issued 2.1 trillion yuan of bonds on the interbank bond market; financial institutions like commercial banks issued 403.4 billion yuan of financial bonds; the issuance of asset-backed securities posted 19.3 billion yuan; and short-term financing bills issued by securities companies stood at 53.1 billion yuan. The growth of corporate debenture bonds showed an accelerating momentum, as its full-year issuance surged 60.1 percent year on year, hitting 3.6 trillion yuan^③. Among it, the issuance of super short-term commercial paper posted 582.2 billion

① Compared with the size of bond issuance (including central bank bills) in 2011.

② Custody of central bank bills included.

③ Excluding financial bonds and government-backed bonds issued by the Ministry of Railways.

Figure 12 Changes in the Issuances of Major Bond Products on the Interbank Bond Market ^①



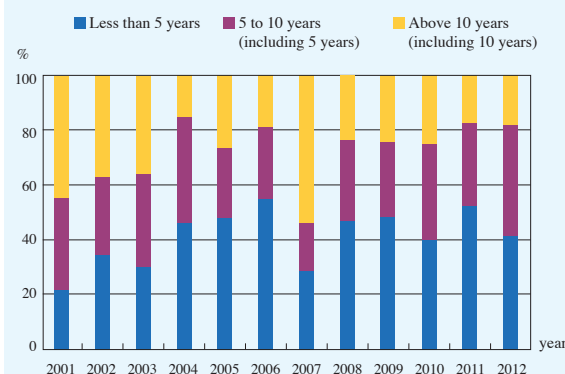
Source: China Central Depository and Clearing Co., Ltd.

yuan, short-term financing bills 835.6 billion yuan, medium-term notes 845.3 billion yuan, collective notes by small and medium-sized enterprises (SMEs) 10 billion yuan (including 2.9 billion yuan of collective notes issued by regional promising SMEs), privately-placed debt financing instruments 375.9 billion yuan, enterprise bonds 649.9 billion yuan, bonds by listed companies 250.8 billion yuan, and asset-backed notes by non-financial enterprises 5.7 billion yuan.

With regard to term structure^②, short and medium-term bonds still dominated the bond issuance on the interbank bond market. Among it, issuance of 5 to 10-year (including 5-year) bonds saw a remarkable growth. Bonds with maturities of less than 5 years accounted for 42.3 percent of the total, sliding 10.6 percent from the previous year; 5 to 10-year (including 5-year) bonds took up

39.2 percent of the total, adding 9.4 percent compared with the previous year; and bonds above 10 years (including 10 years) comprised 18.5 percent of the total, edging up 1.2 percent from the previous year (Figure 13).

Figure 13 Changes in Term Structure on the Interbank Bond Market



Source: China Central Depository and Clearing Co., Ltd.

Market trading was brisk and bond indexes presented an upward trend

In 2012, trading volume on the interbank bond market continued to grow by leaps and bounds, adding up to 216.9 trillion yuan, a year on year increase of 33.0 percent. Among it, spot bond trading totaled 75.2 trillion yuan, advancing 18.2 percent from the previous year. Bond indexes moved upwards overall. The bond index on the interbank market increased from 139.78 points at the start of the year to 144.68 points at the year-end, up 4.9 points or 3.5 percent; and the government bond index on the exchange market rose from 131.44 points at the beginning of the year to 135.79 points at the end

^①Excluding 2007 special government bonds.

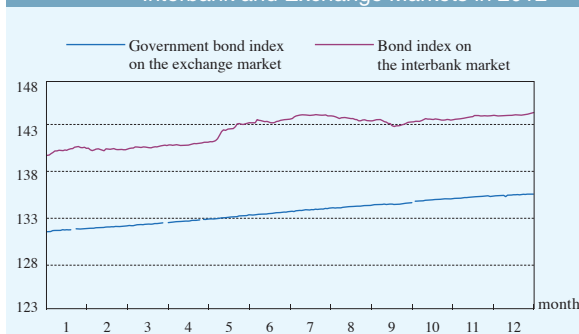
^②Including central bank bills.

of the year, gaining 4.35 points or 3.3 percent (Figure 14).

The yield curve of government bonds flattened and moved upwards

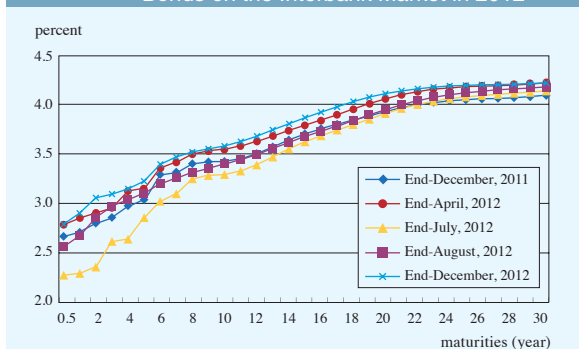
The year of 2012 could be divided into three periods according to movements of the yield curve of government bonds. The first four months was the first period when the yield curve flattened and shifted upwards. The second period was from May to July, when the yield curve steepened and moved downwards. The third period was from August to December, when the yield curve flattened and moved upwards again (Figure 15).

Figure 14 Movements of Bond Indexes on the Interbank and Exchange Markets in 2012



Sources: China Central Depository and Clearing Co., Ltd and Shanghai Stock Exchange.

Figure 15 Movements of the Yield Curve of Government Bonds on the Interbank Market in 2012



Source: China Central Depository and Clearing Co., Ltd.

Investors further diversified

As of end-2012, the number of participants in the interbank bond market increased by 415 compared with end-2011 to 11,287, covering a wide range of financial institutions and non-financial institutional investors. A multi-tiered market-maker-centered investor structure had taken shape, which were mostly made up of financial institutions and joined by other types of institutional investors. The interbank market had already grown into a major platform for various market players to conduct investment and financing activities as well as manage risks.

Over-the-counter business at commercial banks performed steadily

There were 15 new book-entry government bonds added to commercial banks' over-the-counter business, including four 1-year bonds, two 3-year bonds, two 5-year bonds, three 7-year bonds and four 10-year bonds. As of end-2012, the total number of government bonds traded over commercial banks' counter reached 99 and covered six different maturities, namely, 1-year, 3-year, 5-year, 7-year, 10-year and 15-year. Trading volume of book-entry government bonds over commercial banks' counter fell sharply, as the cumulative full-year trading slashed 46.3 percent year on year to 1.5 billion yuan (Figure 16). As of end-2012, the number of accounts opened at commercial banks' counter added 1.57 million or 16.0

Figure 16 OTC Trading of Book-entry Government Bonds



percent compared with the previous year, reaching 11.60 million.

Trading of RMB interest rate swaps increased somewhat

In 2012, there were 20,945 contracts RMB interest rate swaps with a total notional amount of 2,902.139 billion yuan, jumping 8.45 percent year on year. Breakdown by maturities showed that one-year and less than one year contracts were most actively traded with the notional amount totaling 2,249.787 billion yuan, taking up 77.52 percent of the total. In terms of reference rates, 7-day fixing repo rate and Shibor were the major reference rates for RMB interest rate swaps, and the notional amount of swaps with these two rates as the reference accounted for 45.33 percent and 50.01 percent of the total respectively. There were 56 contracts of bond forwards with a total amount of 16.613 billion yuan, and 3 forward rate agreements, involving a total notional amount of 200 million yuan.

Stock Market Performance

Stock indexes moved upwards amid fluctuations, while trading volume shrank considerably. At end-2012, the Shanghai Composite Index (SCI) closed at 2,269.13 points, up 69.71 points or 3.17 percent compared with end-2011. The SCI touched the peak of 2,460.69 points and the trough of 1,959.77 points, fluctuating by 500.92 points (Figure 17). At end-2012, the Shenzhen Component Index closed up 2.2 percent or 197.7 points compared with the previous year at 9,116.5

Figure 17 Movement of the Shanghai Composite Index in 2012



points. It peaked at 10,616.3 points and bottomed out at 7,660.5 points, fluctuating by 2,955.8 points.

Trading volume on the stock market dropped markedly. Take the Shanghai A-share market for instance, the full-year and average daily trading amount posted 16.6 trillion yuan and 67.7 billion yuan, shedding 30.6 percent and 30.8 percent respectively from the previous year.

Foreign Exchange Market Performance

Flexibility of RMB exchange rate increased remarkably

During the year, the RMB exchange rate became much more flexible, as it showed an obvious two-way float. At end-2012, the central parity rate of the yuan against the US dollar was 6.2855, appreciating 154 basis points (bps) compared with end-2011, or 0.25 percent. Among 243 trading days on the interbank foreign exchange market, the USD/CNY central parity rate appreciated on 122 days and depreciated on 121 days. The average day-to-day fluctuation was about 44 bps, up one bp compared with the previous year. According to BIS estimates, the RMB nominal effective exchange rate appreciated by 1.73 percent in 2012, and the real effective exchange rate by 2.22 percent.

Spot trading of RMB against the Japanese yen increased substantially

Among the spot trading volume of RMB against non-dollar currencies, the full-year yuan-yen spot trading volume grew 24-fold year on year, mainly due to the direct trading between these two currencies launched in June on the interbank foreign exchange market. In addition to yuan-yen trading, the spot trading volume of RMB against other eight non-dollar currencies, such as the euro, the Australian dollar and the Russian ruble, soared 30.2 percent from the previous year. The full-year RMB foreign exchange spot trading volume declined 5.6 percent from 2011.

Trading on RMB foreign exchange deriv-

atives market continued rapid growth

In 2012, trading volume on the RMB foreign exchange derivatives market amounted to an equivalent of US\$ 2.6 trillion, surging 31.6 percent year on year. Among it, trading volume on the swap market soared 42.2 percent from the previous year, posting US\$ 2.5 trillion, while that on forward market stood at \$86.6 billion, slumping 59.6 percent from the previous year.

Trading volume of foreign currency pairs dwindled slightly

The full-year trading volume on the interbank foreign currency pair market stood at an equivalent of US\$ 85.7 billion, losing 9.5 percent compared with 2011. Among it, the US dollar and Hong Kong dollar remained the most actively traded currency pair, taking up 41.6 percent of the total market share, dipping 3.6 percentage points from the previous year.

Gold Market Performance

Gold price fluctuated in 2012

At the start of the year, international gold price touched the peak of US\$ 1,791.75 per ounce and the trough of US\$ 1,540 per ounce, and closed at US\$ 1,664 per ounce at the year-end, up 5.68 percent compared with end-2011. The movement of domestic gold price was broadly consistent with international gold price. On the Shanghai Gold Ex-

change (SGE), gold (Au9995) price peaked at 362.5 yuan per gram during the year, and closed at 334.34 yuan per gram at the year-end, rising 4.55 percent over the end of 2011. The full-year weighted average price was 339.81 yuan per gram, adding 3.75 percent compared with end-2011. The full-year gold trading volume on the SGE reached 6,350.20 tons cumulatively, tumbling 14.63 percent year on year, while the turnover slid 13.18 percent from the previous year to 2.15 trillion yuan. The trading volume of gold futures on the Shanghai Futures Exchange retreated 18.07 percent from 2011 to 11,800 tons, while the cumulative turnover posted 4.04 trillion yuan, plummeting 20.82 percent from the previous year. Proprietary gold trading by commercial banks on domestic market added up to 2,784.43 tons, jumping 5.21 percent from the previous year.

Major Policy Measures on the Financial Market

Institutional building was strengthened

First, the National Association of Financial Market Institutional Investors (NAFMII) was authorized to amend the *Master Agreement for Pledged Repo and Master Agreement for Outright Repo*. On December 3, the PBC issued Announcement No. 17/2012, allowing the NAFMII to publish the *Master Agreement for Bond Repo Transactions on China's Interbank Market* and setting down stipulations on relevant issues. The move

was aimed at further beefing up market regulation and administration, strengthening risk control and improving market efficiency so as to promote sound and steady bond market development. Second, the PBC guided the drive by the National Interbank Funding Center (NIFC) to launch business confirmation and offsetting services for RMB interest rate swaps, to unveil regulations on relevant businesses, and to provide electronic confirmation and contract offsetting services for the RMB interest rate swaps on the interbank market, in order to further improve the efficiency of OTC derivatives market and lower market risks. Third, the PBC offered guidance to the NAFMII in developing rules and regulations, covering self-regulatory penalties, membership administration, intermediary services, important documents for registration and tables for information disclosure, which would further improve the institutional framework for self-regulation. Fourth, the trading mechanism on gold market was improved and the interbank gold OTC trading was launched. Meanwhile, the *Notice on Issues Concerning Intensifying the Administration of Banking Institutions' Gold Market Business* was published, and efforts were made to develop file-keeping and monitoring as well as statistical systems so as to prompt banking institutions to conduct gold business in a compliant manner. Meanwhile, efforts were also made jointly with other ministries and commissions to steadily crack down and clean up illegal gold trading venues, step up

investor education, and set the gold market in order. Fifth, administration of the access to and the funding quota on the interbank borrowing market continued to improve. During the year, 35 financial institutions were granted access to the national interbank borrowing market (meanwhile, 4 financial institutions were allowed to withdraw from interbank funding business); 56 financial institutions were given the green light to adjust interbank funding quota; and 17 financial institutions were allowed to change their IDs on the network connected to the NIFC's electronic trading system. The administration of information disclosure on the interbank borrowing market was tightened, including the supervision on centralized disclosure and major issue disclosure as well as law-based handling of non-compliance. Throughout the year, a total of 236 non-bank financial institutions disclosed information as required.

Product innovation was promoted

First, the pilot program of credit asset securitization was promoted smoothly. The *Notice on Issues Concerning Further Expanding the Pilot Program of Credit Asset Securitization* was published jointly with the CBRC and MOF in a bid to encourage and support more eligible institutions to issue, invest and trade asset-backed securities. Second, efforts were made to steadily expand the scope of issuers of financial bonds and to support as well as approve eligible financial asset management companies to issue finan-

cial bonds on a trial basis. Third, guidance was offered to the NAFMII in launching asset-backed notes, which had driven the innovation of debt financing instruments tailored to the needs of institutional investors. Fourth, work pertaining to the issuance of short-term financing bills by securities companies was improved further. Fifth, interbank gold OTC trading was launched. On December 3, OTC transaction was officially adopted for interbank gold trading. The move would help improve gold market's trading mechanism, enhance market liquidity and further deepen market function.

Bond market regulatory coordination was reinforced

The PBC took the lead in establishing a cross-ministry coordination mechanism for corporate debenture bonds in an attempt to reinforce bond market regulatory coordination. The cross-ministry coordination mechanism for corporate debenture bonds, spearheaded by the PBC and joined by the NDRC and the CSRC, was put in place and convened its first meeting, at which a broad consensus was reached on issues, such as ideas on further reforming and developing corporate debenture bond market, promoting regulatory coordination and beefing up information sharing.

Financial market opening up was pushed forward

First, the PBC worked in tandem with

relevant agencies to facilitate bond issuance by domestic institutions on overseas markets. Efforts were made to actively grant quota for bond issuance in Hong Kong to domestic financial institution as approved by the State Council. As of end-2012, 10 domestic financial institutions were given the green light to issue RMB bonds in Hong Kong with the approved quota amounting to 72 billion yuan. Second, the pilot program, which allows overseas institutions to invest in the interbank bond market, was promoted smoothly. As of the year-end, 100 overseas

institutions had been given access to the interbank bond market, including overseas central banks, international financial institutions, sovereign wealth funds, clearing banks in Hong Kong and Macao, overseas participating banks, overseas insurance institutions and RMB qualified foreign institutional investors (RQFII). Third, the PBC continued to make efforts to support the participation of Bank of China (Hong Kong) Limited and Bank of China Macao Branch in domestic interbank borrowing market.

• BOX •

New Developments in China's Bond Market

In recent years, under the leadership of CPC Central Committee and the State Council, the PBC worked with other agencies in actively promoting bond market reform and innovation. Now a multi-tiered and well-arranged bond market had taken shape, mainly comprising of the OTC market and supplemented by the exchange market with these two markets complementing one another. Remarkable achievements were made in market development with the market size expanding, infrastructure being improved day by day and institutional building being advanced continuously. As of end-2012, outstanding value on China's bond market was 26.0 trillion yuan, making China's market one of the largest in the world. The sound and rapid development of bond market had made great contributions to serving the real economy, supporting the implementation of national macroeconomic adjustment policies, pushing forward the reform of financial institutions and state-owned enterprises, optimizing social financing structure and safeguarding financial stability. In particular, since the onset of global financial crisis, the bond market has played an important role in easing financing conditions for small- and medium- sized enterprises (SMEs), diversifying banks' credit risk, and ensuring steady and relatively rapid economic growth.

Established a multi-tiered orderly market system

China has already fostered an OTC market-centered bond market system where the OTC and exchange markets coexist, play different roles but also complement each other. Specifically, the interbank bond market is an OTC wholesale market where qualified institutional investors trade through one-to-one price inquiry, while the exchange bond market is a retail market where individuals as well as small- and medium-sized institutional investors trade through centralized price-matching. As of the year-end, the outstanding value on the interbank bond market posted 25.0 trillion yuan, accounting for 96.2 percent of the total.

Persistently promoted comprehensive market innovation

The pilot bond issuance by local governments was carried out smoothly in order to tackle financing difficulties in urbanization. On the basis of cultivating subordinated

bonds, vanilla financial bonds and hybrid capital bonds market, the pilot program of credit asset securitization was expanded steadily, which would broaden commercial banks' access to funds for capital replenishment and liquidity needs, and enhance their resilience as well as the capacity to support economic growth. As of the year-end, the total issuance of asset-backed securities reached 19.3 billion yuan. While guiding the NAFMII to develop super short-term commercial paper, short-term financing bills and medium-term notes, the PBC also made efforts to promote other types of innovation, including SME collective notes, financial bonds specifically designed for small- and micro-businesses, notes by regional promising issuers and credit enhancement, aiming at easing funding constraints and lowering funding cost for small- and micro-businesses. Market-based products, such as privately-placed debt financing instruments and asset-backed notes, were launched to support eligible social housing projects, which had boosted the sustainable source of funding for social housing. As of end-2012, financial bonds issued specifically for providing loans to small- and micro-businesses totaled 240.5 billion yuan, privately-placed debt financing instruments issued for social housing projects stood at 29.93 billion yuan, and asset-backed notes (with completed social housing projects with steady rent income as underlying assets) posted 2 billion yuan. Innovation of bond trading instruments was pushed forward, as bond lending and borrowing, bond forwards, RMB interest rate swaps, forward rate agreements and credit risk mitigation instruments were developed on the basis of spot bond trading and bond repurchases, which diversified investors' toolkit for investment and risk management. Currently, the variety of basic products on China's bond market is almost the same as those on developed bond markets.

Vigorously developed corporate debenture bonds

The approval system in bond issues was replaced by more market-based authorization, record-keeping and registration systems. The NAFMII was established to allow self-regulation and administrative supervision to coexist and complement each other. Corporate debenture bonds witnessed great development, as the outstanding value jumped from 0.1 trillion yuan in 2004 to 7.0 trillion yuan in 2012, ranking the third worldwide in March 2012, a remarkable change from the 21st place in 2004.

Continuously increased the number of investors

As of the year-end, the number of investors on the interbank bond market, including domestic as well as overseas financial institutions and non-financial enterprises, had reached 11,287. The growing variety of investors prompted the improvement of market liquidity. The full-year issuance of RMB bonds (including central bank bills) nationwide hit 8.0 trillion yuan, growing 7.1-fold compared with 2002. Trading volume on the bond market rose 17 times compared with 2002 to 254 trillion yuan (of which, the interbank bond market took up 85.3 percent of the total).

Solidly promoted the development of market infrastructure

A couple of systems were developed and improved on the bond market, including the Interbank Bond Issuance System and Information Disclosure and Quotation-based Trading System, as well as Electronic Trading System and Bond Custody and Settlement System. Delivery-versus-payment (DVP) settlement was launched for bond settlement and straight-through-processing (STP) was adopted for data processing between the front and back offices. In tune with post-crisis international financial regulatory reform, the Shanghai Clearing House (SCH) was set up in 2009, laying the foundation for further promoting centralized clearing for the OTC market. The China Bond Insurance Co., Ltd and China Credit Rating Co., Ltd were established to promote the growth of corporate debenture bond market. At present, the OTC bond market has a centralized custodian system, centralized trading information platform, standardized information disclosure system and safe and sound clearing system. These infrastructures ensure the transparent operation of the bond market and help to keep risks under control.

Enhanced the role of bond market to better support the real economy

From 2009 to 2012, the share of RMB loans in all-system financing aggregate dropped from 91.9 percent to 52.0 percent, while the share of bond financing of enterprises surged from 1.8 percent to 14.3%, and the total of financing increased from 0.04 trillion yuan to 2.25 trillion yuan. Starting from 2005, bond financing overtook equity financing in terms of the share in direct financing and gradually became the main financing channel, accounting for 90 percent of the total direct financing in 2012.

Steadily advanced bond market opening up

Overseas institutions were allowed to invest in the interbank bond market. As of end-2012, a total of 100 overseas institutions were given access to the interbank bond market. Since 2007 when domestic financial institutions were allowed to issue RMB bonds in Hong Kong, 10 domestic banks and 2 domestic enterprises had issued RMB bonds in Hong Kong totaling 80 billion yuan. The MOF had issued a total of 57 billion yuan RMB-denominated government bonds in Hong Kong. Both the variety of domestic issuers and the size of bond issuance in Hong Kong kept on growing steadily.

CROSS-BORDER USE OF RMB

Under the leadership and the overall arrangement of the CPC Central Committee and the State Council, with the goal of liberalizing and facilitating trade and investment, the PBC, jointly with other agencies, launched pilot programs of RMB settlement in cross-border trade and investment in 2009, and had made positive progress ever since. In 2012, the RMB settlement in cross-border trade was brought to full play with a remarkable expansion in the settlement volume and a mechanism for smooth RMB cross-border flow. RMB was more and more widely accepted abroad, which provided a great support to foreign trade and investment and for the development of real economy.

Policies on cross-border RMB business were further improved

The RMB settlement in cross-border trade was brought into full play. In June, the PBC and five other ministries jointly reviewed and issued a list of enterprises that were subject to strict regulation of the RMB settlement of goods export, which marked the full launch of the RMB settlement business in cross-border trade. Domestic enterprises engaged in trade of goods and services and other current account transactions can use RMB as currency of invoicing, settlement, payment and receipt.

The management of the settlement of RMB-denominated foreign direct investment (FDI) kept improving. In June, the PBC is-

sued the *Notice on Administrative Rules for Carrying out the RMB Settlement of Foreign Direct Investment*, further specifying administrative measures for the settlement of RMB-denominated foreign direct investment and standardizing the business operation procedures.

Progress was made in the innovative pilot program of cross-border RMB business. In September, the PBC Shanghai Head Office launched the pilot program for offshore lending of RMB pool, with an aim to promote the outflow of RMB. In December, the PBC Head Office approved Shenzhen Central Sub-branch's issuance of the *Interim Administrative Measures on the Cross-border RMB Loans in Qianhai* and detailed rules, allowing banking institutions from

Hong Kong to provide cross-border RMB loans in Qianhai, Guangdong Province. Also in December, the PBC Head Office approved Hangzhou Central Sub-branch's issuance of the *Interim Administrative Measures on the RMB Settlement Pilot Program in Individual Cross-border Trade in Zhejiang Province*, launching the pilot program for RMB settlement in individual cross-border trade in Yiwu, Zhejiang Province.

The trade of RMB against non-major-reserve currencies moved forward steadily. In 2012, the trade of yuan against non-major-reserve currencies continued to improve with eight quoting banks and nine participating banks in the interbank regional trade of yuan against Thai baht. The website of the China Foreign Exchange Trade System (CFETS) published the reference price for yuan against Thai baht. The trade of yuan against Thai baht became much more brisk. Meanwhile, the trade of yuan against Malaysian ringgit and Russian ruble was stable. In June, yuan began to trade directly against Japanese yen. In addition, the trade of yuan against other currencies such as Korean won was pushed forward continuously. A monitoring system for trade of yuan against non-major-reserve currencies was established.

Bilateral local currency swap expanded further. In 2012, the PBC signed bilateral local currency swap agreements with the central banks of United Arab Emirates, Turkey, Australia and Ukraine, with a total amount of 260 billion yuan; the PBC renewed the

bilateral local currency swap agreement with the Bank Nagara Malaysia, expanding the swap to 180 billion yuan; it also signed a complementary agreement to the bilateral local swap agreement with the Bank of Mongolia, further increasing the swap. By the end of 2012, China had signed bilateral local currency swap agreements with central banks or monetary authorities of 18 countries and regions.

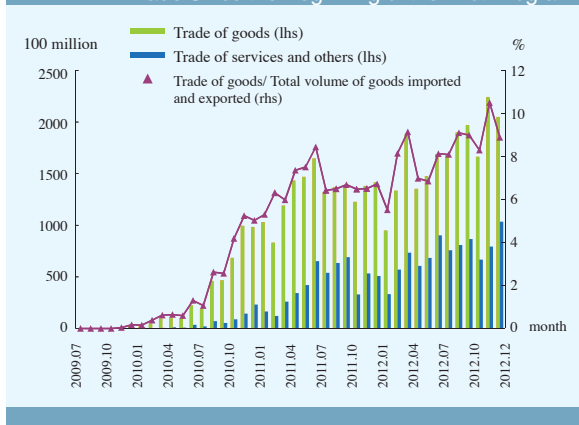
Further efforts were made in building other complementary infrastructure and systems. In July, the PBC issued the *Notice on Issues Related to the Opening and Use of RMB Settlement Accounts by Overseas Institutions*, which provided detailed provisions for the opening of new Non-Resident Accounts (NRA), the clean-up and verification of old accounts, the use and management of accounts, etc. In March, the PBC decided to build Cross-border Interbank Payment System (CIPS) so as to improve the efficiency of cross-border clearing, and to guarantee the safety, stability and efficiency of cross-border RMB payment.

The volume of cross-border RMB settlement increased substantially

The RMB settlement in cross-border trade kept growing rapidly. In 2012, the cross-border RMB settlement under current account totaled 2.94 trillion yuan in mainland China, an increase of 41 percent year on year. In particular, the RMB settlement volume for goods trade reached 2.06 trillion yuan, accounting

for 8.4 percent of total goods import and export, up 1.8 percentage points as compared with the previous year. From the beginning of the cross-border RMB settlement pilot program to the end of 2012, total volume of RMB settlement in cross-border trade reached 5.5 trillion yuan, and enterprises from 206 foreign countries and regions conducted cross-border RMB receipt and payment businesses with mainland China (Figure 18).

Figure 18 Growth of RMB Settlement in Cross-border Trade Since the Beginning of the Pilot Program



The RMB settlement in cross-border direct investment grew rapidly. Throughout 2012, the RMB settlement volume in China's overseas direct investment reached 30.44 billion yuan, increasing by 51 percent year on year and the RMB settlement in FDI amounted to 253.58 billion yuan, a year on year increase of 1.8 folds.

Trade and project financing businesses proceeded in an orderly manner. Commercial banks' business of RMB trade financing grew steadily, facilitating enterprises' use of RMB in cross-border trade settlement. Meanwhile, the RMB lending business for

overseas projects was pushed forward actively and in general the business had grown smoothly.

The investment scope of overseas institutions in domestic interbank bond market expanded gradually. By the end of 2012, the PBC had approved overseas central banks (or monetary authorities), RMB clearing banks, overseas participating banks, overseas insurance institutions, international financial institution, sovereign wealth funds, pilot RMB RQFIIs and other institutions to invest in interbank bond market.

The RQFII pilot program went smoothly. With the approval of the State Council, the RQFII investment quota increased by 50 billion and 200 billion yuan respectively in April and November, bringing total investment quota of RQFII pilot program to 270 billion yuan. By the end of 2012, 26 pilot institutions had got an accumulative investment quota of 67 billion yuan.

Domestic RMB accounts opened by overseas institutions increased steadily. At the end of 2012, RMB current accounts opened by overseas participating banks in domestic agent banks increased by 404 from the end of 2011 to 1,592, with an account balance of 285.2 billion yuan; and RMB settlement accounts opened by overseas enterprises in China increased by 1,985 to 6,197, with an account balance of 50.02 billion yuan.

Bond issuance of domestic institutions in Hong Kong expanded. Throughout 2012, RMB bond issued by domestic institutions in

Hong Kong increased to 52.9 billion yuan, of which, 24 billion yuan issued by financial institutions, 5.9 billion yuan by non-financial institutions, and 23 billion yuan by the MOF.

RMB was increasingly acceptable at abroad and offshore RMB business moved forward steadily

The development of RMB business in Hong Kong. According to the 12th Five-Year Plan for National Economy and Social Development, efforts will be made to support Hong Kong to become an offshore RMB center and an international asset management center. Since the beginning of the pilot program of RMB settlement in cross-border trade, the cross-border RMB settlement with Hong Kong had always been in a dominant position. In 2012, the RMB settlement volume accounted for 56 percent of the total real receipt and payment amount between the mainland and Hong Kong. According to the Hong Kong Monetary Authority, the outstanding RMB deposits in Hong Kong increased by 14.46 billion yuan throughout 2012 and stood at 603 billion yuan at the end of the year, accounting for 9 percent of total deposits of Hong Kong financial institutions and 18.2 percent of foreign currency deposits in Hong Kong. An increasingly diverse group of participants came to explore the Hong Kong offshore RMB market, launching financial products such as certificate of deposits, RMB stocks, RMB insurance policies, RMB futures, and ‘dual currencies, dual stocks’ that was denominated in

both RMB and Hong Kong dollar.

The development of RMB business in the Taiwan Region. On August 31, the monetary authorities of both sides across the Taiwan Straits signed the *Memorandum of Understanding on Currency Clearing Cooperation across the Taiwan-Straits*, agreeing to establish a currency clearing mechanism across the Straits according to the principles and cooperative framework set out in the memorandum. Under such mechanism, either party can designate a RMB clearing institution to provide settlement and clearing services to the other party in conducting businesses related to its own currency. On September 17, Taiwan announced that the Shanghai branch of Bank of Taiwan was chosen to be the clearing bank for New Taiwan dollar in mainland China. On December 11, the PBC authorized the Taipei Branch of BOC to be the RMB clearing bank in Taiwan. On January 25, 2013, the PBC and the Taipei branch of BOC signed the *Clearing Agreement on RMB Business*. Financial institutions across the Straits can provide cross-border RMB settlement business for clients via agent banks or clearing banks.

The development of RMB business in Singapore. On October 5, 2012, the Monetary Authority of Singapore awarded Qualifying Full Bank (QFB) licenses to the Singapore Branch of BOC and the Singapore Branch of ICBC. On February 8, 2013, the PBC announced authorizing the Singapore Branch of ICBC to be the RMB clearing bank in Singapore.

The development of RMB business in London. On April 18, HSBC issued the first RMB bond in London with an amount of 2 billion yuan. In December, the CBC issued

an RMB bond with an amount of 1 billion yuan via its London Branch, becoming the first Chinese bank to issue RMB bond in London.

• BOX •

Promoting the Development of Shanghai International Financial Center

In 2012, PBC actively supported and vigorously promoted the development of Shanghai international financial center and achieved new and encouraging progress.

Market system building was advanced

First, continued efforts were made to promote foreign banks incorporated in Shanghai and other financial institutions to issue RMB bonds. Mizuho Bank (China) Co., Ltd and DBS Bank (China) Co., Ltd., which were both foreign banks incorporated in Shanghai, had successfully issued 1 billion yuan and 500 million yuan RMB bonds respectively. Throughout the year, the bonds issued by financial institutions in Shanghai registered 77.03 billion yuan, including subordinated bonds, financial bonds, asset-backed securities, subordinated term debts, etc. Second, efforts were made to promote non-financial enterprises in Shanghai to issue debt financing instruments. Throughout the year, the net fund (issuance minus repayment) raised by non-financial enterprises in Shanghai through the issuance of debt financing instruments totaled 76.43 billion yuan, representing an increase of 37.1% over the year before. Third, attention was paid to promote the innovation of financial products and trading mechanisms. Under the authorization and support of the PBC, China Foreign Exchange Trade System (CFETS) started direct trading of RMB against Japanese yen in June; Shanghai Gold Exchange (SGE) launched interbank gold OTC transaction in December; and, Shanghai Clearing House introduced central counterparty clearing business for RMB forward freight agreement (FFA) in December. At present, the financial markets in Shanghai are growing continuously with significant expan-

sion of various markets. The trading volume of the stock market ranked the fourth in the world; and the market capitalization by the end of the year ranked seventh in the world. By the year-end, the total value of bonds in custody in the bond market ranked the third in the world. The SGE is one of the three biggest pricing centers for ferrous metals in the world, while the volume of spot gold transactions in this market ranked the first in the world spot gold market.

Institution clustering effect was further enhanced

First, Financial Consumer Protection Bureau of the PBC was established in Shanghai. Second, support was extended to promote more financial institutions to get located in Shanghai. In March, the RMB trading business headquarters of Bank of China was established in Shanghai. In December, China Unionpay International Co., Ltd. was incorporated in Shanghai. At the end of 2012, the total number of institutions as legal person was 169 in Shanghai with the financial added value of 205 billion yuan, which accounted for 12.1 percent of the GDP of Shanghai. Third, efforts were made to promote the development of non-financial payment institutions in Shanghai. By the end of the year, a total of 51 non-financial payment institutions in Shanghai obtained licenses, accounting for 26% of the total licenses issued and ranking first in China. With the business innovation going on, some non-financial payment institutions took the lead in participating in the online mutual funds sales, and some carried out preparatory work for the pilot program of cross-border payment.

Cross-border RMB business developed rapidly

In 2012, the cross-border RMB settlement in Shanghai totaled 491.9 billion yuan, representing a growth of 48.5% over the previous year. In particular, the RMB settlement for foreign direct investment exceeded 40 billion yuan. Vigorous efforts were made to innovate cross-border RMB business, including launching offshore lending business for RMB cash pool inside group companies on a pilot basis, carrying out RMB loan business for overseas projects, pushing forward the operation of RMB overseas investment and loan fund (Sailing Capital International), and actively exploring the RMB qualified foreign limited partner (RQFLP) business. The coverage of RMB settlement network continued to expand globally. By the end of 2012, the accumulated number of interbank nostro RMB accounts opened by domestic agent banks

in Shanghai area for overseas participating banks grew by 33 percent compared with that at the beginning of the year, and the accounts covered more than 100 countries and regions. Compared with the beginning of the year, the accumulated number of non-resident RMB accounts opened by domestic banks in Shanghai area for overseas institutions increased by 44.4 percent.

Foreign exchange management reform was promoted

First, work was done to deepen the pilot program of foreign exchange management to promote Shanghai as an international trade settlement center. The third batch of enterprises joined the pilot program. As of the end of the year, the total number of pilot enterprises reached 50. The foreign exchange receipts and payments from trade totaled US\$ 8.5 billion, representing a basic equilibrium of receipts and payments. Second, efforts were made to facilitate the fund operation of multinational corporations. The operational plan was drafted for reforming centralized operation and management of foreign exchange fund held by multinational corporations headquartered in Shanghai area on a pilot basis. Progress was achieved in pushing the pilot program into a substantive stage, with a number of Chinese and foreign multinationals having completed the two-way allocation of cross-border capital. Third, efforts were made to develop franchise individual foreign exchange business. The pilot institutions for franchise business grew steadily in number. They were encouraged to expand the number of currencies for conversion and promote the greater availability of foreign exchange machines. Fourth, the reform was successfully carried out with foreign exchange administration system for trade in goods, thereby making a smooth transition after removing the verification mechanism. Fifth, progress was made in deepening the pilot program for foreign equity investment enterprises. As of the end of the year, 13 enterprises participated in the program and conducted business, with the total investment involved reaching US\$ 1.23 billion. Sixth, study was carried out on building management framework for cross-border payment of third-party payment institutions.

International financial cooperation and communication was deepened

First, in order to play a better role as an important conduit for external relations, efforts were made to expand friendly exchanges with international financial organizations, foreign central banks, regulatory authorities and financial institutions, and a

mechanism of central bank representatives meeting on a regular basis was established, all of which helped enhance the influence of Shanghai in the financial field internationally. Secondly, efforts were made to attract and assist foreign monetary authorities and international financial organizations to set up trading rooms or representative offices in Shanghai, so as to serve as a bridge to enhance bilateral financial cooperation. In March, Shanghai Representative Office of the Bank of Korea was formally established. Third, achievements were made in strengthening financial cooperation between Shanghai and Hong Kong, Macao and Taiwan regions. Fourth, channels were expanded for technical cooperation with foreign central banks. These included developing practical international workshop programs on specific topics, as illustrated by the success of the Sino-German central bank business seminar. Emphasis was placed on training and retaining international financial talents. In recent years, significant progress was made in opening Shanghai's financial markets, as a result, the internationalization of the financial markets had been steadily achieved.

FOREIGN EXCHANGE ADMINISTRATION

In 2012, in accordance with the overall arrangements of the CPC Central Committee and State Council, SAFE accelerated the transformation of foreign exchange administration concept and model, steadily carried forward the reform in key areas of foreign exchange administration, took active measures to prevent cross-border capital flow risks, improved foreign exchange reserve management promoting the steady and relatively fast development of national economy.

To better serve the real economy, breakthroughs were made in the reform of foreign exchange administration concerning trade of goods

On the basis of the lessons and experiences learned from pilot programs, SAFE expanded the reform of foreign-exchange administration concerning trade of goods to the whole country on August 1, 2012. The practice of case by case foreign exchange payment and receipt verification was replaced with aggregated screening and matching, dynamic monitoring and administration according to categories. The custom declaration procedures were adjusted; the export tax rebate procedures were simplified; and

coordinated supervision among related departments was strengthened. Meanwhile, the number of items for administrative examination and approval were largely reduced, falling from 19 to 4, with 118 normative documents abolished.

The scope of opening-up was expanded and RMB's convertibility under capital account was steadily promoted

First, convertibility of direct investment was basically achieved. SAFE simplified foreign exchange administration for FDI. 35 out of 50 items for administrative approval were abolished, and 14 items were simplified and consolidated, which greatly facilitated investments. Reform in foreign exchange administration for overseas direct investment (ODI) was deepened. The pre-investment approval for source of foreign currency and outward payment was replaced with after-investment registration, which expanded the sources of foreign exchange fund and simplified the remittance procedures. Second, SAFE promoted the orderly opening-up of securities investment. Foreign exchange administration of overseas listing was greatly simplified; regulations for

the Qualified Foreign Institutional Investor (QFII) scheme and the Qualified Domestic Institutional Investor (QDII) scheme were further improved; the RMB Qualified Foreign Institutional Investor (RQFII) scheme was actively promoted. Over the year of 2012, SAFE has approved 100 QFII with US\$ 15.8 billion of investment quota, 25 QDII with US\$ 10.63 billion of investment quota, 28 RQFII with 56.3 billion yuan of investment quota. The QFII and RQFII investment quotas were increased by US\$ 50 billion and 250 billion yuan respectively.

Risk prevention was given top priority, and the institutional arrangement to address potential shocks of cross-border flows was continuously improved

First of all, SAFE closely followed the international and domestic economic and financial situation and changes in cross-border flows. It changed from mainly monitoring cross-border inflows to that of both inflows and outflows, and increased sensitivity and prudence in monitoring and analysis. Second, SAFE comprehensively reviewed the potential risks lying in the current foreign exchange administration, clearly defined the regulatory responsibilities and response measures, and reinforced policy tools to prevent large fluctuations of cross-border flows. Third, SAFE continuously took measures against irregular capital flows. It vigorously conducted off-site inspections, carried out special inspections on banks and enterprises

in specific areas such as bonded area, and stepped up efforts to crack down on major cases and underground banking activities. Throughout the year, SAFE altogether investigated and handled 3,676 cases, imposed fines and confiscated proceeds of 457 million yuan. Fourth, SAFE increased the reporting frequency of foreign exchange-related violations through briefings on the foreign exchange inspection to financial institutions. Fifth, SAFE strengthened the monitoring and early-warning of potential foreign exchange risks in the banking system.

Management model and strategies were actively improved and facilitation of trade and investment was advanced

First of all, SAFE actively supported the “going-out” of private capital. It simplified the foreign exchange administration concerning repatriation of ODI funds and overseas loans, eased management of individual external guarantee, properly increased the financing external guarantee quota for domestic banks, vigorously supporting the healthy development of overseas investment for private capital. Second, SAFE replaced the lower-limit-management on the balance of positions on cash basis with a new system for banks to manage their overall position for foreign exchange sales and purchases within a specified range, enabling the banks to be more proactive and flexible in foreign exchange transactions and risk management. Third, SAFE made efforts to facilitate mar-

ket participants' foreign exchange transactions. It reduced the fees charged for rural banks to do interbank foreign exchange transactions, simplified the access management of foreign exchange market, enriched the currency swap variety, and expanded the pilot program of franchised currency exchange shops. It promoted the development of retail purchase and sale of foreign currency through electronic banking, and researched on the standardization of payment in foreign currency for e-commerce. Fourth, SAFE actively pushed forward the clean-up of rules and regulations. It comprehensively reviewed the regulatory documents of every branch office and largely reduced the number of normative documents. Regulatory documents at the level of branch offices were reduced to less than 200 from over 20 thousand, which greatly increased the transparency of foreign exchange administration policies.

Foreign reserve management was further

improved to ensure the safety of foreign reserve assets

First, SAFE further enhanced foreign reserve management mechanism, organized the implementation of new investment-benchmark management model, optimized currency and asset allocation, and steadily promoted diversified operation. Second, in response to the sovereign debt crisis in Europe, SAFE strengthened the monitoring and study of the situation, timely adjusted risk management policies, and improved crisis response mechanisms. Third, SAFE further expanded the investment channels, innovatively allocated the foreign exchange reserve, enhanced the institutional building of entrusted loans business, optimized asset management model of overseas offices, and improved the platform for global operation. Fourth, SAFE vigorously strengthened the institutional and team building, and improved the long-term incentive and disciplinary mechanism for the management personnel.

BALANCE OF PAYMENTS POSITION

An overview of balance of payments position

In 2012, China's current account surplus was US\$ 193.1 billion, up 42 percent from that of the previous year. The capital and financial account turned from a surplus of US\$ 265.5 billion in 2011 into a deficit of US\$ 16.8 billion, for the first time since the Asian financial crisis. The total BOP surplus was US\$ 176.3 billion, shrinking 56 percent year on year, and way below the average surplus of US\$ 455.2 billion from 2007 to 2011.

The surplus of trade of goods increased rapidly. Based on BOP statistics, the national exports of goods were US\$ 2,056.9 billion, while the imports reached US\$ 1,735.3 billion, increasing 8 percent and 5 percent respectively from that of 2011. The total surplus of trade of goods was US\$ 321.6 billion, up 32 percent year on year.

The deficit of trade of services was further expanded. The revenues of trade of services in 2012 were US\$ 191.4 billion, up 3 percent year on year, while the expenditures were US\$ 281.2 billion, increasing 14 percent. The overall deficit of trade of services was US\$ 89.7 billion, 46 percent higher than in 2011. In 2012, the combined surplus of goods and services trade was US\$ 231.8 bil-

lion, up 27 percent year on year. The surplus to GDP ratio registered 2.8 percent, remaining at a historically low level.

The deficit of income account decreased. The revenue side of income account in 2012 was US\$ 160.4 billion, 11 percent higher than the previous year, while the expenditure was 202.6 billion, down 6 percent. The resulting deficit was US\$ 42.1 billion, down 40 percent. The investment income deficit was US\$ 57.4 billion, 33 percent lower year on year. That was mainly because the investment income of foreign investors fell down from that of 2011. The net inflow of compensation of employees was US\$ 15.3 billion, up 2 percent year on year.

The surplus of direct investment remained comparatively large. Based on the statistical coverage of balance of payments, the surplus of direct investment in 2012 was US\$ 191.1 billion, 17 percent lower year on year. The net inflow of foreign direct investment was US\$ 253.5 billion, down by 9 percent, while the outward direct investment was US\$ 62.4 billion, increasing 29 percent.

The net inflow of securities investment saw a huge rise. In 2012, the net inflow of securities investment was US\$ 47.8 billion, 143 percent higher than that in 2011. China's

overseas securities investment saw a net outflow of US\$ 6.4 billion, while in 2011 there was a net inflow of US\$ 6.2 billion. The net inflow of foreign securities investment in China reached a historical high of US\$ 54.2 billion, increasing 305 percent year on year.

Other kinds of investment registered a large outflow. The net outflow of other kinds of investment in 2012 was US\$ 260 billion, whereas there was a net inflow of US\$ 8.7 billion last year. Amid other kinds of investment, the external assets saw a net increase of US\$ 231.6 billion, up 26 percent from that in 2011. The external liabilities decreased by US\$ 28.4 billion, while in 2011 it saw a net increase of US\$ 192.3 billion.

The growth of reserve assets slowed down. Excluding the impact of non-trading valuation changes such as exchange rates and prices, China's newly-increased reserve assets were US\$ 96.6 billion, down 75 percent year on year. Amid the total reserve assets, foreign exchange reserve increased by US\$ 98.7 billion, which was US\$ 286.1 billion less than that in 2011. At the end of 2012, China's balance of foreign exchange reserve reached US\$ 3,311.6 billion, and China's reserve position at the IMF saw a net decrease of US\$ 1.6 billion.

Analysis of the balance of payments conditions

In 2012, under the background of abundant liquidity and low interest rate, the recovery of global economy slowed down;

the debt crisis in Europe and America continued to deepen; the international financial situation remained turbulent, and the two-way flow of capital in emerging markets was apparent. China's economy remained stable with a slower growth. The growth of economy was increasingly endogenous and autonomous, and the RMB exchange rate tended to reach an appropriate and balanced equilibrium level.

The size of foreign-related economy saw a stable expansion. The total amount of balance of payments transactions in 2012 was US\$ 7.5 trillion, 6 percent higher year on year. The ratio of total amount of balance of payments to GDP was 91 percent, 6 percent lower than in 2011. Among its components, the total volume of goods and services trade increased by 7 percent; the volume of international direct investment (including FDI and ODI) decreased by 2 percent.

The balance of payments was further improved. The surplus of balance of payments in 2012 was US\$ 176.3 billion, which fell to the same level as that of 2004 and decreased 56 percent from that of 2011. The ratio of current account surplus to GDP was 2.3 percent, which remained at the internationally accepted level. The growth of reserve assets slowed down markedly. The ratio of reserve assets to GDP was 1.2 percent, 4.1 percent lower year on year.

The equilibrium of balance of payments was initially formed. In 2012, China's balance of payments reversed the continuous

trend of “double-surplus” since 1999 and turned out to be “current account in surplus, capital and financial account in deficit”. It demonstrated that China’s balance of payments gradually adjusted itself and tended to achieve equilibrium. However, this was closely related to market participants making adjustments in financial operation in response to changes in market environment such as interest-rate and exchange-rate spread, making pro-cyclical adjustment from “holding assets in local currency and liabilities in foreign currency” to “holding assets in foreign currency and liabilities in local currency”. Thus, the foundation of achieving equilibrium for balance of payments was still unstable.

The short-term changes in cross-border capital flow were obvious. In the first quarter of 2012, with the recovery of global market, the surplus of capital and financial account was US\$ 56.1 billion, whereas there was a deficit of US\$ 29.2 billion in the fourth quarter of 2011. In the second and third quarter, due to factors such as the sluggish recovery of global economy, deepening of sovereign debt crisis in Europe and the rising risk-aversion, the deficits of capital and financial account reached US\$ 41.2 and US\$ 51.7 billion respectively. In the fourth quarter, the economy both at home and abroad became stabilized. In addition, the major developed countries

launched the quantitative easing monetary policy and international capital flew back to China, returning the capital and financial account to a surplus of US\$ 20 billion.

The non-direct investment took on a net outflow of capital. The net inflow of China’s direct investment was rather stable. From 2000 to 2012, the ratio of direct investment surplus to GDP basically ranged from 2 to 4 percent. However, the change between surplus and deficit of portfolio and other investment (known as non-direct investment) was rather rapid. When global investment risk aversion heightens, there tends to be a reversion of capital flow. From 2000 to 2012, there was a six-year surplus and a seven-year deficit under non-direct investment. In 2012, the deficit of non-direct investment reached US\$ 212.2 billion, equal to -2.6 percent of GDP, whereas there was a surplus of US\$ 28.4 billion in 2011. This mainly reflected the increase in overseas asset utilization by domestic institutions and decrease of external liabilities. The overseas asset utilization under other investment items (including external loans, overseas deposits and lending, trade credits on deferred payment and import pre-payment) experienced a net increase of US\$ 231.6 billion in 2012. The external liabilities (including trade credits and overseas deposits) experienced a net decrease of US\$ 28.4 billion.

FINANCIAL ACCOUNTING

The PBC focused on balance sheet management and deepened accounting analysis and research

The PBC actively participated in the reform of international accounting standards and promoted the international convergence of accounting standards within the framework of G20. On the one hand, the PBC studied intensively the economic effects of accounting standards and followed closely the reform process of accounting standards. In line with the requirements of macro-prudential management, the PBC took an active part in the technical dialogue conference of the International Accounting Standards Board (IASB) and the work of the Accounting Task Force (ATF) under the Basel Committee on Banking Supervision, providing feedback on the amendments of international accounting standards such as fair value measurement, financial instrument categorization and financial asset impairment. On the other hand, the PBC participated in the converging work of China's corporate accounting standards with the international financial reporting standards, analyzed the impact of accounting standard convergence on the sta-

bility of financial system, the sustainable and rapid development of financial sector and the reform of financial system, and reviewed the *Accounting Standards for Non-profit Organizations (Consultation Document)* and provided feedback to the MOF.

The PBC kept enhancing the management of its own balance sheet. In combination with China's financial reform and development, the PBC strengthened research on the balance sheet of foreign central banks which implemented non-conventional monetary policies and studied and proposed measures to effectively enhance the management of the PBC's balance sheet. In addition, the PBC analyzed financial indicators used by banking institutions, such as provision, minimum capital, liquidity and leverage, conducted research on the impact of commercial banks' innovation on their balance sheets, and pushed for the establishment of a counter-cyclical system in macro-financial management. Meanwhile, the PBC undertook thematic financial analysis on macro-financial management, improved the analysis and presentation of the PBC's balance sheet, and enhanced the forecast of revenue and expenditure.

The PBC innovated financial budget management methods and steadily pushed for the transparency of budget and final accounts

The PBC changed the concept and method of financial budget management, and promoted scientific and detailed management. It gradually put budget rationing standard in place, making budgeting and allocating funds in a scientific and reasonable way. It reinforced the binding effect and execution of budget, established monitoring and early-warning system for budget enforcement, strengthened oversight, enhanced risk awareness, improved budget enforcement, and reinforced the standardization, soundness and effectiveness of fund use. It actively practiced management based on budget performance review, launched pilot evaluation for the budget performance of branches and sub-branches, extended the application of evaluation result, and improved the efficiency of fund use.

In accordance with the decisions and arrangement of the State Council, the PBC improved the transparency of budget and final accounts, and disclosed the budget of the current year and the final account of the previous year for the Head Office and direct affiliations, expenditures on official overseas trips, official vehicle purchase and maintenance, and official reception, and administrative expenditures. Furthermore, the PBC actively improved the transparency of bud-

get of the PBC system. It carefully studied the characteristics of branches' businesses, strengthened coordination and communication with relevant organizations, and formulated a plan for publicizing the PBC's budget in 2013. In addition, the PBC set out plans for some branches to launch pilot program of publicizing budget within their jurisdiction, pushing forward budget transparency in an active and sound manner.

To prevent accounting and financial risks the PBC carried out its mandates

The PBC further improved the system of accounting and financial regulations. It conducted survey on the project of fixed asset replacement and released the *Guidelines on Strengthening the Management of Fixed Asset Replacement*, regulating the replacement of fixed assets in the PBC, preventing and controlling the associated risks. In addition, the PBC formulated the *Notice of Clarifying Provisions on Material Awards for Meeting Standards in Evaluation*, emphasizing policy requirements and working procedures, standardizing the management of material awards in evaluations. Meanwhile, the PBC strengthened the enforcement of rules and regulations. It pushed for the implementation of the *Financial Rules for Institutions and the Regulations for the Law on Tenders and Bids*, and made efforts to publicize government procurement policies and laws on the occasion of 10 years' anniversary for the publica-

tion of the *Government Procurement Law*.

The PBC conducted cross-check, coaching and staged comprehensive self-check for capital construction projects, and promoted construction projects on the basis of optimal design, quality guarantee and safe production. Also, the PBC improved the operation mechanism of separating management from execution in centralized procurement, focused on monitoring large procurements and followed up on the whole process of large procurements. In compliance with government procurement policies, the PBC made bulk procurement for some electronic equipment, and raised the proportion of procurements from small- and medium-sized enterprises and of energy-saving and environment-friendly products. Besides, the PBC continued to improve the use of vehicles for official business, cracked down hard on violation, assessed strictly the necessary number of vehicles, controlled tightly vehicle

procurement, and built a long-term mechanism for vehicle management. The PBC also pushed forward the reform and development of direct affiliations, and studied how to improve the performance review and financial reporting management of direct affiliations.

The PBC built accounting culture and upgraded the comprehensive quality of accounting staff

The PBC launched an extensive campaign for building accounting culture across the central bank. It strengthened anti-corruption and occupational ethics education for accounting staff, boosted the soft power of accounting culture through business contest, writing contest and speech contest, and provided trainings and seminars. All these were aimed to improve the comprehensive quality of accounting staff and establish an accounting talent pool for the operation of the central bank in the new era.

PAYMENT AND SETTLEMENT SYSTEMS

The payment and settlement systems operated smoothly with new progress in system upgrading and construction

In 2012, the payment and clearing systems across China operated safely and soundly, processing 19.112 billion transactions with a total value of 2,508.29 trillion yuan, up 23.1 percent and 25.9 percent respectively year on year. The High Value Payment System (HVPS), the Bulk Electronic Payment System (BEPS) and the cross-bank clearing system for online payments maintained safe and sound operation, with a steady increase in transaction volume. In particular, the HVPS processed 470 million transactions, up 26.3 percent compared with the previous year. Total value processed by the HVPS increased by 30.7 percent to 1,771.99 trillion yuan, 34.12 times of the nominal GDP. Meanwhile, the building of the 2nd generation of China National Advanced Payment System (CNAPS2) and the Accounting Data Centralized System (ACS) was pushed forward steadily. Joint tests and simulations run had been concluded successfully, paving the way for these systems to begin operation in 2013. In addition, the development of cross-border interbank payment system was launched.

The PBC continuously strengthened the laws and regulations for payment and settlement systems

The PBC issued the *Notice of the PBC on Regulating the Issuance of Magnetic Stripe Prepaid Cards and Electronic Cash by Banking Financial Institutions and the Administrative Measures for Prepaid Card Business of Payment Institutions*, stipulating the issuance, acceptance, use, refill and redemption of prepaid cards. Meanwhile, the PBC launched again the drafting of bank card regulations, and completed the *Regulations on Bank Card (Consultative Document)* jointly with other relevant agencies. In addition, the PBC pushed forward the drafting and amending of a series of documents, including the *Administrative Measures for the Bank Card Acquiring Business*, the *Administrative Measures for the Prepaid Capital of Payment Institutions*, the *Administrative Measures for the Online Payment Business of Payment Institutions*, the *Administrative Measures for Note Printing*, the *Administrative Measures for Letter of Credit Business* and the *Administrative Measures for Participants of the PBC's Payment and Settlement Systems*. In addition, the PBC made an overall plan for reforming RMB bank accounts

and set about drafting the *Administrative Regulations for RMB Bank Accounts*.

Non-cash payment instruments boomed

In 2012, 41.141 billion non-cash payment transactions with a value of 1,286.32 trillion yuan were processed, increasing by 21.6 percent and 16.5 percent respectively year on year, down 0.5 and 5.5 percentage points. The transaction volume of commercial paper declined slightly, concluding 784 million transactions throughout the year with a value of 296.37 trillion yuan. In particular, the commercial bill of exchange business kept growing, registering 15.5333 million transactions with a value of 16.06 trillion yuan, increasing by 23.7 percent and 12.9 percent respectively year on year. The volume of bank cards issued grew continuously. At the end of 2012, total bank cards issued reached 3.534 billion, an increase of 19.8 percent over the end of 2011. The share of credit cards went up slightly. Remittance, cashing and consignment collection continued to grow at a faster pace. In general, bank cards had become the most widely used non-cash payment instrument in China. Bank cards played an important role in serving the people, stimulating consumption and promoting the development of real economy. In 2012, the penetration rate of bank cards reached 43.5 percent. Meanwhile, new payment methods using digital TV, mobile phones, internet and telephones boomed. These innovative payment methods were becoming more mature business models

and satisfied the demand for payment services in social and economic activities.

The oversight and management of payment and settlement systems improved continuously

The PBC improved management of non-financial institutions' access to providing payment services. By the end of 2012, 197 non-financial institutions gained the permit to provide payment services. Currently, payment institutions with large market share had been placed under the PBC's regulation. The PBC strengthened the daily oversight and management of payment institutions. It established annual regulation reporting system for payment institutions, combined legal person regulation with territorial regulation, and reinforced management of clients' provisioning, risk prevention and operation behavior. In addition, the PBC carried out research on establishing an arrangement to inspect the compliance of the settlement business of banks and payment institutions. It finished the *Manual for On-site Inspection of Payment Settlement of Banking Financial Institutions*, providing training guidelines and important reference for branches in carrying out law enforcement inspection of payment settlement. In addition, the PBC improved the bank account management system and continued to push forward the real-name bank account system. It formulated the *Overall Plan for the Reform of RMB Bank Account System*, and undertook the verification of identity information of the stock personal

bank accounts across China. Meanwhile, the PBC enhanced its guidance to the Payment & Clearing Association of China (PCAC), and improved the coordinating and interactive mechanism between government regulation and industry self-discipline.

Progress had been made in improving rural payment environment

In 2012, the PBC carefully carried out the arrangement of the CPC Central Committee and the State Council regarding the financial sector's support to agriculture, farmers and rural areas. Jointly with governments of various levels across the country, the PBC called for commercial banks, clearing organizations and payment institutions to extend the application of non-cash payment instruments and payment settlement system, with an aim to improve the efficiency and quality of payment services in rural areas. By the end of 2012, cards per person in rural areas reached about 1.5 pieces. The service to help farmers withdraw deposits had been put in place across the country, alleviating the problem of low efficiency associated with payment settlement channels in remote rural areas, facilitating the distribution, inquiry and withdrawal of various subsidies. The special service of deposit withdrawal via bank cards by migrant workers registered over 72 million transactions with total amount exceeding 20 billion yuan. Over 70,000 financial institutions and branches in rural areas were connected to the PBC's payment and settlement systems,

smoothing the channel of fund transfer in rural areas. The intermediate goal set in 2009 had been achieved successfully.

The PBC continued to deepen external exchange and cooperation

The PBC continued to participate in the exchange platform of international organizations such as the Committee on Payment and Settlement Systems (CPSS), the EMEAP-WGPSS and the South East Asian Central Banks (SEACEN), maintained good cooperation with member institutions in payment clearing and settlement, and became more involved in international affairs related to payment and settlement. The PBC was re-elected as the chairman of EMEAP-WGPSS and strengthened its voice in the development of regional payment and settlement. Meanwhile, the PBC steadily pushed forward with the bilateral meeting mechanism on payment and settlement with the ECB, and deepened the cooperation with Hong Kong on financial infrastructure. Besides, the PBC finished the translation of the *Principles for Financial Market Infrastructures* of CPSS-IOSCO and the writing of *China Payment System Development Report (2011)*. In addition, the PBC successfully held an international seminar on payment system in Chengdu, providing training to domestic professionals of payment, clearing and settlement industries, introducing international experience and the latest trend in payment system.

• BOX •

Continuously Improving the Payment Service Environment in Rural Areas

Following the arrangement of the CPC Central Committee and the State Council regarding finance in serving agriculture, farmers and rural areas, the PBC formulated and adopted a series of policies and measures. Jointly with governments of various levels across the country, the PBC called for commercial banks, clearing organizations and payment institutions to continuously improve the payment service environment in rural areas and accelerate the coordinate development of financial services in urban and rural areas. As the first step, they made efforts to integrate the towns and villages without financial services into the banking system, and made some progress in balancing the resource allocation of payment services between urban and rural areas.

In 2012, in order to facilitate the expansion of financial services to the rural areas, a working mechanism was set up, in which the PBC took the lead and joined forces with relevant agencies; the local governments provided necessary support; and commercial institutions took charge in providing financial services to the rural areas. The branches of the PBC took the initiative in implementing relevant policies and measures and kept pushing the financial service resources to rural areas. First of all, the PBC expanded the coverage of payment and clearing network in rural areas. It provided a variety of ways of system connection and facilitated over 70,000 outlets of financial institutions in rural areas to get connected to the PBC's payment and clearing systems, opening the channels for transfer of funds in rural areas. The payment and clearing systems for rural credit cooperatives, rural cooperative banks and rural commercial banks connected nearly 80,000 outlets of rural financial institutions, expanding further the coverage of payment services in rural areas. In 2012, the clearing center for rural credit cooperatives, rural cooperative banks and rural commercial banks processed 87 million payment and clearing transactions with the total amount standing at 2 trillion yuan. Second, the PBC conducted specially tailored payment and settlement services, and promoted the development of retail payment systems for farmers. At the end of 2012, over 40,000 bank outlets in rural areas can provide special services of bank cards for migrant workers. Throughout the year, this deposit withdrawal business of bank cards for migrant workers registered over 57.85 million

transactions with an amount of 47.9 billion yuan. Meanwhile, the PBC launched the service of helping farmers withdraw deposits via bank cards across the country with over 670,000 service outlets covering 400,000 incorporated villages and integrating 74.2 percent of villages and towns without financial services. In 2012, this deposit withdrawal service reported 72.52 million transactions with the amount totaling 23.6 billion yuan. Third, the PBC pushed for innovation of payment services and encouraged the application of banks cards in rural areas. It promoted the use of special products that were favored by and affordable to farmers, launched the pilot mobile phone payment program, encouraged internet payment innovation and avail itself the comparative advantage of each type of business and technology. At the end of 2012, bank cards issued in rural areas reached 1.353 billion and terminals for bank card amounted to 4.1672 million, covering 78 percent of the incorporated villages and completing 80 trillion yuan of transactions throughout the year. While striving to expand the coverage of financial services, the PBC placed great emphasis on risk prevention of payment services in rural areas, strengthened market supervision and regulation, and launched propaganda and education campaigns so as to heighten farmers' risk prevention awareness and capacity.

Thanks to the joint efforts of various parties, the intermediate goal set in 2009 was successfully achieved with the payment service system in China's rural areas continuously improving and supply of payment services catching up with demand, facilitating the matching of supply and demand, and achieving mutually beneficial results. Take, for example, the service of helping farmers withdraw deposits using bank cards, if each transaction cost a farmer a 10-yuan fee and four hours for transportation, then the service would save farmers 725 million yuan and 290 million hours throughout the year. By enhancing the infrastructure network of payment services, financial institutions reduced the pressure on their counter services, deepened and extended their services to agriculture, farmers and rural areas, and integrated the goals of serving people, performing social responsibility, upgrading service quality and improving industry image. The improvement of payment environment in rural areas also shortened the psychological distance between national policies and farmers, turned the policy of supporting agriculture and benefiting farmers into reality, and enhanced the image of the CPC and the government in people's mind. As for direct fiscal subsidies closely related to the production and livelihood of farmers, such as new endowment insurance

funds to farmers, new rural cooperative medical care fund and various fiscal subsidies related to agriculture, farmers and rural areas, some regions had paid to farmers in full amount promptly through non-cash payment instruments. Throughout 2012, China offered farmers a number of grants via bank accounts and bank card agents, such as new endowment insurance funds, new rural cooperative medical care fund and various fiscal subsidies related to agriculture, farmers and rural areas with total amount registering 551.5 billion yuan, passing the policy benefits of the central and regional governments to farmers safely, conveniently and promptly.

Improving the payment service environment in rural areas is a long-term and tremendous task. Guided by the scientific outlook on development and in accordance with the arrangement of the 18th CPC National Congress regarding strengthening agriculture, benefiting farmers and enriching rural areas and promoting the integrated development of urban and rural areas, the PBC will help more and more people in rural areas to benefit from the development of modern payment systems, and provide a variety of payment services with high quality and competitive prices. By the end of the 12th Five-Year Plan period, the PBC will strive to basically establish a multi-level, low-cost and sustainable payment service system in rural areas that is centered on generalized system of preference and is oriented toward the financial demand of agriculture, farmers and rural areas, laying foundation for the integrated development of financial services in urban and rural areas.

BANKNOTE ISSUANCE AND MANAGEMENT

Cash supply in terms of quantity and structure were improved to better serve the need of the society

In 2012, net cash supply of 391.1 billion yuan was injected into the banking system across the country, a year on year decrease of 36.1 percent. However, the PBC was still faced with a formidable task of ensuring ample cash supply, especially during the holiday seasons between the New Year and the Chinese Spring Festival, when both net cash injection and daily cash injection hit historical highs. In 2012, the largest daily cash injection reached 243.1 billion yuan, exceeding the mark of 200 billion yuan for the first time. In an attempt to meet cash demand of the whole society in quantity and in structure, the PBC made arrangements in a timely manner and introduced innovative measures and methods in cash management. Efforts were made to increase the production of RMB banknotes and coins, ensure the reasonable allocation of RMB issuance funds and properly manage the cash vault for reserve fund. At the same time, the PBC endeavored to promote replacement of small-denominated RMB banknotes with coins, increase the issuance of large-, medium- and small-denominated RMB banknotes and coins and the injection of issuance funds, and optimize the structure of banknotes in circulation. For the whole

year, the injection of RMB banknotes with denomination of 10 yuan or less witnessed a year on year increase of 9.3 percent, 51.8 percent higher than that of RMB banknotes with a denomination of 20 yuan or more.

The tidiness of currencies in circulation was improved

Tidiness of banknotes is an important indicator in assessing the currency circulation of a nation. Therefore, the improvement of the tidiness of banknotes is one of the goals of banknotes issuance management. In order to improve the tidiness of RMB banknotes in circulation, the PBC, after years of explorations, established a quantitative model to measure the tidiness of currency in circulation, which effectively solved the theoretic problem of how to quantify the tidiness of RMB banknotes, and published the information of the tidiness of RMB banknotes in different denominations. The PBC also clearly stipulated the measures and targets that would be applied in the future work of further enhancing the tidiness of RMB banknotes in different denominations and vowed to go to great lengths to destruct damaged and mutilated banknotes. On the one hand, the PBC directed branch offices at various levels to actively engage in withdrawing damaged and mutilated RMB banknotes,

and organize banking institutions at counties without vault for reserve fund to act as agents for over-the-counter withdrawal of damaged and mutilated RMB banknotes on a pilot basis. On the other hand, the PBC stepped up efforts in managing the quality of banks' cash deposits with the PBC, and put forward stricter requirements on the tidiness of damaged RMB banknotes that had been withdrawn from circulation. In the meantime, the PBC optimized allocation of cash-handling equipment, adjusted the operation parameters of cash sorting equipments in a timely manner, strengthened the incentive mechanism for cash processing, and optimized the work procedure, all of which boosted the efficiency in destructing damaged banknotes. For the year, 61 percent of damaged RMB banknotes were destructed through automatically linked sorting and destructing systems, 27 percentage points higher than in the previous year. The number of damaged RMB banknotes destructed posted 34.4 billion, 21 percent more year on year. As of the end of the year, the overall tidiness index of cash in circulation posted 39.6 percent, 2.7 percentage points higher than at the beginning of the year. Specifically, the overall tidiness of RMB banknotes with denominations of 100 yuan and 50 yuan was 56.2 percent, and that of 20 yuan, 10 yuan and 5 yuan was 71.3 percent, up 5.5 and 6.5 percentage points over that at the beginning of the year respectively, while that of 1 yuan, 5 jiao and 1 jiao stood at 22.1 percent, up 1.1 percentage points over that at the beginning of 2012.

The PBC strengthened cracking down on counterfeiting activities

Since April, the PBC has launched a program aimed at cracking down on banking institutions mistakenly giving away counterfeit banknotes. The main aims of the project were to show zero tolerance of counterfeits, to advance the total sorting of the cash payments of banking institutions in a planned and step-by-step manner, so as to avoid mistakenly giving away counterfeit banknotes and to address related disputes that require providing evidence and identifying responsibilities. One important step involved was to check the serial numbers on banknotes when withdrawing cash. Through regular briefing, the PBC publicized the amount of counterfeit banknotes identified in cash reflow, encouraged banking institutions to get actively involved in anti-counterfeiting activities and make use of various measures to increase the cash sorting ratio and enhance the use of checking serial numbers of banknotes, which effectively contained the mistakenly giving away of counterfeit banknotes. The above efforts had achieved initial success. As of end of the year, the sorting capabilities of banking institutions witnessed a year on year increase of 5 percent, while the amount of counterfeit banknotes detected in cash flows declined by 52 percent over that in April.

The administration of RMB circulation was strengthened and the flow of cross-border RMB banknotes was kept orderly

The PBC made inspections on RMB receipts and payments by financial institutions and conducted surveys on the satisfaction of cash businesses provided by banks and the use of cash receipts and payments and sorting equipments. In addition, the PBC also

set up a database of the networks of banking institutions providing cash receipt and payment businesses.

Efforts were also made to protect an orderly cross-border flow of RMB banknotes. In the year, the overseas RMB reflow mechanism maintained stable performance. The year of 2012 witnessed a year on year growth of 14.7 percent in cross-border transportation of RMB cash, the value of which stood at 27.96 billion yuan, basically meeting the overseas demand for RMB cash and improving the tidiness of RMB banknotes that were circulated abroad.

The PBC stepped up efforts in managing currency and coin markets, enhancing the penalties of illegal advertisements, illegal sales and illegal decoration of RMB products as well as illegal use of RMB designs.

Administration of vaults for reserve fund was enhanced steadily and the management of gold and silver improved

The PBC strengthened examination on the construction of vaults for reserve funds and banknotes processing centers. The *Administrative Measures for Cash Deposit and Withdrawal of Banking Institutions* was issued to enhance management of banking institutions' cash deposits and withdrawals from vaults for reserve funds. The PBC also drafted the *Administrative Rules on Agents of PBC for Vault for Reserve Funds*, standardizing the business management and risk control of vaults for reserve funds. The PBC conducted spot checks on vaults, sorted out various risks related to vault management, strengthened security infrastructure and near-

ly finished building of closed management of vaults and monitoring and alarming system so as to ensure their safe operation. Four armed transportation centers were built and the management of armed transportation was further improved. Checks on physical gold and silver inventory were conducted with an archive of electronic pictures put in place, and some pictures were selected and added to the *Illustrations of China's Silver Ingots*.

Research on anti-counterfeiting techniques was pushed forward, and the comprehensive management of anti-counterfeiting activities reaped remarkable results

Research on anti-counterfeiting techniques of banknotes was further enhanced. The PBC made an in-depth investigation into the new security features of foreign banknotes, analyzed the latest developments of anti-counterfeiting techniques on the international market. The PBC also carried out a thorough research of the accuracy of different counterfeit banknotes, assessing the negative effects they might brought to the whole society. Surveys on the anti-counterfeiting knowledge of the public were also conducted.

Cracks down on crimes related to counterfeit banknotes were strengthened and the long-term mechanism of anti-counterfeiting activities was improved. The Fifth Joint Conference on Anti-counterfeiting Work of the State Council was held to commend good practices in the field. The anti-counterfeiting work continued to be one of the indicators in assessing comprehensive social management

and one of the key indexes in evaluating government performance, attaching greater importance to the anti-counterfeiting work. The PBC, in collaboration with the Ministry of Public Security, the Supreme People's Procuratorate and the Supreme People's Court, launched projects aimed at cracking down on counterfeiting-related crimes. The PBC also reinforced its publicity on anti-counterfeiting activities through innovative measures and diversified channels. The PBC branch offices at various levels set up a special column on anti-counterfeiting activities on their websites, with over 300 pieces of related information released over the year.

Research on Second-generation System for Gold and Silver Management was advanced so as to further improve the scientific management of gold and silver business

Development of Second-generation System for Gold and Silver Management made progress. The Prospectus of Second-generation System for Gold and Silver Management had been concluded, which featured improved management, expanded management and service functions, an information sharing platform and introduced

logistics methodology into the management of vaults for reserve funds. The prospectus also brought in the integration of businesses and upgrading of procedures. In addition, the system's demand analysis and framework design have also come to an end.

The supporting work of the system development was progressing smoothly. The Second-generation System for Gold and Silver Management will be the fundamental platform for gold and silver management in the future. In line with the guiding principles of the system development, the procedure integration and business innovation have seen further improvement. The supporting mechanism construction saw preliminary results and research on introducing logistics methodology into the system design had kicked off.

The online information management system of cash processing has been put into operation. As a result, the PBC branch offices at various levels can send cash sorting data online directly and can conduct real time early-warning against and monitoring of malpractices and operational risks, marking a great stride forward in cash processing business.

Table 1 Commemorative Coins Issued by the PBC in 2012

Issuing Date	Theme	Made of	Variety	Front Cover	Back Cover	Denomination (yuan)	Diameter (mm)	Issuing Amount (10 thousand sets)	Color
Aug. 28th	Common commemorative coins for New Year 2012	Brass alloy	1	"The People's Bank of China", "1 yuan", and "2012"	A boy in traditional Chinese attire performing dragon dance and the year "Renchen"	1	25	8000	Golden

Anti-counterfeiting Efforts

In 2012, the total amount of counterfeit RMB banknotes confiscated nationwide saw a year on year growth of 4 percent. To be specific, the year on year amount of counterfeit RMB banknotes tracked down by the public security bureau declined by 11 percent, while those confiscated by financial institutions increased by 16 percent.

The role of joint conference was brought into full play

The PBC, as the leading agency of the Joint Conference on Anti-counterfeiting Work of the State Council, in collaboration with the other member agencies, its branches and the various regional anti-counterfeit comprehensive management offices, studied the methods and by-laws in evaluating the results of anti-counterfeiting comprehensive management in 2012 and improved the evaluation mechanism. Against the backdrop of increasingly complicated situation in anti-counterfeiting work, the fifth meeting of the Joint Conference on Anti-counterfeiting Work of the State Council was held in Beijing on December 10, 2012. The participants analyzed the latest developments, new problems as well as the new characteristics of anti-counterfeiting, and laid out future guiding principles and priorities. In addition, 99 exemplary groups and 199 exemplary individuals were commended at the conference for striving to promote anti-counterfeiting work.

Rectification efforts in targeted counties beset with counterfeiting crimes gained noteworthy outcomes

In June, Office of the Joint Conference initiated special rectification campaign in 66 counties (cities or districts) that faced rampant counterfeiting-related illegal and criminal activities. From August to September, 2012, Office of the Joint Conference, in collaboration with the Ministry of Public Security, the Supreme People's Procuratorate and the Supreme People's Court, held four meetings in Beijing, Hefei, Changsha and Xi'an respectively that aimed at promoting the campaign against the illegal and criminal counterfeiting activities. Ever since the launch of this campaign, over 10 cases each with an amount of over 1 million yuan had been uncovered in the 66 counties (cities or districts) and the counterfeiting RMB banknotes confiscated grew 347 percent year on year. A large amount of counterfeit banknotes were incepted in counterfeiting, transportation and sales. Significant achievements had been made in the crackdown on counterfeit-related crimes.

Non-tolerance of counterfeit banknotes was further strengthened

In April, the PBC launched a special project on anti-counterfeiting at banking institutions. The reporting mechanism of counterfeit banknotes was established in banking institutions. In line with the aim of non-tolerance for counterfeit banknotes, the project focused on formulating counter-measures and improving banking institutions' capabilities in intercepting counterfeit banknotes in a comprehensive manner. A larger amount of cash reflowing into banking institutions were sorted and all the damaged banknotes with the denomination of 50 yuan or 100 yuan that flew back into banking institutions were sorted. At the same time, the pilot program of checking banknotes by the serial numbers on them was promoted in banking institutions. Currency-counting machines and currency detectors had been upgraded among banking institutions. As of end-September, 2012 all the serial numbers on banknotes withdrawn from the ATM can be recorded in Jiangsu Province.

Education on anti-counterfeiting was enhanced through varied means

The PBC played a leading role in the publicity and education of anti-counterfeiting. Calendars with anti-counterfeiting information was designed and distributed, which would help enhance public awareness of and capabilities in anti-counterfeiting. The column of Anti-counterfeiting Work on the website of the PBC was made full use in the education and services of anti-counterfeiting. According to the statistics, the PBC branches at various levels published over 300 pieces of information on their websites accumulatively, providing the public with the most authoritative and detailed knowledge in anti-counterfeiting.

The fundamentals of anti-counterfeiting work was enhanced

The PBC made in-depth research and investigation in an attempt to enrich the anti-counterfeiting theories and explore related practices. In September, a nationwide survey on the illegal circulation of counterfeit RMB banknotes was launched with 700 thousand questionnaires handed out, aiming at helping the authorities better understand the public's knowledge and awareness in counterfeit banknotes. From March to October, 2012 the PBC organized the compilation of business demand of the Second-generation Anti-counterfeiting Information System. In the meantime, the PBC researched the latest editions of over 150 circulated banknotes in 47 countries and regions and produced *Report on International Anti-counterfeiting Techniques of the Newly-issued Banknotes in 2011*.

STATE TREASURY MANAGEMENT

In 2012, the PBC fully fulfilled its state treasury management responsibility, steadily promoted the development of a modern and service-oriented state treasury, continued to strengthen state treasury accounting, institutional building and information technology application, further enhanced monitoring of the treasury accounts, improved quality of statistical analysis, further standardized cash management and government bond management, and significantly improved the capacity in support of budget execution, policy making, macroeconomic management and local economic development.

The PBC carried out basic state treasury operations in a safe and highly-efficient manner

In 2012, the state treasury played its role in reflecting and promoting budget execution, processing 920 million receipt and payment transactions with a total amount of 35.72 trillion yuan, up 0.4 percent and 6.4 percent year on year respectively. The PBC organized 3 issues of certificate government bonds and 10 issues of electronic savings bonds with a total amount of 223.582 billion yuan, while redeeming 231.05 billion yuan of matured certificate government

bonds and 25.34 million yuan of matured government bearer bonds. It conducted 14 times of time-deposit tender calls to commercial banks for central state treasury cash management, and 690 billion yuan were deposited with winning commercial banks, while 680 billion yuan of matured time-deposits were withdrawn from commercial banks in 14 transactions. Basically, state treasury was operated in a stable way, with the goals of zero error, zero case and zero cash in transit achieved, and the successful budget execution of all levels of governments was safeguarded.

The PBC enhanced institutional building in state treasury management

The PBC spared no effort in contributing to the amendment of the *Budget Law of the People's Republic of China*, and employed a variety of ways when reporting to relevant agencies the state treasury management mechanism of the PBC. It carried out in-depth theoretical research and promoted public education about state treasury, and as a result received full understanding from relevant agencies and broad support from various social communities. The PBC coordinated with the finance and taxation au-

thorities in formulating and releasing policy documents, putting in place institutional arrangements and measures on strengthening the management of special financial accounts and funds and on expanding pilot programs of replacing business tax with value-added tax, and lent strong support to the smooth implementation of various fiscal and taxation reforms. The PBC insisted on administration according to law, formulated the *Interim Measures for the Administration of Qualification for Agent Banks Carrying out State Treasury Centralized Revenue Collection and Payment* with the MOF, renewed the payment and settlement contracts with agent banks, accepted applications from 17 commercial banks for qualifications to collect central government non-tax revenue as agent banks during the period 2013-2014 according to law, and granted qualifications to 12 banks.

The PBC further promoted state treasury direct disbursement

Government funds related to important areas of agriculture, people's livelihood, and environmental conservation, such as reservoir immigrants' resettlements, social security and agriculture subsidies, are more and more directly disbursed from the state treasury. During the year, the state treasury made 15.8452 million direct dis-

bursements of funds with a total amount of 27.847 billion yuan, up 18.3 percent and 47.5 percent respectively year on year, and the scope of recipients expanded from farmers to all levels of the society, including workers, low-income urban families, students, teachers, soldiers, the disabled, public servants, the retirees and the retirees with honors. This indicated improved capability of the state treasury to serve the society and the people's livelihood. At the meantime, direct disbursement of the state treasury effectively reduced the possibility of corruption in the disbursement process, and its role in anti-corruption has been growing. For example, the PBC's branch in Yuncheng, Shanxi Province was highly valued by the central leadership for insisting on direct disbursement of state agriculture subsidy funds and publishing related information on websites in a timely manner, which was regarded as a useful exploration in combining information technology with anti-corruption institutional building.

The PBC achieved major progress in building state treasury information systems

The building of "3T"^① systems was actively pursued and steadily promoted, laying technical foundation for further improve-

^①"3T" refers to State Treasury Centralized Booking System (TCBS), Treasury Information Process System (TIPS) and Treasury Management Information System (TMIS).

ment of state treasury administration. First of all, connection with the Treasury Centralized Booking System (TCBS) was promoted with increased speed. During 2012, the PBC organized three times of TCBS connection covering 24 provinces (regions, municipalities), compared with 12 at the beginning of the year. Meanwhile, it determined that Treasury Booking System (TBS) would act as the back-up system for TCBS, completed system upgrading in time, and formulated working plans to ensure safe operations of the system. Second, the PBC made significant progress in enhancing the usage of the Treasury Information Process System (TIPS). In 2012, it expanded TIPS' coverage to 10 provinces (regions, municipalities), processed 167 million transactions through TIPS that amounted to 7.660728 trillion yuan, up 9.2 percent and 56.5 percent year on year respectively. At the same time, the PBC reached agreement with the MOF on plans to connect payment networks, and launched pilot programs in Hebei Province and Chongqing. The PBC also jointly formulated administrative measures on commercial bank charges with the MOF and the SAT, which effectively motivated commercial banks to obtain access to the TIPS. Third, the PBC steadily promoted Treasury Management Information System (TMIS) services. It completed the development of treasury management basic information system, strengthened monitoring of the operation of treasury statistical analysis system, further improved the functions of

central state treasury cash management system, and finished system upgrading applying the American bidding model. In September, the State Treasury Processing Center was established, and to some extent, relieved the operational and management pressure of the 3T systems.

The PBC continued to strengthen management and monitoring of state treasury

At the beginning of the year, the PBC issued *"Guidelines on the Role of the PBC in Supervising and Managing the State Treasury"* and further clarified its priorities and measures in carrying out state treasury monitoring and management. According to the new requirements and the practical needs, the PBC improved onsite inspection work plan of treasury accounting, organized onsite inspections on internal control, system management, annual closing accounting, account organization, dealing and checking of some state treasury branches. At the same time, in order to strengthen monitoring and management of agent state treasury operations, the PBC organized inspections on state treasury operations by agent commercial banks, established inspector dispatch mechanism, and established regulatory and evaluation systems of agent state treasury operations. As conditions matured, the PBC withdrew the management of 11 city state treasury branches and 38 state treasury branches in villages and towns from commercial banks. It also completed key research on *"Quantitative*

Management and Control of State Treasury Fund Risks", which helped consolidate the theoretical foundations of conducting state treasury monitoring and management using electronic system.

The PBC further enhanced state treasury statistical analysis

The PBC improved categories and contents of state treasury statistical statements, compiled various statements accurately in a timely manner, which comprehensively reflected the dynamics of state treasury funds and provided data and information to relevant authorities and departments. It established quarterly meeting mechanism on treasury fund operation analysis, and started regular meetings on state treasury statistical analysis. As the elites from state treasury branches would sometime be invited to attend the meetings, this mechanism not only improved quality of analysis but also helped with training the teams. Some treasury branches also established regular cross-region analysis meetings and information sharing mechanisms. The PBC reformulated "*Indicator System of State Treasury Statistical Analysis*" and "*Analytical Framework for State Treasury Fund Operations*" to improve state treasury statistical and analytical database. It actively paid attention to macroeconomic situation and policy adjustment, monitored changes of state treasury data, studied major economic issues of discussion, and conducted research and analysis on top-

ics such as taxation on real estates, tax burden of small- and medium-sized enterprises, replacing business tax with value-added tax, etc. These works provided valuable information to policy making in various regions and supported local economic development.

The PBC successfully conducted government bond management and reform

The PBC amended and issued *Operational Instructions on Redemption of Government Bearer Bonds and Receiving Vouchers by the People's Bank of China*, and organized redemption of matured government bond vouchers. In 2012, it redeemed 11,572 issues of receiving vouchers with principal of 14.465 million yuan, 14.3 times and 7.8 times of the previous year respectively, which improved credibility of government bonds and protected the interests of investors, and was highly-valued by the public. Meanwhile, the PBC actively coordinated with the MOF and collectively promoted reform of government savings bonds. First of all, they formulated and issued "*Guidelines on Certificate Government Bonds Reform in 2012*", and for the first time issued certificate government bonds targeting at individual investors through agents in April. Second, they approved ICBC, CCB and Bank of Communications as the first group of banks participating in online pilot sales of electronic savings bonds, and launched online sales business formally in November. The online sales amount to 2.7 billion yuan

and accounted for 13.5 percent of total sales of pilot banks within the same period. Third, they improved trial evaluation measures of savings bond underwriting syndicate members, and formulated administrative rules of electronic savings bonds and savings bonds quotas, further enhancing the management of underwriting syndicates.

The PBC steadily promoted state treasury cash management

The PBC actively and steadily conducted central state treasury cash management. It appropriately handled the operational scale, frequency and timing of time-deposits for central state treasury, and promoted revolving time-deposits for central state treasury cash management. It also paid close attention to the bidding and winning interest rate levels of every issue, deepened market demand analysis, and provided information in support of coordination between central state treasury cash management and monetary policy. It issued jointly with the MOF bidding rules concerning cash management operations of time-deposits with commercial banks for central state treasury management,

and signed major time-deposit contracts with regard to central state treasury cash management with 51 syndicate member banks on-site, further improving central state treasury cash management mechanism. It also conducted daily monitoring of government bond market price changes, and jointly with MOF carried out onsite inspections of participating banks to improve risk prevention of state treasury cash management.

The PBC also conducted research to promote regional state treasury cash management. It reached basic agreement with the MOF on regional state treasury cash management, and held a joint meeting on state treasury cash flow forecasts to exchange experience and measures. Some treasury branches conducted research and trial programs and accumulated experience for regional state treasury cash management. Meanwhile, the PBC also actively strengthened theoretical research on state treasury cash management and has formed a preliminary set of theory and methodology on state treasury cash management based on China's specific conditions.

Table 2 Issuance of Government Savings Bonds in 2012

Categories	Issues	Issuing Date	Actual Issuing Amount (100 million yuan)	Repayment Period			
				3 years		5 years	
				Amount (100 million yuan)	Interest Rate (percent)	Amount (100 million yuan)	Interest Rate (percent)
Certificated Bonds	1 st Issue	4.10-4.23	299.74	209.79	5.58	89.95	6.15
	2 nd Issue	8.10-8.19	236.72	155.78	4.76	80.94	5.32
	3 rd Issue	10.10-10.19	182.05	107.35	4.76	74.7	5.32
Electronic Savings Bonds	1 st Issue	3.10-3.23	350	350	5.58		
	2 nd Issue	3.10-3.23	150			150	6.15
	3 rd Issue	5.10-5.23	210	210	5.58		
	4 th Issue	5.10-5.23	90			90	6.15
	5 th Issue	6.10-6.23	0	0	5.58		
	6 th Issue	6.10-6.23	0			0	6.15
	7 th Issue	7.10-7.23	0	0	5.21		
	8 th Issue	7.10-7.23	0			0	5.71
	9 th Issue	7.20-7.29	191.48	191.48	4.76		
	10 th Issue	7.20-7.29	120			120	5.32
	11 th Issue	9.10-9.19	129.22	129.22	4.76		
	12 th Issue	9.10-9.19	90			90	5.32
	13 th Issue	11.10-11.19	106.8	106.8	4.76		
	14 th Issue	11.10-11.19	79.81			79.81	5.32

Note: The plans of 5th, 6th, 7th and 8th electronic savings bonds issuance were cancelled due to the interest rate adjustment by the PBC on June 7 and July 5 in 2012.

Table 3 Cash Management Operations of Time Deposits with Commercial Banks
for Central State Treasury in 2012 (depositing)

Operation Date (interest date)	Batch of Deposits	Amount (100 million yuan)	Interest Rate (percent)	Duration	Interest Income (yuan)
2012.02.23	2012(1)	300	6.80	6 months	1 017 205 479.46
2012.03.22	2012(2)	500	6.80	6 months	1 695 342 465.77
2012.04.26	2012(3)	600	5.60	6 months	1 675 397 260.29
2012.05.10	2012(4)	600	5.13	6 months	1 534 783 561.63
2012.05.29	2012(5)	600	4.22	9 months	1 893 797 260.26
2012.06.19	2012(6)	600	3.23	3 months	483 172 602.75
2012.07.24	2012(7)	500	3.50	3 months	436 301 369.91
2012.08.23	2012(8)	400	3.52	3 months	351 035 616.43
2012.09.18	2012(9)	400	3.70	3 months	368 986 301.35
2012.09.25	2012(10)	400	4.32	6 months	861 632 876.73
2012.10.18	2012(11)	500	4.00	3 months	498 630 137.00
2012.10.25	2012(12)	500	4.50	6 months	1 121 917 808.19
2012.11.13	2012(13)	500	4.70	6 months	1 171 780 821.92
2012.11.22	2012(14)	500	4.80	6 months	1 196 712 328.79
Total		6 900			14 306 695 890.48

Table 4 Cash Management Operations of Time Deposits with Commercial Banks
for Central State Treasury in 2012 (withdrawal)

Operation Date (expiry date)	Batch of withdrawal	Amount (100 million yuan)	Interest Rate (percent)	Duration	Interest Income (yuan)
2012.01.19	2011(3)	300	5.70	9 months	1 278 986 301.34
2012.03.20	2011(5)	500	5.90	9 months	2 206 438 356.14
2012.02.21	2011(7)	300	6.50	6 months	972 328 767.13
2012.04.24	2011(9)	600	6.83	6 months	2 043 386 301.35
2012.05.10	2011(10)	600	6.00	6 months	1 795 068 493.19
2012.05.29	2011(11)	600	6.00	6 months	1 795 068 493.19
2012.08.23	2012(1)	300	6.80	6 months	1 017 205 479.46
2012.09.20	2012(2)	500	6.80	6 months	1 695 342 465.77
2012.10.25	2012(3)	600	5.60	6 months	1 675 397 260.29
2012.11.08	2012(4)	600	5.13	6 months	1 534 783 561.63
2012.09.18	2012(6)	600	3.23	3 months	483 172 602.75
2012.10.23	2012(7)	500	3.50	3 months	436 301 369.91
2012.11.22	2012(8)	400	3.52	3 months	351 035 616.43
2012.12.18	2012(9)	400	3.70	3 months	368 986 301.35
Total		6 800			17 653 501 369.93

DEVELOPMENT OF FINANCIAL IT INFRASTRUCTURE

Construction of Financial IT Security Safeguard System was strengthened

Following the opinions of the State Council on strengthening financial IT security and the *Comments on Advancing IT Development and Safeguarding IT Security* (State Council Document [2012] No.23), the PBC implemented the national information security grade protection policy by releasing a series of industry criteria on financial information security grade protection, accomplishing test and rectification on 48 important information systems, and launching grade registration, test and rectification, and inspection on information system in the banking industry. In addition, the PBC made efforts to enhance domestic R&D and risk control capability. The SM series algorithm was introduced in financial field. Overall plan, action program, and emergency plan were drawn up. And annual work was accomplished in line with the arrangement of relevant authorities. Furthermore, coordination mechanism on financial industry information security was improved. Risk warning on financial industry information security was sent to financial institutions on an ir-

regular basis. In the context of cross-agency *Program on Coordination in Financial Industry Information Security*, provincial-level information security emergency coordination mechanism was established. A total of 80 issues of *Network and Information Security Bulletin* were circulated. Security safeguard was provided to financial industry network and system in special period, such as during the 18th National Congress of the CPC.

IT Development witnessed orderly progress

The PBC data management framework had taken shape. In accordance with the principle of putting standardization and framework first, the PBC initiated the construction of Head Office-level data management platform, data exchange platform, and data release platform, and arranged the construction of provincial-level data management platform, data and statement platform, forming data sharing channels for Head Office-level systems and between Head Office and branch systems. In general, business data had been successfully collected, stored, processed and exchanged in a centralized manner.

The efforts of building modern service-

oriented state treasury were accelerated. The Treasury Information Processing System (TIPS) had been extended nationwide. Worked with the SAT, the PBC accomplished the pilot program of State Taxation in the Third Stage in Chongqing for the Treasury, marking the first step of connecting the tax collection system to TIPS and centralizing national data. The Treasury Centralized Booking System (TCBS) has been extended to 24 provinces. The Treasury Management Information System (TMIS) saw a steady improvement in data analysis function.

Major systems construction was speeded up. The Central Bank Accounting Data Centralized System (ACS) and Second-generation China National Advanced Payment System were at the stage of optimization. Banknote Processing Information System was linked with processing centers nationwide. The PBC finished the project of extending video conference system extension to county-level branches, supporting the transformation of PBC's work model. Small- and micro-financial institutions were encouraged to link into Financial Intranet of provincial capital cities to better serve small- and micro-enterprises.

The PBC major systems saw enhanced consistency. The intra-city disaster emergency backup center was set up in Beijing and the data center in Shanghai had passed project inspection. Technical infrastructure construction was improved, and an array of

intra-city disaster backup system constructions were launched, including TIPS, TCBS, the Online Citizen Identity Verification System (OCIVS), the Financial Statistic Monitoring Information Management System (FSMIMS), and the Gold, Silver, Currency Issuance Information Management System (GSCIIMS). The remote disaster backup system construction was started for RMB Account Management Information System (RAMIS).

The migration to financial IC card with multiple functions reached a new stage

The PBC continued to advance IC card migration project. At end-2012, 103 commercial banks issued financial IC bankcards, with 126 millions of IC cards issued, a growth of 102 million cards against end-2011. The domestic POS terminals and ATMs have been transformed on time into IC bankcard acceptable, laying a foundation for sustained and stable development of financial IC bankcard and mobile NFC payment.

The PBC issued the industry standard, i.e. *China Financial Integrated Circuit (IC) Card Standards* (PBOC3.0) and established the National Financial IC Card Security Inspection Center. The platform for one card with multiple functions was set up in five national-level E-commerce cities, namely Shanghai, Guangzhou, Chengdu, Qingdao and Ningbo. Worked with relevant agencies, the PBC advanced application of IC cards in railway and public health field, greatly accel-

erating the IC cards acceptance and industry upgrading.

Steady progress was made in financial industry standardization

The PBC released the *Banking Industry Standardization System*. The Third National Financial Standardization Technical Committee was established. The *Banking Industry Standardization System*, along with released standardization systems in securities and futures industry, insurance industry and printing industry, formed the financial industry standardization system, which became the basis upon which financial industry standards being formulated and revised and the foundation for financial standardization to develop orderly. Meanwhile, the PBC approved and initiated 80 industry standard projects and organized the revision of 134 national and industry standards.

More efforts were made to participate in making international standards. The PBC took part in the preparatory work of global Legal Entity Institution (LEI) management system organized by the Financial Stability Board. It recommended 10 experts from China to join in 4 international standards taskforce and prepared for the 2013 Annual Meeting for International Standards Organization/TC68.

The use of copyrighted software in financial sector was promoted. To fulfill the requirement of the National Leading Group for Combating Infringing on Intellectual Prop-

erty Rights and Manufacturing and Marketing Counterfeit and Substandard Goods, the PBC, worked with the CBRC, CSRC, and CIRC, required financial institutions to set up mechanism to ensure the use of copyrighted software and take the lead in copyrighted software application in all industries.

Clearer division of labor was made in information-related departments

The Financial Information Center of the PBC was put into operation. It was responsible of managing the PBC data center, running and maintaining the PBC network and application systems, collecting, summarizing and analyzing relevant information to ensure business continuity of the PBC. In line with the *PBC Software Development Standards*, the China Financial Computerization Corp improved platform development and test, advanced IT development, and conducted hardware maintenance and software support. The Technology Department of the PBC played the role of making overall IT plan and management at all levels of the PBC. Owing to efficient coordination and cooperation of the above parties, steady progress was made in all related fields.

The PBC reinforced its branches' responsibilities in localized IT management, and pushed forward the branches to included a mix of business into "two management & two comprehensives", including regional information security coordination mechanism construction, network and system access,

financial institution code management, payment institutions technology inspection, and local banks' IT achievement management. The branches were organized to launch a special action on IT management. In accordance with the *PBC Comprehensive Standards for Information Security*, information security management benchmark was set up to meet the basic requirements of management using information technology and internal control audit.

Communication was advanced on financial IT R&D achievements

The PBC organized Banking IT Development Award Competition. A total of 140 IT development projects from 47 banks, including 25 from regional banks, were reviewed. The PBC recommended 10 national science and technology award review experts. The

Practice of the PBC on Financial Performance Analysis System received the Best Practice Award of *China IT Administrative Technology Application*.

The PBC recommended China Unionpay to join in the national recognized enterprise technology center. The PBC also organized relevant financial institutions to apply for and participate research projects from government agencies, which included 7 IT security research projects from the NDRC; two projects from the Department of Science and Technology on Disaster Backup Cloud Platform for Small- and Medium-sized Financial Institutions and its Application and on Management, Service and Standard System of Cloud Disaster Backup; and one from the State General Administration for Quality Supervision on Major Technology Standards on Financial Outlets Service.

• BOX •

Strengthening Standardization to Advance Standardized and Orderly Development of Electronic Payment Industry

In 2012, to standardize the development of electronic payment industry and give further play to electronic payment technology innovation in promoting the industry development, the PBC vigorously advanced research and development on electronic payment technology standards by compiling and releasing over 40 technology standards, such as *China Financial Integrated Circuit (IC) Card Standards (PBOC 3.0)*, *China Financial Mobile Payment Technology Standards*, and so on.

Based on international technology standards and domestic reality of financial IC cards acceptance, *China Financial Integrated Circuit (IC) Card Standards (PBOC 3.0)* removed articles related to E-wallet and E-bankbook, expanded and improved small-value contactless payment function, supported dual-currency E-cash payment, standardized IC card internet terminal technology requirements, and added articles supporting cryptography algorithm with proprietary intellectual property. In addition, financial IC card test standards were supplemented and amended to ensure the consistency of operation standards and control procedures.

Aiming at developing IC cards with versatile functions, ensured safety and reliability, connectivity to multiple networks, and beneficial to both issuers and users, the PBC issued the *China Financial Mobile Payment Technology Standards*, which composed of five categories and 35 items, provided specifications for systematic requirements on mobile payment with respect to products description, operation models, access to networks, and security and safeguards. Moreover, the specifications covered each step of mobile payment in terms of essential components, security requirements, and application programs, and left ample room for products R&D and expansion in different industries. Furthermore, the specifications comprehensively utilized financial IC card resources of networks, systems and terminals, supported cryptography algorithm with proprietary intellectual property. It was one of the earliest technology standards in financial mobile payment field both home and abroad with far-reaching significance to further strengthen information security in financial mobile payment.

In addition, the PBC released seven essential components of technology stan-

dards on electronic payment. *Electronic Payment Terminology* specified definitions and usage of terminology in electronic payment. *Classification and Code Standard of Electronic Payment Instruments* made classification on various electronic payment instruments involved in electronic commercial payment activities. *Data Elements Standard for Electronic Payment of Electronic Business* exhibited data elements used by electronic payment parties in designing reporting messages. *Electronic Payment Document Data Format* specified data format used between merchants and payment service providers in delivering and exchanging documents, including definitions of document name and record format. *Internet-based Online Payment Transaction Models and Procedures* described commonly used and matured transaction models between merchants and payment service providers (banks and non-financial payment entities). *Internet-based Online Payment Reporting Message Structures and Elements* clarified structures, elements and transmission modes for online payment reporting message and standardized reporting message between merchants and payment providers. The *Internet-based Online Payment Security Specifications* provided a guiding framework for payment institutions to set up security management system. Based on international operational rules and technology specifications, the above standards put forward technology models and product plans for an electronic payment industry suitable to China's circumstances, setting up a technology system featured with multiple connectivity, security and reliability for China electronic payment industry. Therefore, these standards were of guiding significance to the overall development of China electronic payment industry and marked that the standardization of the industry had reached advanced international standards.

CREDIT INFORMATION MANAGEMENT AND THE DEVELOPMENT OF SOCIAL CREDIT SYSTEM

The PBC pushed for the approval of the *Regulations on Credit Information Industry*

The *Regulations on Credit Information Industry (Draft) (the Regulations)* was deliberated and approved by the Executive Meeting of the State Council on December 26, 2012. In order to facilitate its approval, the PBC cooperated with the Legislative Affairs Office of the State Council in the following aspects: first of all, it reviewed the feedbacks during the 2011 public consultation, conducted broad-based research and weighed the opinions of all sides, and formulated *the Regulations (Reviewed)* after careful consideration and repeated revision. Second, through sound communication, the PBC reached an agreement with the NDRC, the Ministry of Commerce (MOC), CBRC and CSRC on the *Regulations (Reviewed)*, and completed the drafting work of the *Regulations (Draft)* and *Explanations on the Regulations (Draft)*. Third, the PBC studied both domestic and foreign laws related to credit management, and prepared documents such as introductions to foreign credit management legislation, overview of foreign credit management institutions, cur-

rent situation and problems of China's credit management system, and related terminology about the *Regulations*. These materials provided strong support for the deliberation and approval of the Executive Meeting of the State Council.

The PBC began the nationwide application of institution credit code

Based on the experiences from the pilot program in Hunan Province in 2011 and in a step-by-step manner, the PBC successfully pushed forward the application of institution credit code nationwide in terms of institutional setup, training, system operation and maintenance, credit code certificate distribution, and etc. It also explored the application of institution credit code in fields such as credit information management, anti-money laundering, financial institution business and social credit system building. By the end of 2012, the PBC has issued nearly 18 million institution credit codes across the nation; more than 970 financial institutions were granted the access to the institution credit code system, and the number of various users reached 420,000

accumulatively.

The PBC further enhanced credit information management

The PBC organized on-site inspections on commercial banks regarding establishment and implementation of credit management mechanism, personnel and organization arrangements, data submission and usage, dispute settlement and etc. It settled individual complaints appropriately and timely, strengthened individual credit information management, and regulated credit information operation of commercial banks. The PBC conducted inspections on commercial banks' usage of credit cards and strengthened the administrative approval of credit cards. It also promoted access of such institutions as micro-credit companies and financing guarantee companies to the credit information system in a regulated and orderly way. In order to support the pilot financial reform zone in Wenzhou, the PBC granted 15 micro-credit companies in Wenzhou access to the credit information system at the initial stage. The PBC also kept communicating with CBRC, CSRC and CIRC and relevant financial institutions in order to formulate a blueprint for the establishment of a unified financial credit information platform that covers the financial sector as a whole.

The PBC continued to make progress in credit information system building

As important components of the nationwide credit information system, the individual and enterprise credit information database (the basic database) and the movable property financing registration system have been playing an increasingly important role ever since their establishment by the PBC, which were further enhanced in financial, economic and social credit risk prevention. The coverage of the basic database continued to expand, and the quality of data was improved. By the end of 2012, the basic database had collected information of 823 million natural people and 18.588 million enterprises and other organizations. A total of 199 thousand users were granted access to individual information queries and 274 million queries were processed; for enterprises, 133 thousand users were given access and they made 97 million queries. The functions of the movable property financing registration system were improved gradually. The system was playing an increasingly important role in identifying property ownership of pledges in movable property financing business. This system was composed of receivable pledge registration system and financial leasing registration system. The legal validity of the receivable pledge registration has already been clarified, and the financial leasing registration has been put into legal practice in Tianjin. By the end of 2012, 754,400 transactions had been registered accumulatively in the receivable pledge registration system and 987,500 queries had been made; while 79,200 transac-

tions had been registered accumulatively in the financial leasing registration system and the queries conducted amounted to 32,900.

The PBC regulated and promoted the development of credit rating

The PBC regulated the operation of credit rating agencies (CRAs) by adopting strict credit rating business registration and approval procedures, strengthening routine monitoring of credit rating process and collecting information of the credit rating market conditions. It improved the mechanisms of joint conference of general managers of CRAs and the expert review committee, promoted communication and cooperation within the industry, and encouraged innovation of CRA businesses. By the end of 2012, 78 CRAs were registered with the PBC; 2,360 credit ratings were completed in the interbank bond market, up 42 percent year on year, and nearly 50,000 credit ratings were given in the credit market, marking an increase of 5 percent.

The PBC steadily promoted the development of social credit system

The PBC jointly with NDRC played the leading role in promoting the development of social credit system. Approved by the State Council, the PBC adjusted the mechanism of joint-ministerial conference for social credit system development, raising the number of agencies from 18 to 35. It organized the compilation of the *Outline of the*

Plan for Social Credit System Development (2013~2020) and Key Tasks of Social Credit System Development in Three Years. The PBC also held meetings such as joint conferences, liaison meetings, credit service institution meetings, and national social credit system development working meetings. Focusing on the pilot areas, the PBC promoted the credit system development of small- and medium-sized enterprises (SMEs) and in rural areas. By the end of 2012, 2.353 million SMEs that used to have no bank loans established credit files, and 290,000 SMEs received bank loans, with the outstanding balance of loans at 5,595.02 billion yuan. 148 million rural families established credit files, and 97.84 million were identified as credit households. Among the rural families with credit files, 110 million received bank loans, and the amount of outstanding loans reached 1.76 trillion yuan.

The PBC launched broad-based publicity and public education programs

The PBC organized special education programs on institution credit code through direct communication, media coverage, posters and brochures. It also launched the 5th Credit Record Day, which was a nationwide special credit information education program, and raised public awareness of the importance of maintaining good credit records. According to incomplete statistics, during the Credit Record Day, almost 30,000 staff of the PBC and financial institutions participated

in various outreach and educational events; more than 4,200 events were held, 7.10 million promotional materials were distributed, and the audience exceeded 7 million.

The PBC gradually promoted development of credit information culture

Based on lessons and experiences learned in the development of the credit information industry, the PBC summarized the essence of credit information culture, and has formed preliminarily an organic system that comprised core values, management mechanism, rules and regulations, working styles and codes of conduct, and culture building and presentation. Among them, the core values of the credit information culture consisted of “trust, honesty, teamwork and innovation”.

The PBC organized the compilation of the *Five-Year Work Plan for Credit Information Management*

On the basis of thorough research and broad consultation, the PBC fully reviewed achievements and experiences obtained in the past credit information management work. Faced up with new requirements of the development of credit information industry, the PBC analyzed problems, clarified visions, and proposed the future goals, guiding strategies and principles, tasks and measures, and compiled the *Five-Year Work Plan for Credit Information Management*. The *Work Plan* was composed of six detailed plans, including *Plan for Credit Information System Development*, *Plan for Credit Information Management Development*, *Plan for Credit Information Market Development*, *Plan for Credit Information Public Outreach and Education*, *Plan for Credit Information Culture Development*, *Plan for Promoting Social Credit System Development*, all of which would provide robust guidance to enhancing credit information management.

• BOX •

Promoting the Use of Institution Credit Code to Set Up “Economic ID” System for Institutions

In line with the principles set by the Fourth Session of the Anti-Corruption Joint Conference in 2010 and entrusted by the National Bureau of Corruption Prevention, PBC began working on setting up the institution credit code (ICC) system. Based on thorough consultation with relevant ministries and departments, the PBC formulated the working plan for introducing ICC, set up the ICC system, and carried out the pilot program in Hunan Province in 2011, which yielded successful experiences. During his address at the PBC Work Conference in 2012, Governor Zhou Xiaochuan pointed out that “we shall improve the management of credit information by studying and promoting the development of credit reporting-related legislation, credit information management, credit information market, outreach and education programs, and fostering a credit culture. We shall introduce ICC nationwide”. A multi-department co-ordination group within the PBC was set up to accomplish the task; and PBC branch offices set up ICC working groups headed by branch office chiefs in order to enhance leadership mechanism. After a year’s endeavor, the PBC had issued approximately 18 million ICCs, enabled 970 financial institutions to acquire access to the ICC system, and opened accounts for 420,000 users. The number of enquiries made merely to check anti-money laundering compliance by banking financial institutions using the ICC system reached 16 million.

Significance of the ICC

Credit codes of information entities are not only an important component of the infrastructure of the social credit system, but also the precondition for cross-agency and cross-regional use of credit information. Information entities are constituted by individuals and institutions. For individuals, ID numbers can serve as credit numbers. While for institutions, ICC was designed as a “bridge” code based on existing institution numbers. As an important infrastructure of social credit system, ICC connects different information systems, and facilitates information sharing among relevant industries and agencies. Having in place the ICC system is very important for improving financial service, enhancing social management, promoting the combat and prevention of corruption and building a harmonious society.

Content of ICC

ICC is coded to identify different institutions for credit reporting purpose. An ICC contains 18 digits in 5 segments, namely the code for the category of the agency administering access registration, the code for the category of the institution, the code for the administrative area, the serial number and the check code. Some segments are coded in the same way as done by relevant authorities, and the other segments were coded in a way that distinguishes financial intuitions from other institutions. As for the common part, the segment representing category of the administering agency for access registration is the same as the codes issued by authorities for industrial and commercial management, institutional organization and civil affairs. The segment representing the category of the institution is coded in compliance with *Notice of the National Bureau of Statistics of China, the State Commission Office for Public Sector Reform, the Ministry of Civil Affairs, the State Administration of Taxation and the State Administration for Industry and Commerce on Setting up the System of Updating the Directory of Basic Entities Nationwide* (Document of National Bureau of Statistics [2009] No. 78). The segment representing administrative areas is coded in line with national standard. Concerning the specific ID component, the 8-digit serial number is the approval certificate number given to an institution when it opens a basic bank settlement account. Drawing upon strength of the approval certificate number, such coding highlights the economic feature of ICC.

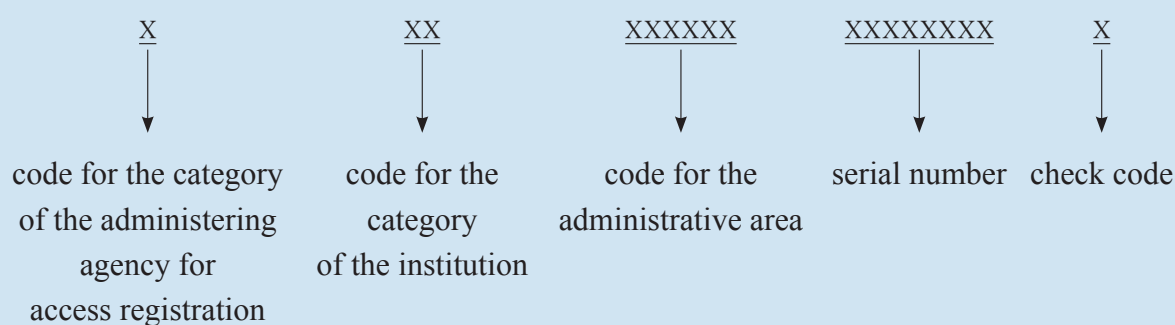


Figure: Segments of ICC

Methodology and rationale behind the ICC

First, it contains information of economic activities. Based on approval certificate number for an institution to open basic bank deposit account, ICC incorporates information of economic and credit activities of an institution. Second, it has a wide cover-

age. In order to engage in economic activities, an institution must open a basic deposit account and use it frequently. Therefore, the ICC covers all the institutions that participate in economic activities. Third, it is more user-friendly. Containing the segments representing the category of administering authority, category of institutions and code of administrative area, the ICC is a unique code for the institution nationwide, which helps identify and distinguish each institution, and facilitates the management, enquiry and statistical analysis of relevant institutions. Fourth, the information contained in ICC is updated real time and easily accessible. All the outlets of financial institutions nationwide are connected to the ICC system, and the information can be acquired and updated whenever an institution is engaged in economic and financial activities. Fifth, the ICC is an 18-digit number series, the same as the second-generation identity card of Chinese residents. Sixth, the issuance of ICC is free of charge, and is provided at the same time when a basic bank account is opened, which incurs no extra cost for the institutions.

The relationship between ICC and other institution numbers

The institution numbers in China fall into two categories: One is the number issued by institutional administrative authorities upon the approval of the establishment of an institution, including the registration number issued by industrial and commercial authorities, the code of government agencies and public institutions issued by institutional management authorities and civil organization codes issued by civil affair authorities. The other category is the institution number issued after an institution is established, such as the code for tax registration certificate issued by taxation authorities, institutional code issued by quality inspection authorities and etc.

ICC does not impede the issuance and use of existing codes, and institution numbers of various kinds will be used in parallel. Being complementary, such numbers do not exclude or substitute each other. ICC serves as a bridge of existing codes, which connects different institution numbers and facilitates information sharing.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

The principle of risk-based anti-money laundering (AML) was put into practice, and regulation methods had been constantly improved through continuous innovations

First, efforts were made to actively explore the model of “legal person supervision” and to do research on how to strengthen supervision of the AML-related internal control system and institutional building of financial institutions with legal person status, so as to reasonably allocate AML regulatory resources. Hua Xia Bank was chosen for a pilot program of legal person supervision. The PBC Head Office together with its 25 provincial branch offices, concurrently conducted on-site inspections on all levels of the Hua Xia Bank, and tried to assess its overall money-laundering risk profile with the risk assessment system.

Second, AML dynamic risk management was launched on a pilot basis. To tackle the difficulties in assessing AML risks for financial institutions, research was carried out to establish the AML risk assessment indicator system. Taking five elements into consideration, namely, their operating environ-

ment, products, customers, control systems, and communication and the ability to make adjustment, the system comprehensively evaluated a financial institution’s the soundness of AML internal control mechanism, effectiveness of product and customer risk identification, integrity of risk management compliance framework, and the ability to repair itself after damages incurred.

Third, based on AML risk profile of payment institutions, the *Administrative Measures for Anti-money laundering and Combating Financing of Terrorism of Payment Institutions* was drafted and promulgated, which brought payment institutions under the AML supervision regime. On-site AML inspection on payment institutions was carried out in Shanghai, Shenzhen and three other cities to get a comprehensive understanding of money laundering risks within payment institutions, and to increase their risk awareness to AML compliance issues. Throughout the year, the PBC system conducted on-site inspections on 1,167 financial institutions and 6 payment institutions, and penalized 83 financial institutions and 32 financial practitioners that violated relevant regulations.

Analysis and assessment of risks was strengthened for different risk types of money laundering, and a risk warning and analysis system was established

By reviewing historical cases, surveys, and judicial information, the PBC generalized 110 key points for monitoring suspicious transactions and setup models for identifying and analyzing suspicious transactions relating to 8 common crimes faced by domestic financial institutions. The risk type analysis was conducted by the PBC and 7 financial institutions on a pilot basis. At the end of July, the first AML briefing session was convened, at which the PBC studied and analyzed the current AML situations and assessed the future trends of money laundering risks together with relevant financial regulatory authorities, commercial banks, securities firms and insurance companies. To normalize the risk warning mechanism, seven issues of *Money Laundering Risk Warning* were compiled and distributed within the year, which revealed money laundering risks and funding routes for crimes such as drug trafficking, underground banking, illegal fund-raising, bank card crime, and etc.

Financial institutions were encouraged to establish indicators for monitoring abnormal business activities and to improve their large-value and suspicious transaction reporting procedure based on different types of money laundering. At the beginning of the year, a comprehensive pilot program of

reporting large-value and suspicious transactions was launched, and the ICBC was selected as the pilot institution. Later on, the program was extended to 36 financial institutions in the banking, securities, insurance and trust sectors, which effectively promoted upgrading of financial institutions' AML monitoring system and suspicious transaction reporting workflow, and optimization of AML compliance management model.

The mechanism of managing data of suspicious transactions was improved and efforts were made to intensify AML investigations

The AML data examination system was established to standardize the channels for forwarding important money laundering leads to the public security bureau. Throughout the year, seven meetings were held to review AML data and over 40 important leads were examined. The PBC system at various levels reported 368 cases to the public security bureau after investigations, of which 100 cases were placed on file, with the filing rate reaching 27.2 percent, up 2.7 percent on a year on year basis, which provided intelligence support for the public security bureau in investigating and handling major cases. In 2012, the China Anti-Money Laundering Monitoring and Analysis Center received 29.6575 million reports of suspicious transactions, and the PBC branch offices received 4,800 reports of key suspicious transactions from financial institutions, 11 percent

of which went into the AML investigation procedures of the PBC, with the case conversion rate rising 1.6 percent on a year on year basis. At the same time, the PBC branch offices cooperated with investigative agencies, investigated 547 suspected money-laundering cases and uncovered 343 cases, including a batch of major underground banking cases, multi-level marketing cases, terrorism-related cases, and major cases approved for investigation by the CPC Central Committee and the State Council. Hence, a strong support was extended to the public security system in their investigation.

The follow-up assessment of China's AML and combating the financing of terrorism (CFT) system by the Financial Action Task Force (FATF) was a complete success, and the PBC played an active role in AML international cooperation

Relying on the AML joint ministerial conference mechanism and coordinating with relevant agencies of foreign affairs, public security and financial regulation, the PBC endeavored to improve the legal and regulatory system for AML, and seriously implemented and timely released the *China's Action Plan to Improve AML/CFT System* committed by the Chinese Government. Efforts were made to communicate with the FATF and its member states and to present to the international community the stance and achievements of China in AML, which won international recognition. In

February, FATF formally completed the follow-up assessment program for China, which showed China had basically reached the standards on the core provisions recommended by the FATF.

While the FATF was reviewing 40 new recommendations, the PBC took part in formulating international standards for AML during the whole process, together with the ministries of foreign affairs, public security, justice and financial supervisory agencies. In more than ten rounds of consultations, the PBC declared its positions and views thoroughly on the issues of important interests and concerns to China.

At regional AML cooperation organizations, a PBC representative took over the position of co-chair of the Asia-Pacific Group on Money Laundering (APG) for 2012-2014, further expanding the role for China in the international AML field.

With regards to bilateral exchanges, the PBC gave a full play to the AML in national diplomacy, so as to act in concert with the national diplomatic policy. During the year, the PBC successfully convened AML/CFT Seminar under the framework of the 3rd China-US Strategic and Economic Dialogue, and discussed with nearly 20 departments, including the U.S. Treasury, AML cooperation issues between China and the United States. Efforts were made to actively promote bilateral exchanges with countries around the world, and as of end-2012, memorandums were signed with 20 countries and regions on

the exchange of financial intelligence.

Training and incentives were intensified to cultivate high-quality and professional AML talents

The AML remote online training system jointly developed by the PBC and China Center for Financial Training was formally launched in the middle of 2012. As of the end of the year, a total of 8 training courses have been provided freely for 140,000

employees of banking financial institutions working in the AML field. The program won praises across the financial industry. At the beginning of the year, the award ceremony of the PBC and financial system on AML was held, at which 137 exemplary groups and 370 exemplary individuals were awarded. This was the first national award meeting ever since the PBC performed AML duties, thereby greatly boosting the enthusiasm of its AML team.

FINANCIAL CONSUMER PROTECTION

It was clearly stated in the 2012 National Financial Work Conference that “more importance shall be attached to the protection of financial consumers’ interests. Related institutional and organizational building shall be promoted and financial consumer education shall be enhanced. High-quality consulting services shall be provided and financial knowledge shall be promulgated through education and outreach. Consumers’ sense of security and self-protection ability shall be improved”. In March 2012, the State Commission Office for Public Sector Reform (the SCOPSR) approved of the PBC’s establishing the Financial Consumer Protection Bureau. In July, the PBC established the Financial Consumer Protection Bureau, and gradually put into place the organization and institutional arrangements and formulated relevant policies, actively and properly handle complaints, and reviewed and assessed financial institutions’ performance in protecting the rights of financial consumers.

Pilot programs were steadily promoted to protect financial consumers’ rights

Ever since 2010, the PBC Shanghai Head Office and other PBC branches and sub-

branches have actively launched pilot programs of financial consumer protection. They made useful explorations and research in financial consumer protection theories, regulations and institutional developments, working mechanism, protection models and platforms for complaints. The efforts had born fruits. A large amount of financial disputes and potential risks were properly handled. By the end of 2012, 1,301 PBC branches and sub-branches launched pilot programs to protect financial consumer rights and a total of 11,988 complaints were received. Among them, 5,544 were within the PBC’s mandate and were in areas such as RMB cash management, payments and settlements, as well as credit information management. 10,692 cases were processed and the satisfaction rate registered 98.33 percent.

During the pilot program, the PBC encouraged its branches and sub-branches to carry out trials and think creatively, so that experiences can be collected and promoted in other regions. Taking local circumstances into consideration, the PBC branches and sub-branches established efficient and effective working mechanisms, including issuing of guidance, establishing consumer protec-

tion centers, developing information management systems, exploring multiple ways to settle complaints, setting up typical case/complaint reporting and information sharing systems, and providing consulting services. With the above measures, financial consumer protection was promoted in a concrete manner.

Also in the pilot programs, the PBC branches and sub-branches dealt with consumers' complaints through a series of practices, including case acceptance, forwarding cases to corresponding authorities or assigning and processing the cases within the branches, supervising the processing of cases, carrying out investigation, mediating, revisiting customers after closing of the cases and reviewing the results. By doing this, they gradually developed channels and working mechanism through which financial consumer disputes could be processed more effectively. At the mean time, many branches developed cooperation mechanisms with banking, securities and insurance supervisors, consumer associations and local courts, and etc. to better protect financial consumers' rights. These were all valuable experience for the authority to further develop the financial consumer protection system.

Relevant regulations and legislations were actively promoted

The PBC actively promoted regulation and legislation of financial consumer protection. It released *Notice on Enhanc-*

ing the Protection of Individuals' Financial Information by Financial Institutions and *Notice on Further Enhancing the Protection of Individuals' Financial Information by Financial Institutions*, so as to improve individuals' financial information protection. It also published *Regulations on Credit Information Management* and *Administration on Methodologies of Customer Identity Recognition and Preservation of Customers' Identity Documents and Trading Information by Financial Institutions*. In areas such as bank cards, account management, payment services of non-financial institutions and foreign exchange management, the PBC issued regulations to correct irregular practices of financial institutions and effectively protected financial consumers' rights. It studied and drafted documents with fundamental importance, such as *Administrative Measures on Protection of Financial Consumer Rights*, which can be referred to by the authorities when they fulfilled their mandates of financial consumer protection.

The pilot program of “12363” hotline for financial consumption complaint was launched

After the Ministry of Industry and Information Technology approved of the PBC's using “12363” as the special public hotline for accepting financial consumption complaints, the Shanghai Head Office, the PBC branches in Nanjing, Wuhan, Guangzhou and Xi'an formulated specific working plans

for using the 12363 channel and actively prepared for the initial pilot program. At the same time, the PBC proposed and launched the project of connecting the Financial Consumer Protection Information Management System to the 12363 hotline.

A coordination mechanism was explored to protect financial consumers' rights

According to the *PBC-CSRC Notice on the Memorandum of Understanding on Strengthening Supervision on Securities and Futures to Maintain Financial Stability* released in December, 2012, the PBC worked with the CSRC on pilot cooperation programs of financial customer education and investor protection. PBC Guangzhou Branch was selected to start planning for the program. Meanwhile, the PBC strengthened communication within its system and with other relevant authorities and explored new ways of cooperation and coordination.

Educational and public outreach programs of financial knowledge were promoted

Financial consumer education and public outreach was promoted through activities such as “financial consumer outreach week/month”, pamphlets, seminars, websites, etc. The PBC promoted public financial education and outreach in areas of payment, credit information, anti-counterfeiting and anti-money laundering. These activities were properly organized and achieved desired results.

The PBC actively participated in international exchanges and cooperation

The PBC has become a member of Financial Consumer Protection Network (FinCoNet) and the OECD International Network on Financial Education (INFE). In 2012, the PBC attended a series of international seminars, hosted respectively by the OECD, the Association of Financial Inclusion (AFI), the Philippine Central Bank, and the Hong Kong Monetary Authority.

INTERNATIONAL FINANCIAL COOPERATION AND RULE MAKING

In 2012, faced with complex and varying international economic and financial situations, the PBC actively participated in global economic and financial governance activities, conducted multilateral, regional and bilateral financial cooperation and dialogues, fully took part in international economic and financial rule-making and standard-setting activities, and continuously endeavored to promote mutually beneficial international financial cooperation.

The PBC actively participated in global economic governance and crisis response through such platforms as the Group of Twenty (G20)

In June, the G20 leaders met in Los Cabos, Mexico for the seventh summit, focusing their discussions on global economic situations, “strong, sustainable and balanced growth framework”, strengthening of international financial architecture, financial sector reform, and etc. Over the year, the PBC took part in three G20 finance ministers’ and central bank governors’ meetings, five deputies meetings, seventeen working group meetings, focused and thoroughly discussed

with all sides China’s policy stances in promoting strong, sustainable and balanced global economic growth and reforming the international financial system, and coordinated with related agencies in preparing for Chinese leaders’ participation in the summit. In addition, the PBC strengthened coordination with related agencies, and fully communicated with all sides with respect to the European Sovereign Debt Crisis and the resource increase of the IMF, which provided strong support to Chinese leader’s announcement of providing US\$ 43 billion to the IMF during the summit, presenting the image of a cooperative and responsible China.

The PBC actively participated in BRICS finance ministers and central bank governors meetings, promoted practical cooperation among BRICS countries, and achieved progress in establishing BRICS Contingent Reserve Arrangement.

The PBC was actively involved in international economic and financial policy coordination, international rule-making and standard-setting

The PBC promoted the IMF to pass the

new Executive Board *Decision on Bilateral and Multilateral Surveillance* in July, which covered macroeconomic policies such as monetary, fiscal, and financial sector policies, and included risks that affected global systemic stability. The new decision changed the IMF's past practice of only targeting exchange rate policies and made the IMF policy surveillance more balanced and objective. The PBC called for all sides to speed up domestic approval process and implement the 2010 IMF quota reform as soon as possible, and at the same time was actively involved in discussions regarding reforms of IMF quota formula. The PBC continued to be actively engaged in IMF crisis assistance and supported IMF's work in poverty relief and debt reduction.

Furthermore, the PBC was thoroughly and deeply involved in standard-setting and revising activities of international standard setters such as BIS, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS). In discussions related to bank capital and liquidity management rules, regulatory framework for systemically important financial institutions, macro-prudential policy framework and instruments, and etc, the PBC fully explained China's policy stances and recommendations, and endeavored to promote international rules and standards that would be in accord with China's interests and be appropriate to different countries and institutions at different levels. It also actively partici-

pated in the permanent institutionalization of FSB and joined the first Standing Committee on Budget and Resources, enhancing China's influence on international standard-setting institutions in important fields such as the development direction, internal governance, budget, and personnel arrangements.

The PBC enhanced practical regional financial cooperation and promoted regional policy dialogues and financial stability

The PBC successfully gained reappointment as the President of the payment and settlement working group under the Executives' Meeting of East Asia Pacific Central Banks (EMEAP), and promoted the expansion of the ASEAN and China, Japan, Republic of Korea (10+3) finance ministers meeting to finance ministers and central bank governors meeting, and encouraged the meeting's decision to double the resources of Chiang Mai Initiative Multi-lateralization (CMIM) to US\$ 240 billion, to increase the IMF de-linked portion to 30 percent and to add crisis prevention function to CMIM. The PBC actively participated in activities of South East Asian Central Banks (SEACEN), Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries, South East Asia, New Zealand, Australia (SEANZA) and Islamic Financial Services Board (IFSB), and deepened dialogues and cooperation with various members to maintain regional financial stability.

The PBC continuously participated in dialogues on important mechanisms, and boosted bilateral financial cooperation, coordination and communications

In May, the fourth round of Sino-US Strategic and Economic Dialogue was held in Beijing. The PBC worked closely with other participating domestic agencies, insisted on the principle of mutual benefits, highlighted the common grounds of both sides, viewed and properly addressed disagreements between China and the United States from a long-term strategic perspective. The PBC contributed to the 67 results in the Economic Dialogue, including financial market access and regulatory reforms.

The PBC continued to deepen bilateral financial cooperation with Europe, Japan, Singapore, Russia and Kazakhstan. It continued to take part in PBC-ECB working group dialogues, and exchanged views concerning monetary policy, financial stability, European Debt Crisis, and etc. Financial cooperation with Japan saw substantial development. The Japanese government was granted access to China's interbank bond market within a quota of 65 billion yuan; in June, direct trading of Chinese yuan and Japanese yen was successfully launched on the interbank foreign exchange markets on both sides, noticeably improving the market liquidity conditions. Sino-Singapore financial cooperation was pushed forward and achieved progress in fields such as the establishment

of Beijing Representative Office of the Monetary Authority of Singapore. Sino-Russian and Sino-Kazakhstan financial cooperation was further promoted. In addition, the PBC actively took part in various activities under the mechanisms such as Shanghai Cooperation Organization and Boao Forum for Asia in order to broadly communicate and explain China's financial reform policies in various forums, to remove doubts and improve mutual trust and understanding.

The PBC expanded economic and financial cooperation with Africa, Latin-America and the Caribbean in innovative ways

The PBC actively conducted research and exchanged experiences with regional and sub-regional multilateral development institutions such as the African Development Bank, the Inter-American Development Bank and the Caribbean Development Bank, and further promoted mutual trust and cooperation in fields of finance, trade and investment. The PBC signed *Memorandum of Understanding between the PBC and IDB on Establishing a China Co-financing Fund* with the IDB to explore innovative financing cooperation measures in support of the economic and social development of Latin-America and the Caribbean. Meanwhile, the PBC continued to use technical assistance fund to support poverty reduction and development of African and Latin-American countries.

MAINLAND'S FINANCIAL COOPERATION WITH HONG KONG, MACAO AND TAIWAN REGIONS

In 2012, under the leadership of the CPC Central Committee and the State Council, the PBC worked closely with relevant authorities and continued its efforts in strengthening mainland's exchange and cooperation with Hong Kong, Macao and Taiwan regions, pushing forward the financial cooperation between mainland and these regions.

Financial cooperation with Hong Kong and Macao

The PBC steadily encouraged mainland's financial institutions to issue RMB-denominated bonds in Hong Kong, and actively supported the stable and healthy development of Hong Kong RMB bond market. In 2012, total RMB-denominated bonds issued by mainland institutions (including non-financial institutions) registered 32 billion yuan, and treasury bonds issued by the MOF reached 23 billion yuan. Ever since 2007 when RMB bond business was launched in Hong Kong to the end of December 2012, RMB bonds issued in Hong Kong had reached 305.4 billion yuan accumulatively, among which 79.0 billion yuan was issued by mainland institutions, 57.0 billion yuan

by the MOF, and 169.4 billion yuan by foreign (including Hong Kong) institutions.

The PBC supported Hong Kong's role in providing trade and investment settlement services to third parties, which promoted the development of Hong Kong's financial market. In 2012, real RMB transactions between Hong Kong and mainland registered 2.26 trillion yuan. In August, Hong Kong banks began to offer RMB services to non-residents, which further promoted the use of RMB outside the mainland. On September 17, the Hong Kong Exchanges and Clearing Ltd. launched CNY futures, which were quoted in USD/CNY. This was the first deliverable RMB futures. On October 24, the Hopewell Highway Infrastructure Ltd. under the Hong Kong Hopewell Holdings Ltd. placed new shares denominated in RMB in the Hong Kong Market. This was the first case around the globe in that the stock was denominated in two currencies and traded on an exchange market with two codes. More and more RMB products had emerged in the Hong Kong market.

Cross-border RMB flows were steadily promoted and orderly RMB flow back to

mainland was facilitated. By the end of the year, 100 institutions were authorized to enter the inter-bank bond market, including foreign central banks (monetary authorities), international financial institutions, sovereign wealth management funds, RMB clearing banks in Hong Kong and Macao, foreign banks participating in RMB settlement for cross-border trade, overseas insurance companies and fund management companies, and securities firms subsidiaries that participate as RQFII. Among these institutions, 72 are located in Hong Kong and Macao. Besides, in November 2012, the RQFII quota was increased by 200 billion yuan.

The PBC explored the establishment of an experimental zone for innovations in cross-border RMB business in the Deepwater Harbor Modern Service Cooperation Area in Qianhai, Shenzhen. It was allowed that enterprises, which registered and had real operation or investment in Qianhai, can borrow RMB from banks in Hong Kong, with the interest rate negotiated by the two sides. This made the Hong Kong off-shore RMB center more attractive to RMB funds outside the mainland, and further supported the development of the RMB businesses in Hong Kong.

The PBC supported establishing an experimental zone for comprehensive financial reforms and innovations in the Pearl River Delta and investigated into the ways of improving financial cooperation between Guangdong Province and Hong Kong and

Macao regions. The Hong Kong and Macao clearing bank system and Shenzhen and Hong Kong's joint clearing arrangement operated smoothly, which facilitates the use of cross-border payment and clearing services by financial institutions and individuals in Hong Kong, Macao and the mainland, improving the efficiency of use of funds. The PBC and HKMA maintained good cooperation in the cross-border supervision of payment system, facilitating cross-border RMB payment and settlement, and supporting the efficient and safe financial market operation in mainland, Hong Kong and Macao.

The PBC continued to promote the development of RMB business in Macao. In June, the PBC authorized the Macao Monetary Authority to invest in the inter-bank bond market. On September 24, the PBC and the Bank of China Macao Branch renewed the *Settlement Agreement on the Clearing of RMB Business*, which authorized the Bank of China Macao Branch to continue acting as the provider of RMB clearing services in Macao.

Financial cooperation with Taiwan region was pushed forward

In line with the State Council's plan, the PBC exchanged views with the Taiwan monetary authority at the working level on setting up a currency clearing mechanism. On August 31, 2012, representatives of the two sides signed the *Memorandum of Understanding on Currency Clearing Cooperation*

across the Taiwan Straits (the MOU).

The currency clearing arrangement across the Taiwan Straits mainly includes the designation of clearing institutions, setting business standards, and making the arrangement for a supervisory cooperation mechanism. According to the *MOU*, each side would designate one currency clearing institution on its side and allow it to provide clearing and settlement services to the other side, so that the latter can provide services in the currency. The currencies can be used in payment and settlement for trade of goods and services and investment. Institutions from both sides can set up agent accounts in each other and can run various settlement businesses and other businesses as permitted by the authorities. Both sides will make efforts to ensure that this clearing arrangement would be in sound operation and follow the laws and regulations of both sides. They will also strengthen their cooperation on information exchange, business inspection and risk management.

In September, the Taiwan authority announced the Bank of Taiwan Shanghai Branch as the TWD clearing bank in the mainland, while in December, the PBC announced the Bank of China Taipei Branch as RMB clearing bank in Taiwan.

The establishment of the currency clearing arrangement across the Straits marked that the currency cooperation between the two sides had entered a new stage. It was also a significant progress in the financial

cooperation across the Straits. The arrangement will play an active role in facilitating trade and investment and promoting the bilateral economic ties. The arrangement also cleared the way for both sides to use their local currencies in trade and investment, lowered the transaction and settlement costs and exchange rate risks of remittance, trade and investment by individuals and institutions from both sides, facilitating the economic and trade exchanges. The opening up and development of RMB businesses in Taiwan region will bring new growth momentum to the region's financial sector and provide investment opportunities for local individuals and enterprises.

Exchanges with authorities in Hong Kong and Macao

In 2012, the PBC held a series of high level talks with authorities in Hong Kong and Macao, which helped promoting central government's policy and strengthened communication and cooperation between the PBC and the local authorities. Major activities include: Governor Zhou Xiaochuan met with Mr. Tsang Chun-wah, Financial Secretary (FS) of Hong Kong; Mr. Chan Ka-keung, head of HK Services and Treasury Bureau; Mr. Chan Tak-Lam, Chief Executive of the HKMA; Mr. Chung-kong Chow, Chairman of Hong Kong Exchange; and Mr. Mark Tucker, President of the AIA Group. Deputy Governor Hu Xiaolian met with Mr. Chan Tak-Lam and his deputy Mr. Eddie

Yue; Ms. Lam Cheung, Deputy Chief Executive of the Hong Kong Securities and Futures Commission; Mr. Anselmo Teng, Chairman of the Monetary Authority of Macao. Deputy Governor Hu also attended the 15th anniversary of Hong Kong's return and used the opportunity to explain central government's policies of supporting the development of Hong Kong's financial market. Deputy Governor Liu Shiyu and Deputy Governor Pan Gongsheng met with high-level delegations from HKMA and Hong Kong Association of Banks. Assistant Governor Jin Qi visited Hong Kong under the "Mainland Sponsored Visitors' Program"; Ms. Wu Xiaoling, Vice Chairperson of the China Society for Fi-

nance and Banking, attended the 2012 Hong Kong Banks Summit, etc.

In November 19, Mr. Wang Huaqing, PBC Secretary of Committee for Discipline Inspection, as Vice Chairman of the China Society for Finance and Banking, led the mainland financial delegation to the 17th Financial Academic Seminar across the Straits in Taipei. The theme of the seminar was "to embrace the opportunities and challenges after the signing of the *MOU*". Both sides had a practical and deep discussion on strengthening cooperation in developing banking, securities and insurance industries across the Taiwan Straits. This improved mutual trust and cooperation of both sides.

HUMAN RESOURCES

Staff composition

As of end-2012, the staff number of the PBC system reached 133,887 (including 20,831 staff working in the China Banknote Printing and Minting Co., Ltd and its subsidiaries).

Among the total, 43,432 staff or 32.44 percent were female; 838 staff or 0.63 percent held PhD degrees (in particular, 140 in the PBC Head Office, accounting for 19.26 percent of total staff at the Head Office); 9,286 staff or 6.94 percent held master's degrees (in particular, 376 in the PBC Head Office, accounting for 51.72 percent of total staff at the Head Office); 66,077 staff or 49.35 percent held bachelor's degrees (in particular, 160 in the PBC Head Office, accounting for 22.01 percent of total staff in the Head Office). In 2012, 2,385 new staff members were recruited from universities and other entities, and 2,913 retired.

Among the PBC staff, 727 worked in the PBC Head Office (including both the staff managed according to the *Civil Servant Law* and the staff in the PBC affiliated units), 609 in the Shanghai Head Office, 2,013 in public institutions and enterprises under the PBC Head Office, 6,474 in regional branches and operation offices (including operation offices

under branches), 9,416 in sub-branches in provincial capital cities, 1,501 in sub-branches in quasi-province-level cities, 46,360 in sub-branches in prefecture-level cities and 45,177 in county-level sub-branches.

Changes of senior officials

In May, Mr. Wang Huaqing became the Chief Disciplinary Officer and a member of the CPC Committee of the PBC; Mr. Pan Gongsheng became a member of the CPC Committee of the PBC; and Mr. Du Jinfu became the Chief Disciplinary Officer and a member of the CPC Committee of the CBRC and no longer served as the member of the CPC committee of the PBC. In June, Mr. Pan Gongsheng was appointed as the Deputy Governor of the PBC, and Mr. Du Jinfu no longer served as Deputy Governor of the PBC. In July, Assistant Governor Li Dongrong was promoted to Deputy Governor of the PBC.

Team building

In 2012, the organizational and human resources work was focused on serving the central tasks of the PBC, promoting the scientific development of the PBC undertakings, deepening the reform of human

resources management, and strengthening the building of PBC officials and staff team, and has achieved remarkable progress. First, the PBC strengthened the procedure of official selection through open and fair competition. In 2012, 72 director-level officials in the PBC Head Office were selected and appointed through open and fair competition, while approximately 1,700 officials of various levels for the PBC branch offices and public institutions and enterprises under the PBC Head Office were selected and appointed, thus the norm of selecting officials through open and fair competition was basically established. Second, more officials were given the opportunity to have fixed-term secondment within the PBC system, and about 840 officials were re-appointed or seconded to other units. In particular, about 10 chief officials from branch offices of (deputy) director-general level were re-appointed or seconded to other units away from their previous working places. Through such program, the working experiences of the staff were optimized. Third, officials' performance review was enhanced. In 2012, the PBC Head Office reviewed the official selection and appointment process for the past three years in 6 branch offices and affiliated units, as well as that in 7 branch offices and affiliated units before the CPC Committee general secretaries of those branch

offices and affiliated units left office to see how they managed the official selection and appointment process. The system of "one report and two reviews"^① was carried out in PBC branch offices and affiliated units which were eligible to select and appoint officials, and about 5,000 staff (including both officials and general staff) took part in the review process. Fourth, continuous efforts were made to train officials on a large scale. In 2012, the Head Office organized 112 training courses, which were attended by over 8,500 people. The second-phase training courses targeting all staff working at the prefecture-level sub-branches were arranged online, which were attended by over 60,000 people. Through strengthening training of the trainers, carrying out exemplary training courses, and exchanging training experience, the training quality has been improved significantly. Fifth, the work for staff recruitment was further standardized and enhanced. In 2012, newly recruited staff with PhD degree at the branches and province-level sub-branches accounted for 16 percent of the total newly employed, and newly recruited staff with master's degree at the prefecture-level sub-branches accounted for 44 percent, resulting in improved staff quality and optimized staff structure. Sixth, the work for staff performance evaluation was strengthened and standardized in the branch offices.

^①According to the four supervisory systems of official selection and appointment promulgated by the CPC Central Committee in 2010, the party committee should report the work of official selection and appointment for the current year, and carry out democratic reviews of official selection work and newly appointed officials, which is called the system of "one report and two reviews".

The improved evaluation system was more comprehensive, scientific, fair and practical. As a result, the staff evaluation system with PBC characteristics was formed.

Building a talents pool

The PBC developed and implemented the “100 talented people plan” prepared for foreign exchange reserve management practitioners and managers, and selected a total of 30 talented staff as the first batch to get training and internship in relevant positions. The PBC continued to lead the effort of attracting “1000 talented people” for the financial sector. In 2012, 3 financial experts were recruited for the financial sector, bring-

ing the total number of financial experts to 30. Efforts were made to implement the knowledge upgrading project for financial personnel. The PBC, jointly with the CBRC, the CSRC, the CIRC, convened a seminar on building the financial expert team and implementing the knowledge upgrading project, and the relevant working mechanism was established. The work of senior-level professional qualification appraisal in the information technology and IT management areas was resumed, and the examination and appraisal for senior-level professional qualification was completed successfully in 2012, bringing the total number of senior-level professionals of the PBC system to 5,297.

INTERNAL AUDITING

In 2012, the PBC's internal auditing units completed 3,939 auditing programs, identified 32,121 violations and risk-related issues, and put forward 15,493 proposals for taking corrective actions.

All-round efforts were taken to promote transformation and development of internal audit

The PBC Internal Audit Transformation Plan for 2011~2013 was fully carried out, while research on transformation was effectively conducted and practice of transformation was pushed forward. The five concepts of transformation of internal audit were further strengthened, namely focusing on risks, driving by control, targeting performance, serving governance and adding value. First, a risk-oriented audit approach was established. The list of PBC units to be audited was determined. 11 PBC branch offices were enlisted to conduct trial assessment using quantitative risk assessment method. The requirement that "risk guides audit and audit focuses on risk" was gradually achieved in formulating the audit plan and program. Combining risk assessment and information technology, PBC explored and constructed

an off-site risk assessment management system. Second, performance audits were organized and applied, which assessed how individuals fulfilled official duties and assessed internal management of more than 20 PBC's business areas. Development of an application system of performance audit on infrastructure projects was promoted. A number of performance audit manuals for areas such as human resources, money and credit management were initially formulated. Third, audit on the soundness of central bank's balance sheet was explored. In continuous efforts to audit the management of foreign exchange reserve, PBC audited Hong Kong Hua'an Co., Ltd. Audits on agriculture-supporting re-lending, budget management and fixed assets were conducted. Fourth, audits on internal control were strengthened. *Manual of PBC Internal Control Audit* was further revised and improved. The branch offices were required to normalize internal control audit as the main way of auditing on those at the corresponding level. Internal control audit was promoted and improved in terms of organizational governance, risk management, improvement of control efficiency and effect. Fifth, information technology audits

were reinforced. Research on PBC's standards of information technology audit was completed, which identified 6 areas and 40 procedures involved in the information technology audits. *Framework of PBC Information Technology Auditing* was initially drawn up. The training, promotion and trial operation of "integrated management system of internal audit (V2.0)" were completed. Sixth, development and application of computer-aided auditing approach were strengthened; development of off-site audit system was completed; and, *Guideline for Computer-aided Audit* was drawn up. Branch offices were organized to develop audit software to make audits more efficient. Seventh, quality assessment of internal audit was promoted. Based on the deepened study on former subjects, branch offices were organized to conduct pilot quality assessment of internal audit. Eighth, research was conducted on the status and function of internal audit in the governance structure of modern central bank, which explored the role, methodology and implementation of internal audit in the governance of central bank. Follow-up research on international internal audit theory and practice was strengthened, and many articles on "role of internal audit in risk management" were compiled. Ninth, great efforts were made to publicize the transformation of internal audit. *Exploration on PBC Internal Audit Transformation and Development (second edition)* was published. A series of feature articles such as "PBC Internal Au-

dit Transformation and Development" and "Views of Director-general at Branches and Sub-branches on Transformation of Internal Audit" were published on China Finance.

Performance audits and end-of-term audits were carried out thoroughly

End-of-term audits were conducted on former Director General of Nanjing branch, Lanzhou Sub-branch, former General Manager of China Gold Coin Incorporation, former President of Huida Company, former Chief Representative of PBC's Representative Office in Europe, former General Manager of Great Wall Coin Investment Co., Ltd, and former Director of Control and Analysis Centre for Anti-Money Laundering. Performance audits were conducted on former Director General of Guangzhou Branch, Chief Representatives of PBC in South Pacific and Caribbean Development Bank.

Effectively conducted priority ad hoc auditing programs

First of all, audits on budget management was conducted. Two sub-branches in provincial capital cities, four city-level branches and eight county-level branches were audited. Emphasis was laid on budget planning and distribution, budget enforcement, other sources and use of funds, and staff income. Through audits, PBC further grasped and analyzed the budget management of PBC branch offices. Second, management audits on infrastructure construction projects

were carried out. PBC conducted audits on management of the construction project of Nankou Development and Research Center, and that of Shanxi and Hubei key treasuries designated by PBC Head Office and the supporting projects. Third, audits featuring “two managements and two comprehensives” were conducted. Aiming at making improvements, emphasis was laid on auditing the cross-department coordination mechanism, effectiveness and problems. Fourth, audits on foreign exchange administration was carried out. Revolving around the priorities of the national foreign exchange administration, PBC audited the implementation of SAFE’s every major policy decision by branch offices. It included direct investment management, foreign debt management, foreign exchange administration concerning trade of goods, monitoring of cross-border capital flow and the corresponding administration according to law by the audited units. Attention was focused on the implementation of every major decision and arrangement made since the counter-striking of “hot money” in 2011. Fifth, special audits were conducted on agriculture-supporting re-lending. Importance was attached to auditing the authenticity, compliance and profitability of agriculture-supporting re-lending and usage of loans. Besides, they analyzed and assessed the effects of agriculture-supporting re-lending on guiding the agriculture-related credit supply, promoting the improvement in rural financial services. Sixth, audits were

conducted on the integrated management of science and technology and management of information projects constructed by branch offices. Emphasis was laid on auditing the standardization, effectiveness and effects of management of information projects constructed by branch offices. Audits were conducted on the integrated management of science and technology of Urumqi sub-ranch.

Audits over enterprises and institutions directly affiliated to PBC Head Office were continuously enhanced

First, a comprehensive audit was conducted on China Unionpay for the first time. Second, PBC conducted a special audit on financial management of the Payment and Settlement Association. Third, PBC audited the system development management of Jindian Company. Fourth, PBC audited the use of educational donation fund from the Eyas Program of Central Bank Youth organized by Youth League Committee. Fifth, PBC conducted follow-up audits and continued to track the rectifications of the corresponding auditing findings of Shanghai Gold Exchange.

Efforts were made to promote organization and management of internal audit

The PBC held the internal audit meeting and formulated and released *Priorities of Internal Audit*. Many key ad hoc auditing programs were drawn up and carried out. Related research was conducted. In particu-

lar, director-general level officials headed to Xuzhou, Shenyang and Wuhan in succession to conduct research and hold discussions, which further promoted the internal audit. Training and exchange were strengthened. Training on International Internal Auditing Standards, infrastructure management audit, information technology audit and performance audit were held successively. Information platform such as internal audit briefs and biweekly report were improved. Internal audit related institutional building was strengthened. *Code of Conduct for Internal Auditors* was formulated. Application of internal audit results was strengthened in that briefs and special issues of internal audit were compiled, which reflected the key discoveries of internal auditing units and its risk analysis. Comprehensive analysis of in-

ternal audit was strengthened. *Major Issues Discovered by Internal Audit* was printed and distributed as a reference document of PBC Working Conference. Exchange and consultation mechanism of internal audit was further improved. Exchange and consultation meetings were held successively with many agencies. Internal auditing units participated in activities such as examination and approval of infrastructure projects and large procurement bidding, and adopted many methods to strengthen the application of audit findings, which gave effective play to its confirmation and consultation function. External exchange of internal audit was strengthened and PBC representatives attended the CBIA Annual Meeting for the first time.

FINANCIAL SURVEY AND STATISTICS

The PBC steadily pushed forward financial statistics standardization and comprehensive statistics of the financial industry

The year 2012 was the beginning year of implementing statistical standardization. As the foundation of survey and statistics, the PBC promoted standardization of financial statistics and focused on formulating and issuing statistical standards. It released meta-data standards of deposits and loans, set classification criteria for financial organizations based on their sizes, drafted and revised a series of special statistical systems including classification standards of statistics for non-stock securities and financial derivatives, statistical indicators for repurchase transactions, and statistics on wealth management, fund trusts, and quarterly report on agricultural loans. All of these contributed to the integration of statistical standards between domestic and foreign financial institutions.

Comprehensive statistics of the financial industry represented the direction of development for China's financial statistics. The PBC actively conducted research on international statistics systems, drew and promulgated experiences from the pilot program of comprehensive statistics of the financial

industry in Shenzhen, took the opportunity of Wenzhou comprehensive financial reform and launched a pilot program of comprehensive financial statistics in Wenzhou, striving to set up a solid foundation for further improving comprehensive statistics of the financial industry.

The PBC further promoted the influence of All-system Financing Aggregate

Following the introduction of the new analytical indicator "all-system financing aggregate" into China's macro financial management in the previous year, the PBC continued to strengthen compilation, analysis and disclosure of this indicator, expanding its influence and usage. The indicator is released monthly. The PBC also verified and released historical monthly data of all-system financing aggregate since 2002, and published a series of related research reports. At the same time, it also started compiling all-system financial aggregate at the province and city level. After being put into use for two years, all-system financial aggregate has been broadly accepted and was paid close attention to by government leaders, the markets and the general society, and has be-

come an important monitoring and analytical indicator for China's macroeconomic management. All-system financial aggregate has been used in the documents of Central Economic Work Conference and the *Report on the Work of the Government* for three times.

The PBC creatively carried out survey and statistics work

The PBC conducted real time monitoring of the interest rates and collected data on pricing and changes of commercial bank deposits and loans after changes in benchmark interest rates, providing statistical support for evaluating the impact of market-based interest rate regime on commercial banks' operation and for advancing the related reform. Based on in-depth research, the PBC published two reports in February and April, namely *Conditions Basically Matured for Accelerating Capital Account Opening and Promoting Interest Rate Reform, Exchange Rate Reform and Capital Account Opening in a Coordinated Way*. The reports stipulated that China was facing a development opportunity of strategic significance for capital account opening, and proposed to push forward interest rate regime reform, exchange rate regime reform and capital account opening coordinately, which aroused heated discussions and received positive feedbacks from both home and abroad, and made a positive contribution to China's endeavor to realize RMB capital account convertibility in a gradual manner. To address the broad attention paid to the

liquidity of small- and micro-enterprises, the PBC conducted a survey on liquidity conditions of more than 1300 small- and micro-enterprises, added specific questions concerning liquidity conditions in the regular quarterly questionnaires to 5000 enterprises, and obtained preliminarily information about the changes, sources, costs and risks of funds of small- and micro-enterprises.

The PBC achieved significant results in statistics, survey and analytical work

Centering on the three pillars of statistics, survey and analysis, the PBC endeavored to achieve the goals of accurate statistics, rigorous and scientific survey, and thorough and timely analysis.

Regarding statistics, the PBC strove to guarantee the accuracy and timeliness of statistics. It compiled important financial data such as money supply aggregates and all-system financial aggregate in a timely manner, continuously improved monitoring and analysis of daily statistics information reports, liquidity conditions of financial institutions, loans to agriculture, rural areas and farmers, distribution of mid- and long-term loans, real estate loans, loans to affordable housing projects, loans to large-, medium-, small- and micro-scaled enterprises, micro-credit companies, operations of rural banks, bankers' acceptances, bill discounts, loans to government financing platforms, wealth management for clients, and etc.. Statistics and monitoring of small rural financial insti-

tutions based on legal person was achieved. The PBC organized inspections on 2,684 financial institutions (including branches). It verified data from every issue of special statistical statement of small rural financial institutions and those of rural economy and finance; the PBC compiled time-series of county legal-entity financial institutions, extracted over 130 thousand pieces of data in 3 categories of 25 issues of statistical statements from almost 2,000 institutions, and reached the conclusion that county-level legal-entity financial institutions allocated certain parts of newly increased deposits to local use. The PBC also monitored systematically and summarized results of assessments, organized PBC branches to conduct publicity and education activities in related policies, enhancing influence and social acknowledgement of the assessments. The PBC improved statistics system of financial markets, analyzed financial market operations, and monitored monetary and bond market yields.

As for survey, the PBC focused on the following aspects: First, it improved the mechanisms of entrepreneurs' quarterly questionnaires and survey of enterprises' private financing by integrating survey questions, adjusting part of the survey samples, and compiled the composite performance index of 5,000 industrial enterprises and composite price index. It also improved the 5,000 enterprises inventory index system, and compiled exchange rate tolerance index. Second, the PBC made great efforts in

comprehensively enhancing the quality of economic survey data, organized self-verification and cross-check of systemic economic surveys by all provinces, municipalities and regions nationwide. Third, it strengthened monitoring of real estate market, and applied feature-based price in compiling newly-constructed residential housing price index, which covered 30 large cities across the country. Fourth, the PBC conducted follow-up survey of hot topics. It launched quick surveys on the reasons why deposits of enterprise dropped and of the liquidity conditions of the enterprises, and concluded that the fall of enterprise deposits was a normal phenomenon reflecting fluctuations of funds. Realizing the increase of enterprise financial costs and their heavy interest burden, the PBC also launched surveys on enterprise financing and financial costs.

As for statistical analysis, the PBC conducted surveys and research thoroughly, analyzed important economic and financial issues, and published a series of research reports of significant influence. It organized four economic and financial situation surveys, proposed targeted policy recommendations, and completed 30 issues of *Special Report on Survey and Statistics*. Meanwhile, it strengthened economic forecasting and introduced business performance tracking methods, regularly analyzed the performance of the economy, price level, money and credit, and made forecasts on 30 indicators across six categories, including economic growth,

price level, government finance, external sector, finance and economic activities. In particular, the PBC made monthly short-term CPI forecast, which was highly valued for its accuracy. In addition, the PBC actively pro-

moted financial stability, conducted counter-cyclical macro prudential management and completed all kinds of regular financial stability monitoring analysis.

• BOX •

Promoting the Development of Comprehensive Financial Statistics to Reinforce the Foundation of Macro-financial Management and Prudential Supervision

The CPC leaders and the State Council attached great importance to the work of comprehensive financial statistics. At the beginning of 2012, National Financial Work Conference required that a “unified, comprehensive and sharable” financial statistic system shall be established. At the 2012 PBC Work Conference, Governor Zhou Xiaochuan emphasized that “the PBC shall intensify its work on standardizing financial statistics and shall quicken the pace to establish the information platform for comprehensive financial statistics”.

Comprehensive financial statistics refers to statistics of financial sector’s assets, liabilities, profits and losses and risks compiled through standardized methodology and based on metadata of financial institutions. In terms of coverage, it covers all the financial sector, including institutions in the banking, securities and insurance sectors, new types of financial institutions such as financial holding companies and financial institutions with financing functions, and even entities that have significant influence on financial sectors, such as the Housing Provident Fund Management Center and the Social Insurance Fund Management Center. As for the content of the statistics, it includes assets and liabilities businesses and both the on- and off-balance businesses; it includes both the traditional business, such as taking deposits, extending loans and providing settlement services, as well as business of derivatives and structured products.

The aim of the comprehensive financial statistics is to develop a “unified, comprehensive and sharable” financial statistic system. The work will be based on the well-established legal system and will integrated current financial statistics. Standardization of financial statistics will be promoted. The system will be made comprehensive, unified, dynamic, open, standardized and IT-based. Being “Unified” means the indicators, definitions, classifications, measurement and coding methods are all unified based on standardized methodology. Being “comprehensive” means the system covers all relevant institutions, business operations and statistical contents, and should be a comprehensive, dynamic and open system. Being “shared” means the system provides services not only to the central bank, but also to financial supervisory authorities, etc.

This will improve the coordination among banking, securities and insurance supervisors, and will make the statistics system comprehensive, standardized, legalized and information-sharing.

With concerted efforts from all sides, progress was made in establishing the comprehensive financial statistics system. First, initial compilation of comprehensive statistics was explored. With the introduction of all-system financing aggregate, a top-down statistics and monitoring system which covers the national and local data was established. Experience has shown that all-system financing aggregate well suits the diversified development of China's financial markets, finely gauges financial sector's support to the real economy, can solve the problem that previous statistics cannot reflect financial innovations, and can provide a useful indicator for macro-financial analysis and macroeconomic management. Second, based on practical needs, the standardization of financial statistics was promoted, which laid a firm foundation for the comprehensive financial statistics system. By now, a series of standards have been released, including *Statistical Classification and Coding Standards for Financial Instruments*, *Statistics Terminologies for Common Financial Instruments*, etc.. These standards have been promoted to financial institutions. Third, initial researches were conducted on the establishment of core financial indicators compiling system. Pilot experiments on comprehensive financial statistics were carried out in Shenzhen and Guangzhou, Guangdong Province and Wenzhou, Zhejiang Province, which would provide valuable experience for the nation-wide implementation of the system.

FINANCIAL RESEARCH

Further advancement of research on the theories and policies of financial sector reform and development

The PBC played an active role in drafting, publicizing and implementing the *Program of China's Financial Sector Development and Reform (2011~2015)*, a program assigned by the State Council on financial sector development and reform in the 12th Five-Year Plan. Working closely with related agencies, the PBC was actively involved in the publicity of the program with positive feedbacks from the public.

Work related to pilot programs of regional financial reform was advanced. The PBC played an important part in implementing such important financial reform programs as Wenzhou Comprehensive Financial Reform Experimental Zone, Lishui Pilot Program in Rural Financial Reform and Comprehensive Financial Reform and Innovation Experimental Zone in Pearl River Delta. The PBC also took a lead in the design of the overall plan of building the comprehensive financial reform experimental zone to serve the real economy in Quanzhou and got approval from the State Council. In-depth research on financial policies supporting the Leap-

frog Development of Xinjiang Province has been made. Working with CBRC, CSRC and CIRC, the PBC promoted the release of *Opinions on Providing Financial Support for Building the Economic Development Zones in Kashi and Huoerguosi*.

Research on rural financial reform and financial services was pushed forward. Building on the past experience in rural financial reform, the PBC explored the possibilities of reinforcing the rural credit cooperatives (RCCs), developing diversified financial institutions and building a rural financial-architecture with moderate competition. Follow-up research on small loan companies was carried out and attempts were made to improve the supportive policies and supervisory framework of small loan companies and micro-finance.

Research on international finance was deepened. Such research projects as Comparative Study of the Current International Financial Crisis and the Great Depression in 1929 initiated by the Leading Office of Finance Work of the CPC Central Committee and Study on Strengthening Monetary Cooperation in Asia initiated by the Research Office of the State Council were completed.

Based on the cooperation projects under the framework of China-UK Economic and Financial Dialogue, the PBC did research on the “Going-out” Strategy of RMB and Offshore Markets as well as the Driving Factors of RMB Offshore Markets. The PBC also made systematic research on global liquidity and its indicators. Efforts were also made in investigating into such hot issues as the international competitiveness of the manufacturing industry, outward infrastructure investment and reform of RMB foreign exchange regime.

Steady improvement in economic and financial monitoring and analysis

Monitoring and analysis of macroeconomic as well as money and credit developments were strengthened. The PBC watched closely the macroeconomic policy stance of major economies, paid close attention to the change of China’s macroeconomic performance and stepped up efforts in forecasting the trend of such main economic indicators as the price index. The quarterly Price Monitoring and Analysis Report were provided to the monetary policy authority as reference for decision making. Analysis of money and credit was made on a month-on-month basis so as to obtain in-depth knowledge of the aggregate and structure of money and credit in a timely manner.

The application of modeling in macroeconomic analysis was further expanded. Continuous efforts were made in improving

the DSGE model and financial CGE model, and using them in the quantitative analysis of the changes of macroeconomic performance, the equilibrium level of interest rate and the coordination between monetary policy and fiscal policy. All of these applications provided a useful reference for the market-based reform of interest rate formation regime and monetary policy operations.

The PBC closely followed the financial market innovations. It explored the linkage between monetary policy and asset price, compiled a special edition of *Research on Monetary Policy and Asset Prices* and built up the early warning model of asset price volatilities. The PBC watched closely the latest development of the internet finance and mobile banking and made analysis of their impact on the financial sector as well as their potential risks. The PBC also made an in-depth investigation into the performance of shadow banking system and its supervision.

Monitoring and analysis of private finance were gradually strengthened. The PBC stepped up efforts in monitoring and analyzing private finance and made onsite investigation in areas where private lending posed intensifying risks. In the meantime, the PBC summed up experiences in risk resolution and explored effective countermeasures. The PBC continued its study on legislation of private lending and further regulation on the business of quasi-financial institutions, which provided statistical and research support for guiding the orderly flow of private

capitals.

Research on regional financial management system and public finance was advanced. With the coordinated efforts from its various branches and sub-branches, the PBC concluded its investigation into the current situation of regional quasi-financial institution management system. It also closely followed the latest development of public finance at home and abroad and made in-depth investigation into the hot issues in this arena. Besides, the PBC also explored the issues related to pension funds and the change from business tax to value-added tax.

New progress in research on fundamental theories and middle and long-term economic development

The PBC paid close attention to the development of the theoretical research on macro economy. The fundamental research on national income accounting, income allocation and the leading indicators of macro-economy was reinforced. The PBC pushed forward the research on important issues related to money theories and monetary policy practices and played its part in publicizing and influencing the public opinions in monetary policy stances. Continued efforts were made in exploring the possibility of establishing a financial macro-prudential policy framework and a policy instrument system.

Research on the economic theories and policies of financial sector supporting the development of real economy was enhanced.

The PBC made systematic research on the interaction between financial deepening and real economy. The impact on real economy of spread between banks' deposit and lending rates was also analyzed and financial service innovation aimed at supporting small- and micro-businesses explored. Research on the financing mechanism for the cultural industry and the promotion of the development of low carbon economy was advanced.

Research on financial and monetary history was carried out. The PBC continued to implement the project of salvaging historical data of the financial sector. Data collection and building of a talent pool has kicked off. Preliminary results had been achieved in making the middle-and long-term research plan and first-phase preparations.

Achievements in research on featured topics and regional financial policies

The research mechanism of featured topics was further improved. Based on the experiences in recent years, the research departments of the PBC improved its research mechanism in an innovative way. Research plan of featured topics was made in a planned and continued manner. Research results were integrated so as to broaden the researchers' horizons. The database of research on featured topics was enriched, providing a solid foundation for follow-up work.

Quality of featured research was further enhanced. Taking advantage of its status and accumulated knowledge-base, the PBC

pushed forward its research work by means of featured research. A number of important featured research projects were concluded that could provide good reference for decision-making, including research projects on real estate sector, financial cooperation and development potential between China and the Southeast Asia, the linkage between the volatility of the coal industry and the performance of macro economy as well as financial support for the economic development of poverty-stricken areas.

Positive results were reaped in research on regional financial policy and field research activities. Taking into account the regional characteristics of economic and financial development as well as the decision-making of local governments, the PBC conducted a series of field research activities, providing key inputs for local governments' economic and financial development strategies.

Progress in academic exchange and implementation of research results

The role of various societies was brought into full play. Through the platforms of China Society for Financing and Banking, Banking Accounting Society of China and Chinese Society of International Economic Relations, the PBC hosted a number of international and domestic seminars and academic exchange activities, with ever-increasing participation and influence in the academic field.

The joint research mechanism within the PBC was strengthened. The cooperation

and resources integration among the PBC Head Office and branches and sub-branches at various levels was reinforced by means of cooperation on key research projects and joint field research activities, etc. Thanks to the PBC's strategy of taking action that best suits the local circumstances and the platforms of academic societies, journals and seminars, the PBC has integrated and mobilized all the academic resources available and achieved sharing of information and research results.

The Research of Counselors' Office made new contribution

The working mechanism of Counsels' Office (the Office) of the PBC was further improved. The Office actively explored new ways to expand its work, taking into consideration of the specific practices of the Counselors' Office of the State Council and those at the local governments, continued to improve the research mechanism, aiming to play its role of providing consultation to the fullest extent.

Counselors' researches and consultations achieved new progress. Counselors took advantage of their expertise and carried out their duties. They visited PBC Branch Offices, financial institutions, government agencies, rural credit cooperatives, factories, businesses, farmers and prepared well-focused research reports which accurately reflected the reality. The Office participated in the research projects of Counselors' Of-

Office of the State Council on current economic and financial topics. Entrusted by Credit Suisse and France Planet Finance Group, the Office conducted a research on “bond issuance of non-depository lending institutions”, which is of great importance to issues such as, alleviating small micro-enterprise financing difficulty, standardizing private lending, and addressing non-depository lending institutions sustainable and sound development.

The impact of its researches and consultations continued to grow. The Office published *Collection of Central Bank Counselors Research Papers* (volume 2012). The Counselors also participated in the research on “the

uniform registration of movable assets as pledges in financing” organized by the Supreme People’s Court. The Office organized a seminar on behalf of the research group on “the judicial interpretation of property pledge”. The in-depth discussion and relevant judicial interpretations were reflected in the policy recommendations of the research group. The Office also organized an international seminar on “financial infrastructure and small micro-enterprise financing” with IFC of the World Bank Group. *Independent Evaluation of China Movable Asset Pledge System Reform* was published and well received.

PUBLIC COMMUNICATION AND EDUCATION

In 2012, in support of macro-financial management and financial reform, development and stability, the PBC innovated in communication strategies, diversified communication medium and channels, and strengthened financial publicity. Those efforts helped to enhance financial literacy, public financial knowledge and awareness of financial consumer protection.

Explaining macro-financial management policies through diversified channels to enhance public knowledge

A wide variety of channels was utilized to explain and interpret macro-financial management policies, including news briefing, online exchange and interview, press conference, and articles published by PBC senior officials. On the sideline of annual sessions of the National People's Congress and the Chinese People's Political Consultative Conference, Governor and Deputy Governors attended a special press conference on monetary policy and financial reform to answer questions of public interest from journalists from home and abroad. The questions covered sound monetary policy, RMB exchange rate regime, market-based interest rate reform, real estate finance, foreign ex-

change reserve management and the answers from Governor and Deputy Governors provided detailed interpretation on above financial policies. During the 18th CPC National Congress, Governor Zhou Xiaochuan attended a group interview to answer question from journalist from home and abroad on issues of general interest like shadow banking, RMB convertibility, banking windfall profit, and hot money inflow. In addition, Director-Generals from Monetary Policy Department, Financial Market Department, Statistics and Analysis Department, and Payment System Department attended program of the People's Daily Online and China National Radio to make online exchange with Netizens on topics like "conducting macro-financial management to serve the real economy", "making sustained improvement on rural payment environment", and so on.

Intensified publicity of financial service information to provide convenient service to the public

Focusing on safeguarding and improving the livelihood of the people, the PBC launched communication programs closely related to the daily life of the people on payment and settlement, anti-counterfeit

banknote, credit information service, anti-money laundering, and rural finance. Public outreach programs were launched to heighten the public awareness of the achievements of modern payment systems and promote their application, such as tailored bankcard for farmers to withdraw cash, commercial bank service price management, credit card cash-out risk, cross-border settlement, Chinese yuan and Japanese yen direct trading, financial IC card application, and mobile payment. Aimed at zero tolerance on counterfeit banknote, the PBC focused on both urban and rural areas to conduct educational programs, design and distribute educational calendars so as to help the public, especially those in farming and husbandry areas of Midwest China, to enhance the awareness and capability of anti-counterfeit banknote. The PBC continued to unfold a special credit information literacy program with the theme of “cherishing credit record for your happy life” to create an environment for better credit, help the public to enhance credit awareness and safeguard credit record security. The PBC encouraged financial institutions to use various methods to deliver education on anti-money laundering, such as LED billboards with AML slogans, brochures in outlets, and obligation articles in contracts so as to enhance knowledge and awareness of the public and cultivate com-

mon practice to prevent and crack down money laundering activities and crimes. In view of the weak financial infrastructure and under-service in rural areas, educational programs were started on rural financial products and service innovations, and a pilot program of rural financial reform in Lishui, Jiangsu Province was conducted, so as to promulgate more economical and convenient financial products and services suitable for rural areas and farmers.

Advanced open administration to enhance information transparency

On its website, the PBC made timely release of news, notices, financial statistics, financial performance and service report, and monetary policy report with detailed information and frequency. To closely reflect financial information in daily life, new features were offered on the website, including the National People’s Congress and the Chinese People’s Political Consultative Conference, IC bankcard, rural payment environment and anti-counterfeiting. To facilitate browsing, searching, downloading and printing, columns of Open Administration were upgraded in terms of directory list, contents, and links. Comments function was added in Online Interview column to improve interactive function.

2012

STATISTICAL
ANNEX



Selected Economic Indicators

(Year-end Balance)

100 million yuan

	2008	2009	2010	2011	2012
Gross Domestic Product (GDP)	314 045.4	340 902.8	401 512.8	473 104.0	519 322.1
Industrial Value Added	130 260.2	135 239.9	160 722.2	188 470.2	199 860.0
Fixed Assets Investment	172 828.4	224 598.8	278 121.9	311 485.1	374 676.0
Retail Sales of Consumer Goods	114 830.1	132 678.4	156 998.4	183 918.6	210 307.0
Urban Households			136 123.0	159 552.0	182 414.0
Rural Households			20 875.0	24 367.0	27 893.0
Export & Import (100 million of US dollars)	25 632.6	22 075.4	29 740.0	36 418.6	38 667.6
Export	14 306.9	12 016.1	15 777.5	18 983.8	20 489.4
Import	11 325.7	10 059.2	13 962.5	17 434.8	18 178.3
Balance	2 981.3	1 956.9	1 815.1	1 549.0	2 311.1
Foreign Direct Investment (100 million of US dollars)	952.5	918.0	1 088.2	1 177.0	1 117.2
Foreign Exchange Reserves (100 million of US dollars)	19 460.3	23 992.0	28 473.4	31 811.5	33 115.9
Consumer Price Index (previous year=100)	105.9	99.3	103.3	105.4	102.6
Government Revenue	61 330.4	68 518.3	83 101.5	103 874.4	117 210.0
Government Expenditure	62 592.7	76 299.9	89 874.2	109 247.8	125 712.3
Fiscal Balance	-1 262.3	-7 781.6	-6 772.7	-5 373.4	-8 502.0
Per Capita Urban Household Disposable Income (yuan)	15 780.8	17 174.7	19 109.4	21 809.8	24 565.0
Per Capita Rural Household Net Income (yuan)	4 760.6	5 153.2	5 919.0	6 977.3	7 917.0
Number of Employed Persons in Urban Areas (million)	321.0	333.2	346.9	359.1	371.0
Registered Urban Unemployment Rate (%)	4.2	4.3	4.1	4.1	4.1
Total Population (million)	1 328.0	1 334.5	1 340.9	1 347.4	1 354.0

Notes: 1. Sources from 2012 China Statistical Yearbook, Statistical Communiqué of the People's Republic of China on the 2012 National Economic and Social Development and Report on the Implementation of the Central and Local Budget for 2012 and on the Draft of the Central and Local Budget for 2013.

2. From 2011, the cut-off point of fixed assets investment statistics has been changed from a minimum of 500 thousand yuan to 5 million yuan, therefore the fixed assets investment figures from 2011 are not comparable with that of previous years, but growth rates are calculated on comparable basis.

3. GDP and industrial value added in this table are calculated at current prices, while their growth rates are calculated at constant prices.

Selected Economic Indicators

(Growth Rates)

Percentage change

	2008	2009	2010	2011	2012
Gross Domestic Product (GDP)	9.6	9.2	10.4	9.3	7.8
Industrial Value Added	9.9	8.7	12.1	10.4	7.9
Fixed Assets Investment	25.9	30.0	23.8	23.8	20.3
Retail Sales of Consumer Goods	22.7	15.5	18.3	17.1	14.3
Urban Households			18.7	17.2	14.3
Rural Households			16.2	16.7	14.5
Export & Import	17.8	-13.9	34.7	22.5	6.2
Export	17.3	-16.0	31.3	20.3	7.9
Import	18.5	-11.2	38.8	24.9	4.3
Balance					
Foreign Direct Investment	23.6	-2.6	17.4	9.7	-3.7
Foreign Exchange Reserves	27.3	23.3	18.7	11.7	4.1
Consumer Price Index	5.9	-0.7	3.3	5.4	2.6
Government Revenue	19.5	11.7	21.3	25.0	12.8
Government Expenditure	25.7	21.9	17.8	21.6	15.1
Per Capita Urban Household Disposable Income (after adjusting for inflation)	8.4	9.8	7.8	8.4	9.6
Per Capita Rural Household Net Income (after adjusting for inflation)	8.0	8.5	10.9	11.4	10.7
Number of Employed Persons in Urban Areas	3.7	3.8	4.1	3.5	3.3
Natural Population Growth (‰)	5.1	4.9	4.8	4.8	5.0

Note: Same as the notes in page 153.

Aggregate Financing of the Economy

100 million yuan

	The Whole Year of 2011	The First Half Year of 2012	The Whole Year of 2012
Aggregate Financing of the Economy	128 286.07	77 760.04	157 631.27
Of which: RMB Bank Loans	74 715.47	48 550.57	82 037.63
Foreign Currency Bank Loans (converted into RMB)	5 712.18	2 765.44	9 162.99
Designated Loans	12 961.54	4 827.24	12 837.67
Trust Loans	2 034.17	3 369.27	12 845.44
Undiscounted Banker's Acceptances	10 270.91	6 095.63	10 498.82
Net Financing of Corporate Bonds	13 657.66	8 269.48	22 551.01
Domestic Equity Financing by Non-financial Corporations	4 376.79	1 495.08	2 507.85

Notes: 1. Aggregate Financing of the economy is an aggregate indicator measuring the total funding that the financial system provides to the real economy during a certain period.

2. Sources from the PBC, NDRC, CSRC, CIRC, CCDC and NAFMII.

Selected Financial Indicators

(Year-end Balance)

100 million yuan

	2008	2009	2010	2011	2012
Money & Quasi-money (M2)	475 166.6	610 224.5	725 851.8	851 590.9	974 148.8
Money (M1)	166 217.1	221 445.8	266 621.5	289 847.7	308 664.2
Currency in Circulation (M0)	34 219.0	38 247.0	44 628.2	50 748.5	54 659.8
Total Deposits with Financial Institutions	466 203.3	597 741.1	718 237.9	809 368.3	917 554.8
Savings Deposits	217 885.4	260 771.7	303 302.5	343 635.9	399 551.0
Non-financial Enterprise Deposits	157 632.2	217 110.0	244 495.6	303 504.3	327 393.7
Total Lending by Financial Institutions	303 394.6	399 684.8	479 195.6	547 946.7	629 909.6

Notes: 1. Figures in each year in this table are not comparable with each other year because of the adjustments made in January 2011 to the system of monetary and financial statistics.

2. Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

Selected Financial Indicators

(Growth Rates)

Percentage change

	2008	2009	2010	2011	2012
Money & Quasi-money (M2)	17.82	28.52	19.7	13.6	13.8
Money (M1)	9.06	33.22	21.2	7.9	6.5
Currency in Circulation (M0)	12.65	11.77	16.7	13.8	7.7
Total Deposits with Financial Institutions	19.73	28.21	20.2	13.5	13.4
Savings Deposits	26.29	19.68	16.3	13.8	16.3
Non-financial Enterprise Deposits	13.67	37.73	12.6	9.2	9.9
Total Lending by Financial Institutions	18.73	31.74	19.9	15.8	15.0

Notes: 1. On comparable basis.

2. Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

Depository Corporations Survey in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Net Foreign Assets	258 068.06	261 277.20	261 919.21	258 850.91
Domestic Credit	722 026.16	746 505.22	772 580.93	805 593.77
Claims on Government (net)	42 117.11	38 943.16	42 051.38	50 683.71
Claims on Non-financial Sectors	629 015.09	653 562.26	675 061.88	694 351.52
Claims on Other Financial Sectors	50 893.96	53 999.80	55 467.67	60 558.54
Money & Quasi-money	895 565.50	924 991.20	943 688.75	974 148.80
Money	277 998.11	287 526.17	286 788.21	308 664.23
Currency in Circulation	49 595.74	49 284.64	53 433.49	54 659.77
Corporate Demand Deposits	228 402.38	238 241.53	233 354.72	254 004.46
Quasi-money	617 567.38	637 465.03	656 900.55	665 484.57
Corporate Time Deposits	177 916.53	186 605.61	200 657.45	195 940.13
Personal Deposits	385 443.46	396 299.60	403 174.58	411 362.59
Other Deposits	54 207.39	54 559.82	53 068.52	58 181.86
Deposits Excluded from Broad Money	20 468.70	24 465.36	25 097.59	24 454.11
Bonds	80 404.83	85 313.96	88 415.52	92 318.27
Paid-in Capital	29 248.37	29 823.50	30 291.85	30 945.02
Others (net)	-45 593.17	-56 811.61	-52 993.58	-57 421.53

Notes: Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in quasi-money since October 2011.

Balance Sheet of the Monetary Authority in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	240 694.62	239 978.29	240 190.51	241 416.90
Foreign Exchange	235 799.52	235 189.82	235 297.01	236 669.93
Monetary Gold	669.84	669.84	669.84	669.84
Other Foreign Assets	4 225.27	4 118.63	4 223.66	4 077.13
Claims on Government	15 349.06	15 349.06	15 313.69	15 313.69
Of which: Central Government	15 349.06	15 349.06	15 313.69	15 313.69
Claims on Other Depository Corporations	10 551.50	13 303.72	17 901.80	16 701.08
Claims on Other Financial Corporations	10 635.08	10 625.33	10 233.95	10 038.62
Claims on Non-financial Sectors	24.99	24.99	24.99	24.99
Other Assets	6 767.13	6 789.65	5 992.82	11 041.91
Total Assets	284 022.38	286 071.05	289 657.75	294 537.19
Reserve Money	226 684.28	228 050.85	236 032.58	252 345.17
Currency Issue	54 378.61	54 294.32	59 177.80	60 645.97
Deposits of Financial Corporations	172 305.67	173 756.53	176 854.78	191 699.20
Deposits of Other Depository Corporations	172 305.67	173 756.53	176 854.78	191 699.20
Deposits of Other Financial Corporations	0	0	0	0
Deposits of Financial Corporations Excluded from Reserve Money	1 106.94	1 182.27	1 297.06	1 348.85
Bond Issuance	21 439.97	18 690.90	17 464.18	13 880.00
Foreign Liabilities	1 846.58	1 097.06	1 241.52	1 464.24
Government Deposits	23 085.18	27 550.26	28 149.08	20 753.27
Equity	219.75	219.75	219.75	219.75
Other Liabilities	9 639.68	9 279.95	5 253.58	4 525.91
Total Liabilities	284 022.38	286 071.05	289 657.75	294 537.19

Notes: 1. Deposits of other financial corporations with the monetary authority have been no longer included in "Reserve Money" in line with the definition of "Reserve Money" defined by the International Monetary Fund since 2011.

2. Deposits of overseas financial institutions with the PBC have been included in "Foreign Liabilities" instead of "Other Depository Corporations" since 2011.

Balance Sheet of Other Depository Corporations in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	27 857.32	32 057.32	31 760.65	28 798.51
Reserve Assets	176 421.97	178 259.33	182 267.80	197 132.46
Deposits with Central Bank	171 639.13	173 249.68	176 523.51	191 146.29
Cash in Vault	4 782.85	5 009.66	5 744.29	5 986.17
Claims on Government	49 853.23	51 144.37	54 886.77	56 123.29
Of which: Central Government	49 853.23	51 144.37	54 886.77	56 123.29
Claims on Central Bank	22 898.75	19 392.54	15 461.48	12 708.95
Claims on Other Depository Corporations	209 443.65	233 288.44	222 477.76	237 024.57
Claims on Other Financial Corporations	40 258.88	43 374.46	45 233.72	50 519.92
Claims on Non-financial Corporations	488 787.60	507 098.07	520 718.03	534 132.68
Claims on Other Resident Sectors	140 202.50	146 439.20	154 318.86	160 193.84
Other Assets	53 184.78	57 630.24	58 580.89	60 228.57
Total Assets	1 208 908.69	1 268 683.98	1 285 705.97	1 336 862.79
Liabilities to Non-financial Institutions & Households	816 395.40	850 305.55	867 498.37	891 427.87
Deposits Included in Broad Money	791 762.37	821 146.74	837 186.75	861 307.17
Corporate Demand Deposits	228 402.38	238 241.53	233 354.72	254 004.46
Corporate Time Deposits	177 916.53	186 605.61	200 657.45	195 940.13
Personal Deposits	385 443.46	396 299.60	403 174.58	411 362.59
Deposits Excluded from Broad Money	20 468.70	24 465.36	25 097.59	24 454.11
Transferable Deposits	7 032.69	7 541.83	7 463.60	8 036.07
Other Deposits	13 436.00	16 923.54	17 634.00	16 418.04
Other Liabilities	4 164.34	4 693.44	5 214.02	5 666.58
Liabilities to Central Bank	7 619.60	10 239.47	14 714.05	13 903.05
Liabilities to Other Depository Corporations	99 761.62	108 075.99	98 311.78	108 636.25
Liabilities to Other Financial Corporations	60 329.00	60 753.50	58 809.90	62 999.21
Of which: Deposits Included in Broad Money	54 207.39	54 559.82	53 068.52	58 181.86
Foreign Liabilities	8 637.30	9 661.35	8 790.43	9 900.25
Bond Issue	80 404.83	85 313.96	88 415.52	92 318.27
Paid-in Capital	29 028.61	29 603.75	30 072.10	30 725.27
Other Liabilities	106 732.31	114 730.40	119 093.81	126 952.63
Total Liabilities	1 208 908.69	1 268 683.98	1 285 705.97	1 336 862.79

Balance Sheet of Large-sized Domestic Banks in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	20 822.17	24 421.02	23 873.47	20 196.27
Reserve Assets	108 535.41	107 861.80	108 784.64	111 464.93
Deposits with Central Bank	105 862.50	105 114.03	105 463.06	108 019.02
Cash in Vault	2 672.91	2 747.77	3 321.58	3 445.91
Claims on Government	33 560.01	34 620.85	37 737.09	38 753.51
Of which: Central Government	33 560.01	34 620.85	37 737.09	38 753.51
Claims on Central Bank	20 535.10	17 186.15	13 530.50	11 466.81
Claims on Other Depository Corporations	95 425.30	102 779.83	97 778.95	102 248.20
Claims on Other Financial Corporations	22 733.66	23 844.62	23 636.04	24 668.65
Claims on Non-financial Corporations	278 972.19	286 210.42	291 755.84	297 056.46
Claims on Other Resident Sectors	76 067.53	79 054.12	83 408.78	86 878.75
Other Assets	33 845.64	36 365.62	37 806.78	39 975.15
Total Assets	690 497.00	712 344.44	718 312.10	732 708.72
Liabilities to Non-financial Institutions & Households	484 574.02	498 794.55	504 604.92	508 789.57
Deposits Included in Broad Money	469 257.79	480 646.09	486 132.86	491 047.69
Corporate Demand Deposits	129 832.83	134 296.49	130 754.39	139 932.96
Corporate Time Deposits	82 129.59	83 849.50	89 723.76	84 401.16
Personal Deposits	257 295.37	262 500.09	265 654.71	266 713.57
Deposits Excluded from Broad Money	12 142.68	14 502.03	14 458.98	13 487.50
Transferable Deposits	3 716.84	4 002.73	3 861.97	4 070.77
Other Deposits	8 425.84	10 499.29	10 597.01	9 416.74
Other Liabilities	3 173.55	3 646.43	4 013.08	4 254.38
Liabilities to Central Bank	2 827.98	3 102.10	5 872.57	4 071.30
Liabilities to Other Depository Corporations	34 446.15	33 143.53	28 312.11	30 249.56
Liabilities to Other Financial Corporations	34 157.21	34 718.84	32 073.48	33 285.55
Of which: Deposits Included in Broad Money	31 226.31	31 934.77	29 800.05	31 754.02
Foreign Liabilities	3 027.52	3 642.44	3 475.61	4 203.26
Bond Issue	53 140.55	56 091.48	57 901.52	60 293.27
Paid-in Capital	15 945.64	15 952.25	16 079.49	16 070.57
Other Liabilities	62 377.94	66 899.25	69 992.38	75 745.64
Total Liabilities	690 497.00	712 344.44	718 312.10	732 708.72

Notes: 1. As of January 2010, the PBC compiles monetary and financial statistics on the basis of the RMB and foreign currency statistical data of domestically operating financial institutions in line with the concept, definition and classification of the IMF *Manual of Monetary and Financial Statistics*.

2. Large-sized domestic banks refer to those banks with total RMB and foreign currency assets of more than 2 trillion yuan (as of year-end 2008), including the ICBC, CCB, ABC, BOC, CDB, BOCOM and the Postal Savings Bank of China Co., Ltd.

Balance Sheet of Medium-sized Domestic Banks in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	5 490.13	5 969.81	6 140.68	6 665.84
Reserve Assets	28 777.86	30 085.64	31 658.96	34 937.31
Deposits with Central Bank	28 356.43	29 610.57	31 149.15	34 343.77
Cash in Vault	421.43	475.06	509.81	593.54
Claims on Government	7 654.29	7 743.84	8 315.99	8 648.84
Of which: Central Government	7 654.29	7 743.84	8 315.99	8 648.84
Claims on Central Bank	1 653.84	1 570.86	1 336.36	790.10
Claims on Other Depository Corporations	48 143.51	60 444.70	59 152.10	63 346.59
Claims on Other Financial Corporations	8 638.57	9 427.72	10 350.39	12 867.18
Claims on Non-financial Corporations	110 749.24	115 480.78	120 369.45	124 944.11
Claims on Other Resident Sectors	24 573.03	25 752.24	28 169.69	30 199.31
Other Assets	7 757.67	8 380.44	8 435.81	7 534.33
Total Assets	243 438.13	264 856.03	273 929.44	289 933.61
Liabilities to Non-financial Institutions & Households	134 432.06	144 211.51	150 405.76	156 491.92
Deposits Included in Broad Money	128 819.28	136 898.43	142 385.54	148 246.59
Corporate Demand Deposits	44 792.06	47 493.58	46 602.42	51 219.53
Corporate Time Deposits	54 308.98	57 692.98	63 315.05	62 392.48
Personal Deposits	29 718.25	31 711.87	32 468.07	34 634.58
Deposits Excluded from Broad Money	4 989.45	6 668.41	7 282.71	7 469.27
Transferable Deposits	1 584.39	1 867.79	1 906.04	2 173.99
Other Deposits	3 405.06	4 800.62	5 376.67	5 295.29
Other Liabilities	623.32	644.67	737.51	776.05
Liabilities to Central Bank	3 195.53	4 829.51	5 891.65	7 112.35
Liabilities to Other Depository Corporations	30 648.41	37 103.24	36 448.29	40 961.30
Liabilities to Other Financial Corporations	22 631.11	22 267.31	23 197.68	25 625.21
Of which: Deposits Included in Broad Money	20 853.02	20 332.30	21 171.26	23 798.67
Foreign Liabilities	1 047.36	1 156.26	1 013.35	1 302.89
Bond Issue	26 007.81	27 959.36	29 132.23	30 544.57
Paid-in Capital	2 362.62	2 379.39	2 394.39	2 413.02
Other Liabilities	23 113.23	24 949.44	25 446.07	25 482.34
Total Liabilities	243 438.13	264 856.03	273 929.44	289 933.61

Note: Medium-sized Domestic Banks refer to those banks with total RMB and foreign currency assets of more than 300 billion yuan but less than 2 trillion yuan (as of year-end 2008), including China Merchants Bank Co., Ltd, Agricultural Development Bank of China, Shanghai Pudong Development Bank Co., Ltd, China CITIC Bank Co., Ltd, Industrial Bank Co., Ltd, China Minsheng Banking Corporation, China Everbright Bank Co., Ltd, Hua Xia Bank Co., Ltd, the Export-Import Bank of China, Guangdong Development Bank Co., Ltd, Pingan Bank Co., Ltd, Bank of Beijing, Bank of Shanghai and Bank of Jiangsu.

Balance Sheet of Small-sized Domestic Banks in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	336.87	377.71	186.84	219.84
Reserve Assets	23 704.98	24 977.54	26 092.00	32 034.03
Deposits with Central Bank	22 924.89	24 140.73	25 173.04	30 950.76
Cash in Vault	780.08	836.81	918.95	1 083.27
Claims on Government	6 394.08	6 468.99	6 730.83	6 785.12
Of which: Central Government	6 394.08	6 468.99	6 730.83	6 785.12
Claims on Central Bank	571.39	540.04	493.54	392.73
Claims on Other Depository Corporations	39 782.94	43 852.54	39 803.94	45 553.80
Claims on Other Financial Corporations	6 127.04	7 119.20	8 327.73	9 916.74
Claims on Non-financial Corporations	62 315.93	66 998.85	69 058.43	72 244.65
Claims on Other Resident Sectors	17 886.93	19 125.42	19 863.15	21 384.09
Other Assets	6 638.71	7 534.83	7 258.72	7 250.93
Total Assets	163 758.87	176 995.14	177 815.17	195 781.93
Liabilities to Non-financial Institutions & Households	113 155.54	121 359.01	125 481.25	137 712.63
Deposits Included in Broad Money	112 308.20	120 422.76	124 432.90	136 460.70
Corporate Demand Deposits	34 210.21	36 350.81	35 938.19	41 319.32
Corporate Time Deposits	28 003.72	31 015.08	32 698.02	33 892.26
Personal Deposits	50 094.27	53 056.87	55 796.69	61 249.11
Deposits Excluded from Broad Money	592.84	645.26	708.94	784.94
Transferable Deposits	251.12	246.88	255.92	344.94
Other Deposits	341.72	398.37	453.02	440.00
Other Liabilities	254.50	290.99	339.41	467.00
Liabilities to Central Bank	446.59	918.19	1 565.82	1 401.16
Liabilities to Other Depository Corporations	29 155.89	32 085.55	27 160.28	30 553.07
Liabilities to Other Financial Corporations	2 171.68	2 351.98	2 294.96	2 742.96
Of which: Deposits Included in Broad Money	1 844.85	2 006.12	1 998.26	2 516.83
Foreign Liabilities	206.02	230.16	255.23	311.60
Bond Issue	873.02	948.42	1 117.68	1 320.42
Paid-in Capital	5 132.23	5 409.06	5 572.72	5 980.86
Other Liabilities	12 617.90	13 692.76	14 367.24	15 759.24
Total Liabilities	163 758.87	176 995.14	177 815.17	195 781.93

Note: Small-sized Domestic Banks refer to those banks with total RMB and foreign currency assets of less than 300 billion yuan (as of year-end 2008), including Evergrowing Bank, China Zheshang Bank, China Bohai Bank, small-sized city commercial banks, rural commercial banks, rural cooperative banks, and rural banks.

Balance Sheet of Foreign-funded Banks in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1 114.52	1 188.32	1 450.27	1 612.53
Reserve Assets	2 640.37	2 623.91	2 755.08	3 228.47
Deposits with Central Bank	2 630.20	2 614.25	2 744.55	3 218.43
Cash in Vault	10.17	9.66	10.52	10.04
Claims on Government	1 480.21	1 636.84	1 427.01	1 294.89
Of which: Central Government	1 480.21	1 636.84	1 427.01	1 294.89
Claims on Central Bank				
Claims on Other Depository Corporations	5 497.23	5 721.92	5 057.58	5 361.33
Claims on Other Financial Corporations	518.78	590.06	622.06	752.17
Claims on Non-financial Corporations	9 043.56	9 375.58	9 977.72	10 510.18
Claims on Other Resident Sectors	477.70	508.96	548.75	603.22
Other Assets	1 488.71	1 662.90	1 447.77	1 219.58
Total Assets	22 261.09	23 308.50	23 286.24	24 582.36
Liabilities to Non-financial Institutions & Households	11 750.21	12 081.25	12 126.75	13 072.20
Deposits Included in Broad Money	9 485.93	9 804.61	9 833.13	10 670.72
Corporate Demand Deposits	2 147.72	2 495.98	2 244.05	2 912.56
Corporate Time Deposits	5 473.68	5 377.90	5 668.26	5 822.96
Personal Deposits	1 864.53	1 930.72	1 920.83	1 935.19
Deposits Excluded from Broad Money	2 264.28	2 276.64	2 293.62	2 401.49
Transferable Deposits	1 082.63	1 115.32	1 167.62	1 209.48
Other Deposits	1 181.66	1 161.33	1 126.00	1 192.01
Other Liabilities				
Liabilities to Central Bank	3.51	9.27	14.51	8.57
Liabilities to Other Depository Corporations	1 829.95	1 966.61	2 510.58	2 571.04
Liabilities to Other Financial Corporations	618.85	618.47	654.81	817.44
Of which: Deposits Included in Broad Money				
Foreign Liabilities	4 356.39	4 632.26	4 046.04	4 082.49
Bond Issue	57.92	72.78	22.42	7.19
Paid-in Capital	1 659.85	1 757.14	1 826.18	1 941.31
Other Liabilities	1 984.41	2 170.72	2 084.95	2 082.14
Total Liabilities	22 261.09	23 308.50	23 286.24	24 582.36

Monetary Aggregates in 2012

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Money & Quasi-money (M2)	895 565.50	924 991.20	943 688.75	974 148.80
Money (M1)	277 998.11	287 526.17	286 788.21	308 664.23
Currency in Circulation (M0)	49 595.74	49 284.64	53 433.49	54 659.77
Corporate Demand Deposits	228 402.38	238 241.53	233 354.72	254 004.46
Quasi-money	617 567.38	637 465.03	656 900.55	665 484.57
Corporate Time Deposits	177 916.53	186 605.61	200 657.45	195 940.13
Personal Deposits	385 443.46	396 299.60	403 174.58	411 362.59
Other Deposits	54 207.39	54 559.82	53 068.52	58 181.86

Note: Deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions have already been included in money supply since October 2011.

Monetary Aggregates in 2012

(Year-on-year percentage change)

	Q1	Q2	Q3	Q4
Money & Quasi-money (M2)	13.43	13.64	14.80	13.83
Money (M1)	4.41	4.68	7.33	6.49
Currency in Circulation (M0)	10.59	10.81	13.34	7.71
Corporate Demand Deposits	3.16	3.50	6.05	6.23
Quasi-money	18.02	18.20	18.40	17.60
Corporate Time Deposits	19.58	17.14	17.27	17.60
Personal Deposits	16.34	17.40	17.96	16.60
Other Deposits	25.56	28.50	26.60	25.13

Note: Same as the note above.

Statistics on Volume of RMB Issuance

100 million yuan

Notes & Coins	Year-end Balance of 2012
100 Yuan Note	53 100.60
50 Yuan Note	2 451.20
20 Yuan Note	1 061.58
10 Yuan Note	1 718.15
5 Yuan Note	832.66
2 Yuan Note	39.05
1 Yuan Note	514.03
5 Jiao Note	122.34
2 Jiao Note	21.13
1 Jiao Note	61.78
5 Fen Note	1.56
2 Fen Note	1.76
1 Fen Note	2.92
1 Yuan Coin	393.11
5 Jiao Coin	141.82
1 Jiao Coin	88.94
5 Fen Coin	6.88
2 Fen Coin	5.82
1 Fen Coin	3.46
Total	60 568.81

Note: Including currency in circulation and cash in vault of banking institutions.

Statistics on Numbers of Non-cash Payment Operations

100 million (number)

		2008	2009	2010	2011	2012
Commercial Papers	Bills of Exchange	846.79	720.50	679.24	531.72	469.24
	Banker's Drafts	3.93	4.22	4.77	4.97	5.11
	Transfer Bank Drafts	842.86	716.28	674.47	526.75	464.13
	Commercial Drafts	775.31	821.58	936.71	1 256.05	1 553.33
	Commercial Acceptance Bills	20.27	20.99	22.18	20.59	18.83
	Banker's Acceptance Bills	755.04	800.59	914.53	1 235.46	1 534.50
	Promissory Notes	574.30	636.26	786.06	805.29	718.89
	Cash Promissory Notes	26.67	2.85	5.82	7.93	2.12
	Transfer Promissory Notes	547.63	633.41	780.24	797.36	716.77
	Cheques	86 029.20	85 373.72	87 243.51	82 064.45	75 598.78
	Cash Cheques	28 537.05	28 112.38	27 703.18	26 442.42	24 789.07
	Transfer Cheques	57 492.15	57 261.34	59 540.33	55 622.03	50 809.71
	Domestic Letter of Credit	1.84	2.51	6.12	8.22	26.88
	Total	88 227.44	87 554.57	89 651.64	84 665.73	78 367.12
Bankcards	Cash Deposits	337 433.59	374 827.74	468 428.21	547 807.25	678 702.96
	Cash Withdraw	840 263.66	942 784.85	1 178 706.16	1 418 061.02	1 613 373.58
	Consumption	264 533.29	349 123.89	484 942.37	641 300.92	900 906.84
	Transfer	224 792.49	302 383.41	443 594.17	570 793.67	698 415.56
	Total	1 667 023.03	1 969 119.89	2 575 670.91	3 177 962.86	3 891 398.94
Settlements	Remittance	74 026.97	81 820.33	102 203.79	117 262.52	141 000.07
	Consignment Collection Payment	74.99	77.91	79.10	80.95	74.29
	Entrusted Collection of Payment	3 340.39	2 865.88	2 789.11	3 073.11	3 247.27
	Total	77 442.35	84 764.12	105 072.00	120 416.58	144 321.63

Statistics on Transaction Value of Non-cash Payment Operations

100 million yuan

		2008	2009	2010	2011	2012
Commercial Papers	Bills of Exchange	44 884.17	40 900.70	40 009.98	30 482.91	27 031.50
	Banker's Drafts	94.55	68.79	56.27	56.31	49.92
	Transfer Bank Drafts	44 789.62	40 831.91	39 953.70	30 426.60	26 981.58
	Commercial Drafts	68 732.34	96 244.60	108 454.34	142 266.10	160 629.40
	Commercial Acceptance Bills	5 393.49	5 183.16	5 935.44	8 373.65	4 893.96
	Banker's Acceptance Bills	63 338.85	91 061.44	102 518.90	133 892.45	155 735.44
	Promissory Notes	60 227.48	74 788.55	86 108.85	88 754.03	71 036.08
	Cash Promissory Notes	1 353.20	114.10	395.32	520.96	64.22
	Transfer Promissory Notes	58 874.28	74 674.45	85 713.53	88 233.07	70 971.86
	Cheques	2 338 410.10	2 486 214.83	2 605 034.99	2 737 769.05	2 687 934.69
	Cash Cheques	190 380.15	180 031.14	192 637.90	201 527.07	190 503.73
	Transfer Cheques	2 148 029.95	2 306 183.69	2 412 397.09	2 536 241.98	2 497 430.96
	Domestic Letter of Credit	1 280.68	2 186.18	5 573.16	11 872.40	17 029.53
	Total	2 513 534.77	2 700 334.86	2 845 181.32	3 011 144.49	2 963 661.20
Bankcards	Cash Deposits	321 985.25	344 993.18	448 641.76	533 568.66	577 087.75
	Cash Withdraw	335 029.66	371 762.13	509 818.00	593 447.23	613 658.67
	Consumption	39 474.12	68 612.95	104 297.67	152 118.84	208 256.04
	Transfer	575 084.73	874 546.33	1 404 872.80	1 959 118.64	2 063 116.79
	Total	1 271 573.76	1 659 914.59	2 467 630.23	3 238 253.37	3 462 119.25
Settlements	Remittance	2 467 988.86	2 701 907.96	3 627 199.96	4 660 276.94	6 290 077.14
	Consignment Collection Payment	5 794.54	6 567.89	7 616.09	7 543.56	6 704.51
	Entrusted Collection of Payment	71 111.53	88 819.93	104 159.66	126 288.20	140 534.83
	Total	2 544 894.93	2 797 295.78	3 738 975.71	4 794 108.70	6 437 316.48

Statistics on Transactions via Payment Systems

10 thousand (number), 100 million yuan

Volume		2008	2009	2010	2011	2012
High Value Payment System	Volume (number)	21 406.52	24 801.90	29 121.66	37 211.44	47 035.96
	Value	6 402 310.77	8 039 463.72	11 043 680.19	13 552 814.97	17 719 972.13
Bulk Electronic Payment System	Volume (number)	14 070.65	22 580.53	38 672.84	56 304.92	75 393.50
	Value	51 181.80	114 617.04	162 124.36	183 614.11	185 477.54
Cross-bank Clearing System for Online Payments	Volume (number)					26 580.35
	Value					35 630.14
Inter-city Bill Clearing System	Volume (number)	42 820.71	43 043.30	44 957.39	41 803.08	39 135.21
	Value	719 388.05	694 061.69	731 904.25	709 484.72	665 182.46
Foreign Currency Payment System	Volume (number)		28.29	54.48	76.24	111.05
	Value		3 445.88	9 506.38	17 103.76	33 614.79
Interbank Fund Transfer System	Volume (number)	288 229.93	338 783.44	524 460.31	729 076.77	895 492.15
	Value	4 085 541.43	3 147 552.55	4 580 717.89	5 305 821.12	6 245 593.61
Interbank Bankcard Payment System	Volume (number)	359 743.51	452 806.82	557 666.09	687 797.63	827 295.72
	Value	45 509.46	76 636.31	110 741.34	150 146.80	197 436.63
Total	Volume (number)	726 271.32	882 044.28	1 194 932.77	1 552 270.08	1 911 043.94
	Value	11 303 931.51	12 075 777.19	16 638 674.41	19 918 985.48	25 082 907.30

Statistics on Numbers of Bank RMB Settlement Accounts

10 thousand (number)

	2008	2009	2010	2011	2012
Entity Settlement Accounts	1 965.69	2 191.12	2 487.07	2 824.22	3 169.57
Basic Deposit Settlement Accounts	1 141.91	1 288.67	1 475.28	1 693.30	1 904.47
General Deposit Settlement Accounts	587.23	655.67	750.32	859.41	983.28
Special Deposit Settlement Accounts	214.59	223.46	237.10	247.09	258.98
Temporary Deposit Settlement Accounts	21.96	23.31	24.36	24.42	22.83
Individual Settlement Accounts	236 994.49	279 227.36	335 082.06	408 185.37	487 811.70
Total	238 960.18	281 418.48	337 569.12	411 009.59	490 981.27

Statistics on Bankcard Numbers

10 thousand (number)

	2008	2009	2010	2011	2012
Credit Card	14 232.90	18 555.56	22 972.57	28 545.91	33 109.51
Ordinary Credit Card	12 237.72	16 393.59	20 557.10	25 162.44	28 903.53
Quasi-credit Card	1 995.18	2 161.97	2 415.47	3 383.47	4 205.98
Debit Card	165 806.02	188 038.81	218 565.60	266 359.09	320 305.21
Total	180 038.92	206 594.37	241 538.17	294 905.00	353 414.72

RMB Interest Rates in 2012

Percent per annum

	Jan. 1	Jun. 8	Jul. 6	Dec. 31
Benchmark Rates				
Required Reserves	1.62	1.62	1.62	1.62
Excess Reserves	0.72	0.72	0.72	0.72
Loans to Financial Institutions				
20 Days or Less	3.25	3.25	3.25	3.25
3 Months or Less	3.55	3.55	3.55	3.55
6 Months or Less	3.75	3.75	3.75	3.75
1 Year	3.85	3.85	3.85	3.85
Rediscount	2.25	2.25	2.25	2.25
Official Interest Rates on Deposits & Loans of Financial Institutions				
Interest Rates on Deposits				
Demand Deposits	0.50	0.40	0.35	0.35
Time Deposits				
3 Months	3.10	2.85	2.60	2.60
6 Months	3.30	3.05	2.80	2.80
1 Year	3.50	3.25	3.00	3.00
2 Years	4.40	4.10	3.75	3.75
3 Years	5.00	4.65	4.25	4.25
5 Years	5.50	5.10	4.75	4.75
Interest Rates on Loans				
6 Months (including 6 months)	6.10	5.85	5.60	5.60
6 Months ~1 Year (including 1 year)	6.56	6.31	6.00	6.00
1~3 Years (including 3 years)	6.65	6.40	6.15	6.15
3~5 Years (including 5 years)	6.90	6.65	6.40	6.40
Longer than 5 Years	7.05	6.80	6.55	6.55
Weighted Average Rates in Interbank Market in December				
Interbank Borrowing				2.61
Bond-pledged Repo				2.62

Interest Rates on Small-value US Dollar Deposits

Percent per annum

	Nov. 18, 2004	May 20, 2005	Aug. 23, 2005	Oct. 15, 2005	Dec. 28, 2005
Demand Deposits	0.075	0.075	0.275	0.775	1.150
7-Day Notice Deposits	0.250	0.250	0.500	1.000	1.375
1 Month	0.375	0.625	1.250	1.750	2.250
3 Months	0.625	0.875	1.750	2.250	2.750
6 Months	0.750	1.000	1.875	2.375	2.875
1 Year	0.875	1.125	2.000	2.500	3.000

Note: No adjustments since Dec. 28, 2005.

Shibor Monthly Average Rates in 2012

Percent per annum

	Overnight	1 Week	2 Weeks	1 Month	3 Months	6 Months	9 Months	1 Year
January	4.36	4.89	5.48	6.28	5.48	5.42	5.25	5.24
February	3.43	4.14	4.55	5.04	5.33	5.35	5.23	5.23
March	2.48	3.14	3.63	4.22	5.04	5.19	5.18	5.19
April	3.14	3.82	3.90	4.06	4.80	5.06	5.11	5.13
May	2.15	2.95	3.16	3.37	4.47	4.85	4.99	5.04
June	2.77	3.11	3.42	3.50	4.10	4.50	4.72	4.83
July	2.72	3.47	3.65	3.67	3.87	4.26	4.49	4.59
August	2.74	3.48	3.62	3.62	3.64	4.11	4.31	4.45
September	2.92	3.48	3.63	4.03	3.66	4.09	4.26	4.40
October	2.74	3.19	3.67	3.91	3.70	4.09	4.25	4.40
November	2.42	3.20	3.41	3.77	3.77	4.10	4.25	4.40
December	2.37	3.29	3.73	4.29	3.87	4.10	4.26	4.40

2012 Money Market Statistics

	Q1	Q2	Q3	Q4
Turnover of Interbank Borrowing (100 million yuan)	101 480	135 981	124 587	104 996
Turnover of Interbank Repo (100 million yuan)	306 552	395 441	375 809	339 338
Quarter-end Shibor: Overnight (%)	2.67	3.60	3.28	3.87
Quarter-end Shibor: 1-week (%)	3.44	4.11	3.19	4.58
Quarter-end Month Weighted Average Rates of Interbank Borrowing (%)	2.58	2.72	2.93	2.61
Quarter-end Month Weighted Average Rates of Bond-pledged Repo (%)	2.66	2.81	3.01	2.62
Commercial Bills Accepting (100 million yuan)	40 218	47 586	43 679	47 393
Quarter-end Commercial Bills Outstanding (100 million yuan)	72 242	81 153	84 076	83 452
Financial Institutions Discounting (100 million yuan)	56 911	83 819	83 938	91 741
Quarter-end Financial Institutions Discount Outstanding (100 million yuan)	17 700	22 766	23 437	20 426

2012 Bond Market Statistics

	Q1	Q2	Q3	Q4
Total Bond Issuance (100 million yuan)	15 415	19 534	23 590	21 183
Government Bonds	2 179	4 641	6 497	2 837
Central Bank Bills	0	0	0	0
Financial Bonds	6 495	7 017	5 818	6 872
Corporate Credit Bonds*	6 741	7 876	11 275	11 473
Quarter-end Outstanding Balance of Bond Issuance (100 million yuan)	226 284	239 422	256 182	267 013
Government Bonds	76 155	76 820	81 044	82 522
Central Bank Bills	19 280	16 440	15 970	13 380
Financial Bonds	80 687	85 225	89 049	93 362
Corporate Credit Bonds	50 122	60 897	70 079	77 710
International Institutions Bonds	40	40	40	40
Quarter-end Chinabond Composite Index (% , net price)	101.13	102.27	101.06	100.75
Quarter-end Chinabond Yield Curve (% , for 1-year term)	2.84	2.34	2.79	2.91
Quarter-end Chinabond Yield Curve (% , for 10-year term)	3.50	3.33	3.46	3.57

Note: *Including debt financing instruments of non-financial corporations, enterprises bonds, corporate bonds and transferable bonds.

2012 Stock Market Statistics

	Q1	Q2	Q3	Q4
Total Funds Raised (100 million yuan)	1 104	890	1 357	779
Turnover of Trading (100 million yuan)	88 918	86 004	72 208	67 453
Quarter-end Volume of Stock Issued (100 million shares)	30 165	31 139	31 666	31 834
Quarter-end Market Capitalization (100 million yuan)	224 705	226 209	213 947	230 358
Quarter-end Numbers of Companies Listed	2 389	2 444	2 489	2 494
Quarter-end Close Index				
Shanghai Stock Exchange Composite Index (Dec. 19, 1990=100)	2 263	2 225	2 086	2 269
Shenzhen Stock Exchange Component Index (July. 20, 1994=1000)	9 410	9 500	8 679	9 116

2012 Futures Market Statistics

	Q1	Q2	Q3	Q4
Transaction Volume (10 thousand lots)	19 899	29 491	53 111	42 551
Turnover of Trading (100 million yuan)	317 081	364 926	513 849	515 413
Quarter-end Position (10 thousand lots)	404	566	485	476

2012 Insurance Market Statistics

	Q1	Q2	Q3	Q4
Premium Income (100 million yuan)	4 835	3 698	3 544	3 412
Property Insurance	1 301	1 399	1 292	1 339
Life Insurance	3 534	2 299	2 251	2 073
Claim and Benefite Payment (100 million yuan)	1 172	1 091	1 130	1 324
Property Insurance	573	647	730	866
Life Insurance	599	443	400	457
Quarter-end Assets in Total (100 million yuan)	63 679	67 760	68 999	73 546
Of which: Bank Deposits	20 698	22 578	21 979	23 446
Investment	38 184	39 226	41 805	45 097

2012 Gold Market Statistics

	Q1	Q2	Q3	Q4
Value Traded of Au99.99 (100 million yuan)	1 134	937	813	986
Value Traded of Au (T+D) (100 million yuan)	3 720	3 590	3 417	3 576
Value Traded of Ag (T+D) (100 million yuan)	2 708	3 052	4 022	3 796
Au99.99 Quarter-end Close Price (yuan/g)	339	322	360	335
Au (T+D) Quarter-end Close Price (yuan/g)	339	322	360	334
Ag (T+D) Quarter-end Close Price (yuan/g)	6 762	5 705	7 234	6 271

Balance of Payments in 2012

100 million US dollars

	Line	Balance	Credit	Debit
Current Account	1	1 931	24 599	22 668
Goods & Services	2	2 318	22 483	20 165
Goods	3	3 216	20 569	17 353
Services	4	-897	1 914	2 812
Transportation	5	-469	389	859
Travel	6	-519	500	1 020
Communication Services	7	1	18	16
Construction Services	8	86	122	36
Insurance Services	9	-173	33	206
Financial Services	10	0	19	19
Computer & Information Services	11	106	145	38
Royalties & License Fees	12	-167	10	177
Consulting Services	13	134	334	200
Advertising & Public Opinion Polling	14	20	48	28
Audio-visual & Related Services	15	-4	1	6
Other Business Services	16	89	284	196
Government Services, n.i.e	17	-1	10	10
Income	18	-421	1 604	2 026
Compensation of Employees	19	153	171	18
Investment Income	20	-574	1 434	2 008
Current Transfers	21	34	512	477
General Government	22	-31	9	40
Other Sectors	23	65	503	438
Capital & Financial Account	24	-168	13 783	13 951
Capital Account	25	43	45	3
Financial Account	26	-211	13 738	13 949
Direct Investment	27	1 911	3 079	1 168
Abroad	28	-624	234	857
From Abroad	29	2 535	2 845	311
Portfolio Investment	30	478	829	352
Assets	31	-64	237	301
Equity Securities	32	20	120	100
Debt Securities	33	-84	117	201
Bonds & Notes	34	-49	110	159
Money Market Instruments	35	-35	7	42

Continued

	Line	Balance	Credit	Debit
Liabilities	36	542	593	51
Equity Securities	37	299	348	49
Debt Securities	38	243	244	2
Bonds & Notes	39	173	175	2
Money Market Instrument	40	70	70	0
Other Investment	41	-2 600	9 829	12 429
Assets	42	-2 316	1 402	3 718
Trade Credits	43	-618	4	622
Long-term	44	-12	0	12
Short-term	45	-606	4	610
Loans	46	-653	244	897
Long-term	47	-568	0	568
Short-term	48	-85	243	329
Currency & Deposits	49	-1 047	1 027	2 074
Other Assets	50	3	127	125
Long-term	51	-100	0	100
Short-term	52	103	127	25
Liabilities	53	-284	8 428	8 712
Trade Credits	54	423	503	80
Long-term	55	7	9	1
Short-term	56	416	494	78
Loans	57	-168	6 480	6 648
Long-term	58	102	543	440
Short-term	59	-270	5 937	6 207
Currency & Deposits	60	-594	1 339	1 933
Other Liabilities	61	54	106	51
Long-term	62	47	47	1
Short-term	63	8	58	50
Reserve Assets	64	-966	136	1 101
Monetary Gold	65	0	0	0
Special Drawing Rights	66	5	7	2
Reserve Position in IMF	67	16	16	0
Foreign Exchange	68	-987	112	1 099
Other Claims	69	0	0	0
Net Errors & Omissions	70	-798	0	798

Note: In line with the principles of the fifth edition of the IMF *Balance of Payments Manual*, China's BOP uses the debit credit double entry bookkeeping technique to record all accounting transactions between residents and non-residents (excluding those of Hong Kong, Ma-

International Liquidity

Millions of the US dollars

	2008	2009	2010	2011	2012
Total Reserves (minus gold)	1 949 260	2 414 131	2 862 276	3 197 107.22	3 325 440.10
SDRs	1 199	12 510	12 345	11 855.24	11 365.61
Reserve Position in IMF	2 031	2 469	2 593	4 104.42	2 485.26
Foreign Exchange	1 946 030	2 399 152	2 847 338	3 181 147.56	3 311 589.23
Gold (million ounce)	19.29	33.89	33.89	33.89	33.89
Gold (national valuation)	4 074	9 815	9 815	9 815	9 815
Foreign Liabilities of Other Depository Corporations	75 255	88 145	108 406	123 250.01	157 509.42

Note: The PBC made adjustments to RMB purchase of gold in April 2009.

Gold and Foreign Exchange Reserves

Year	Gold (10 thousand ounce)	Foreign Exchange Reserves (100 million US dollars)	Change in Foreign Exchange Reserves (%)
2000	1 267	1 655.7	7.0
2001	1 608	2 121.7	28.1
2002	1 929	2 864.1	35.0
2003	1 929	4 032.5	40.8
2004	1 929	6 099.3	51.3
2005	1 929	8 188.7	34.3
2006	1 929	10 663.4	30.2
2007	1 929	15 282.5	43.3
2008	1 929	19 460.3	27.3
2009	3 389	23 991.5	23.3
2010	3 389	28 473.4	18.7
2011	3 389	31 811.5	11.7
2012	3 389	33 115.9	4.1

Note: The PBC made adjustments to RMB purchase of gold in April 2009.

RMB Exchange Rate

Year	Foreign Currency	Year-end Rate (RMB/per unit of foreign currency)	Change of Basis Points
2008	USD	6.8346	-4 650
	HKD	0.8819	-534.5
	JPY	7.5650	10 344
	EUR	9.6590	-10 021
2009	USD	6.8282	-64
	HKD	0.8805	-14
	JPY	7.3782	-1 868
	EUR	9.7971	1 381
2010	USD	6.6227	-2 055
	HKD	0.8509	-296
	JPY	8.1260	7 478
	EUR	8.8065	9 906
2011	USD	6.3009	-3 218
	HKD	0.8107	-402
	JPY	8.1103	-157
	EUR	8.1625	-644
2012	USD	6.2855	-154
	HKD	0.81085	1
	JPY	7.3049	-8 054
	EUR	8.3176	1 551

Note: The exchange rate of RMB against Japanese yen: RMB/100 Japanese yen.

Brief Table of China's External Debt, End-2012

Thousands of the US dollars

Types of Debt Debtor	Loans from Foreign Governments	Loans from International Financial Institutions	Loans from Foreign Banks and Other Financial Institutions	Buyers' Credit	Loans from Foreign Exporters, Enterprises and Individuals	Bonds Issued Abroad
Ministries under the State Council		33 496 387	499 725			2 618 200
Chinese-funded Financial Institutions*	31 044 776		19 696 599	2 170 924	106 475	5 068 820
Foreign-funded Financial Institutions			35 421 241		1 574 488	
Foreign-funded Enterprises		601 952	12 214 842	230 583	124 552 061	
Chinese-funded Enterprises			892 813	87 726	420 940	1 505 009
Others			29 527	24 600	97 970	
Enterprises						
Total	31 044 776	34 098 339	68 754 747	2 513 833	126 751 934	9 192 029

Continued

Types of Debt Debtor	Bank Trade Financing	Non-resident Deposits	International Financial Leasing	Liabilities to be Paid with Foreign Exchange in Compensation Trade	Trade Credit between Enterprises	Total
Ministries under the State Council						36 614 312
Chinese-funded Financial Institutions*	97 547 273	49 072 761	6 892			204 714 520
Foreign-funded Financial Institutions	2 618 200	12 269 442	3 887			51 887 258
Foreign-funded Enterprises			8 647 232	2 636		146 249 306
Chinese-funded Enterprises			1 634 782	1 327 406		5 868 676
Others						152 097
Enterprises					291 500 000	291 500 000
Total	100 165 473	61 342 203	10 292 793	1 330 042	291 500 000	736 986 169

Note: *Loans from foreign governments to Chinese-funded financial institutions (mainly referring to state-owned commercial banks and policy banks) are actually sovereign debt borrowed by the Ministry of Finance on behalf of the Chinese Government.

RMB Cross-border Trade Settlements

100 million yuan

Year	Trade in Goods	Trade in Services	Total
2009-2012 (cumulative amount)	40 635	14 653	55 288
2009	32	4	36
2010	4 380	683	5 063
2011	15 606	5 202	20 808
2012	20 617	8 764	29 381

Flow of Funds

(Financial Transaction)

	Households		Non-financial Corporations		General Government		Financial Institutions	
	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investment	48 644		-44 271		10 178		-1 318	
Financial Uses	74 140		66 790		20 363		194 721	
Financial Sources		25 496		111 061		10 185		196 038
Currency	4 961		555		123		153	6 162
Renminbi	4 961		555		123		153	6 162
Foreign Currencies								
Deposits	47 690		41 373		19 763		5 396	113 415
Demand Deposits	15 712		5 431		7 485			28 628
Time Deposits	31 440		20 200		10 668			62 307
Fiscal Deposits					-300			-300
Foreign Exchange Deposits	333		4 989		134		111	3 126
Other Deposits	206		10 753		1 776		5 285	19 655
Margin Deposits with Securities Trading Accounts	-1 840		-4 020		-35		-571	-6 511
Loans		25 496		66 963		1 691	95 764	1 442
Short-term Loans & Discounted Commercial Paper Loans		10 620		27 935			38 554	
Medium & Long-term Loans		14 646		20 993			35 640	
Foreign Exchange Loans		20		5 396		-3	5 586	
Designated Loans		204		10 739		1 770	14 154	1 442
Other Loans		6		1 901		-77	1 830	
Undiscounted Banker's Acceptance Bills			10 271	10 271			10 271	10 271
Insurance Technical Reserves	6 417		931			2 107		5 242
Inter-financial Institutions Accounts							2 308	4 188
Required & Excessive Reserves							36 154	36 154
Securities	2 484		-157	19 397	112	6 142	18 758	-3 927
Bonds	-794		-86	13 659		6 142	17 075	-3 605
Government & Public Bonds	-794		-8			6 142	6 944	
Financial Bonds			-13				16 226	16 213
Central Bank Bonds			-22				-19 797	-19 818
Corporate Bonds			-44	13 659			13 702	
Shares	3 278		-71	5 738	112		1 683	-322
Investment Funds	606		860		416		376	2 282
Cash in Vault							1 072	1 042
Central Bank Loans							-727	-727
Miscellaneous (net)	13 823		8 808		-16		4 139	26 753
Foreign Direct Investments			3 211	14 224				
Changes in Other Foreign Assets & Debts			4 958	2 466		246	-3 428	252
Changes in Reserve Assets							25 057	
Errors & Omissions in the BOP				-2 259				

Statement in 2011

Accounts)

100 million yuan

All Domestic Sectors		The Rest of the World		Total		
Uses	Sources	Uses	Sources	Uses	Sources	
13 234		-13 234				Net Financial Investment
356 014		25 258		381 272		Financial Uses
	342 781		38 492		381 272	Financial Sources
5 792	6 162	370		6 162	6 162	Currency
5 792	6 162	370		6 162	6 162	Renminbi
						Foreign Currencies
114 222	113 415	2 219	3 026	116 442	116 442	Deposits
28 628	28 628			28 628	28 628	Demand Deposits
62 307	62 307			62 307	62 307	Time Deposits
-300	-300			-300	-300	Fiscal Deposits
5 568	3 126	584	3 026	6 152	6 152	Foreign Exchange Deposits
18 021	19 655	1 635		19 655	19 655	Other Deposits
-6 466	-6 511	-45		-6 511	-6 511	Margin Deposits with Securities Trading Accounts
95 764	95 592	1 245	1 417	97 009	97 009	Loans
38 554	38 554			38 554	38 554	Short-term Loans & Discounted Commercial Paper Loans
35 640	35 640			35 640	35 640	Medium & Long-term Loans
5 586	5 413	1 245	1 417	6 831	6 831	Foreign Exchange Loans
14 154	14 154			14 154	14 154	Designated Loans
1 830	1 830			1 830	1 830	Other Loans
20 542	20 542			20 542	20 542	Undiscounted Banker's Acceptance Bills
7 348	7 348			7 348	7 348	Insurance Technical Reserves
2 308	4 188	6 172	4 291	8 480	8 480	Inter-financial Institutions Accounts
36 154	36 154			36 154	36 154	Required & Excessive Reserves
21 196	21 611	343	-71	21 540	21 539	Securities
16 195	16 195			16 195	16 195	Bonds
6 142	6 142			6 142	6 142	Government & Public Bonds
16 213	16 213			16 213	16 213	Financial Bonds
-19 818	-19 818			-19 818	-19 818	Central Bank Bonds
13 658	13 658			13 658	13 658	Corporate Bonds
5 002	5 416	343	-71	5 345	5 345	Shares
2 258	2 282	24		2 282	2 282	Investment Funds
1 072	1 042		30	1 072	1 072	Cash in Vault
-727	-727			-727	-727	Central Bank Loans
26 753	26 753			26 753	26 753	Miscellaneous (net)
3 211	14 224	14 224	3 211	17 435	17 435	Foreign Direct Investments
1 530	2 965	2 965	1 530	4 495	4 495	Changes in Other Foreign Assets & Debts
25 057			25 057	25 057	25 057	Changes in Reserve Assets
	-2 259	-2 259		-2 259	-2 259	Errors & Omissions in the BOP

NOTES TO THE SECTORS AND ITEMS IN FLOW OF FUNDS STATEMENT

Flow of Funds Statement (Financial Transaction Accounts)^① Presented in matrix format, Financial Account encompasses all financial transactions among domestic sectors and with the rest of the world. In the accounts, all institutional units are grouped under five sectors: households, non-financial corporations, general government, financial institutions and the rest of the world, and all financial transactions are mainly classified by financial instruments. The sectors and financial transactions are listed on the rows and columns of the matrix respectively. The double entry flow of funds accounting is based on an accrual basis. All flows are measured according to their exchange value. The terms "sources" and "uses" are employed to reflect the changes in financial assets and financial liabilities of each sector.

Households Include urban households, rural households and individual enterprises. The sector is mainly engaged in final consumption, self-served production and some market-oriented production activities.

Non-financial Corporations Consist of profit-making resident corporations whose principal activity is the production of goods and non-financial services.

General Government Includes central government, local governments, government organizations and social security funds. They produce and supply non-market output for public and individual consumption. They also bear the responsibilities of re-distribution of national income and wealth.

Financial Institutions Include central bank, banks and other financial institutions. They supply financial services including insurance.

The Rest of the World Non-resident units which have financial transactions with resident units.

Financial Uses The total amounts in the uses column of each sector.

Financial Sources The total amounts in the sources column of each sector.

Net Financial Investment The differences between financial uses and financial sources.

Currency^② Notes and coins in circulation.

Deposits All types of deposits denominated in local and foreign currencies, including demand deposits, time deposits, fiscal deposits, foreign exchange deposits and others.

Demand Deposits Deposits which can be withdrawn on demand, including household demand savings deposits, enterprise demand deposits, government and organization demand deposits, etc..

Time Deposits Deposits that are not immediately disposable because they are subject to a fixed term or a period of prior notice before withdrawal, including household time savings deposits, enterprise time deposits, government and organization time deposits, etc..

Fiscal Deposits Deposits of the government in the banking financial institutions, including fiscal vault funds, fiscal transition deposit, fiscal funds to be settled, national vault time deposits, planning deposit and special use funds deposit.

Foreign Exchange Deposits Foreign exchange denominated deposits of non-financial residents with domestic financial institutions and the rest of the world, and those of non-residents with domestic financial institutions.

Other Deposits Deposits which are not classified elsewhere above, such as designated deposits, trust deposits, margin account deposits, etc..

Customer Margin of Securities Companies Deposits of clients in other depository corporations which is the 3rd party to reserve the deposits, for settlement of securities company clients transaction.

Loans All kinds of loans including short-term loans, bills financing, medium- and long-term loans, foreign exchange loans, designated loans and other loans.

Short-term Loans and Bills Financing Loans provided by financial institutions with a short-term (usually within one year or one year) maturity are short-term loans. Bills financing is that the financial institutions offer funds to clients by discounting

① Some financial transactions are not accounted temporarily, such as equity, trade credit and some accounts receivables/payables.

② The volumes of RMB circulation in foreign countries and foreign currency circulation in our country are not accounted temporarily since the amounts were small and difficult to compile at present.

the commercial papers, banker's acceptance bills and other papers they held.

Medium-and Long-term Loans Loans with a long-term (usually beyond one year) maturity.

Foreign Exchange Loans Loans in foreign currencies by domestic financial institutions to non-financial residents and the rest of the world and those to residents by the rest of the world.

Designated Loans Loans used and managed for specific targets and goals by banking financial institutions entrusted by government, enterprise, household or other designators which offer the funds.

Other Loans Loans which are not classified elsewhere above, such as trust loans, etc..

Undiscounted Banker's Acceptance Bills Banker's acceptance bills which haven't been discounted in financial institutions, equals all the banker's acceptance bills minus their discounted parts to avoid repeat accounting.

Insurance Technical Reserves The net equity of social insurance and commercial insurance funds, prepaid insurance premium and outstanding claim reserves.

Inter-financial Institutions Accounts Consists of nostro and vostro accounts, interbank lending and securities repurchase among financial institutions.

Required and Excessive Reserves Financial institutions deposits with the PBC and required reserves.

Securities All bonds and shares.

Bonds Negotiable and bearer instruments which give the holder the unconditional right to a fixed or contractually determined variable interest on a specified date or dates, and do not grant the holder any ownership rights in the institutional unit issuing them. They include government and public bonds, financial bonds, central bank bonds and corporate bonds.

Government and Public Bonds Bonds issued by the government.

Financial Bonds Bonds issued by the financial institutions excluding the central bank.

Central Bank Bonds Bonds issued by the central bank.

Corporate Bonds Bonds issued by the non-financial corporate businesses.

Shares^① Documents which represent property rights on corporations and entitle the holders to a share in the profits of the corporations and to a share in their net assets.

Investment Fund Share Benefit Voucher Issued by securities investment fund, which indicates quantity of fund held by investor.

Cash in Vault Local and foreign cashes reserved for business by banks.

Central Bank Lending Lending to financial institutions by the PBC.

Miscellaneous (Net) Other domestic financial transactions not included elsewhere.

Foreign Direct Investment The investments from abroad and the overseas investments in the rest of the world by domestic residents.

Other Direct Assets and Debts The foreign assets and debts that are not included in Foreign Exchange Deposits and Loans or in Reserve Assets.

Changes in Reserve Assets Reserve assets consists of gold, foreign exchange, special drawing rights, reserve positions with IMF, use of IMF credit, and etc..

Errors and Omissions in the Balance of Payments^② Arising from insufficient coverage, the differences of accounting timing, scope, classification, valuation and source materials with the process of compiling the Balance of Payments.

① Only includes listed shares.

② Because it is difficult to identify the proportion of this item on the current account to that on the capital account, all the errors and omissions in the Balance of Payments are presented on the Financial Transaction Accounts of Flow of Funds Statement temporarily.

FLOW OF FUNDS IN 2011

Flow of funds in 2011 had the following characteristics: First, the volume of flow of funds in the economy registered a steady decline, which helped to contain the rapid rise of price levels. Second, incremental volume of liabilities of domestic non-financial sector decreased year on year, but was still evidently higher than pre-crisis level. Comparing to the situation in 2010, decreasing residential housing demand led to much lower newly increased liabilities of households, while newly increased financial assets of household reached record high. Newly increased liabilities of corporations were somewhat lower than that in 2010, financial assets growth slowed down apparently, and funding gap became evidently larger. The government sector had a large net surplus and relatively adequate funds. Third, the newly increased financial assets and liabilities of financial institutions both registered lower year on year. Forth, the net external financial assets formation shrunk, and the fund outflow decreased dramatically.

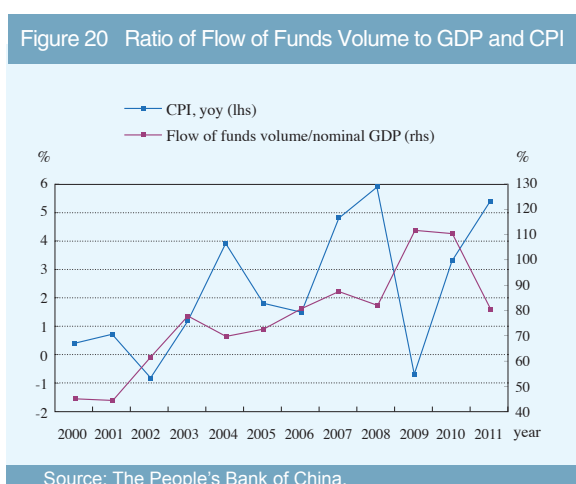
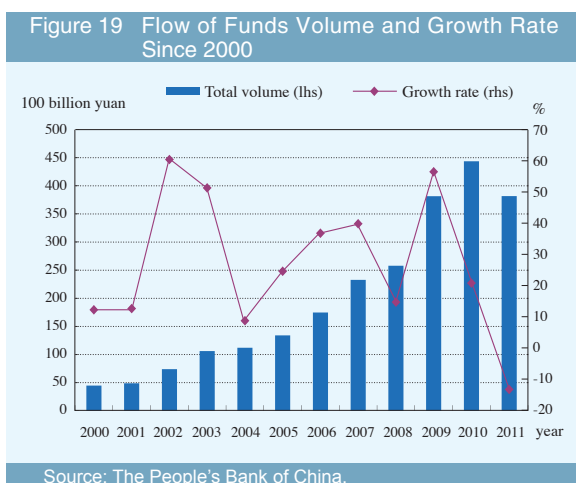
Fund flow volume in the whole society steadily went down, helping to contain the rapid rise of price levels

Fund flow volume in the economy totaled 38.13 trillion yuan in 2011^①, down 6.19 trillion yuan or 14.0 percent year on year, representing a significant decline from that of 2010. The main reason was that against the background of increasing inflationary pressures, the PBC implemented a prudent monetary policy and carried out proper fine-tuning to actively guide the money and credit growth to go down steadily. In 2011, the all-system financing aggregate^② posted 12.83 trillion yuan, a reduction of 1.19 trillion yuan or 8.5 percent year on year. Steady decline of fund flow volume in 2011 contributed to the containment of fast rising inflationary pressures, and helped promote stable economic development. The ratio of total fund flow volume to GDP was 80.6 percent in 2011, a decrease of 29.8 percentage points compared with 2010,

①To keep up with the innovation of China's financial markets in recent years, the flow of funds statistical system was revised in 2010. Since then, bankers' acceptances, entrusted loans and trust loans of micro-credit companies and financial institutions have been included in the statistics. To ensure consistency and comparability, the flow of funds statements in 2008 and 2009 were adjusted according to the 2010 system.

②The all-system financing aggregate is a new indicator brought into China's macro-financial management for monitoring and analysis in 2011. It refers to the total value of funds provide by the financial system to the real economy during a certain period of time. It is a flow rather than a stock value. It is composed of RMB loans, foreign currency loans, designated loans, trust loans, undiscounted bankers' acceptances, corporate bonds, financing by domestic non-financial institutions via the stock market, insurance company compensation, investment real estate, and loans of micro-credit companies and credit companies.

but was about 11.5 percentage points higher than the pre-crisis average between 2000 and 2008 (Figure 19 and 20).



Incremental volume of liabilities of domestic non-financial sector decreased year on year, but was still evidently higher than pre-crisis level, of which, undiscounted bankers' acceptances declined relatively more, and the share of corporate bond financing increased markedly, representing diversification of financing structure

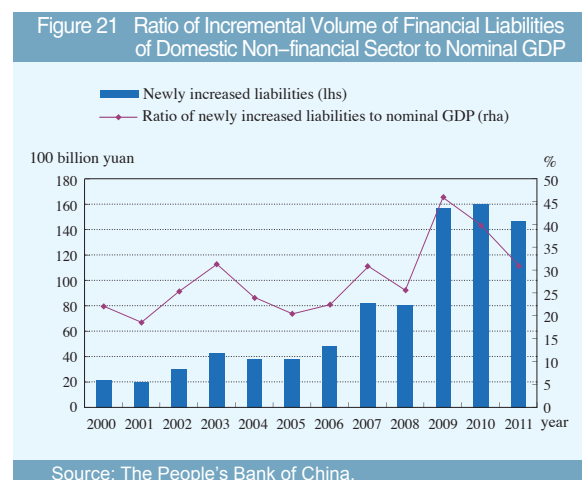
① Domestic non-financial sector includes households, non-financial corporations and general government, the same hereinafter.

② The incremental volume of liabilities of domestic non-financial sector includes the newly increased loans, bond financing, equity financing, undiscounted bankers' acceptances, insurance reserves and external liabilities.

③ Incremental financial liabilities as a ratio of GDP.

As shown by the flow of funds statistics, the incremental volume of liabilities of domestic non-financial sector^① totaled 14.67 trillion yuan^②, down 1.34 trillion yuan or 8.3 percent year on year, higher than the pre-crisis level; and the ratio of this to normal GDP of 2011 was 31 percent, a reduction of 8.9 percentage points from that of 2010, but higher than the average level between 2000 and 2008 by 6.5 percentage points. Overall, although the growth of liabilities of domestic non-financial sector slowed down, its relative scale^③ was still at an appropriate level, and was helpful in achieving the macro management goals of controlling inflation, maintaining growth and adjusting economic structure (Figure 21).

Breaking down by sector, incremental volume of liabilities of households, non-financial corporations and general government all declined significantly. The respec-



tive increased liabilities of the three sectors registered 2.55 trillion yuan, 11.11 trillion yuan and 1.02 trillion yuan, which were 505.2 billion yuan, 453.4 billion yuan and 376.4 billion yuan lower than those of 2010. The shares of the three sectors in newly increased liabilities were 17.4 percent, 75.7 percent and 6.9 percent, respectively. Compared with 2010, shares of households and general government dropped 1.7 and 1.8 percentage points, while that of non-financial corporations went up 3.5 percentage points (Table 5).

In terms of financial instruments, un-

in the forms of corporate bonds, equities and external liabilities (including foreign direct investment and other foreign financial liabilities, the same hereinafter) rose by 1.37 trillion yuan, 573.8 billion yuan and 1.47 trillion yuan, increasing 23.5 percent, 36.8 percent and 21 percent. Those instruments whose share in total increased from 2010 included loans (64.2%), corporate bonds (9.3%), equities (3.9%) and external liabilities (10%), increasing 4.3 percentage points, 2.4 percentage points, 1.3 percentage points and 2.4 percentage points. And those with

Table 5 Incremental Volume of Liabilities of Domestic Non-financial Sector in 2011

100 million yuan, %

	Annual Increment	More than 2010	Compare with 2010	Proportion	Proportion changes
Households	25 496	-5 052	-16.5	17.4	-1.7
Non-financial Corporations	111 061	-4 534	-3.9	75.7	3.5
General Government	10 185	-3 764	-27.0	6.9	-1.8
Total	146 742	-13 350	-8.3	100.0	0.0

Source: The People's Bank of China.

discounted bankers' acceptance decreased by a large amount, while corporate bonds, equities and external liabilities saw evident growth. Throughout the year, newly increased liabilities in terms of loans, undiscounted bankers' acceptance, government bonds and insurance reserves posted 9.42 trillion yuan, 1.03 trillion yuan, 614.2 billion yuan and 210.7 billion yuan, decreasing 1.7 percent, 56.0 percent, 36.9 percent and 45.1 percent year on year respectively. Financing

lower shares included undiscounted bankers' acceptance (7.0%), government bonds (4.2%) and insurance reserves (1.45), down 7.6 percentage points, 1.9 percentage points and 1 percentage point (Table 6).

1. decreasing residential housing demand led to much lower newly increased liabilities of household sector, while newly increased financial assets of household sector reached record high.

The newly increased liabilities of house-

Table 6 Structure of Financial Liabilities of Domestic Non-financial Sector by Instruments

100 million yuan, %

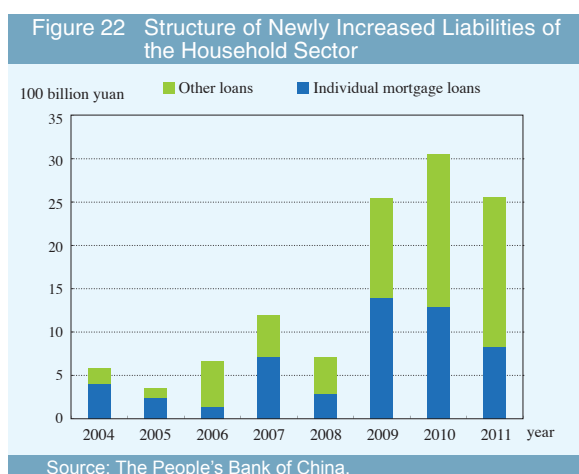
	Annual Increment	More than 2010	Compare with 2010	Proportion	Proportion Changes
Loans	94 150	-1 645	-1.7	64.2	4.3
Undiscounted Bankers' Acceptance	10 271	-13 075	-56.0	7.0	-7.6
Bonds	19 800	-997	-4.8	13.5	0.5
Government Bonds	6 142	-3 593	-36.9	4.2	-1.9
Corporate Bonds	13 659	2 596	23.5	9.3	2.4
Equities	5 738	1 545	36.8	3.9	1.3
Insurance Reserves	2 107	-1 729	-45.1	1.4	-1.0
External Liabilities	14 677	2 551	21.0	10.0	2.4

Source: The People's Bank of China.

hold sector amounted to 2.55 trillion yuan, 505.2 billion yuan or 16.5 percent lower than that in 2010 (Figure 22). Among the components of household financing, individual mortgage loans increased 832.1 billion yuan, down 461.8 billion yuan from that in 2010, and the share of it in total newly increased liabilities registered 32.6 percent, 9.7 percentage points lower than that of 2010. This indicated that the comprehensive manage-

ment policies launched by the State Council at the beginning of the year, such as *Notice of the State Council on Issues Relating to Further Regulation of the Real Estate Market*, achieved evident results.

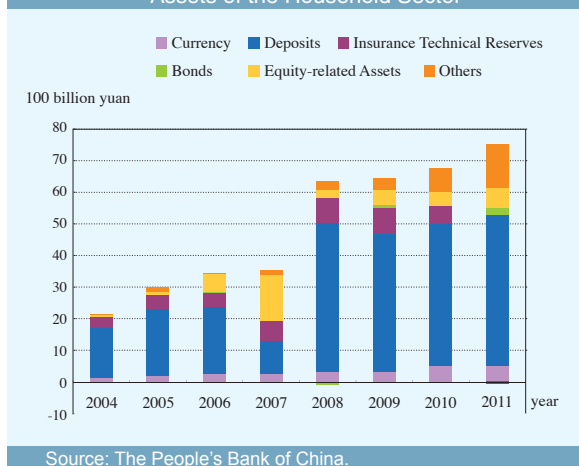
As a result of rapid household income growth financial assets held by household sector increased 7.41 trillion yuan, striking a record high. This represented an increase of 673.9 billion yuan or up 10.0 percent year on year, and the growth rate was 5 percentage points higher than that in 2010. The structure of household financial assets changed as a result of the downward fluctuation of stock market and the active transactions in wealth management market, with the funds in high-risk equities being reallocated to wealth management assets of relatively high returns. Household deposits^① increased 4.77 trillion yuan, 319.9 billion yuan higher than



①Statistics of deposits are processed according to a broad definition, including all deposits in domestic and foreign currencies as well as entrusted deposits in the "Summary of Sources and Uses of Credit Funds of Financial Institutions", same hereinafter.

2010, and the share of it in total newly increased financial assets was 64.3 percent, 1.7 percentage points lower than in the previous year. Equity-related assets^① increased 204.3 billion yuan, which was 228.8 billion yuan less than in 2010, and its share was 2.8 percent, 3.7 percentage points lower. Other assets including wealth management assets rose by 1.38 trillion yuan, 643.6 billion yuan more than last year, with its share reaching 18.6 percent, 7.7 percentage points higher year on year (Figure 23).

Figure 23 Structure of Newly Increased Financial Assets of the Household Sector



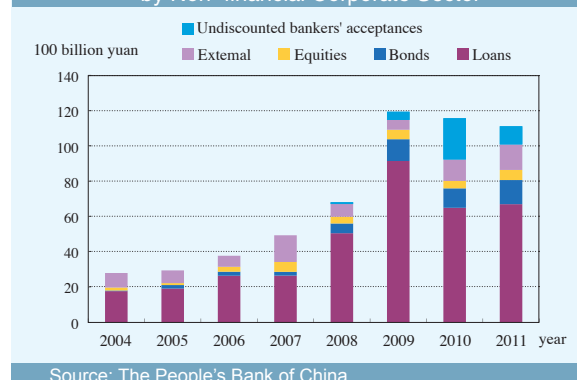
2. newly increased liabilities of non-financial corporations were somewhat lower, financial assets increases slowed down apparently, and funding gap was markedly larger

The newly increased financial liabilities of non-financial corporate sector reached 11.11 trillion yuan, a little less than last year^②. Among the total, newly increased loans reg-

istered 6.7 trillion yuan, an increase of 209.6 billion yuan year on year, with a share of 60.3 percent in total newly increased liabilities, rising 4.2 percentage points. Bond financing posted 1.37 trillion yuan and was 259.6 billion yuan higher than that in 2010, accounting for 12.3 percent of total and rose by 2.7 percentage points. Newly increased equity financing and external liabilities were 573.8 billion yuan and 1.44 trillion yuan respectively, up 154.5 billion yuan and 230.4 billion yuan than those of 2010, accounted for 5.2 percent and 13.0 percent of the total increases, rising 1.5 percentage points and 2.5 percentage points than last year. The newly increased liabilities through undiscounted bankers' acceptance registered 1.03 trillion yuan, which was 1.31 trillion yuan less than in 2010, with a share of 9.2 percent of the total and 10.9 percentage points lower (Figure 24).

The newly increased financial assets of non-financial corporate sector amounted to 6.68 trillion yuan, 4.11 trillion yuan or 38.1 percent

Figure 24 The Structure of Newly Increased Liabilities by Non-financial Corporate Sector

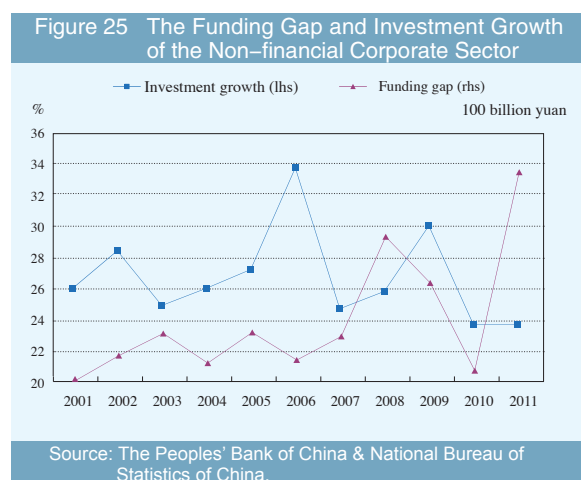


①Equity-related assets include stocks, equity holding that can be included in the books, securities investment funds and clients' margin deposits with securities trading accounts, same hereinafter.

②The 2010 level was 11.56 trillion yuan.

lower year on year, among which deposit increased 4.14 trillion yuan, down by 2.5 trillion yuan, with the share of total rose to 61.9 percent, 0.4 percentage point higher than in 2010.

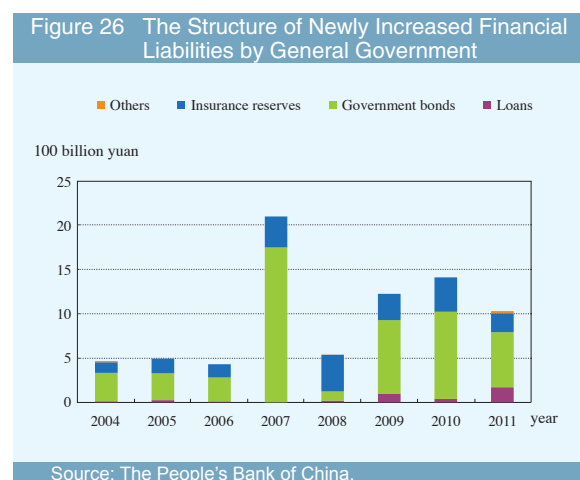
The funding gap^① of corporate sector was 4.43 trillion yuan, increasing 3.66 trillion yuan from that in 2010. The main reasons that funding gap widened significantly were twofold: First, corporations still had strong willingness to expand production and make investment^②, and thus demand for funds was high (Figure 25); second, financial assets of corporate sector increased significantly slower, and the incremental volume was much less.



3. the government sector had a large net surplus and relatively adequate funds.

The newly increased liabilities of general government^③ amounted to 1.02 trillion yuan, which was 376.4 billion yuan less than in

2010, but was still significantly higher than pre-crisis level, adequate to satisfy the funding needs of follow-up investments of the 4-trillion stimulus package adopted by the government in 2009. Of the total augmented general government liabilities, loans increased 169.1 billion yuan, 4.5 times the amount in 2010 and accounted for 16.6 percent of the total, 13.9 percentage points higher; bonds and insurance reserves increased 614.2 billion and 210.6 billion yuan, fell 359.3 billion and 172.9 billion yuan, and the shares of the two instruments accounted for 60.3 percent and 20.7 percent of the total, down 9.5 percentage points and 6.8 percentage points year on year respectively (Figure 26).



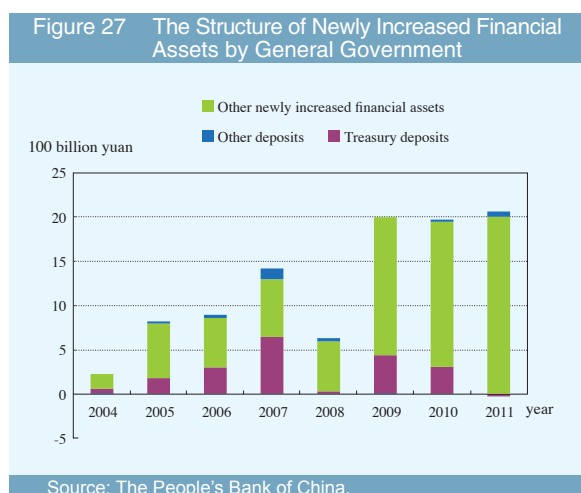
Newly increased financial assets of general government registered 2.04 trillion yuan, 61.6 billion yuan more than in the previous year. Of the total, deposits of governmental organizations and administrative

①Net financial liabilities, which is the difference between newly increased liabilities and assets.

②In 2011, GDP growth rate was 9.3 percent, and the total investment in fixed assets was 23.8 percent.

③General government includes central and local governments, governmental organizations & administrative institutions, and the social security fund, same hereinafter.

agencies and treasury decreased 30.1 billion yuan, 334.6 billion yuan lower year on year. Other deposits increased 2.01 trillion yuan, up 362.1 billion yuan, and accounted for 98.5 percent of the total, up 15.3 percentage points year on year (Figure 27).



Although the fiscal deficit reached 519.0 billion yuan in 2011 after netting of fiscal revenues and expenditures, the net fund surplus^① of the government sector amounted to 1.02 trillion yuan, 438 billion yuan higher than in 2010. 2011 is the year with highest surplus in recent years, indicating relatively adequate funds for the general government.

The financial assets and liabilities of financial institutions both registered lower increases than those in 2010

In 2011, newly increased liabilities of financial institutions^② was 19.60 trillion yuan,

less 4.26 trillion yuan than the previous year, while newly increased financial assets amounted to 19.47 trillion yuan, down 3 trillion yuan. Breaking down by instruments, newly increased loans and deposit reserves posted 9.58 trillion yuan and 3.62 trillion yuan, accounting for 49.2 percent and 18.6 percent of total newly increased financial assets, up 5.9 percentage points and 3.8 percentage points year on year. Newly increased bonds, undiscounted bankers' acceptance and external financial assets rose to 1.71 trillion yuan, 1.03 trillion yuan and 2.16 trillion yuan, with shares of 8.8 percent, 5.3 percent and 11.1 percent respectively, down 3.6 percentage points, 5.1 percentage points and 2.2 percentage points year on year.

Balance of net external financial assets shrunk a little, and the fund outflow decreased dramatically

China's newly increased financial assets overseas^③ reached 3.85 trillion yuan, 590.2 billion yuan or 13.3 percent lower than 2010. Newly increased financial liabilities^④ were 2.52 trillion yuan, 185 billion yuan more or 7.9 percent higher. China's net external financial assets formation^⑤ amounted to 1.32 trillion yuan, shrinking 36.9 percent, indicating that net Chinese funds used by the rest of the world went lower.

① Net fund surplus equals to the difference of newly increased financial assets and newly increased financial liabilities.

② Including central bank, deposit money banks, insurance companies, securities investment fund and other financial institutions, same hereinafter.

③ China's funds used by the rest of the world.

④ Foreign funds used by China.

⑤ External net financial asset formation equals the difference between newly increased external financial assets and liabilities.

2012

CHRONICLE



2012 CHRONICLE

January

5 Jan. In accordance with the *Outline of the 12th Five-Year Plan for the National Economic and Social Development of the People's Republic of China*, and in light of the development requirements of China's payment system in the period, the PBC organized its relevant departments to formulate the *Guiding Opinions on the Development of Payment System in China (2011~2015)*.

6~7 Jan. The National Financial Work Conference was convened in Beijing, and Premier Wen Jiabao gave a keynote speech at the meeting. In his speech, Premier Wen summed up the financial work in the recent years, analyzed the current situations faced with financial reform, opening-up and development, and made arrangements for the financial work in the next stage. 89 formal representatives and 58 standby representatives from the PBC system attended the meeting.

7~8 Jan. The PBC's Work Conference was convened in Beijing. The meeting conveyed the guidelines of the Central Economic Work Conference and the National Financial Work Conference, and instructions of State Council leaders. It comprehensively reviewed PBC's major work in 2011, made an in-depth analysis of the economic and financial situation, made clear the priorities for the next stage, and laid out main tasks for the year 2012. PBC Governor Zhou Xiaochuan addressed the meeting and Deputy Governor Hu Xiaolian gave a conclusive remark at the end of the meeting. Deputy Governors Liu Shiyu, Yi Gang, Du Jinfu, Assistant Governors Li Dongrong, Guo Qingping, and Jin Qi attended the meeting.

8~10 Jan. PBC Governor Zhou Xiaochuan attended the BIS Governors' Meeting and the Plenary Meeting of the FSB in Basel, Switzerland. Participants discussed the global economic and financial situation, global external imbalances, and purchase of treasuries by central banks, as well as the working plan of the FSB in reinforcing global financial regulation. At the meeting, Governor Zhou briefed on the progress China had made in rebalancing its economy, and the macro-economic policy targets such as boosting domestic consumption and demand.

15~20 Jan. Deputy Governor Yi Gang accompanied Premier Wen Jiabao to visit the United Arab Emirates (UAE) and Qatar, and signed a memorandum of understanding with the Central Bank of Qatar to further promote bilateral exchange and cooperation.

17 Jan. The PBC signed with the Central Bank of the UAE a bilateral local currency swap agreement. The size of the swap facility is 35 billion yuan or 20 billion dirham. The term of the agreement is three years and can be extended upon mutual consent.

21 Jan. In order to further regulate the role of the PBC in supervising and managing the state treasury, preventing capital risk of the state treasury, and facilitating revenue collection and disbursement according to the state budget, the PBC issued the *Guidelines on the Role of the People's Bank of China in Supervising and Managing the State Treasury*.

February

3 Feb. To further facilitate trade and investment and to make the supervisory measures more targeted and effective, the PBC, jointly with the Ministry of Finance, the Ministry of Commerce, the General Administration of Customs, the State Administration of Taxation, and the China Banking Regulatory Commission, issued the *Notice on Issues Concerning RMB Settlement of Goods Export by Domestic Enterprises*.

7 Feb. To implement the *Opinions of the State Council on Promoting the Rapid Development of the Tourism Industry* and the plan of the CPC Central Committee on making the tourism industry a strategic pillar industry, to further step up financial support to the real economy, and to improve and upgrade financial services to the tourism industry, the PBC, jointly with the National Development and Reform Commission, the National Tourism Administration, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the State Administration of Foreign Exchange, issued the *Opinions on Stepping up Financial Support to Facilitate the Rapid Development of the Tourism Industry*, so as to support and promote rapid development of the tourism industry.

8 Feb. The PBC renewed the bilateral local currency swap arrangement with the Bank Negara Malaysia, increasing its size from 80 billion yuan or 40 billion ringgit to 180 billion yuan or 90 billion ringgit. The term of the new agreement is three years and can be extended upon mutual consent.

13~14 Feb. PBC Assistant Governor Li Dongrong led a PBC delegation to Seoul, Korea, and attended the 47th Conference of the Governors of the South East Asian Central Banks (SEACEN), the senior seminar and the 31st meeting of SEACEN Board of Governors. Participants discussed issues such as how to deal with external vulnerabilities for emerging economies in Asia. In addition, the strategic initiatives and the annual budget plan proposed by the SEACEN Centre were passed at the meeting.

19 Feb. The PBC decided to cut the RMB deposit reserve requirement ratio of depository financial institutions by 0.5 percentage point, effective from February 24, 2012.

21 Feb. The PBC signed a bilateral local currency swap agreement with the Central Bank of the Republic of Turkey. The size of the swap facility is 10 billion yuan or 3 billion Turkish lira. The term of the agreement is three years and can be extended upon mutual consent.

24~26 Feb. PBC Governor Zhou Xiaochuan and Assistant Governor Jin Qi attended the G20 Financial Ministers' and Central Bank Governors' Meeting in Mexico. Representatives discussed issues such as the current global economic situation, the framework of strong, sustainable and balanced growth, ways to strengthen the international financial framework, reform of financial sectors, energy and commodities. Governor Zhou Xiaochuan also attended the BRICS Financial Ministers and Central Bank Governors' Meeting.

29 Feb. To implement the *Decision of the CPC Central Committee and the State Council on Facilitating the Reform and Development of Water Conservation Projects* and decisions of the Central Water Conservation Projects Work Conference, and to further step up financial services to water conservation projects, the PBC, jointly with the National Development and Reform Commission, the Ministry of Finance, the Ministry of Water Resources, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission, issued the *Opinions on Stepping up Financial Services to Facilitate the Reform and Development of Water Conservation Projects*.

March

16~25 Mar. PBC Deputy Governor Liu Shiyu led a PBC delegation to attend the 53rd Annual Meeting of the Board of Governors of the IDB in Montevideo, Uruguay.

20 Mar. The PBC signed a supplemental bilateral local currency swap agreement with the Bank of Mongolia. The size of the swap facility increased from 5 billion yuan or 1 trillion MNT to 10 billion yuan or 2 trillion MNT.

22 Mar. The PBC signed a bilateral local currency swap arrangement with the Reserve Bank of Australia. The size of the swap facility is 200 billion yuan or AUD30 billion. The term of the agreement is three years and can be extended upon mutual consent.

28~29 Mar. PBC Deputy Governor Yi Gang led a delegation to attend the ASEAN + 3 Finance Ministers' and Central Bank Deputy Governors' Meeting in Phnom Penh, Cambodia. Participants discussed various issues such as the multi-lateralization of the Chiang Mai Initiative, progress in coping with the financial crisis, and regional economic and financial situation.

29 Mar. The Monetary Policy Committee of the PBC convened its first regular meeting in 2012, chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that China's economy and finance were moving in the expected direction of the macroeconomic management policy, the economy grew stably, and the price increase slowed down. On the international front, although the European debt crisis somewhat abated and the global economy recovered moderately, yet uncertainties remained. It was emphasized at the meeting that efforts should be made to follow the latest domestic and inter-

national economic and financial development and their impact, the prudent monetary policy should be continuously implemented, macro-management policies should be more targeted, flexible and forward-looking, a balance should be struck among stable and relatively fast economic growth, stable price level, and financial risk prevention while keeping an appropriate level of financing and making counter-cyclical adjustment in a prudential and flexible manner.

29 Mar. PBC Deputy Governor Hu Xiaolian met Mr. Teng, Lin Seng Anselmo, Chairman of the Monetary Authority of Macao in Beijing. The PBC signed an agreement with the Monetary Authority of Macao which enabled the PBC to make investments on the mainland's interbank bond market on behalf of the Monetary Authority of Macao.

29~30 Mar. PBC Deputy Governor Liu Shiyu led a delegation to Kuala Lumpur, Malaysia, to attend the 26th WGPSS Meeting of the EMEAP. Delegates discussed issues such as the principles for financial infrastructure, development of cross-border payment system and supervision cooperation.

April

12 Apr. The PBC decided to widen the floating band of the RMB trading price against the US dollar on the spot interbank foreign exchange market from 0.5 percent to 1 percent, effective from April 16, 2012. It means that on each business day, the trading price of RMB against US dollar in the interbank spot foreign exchange market will fluctuate within a band of ± 1 percent around the central parity rate released by the China Foreign Exchange Trade System.

18~24 Apr. PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the regular Spring Joint Meeting of IMF and World Bank in Washington, D.C., United States. During the course of the meeting, Governor Zhou Xiaochuan also attended the G20 Finance Ministers and Central Bank Governors' Meeting as well as the BRICS Finance Ministers and Central Bank Governors' Meeting, where they exchanged views on various topics such as the global economic situation, strengthening international financial framework, reform of financial sectors, energy and commodities.

May

3 May. PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the fourth round of Sino-US Strategic and Economic Dialogues in Beijing. A total of 67 agreements were reached.

PBC Deputy Governor Hu Xiaolian attended the ASEAN + 3 Finance Ministers' and Central Bank Governors' Meeting in Manila, Philippines. The meeting released a joint declaration

on strengthening regional economic and financial cooperation. It was agreed at the meeting that the funding scale under the CMIM would be expanded to US\$ 240 billion, that the ratio of loan delinked with the IMF would be raised to 30 percent, and that a crisis-prevention mechanism would be established.

6~7 May. PBC Governor Zhou Xiaochuan attended the BIS Governors' Meeting in Basel, Switzerland. At the meeting, delegates discussed issues such as the global economic and financial situation and the role of BIS in participating in private sector swap arrangement of Greek sovereign debt. After the meeting, Governor Zhou attended the Steering Committee meeting of FSB.

12 May. The PBC decided to cut the RMB deposit reserve requirement ratio of depository financial institutions by 0.5 percentage points, effective from May 18, 2012.

14 May. In accordance with the *Administrative Rules on Payment Services of Non-financial Corporations and the Administrative Rules on Testing and Certification of the Payment Service System of Non-financial Corporations*, the PBC, after a comprehensive evaluation, authorized China Financial National Rising Authentication and China Information Security Certification Centre to carry out the facility and technology certification of payment service for non-financial corporations.

17 May. In order to further improve the regulatory mechanism for credit asset securitization, prevent risks and promote the healthy and sustainable development of credit asset securitization business, the PBC, the China Banking Regulatory Commission, and the Ministry of Finance jointly issued the *Notice on Expanding the Pilot Program of Credit Asset Securitization*.

17 May. PBC Governor Zhou Xiaochuan attended the second Financial Ministers' and Central Bank Governors' Meeting of the Shanghai Cooperation Organization (SCO). Participants exchanged views on issues such as preparing for the establishment of SCO development bank and opening a special account, institutionalization of economic and financial cooperation within SCO.

27~29 May. PBC Deputy Governor Yi Gang led a delegation to attend the 42nd EMEAP Deputy Governors' Meeting and the 11th Monetary and Financial Stability Committee (MFSC) Meeting in Indonesia. At the meeting, deputy governors exchanged views on deleveraging, monetary expansion, and enhancing macro-monitoring. The PBC was reappointed as Chairman of the WGPSS.

30~31 May. PBC Deputy Governor Yi Gang headed a delegation to attend the Annual Meetings of the Board of Governors of the Africa Development Bank in Arusha, Tanzania.

June

7 Jun. The PBC decided to cut the RMB benchmark deposit and loan interest rates of financial institutions, and adjust the floating band of deposit and loan rates, effective from June 8, 2012. 1. The benchmark deposit and loan interest rates of financial institutions were adjusted. First, the RMB benchmark deposit rates of financial institutions were lowered. In particular, the One-Year RMB benchmark deposit rate was cut by 0.25 percentage points, and corresponding adjustments were made to the benchmark deposit rates of other maturities. Second, the RMB benchmark lending rates of financial institutions were lowered. In particular, the One-Year RMB benchmark loan rate was cut by 0.25 percentage points, and corresponding adjustments were made to the benchmark loan rates of other maturities. Third, the lending rates of personal housing provident fund were lowered. In particular, those with maturities less than 5 years were cut by 0.25 percentage points, while those with maturities above 5 years were cut by 0.20 percentage points. Fourth, the lending rates for minorities engage in trade and commodity production were cut by 0.25 percentage points. 2. The floating band of deposit and loan rates of financial institutions was widened. First, the floating band for deposit rates was widened from one time to 1.1 times of the benchmark deposit rates. Second, the band of loan rates was widened, and the floor for lending rates of financial institutions was adjusted from 0.9 to 0.8 times the benchmark lending rates, while the floor of loan rates for personal housing provident funds remained at 0.7 times the benchmark lending rates.

14 Jun. To implement the *Administrative Measures on RMB Settlement of Foreign Direct Investment*, to facilitate foreign investors to make investment in China with RMB, and to regulate banking financial institutions in carrying out RMB settlement for FDI, the PBC issued the *Notice on Administrative Rules for Carrying out the RMB Settlement of Foreign Direct Investment*.

18~19 Jun. The 7th G20 Summit was held in Los Cabos, Mexico. Participants discussed the global economic situation, the framework for strong, sustainable and balanced growth, and strengthening the reform of international financial system. President Hu Jintao attended the Summit, accompanied by Governor Zhou Xiaochuan. At the meeting, President Hu announced China's decision to add US\$ 43 billion to the IMF reserve fund.

19~20 Jun. PBC Deputy Governor Hu Xiaolian attended the regular BCBS meeting in Stockholm, Sweden. Participants discussed the framework for supervising the domestic significantly important financial institutions (SIFIs), liquidity regulation standards, and implementation of Basel III.

20~21 Jun. PBC Assistant Governor Jin Qi chaired the 13th Meeting of the Financial Cooperation Sub-committee of the China-Russia Premier-level Regular Meeting Committee in Kunming, China. Both parties reviewed the progress made in bilateral cooperation, and ex-

changed views on promoting the settlement for cross-border trade in local currency.

23~24 Jun. PBC Governor Zhou Xiaochuan attended Annual Meetings of BIS in Basel, Switzerland and took part in discussions on relevant issues.

26 Jun. The PBC signed a bilateral local currency swap agreement with the National Bank of Ukraine. The size of the swap facility was 15 billion yuan or 19 billion hryvnia. The term of the agreement is three years and can be extended upon mutual consent.

27 Jun. The Monetary Policy Committee of the PBC convened its second regular quarterly meeting in 2012, which was chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that China's economic and financial sectors were developing in a generally stable manner, the economic growth was within the range of the policy target while the growth of the overall price level slowed down. Given the twists and turns in the recovery of global economy and capricious development of the European debt crisis, large uncertainties remained. It was emphasized at the meeting that efforts should be made to monitor the latest domestic and international economic and financial developments and their impacts, the prudent monetary policy should be continuously implemented, macro-management policies should be made more targeted, flexible and forward-looking, timely and well-designed fine-tunings should be conducted according to the changes in situations, and a balance should be struck among stable and relatively fast economic growth, economic restructuring and the management of inflationary expectation.

27 Jun. To earnestly implement the *Outline of Reform and Development Plan for the Pearl River Delta Experimental Zone (2008~2020)*, to promote the building of comprehensive experimental zone for financial reform and innovation, to carry out trials and early implementation of financial reform and innovation, and to promote coordinated development of economic and financial sectors in Guangdong Province, the PBC, jointly with the National Development and Reform Commission, the Ministry of Finance, the Hong Kong and Macao Affairs Office of the State Council, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the State Administration of Foreign Exchange, issued the *Notice on the Overall Plan of Building Comprehensive Financial Reform and Innovation Experimental Zone in the Pearl River Delta of Guangdong Province*.

July

4 Jul. To further regulate administrative licensing of commercial banks in conducting agency centralized collection and payment business for the state treasury, the PBC and the Ministry of Finance jointly issued the *Interim Measures for the Administration of Qualifica-*

tion for Agent Banks Carrying out State Treasury Centralized Revenue Collection and Payment.

5 Jul. The PBC decided to cut the RMB benchmark deposit and loan interest rates of financial institutions, and adjust the floating band of deposit and loan rates of financial institutions, effective from July 6, 2012. 1. The RMB benchmark deposit and loan interest rates of financial institutions were adjusted. First, the RMB benchmark deposit rates of financial institutions were lowered. In particular, the one-year RMB benchmark deposit rate was cut by 0.25 percentage points, and corresponding adjustment was made to the benchmark deposit rates of other maturities. Second, the RMB benchmark lending rates of financial institutions were lowered. In particular, the one-year RMB benchmark loan rate was cut by 0.31 percentage points, and corresponding adjustment was made to the benchmark loan rates of other maturities. Third, the lending rates of personal housing provident fund were lowered. In particular, the interest rate for personal housing provident fund deposited during the year was cut by 0.05 percentage points, and the interest rate for the fund transferred from the previous years was cut by 0.25 percentage points. The lending rates for personal housing provident fund with maturities less than 5 years were cut by 0.20 percentage points, while those with maturities above 5 years were cut by 0.20 percentage points. Fourth, the lending rates for minority group trade and commodity production were cut by 0.31 percentage points. 2. The floating band of deposit and loan rates of financial institutions was adjusted, and the floor for lending rates was adjusted from 0.8 to 0.7 times the benchmark lending rates.

6 Jul. China and Singapore signed the exchange of letters, and China will select one Chinese-funded bank authorized with full banking license in Singapore as the clearing bank for RMB business in Singapore.

9 Jul. The Consumer Financial Protection Bureau under the PBC was established.

15~17 Jul. PBC Governor Zhou Xiaochuan attended the 17th EMEAP Governors' Meeting in Japan. Delegates mainly discussed issues such as regional monetary and financial stability.

18 Jul. Actively promoted by the PBC, the IMF Board of Governors adopted a new *Decision on Bilateral and Multilateral Surveillance*, which repealed and replaced the *Decision on Bilateral Surveillance over Members' Policies issued in 2007*.

27 Jul. To give full play to the Wenzhou's advantages in its well-developed private economy, abundant private funds, and buoyant private financing, to explore an innovative financial system adaptive to its economic development, to guide the sound development of private financing, to safeguard the financial order, and to promote economic transformation and upgrading, the PBC, jointly with the National Development and Reform Commission, the Ministry of Finance, the Ministry of Human Resources and Social Security, the Ministry of Commerce, and China Banking Regulatory Commission, the China Securities Regula-

tory Commission, the China Insurance Regulatory Commission, and the State Administration of Foreign Exchange, issued the *Notice on the Overall Plan of Building the Comprehensive Financial Reform Experimental Zone in Wenzhou, Zhejiang Province*.

August

1 Aug. PBC Governor Zhou Xiaochuan chaired the Fourth Tripartite Central Bank Governors' Meeting for China, Japan and South Korea in Dalian, China. The Governors discussed recent economic and financial situation, debt issues, settlement in local currency and other issues of common interest.

3~4 Aug. The seminar of presidents from the PBC branch offices was held in Beijing. The meeting earnestly implemented the strategic arrangements on economic and financial work by the CPC Central Committee and the State Council, reviewed the implementation of the arrangements made at the work conference earlier in the year, analyzed the current economic and financial situation, made clear the top priorities for the latter half of the year, and made working plans related to preventing and resolving financial risks. Governor Zhou Xiaochuan delivered a report at the meeting, and Deputy Governor Hu Xiaolian chaired the meeting and gave a conclusion remark at the end of the meeting. Deputy Governor Liu Shiyu, Deputy Governor Yi Gang, Chief Disciplinary Officer Wang Huaqing, Deputy Governor Pan Gongsheng, Deputy Governor Li Dongrong, Assistant Governor Guo Qingping and Assistant Governor Jin Qi attended the meeting.

31 Aug. PBC Governor Zhou Xiaochuan, on behalf of the mainland monetary authority, and Mr. Fai-Nan Perng, on behalf of the monetary authority from the Taiwan side, signed the *Memorandum of Understand on Currency Clearing Cooperation across the Taiwan Straits*, and agreed to establish a cross-Straits currency clearing mechanism on the basis of principles and cooperative framework specified in the *Memorandum*.

September

13~14 Sept. PBC Deputy Governor Liu Shiyu led a delegation to attend the 27th WGPSS Meeting of the EMEAP in Australia. Participants discussed issues such as the standards and best practices, risk management, cross-border development and cooperation.

17 Sept. Approved by the State Council, the PBC, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the State Administration of Foreign Exchange jointly issued the *Plan for Development and Reform of Financial Sector in the 12th Five-Year Period*.

24 Sept. The Monetary Policy Committee of the PBC convened its third regular quarterly meeting in 2012, which was chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It is agreed at the meeting that China's economy and finance performed in a slow but relatively stable manner, the overall price level was basically stable. As the global economy was still rather sluggish, China should closely monitor the impact of the bailout and stimulus measures newly adopted by Europe and US. It was emphasized at the meeting that efforts should be made to monitor the latest economic and financial developments at home and abroad and their impacts, a sound monetary policy should be continuously implemented, macro-management policies should be made more targeted, flexible and forward-looking, timely and well-designed fine tunings should be conducted according to the changes in situation, and a balance should be struck among stable and relatively fast growth, economic restructuring and management of inflationary expectations.

27 Sept. To further regulate payment organizations in carrying out pre-paid cards business, to safeguard the order of the pre-paid cards market, and to prevent payment risks, the PBC issued the *Administrative Measures for Pre-paid Cards Business of Payment Institutions*.

October

10~14 Oct. PBC Deputy Governor Yi Gang attended the Joint Annual Meeting of IMF and the World Bank in Tokyo, Japan. Participants discussed issues such as the current global economic and financial situation and reform of IMF's governance. During the course of the meeting, Deputy Governor Yi Gang also attended the 12th Plenary Meeting of the FSB.

15~19 Oct. PBC Deputy Governor Li Dongrong headed a delegation to attend the 24th first Plenary Session as well as Working Group Conference of FATF. Participants discussed issues such as the principles and framework for FATF's fourth round of mutual evaluation.

16 Oct. PBC Governor Zhou Xiaochuan signed with President of Inter-American Development Bank, Luis Alberto Moreno, the *Memorandum of Understanding between the PBC and IDB on Establishing a China Co-financing Fund* in Beijing, to support the economic and social development of Latin America and the Caribbean.

November

4~5 Nov. PBC Governor Zhou Xiaochuan attended the G20 Financial Ministers and Central Bank Governors' Meeting in Mexico. Representatives discussed issues such as the current global economic situation, the framework for strong, sustainable and balanced growth,

strengthening the international financial framework, reform of financial sector, energy and commodities.

5~9 Nov. PBC Deputy Governor Li Dongrong led a delegation to attend the 17th Plenary Session and Working Group Meeting of the Euroasia Group (EAG) on anti-money laundering and anti-terrorism financing in New Delhi. The meeting approved the Protocol of Cooperation between the EAG and the regional anti-terrorism organizations of the Shanghai Cooperation Organization (SCO), and discussed the principles for EAG's second round of mutual evaluation.

22~23 Nov. PBC Deputy Governor Yi Gang led a delegation to Ulan Bator of Mongolia, and attended the 48th Governors' Conference of the South East Asian Central Banks (SEACEN), the senior seminar and the 32nd meeting of SEACEN Board of Governors. At the meeting, Deputy Governor Yi addressed on issues such as the current global economic and financial situation, financial spillovers, and volatilities in capital flows.

December

3 Dec. To protect the legal rights and interests of market participants and promote the sound development of bond repo markets, the National Association of Financial Market Institutional Investors (NAFMII), with the approval of the PBC, released the *Master Agreement on Bond Repos Transactions on the Interbank Market*.

3~4 Dec. Under the framework of Sino-US Strategic and Economic Dialogues, the 3rd Seminar on Anti-money Laundering and Anti-terrorism Financing was held in Beijing. The meeting discussed issues such as targeted financial sanction, cross-border financial investigation, and money laundering in trade.

4~8 Dec. PBC Assistant Governor Jin Qi accompanied Vice Premier Wang Qishan to Moscow, Russia, and Astana of Kazakhstan to attend the 16th Meeting of the China-Russia Premier-Level Regular Meeting Committee and the 6th Meeting of the China-Kazakhstan Cooperation Committee.

11 Dec. According to the *Memorandum of Understanding of Currency Clearing Cooperation across the Taiwan Straits*, after careful evaluation and review, the PBC authorized the Taipei Branch of Bank of China to serve as the clearing bank for RMB business in Taiwan.

19 Dec. To implement the *Plan for Supporting the Development of Economic Zone on the West Side of Taiwan Straits*, to explore ways for the financial sector to serve the real economy, to build and improve a financial system adaptive to the socialist market-oriented economy, to promote the rapid and sound development of the real economy, the PBC, jointly with the

National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, the Ministry of Commerce, the Overseas Chinese Affairs Office of the State Council, the Hong Kong and Macao Affairs Office of the State Council, the Taiwan Affairs Office of the State Council, China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the State Administration of Foreign Exchange, issued the *Notice on the Overall Plan for Building the Comprehensive Financial and Innovation Reform Experimental Zone to Serve the Real Economy in Quanzhou, Fujian Province*.

26 Dec. The PBC Monetary Policy Committee convened its fourth regular quarterly meeting in 2012, which was chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that China's real economy and finance developed in a generally smooth manner, as more positive factors emerged and the price was stable. However, the global economy still showed signs of weakness and uncertainties remained. It was emphasized at the meeting that efforts should be made to implement the decisions made at the 18th National Congress of the Communist Party of China and the overall arrangements made at the Central Economic Work Conference, the economic and financial developments at home and abroad and changes in cross-border capital flow should be closely monitored, the prudent monetary policy should be continuously implemented, and a balance should be struck among stable growth, economic restructuring, control of inflation and risk prevention. A mix of monetary policy tools will be leveraged to keep the money and credit, and the social financing aggregate at appropriate levels.

The *Regulations on Credit Information Industry* was passed at the 228th Executive Meeting of the State Council, and was promulgated in January 21, 2013 as the No. 631 Decree of the State Council, effective from March 15, 2013.

Selected Rules and Administrative Documents Promulgated in 2012

No.	Document No.	Title	Time of Issuance
1	Announcement [2012] No. 1	Abolished Normative Regulations and Documents	01.04
2	Announcement [2012] No. 4	Announcement on Widening the Floating Band of the RMB Trading Price Against the US Dollar on the Spot Interbank Market	04.12
3	Announcement [2012] No. 6	Announcement on List of Organizations Eligible for Technical and Facility Certification of Payment Business of Non-financial Institutions	05.14
4	Announcement [2012] No. 12	Administrative Rules on the Pre-paid Card Business of Payment Institutions	09.27
5	Announcement [2012] No. 17	Announcement on Issues Related to the Release of the Master Agreement for Bond Repo Transactions on China's Interbank Market by the NAFMII	12.03
6	Announcement [2012] No. 18	Announcement on Designation of Clearing Bank for RMB Business in the Taiwan Region	12.11
7	Document [2012] No. 4	Notice on Issuing the Guidelines on China's Payment System Development, 2011~2015	01.05
8	Document [2012] No. 23	Notice on Issues Concerning the RMB Settlement of Goods Export by Domestic Enterprises	02.03
9	Document [2012] No. 32	Opinions on Stepping up Financial Support to Facilitate the Rapid Development of the Tourism Industry	02.07
10	Document [2012] No. 36	Notice on Lowering RMB Deposit Reserve Requirement Ratio	02.19
11	Document [2012] No. 51	Opinions on Improving Financial Services to Facilitate the Reform and Development of Water Conservation Projects	02.29
12	Document [2012] No. 64	Notice on Allowing the Tianjin Xingtang Money Broker Co. Ltd to Conduct Money Brokage Business on the Interbank Market	03.13
13	Document [2012] No. 122	Notice on Lowering RMB Deposit Reserve Requirement Ratio	05.12
14	Document [2012] No. 127	Notice on Expanding the Pilot Program of Credit Asset Securitization	05.17
15	Document [2012] No. 142	Notice on Lowering RMB Benchmark Deposit and Loan Rates and Adjusting the Floating Range of Deposit and Loan Rates of Financial Institutions	06.07
16	Document [2012] No. 158	Notice on the Overall Plan of Building the Comprehensive Financial Reform and Innovation Experimental Zone in the Pearl River Delta of Guangdong Province	06.27
17	Document [2012] No. 165	Notice on Administrative Rules for Carrying out the RMB Settlement of Foreign Direct Investment	06.14
18	Document [2012] No. 169	Notice on Lowering RMB Benchmark Deposit and Loan Rates and Adjusting the Floating Range of Deposit and Loan Rates of Financial Institutions	07.05
19	Document [2012] No. 172	Notice on Issuing the Interim Measures for the Administration of Qualification for Agent Banks Carrying out State Treasury Centralized Revenue Collection and Payment	07.04
20	Document [2012] No. 188	Notice on the Overall Plan of Building the Comprehensive Financial Reform Experimental Zone in Wenzhou, Zhejiang Province	07.27
21	Document [2012] No. 283	Notice on the Overall Plan of Building the Comprehensive Financial Reform and Innovation Experimental Zone to Serve the Real Economy in Quanzhou, Fujian Province	12.19