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GOVERNOR'S ADDRESS

The year 2013 was the first year for the implementation of the spirit of the 18th CPC National Congress and a pivotal year for accelerating the transformation of the pattern of economic development. Faced with complicated and challenging domestic and external economic and financial environment, under the leadership of the CPC Central Committee and the State Council and following the principle of making progress while maintaining stability, the People's Bank of China (PBC) strengthened and improved macroeconomic management, accelerated financial reform, opening-up and development and attached great importance to maintaining financial stability, creating a favorable monetary and financial environment for the sustained and sound development of the national economy.

Strengthening and improving macroeconomic management

Macroeconomic management faced significant challenges in 2013. In particular, during the first half of the year, domestic economy faced greater downward pressures with more enterprises experiencing difficulties in business, and the money market fluctuated, posing tremendous pressures on the PBC to ease monetary policy. Confronted with the complicated situation, the PBC upheld the macroeconomic management orientation of "maintaining aggregates at stable levels and improving the structure," continued the prudent monetary policy, strengthened macro-prudential management, and innovated management strategies and methods. The PBC remained sober-minded, maintained a focus on policy measures, neither loosening nor tightening monetary policy, and when necessary conducted preemptive adjustment and fine-tuning with appropriate strength. The PBC conducted flexible open market operations in both directions, and created the instruments of Short-term Liquidity Operations and Standing Lending Facility, maintained a reasonable and abundant level of liquidity in the banking system and promoted overall stability in the money market. It also guided financial institutions to use new credit well and revitalize existing assets to promote reasonable and appropriate growth of money, credit and aggregate financing to the real economy. The year 2013 saw M2 grow by 13.6 percent, RMB-denominated loans increase by 8.89 trillion yuan, and aggregate financing to

the real economy reach 17.29 trillion yuan. The trend of relatively fast growth of money, credit and aggregate financing to the real economy during the first few months of year was effectively controlled. In 2013, CPI rose by 2.6 percent; international balance of payments kept moving toward equilibrium; and, the macroeconomic management targets set at the beginning of the year were achieved.

Promoting financial reform and development and maintaining financial stability

The PBC has always been attaching great importance to financial reform and development and financial stability. It promoted financial reform in order to let the market play a decisive role in allocating resources, while taking the avoidance of systemic financial risks as the bottom line of its financial work. In advancing the market-based interest rate reform further in 2013, the PBC fully liberalized lending rates, established and improved self-regulatory mechanism of market interest rate pricing, launched the centralized quote and releasing mechanism of Loan Prime Rate, and successfully issued the first batch of 34 billion yuan of interbank certificate of deposits. RMB exchange rate experienced slight appreciation, showing the feature of two-way floating and greater flexibility, and moving further toward a reasonable and equilibrium level. The PBC led the establishment of Joint Ministerial Conference Mechanism on Financial Regulatory Coordination, coordinated studies and implementation of important policy issues, including financial information sharing, comprehensive and integrated financial statistics, the normalized development of internet finance, interbank businesses normalization, and the functional assignment of financial regulatory responsibilities between the central and local governments. The PBC released opinions with regard to financial support to the development of China (Shanghai) Pilot Free Trade Zone, in which a series of pilot policies regarding capital account convertibility, cross-border use of RMB, and etc. were specified. The PBC actively pushed forward regional financial reform pilot programs in areas such as Wenzhou in Zhejiang Province and Qianhai in Shenzhen, and added seven provinces to the list of the pilot program of the Rural Financial Business Division of Agricultural Bank of China (ABC). Efforts were made to prepare for the launch of the deposit insurance system. The PBC also comprehensively studied and estimated potential financial risks, strengthened risk monitoring of key areas such as local government financing platforms and cross-market financial products, enhanced regulatory cooperation on securities and futures, continued efforts in resolving risks of highly risky financial institutions, and explored the establishment of an early warning system for systemic financial risks. China's financial sector continued to perform stably and efficiently against the complicated and varying international environment, and played an important role in promoting the development of the real economy and the transformation of economic growth pattern.

Promoting the cross-border use of RMB

Adapting to changes in international financial markets and demand in trade and invest-

ment, the PBC kept improving cross-border RMB business management in order to facilitate businesses of banks and enterprises. Efforts were made to promote overseas RMB lending and guarantees made by domestic non-financial institutions, allow foreign investors to use RMB to invest in domestic financial institutions, and compile RMB-denominated foreign trade statistics, which further expanded the cross-border use of RMB. In 2013, the total amount of cross-border RMB trade settlement grew by 57.6 percent year on year; the value of goods trade settled in RMB accounted for 11.7 percent of total value of export and import of goods at the Chinese Customs; and, foreign enterprises from 174 countries had cross-border RMB payments or receipts with domestic institutions. The PBC signed or renewed bilateral local currency swap agreements in the amount of 1,155.5 billion yuan with eight foreign central banks including the European Central Bank and the Bank of England. RMB clearing arrangements in China's Taiwan Region and Singapore were established. The offshore RMB markets experienced sound development.

Promoting the development and regulation of interbank bond market

In recent years, sticking to the objective of cultivating the OTC market and to the market-orientation principle in developing the bond market, the PBC made great efforts in fostering institutional investors, strengthened market discipline, promoted market innovation, enhanced regulation and management, and strengthened bond market transparency and information disclosure standards. The above measures resulted in the sustainable, sound and rapid development of the interbank bond market. During the year, the pilot program of credit asset securitization was further expanded, with six institutions including China Development Bank (CDB) issuing 15.781 billion yuan of credit asset securitized products. The PBC promoted issuance of financial bonds by institutions such as insurance companies, which increased the variety and categories of market issuers. Innovative methods were studied with regard to bond OTC trading. CDB was encouraged to issue financial bonds on exchange markets. Foreign non-financial enterprises were promoted to issue debt financing instruments in China. Bond issuance pricing mechanism was improved and integrated management of transaction settlement was strengthened. Transaction information disclosure mechanism was improved, and Class C Accounts were sorted and regulated. In 2013, 9.0 trillion yuan of RMB bonds were issued in the bond market, of which 8.2 trillion yuan of bonds were issued in the interbank bond market, increasing 9.9 percent year on year.

Enhancing the modernization of financial services

The PBC has always taken promoting the modernization of central bank financial services as the foundation work for improving financial services to the whole society and for letting the achievements of financial reform and development benefit the people. In 2013, the PBC

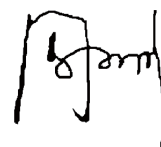
focused on pushing forward the revision of the *Law of the People's Republic of China on the People's Bank of China*, the *Provisional Regulations on Cash Management*, and etc. Jointly with other related agencies, it launched regulatory measures to prevent risks from the use of Bitcoin. The standardized comprehensive survey statistics and monitoring system of deposits and loans was established, and categorizing method for financial enterprises was developed. The PBC led and completed the first round of research projects on key issues in the financial sector as assigned by the State Council. The transformation of the accounting practices in the PBC was thoroughly implemented. The second generation payment system was successfully launched, and Accounting Data Centralized System (ACS) was put into pilot operation. The Financial Institution Code Certificates were issued; guidance on strategies for disaster backup of the banking industry was released; and, application standards for financial IC cards to carry public service functions were unified. The service of searching serial numbers of large-value cash in commercial banks was successfully promoted, and the milestone objective of sorting all the cash received by commercial banks was achieved. The State Treasury Centralized Booking System (TCBS) was launched throughout the country. Pilot program concerning paperless processing of tax refund, correction and reimbursement transfer using the Treasury Information Processing System (TIPS) was successfully carried out in Hainan and Fujian provinces. The *Administrative Measures for Credit Reference Agencies* was formulated and released, and the pilot program of accessing individual credit report through internet achieved satisfying results in nine provinces (municipalities) including Beijing. Regulations on freezing assets related to terrorism activities were formulated and comprehensive pilot programs of reporting large and suspicious transaction were carried out successfully. The working mechanism to protect financial consumer rights was basically established across the PBC branches and sub-branches, and the mechanism for accepting and processing consumer complaints was further improved. Efforts in developing inclusive finance were steadily pushed forward.

Deepening international exchange and cooperation

Guided by the national strategic interests, the PBC has conducted international financial cooperation in a comprehensive, multi-layered, flexible and practical manner, and has strengthened China's voice and influence in international financial affairs. In 2013, through platforms such as the Group of Twenty (G20), the PBC actively participated in the global policy coordination and promoted strong, sustainable and balanced development of the global economy. It also promoted the development of Contingent Reserve Arrangement of the BRICS, making the BRICS mechanism an important platform for China to participate in global governance and crisis resolution jointly with other countries. Agreements such as doubling the total size of Chiang Mai Initiative Multilateralisation (CMIM) to US\$240 billion was implemented; agreements on establishing co-financing funds with the Inter-American Development Bank

(IADB) and International Finance Corporation (IFC) were signed respectively; and, negotiation on co-financing with African Development Bank (AfDB) achieved substantial progress. Financial cooperation with Hong Kong, Macao and Taiwan Regions of China was steadily pushed forward.

The year 2014 marks the first year for implementing the principles set by the Third Plenary Session of the 18th CPC Central Committee and for comprehensively deepening financial reform. It is also a pivotal year for achieving objectives set by “the 12th Five-year Plan. The PBC will attentively study and implement the principles and decisions specified by the 18th CPC National Congress, the Second and the Third Plenary sessions of the 18th CPC Central Committee and the Central Economic Work Conference. The PBC will take Deng Xiaoping Theory, the important thoughts of the Three Represents, and the Scientific Outlook on Development as our guidance. The PBC will follow the principle of seeking progress amid stability, lead the work of the central bank by reform and innovation, continue to implement prudent monetary policy, keep improving macroeconomic management methods and tools, make macroeconomic management more proactive, targeted and coordinated, make strenuous efforts to promote financial reform, earnestly maintain financial stability, enhance financial services and management, support the transformation of economic development pattern and economic structural adjustment, and maintain a basic equilibrium in the balance of payments, so as to promote sustained and sound development of the national economy.



Governor of the PBC
April 18, 2014

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, Governor of the People's Bank of China

Member: Xiao Jie, Deputy Secretary-general of the State Council

Zhu Zhixin, Vice Chairman of the National Development and Reform Commission

Wang Bao'an, Vice Minister of the Ministry of Finance

Hu Xiaolian, Deputy Governor of the People's Bank of China

Yi Gang, Deputy Governor of the People's Bank of China, Administrator of the State Administration of Foreign Exchange

Pan Gongsheng, Deputy Governor of the People's Bank of China

Ma Jiantang, Director of the National Bureau of Statistics

Shang Fulin, Chairman of China Banking Regulatory Commission

Xiao Gang, Chairman of China Securities Regulatory Commission

Xiang Junbo, Chairman of China Insurance Regulatory Commission

Hu Huaibang, President of the China Banking Association

Qian Yingyi, Dean and Professor of Tsinghua University's School of Economics and Management

Chen Yulu, President and Professor of the Renmin University of China

Song Guoqing, Professor of the National School of Development at Peking University

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	11
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 UNDER ITS ADMINISTRATION

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 UNDER ADMINISTRATION
OF THESE BRANCHES

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

Against the backdrop of complex domestic and international economic situations in 2013, Chinese government adopted innovative macroeconomic management concepts and approaches, and specifically set the goals that economic growth and employment would not slide below the lower limit and inflation would not exceed the upper limit, and ensured the economy grow within the appropriate range. In the meantime, the Chinese government attached great importance to pushing forward economic restructuring, transformation and upgrading, deepening reform and opening up, and invigorating market vitality and its intrinsic momentum. Generally speaking, the economy has maintained steady growth and turned for the better; positive results were obtained in structural adjustment; and, the opening up and reform were deepened. In 2014, China will adhere to the general guideline of making progress while maintaining stability, maintain continuity and stability of macroeconomic policies, continue to deepen reform and opening up, drive development through innovation, accelerate the pace of economic restructuring, transformation and upgrading to promote steady and healthy economic development.

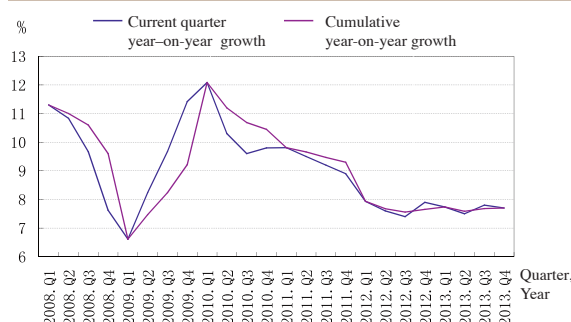
Overview of the Chinese Economy in 2013

Steady economic growth with an improved structure

According to the preliminary data from the State Statistics Bureau, China's GDP reached 56.88 trillion yuan in 2013, a year-on-year increase of 7.7 percent, equaling the growth rate of the previous year. From the first quarter to the fourth quarter, the GDP grew by 7.7 percent, 7.5 percent, 7.8 percent

and 7.7 percent year on year respectively, showing a relatively stable growth trend (Figure 1). In terms of industries, the value-

Figure 1 China's Economic Growth



Source: State Statistics Bureau.

added by the primary, the secondary and the tertiary industries reached 5.70 trillion yuan, 24.97 trillion yuan and 26.22 trillion yuan respectively, up by 4.4 percent, 7.8 percent and 8.3 percent year on year, and representing growth of -0.5 percentage points, -0.1 percentage points and 0.2 percentage points over the growth rates in 2012. The value-added of each industry as a share of GDP were 10.0 percent, 43.9 percent and 46.1 percent respectively, up by -0.1 percentage points, -1.4 percentage points and 1.5 percentage points year on year. The proportion of the tertiary industry overtook the secondary industry for the first time.

Steady growth in industrial production and continuous improvement in corporate profitability

Calculated by comparable prices, the value-added of statistically large enterprises increased by 9.7 percent year on year, a 0.3 percentage points lower than that in the previous year. The month-by-month trend showed that the growth of statistically large enterprises in the last few months of 2013 far outweighed that of the first few months. The average monthly growth rate in the first half of the year reached 9 percent and in the second half of the year around 10 percent. Total major business incomes achieved by statistically large industrial enterprises reached 102.9 trillion yuan, registering a year-on-year growth of 11.2 percent, up by 0.2 percentage points against the previous year. Total profit realized in the year was

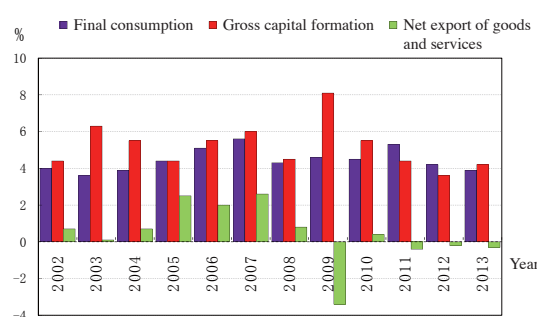
6.3 trillion yuan, up by 12.2 percent year on year, with the growth rate rising 6.9 percentage points against the previous year. Among 41 industrial categories, 35 reported year-on-year profit increase and six witnessed profit decrease. The number of industries that experienced higher profit increased by five compared to that in 2012.

China's economic growth was driven more by its domestic demand and less by external demand

Total fixed asset investment of the year amounted to 44.71 trillion yuan, a year-on-year increase of 19.3 percent, or a real growth of 18.9 percent after adjusting for inflation. Of the total fixed asset investment, investment in real estate development reached 8.60 trillion yuan, up by 19.8 percent year on year, the actual growth hit 19.4 percent after adjusting for inflation; total retail sales of consumer goods amounted to 23.78 trillion yuan, up by 13.1 percent year on year, or 11.5 percent in real terms; total goods imports and exports reached US\$4.16 trillion, up by 7.6 percent year-on-year, wherein the exports reached US\$ 2.21 trillion, up by 7.9 percent and imports reached US\$1.95 trillion, up by 7.3 percent. Total trade surplus reached US\$259.75 billion, up by 12.8 percent year on year. The final consumption, gross capital formation and net export of goods and services made respective contributions of 50.0 percent, 54.4 percent and -4.4 percent to the overall economic growth in 2013, and drove the

economy forward by 3.85 percentage points, 4.19 percentage points and -0.34 percentage points. The driving force of gross capital formation outperformed that of final consumption, whereas the net export of goods and services continued to be a drag of the Chinese economy (Figure 2).

Figure 2 The Economic Contribution of Three Major Forces



Source: State Statistics Bureau.

Slowed growth in fiscal revenues with an optimized expense structure

Total fiscal revenue in 2013 reached 12.91 trillion yuan, increased by 1.19 trillion yuan or up by 10.1 percent, dropping 2.7 percentage points against the previous year. The fiscal revenue in the second half of the year grew more quickly than the first half of the year. Total fiscal expenditure reached 13.97 trillion yuan, increased by 1.38 trillion yuan or 10.9 percent, dropping 4.2 percentage points against the previous year. In terms of expenditure structure, rapid expenditure growth mainly went to science and technology, medical care and health, social security and employment, community affairs at rural and urban areas, energy conservation and environmental protection and transportation,

which registered respective increases of 13.7 percent, 13.3 percent, 14.6 percent, 21.9 percent, 14.2 percent and 13.1 percent against the levels in the previous year, all higher than the overall expenditure growth of the nation.

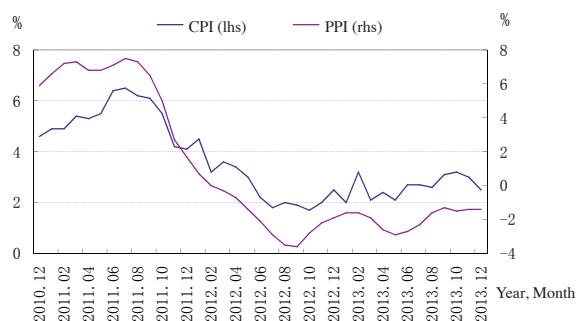
Employment basically kept stable and household income grew slower

Total number of new jobs created in 2013 reached 13.10 million, 440,000 more than the growth in 2012. The registered urban unemployment rate as of end 2013 was 4.05 percent, slightly lower than the 4.09 percent registered at the end of 2012. Average per capita disposable income reached 18,311 yuan, up by 10.9 percent in nominal terms and by 8.1 percent in real terms comparing to the growth rates in 2012. Per capital disposable income for urban residents hit 26,955 yuan, up by 9.7 percent in nominal terms and 7.0 percent in real terms year on year with the actual growth rate dropping 2.6 percentage points against the previous year. Per capital net income of rural residents in 2013 reached 8,896 yuan, up by 12.4 percent in nominal terms and 9.3 percent in real terms with the actual growth rate dropping 1.4 percentage points against the previous year.

The overall price level remained stable

In 2013, affected by the changing domestic-growth situation, the major price indices registered low readings before stabilizing in the later months, indicating a general stable trend throughout the year (Figure 3). From the first quarter to the fourth quarter, the CPI

Figure 3 CPI and PPI Year on Year Changes



Source: State Statistics Bureau.

rose by 2.4 percent, 2.4 percent, 2.8 percent and 2.9 percent year on year respectively, the average CPI increase of the year registered at 2.6 percent, equaling that of the previous year. In terms of categories, the growth in food prices slightly dropped and registered an increase of 4.7 percent, dropping 0.2 percentage points against that of the previous year. The prices of non-food goods maintained basically stable with a yearly rise of 1.6 percent. The Producer Price Index (PPI) fell by 1.9 percent year on year, and the Purchasing Price Index of Raw Material (PPIRM) fell by 2.0 percent year on year, and both indexes further fell by 0.2 percentage points against the previous year.

Economic Outlook in 2014

China's economy is expected to grow steadily and progress toward a higher quality growth

The year 2014 is the first year for China to comprehensively implement the decisions adopted at the Third Plenary Session of the 18th CPC Central Committee, and to compre-

hensively deepen reforms in all aspects. The year 2014 is also a critical year for China to complete the 12th Five-Year Plan. The fundamentals of the Chinese economy remain unchanged with untapped potential in industrialization, urbanization, informatization and regional development, the huge potential in upgrading consumption structure, and the strong growth momentum in modern service industry, hi-tech industry and some emerging industries. The potential and spare room for economic development remains fairly large. The release of a series of reform policies such as transforming the functions of the government, streamlining administration and delegating power, and structural tax reduction will help to unleash the decisive role of the market in resource allocation, boost the market vitality and release the huge potential of economic development. However, in the mean time, the Chinese economy faces numerous risks and challenges. The foundation for stable economic growth is yet to be solid; the intrinsic momentum of economic growth needs to be further strengthened; the potential risks in the financial sector cannot be ignored; the Chinese economy is increasingly constrained by resources and environmental pressures; the problem of excessive productivity in some industries remains serious; and, the problem of the employment structure is also an urgent one that is yet to be tackled. Moreover, uncertainties continue to exist in external demand and capital flows. Although confronted with many risks and challenges, given China's huge development

potential and other driving forces, and with the comprehensive implementation of various reform measures, the Chinese economy is expected to maintain its stable and positive growth momentum in the future.

Overall price level will remain stable

There are numerous favorable conditions that point to a basically stable overall price level in 2014. To be specific, the economy is expected to grow stably; the supply of major industrial products remains sufficient; good harvest has continued for several consecutive years; the monetary environment is stable; the commodity prices are expected to be stable as the world economy is experiencing mild recovering and the US Federal Reserve is going to taper the “Quantitative Easing” policy. On the other hand, the overall price level also faces some uncertainties, such as the increase in labor cost may bring mounting upward pressure to the prices of agricultural products and services; the higher housing prices may transmit to the rental market and other areas; and, the price reform in resource-related products may, to some extent, form upward pressures on prices too. In addition, the problem of excessive productivity in some industries remains serious. The PPI continues to face mounting downward pressure. Generally speaking, against the background of stable economic growth and improving economic structure, the price level is expected to remain relatively stable.

Macroeconomic management will strike a balance among economic growth, struc-

tural adjustment, economic reform and risk prevention

Confronted with the complex and changing domestic and external environment, the macroeconomic management in 2014 will focus on maintaining stability while pursuing progress, pushing forward reform and innovation, ensuring the continuity and stability of economic policies and continuing to improve the macroeconomic management framework. China will continue to adopt a proactive fiscal policy and a prudent monetary policy, and continue to make its macroeconomic measures more forward-looking, targeted and coordinated. In the meantime, China will strike a balance among preserving stable economic growth, adjusting economic structural, promoting economic reform, and preventing risks, and ensure that the economy perform within a proper range. China will comprehensively deepen reforms, carry out innovation-driven development, further boost the market vitality, release the economic development potential in the course of structural adjustment and economic transformation and upgrading, and constantly improve the quality and efficiency of the economy. Meanwhile, China will strengthen macro-prudential management, enhance risk monitoring and assessment, establish a crisis management and risk disposal framework, promote the establishment of the deposit insurance system, effectively prevent systemic financial risks and protect the stability of the whole financial system.

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

In 2013, the global economic recovery was still slow and bumpy. The momentum of U.S. economic growth strengthened, but not without policy risks. Euro Area economies stepped out of recession, but the recovery was still weak. Japanese economy rebounded strongly supported by policy stimulus. Some emerging market economies experienced slower growth and with turbulence in financial markets and rising risks. Major financial markets and commodities markets saw marked fluctuations during the year. The statistics released by the International Monetary Fund (IMF) showed that the global economy grew by 3.0 percent in 2013, while the growth rates for the U.S., Euro Area, Japan and emerging market economies were 1.9 percent, -0.5 percent, 1.5 percent and 4.7 percent, respectively.

Economic Developments in the Major Economies

The momentum of U.S. economic growth strengthened

The data released by U.S. Bureau of Economic Analysis (BEA) showed that U.S. GDP grew by 1.9 percent in 2013, with quarterly growth rates (quarter-on-quarter and annualized) at 1.1 percent, 2.5 percent, 4.1 percent and 2.6 percent, respectively. The growth rate of the third quarter was the highest recorded since the first quarter of 2012. Unemployment rate decreased from 7.9 percent in January to 6.7 percent in December, the lowest since

October 2008. Inflation in 2013 was low, and CPI grew only by 1.5 percent year on year in December. Except for May, the monthly PMI data released by Institute for Supply Management (ISM) was all above 50, the level that separates expansion from a contraction. The trade deficit narrowed to US\$471.5 billion in 2013, decreasing 11.8 percent year on year. Since the middle of October, fiscal risks of the U.S. were reduced to some extent, but there was no concrete progress on fiscal consolidation in the medium term. Meanwhile, great uncertainties remained with regard to the negative impact of tapering quantitative easing.

Euro Area economies entered a weak recovery

In 2013, European sovereign debt crisis entered a relatively quiet period, and the economies of Euro Area stepped into recovery again. As shown by statistics of the Eurostat, the GDP of Euro Area grew by -0.4 percent in 2013, and the quarter-on-quarter real GDP growth rates registered -0.2 percent, 0.3 percent, 0.1 percent and 0.2 percent. Euro Area Economic Sentiment Indicator that evaluates confidence of consumers and enterprises went up for eight months successively, reaching 100 in December, back to the long-term average since July 2011. Unemployment rate remained high, standing at 12.0 percent since the fourth quarter of 2013. Inflation remained subdued, as Harmonized Index of Consumer Prices (HIPC) rose only 0.8 percent year on year in December and the inflation rate for 2013 decreased to 0.5 percent. The deleveraging process of Euro Area's banking sector remained slow, and credit activities were depressed. Meanwhile, slower growth of some emerging market economies also had negative impact on Europe's exports.

Japanese economy strongly rebounded but slowed down later

Supported by personal consumption, yen-depreciation-led export growth and large scale fiscal stimulus, the Japanese economy rebounded strongly. Data from Cabinet of Japan showed that Japanese economy grew by 1.5 percent in real terms in 2013, with growth rates in respective quarters (quarter-on-quarter and annualized) registering 4.5 percent, 4.1 percent, 0.9 percent and 0.7 percent. The

year-on-year growth of core CPI turned positive since June, and reached 1.3 percent in December, which was a record high in five years. Labor market was stable, with unemployment rate for 2013 remained at about 4.0 percent. However, in 2013, affected by factors such as increasing costs of imports, trade deficit reached a record high of 11.47 trillion yen, up 65.3 percent year on year. According to IMF's statistics, gross debt of the Japanese government as a share of GDP in 2013 was as high as 243.2 percent.

Growth of some emerging market economies slowed down among rising risks

Some emerging market economies that experienced deteriorated balance of payments, decreasing foreign exchange reserves, and faced the challenges of grim fiscal and debt situation, saw economic growth slowdown. In May, as the U.S. Federal Reserve sent the signal of quantitative easing tapering, international capital inflows reversed, and some emerging market economies saw large turbulence in financial markets. After the Federal Reserve decided to delay moderating the pace of asset purchases, market fluctuation somewhat declined. Overall, the fundamentals of emerging market economies were still sound.

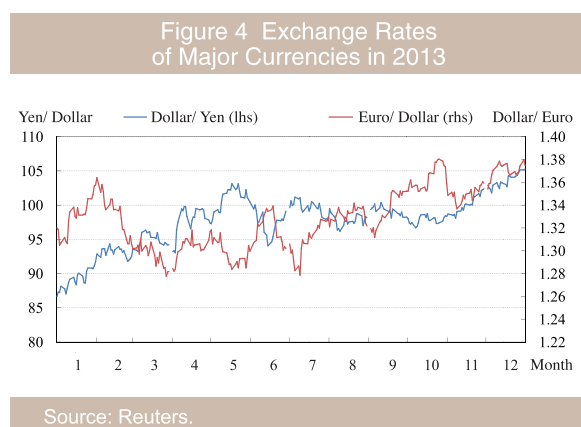
Development of the Global Financial Markets

International foreign exchange markets

Affected by the expectation that U.S. Federal Reserve was to taper quantitative easing and the weak global economic recovery, global financial markets experienced relatively

large fluctuations. Stock markets of advanced economies rose sharply and registered record highs for several times. Some emerging market economies saw turbulence in financial markets and large exchange rate depreciation.

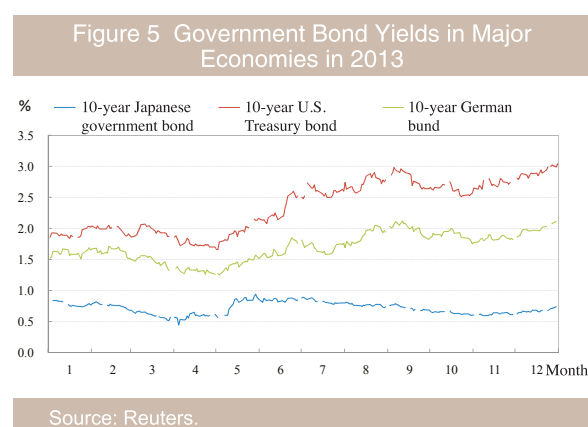
The exchange rate of the euro appreciated slightly against the U.S. dollar, while Japanese yen and most emerging market economy currencies depreciated against the U.S. dollar (Figure 4). As of the end of 2013, the exchange rate of euro against the U.S. dollar closed at 1.3745, up 4.2 percent compared with the end of 2012; whereas that of the Japanese yen against the dollar registered 105.30, down 17.6 percent year on year. During 2013, many emerging market economies saw sharp depreciation of their currencies. Brazilian Real, Indian Rupee, Indonesia Rupiah, South African Rand and Russian Ruble depreciated by 13.3 percent, 11.0 percent, 20.8 percent, 19.1 percent and 7.1 percent respectively.



International bond markets

Government bond yields in the U.S. and Germany went up, while the yields on Japanese government bonds slid slightly, and the yields on government bonds in some emerg-

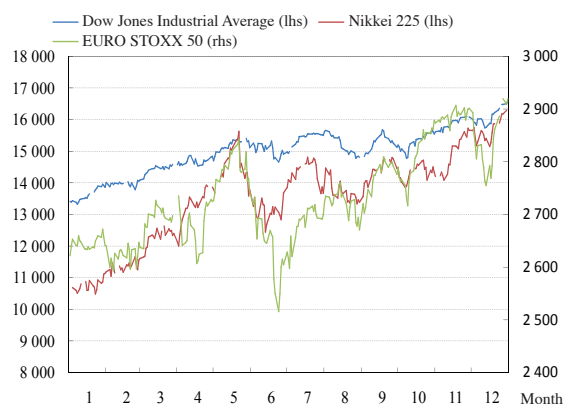
ing market economies increased dramatically (Figure 5). At the end of 2013, the 10-year government bond yields in the U.S. and Germany closed at 3.006 percent and 1.941 percent, up 125 basis points and 64 basis points compared with the end of 2012, respectively. Japanese 10-year government bond yields closed at 0.737 percent, decreasing nearly seven basis points relative to the end of the previous year. 10-year government bond yields in some emerging market economies continued to rise, among which the bond yields of Brazil, Turkey, Indonesia, South Africa and Russia experienced relatively large increases, up 403 basis points, 372 basis points, 327 basis points, 153 basis points and 86 basis points respectively year on year by the end of 2013.



International stock markets

Stock markets in major advanced economies went up strongly, while most emerging market economies experienced greater fluctuations in stock markets (Figure 6). As of the end of 2013, Dow Jones Industrial Average, EURO STOXX 50 and Nikkei 225 closed at 16,576.66 points, 2,919.42 points and 16,291.31 points, respectively, up 26.5 percent, 13.3 percent and 56.7 percent. On

Figure 6 Stock Market Indices of Major Economies in 2013



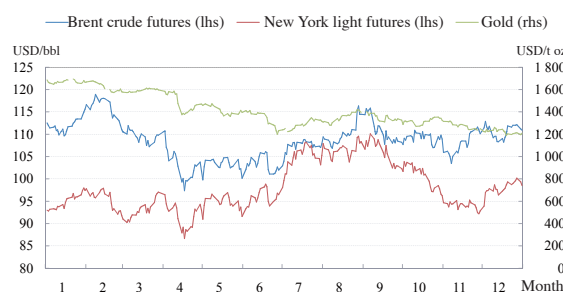
Source: Reuters.

the other hand, affected by expectations of quantitative easing tapering, stock markets in some emerging market economies saw increased volatility, among which the stock markets in Indonesia, Turkey and India experienced large fluctuations from June to September, reaching 20.4 percent, 23.0 percent and 15.3 percent, respectively.

International commodities markets

The price of gold retreated, while the price of crude oil fluctuated substantially (Figure 7). During 2013, international price of gold kept declining, and closed at 1,204.9 dollars per ounce at the end of 2013, down 28 percent year on year. Meanwhile, the prices of New York light crude oil futures

Figure 7 Gold and Crude Oil Prices in International Markets in 2013



Source: Reuters.

went up by 8.4 percent year on year, and the prices of London Brent oil futures remained basically the same as at the end of 2012.

World Economic Outlook and Major Risks

Going forward, major risks in the global economy include the following: first, the uncertainties remain as for the U.S. quantitative easing tapering and its impacts, and the trends of cross-border capital flows, global foreign exchange markets, asset prices and commodities prices remain to be seen; second, the economic recovery prospect in the Euro Area is not clear as the region is still faced with numerous long-term and structural problems; third, the Japanese economy lacks internal growth momentum, and it is highly uncertain whether the effect of short-term fiscal and monetary stimulus could last for long; fourth, some emerging market economies are still challenged by the potential negative impacts of U.S. quantitative easing tapering and the risk of large capital outflows, and some long-term structural problems that constrain economic development cannot be meaningfully solved in the near future. Major uncertainties remain with the global growth outlook. In the *World Economic Outlook* published in April 2014, the IMF projected that global growth rate will reach 3.6 percent in 2014, and the growth projections for the U.S., the Euro Area, Japan and emerging market economies are 2.8 percent, 1.2 percent, 1.4 percent and 4.9 percent, respectively.

MONETARY POLICY

In 2013, in accordance with the overall arrangements of the CPC Central Committee and the State Council, the PBC followed the principle of making progress while maintaining stability, continued its sound monetary policy, innovated macroeconomic management strategies and methods. The PBC remained sober-minded, maintained a focus on policy measures, neither loosening nor tightening the supply of money, instead whenever necessary it made fine-tunings and pre-emptive adjustments with appropriate strength. It made efforts to strike a balance among preserving stable economic growth, adjusting the economic structure, promoting reform and preventing risks, which helped create a rather stable monetary and financial environment. For the next step, the PBC will continue its sound monetary policy, stick to the stance of maintaining stable aggregates and optimizing the structure, maintain the stability and continuity of policy, make macroeconomic measures more forward looking, targeted, and coordinated, promote reform amid the macroeconomic management, and allow the market to play a more decisive role in resource allocation.

Monetary Policy Measures in 2013

2013 was the year when the Third Plenary Session of the 18th CPC Central Committee was held successfully, and it was also a crucial year for the implementation of the *12th Five-year Plan*. In view of the complex and ever-changing domestic and international economic and financial situations and in accordance with the overall arrangements of the CPC Central Committee and the State Council, the PBC followed the requirements of maintaining the stability of macroeconomic

policy and the flexibility of microeconomic policy, and made progress while maintaining stability. It continued the sound monetary policy, made innovations in macroeconomic management, remained sober-minded, maintained a focus on policy measures, neither tightening nor relaxing the supply of liquidity in the financial system. Pre-emptive adjustments and fine-tunings were carried out in a timely and appropriate manner.

Flexible open market operations

In 2013, the expectations of the major

economies' policies changed and the directions of capital flows were quite uncertain. In early 2013, when the major developed economies enhanced their quantitative easing policies, China's foreign capital inflows increased substantially. As a result, liquidity in the banking system was relatively abundant and there was great pressure for monetary and credit expansion. In May and June, with stronger market expectations of tapering of quantitative easing by the U.S. Federal Reserve and the downward pressures on the domestic economy, the inflow of foreign exchange slowed down. At the same time, due to some short-term factors such as centralized corporate tax payments were made, there was a temporary decrease in the supply of liquidity. After August and September, as the Federal Reserve delayed tapering the quantitative easing and the effects of China's reform measures on growth gradually unfolded, inflows of foreign exchange again increased significantly. Facing highly uncertain external spill-over effects, the PBC strengthened its analysis and monitoring of the banking system liquidity situation, used a mix of tools including repo and reverse repo operations, issuance of central bank bills and the Short-term Liquidity Operation (SLO) to flexibly conduct the open market operations. Pre-emptive adjustments and fine-tunings were carried out in a timely and appropriate manner and the valve of overall liquidity was well controlled. All these measures effectively dealt with the fluctuations of the

short-term capital caused by many factors and promoted the smooth operation of the money market interest rate.

Innovations were timely adopted with monetary policy instruments and approaches

According to the need of macroeconomic management and changes in the market environment, the PBC created new instruments such as SLO and Standing Lending Facilities (SLF) at the beginning of the year. In view of the increased volatility in liquidity supply and demand and the rather large surplus of overall balance of payments, the PBC decided to roll over part of the matured 3-year central bank bills. It combined moderate freezing of long-term liquidity with supplying of necessary short-term liquidity, took into account the double requirements of prudent monetary policy, namely, maintaining moderate liquidity and stabilizing the money market, and proactively responded to the increase in foreign exchange inflows since this September.

Full play was given to the role of macro-prudential policies in counter-cyclical management and structural guidance

Based on the domestic and global economic and financial developments, the soundness of financial institutions and the implementation of credit policy, the PBC timely adjusted the parameters of the differentiated reserve requirements to guide stable and reasonable credit growth, improved the

risk-resistance capacity of financial institutions and encourage the financial institutions to enhance credit support to the weak links in the economy. Since the third quarter, the PBC stepped up efforts to adjust the policy parameters to further encourage and guide financial institutions to increase credit support to micro- and small-businesses, the agriculture, rural areas, and farmers, and less-developed areas in the central and western regions, and to enhance the financial support for the economic structural adjustment and upgrading.

Full play was given to the role of agro-linked loans, rediscounting and the reserve requirement ratio in guiding the credit structural optimization and further deepening the reform of rural credit cooperatives

The PBC expanded recipients of its agro-linked loans across the country from the rural commercial banks, rural cooperative banks, rural credit cooperatives and village and township banks established in counties and towns to those above-mentioned deposit-taking financial institutions established in cities. The PBC continued to apply low reserve requirement ratios on the small- and medium-sized financial institutions and the rural financial institutions, which provided credit support to the agricultural sector and small businesses. The pilot reform program of Rural Financial Business Division of the Agricultural Bank of China was advanced. PBC continued to execute lower reserve re-

quirement ratios for qualified county-level legal entities and encouraged them to use their credit resources locally. Monitoring and assessment were conducted on the reform effects of rural credit cooperatives, which had redeemed the special bills, and significant progress has been made in this regard.

New progress was made in the market-based interest rate reform

The controls on lending interest rates of financial institutions were completely removed. The self-regulatory pricing mechanism for market interest rates was formally established. The centralized quote and publishing mechanism of loan prime rate (LPR) was formally launched. The LPR mechanism represents an expansion of the market-based interest rate quotation from the money market to the credit market. Interbank certificates of deposit were issued, which became an effective way to explore the promotion of the market-based deposit rate reform.

The RMB exchange-rate regime was further improved

Following the self-initiated, controllable and gradual principle and taking into account the economic and financial situation at home and abroad, the PBC continued to advance the RMB exchange-rate reform. During the year, the RMB exchange rate saw a mild appreciation but moved in both directions. The flexibility of RMB exchange rate increased and expectations of the RMB exchange rate

diverged. The balance of payments position continued to improve.

Publicity and communication of the monetary policy were strengthened to better guide and stabilize the expectations.

With the deepening of financial market development and rapid progress of internet-enabled information technology, the role of expectations in the transmission of monetary policy has become more important. The PBC has attached great importance to communication with the market and guidance of expectations. It used *China Monetary Policy Report* and *China Regional Financial Performance Report* as the means to communicate the monetary policy, as well as used multiple forms of media, including new media and new tools, such as Weibo, to timely deliver the macroeconomic analysis and policy operation of the central bank to the market, in order to guide and stabilize the public expectations.

The Effect of Monetary Policy in 2013

Generally speaking, the prudent monetary policy achieved good results. In the first few months of 2013, the rapid expansion of monetary, credit and the aggregate financing to the real economy in the first several months of the year was controlled, and their overall annual growth rates were close to the expected targets. Stable monetary and financial environment contributed to the stable and sustainable economic development and

economic structural adjustment, to the stabilization of the upward inflation over the second half of year, and to the containment of the excessive expansion of total debt and leverage ratios. The loan structure was continuously improved.

The money supply gradually returned to the expected annual targets

At the end of 2013, the outstanding M2 stood at 110.7 trillion yuan, up 13.6 percent year on year and the growth rate decreasing by 0.2 percentage points from the end of 2012. It was close to the target set at the beginning of the year, down by 2.5 percentage points from the yearly high of 2013. Outstanding M1 was up 9.3 percent year on year, an increase of 2.8 percentage points over that at the end of 2012. Overall speaking, the enterprise sector had ample funds. The central bank injected 389.9 billion yuan of cash in 2013, at par with that of the previous year.

The RMB loans witnessed a steady and faster growth

At the end of 2013, the outstanding RMB loans stood at 71.9 trillion yuan, a year-on-year growth of 14.1 percent, down by 0.9 percentage points from the end-2012. The growth rate took on an early rise and an ensuing fall, which stood at approximately 14 percent after June. In 2013, the new outstanding RMB loans were 8.89 trillion yuan, increasing 687.9 billion yuan from the level in 2012.

The financing structure was diversified

In 2013, the aggregate financing to the real economy reached 17.29 trillion yuan, representing an increase of 1.53 trillion yuan year on year. Among this total, the aggregate financing to the real economy amounted to 10.15 trillion yuan in the first half of year, up by 2.38 trillion yuan year on year, and 7.14 trillion yuan in the second half of year, decreasing by 849.7 billion yuan year on year. The new RMB loans accounted for 51.3 percent of the aggregate financing to the real economy in 2013, a historic low and down 0.6 percentage points from the previous year.

The credit structure continued to be optimized

Credit support to micro- and small-businesses and to the agricultural sector, rural areas, and farmers maintained a strong momentum. At the end of the year, the outstanding loans issued by financial institutions to micro- and small-businesses grew by 14.2 percent year on year, outpacing the growth of total loans by 0.1 percentage points. As of end-2013, the outstanding RMB and foreign currency-denominated agro-linked loans increased 18.4 percent, outpacing the growth of total loans by 4.5 percentage points. Growth of new loans to the service sector accelerated. The growth of loans to some highly-polluting and high energy-consuming industries and to those sectors burdened with overcapacity slowed down.

Lending rates of financial institutions saw slight fluctuations

In December, the weighted average lending rate offered to non-financial institutions and other sectors was 7.20 percent, up 0.42 percentage points from the beginning of the year. The shares of loan with interest rates lower than or flat with the benchmark rate somewhat declined. The share of loans with interest rates higher than the benchmark rate was 63.40 percent, up 3.66 percentage points from the beginning of the year.

The flexibility of RMB exchange rate was strengthened

At the end of year, the central parity of RMB against the US dollar was 6.0969, up 1,886 basis points, or up 3.09 percent over end-2012. According to calculations of the Bank for International Settlements (BIS), in 2013, the nominal effective exchange rate of the RMB appreciated by 7.18 percent, while the real rate appreciated by 7.85 percent.

Outlook of the Monetary Policy in 2014

The PBC will follow the strategic arrangements of the CPC Central Committee and the State Council, implement the decisions of the 18th CPC National Congress, the Third Plenum of the 18th CPC Central Committee, and the Central Economic Work Conference, follow the principle of making progress while maintaining stability, continue reform and innovation, and implement

the sound monetary policy. It will stick to the stance of keeping aggregates at stable levels and optimizing the structure, maintain the stability and continuity of policy, make macroeconomic management more forward-looking, targeted and coordinated, strike a balance among preserving stable economic growth, adjusting the economic structure, and promoting reform and preventing risks, and make fine-tuning and pre-emptive adjustments whenever appropriate, and continue to provide a stable monetary and financial environment for the structural adjustment and upgrading. Meanwhile, measures will be taken to optimize the financial resource allocation, improve and optimize the financing and credit structure. The management of monetary policy will be combined with deepening reform, focusing on raising the efficiency of resource allocation and expanding the consumer dominance to allow the market to play a decisive role in resource allocation. Taking into consideration of the deepening financial reform and innovation, PBC will further improve the approach to macroeconomic management, unclog the transmission mechanism, and improve the efficiency and capacity of the financial sector

in providing services to the real economy.

First, a combination of quantitative, price, and other monetary policy instruments will be used and the macro-prudential policy framework will be improved to keep liquidity at a reasonable level and to realize proper growth of money, credit, and the aggregate financing to the real economy. In 2014, the broad money supply (M2) is expected to grow by around 13 percent.

Second, the stock of credit assets will be revitalized and the use of new loans will be optimized to support structural adjustment, transformation and upgrading.

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

Fourth, continued efforts will be made to promote the sound development of financial markets, enhance support for direct financing, and expand financing channels available for small- and micro-businesses.

Fifth, effective measures will be adopted to mitigate systemic financial risks and preserve stability of the financial system.

Advancing the Market-based Interest Rate Reform

Interest rate is the price of capital, and capital is an important factor of production. Only with reasonable capital price, can the market play a decisive role in resource allocation. This means the reform of market-based interest rate is of key importance in the financial reform. In 2013, according to the overall arrangements of the CPC central Committee and the State Council, the PBC advanced the market-based interest rate reform by relaxing interest rate control, strengthening institutional building and promoting financial product innovations, and achieved important progress.

First, controls on lending interest rates were completely removed. After the policy measure was approved by the State Council, the PBC announced that, starting from July 20, 2013, the controls over interest rates of loans offered by financial institutions would be lifted. The lending-rate floor, which was 70 percent of the benchmark lending rate, was removed. Financial institutions could independently determine their lending rates based on commercial principles. Controls over interest rates of bill discounts were removed. Instead of adding a certain amount of basis points to the central bank discount rate, the financial institutions could price bill discounts independently. The lending rate ceiling for rural credit cooperatives was cancelled. To strictly implement the differentiated housing mortgage policy and to promote the sound development of the real-estate market, the floating band of household mortgage rates was not adjusted. As the controls on lending interest rates were fully lifted, the room for financial institutions to negotiate prices with their clients was further expanded, which was helpful for financial institutions to enhance their pricing ability, adopt differentiated pricing strategy and strengthen financial support to the real economy and economic restructuring and upgrading.

Second, a self-regulatory pricing mechanism for market-based interest rates was established and improved. The self-regulatory pricing mechanism is a market self-regulatory and coordination mechanism composed of financial institutions, which aims at applying self-regulatory management on interest rates which are independently determined by financial institutions in the money, credit and other financial markets, under the precondition that they comply with the relevant interest-rate

regulations, so as to maintain market order for fair competition and to promote the healthy development of the financial markets. On September 24, 2013, the inaugural and first regular meeting of the self-regulatory pricing mechanism was convened in Beijing. On January 22, 2014, the self-regulatory pricing mechanism deliberated and approved the *Implementation Measures for Qualification Prudential Assessment on Financial Institutions*. By conducting self-regulatory assessment on financial institutions on a voluntary base, the mechanism is going to select some to become basic members of the mechanism and authorize them to issue interbank certificates of deposit and grant them rights to participate in market pricing and product innovation, giving them incentives to improve the legal person governance, strengthen financial discipline, and enhance self-pricing abilities. The establishment and improvement of self-regulatory pricing mechanism is conducive to the sound development of financial markets, prevention of financial risks, laying a solid foundation for advancing the reform of market-based interest rate.

Third, the centralized quote and release mechanism of loan prime rate (LPR) was formally established. The LPR is the most preferential lending rate offered by a commercial bank to its prime clients. Other lending rates are generated by adding or subtracting basis points based on the LPR. On October 25, 2013, on the basis of the self-regulatory pricing mechanism, centralized quote and release mechanism of LPR was formally put into operation. The weighted average of the quotes of the LPR was released at the same time. Since its debut, the operation of LPR has been running stably and its scope of application has been continuously expanded. According to statistics, by the end of 2013, a total of more than 30 billion yuan of loans were issued at rates based on the LPR, and the interest-rate swaps linked to the LPR was developing on a gradual basis. The LPR mechanism represents an expansion of the market-based interest rate quotation from the money market to the credit market. It complements Shibor in product term structure and varieties, and provides an important reference to financial institutions for the pricing of their credit products. It is of great significance for improving benchmark interest rate system of the financial market, optimizing market-based interest rate formation mechanism, unclogging the interest rate transmission channels and maintaining fair and orderly competition in the credit market.

Fourth, the issuance of interbank certificates of deposit was advanced steadily. Be-

ing a money market instrument, an interbank certificate of deposit refers to a book-entry certificate of a term deposit issued by a deposit-taking financial institution with a legal person status on the interbank market. On December 8, 2013, the PBC issued the *Provisional Rules on the Management of Interbank Certificate of Deposit*, which went into effect on December 9, 2013. On December 12-13, 2013 ten financial institutions, including China Development Bank and the Industrial and Commercial Bank of China, issued the first batch of interbank certificates of deposit and thereafter consecutively carried out their transactions on the secondary market. Overall, the issuance of the first batch of interbank certificates of deposit went well, attracted many investors, and received positive response from all walks of the society. Interbank certificates of deposit are based on Shibor and issued at the market price. They can provide a more transparent and market-based reference for the pricing of medium- and long-term Shibor, and help to enhance the benchmark status of the medium- and long-term Shibor. Meanwhile, they enrich the products in the financial market, help broaden the financing channels for financial institutions, and promote the development of interbank business. The issuance of interbank certificates of deposit can also provide experience for issuing large certificates of deposit to enterprises and individuals, which will be conducive to exploring the effective ways to promote the market-based deposit rate reform in a stable and orderly manner.

In recent years, the market-based interest rate reform has been continuously advanced, and the interest rates of money market, bond market, loans and deposits in foreign currencies, and RMB loans have become consecutively market-based. The interest rate formation mechanism decided by market supply and demand has also been improved. The PBC maintains caps only on RMB deposit interest rates. According to the decisions of the Third Plenary Session of the 18th CPC Central Committee, for the next stage, the PBC will continue to follow the general objective of building and improving market-based interest rate formation mechanism. Under the precondition of controllable risks and taking into consideration of the development of financial institutions' self-pricing ability, the construction of the financial markets and the progress in supporting reforms such as deposit insurance system and exit mechanism of financial institutions, the PBC will advance the market-based interest rate reform progressively, so as to enable the market to play a decisive role in resource allocation.

CREDIT POLICY

In 2013, the PBC earnestly implemented the decisions of the CPC Central Committee and the State Council, and fulfilled its mandates as the central bank, followed the essential requirement of finance serving the real economy, focused on allowing the credit policy guidance and instruments to play a positive role in transforming economic growth pattern as well as in economic restructuring, and improved the assessment of effectiveness of credit policy guidance. It appropriately deployed financial resources, adhered to market demand orientation, and comprehensively improved the role and capacity of financial sector in bolstering and serving the real economy so as to promote sound and sustainable economic growth.

Enhancing coordination and cooperation between credit policy and industrial policy, and focusing on optimizing credit structure to promote economic restructuring as well as transformation and upgrading

The PBC earnestly carried out the requirements of national industrial policy and macroeconomic management, actively addressed issues related to supporting the real economy with financial services. The PBC guided financial institutions to focus on optimizing credit structure to make funding more targeted and effective, to continuously beef up financial support for key areas and weak links, and to better served economic transformation and upgrading to promote the growth of real economy. It urged and guided

financial institutions to fully implement policy requirements regarding providing financial services to develop such industries as the tertiary industry and service outsourcing, and to explore credit products and means of service tailored to each industry's own development features in an attempt to create a favorable financial environment for the development of modern service industry. The PBC urged and guided financial institutions to speed up the innovation of financial products and services, and to provide financial support and services for aging population-related service industry and city infrastructure development, and to push forward supporting financial services for optimizing the structure of and rejuvenating key industries, such as railroads construction, ship-building,

coal-fired power, and iron and steel production under the precondition of preventing credit risk. Efforts were made to vigorously promote green credit by guiding financial institutions to improve internal credit policy for energy-saving and environmental protection and step up financial support for the energy-saving and environmental protection industries. Innovation of institutions and mechanisms was promoted forcefully to better combine science and technology with finance and bolster the development of national innovation system. Communication and cooperation with other ministries, such as the Ministry of Culture, was enhanced to carefully study and boost policy measures for culture-finance cooperation and to improve financial services for developing cultural industries by promoting innovation of culture-finance institutions and mechanisms as well as financial products and services tailored to the needs and characteristics of cultural industries.

Promoting innovation of financial products and services in rural areas to support modern agricultural development

The PBC flexibly used a mix of monetary policy instruments, including central bank agro-linked loans, rediscounting and reserve requirement ratio, expanded the lending scope, and encouraged and guided financial institutions to continuously increase credit supply to the agricultural sector, rural areas and farmers. Macro-credit policy guidance

was strengthened, the *Guiding Opinions on Enhancing Financial Innovation to Support Faster Development of Modern Agriculture* was released, which clearly stated that innovation of mindset, methods and mechanisms should be initiated to achieve new breakthroughs in rural financial product and service innovation, and financial institutions were guided under multi-pronged approach to further improve financial services for modern agricultural development. Innovation on the interbank bond market was enhanced to broaden financing channels for leading enterprises in agriculture industrialization. Rural financial infrastructure development was stepped up through improving non-cash payment and settlement and vigorously advancing development of credit information system in rural areas to enhance the capacity and quality of basic rural financial services. As of the year-end, outstanding agro-linked loans of financial institutions across China jumped 18.4 percent year on year to 20.88 trillion yuan, 4.5 percentage points higher than the growth of all the loans of financial institutions during the corresponding period. Outstanding national agro-linked central bank lending posted 168.4 billion yuan, an increase of 10.9 billion yuan compared with the start of the year; the cumulative increase in rediscount quota stood at 16.5 billion yuan nationwide, which mainly targeted at regions where bills issued by agro-linked small- and micro-businesses accounted for a large share.

Actively adopting various measures to improve the level of financial services for micro-, small- and medium-sized enterprises

The PBC earnestly carried out the *Implementation Opinions of the General Office of the State Council on Providing Financial Support for the Development of Small- and Micro-Businesses*, adopted a mix of monetary policy tools, including differentiated reserve requirement ratio, central bank lending and rediscount, to encourage and support financial institutions to increase credit supply to small- and micro-businesses. Efforts were made to strengthen macro-credit guidance, promote innovation of credit products and services, improve the assessment of effectiveness of credit policy guidance for small- and medium-sized enterprises (SMEs), and guide financial institutions to implement published policy measures. Special oversight and inspection that targeted at financial services for small- and micro-businesses were conducted. SMEs were encouraged to raise funds by issuing non-financial enterprise debt financing instruments, while support was given to eligible financial institutions to issue financial bonds specifically for loans to small- and micro-businesses. As of the year-end, outstanding RMB loans of financial institutions to small- and micro-businesses stood at 13.21 trillion yuan, up 14.2 percent year on year, or 0.1 percentage points higher than the average growth of all loans during the corresponding period nationwide. A total of 35 commercial banks issued financial

bonds used specifically for loans to small- and micro-businesses in the interbank bond market to the tune of 306.5 billion yuan.

Further enhancing financial support and services for people's livelihood, including poverty relief, post-disaster recovery and reconstruction, employment, education, ethnic groups, and migrant workers

The PBC explored the establishment of co-movement and coordination mechanisms for offering financial services in contiguous poverty-stricken areas, steadily pushed forward financial services for poverty relief and economic development, and boosted the fire-power of agro-linked financial institutions by employing a mix of monetary policy instruments, including central bank lending, rediscount and differentiated reserve requirement ratio, to channel more credit resources to the poverty-stricken areas. On-site investigation and inspection were conducted in contiguous poverty-stricken areas, such as Zhashui and Xunyang counties in Shaan'xi Province, Dawu and Jianshi counties in Hubei Province and Yingjisha county in Xinjiang Uygur Autonomous Region. The *Notice on Establishing Co-movement and Coordination Mechanisms for Offering Financial Services in Contiguous Poverty-stricken Areas to Alleviate Poverty and Promote Development* was released based on research and investigation. Efforts were made to strengthen coordination and co-movement as well as information exchange and sharing among the PBC branch offices,

and to promote the innovation of financial service delivery for the purpose of poverty alleviation and economic development.

The PBC actively provided financial support for post-quake recovery and reconstruction through promoting financial services accordingly. After an earthquake hit Lushan in Sichuan Province, the PBC made timely and concerted efforts with the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC) to issue the *Opinions on Providing Financial Support and Services for Post-Quake Reconstruction in Lushan*, which required financial institutions to take prompt actions to resume basic financial services in the quake-hit area and safeguard the operation of payment and settlement systems as well as the treasury system to ensure cash demands of the disaster-stricken area be met. Monetary and credit policies biased towards the disaster-stricken area as well as preferential policies on housing loans were adopted. Guidance was offered to financial institutions to optimize credit structure, while support was given to enterprises and financial institutions located in the disaster-hit area to raise funds for post-quake reconstruction in the bond market.

The PBC adopted a mix of monetary policy tools and strengthened preemptive policy adjustment and fine-tuning to keep the growth of money and credit as well as the aggregate financing to the real economy at a reasonable and appropriate level, and facili-

tated the goals of faster economic growth of ethnic groups and full employment. The PBC improved credit policy guidance by encouraging financial institutions to increase the supply of micro-loans with collaterals, and to provide financial services to rural transferred labor, the needy in urban areas, the veterans, the disabled and migrant workers to help them get employed or start businesses. It conducted research and prepared the *Guidelines on Improving Financial Services for Job Creation and Entrepreneurship of College Graduates* to actively facilitate job creation and entrepreneurship of university graduates. Efforts were made to encourage financial institutions to fully exploit the preferential policy of lending rates on loans to ethnic groups' trade and production of ethnic groups' special products, expand the scope of participating financial institutions, optimize service procedures and intensify policy support for regions where ethnic groups reside.

Continuing to strictly implement a differentiated housing credit policy with greater support for small and medium-sized ordinary commercial housing and welfare housing

In line with the overall arrangements of the State Council, the PBC continued to oversee financial institutions in further implementing the down-payment and mortgage rate policies for first-time home buyers, and strictly carried out the credit policy for second-time (or more frequent) home buyers. The PBC branch offices took substantive

measures to implement the differentiated housing credit policy within their respective jurisdictions. During the year, the ratio of down-payment for loans to second-time home buyers was increased in accordance with local governments' objective for real estate control and policy requirements in 13 cities, including Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Shenyang, Nanjing, Wuhan, Changsha, Xiamen, Urumqi, Taiyuan and Nanchang. Efforts were made to actively meet the financing needs of real estate developers with good qualifications and business integrity to develop small and medium-sized ordinary commercial housing projects. Management of land reserve loans was tightened. Efforts were made to steadily promote financial services for welfare housing, such as the renovation of shanty areas, guide financial institutions to step up credit support, and support eligible enterprises to issue enterprise bonds or medium-term notes to finance earmarked special renovation projects.

Providing supporting financial services while launching a clean-up of local government financing platforms

The PBC actively cooperated with ministries such as the Ministry of Finance (MOF) in addressing concomitant issues related to the cleaning-up and regulating local government financing platforms (LGFPs), and submitted to the State Council the *Report of the People's Bank of China on the Flows of Social Financing to the Real Estate Industry and Financing*

Platforms and the Report of the People's Bank of China on Recommendations for Preventing Risks Stemming From Local Government Liabilities. It conducted a comprehensive investigation in the current situation, new developments and risks of LGFPs, and studied international experience in the development of municipal bonds in an attempt to promote regulated and institutionalized financing behaviors among local governments.

Further expanding the pilot program of credit asset securitization

Through joint efforts with members of the coordination group on pilot credit asset securitization, the PBC expanded the pilot program under the current institutional framework to give full play to the role of securitization in mobilizing credit asset stock, following principles of "no false selling, isolation of bankrupt entities, aggregate control, expanding pilot program, adopting a single standard, information sharing, tightening supervision, preventing risks and no re-securitization." Eligible banking financial institutions were encouraged to actively participate in the pilot program, securitize quality credit assets that are consistent with policy guidance, and on the basis of securitization mobilize effective credit resources towards weak links and key areas in economic development, in particular, small- and micro-businesses, the agricultural sector and rural areas and farmers, renovation of shanty dwellings, and infrastructure development.

FINANCIAL LEGISLATION

In 2013, in line with the overall requirements of the CPC Central Committee, the State Council and the National People's Congress (NPC), the PBC fully promoted financial legislation, administration according to law, legal consultancy, legal research and the publicity of rule of law, and actively addressed international financial legal affairs. These efforts provided the legal support to ensure the PBC fulfill its mandates according to law and promoted financial reform and innovation with new achievements made in all aspects.

Actively promoted legal institutional building

In 2013, the financial legislation, which centered upon the PBC's need to fulfill its mandates, witnessed remarkable progress. First, active efforts were made to draft or amend laws related to the fulfilling of the PBC's mandates. After full communication and consultation with the legislature, amendments to the *Law of the People's Republic of China on the People's Bank of China* were listed as the Second Category of Legislation in the Legislation Plan of the Standing Committee of the 12th NPC, while internal research and discussions were conducted to strengthen the theoretical foundation for the amendments. The PBC was involved in amending the *Budget Law* and provided several related research reports. As a member of

the working group on legislation programs, it made the request for e-commerce related legislation and provided its opinions to the Financial and Economic Committee of the NPC. Second, the formulation and revision of administrative rules and regulations pertaining to the fulfillment of the PBC's mandates were accelerated. Efforts were made in drafting deposit insurance regulations in an attempt to set up the deposit insurance system in the near future, and in implementing measures of the State Council on transforming government's functions. The PBC also sped up amending the *Provisional Regulations on Cash Management* to ensure cash supply, regulate cash receipts and payments and promote reasonable cash circulation. The drafting of regulations on non-depository lending agencies was pushed forward in a bid to regulate the operation of non-deposi-

tory lending agencies and promote sound development of the credit market. In addition to making joint efforts with relevant agencies to prepare explanation and illustration for the *Regulations on Administration of the Credit Reference Industry*, the PBC followed new market developments after releasing the regulations and made active responses to ensure smooth implementation. Third, regulations and normative documents were issued to provide a legal basis for the PBC to exercise administration and fulfill its mandates according to law. On November 15, 2013, the PBC unveiled the *Administrative Measures for Credit Reference Agencies* to tighten the regulation and administration of credit reference agencies and promote sound development of the credit reference industry. The PBC issued the *Administrative Rules for the Custody of Clients' Reserves of Payment Institutions*, the *Announcement on Improving Transaction Settlement on the Interbank Bond Market*, the *Administrative Rules for Bank Cards Acquiring Business*, the *Further Tightening Delivery Versus Payment Settlement Requirements for Bond Transactions in the Interbank Bond Market*, the *Provisional Rules on the Management of Interbank Certificates of Deposit*, the *Notice on Issues Concerning Implementation of the Measures For the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors (RQFII)*, and issued normative documents such as the *Notice on Preventing the Risks of Bitcoins* jointly with

other relevant agencies, which provided institutional guarantee for preventing and mitigating financial risks and advancing financial reform and development. Fourth, an overhaul of normative documents was initiated to safeguard the solemnity, authoritativeness and timeliness of the PBC's legal documents. During the year, the PBC issued circular to annul three normative documents, namely the *Notice of Collectively Applying the Logo of UnionPay and its Holographic Anti-Counterfeit Symbol*, the *Notice on Publishing Regulations on Interoperable Services of Bank Cards*, and the *Guiding Opinions on Regulating and Promoting the Market Development of Bank Card Acceptance*, and declared two normative documents null and void, including the *Notice on Publishing Opinions on Implementing Interoperable Services of Bank Cards of 2001* and the *Notice on Further Promoting Interoperable Services of Bank Cards*.

Earnestly promoted administration according to law

First, administrative examination and approval was further straightened out and streamlined, while institutional reforms of administrative approval were carried forward. In line with the arrangements of the Administrative Examination and Approval System Reform Work Leading Group of the State Council and based on comprehensive research and verification, the PBC proposed six items to be eliminated from administra-

tive approval during the period from 2013 to 2015, and rolled out detailed phase-in programs for each year and each stage in an attempt to foster a law-based administration environment featuring streamlined regulations as well as transparency and fairness. Second, cases involving administrative reconsideration were handled properly. Throughout the year, the PBC received 34 applications for reconsideration, of which 26 were taken and dealt with according to law by the PBC Head Office. The PBC endeavored to do its best in resolving administrative disputes, while letting the administrative reconsideration to play the role of enforcement review, in a bid to promote reconciliation between administrative bodies and its counterparts regarding disputed issues to avoid escalation of conflicts and protect the legal rights of administrative counterparts, as well as regulate the behavior of administration enforcement bodies. Third, supervision and inspection of administrative enforcement were continuously enhanced and accountability was strictly sought after to prevent enforcement risks and ensure administration according to law.

Further strengthened legal consultancy

Efforts were made to earnestly fulfill the PBC's responsibility as a legal consultant and continuously improve institutions and regulations related to legal consultancy. Management of lawsuits was intensified; procedures and responsibilities for dealing

with cases were specified; experience and lessons were drawn from dealing with the cases; and, efforts were made to find patterns among cases to effectively prevent legal risks. According to the requirements of the central government, the PBC carefully conducted a cleanup of accumulated cases. It also verified from a legal perspective the information to be disclosed publicly and prepared law-based responses to inquiries by adhering to the requirements of *Regulation of the People's Republic of China on the Disclosure of Government Information* so as to uphold the applicant's right to access information. Relations with the judiciary and administrative departments as well as financial institutions were further enhanced in order to forge a good mechanism for cooperation and communication.

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

First, research on "the development and regulation of Internet finance" was completed. Second, researches were conducted on financial legal affairs to provide a research basis for policy making, such as legal issues concerning commercial banks' wealth management products, reform schemes for registration of registered capital, institutional reform for pledging "the right to use land for housing and the right to contract management of land" in rural areas, developing a single credit information platform for the financial sector, and expanding access to

credit information reports. Third, through cooperating with the Asian Development Bank (ADB), the Alliance for Financial Inclusion (AFI) and the China Development Bank (CDB), the PBC was engaged in three thematic research programs, including the development of a legal system for China's credit market, regulations for non-depository lending institutions and the extraterritorial jurisdiction of the Chinese financial sector by the U.S. laws and China's response strategy.

Actively addressed international finance-related legal affairs

First, in-depth efforts were made to respond to the long arm jurisdiction of Chinese financial institutions by the U.S. with preliminary achievements. In March, during the China-US Seminar on Legal Cooperation in Financial Affairs, thorough discussions were held with the U.S. side on controversial legal issues, such as China-US cross-border evidence collection for civil affairs, and asset freeze and confiscation. Relevant consensus was honored at the Fifth China-US Strategic and Economic Dialogue held in July and enshrined in the agreements list of the economic dialogue. Second, efforts were made to address specific issues within the remit of the PBC during the negotiations of China-US Bilateral Investment Treaty and China-EU Bilateral Investment Treaty, and to launch two rounds of overhaul of non-compliant measures in the financial sector, and to promote pre-entry national treatment

and negative list as the basis for substantive talks with the U.S.. Third, the PBC continued to implement decisions on the electronic payment service case by the World Trade Organization and push forward activities related to data gaps and systemic linkages initiated by the Financial Stability Board (FSB).

Continuously improved education and training to popularize financial laws and regulations

First, the PBC comprehensively promote the publicity of the Sixth Five-Year Plan for popularizing laws. In 2013, the third year of the Sixth Five-Year Plan, the PBC, in line with arrangement of the National Office for Popularizing Laws, conducted mid-term inspection within the PBC for issues related to popularizing laws, reviewed and selected the best legal news, movies and TV shows nationwide, and sponsored activities on December 4, 2013 which was the national education day on the rule of law. Second, the PBC Head Office provided two financial legal affair training courses, focusing on skills required of legal professionals and on new laws and regulations, and fully utilized the distance training system to make relevant training courses accessible to the PBC branch offices. Third, the PBC enhanced communication via the financial legal information platform and strengthened the exchange and popularization of good practices and experience in financial legal work.

Internet Finance

With the Internet technology constantly permeating the financial sector, the convergence between the Internet and finance has become an unavoidable trend. At present, a variety of on-line financial services, such as online payment, crowd funding and P2P lending, are developing with great vitality, which not only facilitates the development of E-commerce, meets financing needs of SMEs and individuals, but also suits the need for financial innovation. These on-line financial services have demonstrated the robust vitality and continuous creativity of the financial industry.

The year 2013 witnessed rapid development of the Internet finance. The scale of online payment continued to maintain its strong growth momentum. As of August 2013, there were a total of 250 licensed third-party payment institutions and 97 of them supported online payment. These institutions handled a total of 15.338 billion online payment transactions throughout the year, incurring a total payment amount of 9.22 trillion yuan.

On-line P2P lending also quickly scaled up. As of the end of 2013, active P2P lending platforms in China had totaled more than 350, and the total transaction amount had exceeded 60 billion yuan. Non-P2P Internet-based micro-credit business also developed quickly. As of the end of 2013, three micro-credit companies under Alibaba Financial had totally issued 150 billion yuan of loans, accumulating a customer base of more than 650,000, the total loan balance had exceeded 12.5 billion yuan and the non-performing loan rate was kept at 1.12 percent.

The industry of crowd financing started to grow. Currently there are altogether 21 platforms in China that provide crowd financing. AngelCrunch, a crowd funding platform, has attracted 8,000 start-up programs since its establishment. More than 1,000 of these programs have been verified as feasible; the total number of start-up entrepreneurs has exceeded 20,000; the number of verified investors has reached 840. The crowd funding platform has attracted a total of 80 financing programs with a total financing of more than RMB 280 million yuan.

The innovative Internet platforms of financial institutions were also constantly developing. Representative platforms such as the E-CCB of CCB and the E-mall of Bank of Communication were gradually maturing. The first online insurance company – Zhong'an Online was approved by CIRC to enter its preparatory stage in February, 2013, and to officially start business on September 29, 2013.

The Internet-based mutual fund sales business such as the Yu'E Bao also developed very rapidly. As of end 2013, the total subscribers of Yu'E Bao had reached 43.03 million; the total fund reserves reached 185.3 billion yuan; and the total subscribed fund amounted to 429.4 billion yuan.

With the rapid development of on-line financial services, the unexpected, hidden, contagious and market disrupting risks are also on the rise, and some problems have already emerged. The risks of internet finance lie in three major aspects: first, ambiguous legal status and blurred business boundaries. For instance, the P2P lending platforms are engaging in financial businesses whereas existing legal rules find it hard to define its financial nature and exercise effective regulations, causing the business activities of Internet finance enterprises to frequently go beyond the regulatory boundaries and enter into gray zones of law, and sometimes fall into the areas of illegal funding and operation. Second, system deficiencies in terms of third-party custody and management of customer fund are causing serious security concerns. A particular example is that P2P lending platforms can accumulate a huge amount of money, giving rise to the risks of capital embezzlement and "run-away-with-money". Over the past two years, some operation failures such as the P2P platforms of Taojindai and UETrend.com had caused huge financial losses to lenders and damaged the image of the whole industry. Third, insufficient risk controls may lead to operational risks. Some Internet finance enterprises have adopted some controversial and high-risk transaction model for the sole purpose of expanding their business and increasing profitability. These enterprises fail to establish such mechanisms as customer identification, transaction record keeping and analysis and report of suspicious transactions, which may help create chances for lawbreakers to use the platform for money laundering and other illegitimate activities. There are also some Internet enterprises who fail to practice sound internal management and have insufficient protection for information security, causing potential risks of customer information leakage.

The development of the Internet finance industry has drawn high attention from leaders at the State Council. According to the instructions of leading government officials at the State Council and the decisions made by the International Financial Crisis Team, the PBC shall lead relevant ministries and commissions in carrying out further research over the development and regulation of Internet finance. The PBC shall also formulate guidelines to promote the healthy development of the Internet finance industry.

FINANCIAL STABILITY

In 2013, the PBC strengthened the monitoring and prevention of systemic and regional financial risks in a concrete manner. It conducted stress tests and on-site inspections of resilience and soundness of financial institutions, promoted fundamental institutional building for financial stability, led the establishment of the Joint Ministerial Conference Mechanism for Financial Regulatory Coordination, enhanced the international cooperation on financial stability, strengthened the management of central bank lending for financial stability purposes, improved its capability to carry out the financial stability mandate, and effectively maintained the stability of China's financial system.

Feasibly strengthened the monitoring and assessment of financial risks

The PBC released *China Financial Stability Report (2013)* and *Regional Financial Stability Report (2013)*, in which it comprehensively reviewed the resilience of China's financial system. During the year, it continued enhancing the monitoring, early warning and reviewing of risks, conducted comprehensive assessment of potential systemic risks, improved regular risk monitoring and reporting system, and promoted the quality and effectiveness of the regular monitoring reports. The PBC kept on expanding the scope of risk monitoring in the banking sector, further strengthened risk monitoring of domestic and foreign capital markets, and issued

Capital Market Monitoring on a regular basis. The PBC established and improved the financial stability basic database for legal entities in the banking, securities and futures, and insurance sectors. It gradually included in its monitoring the to-be-delisted high-risk companies, various regional exchanges and large problematic enterprises. It conducted risk monitoring of financial holding companies and cross-sector financial services, and assessed the interconnectedness within the financial system and that between the macro-economy and the financial system. The PBC also conducted test run, pilot run and the formal launch of the financial stability assessment system. Moreover, it explored and developed the system of indicators for early warning of systemic financial risks.

Comprehensively conducted reviews and troubleshooting of major risks in the financial sector

Based on the review of major risks in the financial sector in 2012, the PBC thoroughly reviewed major risks in China's financial sector in 2013. It conducted researches on financialization of the businesses of specialized farmers' cooperatives and steel trade financing, launched on-site inspections on how credit supports the real economy, studied typical cases of wealth management services, interbank business, asset management services by securities companies and insurance companies, etc. The PBC closely followed the latest trend of mixed financial operations, studied issues such as the cross-sector financial products of financial institutions and the development and risk prevention of mixed financial operation of China's 17 major banks, etc., and kept a close eye on enterprises which expanded their business into the financial area. Based on these measures, the PBC continued improving regulation and supervision of financial holding companies and cross-sector financial businesses.

Deeply conducted stress tests and on-site soundness reviews

The PBC organized the 2013 financial stability stress test, in which it reviewed credit risks, market risks and liquidity risks of the 17 major banks. It continued with the efforts to make its financial stability assess-

ment more forward-looking and scientific. It launched on-site soundness inspection on Bank of China, focusing on the resolvability assessment. It carried out thematic on-site reviews on asset quality and wealth management business of banks, and pilot on-site soundness inspections on securities companies and insurance companies. In certain regions, the PBC also conducted comprehensive reviews on banking legal entities, on-site inspections on trust companies and financial leasing companies and special reviews of their asset quality and off-balance sheet businesses.

Actively promoted the establishment of the coordination and cooperation mechanism of financial regulation and supervision

In August, as approved by the State Council, the PBC led the establishment of the Joint Ministerial Conference Mechanism on Financial Supervisory Coordination, together with other relevant authorities including the CBRC, the CSRC, the CIRC and the State Administration of Foreign Exchange (SAFE). The establishment of this mechanism marked China's financial supervisory coordination is on a regular and institutionalized track. The PBC further studied and improved financial administration arrangements at both the central and regional levels. It discussed the approaches, methods and measures to maintain regional financial stability. The PBC also facilitated the signing of cooperation MOUs on securities and

futures supervision between local branches of the PBC and the CSRC based on the specific local circumstances. The MOUs aimed to improve cooperation at city-, county- and township-levels in areas such as information sharing, daily risk monitoring, on-site inspection, enforcement, emergency management, stability safeguarding arrangements, financial consumer protections, and etc.

Continued its efforts in managing risks arising from emergencies and financial institutions

The PBC continued its work on reporting major risky events. It timely monitored risk events, kept a close eye on risks of private lending activities, issued risks warning to regions with high risks of private lending and illegal fund-raising, analyzed the impacts of private lending on formal financial institutions and provided policy recommendations. The PBC also went on clearing up all types of trading platforms and helped to resolve the risks of financial institutions. Attentions were paid to risks from making payment to matured life insurance policies and large scale surrendering, in order to properly handle related risks.

Steadily pushed forward the establishment of the deposit insurance system

As deployed and required by the State Council, the PBC coordinated with relevant authorities and established a working group to study the deposit insurance system. It car-

ried out a comprehensive and thorough study of the issue, sought public consultation, and developed a detailed implementation plan for establishing the deposit insurance system. It also steadily promoted the related legislation and earnestly made preparation for the final launch of the system.

Actively participated in the international cooperation on financial stability issues

The PBC deeply participated in revising and implementing standards, rules and policies of relevant international organizations. It played an active part in the work of international organizations and their working groups, including the FSB, the Basal Committee on Banking Supervision (BCBS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), and etc. It steadily promoted the implementation of Basel III capital requirements, and actively joined the work of developing international financial reform initiatives in areas of shadow banking, compensation reforms, effective resolution regime, over-the-counter derivatives market, and etc. The PBC studied the latest international development of effective resolution mechanism for the global systemically important financial institutions (G-SIFIs), pushed China's G-SIFIs to develop such mechanisms and design recovery and resolution plans for review by the PBC. The PBC studied the framework and criteria for identifying the domestic systemically important financial institutions (D-SIFIs), and brought

in its scope the banks, securities companies, insurance companies and financial holding companies. It also promoted the development of an identification framework of G-SIFIs and the implementation of relevant policies. Moreover, it worked with the BIS and its working groups, and further promoted multilateral and bilateral exchanges with the US, Germany, and etc. Bilateral cooperation and dialogues were strengthened. The PBC signed with the Federal Deposit Insurance Corporation (FDIC) the *Memorandum of Understanding on Cooperation, Technical Assistance and Cross Border Resolutions*.

Vigorously continued working on follow-up issues of Financial Stability Assessment Program (FSAP)

Between 2009 and 2012, China completed its first FSAP project. The IMF and the World Bank published the detailed assessment report. Based on the main suggestions provided by the report, the PBC organized seminars to discuss the development of deposit insurance system and effective supervisory framework for financial holding companies. The PBC also took part in the FSB's

country peer review group of the UK, which conducted a thematic review on UK's macro-prudential policy framework and tools. The PBC closely followed peer reviews of the US, Germany, etc. It also agreed that the FSB launch a country peer review on China in 2014, established a cross-ministerial working mechanism, and negotiated with the FSB on the review plan, topics and time schedule. It also prepared for FSB's new thematic peer reviews on supervisory framework of systemically important financial institutions and resolution arrangements.

Improved management of central bank lending for financial stability purposes

The PBC strengthened the collection of loan repayment. Based on the specific conditions of each borrowing financial institutions, the PBC took a variety of measures to protect the creditor's interest. By referring to the *Administrative Measures of Loss Recognition in the Financial Stability Lending* and in line with the requirement of the MOF, the PBC enhanced its management of financial stability lending, and lawfully carried out the recognition and writing-off of loan losses.

Financial Regulatory Coordination Mechanism

The financial regulatory coordination mechanism refers to a series of institutional arrangements and safeguard mechanisms set up by the PBC and other financial regulatory authorities to realize information sharing, work consultation, policy coordination and regulation cooperation, in order to enhance the overall effectiveness of financial regulation and supervision and promote sound financial development. Since the separate operation and regulation of the financial sector was established, the CPC Central Committee and the State Council had attached high importance to the building of the financial regulatory coordination mechanism. In December 2003, the amended *Law of the People's Republic of China on the People's Bank of China* specifically stipulated that “the State Council shall establish financial regulatory coordination mechanism and decide on relevant approaches”. The China National Financial Work Conference in 2007 and 2012, and the *12th Five-Year Plan for National Economic and Social Development* in 2011 also stated the necessity of improving financial regulatory coordination mechanism. In recent years, the PBC, the CBRC, the CSRC and the CIRC have made some positive exploration in strengthening financial regulation and supervision coordination through various ways. In August 2013, as approved by the State Council, the Joint Ministerial Conference Mechanism for Financial Regulatory Coordination was established with the PBC leading the effort of financial regulation and coordination. Members include the CBRC, the CIRC, the CSRC and SAFE, and when necessary, the meeting can also invite representatives from the National Development and Reform Commission (NDRC) and MOF. The Governor of the PBC serves as the Chairman and organizer of this mechanism and the top officials from participating agencies are members. Under the mechanism, the Financial Regulatory Coordination Office (established at the PBC) carries out the day-to-day financial regulatory coordinating efforts. This marks that the financial regulatory coordination of China is on an institutionalized, regular and rule-based track.

Establishing and improving the financial regulatory coordination mechanism is a strategic decision the CPC Central Committee and the State Council have made in light of the domestic and international economic and financial development. The decision is also an important measure that China takes to improve its financial regulatory

regime, prevent systemic financial risks and promote the healthy development of the financial sector. First of all, creating a financial regulatory coordination mechanism has been made necessary by the intrinsic requirement of maintaining the healthy and efficient operation of the financial industry under the current mechanism of separate regulation. The 2008 international financial crisis has exposed the flaws in the regulatory and supervisory regimes of many countries, such as the negligence in regulating systemic financial risks and systemically important financial institutions, and asymmetric information, ill-coordinated policies, and coexistence of regulatory overlaps and gaps under the multiple-regulator system. In the aftermath of the financial crisis, international organizations such as G20 and the FSB were committed to promote countries to improve their financial regulatory regimes. In the broad financial regulatory reforms, major countries have emphasized combining the macro- and micro-prudential regulation, strengthening central banks' responsibilities and means in preventing systemic financial risks, and enhancing the regulation over systemically important financial institutions. In China, the progress of reform, development and opening-up of the financial sector and the rapid development of cross-sector businesses have exposed both the absence and overlapping in regulation as well as the differentiation of regulatory standards and measures under the current regulatory arrangement. It is imperative to have a regulatory coordination mechanism featuring division of labor and cooperation. Second, having in place a financial regulatory coordination mechanism provides an effective safeguard in the efforts to seek balanced progress and synergy of financial innovation, development and financial regulation. In recent years, with various financial institutions offering innovative cross-sector and cross-market products the efficiency and functioning of the financial market in resource allocation have improved. However, judged as a whole, the financial innovation and financial services still have room for further improvement. At the same time, there have been examples of institutions trying to game the macroeconomic management policies and game the regulatory requirements. As such, the development and innovation of China's financial sector require a higher level of regulatory coordination to form regulatory synergy. Third, having a financial regulatory coordination mechanism is imperative for the prevention of systemic risks. At present, China's economic development is faced with complex domestic and international situations. With intertwined connections between the monetary, credit, capital and insurance markets, different markets and different financial industries are interacting with and af-

fecting the performance of each other. The healthy development of the financial sector requires strengthening the coordination of policies, measures and their implementations and enhancing systemic monitoring and macro-prudential management to keep the bottom line of avoiding systemic and regional risks.

According to the approval of the State Council, the focus of the Joint Ministerial Conference Mechanism is financial regulation, accordingly, its main responsibilities and tasks include: coordination between the monetary policy and financial regulatory policies; coordination between financial regulatory policies and laws and regulations; coordination in the efforts to preserve financial stability, prevent and dissolve systemic and regional financial risks; coordination in the regulation of cross-sector products and cross-market financial innovations; coordination in information sharing and building a comprehensive financial statistics system; and, other tasks delegated by the State Council.

At present, the regulatory coordination mechanism has operated effectively. Several meetings were held in 2013 during which consensus were reached on some major policy issues, such as the financial information sharing, compiling comprehensive financial statistics, promoting the healthy development of Internet finance, regulating inter-banking businesses, and the division of responsibilities between the central and local governments in financial regulation. The Third Plenary Session of the 18th CPC Central Committee made even higher requirements for further improving the regulatory coordination mechanism. Going forward, under the leadership of the State Council, the PBC will work together with all members to further improve the institutional arrangements and working mechanisms, standardize and institutionalize related work, and earnestly strengthen financial regulatory coordination, enhance the regulatory synergy and promote the sound development of China's financial sector.

FINANCIAL SECTOR REFORMS

In 2013, financial institutions in China continued to deepen reforms and improve the modern financial enterprise system, and enhance the overall quality and capacity of the financial sector in serving the real economy. The various businesses of large commercial banks maintained steady development. The pilot reform of the Rural Financial Business Division of the ABC continued to expand. Rural credit cooperatives (RCCs) enhanced their capacity in sustainable development and the quality of their rural financial services was significantly improved. The reform of policy financial institutions and other financial institutions continued to make steady progresses.

Large commercial banks continued deepening reforms

The year 2013 marked the 10th anniversary of the shareholding reform of large commercial banks. Over the past ten years, five major commercial banks – the Industrial and Commercial Bank of China (ICBC), the ABC, the Bank of China (BOC), China Construction Bank (CCB) and the Bank of Communications continued to deepen reforms. The modern financial enterprise system was gradually improved and the quality and capacity of these banks in serving the real economy were significantly enhanced. In 2013, against the background of mounting downward pressure of the economy, the fluctuations of the monetary market and the accelerated pace of interest rate liberation, the large commercial banks successfully

maintained steady development in various businesses through constantly improving their capacity in pricing products independently and strengthening risk control. They also maintained relatively high profitability and strengthened resilience against risks. As of the end of 2013, the capital adequacy ratios of the five major commercial banks were 13.12 percent, 11.86 percent, 12.46 percent, 13.34 percent and 12.08 percent respectively. Their non-performing loan ratios were 0.94 percent, 1.22 percent, 0.96 percent, 0.99 percent and 1.05 percent respectively. Their net profit in 2013 reached 262.965 billion yuan, 166.211 billion yuan, 163.741 billion yuan, 215.122 billion yuan and 62.461 billion yuan, registering year-on-year increases of 10.17 percent, 14.52 percent, 12.35 percent, 11.12 percent and 6.82 percent.

The pilot reform of the Agro- related Financial Service Department of the ABC continued to expand. After three years of piloting, the institutional advantage of the arrangement gradually took form. Great outcomes have been achieved in terms of financial services provided to agriculture, farmers and rural areas, and product innovation capacity and comprehensive financial service capacity, which indicated that the program was ready to be expanded. Supported by related agencies, the PBC submitted to the State Council the application to further expand the pilot reform and was granted approval. In October, 2013, the PBC released the *Notices of the People's Bank of China on Issues Related to Expanding the Pilot Reform Program of the Agro- related Financial Service Department of the Agriculture Bank of China*, expanding the pilot program to the ABC's branch offices in 538 counties in the seven provinces of Jiangsu, Zhejiang, Hunan, Yunnan, Jiangxi, Shaanxi and Guangdong. The supporting policies of the pilot program, such as differentiated deposit reserve requirement ratio, deduction and exemption of regulatory fees and business taxes, were continued. After the expansion of the program, the business volume and profit of the ABC branches in the pilot reform counties rose from 40 percent to 80 percent of the total business volume and profit of all the county-level branches, significantly enhancing the support of the ABC to China's economic development at county levels and

to agriculture, farmers and rural areas.

Financial reform in rural areas was further strengthened

First, the reform of the RCCs has achieved significant progress. According to the statistics on five-category loan classification, at the end of 2013, the non-performing loan ratio of RCCs was 4.1 percent, down by 0.4 percentage points against the end of the previous year. RCCs' capital adequacy ratio was 12.5 percent, up by 0.7 percentage points. Their total profit realized in 2013 amounted to 196.2 billion yuan. Second, the financial services provided by the RCCs in rural areas were greatly improved. As of end 2013, the outstanding deposit and loan balances of RCCs reached 14.3 trillion yuan and 9.2 trillion yuan, accounting for 13.7 percent and 12.7 percent of the total deposits and loans of all the financial institutions of the same period, and up by 0.5 percentage points and 0.3 percentage points year on year. Total outstanding agriculture-related loans and the farmers' loans extended by RCCs reached 6.2 trillion yuan and 3 trillion yuan, up by 16.4 percent and 14.5 percent year on year. Third, the ownership arrangement reform was steadily advanced. As of the end of 2013, among the county (city)-level legal person financial institutions, there were 1,690 RCCs, 468 rural commercial banks and 122 rural cooperative banks.

Efforts were actively made in pushing forward rural financial reform trial programs

and in closely following the progress made in rural reform experimental zones in the country. Together with Zhejiang Provincial Government, the PBC set up a leading group on Li Shui Rural Financial Reform Trial Program to strengthen the leadership of the program. Progress was also made in comprehensive rural financial reform trial programs in Jinzhai, Anhui Province and Tiandong, Guangxi Province. The PBC conducted research and developed a financial reform framework for the modern agriculture comprehensive reform experimental zone in the “two Plains” in Heilongjiang Province, and explored a policy framework for providing financial service support to modern agriculture. In Shandong and Shannxi provinces, trial financial programs on agricultural produce ordering systems were launched.

Steady progress was made in the reform of policy financial institutions and other financial institutions

The reform of policy financial institutions was advanced steadily. The PBC continued conducting the research on the difficult problems confronted in reforming the CDB pertaining to bond credit and source of funds. The PBC also accelerated improving the overall reform schemes of the Export-Import Bank of China (EXIMBC) and the Agricultural Development Bank of China (ADBC), which aimed to enhance the capacity of policy financial institutions in serving the national economy by improving their

governance structure and injecting capital.

Positive progress was also made in the transformation of asset management companies. In December, 2013, China Cinda Asset Management Co., Ltd. was successfully listed on the stock market of Hong Kong, making itself the first among national financial asset management companies to go public, representing a milestone that China has achieved in the shareholding reform and business transformation of financial asset management companies.

The pilot program of fund management companies launched by commercial banks was further expanded. The pilot program was initiated in 2005. By the end of 2012, a total of eight commercial banks had set up fund management companies and demonstrated very positive development momentum. In 2013, as approved by the State Council, the PBC, the CBRC, and the CSRC selected five other banks to further expand the pilot program based on the principles of good corporate governance, sound internal control, adequate capital reserve and good business performance. City commercial banks were also included in this pilot program for the first time. As of end 2013, the third round of five commercial banks have all set up their fund management companies, and started marketing products.

The reform of insurance companies continued to advance. China Taiping Insurance Group Co. made remarkable achievements in its restructuring and reform. At the

inaugural meeting held in June, 2013, the company was officially transformed into a limited liability company.

Pilot financial reform at regional level achieved preliminary results

An important dimension of China's financial reform in recent years is the pilot programs for regional financial reform which is highly correlative with the characteristics of regional economic and financial development. The reform adopts the model of "pilot program – experience sum-up – model promotion" and gives full regard to the "bottom-up" market selection, which not only encourages local governments to take bold initiatives to promote regional economic development, but also serves to accumulate experience for the state-level reforms. Under the leadership of the State Council, the PBC worked in association with relevant agencies, and chose some pilot regions with typical characteristics to conduct targeted financial reforms. The pilot program carried out a variety of trials and has achieved some encouraging results.

Specifically, In Shanghai, efforts were made to build it into an international financial center through internationalization and improving the market system. In the Free Trade Pilot Zone, new ways were explored to facilitate investment, financing and foreign exchange, and to promote cross-border use of RMB. In the Pearl River Delta and Shenzhen's Qianhai, the reform was to build the comprehensive financial reform and innova-

tion experimental zone to explore greater financial openness and the financial cooperation among Guangzhou, Hong Kong and Macao. In the Binhai New District of Tianjin, efforts were focused on improving the modern financial service system and enhancing financial reform and innovation, in order to promote opening up and development. In Chongqing, efforts were focused on building a financial center at the upper stream of the Yangtze River by combining its urban and rural financial systems. On the west side of the Taiwan Strait, the reform was to build a regional financial service center that focused on cross-Strait financial cooperation, and to build the comprehensive financial reform and innovation experimental zone to explore how best to serve the real economy through finance. In Xinjiang, efforts were made to enhance financial services alongside the border line and in ethnic minorities regions in order to provide support to the regional development by leaps and bounds. In Zhejiang, the reforms would mainly explore diversified financial innovation, such as private finance, trade finance and rural finance. In Yunnan and Guangxi, the reform was building comprehensive financial reform and experimental zone along the border to explore innovation in cross-border RMB business. In the city of Qingdao in Shandong Province, the reform focused on wealth management to explore a unique wealth management system with Chinese characteristics.

The outlook of financial reform in 2014

In 2014, the PBC will earnestly implement the spirit of the 18th CPC National Congress and the Third Plenary Session of the 18th CPC Central Committee, further allow the market to play the decisive role in resource allocation, expand openness of the financial sector, constantly deepen financial reform and improve the modern financial enterprise system. China will further deepen the corporate reforms of large commercial banks and other large financial institutions for them to improve their corporate governance and establish effective mechanisms of decision-making, execution and check and balances, and implement the requirements of corporate governance in the day-to-day practice of business management and risk control. China will practically advance the reform of the Agro- related Financial Service Department of the ABC, explore a sustainable model in providing commercial services relating to the agriculture, farmers and rural areas and comprehensively improve rural financial services at the county level. In the meantime, China will accelerate the reform of the EXIMBC and the ADBC, reinforcing their functions as policy banks. The policy banks will adhere to developing policy-related business and pru-

dently operating proprietary business, maintain separate accounting books and separate accounting evaluation for each line of business. China will establish a scientific mechanism of capital restraints, further improve their governance structure and optimize policies in financial and tax support, in order to develop an enabling policy environment and foster sustainable policy financial institutions with Chinese characteristics to better serve the economic development. In light of the requirements of national development and reform of the financial system, China will deepen the reform of the CDB, and appropriately solve such issues as bond credit and sources of funds. The PBC will facilitate the CDB to set up a special unit which will be in charge of issuing special housing financial bonds to financial institutions such as Postal Savings Bank of China and other investors. The fund raised will be mainly used in transforming shanty areas and building urban infrastructure. The commercial transformation of asset management companies will be further pushed forward. Efforts will continue to be made in promoting all inclusive finance, building a sustainable financial service system that can provide accessible and fair priced services, enable proper competition and benefit the people.

FINANCIAL MARKET

In 2013, China's financial market continued to maintain sound development; all policy measures for reform and development were pushed forward steadily; and, financial markets played a bigger role in promoting economic restructuring, transformation and upgrading. Total issuance on the bond market increased somewhat, while the volume of spot bond trading shrank, and money market rates rose markedly. The interbank bond index dropped, and the yield curve in general flattened and moved up. Institutional investors were further diversified. Markets' interlink continued to grow. Stock market indices fluctuated downwards amid a slight increase in trading volume.

Money Market Performance

Turnover on the money market retreated moderately

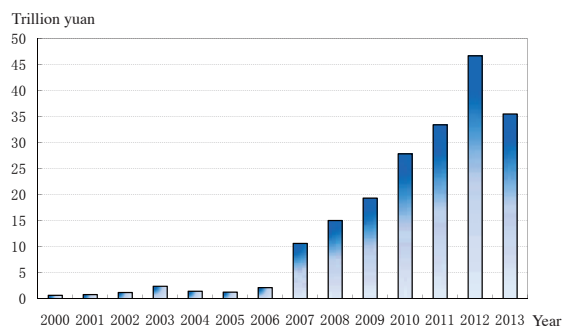
The annual cumulative turnover on the interbank borrowing market posted 35.52 trillion yuan, slashing 23.95 percent from the previous year (Figure 8), with the market mainly dominated by overnight and

7-day transactions, which comprised 93.94 percent of the total interbank funding when combined. The former saw a total turnover of 28.96 trillion yuan, accounting for 81.54 percent of the total, and the latter posted 4.4 trillion yuan, taking up 12.39 percent of the total. The turnover of bond repurchase agreement (repos) stood at 158.2 trillion yuan, jumping 11.6 percent year on year. Among the total, the turnover of pledged bond repos reached 152.0 trillion yuan, adding 11.2 percent from a year earlier, while that of outright repos surged 21.4 percent year on year to 6.2 trillion yuan.

Market interest rates went up slightly in general

During the year, the interbank borrowing rate in general rose somewhat amid larger

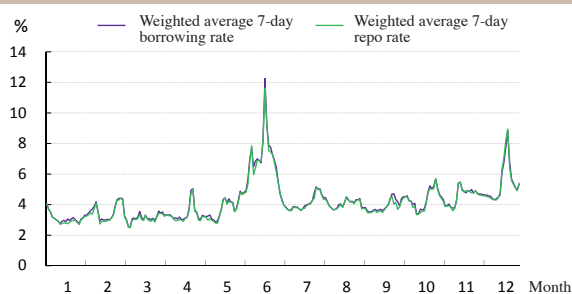
Figure 8 Recent Changes in the Volume of Interbank Borrowing



Source: National Interbank Funding Center.

volatility (Figure 9). The annual weighted average 7-day interbank borrowing rate was 4.17 percent, up 63 basis points compared with the previous year, with larger volatility occurring in June and December. In June, due to various factors including the

Figure 9 Movements of Money Market Interest Rates in 2013



Source: National Interbank Funding Center.

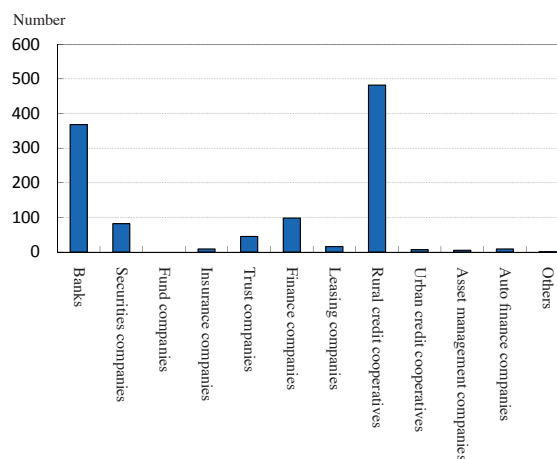
imminent regulatory evaluation and falling deposits, funding strains remained persistent, and the 7-day borrowing rate jumped substantially with its daily weighted average rate peaking at 12.25 percent. The borrowing rate declined as the central bank timely provided liquidity to the market when appropriate, but the interest rate in general moved up due to expectations of persistent funding strains with the 7-day interbank borrowing rate fluctuating above 4 percent. In December, due to the year-end factors, there was a renewed funding strain. The 7-day interbank borrowing rate jumped again with the daily weighted average rate hitting 8.91 percent before falling back to around 5 percent.

The number of market participants further increased

As of the year-end, the number of institu-

tions in the interbank market totaled 1,122 (Figure 10), an increase of 100. Among them, RCCs and finance companies saw the biggest jump, with an increase of 60 and 17 respectively. A total of 591 institutions were actually engaged in funding operations, rising by 102. In particular, banking institutions and RCCs witnessed the biggest increase, adding 41 and 31 respectively.

Figure 10 The Number of Institutions in the Interbank Borrowing Market in 2013



Source: National Interbank Funding Center.

Joint-stock banks and urban commercial banks were the biggest lenders and largest borrowers respectively

Flow of funds in the market showed that policy banks and joint-stock banks were major net lenders in the interbank market. They lent 6.45 trillion and 15.4 trillion yuan respectively throughout the year, accounting for 18.16 percent and 43.35 percent of the total lending, with cumulative net lending posting 5.64 trillion and 3.17 trillion yuan respectively. Securities companies and city commercial banks were major net borrowers in the mar-

ket. During the year, their respective borrowings stood at 4.14 trillion yuan and 5.75 trillion yuan, occupying 11.67 percent and 16.19 percent of total borrowings, with cumulative net borrowings amounting to 4 trillion yuan and 3.12 trillion yuan respectively.

Bond Market Performance

Bond issuance witnessed a year-on-year gain

The full-year issuance of RMB bonds in the bond market totaled 9.0 trillion yuan, rising 12.5 percent year on year^①, 10.1 percentage points higher than the growth in 2012. In particular, cumulative RMB bond issues in the interbank bond market stood at 8.2 trillion yuan, a year-on-year increase of 9.9 percent, up 8.2 percentage points compared with the growth in the previous year. As of the year-end, the balance of bond custody^② in the bond market reached 29.6 trillion yuan, jumping 13 percent compared with the prior year, down 4.6 percentage points from the growth in 2012. In particular, the balance of bond in custody in the interbank market went up 10.7 percent year on year to 27.7 trillion yuan, losing 6.1 percentage points compared with the growth recorded a year earlier. It accounted for 93.5 percent of the total balance of bond in custody, dipping 1.9 percentage points from the end of 2012.

During the year, the MOF issued 1.3 trillion yuan of bonds via the interbank bond

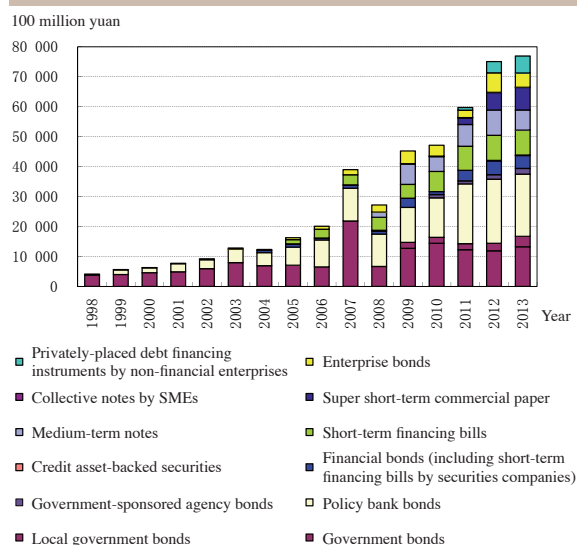
market, and issued 284.8 billion yuan of bonds on behalf of local governments, while local governments issued 65.2 billion yuan of bonds on their own, which facilitate the implementation of the proactive fiscal policy and underpinned local development. Issuance of central bank bills posted 536.2 billion yuan, which bolstered the implementation of the sound monetary policy. The CDB issued 1.2 trillion yuan of CDB financial bonds through the interbank bond market, while the EXIMBC and the ADBC issued in the interbank bond market a total of 852.5 billion yuan of policy bank bonds, which propped up the deepening of policy bank financial reform as well as the implementation of national strategies, including the development of infrastructure, basic and pillar industries, the strategy of going global, and providing financial support for the agricultural sector, rural areas, and farmers. Commercial banks issued 132.1 billion yuan of financial bonds, including 110 billion yuan earmarked for providing loans to small- and micro-businesses and 1.5 billion yuan for strengthening commercial banks' tier-two capital. The pilot program of credit asset securitization was further expanded, with "the first batch of special securities backed by credit assets of the Kaiyuan Railway in 2013" issued by the CDB to the tune of 8 billion yuan (Figure 11).

Due to interest rate hikes in the second half year, growth of corporate debenture

^①Including central bank bills.

^②Including central bank bills.

Figure 11 Recent Changes in the Products Issued in the Interbank Bond Market^③



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

ture bonds decelerated slightly. The full-year issuance of corporate debenture bonds climbed up 4 percent year on year to 3.7 trillion yuan^④, slashing 56.1 percentage points from the growth in 2012. Corporate debenture bonds issued in the interbank bond market amounted to 3.3 trillion yuan, edging up 0.2 percent over the corresponding period of a year earlier, shedding 57.3 percentage points compared with the growth in 2012. In particular, the issuance of super short-term commercial paper stood at 753.5 billion yuan, short-term financing bills 832.44 billion yuan, medium-term notes 671.6 billion yuan, collective notes by SMEs 520 million yuan, collective notes by regional promising SMEs 6.09 billion yuan, privately-placed debt financing instruments 566.81 billion

yuan, enterprise bonds 475.23 billion yuan, and asset-backed notes (ABN) by non-financial enterprises 4.8 billion yuan.

The size of net financing via enterprise bonds dwindled. Throughout the year, net financing via enterprise bonds registered 1.8 trillion yuan, a year-on-year drop of 453 billion yuan. It took up 10.4 percent of the aggregate financing to the real economy, down 3.9 percentage points from that in 2012. In terms of net financing structure, net financing via enterprise bonds, short-term financing bills, super short-term commercial paper, medium-term notes, corporate bonds decreased 215.6 billion yuan, 37.4 billion yuan, 188.3 billion yuan, 25.9 billion yuan and 115.6 billion yuan respectively compared with the previous year, while that of privately-placed debt financing instruments added 134.6 billion yuan over the previous year.

Market turnover saw a year-on-year decrease, and bond indices in the interbank market dropped

The full-year turnover in the interbank bond market posted 199.8 trillion yuan, losing 7.9 percent from a year earlier. In particular, spot bond transactions stood at 41.6 trillion yuan, tumbling 44.7 percent year on year, whereas bond repos witnessed a turnover of 158.2 trillion yuan, a year-on-year gain of 11.6 percent, but 30.8 percentage

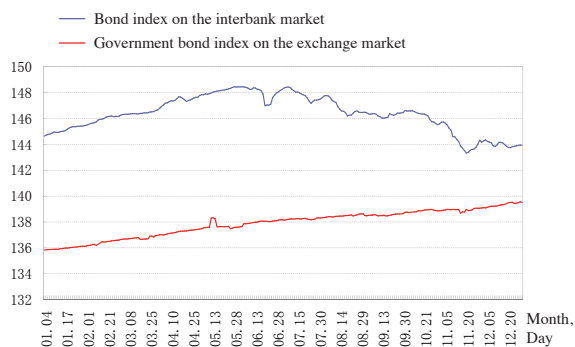
^③Excluding central bank bills.

^④Excluding government-backed bonds issued by the Ministry of Railways.

points lower than the growth in 2012.

Bond indices in the interbank market retreated, while government bond indices in the exchange market went up (Figure 12). The former dropped from 144.65 points at the start of the year to 143.93 points at the year-end, a decrease of 0.72 points, or 0.49 percent, while the latter jumped from 135.84 points at the beginning of the year to 139.52 points at the year-end, an increase of 3.68 points, or 2.7 percent.

Figure 12 Movements of Bond Indices in the Interbank and Exchange Markets in 2013



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

The yield curve of government bonds flattened in general and moved up substantially

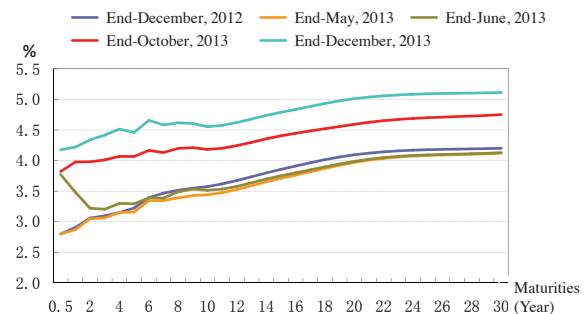
The entire year of 2013 could be divided into two phases: one from the start of the year to May, when yields in government bonds dropped slowly and the yield curve in general moved downwards amid fluctuations; the other one from June to December, when yields in government bonds climbed up continuously and the yield curve showed an explicit flattening feature. In the short term, despite that the interest rate dropped somewhat after short-term volatile move-

ments in the money market in late June, the overall level of interest rates moved upwards, which has contributed to across-the-board upward moving of the bond yield curve. Over the medium to long term, asset allocation of financial institutions underwent certain changes. At the year-end, yields of 1-year, 3-year, 5-year, 7-year and 10-year government securities were on average 131, 132, 124, 112 and 98 basis points higher than those at the end of 2012 (Figure 13).

Investors became diversified

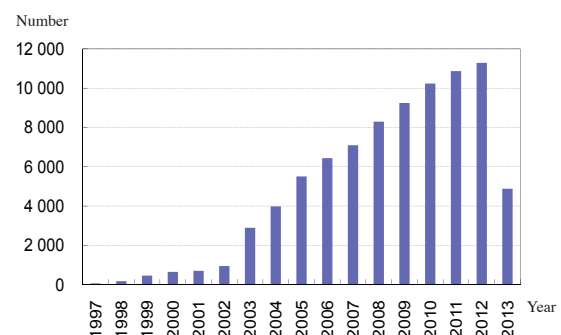
As of end-2013, the number of investors in the interbank bond market totaled 4,883 (Figure 14). In particular, 138 overseas insti-

Figure 13 The Yield Curve of Government Bonds in the Interbank Market in 2013



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

Figure 14 Growth of the Number of Participants in the Interbank Bond Market over Recent Years



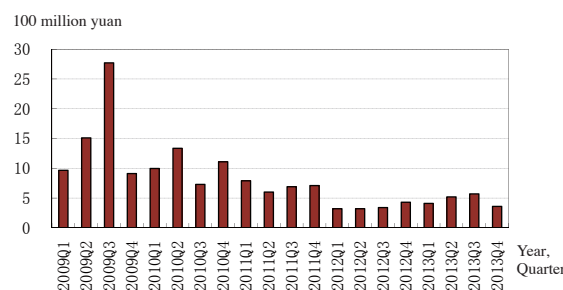
Source: China Central Depository and Clearing Co., Ltd.

tutions were given access to the market, including central banks, international financial institutions, sovereign wealth funds, clearing banks in Hong Kong and Macao, overseas RMB business participating banks, overseas insurance companies, RQFIIs and qualified foreign institutional investors (QFIIs), and overseas investors became further diversified. A multi-tier and market maker-centered investor structure, mostly made up of financial institutions and joined by other qualified institutional investors, was further enhanced in the interbank bond market, which has already grown into a major platform for various market players to conduct investment and financing activities.

The turnover of the over-the-counter transactions of commercial banks increased slightly

During the year, 16 new book-entry government securities were added to commercial banks' over-the-counter (OTC) business, including four 1-year bonds, two 3-year bonds, three 5-year bonds, four 7-year bonds and three 10-year bonds. As of end-2013, government bonds traded over the counter covered six different maturities, namely, 1-year, 3-year, 5-year, 7-year, 10-year and 15-year, and the number of OTC-traded government bonds reached 102. Trading volume of book-entry government securities over commercial banks' counters rose slightly, as the cumulative full-year turnover surged 24.7 percent year on year to 1.87 billion yuan (Figure 15).

Figure 15 OTC Trading of Book-entry Government Bonds in Recent Years



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

As of the year-end, the number of accounts opened at commercial banks' counters increased 1.97 million, or 17 percent over the previous year, to 13.57 million.

The size of cross-market trading and transfer of custody expanded

Connectivity between interbank and exchange bond markets further increased with the number of bonds traded across these markets increasing steadily and the size of custody transfer rising significantly. As of the year-end, there were 168 book-entry government securities traded in the interbank bond market, of which 153 were traded across both markets, accounting for 91.07 percent of the total, a year-on-year increase of 1.1 percent. There were 1,567 enterprise bonds traded in the interbank bond market, of which 978 were traded across both markets, comprising 62.4 percent of the total, a year-on-year increase of 11.4 percent. The size of custody transfer on the interbank and exchange bond markets totaled 609.65 billion yuan, soaring 230.7 percent from a year earlier. In particular, 515.97 billion yuan of bonds were trans-

ferred cumulatively from the interbank market to the exchange market, jumping 172.7 percent over the previous year, while those transferred from the exchange market to the interbank market reached 93.68 billion yuan cumulatively, advancing 46.1 percent year on year. The interbank market continued to see a net outward transfer to the exchange market to the tune of 422.3 billion yuan, surging 237.5 percent compared with that in 2012. Among the total, the net outward transfer of government securities from the interbank market reached 96.54 billion yuan, adding 716.9 percent year on year, and that of enterprise bonds rose 187.5 percent year on year to 325.76 billion yuan. In addition, in line with the requirements of the first meeting of the joint ministerial coordination mechanism for corporate debenture bonds and to further

promote the connectivity between interbank and exchange markets, the PBC made joint efforts with the CSRC to promote the issuance of CDB financial bonds by the CDB in the exchange market on a trial basis. During the year, the issuance of the first batch of 2-year and 5-year CDB financial bonds were completed, totaling 12 billion yuan.

Trading of RMB interest rate swaps became less active

During the year, interest rate swaps remained the major product in the interbank interest rate derivatives market, but saw a moderate decline in trading volume. Securities lending grew by a relatively large margin, while trading of bond forwards and forward rate agreements continued to shrink substantially (Table 1). Throughout the year,

Table 1 Trading of Interest Rate Derivatives

Unit: Number of contracts, 100 million yuan

Year	Bond forwards		Interest rate swaps		Forward rate agreements	
	Number of contracts	Amount ^⑤	Number of contracts	Amount ^⑥	Number of contracts	Amount ^⑦
2006	398	664.5	103	355.7		
2007	1 238	2 518.1	1 978	2 186.9	14	10.5
2008	1 327	5 005.5	4 040	4 121.5	137	113.6
2009	1 599	6 556.4	4 044	4 616.4	27	60.0
2010	967	3 183.4	11 643	15 003.4	20	33.5
2011	436	1 030.1	20 210	26 784.9	3	3.0
2012	56	166.1	20 945	29 021.4	3	2.0
2013	1	1.0	24 409	27 277.8	1	1.0

Source: National Interbank Funding Center.

⑤ Statistics on the trading volume of bond forwards have been calculated based on the amount of settlement since 2009.

⑥,⑦ Notional principal.

there were 24,000 contracts of RMB interest rate swaps with total notional principal of 2.7 trillion yuan, shedding 6 percent year on year. Breakdown by maturities, one-year and less than one year contracts were most actively traded with the notional principal totaling 2.1 trillion yuan, taking up 75.6 percent of the total, down 8.9 percentage points compared with the previous year. In terms of reference rates, 7-day fixing repo rate, Shibor and the benchmark rate announced by the PBC were the major reference rates for RMB interest rate swaps, and the notional principals of swaps with these three rates as the reference accounted for 65.3 percent, 33.3 percent and 1.4 percent of the total respectively. In particular, seven contracts of interest rate swaps related to the one-year LPR were concluded with the notional principal totaling 420 million yuan. Securities lending became more active, witnessing a total of 309 deals, an increase of 294 over the level in 2012 with a turnover of 66.22 billion yuan, surging 226.4 percent year on year. Trading of bond forwards and forward rate agreements continued the losing streak, with the turnover of the former posting 100 million yuan and the notional principal of the latter standing at 100 million yuan.

Stock Market Performance

As of end-2013, the Shanghai Composite Index and the Shenzhen Component Index closed at 2,116 points and 1,058 points, a drop of 6.8 percent and a gain of 20 percent

respectively compared with the end of 2012. The Growth Enterprise Board Index closed at 1,304 points, soaring 82.7 percent over the end of the previous year. The weighted average price to earnings ratio of A shares in the Shanghai Stock Exchange fell from 12.3 times at the end of 2012 to 11 times, while that of A shares in the Shenzhen Stock Exchange jumped from 22.2 times at the end of 2012 to 28 times.

Trading volume in the stock market saw a substantial gain compared with a year earlier. The full-year cumulative trading volume in the Shanghai and Shenzhen stock exchanges hit 46.8 trillion yuan, rising 48.8 percent year on year, and the average daily trading volume jumped 52.3 percent to 196.7 billion yuan. In particular, the cumulative trading volume in the Growth Enterprise Board skyrocketed 119.6 percent year on year, reaching 5.1 trillion yuan. At the year-end, the market capitalization of tradable shares in both Shanghai and Shenzhen stock exchanges stood at 20 trillion yuan, adding 9.9 percent year on year, while that in the Growth Enterprise Board surged 146.4 percent, posting 821.9 billion yuan.

The equity financing remained flat compared to that in 2012. Throughout the year, various enterprises and financial institutions raised a total of 386.7 billion yuan in domestic and foreign stock markets via initial public offering, additional issue, rights issue, exercising warrants and so on, an increase of 500 million yuan year on year. Among them, financing in the A-share market slashed 32.5

billion yuan from the previous year to 280.3 billion yuan.

Foreign Exchange Market Performance

RMB exchange rate continued to appreciate moderately and was characterized by an obvious two-way floating

At end-2013, the central parity rate of the yuan against the US dollar was 6.0969, appreciating 3.09 percent compared with end-2012, almost on a par with the average level of appreciation in recent five years. According to the BIS estimates, the nominal effective exchange rate of RMB appreciated by 7.18 percent, and the real effective exchange rate by 7.85 percent in 2013. RMB exchange rate showed a noticeable two-way floating. Among 238 trading days in the interbank spot foreign exchange market, the central parity rate of the yuan against the US dollar appreciated on 126 days and depreciated on 112 days. The average day-to-day fluctuation was about 33 basis points, down 11 basis points compared with the full-year daily average in 2012.

Trading in the interbank foreign exchange market was brisk with product structure improved further

The full-year turnover in the interbank foreign exchange market amounted to US\$7.6 trillion, advancing 25.4 percent year on year, 17.9 percentage points higher than the growth in 2012. Among them, turnover on RMB/foreign exchange market added

26.1 percent compared with the previous year, posting US\$7.5 trillion, while that in foreign currency pairs market continued the downward trend, tumbling 25.1 percent from the previous year to US\$64.2 billion.

In terms of product structure, the full-year RMB/foreign exchange spot trading stood at US\$4.1 trillion cumulatively, a year-on-year increase of 21.4 percent, a clear rebound that reversed the decline in 2012. Cumulative RMB/foreign exchange swaps reached an equivalent of US\$3.4 trillion throughout the year, surging 35 percent year on year. In particular, overnight RMB/USD swaps posted US\$1.8 trillion, accounting for 52.2 percent of the total swaps in the corresponding period. The trading in the RMB/foreign exchange forward market slumped 62.6 percent year-on-year to US\$32.4 billion. EUR/USD was the most actively-traded product in the foreign currency pairs market, as its trading volume accounted for 44.2 percent of the total with market share rising 15.1 percentage points compared with 2012.

In terms of currency structure, the share of RMB/USD trading dropped continuously, whereas that of RMB and non-dollar currencies increased considerably. Throughout the year, the share of RMB/USD trading in the interbank foreign exchange market took up 95.9 percent of total market trading, dipping 1.4 percentage points from the level in 2012. The growth of trading volume between the Chinese yuan and non-dollar currencies hit 89.5 percent, faster than that between the yuan and the US dollar for four years in a

row. In particular, launched in April, the direct trading between the yuan and the Australian dollar posted RMB 149.7 billion yuan in total as of the year-end, a year-on-year growth of nearly 20 times. Direct trading between the yuan and the Japanese yen climbed up 67.8 percent from 2012, totaling 1.28 trillion yuan.

Market participants in the foreign exchange market expanded further

As of the year-end, members in spot market amounted to 405, a year-on-year increase of 52, while those in forward, foreign exchange swap, currency swap and option markets stood at 88, 87, 80 and 33 respectively. The number of market makers in spot market was 31, and in forwards and swaps markets totaled 27.

Gold Market Performance

Gold price dropped amid fluctuations. The price of AU9999 in the Shanghai Gold Exchange (SGE) peaked at 340.80 yuan per gram and hit the lowest of 236.36 yuan per gram, closing at 236.46 yuan per gram at the end of the year, losing 98.04 yuan per gram from the end of the previous year or 29.30 percent. Market trading was buoyant with trading volume growing substantially, hitting a record high. The annual gold trading volume in the SGE added up to 11,614.45 tons, a year-on-year increase of 82.90 percent, with turnover surging 49.42 percent from a year earlier to 3.21 trillion yuan. The trading volume of gold futures in the Shanghai

Futures Exchange reached 40,175.60 tons, soaring 234 percent from the previous year, with the turnover jumping 165.31 percent compared with the prior year to 10.71 trillion yuan. The slump in gold price sparked the enthusiasm for gold investment. The annual amount of physical gold withdrawn from the SGE went up 161.92 percent year on year to 2,196.96 tons.

Major Policy Measures for the Financial Markets

Promoting product innovation and thus an innovation-driven development

First, the pilot program of credit asset securitization was further expanded. The PBC's Announcement No. 21 of 2013 was published through joint efforts with the CBRC, clearly stipulating that originators could decide flexibly specific forms of risk retention in line with relevant requirements, which would give commercial banks more incentive to participate in the expanded pilot asset securitization program. Second, the pre-issuance of government securities on a trial basis was pushed forward to further improve the pricing efficiency in government securities issues as well as the yield curve of government securities. Third, offering guidance for launching centralized clearing for RMB interest rate swaps. The PBC gave the Shanghai Clearing House (SCH) the green light to provide centralized clearing for RMB interest rate swaps and unveiled the *Rules on Providing the Centralized Clearing Business for RMB Interest Rate*

Swaps. The launch of centralized clearing for RMB interest rate swaps is conducive to further activating market trading and improving market efficiency, which plays a positive role in gradually building the overall framework for centralized clearing for OTC financial derivatives in China, and promoting a safe, efficient and healthy OTC financial derivatives market. Fourth, the direct trading between the Chinese yuan and the Australian dollar in the interbank foreign exchange market was launched as well as a market-making system. Fifth, new products such as gold forwards and swaps were launched in the interbank gold price enquiry market to provide diversified hedging tools to market players when gold price retreats. Guidance was offered to the SGE in launching the 12.5-kilogram product with a purity of 99.5 percent, which was consistent with the standard of international market, effectively shortening the gold import cycle. The SGE introduced the gold exchange-traded funds jointly with the Shanghai Stock Exchange, which enriched the variety of investment products in the gold market.

Strengthening regulation to prevent market risks

First, bond issue by tender was actively promoted. The SCH was approved to put into operation the PBC's Bond Issuance System, after which the system capacity for bond tenders in the interbank bond market would grow several folds, thus providing a strong support for encouraging bond issue by tender. Second, requirements for private

placement of financial bonds were further strengthened. The *Notice of the Financial Market Department of the People's Bank of China on Issues Regarding Private Placement of Financial Bonds* was released, clearly spelling out the definition and features of private placement of financial bonds and qualifications for subscribers, among others, which further regulated requirements for private placement of financial bonds and met the demands of financial institutions for diversified approaches to bond issuance. Third, the settlement of bond transactions in the interbank market was under regulation. The PBC's Announcement No.8 of 2013 was published, clearly requiring that all deals must be concluded via the system provided by the National Interbank Funding Center (NIFC); cancellations and changes are prohibited; and, the NIFC and bond custodian and settlement agencies should improve the mechanisms for reconciling basic information as well as information exchange and sharing. Fourth, the PBC's Announcement No. 12 of 2013 was released, further tightening requirements for delivery versus payment settlement in the interbank bond market, in a bid to prevent market risks and boost market efficiency. Fifth, the *Guidance to Market Makers in the Interbank Foreign Exchange Market* was revised to further increase liquidity in the foreign exchange market and to improve price discovery mechanism. Sixth, the *Notice of the State Administration of Foreign Exchange on Adjusting the Administration of RMB/Foreign*

Exchange Derivative Product Business was published, which further enhanced domestic RMB/foreign exchange derivatives market function and made it easier for market entities to manage exchange rate risks. Seventh, efforts were made to steadily promote the development of trading platforms in the interbank foreign exchange market, and regulate the development of net settlement for price enquiry-based transactions in the interbank foreign exchange market to facilitate the foreign exchange market development. Eighth, guidance was offered to the SGE in launching the trading system version 2.5 to further improve efficiency and safety of the system. Friday night market was made available in an attempt to further prolong gold trading sessions. Guidance was offered to the National Association of Financial Market Institutional Investors (NAFMII) in preparing and publishing the *Basic Terminology for Over-the-Counter Trading of Gold Derivatives in China (2013 Edition)*, which met the demand of market members for standardized gold derivatives trading texts and facilitated the growth of OTC gold derivatives market.

Stepping up the opening up of bond market

First, continuing to promote the issuance of RMB bonds by domestic financial institutions in overseas markets. The PBC implemented the approval by the State Council, which allowed domestic financial institutions to issue bonds in Hong Kong up to a quota of 37.5 billion yuan. As of the year-end, six

domestic financial institutions were approved to issue RMB bonds in Hong Kong, among which the CDB has in fact issued 4.5 billion yuan of bonds. Efforts were made to actively support and cooperate with the MOF to carry out new issues of RMB-denominated government securities in Hong Kong. Throughout the year, the MOF issued 23 billion yuan of RMB government securities in Hong Kong. The ICBC was approved to issue 2 billion yuan of RMB bonds in London. Second, overseas institutional investors were diversified. To broaden the investment channels for QFIIs and regulate their investment behaviors, the PBC published the *Circular on Issues Regarding Investment in the Interbank Bond Market by Qualified Foreign Institutional Investors*, allowing institutions that are approved as QFII by the CSRC and granted an investment quota by SAFE to apply to the PBC for access to the interbank bond market. Third, the issuance of non-financial enterprise debt financing instruments in the domestic market by overseas enterprises was promoted. The PBC gave guidance to the NAFMII to start putting in place institutional arrangements regarding innovations of bond issuance and management of funds raised to facilitate overseas non-financial enterprise to issue RMB debt financial instruments in the interbank market. As of the year-end, Daimler AG has already registered with the NAFMII a quota of 5 billion yuan of RMB debt financing instruments for non-financial enterprises.

CROSS-BORDER USE OF RMB

In 2013, following the guideline of finance serving the real economy, the PBC made continuous efforts to improve policies for cross-border use of RMB. The volume of cross-border use of RMB witnessed steady increase, and the channels for cross-border RMB flows expanded further. The clearing network of cross-border RMB use was gradually optimized, and the RMB offshore business developed in both depth and width, providing concrete support to the facilitation and liberalization of trade and investment.

The policies for cross-border use of RMB were improved on a continuous basis

The business procedures for cross-border use of RMB were further simplified. On July 10, 2013 the PBC released the *Notice on Simplifying the Procedures of Cross-border RMB Services and Improving Relevant Policies*, which simplified the cross-border RMB business under the current account, specified that domestic non-financial institutions were allowed to provide RMB overseas loan and guarantee services, and relaxed control over RMB account financing term and quota for domestic agent banks.

RMB-denominated foreign trade statistics were introduced. In January, 2013 the General Administration of Customs adjusted pricing currency for foreign trade statistics, including the total value of imports and exports, the total value of imports, the total

value of exports, and trade balances, from US dollar only to both RMB yuan and US dollar.

The administrative policies for RMB sales and purchases were improved. In December, 2013 the PBC released the *Notice on Adjusting the Administration of RMB Sales and Purchases*, changing quota management into macro-prudential management. Accordingly, quota management was no longer imposed on domestic agent banks and overseas settlement banks in terms of RMB sales and purchases, and these two types of institutions were allowed to provide the services for overseas participating banks according to relevant regulations.

Overseas investors were allowed to invest in domestic financial institutions with RMB. In September, 2013 the *Notice of the People's Bank of China on Relevant Issues*

Concerning RMB Settlement for Investment in Domestic Financial Institutions by Overseas Investors was promulgated, which specified that after acquiring approval from the financial regulators, overseas investors can invest in domestic financial institutions with RMB, and banks can provide relevant RMB settlement services.

The pilot program of RQFII was promoted in an orderly way. Jointly with the CSRC and the SAFE, the PBC revised the measures for the pilot program, expanding the scope of pilot institutions and relaxing investment ratio restrictions. Besides, the implementation rules were revised and capital account administration adjusted. The pilot regions for RQFII were expanded from Hong Kong to the Taiwan Region, the U.K. and Singapore. The pilot program expanded the channels for overseas RMB investors to use their resources, thereby playing a positive role in promoting the cross-border use of RMB and further opening up the capital market.

The pilot program of innovative cross-border RMB business was actively promoted. In July, 2013 the cross-border RMB business for individuals under current account and for outbound direct investment was launched on a pilot basis in the Cross-Strait Industrial Cooperation Experimental Zone in Kunshan, Jiangsu Province. In August, the pilot program of innovative cross-border RMB business was launched in the International Border Cooperation Center of Khorgos between China and Kazakhstan in

Xinjiang Autonomous Region. In December, the *Opinions on Financial Support to the Development of China (Shanghai) Pilot Free Trade Zone* was released, according to which a series of innovative businesses were launched, such as cross-border RMB business for individuals, RMB settlement for cross-border e-commerce, overseas RMB loans, two-way cash pool within enterprise groups, and etc.

Breakthroughs were made in bilateral currency swap. In 2013, the PBC signed currency swap agreements with the European Central Bank and central banks of the U.K., Brazil, Hungary and Albania. In addition, the PBC renewed currency swap agreements with the Monetary Authority of Singapore and the central banks of Iceland and Indonesia, with the volume totaling 1.1555 trillion yuan (Table 2). With the swap currencies extending to major international reserves currencies, such as euro and British pound, RMB enjoyed a higher international status. As of the end of the year, the PBC had signed 23 bilateral currency swap agreements with its overseas counterparts, with the total volume surpassing 2.5 trillion yuan, playing a positive role in facilitating the bilateral trade and investment and safeguarding the regional financial stability.

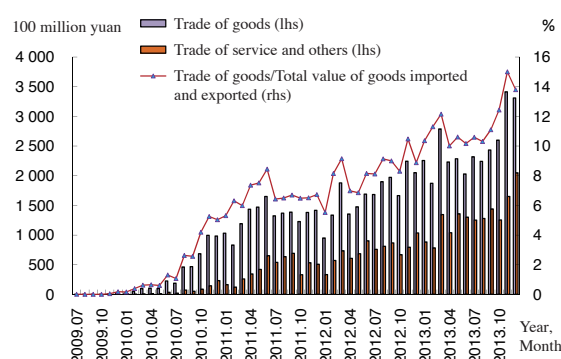
The volume of cross-border RMB business kept growing

The RMB settlement for cross-border trade grew steadily (Figure 16). In 2013, the

Table 2 Bilateral Currency Swap Agreements Signed in 2013

Date	Overseas Central Banks	Value	Period
March 7	Monetary Authority of Singapore	300 billion yuan/60 billion SGD	3 years
March 26	Central Bank of Brazil	190 billion yuan/60 billion BRL	3 years
June 22	Bank of England	200 billion yuan/20 billion GBP	3 years
September 9	Central Bank of Hungary	10 billion yuan/375 billion HUF	3 years
September 11	Central Bank of Iceland	3.5 billion yuan/66 billion ISK	3 years
September 12	Bank of Albania	2 billion yuan/35.8 billion ALL	3 years
October 1	Bank of Indonesia	100 billion yuan/175 trillion IDR	3 years
October 8	European Central Bank	350 billion yuan/45 billion EUR	3 years

Figure 16 RMB Settlement Value under Current Account in Recent Years



cross-border RMB settlement under current account registered 4.63 trillion yuan, up 57.6 percent on a year-on-year basis. In particular, the settlement for goods trade stood at 3.02 trillion yuan, accounting for 11.7 percent of the total value of goods import and export, growing 3.3 percentage points over the previous year. From the inception of the pilot program to the end of 2013, there were 174 countries whose enterprises had conducted RMB receipt and payment with China.

RMB settlement for cross-border direct

investment grew rapidly. Throughout the year, RMB settlement for outbound direct investment registered 85.61 billion yuan, growing 1.8 times over the previous year, while RMB settlement for foreign direct investment stood at 448.13 billion yuan, growing 77 percent over the previous year.

Overseas investors that invested in domestic inter-bank bond market became more diversified. By the end of the year, a number of overseas central banks (or monetary authorities), RMB clearing banks, overseas participating banks, overseas insurance companies, international financial institutions, sovereign wealth funds and RQFII pilot institutions had obtained PBC's approval to invest in the inter-bank bond market.

The pilot program of RQFII achieved progress in an orderly manner. By the end of the year, the total quota of RQFII had reached 500 billion yuan. With 61 overseas institutions getting the qualification for pilot RQFII, the approved investment quota

reached 157.5 billion yuan in total.

The number of RMB accounts opened domestically by non-residents increased steadily. By the end of the year, domestic agent banks had opened 1,954 interbank RMB accounts for overseas participating banks, representing an increase of 362 over the previous year, and the account balance registered 919.62 billion yuan. Overseas enterprises opened 13,267 RMB settlement accounts domestically, representing an increase of 7,070 over the previous year, and the account balance stood at 72.81 billion yuan.

The bonds issued by domestic institutions in Hong Kong shrank in volume. In 2013, the RMB bonds issued by domestic institutions in Hong Kong registered 39.5 billion yuan, 13.4 billion yuan less than the previous year. In particular, financial institutions issued 5.5 billion yuan, non-financial institutions issued 11 billion yuan, and MOF issued 23 billion yuan.

RMB cross-border clearing network was gradually optimized and the offshore RMB business developed in both depth and width

The development of RMB business in Hong Kong: the actual payment and receipt of cross-border RMB throughout the year between enterprises in mainland China and Hong Kong registered 3.55 trillion yuan, up 55.5 percent year on year, accounting for 57.2 percent of the total cross-border RMB receipt and payment year on year and rank-

ing the first among overseas countries and regions. Specifically, the RMB settlement for goods trade stood at 1.8 trillion yuan, accounting for 73.2 percent of total goods trade between mainland China and Hong Kong. According to the statistics released by the Hong Kong Monetary Authority, as of the end of the year, RMB deposit balance in Hong Kong registered 860.5 billion yuan, up 42.7 percent over the previous year, accounting for 12 percent of the total deposits with financial institutions in Hong Kong and accounting for 23 percent of the total foreign currency deposits in Hong Kong. Therefore, RMB cash pool enjoyed steady growth.

The development of RMB business in the Taiwan region: on January 25, 2013, the PBC and BOC Taiwan Branch signed *the Agreement on RMB Clearing Business* and the latter started RMB clearing business on February 6. In 2013, the actual payment and receipt of cross-border RMB between enterprises in mainland China and the Taiwan Region registered 258.98 billion yuan, up 66 percent over the previous year, accounting for 4.2 percent of the total cross-border RMB receipt and payment year on year and ranking the third among overseas countries and regions. Specifically, RMB settlement for goods trade stood at 209.75 billion yuan, accounting for 17.7 percent of the total goods trade between the mainland and the Taiwan Region. As of the end of the year, deposit balance with Domestic Banking Units (DBUs) and Offshore Banking Units

(OBUs) in Taiwan totaled 182.6 billion yuan. In December, the ABC Hong Kong Branch, the BOC Hong Kong Branch, the CCB Hong Kong Branch and the Bank of Communications Hong Kong Branch issued RMB bonds in Taiwan. By the end of the year, the RMB Formosa bonds issued in Taiwan had reached 10.6 billion yuan accumulatively.

The development of RMB business in Singapore: On February 8, 2013, under the authorization of the PBC, the ICBC Singapore Branch became the RMB clearing bank in Singapore, and it started to provide RMB clearing services from May 3. In 2013, the actual payment and receipt of cross-border RMB between China and Singapore totaled

608.15 billion yuan, up 48.1 percent over the previous year, accounting for 9.8 percent of the total cross-border RMB receipt and payment year on year, second only to Hong Kong. In particular, RMB settlement for goods trade registered 275.94 billion yuan, accounting for 59.6 percent of the total goods trade between China and Singapore. In addition to traditional deposit, remittance, exchange and trade settlement, RMB trade financing and RMB bond funds started to appear in the Singapore market. In November, ICBC Singapore Branch issued 2 billion yuan of RMB bonds, and became the first domestic bank to issue RMB bonds in Singapore.

• BOX •

Accelerating the Reform of RMB Capital Account Convertibility

It was stipulated in the Report of the Third Plenary Session of the 18th CPC Central Committee that RMB capital account convertibility would be accelerated, which was undoubtedly a great breakthrough compared with the wording in “The 12th Five-year Plan” and the Report of the 18th CPC National Congress that “RMB capital account convertibility will be realized in a gradual manner.” The strategic change reflected the deepened thinking of the CPC Central Committee regarding RMB capital account convertibility, provided guidance for the future work, marking the brand new phase that RMB capital account convertibility would be accelerated.

Accelerating the RMB capital account convertibility under the new circumstances is an impending task with great significance. In the long run, realizing RMB capital account convertibility is related to the improvement of China's socialist market economy; it will help facilitate trade and investment and boosts economic efficiency; it will also help satisfy various investors' demands and hence improves the well-being of the people; the RMB capital account convertibility is also relevant to the degree of China's opening-up, which will provide better access to both domestic and foreign financial resources and to both domestic and foreign markets. Moreover, it will help enhance China's international status and voice so that China can play an important role in reshaping the international order. At present, speeding up RMB capital account convertibility will help China to deal with and resolve some of the major issues and deep-rooted conflicts that China is currently facing, including facilitating economic restructuring, transformation and upgrading, enhancing the effectiveness of macroeconomic management, curbing inflationary expectation, improving international balance of payment, promoting balanced capital flows, driving the transformation of government functions and boosting the economic vitality.

There are relatively favorable domestic and international conditions for accelerating the reform of RMB capital account convertibility. Domestically speaking, China has enjoyed a substantially stronger economy with balanced macroeconomic conditions; the financial sector has seen remarkable achievements in its reform which have resulted in a sound financial sector with stronger risk-resistance capabilities; great progress has been made in promoting the convertibility of the capital account, laying a solid foundation for its full-convertibility. Globally, economic recovery is underway in major developed countries, which, on the whole, will benefit the reform of RMB capital account convertibility. Since last financial crisis, it has been widely acknowledged that convertibility of capital account should be an institutional arrangement that allows flexibility and adjustments. Controls over capital flows can be applied as deemed necessary after the realization of full convertibility. This will obviously help China to deal with the potential risks after realizing the capital account convertibility.

In the future, efforts should be made in implementing the strategic arrangements of the Third Plenary Session of the 18th CPC Central Committee and pushing forward the RMB capital account convertibility in a proactive and steady manner. In order to facilitate overseas investment, efforts will need to be made in reforming foreign

exchange management regime from emphasizing administrative approval to monitoring and analysis, from micro-control to macro prudential management and from the “positive lists” to the “negative lists” management. With regard to enterprises’ investment and financing activities when they “go global”, they will be able to purchase and pay foreign exchange in accordance with the real needs. Work will be done to further facilitate domestic enterprises’ provision of both RMB and foreign exchange credit and financing guarantees. Efforts will be made to promote the two-way opening-up of the capital market and the convertibility of cross-border capital and financial transactions in an orderly manner. QDIIs and QFIIIs will be expanded to include more institutions and investment quotas will be raised. When conditions permit, administrative examinations and approvals regarding qualifications and quota will be eliminated, allowing access to investment facilities for all the legitimate institutions both at home and abroad. Research will be conducted on the arrangements to connect the domestic and overseas stock markets, removing the restrictions regarding foreign institutions issuing RMB bonds on the domestic market in a gradual manner. The management system of external debt and capital flow will be set up and improved under the framework of macro-prudential management to enhance risk management capabilities in the environment of full convertibility. Attention will be paid to the currency match and maturity match of assets and liabilities to maintain the external debt at an appropriate level, to optimize its structure and to prevent related risks. Efforts will also be made in anti-money laundering and combating terrorist financing, cracking down on the cross-border flow of illegal funds and preventing excessive use of tax heavens. Supervision will be enhanced on short-term speculative capital flows, especially on transactions of financial derivatives. Under special circumstances, macro- and micro-prudential management measures will be deployed in curbing large-amount short-term capital flows. Relevant monitoring systems will be established to achieve the goals of benefiting the cross-border capital flows and collecting effective information.

FOREIGN EXCHANGE ADMINISTRATION

In 2013, in accordance with the unified arrangements of the CPC Central Committee and State Council, and closely following the central task of maintaining basic equilibrium of balance of payments accounts, the SAFE accelerated the transformation of the concepts of and approaches to foreign exchange administration. It saw the reform as the chance to promote development and transformation, continued to deepen the reform and innovation of foreign exchange administration mechanism, actively promoted the facilitation of trade and investment, improved the monitoring and management of cross-border capital flow, and held fast to the bottom line of preventing systemic and regional risks.

Reform of foreign exchange administration was promoted to support the sound development of the real economy

First, the SAFE further promoted the reform of foreign exchange administration concerning trade of goods and stuck to the management model featuring managing the large enterprises strictly while relaxing control over the small ones, rewarding the good and punishing the bad, and strengthening the subsequent monitoring. Based on the reform concerning the trade of goods, the SAFE conducted the reform of foreign exchange administration concerning the trade of services. Through streamlining the administration and carrying out decentralization, simplifying the examination of documents and

loosening the administration on overseas deposit, the time spent on receipt and payment of foreign exchange by enterprises engaged in the trade of services has been shortened from 20 minutes per transaction to an average of 5 minutes. Foreign exchange administration on the Special Customs Supervision Zones was improved, which solved the problem of improper implementation of policies in and out the zones. Second, the SAFE improved the foreign exchange administration on external debt and cross-border guarantee. It increased the quota of external debt and external guarantee, promoted the trial of the “domestic loan against overseas guarantee” policy among domestic enterprises across the country, launched the trial implementation of small domestic loans secured by guaran-

tees from abroad, and optimized the policy environment for investment and financing. Third, the SAFE promoted the development of foreign exchange market. It improved the market-maker system of inter-bank foreign exchange market, promoted the construction of the trading platform, standardized the bilateral netting in the OTC transactions and pushed forward the innovation of derivatives in foreign exchange market. Fourth, the SAFE supported innovation and development. It studied and formulated the supporting measures of foreign exchange administration in China (Shanghai) Pilot Free Trade Zone. It supported the development of cross-border e-commerce and internet finance, launched the trial program of conducting cross-border e-commerce settlement of foreign exchange in five regions, facilitating the economic transformation and upgrading.

RMB capital account convertibility was steadily promoted to enhance the efficiency of cross-border capital allocation

First, the SAFE steadily promoted the trial program of centralized management of foreign exchange fund for multinational corporations. The scope of the trial has further expanded to 32 state-owned, private and foreign-funded enterprises in seven provinces. Second, the SAFE stepped up efforts to streamline the administration and carrying out decentralization in the management of external debt and capital market. It set up a framework in which it focused on registra-

tion management using statistical analysis and monitoring as the means, and combined the supervision of entities with ex-post review. Third, the QFII scheme, RQFII scheme and QDII scheme were steadily implemented. As of the end of 2013, the SAFE approved the QFII investment quota of US\$49.701 billion, RQFII investment quota of 157.5 billion yuan, QDII investment quota of US\$84.232 billion. More than 60 percent of items for administrative examination and approval under capital account were cancelled. The policy outcomes and social response were quite positive.

Monitoring of cross-border capital flow were continuously improved to promote the equilibrium of balance of payments

First, the SAFE further enhanced its capacity of monitoring, analysis and early warning. It strengthened the comprehensive usage of foreign exchange administration information, closely followed the changes in the flow of cross-border capital, and made the monitoring and analysis more forward-looking and targeted. Second, the SAFE timely launched the contingency plan. As the pressure from the net inflow of foreign currency continuously increased in the first four months of 2013, the SAFE started the contingency plan to deal with the abnormal inflow of cross-border capital. Many strategies were adopted such as administration of bank position of settlement and sales of foreign exchange, classified regulation on

trade of goods, foreign exchange administration inspection and guidance of expectations, which achieved favorable outcomes. Third, the SAFE severely cracked down on the illegal activities which violated the rules of foreign exchange administration. In 2013, the SAFE altogether investigated and handled 46 foreign exchange-related cases, such as illegal private banks and evasion of foreign exchange control, with the total amount involved reaching 50.7 billion yuan.

Progress was made in improving the statistics system and rule making to promote the streamlining of administration, delegation of powers and transformation of functions

First, the SAFE improved the statistics system of balance of payments. *Measures for the Collection of Statistics and the Declaration of Balance of Payments* was revised and implemented, which further improved the supporting system of macroeconomic policy-making, enhanced the social awareness of the balance of payments statistics and the responsibility of reporting and improved the statistical system of external financial assets and liabilities. Second, the SAFE upheld administration by law. It stepped up efforts to clear up laws and regulations, and abolished 107 normative documents throughout the year. A plan of abolishing items for administrative examination and approval from 2013 to 2015 was studied and formulated. Management of law enforcement certificates was

unified to standardize the enforcement of law concerning foreign exchange administration. Third, communication through media was strengthened to further enhance the transparency of foreign exchange administration. SAFE actively carried out the interpretation and the publicity campaign of the decisions of the Third Plenary Session of 18th CPC Central Committee. It timely responded to the topical issues of public concern such as the contingency plan for the management of the cross-border capital inflows, innovative application of foreign exchange reserves, and the release of the amended measures for balance of payments statistics and declaration. In order to further increase the data transparency, the SAFE released data on banks' foreign exchange settlement and sale and RMB deposits held by non-residents for the first time.

The management system of large-scale foreign exchange reserves was further improved to realize the preservation and appreciation of value

First, the SAFE improved the strategic and tactical assets allocation system of foreign exchange reserves. Sticking to its diversified investment strategy, the SAFE adjusted its asset allocation flexibly. Under the premise of ensuring the safety and liquidity of foreign exchange reserve assets, the current and prospective profitability of foreign exchange reserve management was enhanced. Second, the risk manage-

ment framework was further improved. The SAFE strengthened the capacity of early warning and risk judgment, and enhanced its ability to manage counter-cyclical risks and withstand crisis. Relevant contingency plans were put into place to prevent the risks brought by large inflows and outflows of cross-border capital. Third, the SAFE actively responded to the nation's overall development strategy, introduced innovations in the management of foreign exchange reserves, steadily expanded the business scope of entrusted loans, and carried out effective man-

agement on multiple levels and through multiple channels. The SAFE put emphasis on supporting the enterprises to "go global" and on imports and exports sectors to strengthen its support for the real economy. Fourth, the SAFE continuously improved the institution and capacity building, strengthened efforts in research and development of models, performance evaluation and the use of information technology, enhanced its research and knowledge and experience accumulation, in order to improve the management of foreign exchange reserves.

BALANCE OF PAYMENTS POSITION

An overview of the balance of payments (BOP) position

The total BOP surplus increased rapidly. In 2013, China's current account surplus was US\$182.8 billion, down 15 percent from that of the previous year. The surplus of capital and financial account turned from a deficit of US\$31.8 billion in 2012 into the surplus of US\$326.2 billion in 2013. The total BOP surplus was US\$509 billion, up 177 percent from that of 2012.

The surplus of trade of goods continued to expand. Based on BOP statistics^①, in 2013, the total exports of goods was US\$ 2,219 billion, while the imports reached US\$1,859.1 billion, up 8 percent and 7 percent respectively from those of the previous year. The total surplus of trade of goods was US\$359.9 billion, increasing 12 percent year on year, second only to the surplus of US\$360.6 billion in 2008.

The deficit of trade of services hit the record high. The revenues of trade of services in 2013 were US\$206 billion, up 8 percent

year on year, while the expenditures were US\$330.5 billion, increasing 18 percent. The overall deficit of trade of services was US\$124.5 billion, 39 percent higher than in 2012. Among this, the deficit of tourism and transportation increased by 48 percent and 21 percent respectively.

The combined surplus of goods and services trade in 2013 was US\$235.4 billion, up 2 percent year on year. The surplus to GDP ratio registered 2.6 percent, shrinking 0.2 percent from that of 2012.

The deficit of income account expanded. The revenue side of income account in 2013 was US\$185.5 billion, 11 percent higher than the previous year, while the expenditure side was US\$229.3 billion, up 23 percent. The resulting deficit was US\$43.8 billion, 1.2 times larger than that in 2012. The surplus of compensation of employees was US\$16.1 billion, increasing 5 percent year on year. The investment income deficit was US\$59.9 billion, 70 percent larger year on year. This mainly reflected the problems in the structure of China's external assets and liabilities.

^①The difference between this statistical caliber and that of the Chinese Customs lies in two aspects. First, the imports statistics under the BOP caliber equals 95 percent of the CIF statistics collected by the Chinese Customs, that is, 5 percent of the CIF was deducted as the transportation and insurance costs. Second, statistics under the BOP caliber also includes goods repair, means of transportation, cargo purchased at the port and the captured goods from smuggling, and deducted the returned goods from the imports and exports.

The income of the foreign investors obtained from investment in China rose by 23 percent from the previous year.

There remained a net inflow of capital under direct investment. Based on BOP statistics^②, the surplus of direct investment in 2013 was US\$185 billion, 5 percent higher year on year. The net inflow of foreign direct investment was US\$258.2 billion, up by 7 percent, while the outward direct investment was US\$73.2 billion, rising 13 percent.

The net inflow of securities investment witnessed a rise. In 2013, the net inflow of securities investment was US\$60.5 billion, rising 27 percent year on year. China's outward securities investment saw a net outflow of US\$5.4 billion, down by 16 percent. The net inflow of foreign securities investment in China was US\$65.9 billion, increasing 22 percent from the previous year.

Other kinds of investment turned from a net outflow into a net inflow. The net inflow of other kinds of investment in 2013 was US\$77.6 billion, whereas there was a net outflow of US\$260.1 billion in 2012. Amid other kinds of investment, China's external assets such as loans, trade credit and deposits to other countries saw a net increase of US\$136.5 billion, a year-on-year decline of 41 percent from the previous year. The external liabilities such as other countries' loans, trade credit and deposits to China increased

US\$214.2 billion, while in 2012 it saw a net decrease of US\$28.4 billion.

The reserve assets increased faster. Eliminating the impact of value fluctuations in non-trading factors such as exchange rates and prices (the same as below), China's reserve assets increased by US\$431.4 billion, 3.47 times larger than that in 2012. Amid the total reserve assets, foreign exchange reserve increased US\$432.7 billion, US\$334 billion more than the increase in 2012. As of the end of 2013, China's balance of foreign exchange reserve reached US\$3,821.3 billion.

Analysis of the BOP conditions

The BOP position under current account had continuously improved. In 2013, the ratio of current account surplus to GDP was 2 percent, shedding 0.6 percent from the previous year. Among its components, the goods trade surplus accounted for 3.9 percent of GDP, which remained nearly the same as in the previous year. The service trade deficit to GDP ratio was expanded by 0.3 percentage point to -1.4 percent. And the ratio of income and current transfer deficit to GDP expanded by 0.4 percentage point to -0.6 percent.

There kept a net inflow under capital and financial account. In 2013, the international situation got increasingly complex, and the situation in emerging markets diverged. Especially in the middle of the year,

^②The difference between this statistical caliber and that of the Chinese Ministry of Commerce lies in the fact that the BOP statistics also include undistributed profits, the distributed profits yet to be remitted, surplus reserve, shareholder loans, investment absorbed by financial institutions and non-residents' purchase of real estate.

the expectation of US's tapering off the quantitative easing monetary policy brought some impacts on the international financial market. Some of the emerging economies experienced currency devaluation and an accelerated outflow of capital. Under such circumstances, due to the benign economic fundamentals and strong market confidence, cross-border capital flow of China registered narrow fluctuations. And there kept a net inflow under capital and financial account in every quarter, and the surplus expanded significantly.

The imbalance of payments was still prominent. In 2012, China's BOP accounts showed a pattern of "current account in surplus, capital and financial account in defi-

cit", while in 2013, it went back to "double surplus". The sum of current account and direct investment balance (i.e., fundamental balance) was still rather large, which was US\$367.8 billion and kept approximately the same with the average sum from 2009 to 2012. The capital flow of non-direct investment (including securities investment and other kinds of investment) changed from a deficit into a surplus. In 2013, the surplus reached US\$138.2 billion, which equals to 1.5 percent of GDP, while in 2012 the deficit hit US\$212.3 billion. This showed the foundation for China's equilibrium in BOP accounts is not stable, and a market-oriented BOP mechanism should be actively pushed forward.

Measures for the Collection of Statistics and the Declaration of the Balance of Payments

Approved by the State Council in 1995, the PBC promulgated *Measures for the Collection of Statistics and the Declaration of the Balance of Payments* (the “Measures”) with the aim to present a comprehensive picture of foreign-related economic activities and provide important reference for macro-economic decision-making. To keep the pace with the rapid growing foreign-related economic activities and get adapt to the transformation of foreign exchange administration, in complying with the latest international standards, SAFE initiated the amendments on the Measures. The project had been on the State Council’s list of legislation plan for administrative regulation. On November 9, 2013, Premier Li Keqiang signed Decree 642 of the State Council of People’s Republic of China to promulgate the amended Measures. The amendments cover the following aspects:

First, the revised Measures clearly specify that the coverage of BOP statistics is extended to “foreign financial assets and liabilities of Chinese residents”. The original Measures, only stipulated limited reporting on the stock value of financial assets and liabilities of some financial institutions. *The Balance of Payments and International Investment Position Manual* (BPM6) of the IMF specifies compilation requirements on the stock value of foreign financial assets and liability balance. The amended Measures include foreign assets and liabilities into the reporting coverage.

Second, the parties that bear the responsibilities of reporting are extended from Chinese residents to non-Chinese residents who conducted economic activities in Chinese territory. The original Measures solely specified reporting duties for domestic institutions and individuals. With the rapid expansion of foreign-related economic activities, economic transaction aggregates of external institutions and individuals experienced tremendous growth. In light of social costs and efficiency of data collection, parts of transactions should be reported by foreign institutions and individuals.

Third, the reporting requirements are extended to institutions providing registration, clearing, and custody services. The original Measures only imposed reporting duties on securities registrations institutions. With the diversification in the types of foreign

transactions and transaction methods, related reporting parties have gone beyond the original scope. In view of convenience and accuracy of data collection, collecting data from intermediary institutions that provide depository, clearing, and custody services will save social costs and ease reporting burden of reporting parties.

Fourth, the reporting duties are extended to Chinese residents who have foreign assets and liabilities. The original Measures didn't require domestic individuals to report financial assets and liabilities. In practical operation, the compilation was made possible through indirect data collection by financial institutions. With the deepening of opening-up, both the types and value of foreign assets and liabilities held by domestic individuals have increased. However, in reality it is difficult to collect all the data on these transactions. To ensure the integrity of the BOP statistics, those transactions should be fully included.

Fifth, the amended Measures comprehensively specify the confidentiality duties of BOP data collecting agencies. The original Measures only clarified that individuals engaging in BOP data compilation bore confidentiality duties on reported data, with limited coverage on individuals engaged in the overall process of data collection. The amended Measures repeatedly emphasize confidentiality duties during every step of data collection, and require that banks, dealers, and institutions that provide depository, clearing, and custody services should strictly keep confidentiality of reporting parties' data acquired during business operation, representing a wider coverage compared with that of the original Measures.

Sixth, the articles regarding penalties are amended. To keep in line with penalties in *Regulations of the People's Republic of China on Foreign Exchange Administration*, the amended Measures requires that for Chinese residents and non-Chinese residents who fail to follow the reporting requirements, SAFE or its branches may impose penalties according to Article 48 of *Regulations of the People's Republic of China on Foreign Exchange Administration*. With inapplicable articles being removed and wording simplified, the new penalty articles will be easy to apply.

FINANCIAL ACCOUNTING

The PBC carried out balance sheet management and strengthened financial accounting research and analysis

The PBC studied and drew up a medium- and long-term plan on “building a sustainable and healthy central bank balance sheet.” With research on central bank financial accounting system and financial strength as well as central bank collateral policy, the PBC introduced accounting evaluation measures of the Standing Lending Facility to support the smooth unfolding of new instruments in open market operations. In addition, the PBC actively participated in the international convergence of China’s corporate accounting standards, compiled 24 bulletins on accounting standards reform, and provided feedback on the amendments of corporate accounting standards, such as *Financial Instrument Identification and Measurement*, *Financial Asset Impairment*, and *Financial Instruments Disclosure*. Following the development of G20 central banks’ financial budget management since the financial crisis, the PBC finished *The Comparative Study on G20 Central Banks’ Financial Budget Management Systems* to try to search for the accounting standards and financial accounting systems

that are in accordance with modern central banking system for the PBC.

The PBC enhanced its capability in accounting analysis to provide reference for developing and adjusting macroeconomic policies. The guiding opinions on analyzing PBC accounting statements was drafted. Based mainly on balance-sheet analysis, the PBC studied the impact of central bank functions, such as monetary policy implementation and financial stability measures, on asset quality and cost efficiency. On a monthly and quarterly basis, the PBC conducted analysis on asset and liabilities as well as financial revenues and expenditures, and developed financial forecast scenarios to improve timeliness and accuracy of financial forecast. With featured study on foreign central banks’ annual balance sheets, taking into consideration of impacts of macroeconomic prudential regulatory requirements and market-based interest rate reform, the PBC strengthened research and analysis on the financial statements of domestic financial institutions.

The PBC steadily pushed forward financial accounting innovation and reform to carry out central bank mandates

In line with the overall and strategic

goals in financial accounting reform and development, the PBC conducted featured research on important issues, such as current situation and analysis of commercial banks' asset and liability management, and PBC's plan for building the accounting information system, and generated an array of valuable research findings, which contributed to accelerating reform and innovation. Besides, the PBC concluded a report on the framework for developing accounting integrated system, formed a working team to draw up working plan and advance the system R&D and construction. To deepen budget management reform, the PBC introduced differentiated management measures and ex-ante registration model, improved expenditure standards so as to increase quotas in major expenditure projects and further optimize financial resource allocation. The budget performance assessment pilot program was expanded, with funds covered by the assessment increased by 86.7 percent year on year. The aim was to gradually set up a budget performance management system with "clear goals set during budget planning, a monitor mechanism in place during budget implementation, ex-post assessment upon budget completion, and subsequent application of assessment findings." Considering the central bank's mandates, the PBC studied purchase services such as entrust, contract and procurement and explored methods such as introducing market mechanism, changing public service supply conditions, means and

procedures to gradually improve the efficiency of use of funds. The PBC studied the development of direct affiliates and vigorously advanced their reforms, so as to help direct affiliates to play a better role in carrying out central bank mandates.

The PBC improved information disclosure mechanism and strengthened transparency in financial accounting. The PBC released guiding opinions on promoting budget transparency to advance and gradually improve disclosure of budget management in the PBC systems and accept public surveillance. *Trial Measures of the People's Bank of China on Internal Disclosure of Infrastructure Construction Information* was issued to advance information disclosure on infrastructure construction and strengthen democratic supervision from the staff. The PBC set up a tracking and monitor mechanism on major centralized procurement projects, drew up project assessment and public announcement procedures and developed a centralized procurement management system to realize real-time reflection of and control over procurement process.

The PBC earnestly implemented policies and requirements of Eight-point Code and "Three-point Consensus" to regulate financial accounting activities

In earnestly carrying out Eight-point Code from the central government and "Three-point Consensus" from the State Council, the PBC, based on the central

bank's actual situation, drew up specific implementing measures and administrative requirements on budget management, official receptions, meetings, vehicles for official business, and office premises. The PBC introduced *Opinions on Implementing "Three-point Consensus" and Strengthening Supervision and Inspection*, *Notice on Strengthening Management of Meeting Expenditures*, and *Notice on Further Strengthening Management of Domestic Official Reception Expenditures*, to regulate the important links of financial accounting activities such as the fiscal authority and administrative authority, management and operation, and enforcement and inspection, aiming to promote rigid constraints and improve the financial accounting system.

Under the precondition of ensuring central bank mandates and major operations, the PBC insisted on strict economy by tightening control over regular expenditure and official expenditure budget by 5 percent. Of-

ficial expenditure in all branches of the PBC system decreased by 5.05 percent year on year, and those of direct affiliates under the PBC Head Office cut down by 25 percent year on year. Using business credit cards for official business was expanded in the PBC system with 36 provincial-level branches issuing rules on compulsory settlement with business credit cards. The PBC continued to control the use of official vehicles, finished the assessment on the necessary numbers of official vehicles, and imposed a freeze on new purchases. In 2013 the saving of centralized procurement fund was 9.7 percent.

To comply with the requirements on government organs to stop building official premises and to check out current office space, the PBC required branches and direct affiliates to launch self-examination. Meanwhile, the PBC initiated infrastructure project inspection to enhance infrastructure construction management capacity of related builders.

PAYMENT AND SETTLEMENT SYSTEMS

Institutional construction of payment and settlement systems achieved new progress

Administrative Rules for Bank Cards Acquiring Business was released, setting up the basic system for regulating the business. *Administrative Measures for the Custody of Clients' Reserves by Payment Institutions* was released, which comprehensively regulates the custodian business such as deposit, collection, use and transfer of client's reserves. *Administrative Rules on Printing Bank Bills and Certificates* was released, which specified requirements related to bill and certificate format revising, engraving, ordering, shipping, identification and regulation responsibilities. *The Administrative Rules for Managing RMB Bank Accounts* and detailed implementation rules were drafted, so as to reform the existing system. Study was carried out on how to design market access framework for bank card clearing, with a view to promoting administrative examination and approval for bank card clearing institutions. Efforts were made to implement

WTO's ruling on China-US E-payment dispute, and relevant measures were repealed or revised.

Payment and settlement infrastructure operated smoothly

The functions of payment and settlement infrastructure continued to be improved, with the processing capacity expanding and operation management enhanced. All types of payment systems^① nationwide operated safely and smoothly, with the business maintaining a rapid growth momentum. The payment systems processed 23.58 billion transactions with a total value of 2,939.57 trillion yuan, up 23.38 percent and 17.19 percent respectively compared to the levels in 2012. Among the total, High-value Payment System (HVPS) handled 595 million transactions with the value processed reaching 2,060.76 trillion yuan (36 times of China's GDP), up 26.33 percent and 16.30 percent respectively year on year. Bulk Electronic Payment System (BEPS) handled 1.04 billion transactions with the total value

^①It includes High-value Payment System (HVPS), Bulk Electronic Payment System (BEPS), Internet Banking Payment System (IBPS), Intra-city Bill Clearing System, China Domestic Foreign Currency Payment System (CDFCPS), Intra-bank Payment Systems of Banking Financial Institutions, Bank Card Payment System, National Cheque Image Exchange System, Payment and Clearing System for City Commercial Banks, and Payment and Clearing System for Rural Credit Banks.

reaching 20.32 trillion yuan, up 37.78 percent and 9.52 percent respectively. Internet Banking Payment System (IBPS) handled 718 million transactions with the total value reaching 9.47 trillion yuan, up 206.84 percent and 166.01 percent respectively. The second-generation of China National Advanced Payment System (CNAPS2) was successfully launched and the central bank Accounting Data Centralized System (ACS) was smoothly operated on a pilot basis. The services and business operation of China UnionPay, Funds Clearing Center of City Commercial Banks and Funds Clearing Center of Rural Credit Banks continued to grow rapidly. Bank cards interbank transaction and clearing system of China UnionPay handled 15.14 billion transactions^② with the total value reaching 32.3 trillion yuan, up 21.2 percent and 48.4 percent respectively. The Payment and Clearing System for Rural Credit Banks handled 121 million transactions with the total value reaching 2.46 trillion yuan, up 40.23 percent and 22.55 percent respectively over the previous year.

Non-cash payment instruments flourished

Thanks to the extensive application of information technology in retail payment, innovations in retail payment flourished. As a result, payment and settlement enjoyed high efficiency and low cost, greatly facilitating the life of the general public. In 2013, non-

cash payment maintained a growing momentum with the amount of transactions and total value across China registered 50.158 billion and 1,607.56 trillion yuan, up 21.92 percent and 24.97 percent year on year. The ratio of domestic cash in circulation (M0) to GDP dropped continuously from 12.8 percent in 2006 to 10.29 percent in 2013. As of the end of the year, 4.214 billion bank cards had been issued accumulatively in China, up by 19.23 percent on a year-on-year basis, among which, 593 million were financial IC cards. Throughout the year, the bank card penetration ratio reached 47.45 percent. Outstanding credit card debts registered 1.84 trillion yuan, up 61.80 percent over the previous year. E-payment, such as online payment, telephone payment and mobile payment, enjoyed rapid development. In particular, online payment registered 23.674 billion transactions with the value of 1,060.78 trillion yuan, up 23.06 percent and 28.89 percent respectively. In rural areas, the scope and scale of mobile phone payment pilot programs continued to expand, and the services of cash withdrawal via mobile phone was even launched in agent service centers in some provinces and cities.

Supervision and regulation of the payment and settlement systems was further strengthened

First, efforts were made to improve the

^②It includes transactions of bank card deposit, withdrawal, consumption, transfer and inquiry through both the traditional channels, such as ATM, POS and mobile POS terminals, and new channels, such as telephone and Internet.

institutional arrangements of supervision and regulation of the payment system. The year witnessed the releases of the *Rules on Enforcement and Inspection of Payment and Settlement Businesses* and *Administrative Measures on Supervising Rural Credit Banks Funds Clearing Centers*, and the compilation of *Manual for On-site Inspection of Banking Financial Institutions' Payment and Settlement Businesses*, all of which specified responsibilities and procedures of supervision and regulation. Second, efforts were made to strengthen supervision and regulation on payment institutions. As of the end of 2013, there had been 250 payment institutions accumulatively that had acquired business permits. Off-site supervision mechanisms such as major event reporting and annual supervision report were established, which, together with on-site examination and supervision, strengthened the awareness of payment institutions for risk prevention and compliance. Third, the PBC organized nationwide inspection on bank card acceptance business and budget units' bank account compliance, so as to improve the bank card acceptance business and the management of custody of client's reserves in payment institutions. Fourth, the task of checking the authenticity of individual RMB bank accounts was completed, fulfilling the requirement of using real-name for individual bank accounts. Fifth, the *Principles of Financial Market Infrastructure* was implemented. In August, 2013 the PBC released *Notice on Implement-*

ing the Principles of Financial Market Infrastructure, specifying China's implementation plans. In December, 2013 the PBC issued *Notice on Conducting Assessment of Financial Market Infrastructure* together with CSRC, mapping out the self-assessment and external assessment plan of domestic financial market infrastructure.

Payment environment in rural areas experienced remarkably improvement

In recent years, great efforts were made to improve the payment environment in rural areas, such as disbursing agricultural subsidiaries directly into farmers' accounts, expanding banking network coverage, introducing Kins Farmer's Benefit Card services and promoting farmer-friendly retail services, so as to promote coordinated development of financial services in both urban and rural areas and inclusive growth of payment services. By the end of the year, withdrawal transactions using migrant worker bank cards had exceeded 14 million, with the total value standing at 21 billion yuan. Meanwhile, financial institutions in rural areas were encouraged and supported to conduct business using payment systems based on their conditions and needs. As of the end of the year, over 80 thousand outlets of rural financial institutions were connected to the payment and clearing system of the PBC, and nearly 80 thousand outlets of rural financial institutions were connected to the payment and clearing system of rural credit banks, which

effectively opened fund transfer channels in rural areas. The PBC reviewed the progress made in improving payment environment in rural areas, and awarded the units and individuals that performed excellently.

Communication and cooperation both at home and abroad were enhanced

Through the platform of international organizations, such as Committee on Payment and Settlement Systems (CPSS), EMEAP Working Group on Payment and Settlement Systems (EMEAP- WGPSS), South East

Asian Central Banks (SEACEN) and ASEAN+3, the PBC participated more actively in international affairs related to payment and settlement, strengthened communication and cooperation with other members in the fields of payment, clearing and settlement, and had a bigger voice on related issues in the region. Efforts were also made to deepen cooperation with other central banks. *China Payment System Development Report* was released with the goal to strengthen communication with the outside world.

• BOX •

Successful Launch of the Second-generation of China National Advanced Payment System (CNAPS2)

In order to satisfy the growing and diversified needs of intra-bank payment of banking institutions, financial markets, enterprises and institutions as well as the general public, to adapt to the changing operation and management of commercial banks, and to be in line with the objective law of information system operation cycle, the PBC started the work on building the CNAPS2 in 2009. Advanced concepts and technologies of payment and clearing management were introduced and taken into consideration. Based on the functions of the existing payment system, the PBC increased the system's functions, improved the clearing efficiency, expanded services, strengthened supervision and upgraded the backup system. Under the concerted efforts of the PBC, the banking financial institutions and relevant institutions, CNAPS2 was successfully launched in October, 2013.

In the designing of CNAPS2, full consideration was given to payment system development in China and the experiences of advanced countries. Major improvements are as follows:

With CNAPS2, as one legal entity, each commercial bank uses a single account to access to the system. The head office and branches of a commercial bank can process their payments through one single account. Compared with CNAPS1, under which commercial banks had to open accounts for each of its provincial branches so as to get access to the system, CNAPS2 helps improve operation efficiency, save liquidity and enhance efficiency in using funds. The fund management department at the head office of a commercial bank can easily monitor the use of liquidity throughout the bank, so that fund can be allocated in a swift and flexible way.

CNAPS2 has more functions for liquidity management. Liquidity risk is a major risk faced by payment systems. If an institution fails to make payment in time, others may be affected. CNAPS2 is equipped with some new functions, such as High-value Payment System queue matching, “cash pool” management, liquidity inquiry functions, and etc., which enhance the clearing efficiency.

CNAPS2 supports intra-bank online payment. Normally, ten seconds after initiating an intra-bank payment through online banking or an ATM of a deposit bank, clients may check to see whether the fund has been transferred to the intended account. It helps improve client’s experience with online payment and facilitate the development of E-business.

CNAPS2 is more efficient in terms of operation and maintenance. The CNAPS2 system is more advanced in risk warning and more efficient in operation monitoring, and therefore its operation is much more stable and safer.

The backup function of CNAPS2 is more advanced. With a framework comprising the production center, the remote backup center and the intra-city data backup center, CNAPS2 has robust production recovery ability, which ensures the continuity of business and the safety and integrity of data in emergencies.

CNAPS2 adopts message standards in line with the international practice. Using ISO20022 Message Standards, CNAPS2 makes the connection and communication among systems more convenient. For instance, plan has been made to link CNAPS2 to relevant foreign currency clearing systems, in order to realize Payment versus Payment (PVP) settlement for transactions of domestic and foreign currencies, thus improving settlement efficiency and preventing risks.

CURRENCY ISSUANCE AND MANAGEMENT

Rigorous efforts were made to insure ample cash supply

In 2013, net cash injection into the system registered 389.9 billion yuan, almost at the same level as with the previous year. The holiday season between the New Year and the Chinese Spring Festival witnessed a net cash injection of 1.8457 trillion yuan, and the maximum daily cash injection during the same period stood at 260.3 billion yuan, a year-on-year increase of 194.5 billion yuan and 17.2 billion yuan respectively. In an attempt to effectively meet the cash demand of the market, the PBC stepped up efforts in analyzing and forecasting the situation of currency in circulation and optimizing the distribution of cash vaults for reserve fund. The deployment of cash was made based on the particular needs during different periods and in different regions, making the operation more scientific and flexible.

The long-term supply mechanism of small-denomination RMB cash was launched. In dealing with the problems in the supply of small-denomination RMB cash, the PBC adhered to the policy of “meeting regular demand at the counter, meeting special demand at bank outlets and meeting large demand at main banks”, and put into force a mechanism of supply-

ing small-denomination cash through cash reserves, main outlets and main banks, effectively solving the problems. During the 2012 holiday season, the nationwide injection of RMB cash with denominations of and below 10 yuan increased by 70 percent over the previous year.

The tidiness of the RMB currency in circulation was greatly improved

The PBC also boosted the sorting operation of all the cash received by financial institutions. The PBC enhanced institutional planning, requesting banking institutions to set up cash sorting targets and plans. Efforts were also made in setting up a follow-up and reporting mechanism and regulating related operations so as to ensure that all the sorting can be done on schedule. In 2013, over 2/3 of the PBC branches and sub-branches realized the target of having all the cash deposits from banking institutions sorted within their respective jurisdictions. All of these measures improved the quality of banks' cash deposits with the PBC and the tidiness of RMB currency in circulation.

The replacement of small denomination banknotes with coins was steadily promoted. In cities such as Nanjing, Jinan and Beijing, automatic machines that can change banknotes into coins were put into use so

that banknotes of different denominations can be easily changed into coins, establishing a self-service network of coin machines. This helps to reactivate the coins that have been left out of circulation, boost the use of coins and enhance the tidiness of banknotes in circulation. Over the year, the use of small-denomination coins made a contribution of 26.5 percentage points to the tidiness of currency in circulation, a contribution rate of 41.5 percent.

The PBC took great efforts in recycling and destructing damaged and mutilated banknotes. First, a quantitative model was applied in assessing the tidiness of currency in circulation. The plan of withdrawing damaged and mutilated banknotes in 2013 was made based on the target of tidiness of banknotes in circulation and the status quo in different regions around the country and was implemented accordingly. Second, the revision of *The Standards of RMB Banknotes to be Withdrawn from Circulation* was initiated. Third, channels of withdrawing damaged and mutilated banknotes were expanded and related innovations were initiated. Fourth, the pilot program of double-checking the damaged and mutilated banknotes by machines was launched, improving efficiency and quality of the double-checking. Fifth, sorting thresholds of the machines were designed in a scientific manner and the sorting software was updated timely, improving the operation of the sorting equipments. Sixth, measures such as optimizing the operation procedure, adopting quality sorting and appropriately deploying cash processing equipments were

taken, enhancing the disposal of damaged and mutilated banknotes. During the year, the amount of sorted damaged and mutilated banknotes witnessed a year-on-year increase of 20.3 percent. Specifically, the amounts of banknotes processed by automatic sorting and destructing machines and large-scale destructing machines posted an annual increase of 28.0 percent and 4 percent respectively. In 2013, 65.9 percent of damaged banknotes were destructed through automatic sorting and destructing machines, 4.9 percent higher than the previous year. The overall tidiness of RMB banknotes in circulation remained stable across the year, with a substantial increase of 4.4 percentage points in the tidiness of large-denomination RMB banknotes.

The banknote serial number inquiry management mechanism was established

The PBC was actively involved in the popularization of serial number inquiry among banking institutions and promulgated *Guidelines on Using Serial Number Inquiry to Resolve Counterfeiting-related Disputes and Related Work Inspection*. At the same time, regular feedback arrangements with 18 major banking institutions were also set up. As a result, serial number inquiry of large-amount cash deposits and withdrawals was realized. The pilot work of putting notice of serial number inquiry function on ATMs was also launched. A total of 1,117 counterfeiting-related disputes were settled by means of serial number inquiry across the year. Among them, 1,108 disputes were not due to the banking institutions' mishandling while

nine disputes resulted from banks mistakenly giving customers counterfeit banknotes. Five counterfeiting clues were submitted to the police for investigation.

Great efforts were made to ensure the security management of currency issuance

Risks in the management of reserve funds, gold and silver were reduced. Priority in cash injection was given to the old packages of reserve funds and the 1999 edition of the Fifth Set of RMB Banknotes. The batches of new banknotes held by sub-vaults that were scheduled to be retrieved from circulation were transferred unopened to the key vaults of the PBC Head Office, by which management risks were further reduced. The PBC monitored the transportation of the reserve funds into and out of the vaults in the entire country. Administrative measures of checking and inventorying non-standardized gold and silver products were launched. Electronic files of precious silver ingots and physical gold was established.

The security management of vaults for reserve funds and banknote processing was continuously improved. First, the construction of security technology facilities at vaults were enhanced. The method of closed-off management of vaults was promoted. As of the end of the year, the monitoring and alarming systems were installed in all the vaults, with 95 percent of them also linked to the provincial-, municipal- and county-level management systems, and 98 percent under closed-off management. Second, system-wide inspections of vaults

of reserve funds and cash processing centers were launched in the country. In line with the principle of full coverage of all risks, selective examination of 16 vaults and 10 cash processing centers were conducted, mainly focusing on compliance and field security management. Third, special inspection on the destruction of damaged and mutilated banknotes was carried out; various measures were taken to reinforce the administration of the agent vaults for reserve funds; and, cash sorting equipments were monitored in real time. As a result, all of the vaults and cash processing centers ran smoothly with no accident during the year.

Reform of the cash transportation escort system was pushed forward steadily. A total of four escort service centers were set up over the year and as a result, nine provinces have established security escort service centers. In order to tackle with the long-term security problems in railway cash escort, a plan for building special escort cars was launched with the first sample cash escort car putting into use in the year, ending the history of no special escort railroad cars for RMB cash transportation since the founding of the People's Republic of China.

R&D of the Second-generation Currency Issuance Management System progressed smoothly

In line with the principle of innovating and restructuring the current management approaches, operation procedures and institutional arrangements of managing currency, gold and silver, the Second-generation

Currency Issuance Management System would be launched in three stages and currently, the whole system construction has entered the second stage. The information system of cash processing, as a part of the second-generation system, was put into operation. The pilot program of modern logistics management of vaults for reserve funds made great strides in Huaian. In the trial program, logistics and information technology were combined and made the logistic process fully controllable. With further expansion of the pilot program, great improvements and breakthroughs could be expected in the management of the vaults for reserve funds.

Pilot reforms of common commemorative coins were launched

Efforts were made in increasing the issuing amount of common commemorative coins and raising the coins' denominations. The PBC publicized the issuing plan of 2014 one year in advance and made issuing announcements one to two weeks earlier than usual for issuing coins with the Chinese character “*he*” (harmony) and other common commemorative coins for the 2014 New Year, increasing the transparency of the issuing of common commemorative coins. In order to facilitate the public to exchange coins, the service was made available at more financial institutions' outlets.

Table 3 Commemorative Coins (Banknotes) Issued by the PBC in 2013

Issuing Date	Theme	Material	Variety	Front Cover	Back Cover	Denomination (yuan)	Diameter (mm)	Issuing Amount (10 thousand sets)	Color
Jan. 9th	Common Commemorative Coin for New Year 2013	Brass Alloy	1	“The People’s Bank of China”, “1 yuan”, its pinyin “yi yuan” and “2013”.	A boy holding a toy snake plays with a girl flying a kite. Underneath the picture the year “Kuisi”.	1	25	8 000	Golden
Sep. 23rd	Common Commemorative Coin for Running Script of Chinese Character “ <i>he</i> ” (harmony)	Brass Alloy	1	National Emblem of the PRC, On the upper edge, “The People’s Republic of China”. On the bottom, “five yuan” and “2013”.	Running script of the Chinese character “ <i>he</i> ” (harmony). On the upper right corner, five different styles of scripts of “ <i>he</i> ”.	5	30	5 000	Golden
Dec. 24th	Common Commemorative Coin for New Year 2014	Brass Alloy	1	“The People’s Bank of China”, “1 yuan” and its pinyin “yi yuan”, and “2014”.	A girl holding a pendant symbolizing “Auspicious, festive and wealthy” rides on a wooden horse. On the left, the year “Jiawu”	1	25	10 000	Golden

Anti-counterfeiting Efforts

In 2013, anti-counterfeiting efforts were strengthened. The total amount of counterfeit RMB banknotes confiscated nationwide saw a year-on-year growth of 22 percent. To be specific, the amount of counterfeit RMB banknotes tracked down by the public security authorities increased by 30 percent, while those confiscated by financial institutions increased by 16 percent year on year.

By strengthening the communication and cooperation, the PBC improved the joint conference mechanism. As the leading agency in the Joint Conference on Anti-counterfeiting Work of the State Council, the PBC strengthened communication and cooperation with other members, conducted analysis of the current situation of anti-counterfeiting efforts and major problems, and cooperated in developing strategies. At end-July, 2013 the anti-counterfeiting liaison mechanism of banking institutions was established under the joint conference and the first liaison meeting was held, which further improved the joint conference mechanism.

The anti-counterfeiting responsibilities were specified and a coordinated long-term anti-counterfeiting mechanism was established with the participation of various agencies. The PBC improved the evaluation methods and by-laws of comprehensive anti-counterfeiting management and encouraged the local governments to play a leading role in anti-counterfeiting. Continued enforcement efforts were focused on the 66 counties (municipalities/districts) beset with counterfeiting crimes. The evaluation criteria were developed and the responsibilities and workload were broken down and allocated to specific departments. All related departments worked together and made important breakthroughs.

The PBC strengthened its supervision measures and launched special campaigns on cracking down counterfeiting activities. In line with the goal of “zero tolerance” for counterfeit banknotes, all the cash received by banking institutions were sorted and a long-term follow-up mechanism on banknote sorting was put in place. Since then, the proportion of counterfeit banknotes detected in the re-checking process has been declining. The density of counterfeits in sorted banknotes from commercial banks came down from the historical high of 1.63 out of a million banknotes down to the current 0.78. In the meantime, the RMB banknote serial number inquiry program was advanced in a comprehensive manner. As of September, 2013 all the serial numbers on banknotes withdrawn from ATMs could be recorded in the four cities of Beijing, Shanghai, Nanjing and Guangzhou.

STATE TREASURY MANAGEMENT

The PBC successfully provided basic services to manage the state treasury

In line with the principle of “controlling risks and ensuring safety” of managing the state treasury system, the PBC’s State Treasury Bureau continued strengthening the awareness of risk control, improved the institutional arrangements for risk management and standardized internal risk management and operations, in order to ensure the safety of the state treasury fund and the smooth operation of the system. In 2013, the state treasury system processed 41.18 trillion yuan of receipt and payment transactions, up by 15.3 percent year on year. Four issues of certificate government bonds and 10 issues of electronic savings bonds were conducted, with the total amount reaching 335.551 billion yuan. 127.003 billion yuan worth of matured certificate government bonds and government bearer bonds were redeemed. The PBC also conducted 10 calls for tenders for the term-deposit under central state treasury cash management. Accumulatively 430.0 billion yuan were deposited with the winning commercial banks and 620.0 billion yuan

were withdrawn from commercial banks in 13 operations.

The institutional building of the state treasury management was enhanced

The PBC continued working on the revision of *the Budget Law of the People’s Republic of China*. It worked with the MOF in developing administrative measures for managing agent banks which carried out the state treasury centralized revenue collection and payment operation, certified agent banks for state treasury centralized payment operation according to law, signed the 2014-2018 clearing agreement for direct and authorized central government payments, and carried out on-site inspections on 10 agent banks for their state treasury receipt and payment operations in 2012. In promoting better budget management system, the PBC took part in the institution building efforts such as the pilot program of replacing business tax with value-added tax, tax refund for corporate income tax and consumption tax, and research and development of measures and policies related to the basic framework of minimum living standards.

Breakthroughs were made in developing state treasury information system

The overall framework of modern state treasury information system, with the “3T” system^① as its core, was basically established. First, 12 provinces (regions/municipalities) were connected to the TCBS, realizing the goal of expanding the TCBS to the whole nation. Second, two rounds of expansion of TIPS were conducted in 22 provinces (regions/municipalities). 208 million transactions were conducted through TIPS, with the total amount reaching 13,691.125 billion yuan, up by 24.6 percent and 78.7 percent respectively. Six provinces (regions/municipalities) were connected to the treasury network for disbursing treasury funds. The pilot program of paperless processing tax refund, corrections, and reimbursement transfer were successfully carried out in two provinces (regions/municipalities). The ways to connect the state treasury system with the state customs system were clarified. The PBC also worked with the State Administration of Taxation on the third-term of the China Taxation Administration Information System (CTAIS). The study on the potential need of the second generation TIPS was also launched. Third, the PBC steadily pushed forward the TMIS module development. In November, 2013 the state treasury basic

information module formally went online nationwide, and the treasury securities management module was formally connected to the 38 institutions underwriting government savings bond.

The PBC further enhanced monitoring and management of the state treasury

The PBC organized inspections on various businesses of the state treasury, including the account evaluation, statistical analysis, treasury securities management, etc., and timely identified problems and made corrections. It strengthened supervision on counter operations and effectively prevented violations in all steps of budget fund operation, including fund receiving, transferring, retaining, disbursing, refunding and adjusting. It completed drafting *the Guidelines for Inspection on State Treasury Operations of Commercial Banks*, organized monitoring and inspections on commercial banks’ state treasury operations, and further standardized the management of state treasury operations. The state treasury monitoring and management measures were improved. While enhancing the on-site inspection and supervision, the PBC also used advanced information techniques and explored new ways in conducting off-site supervision to effectively enhance monitoring and management. The PBC also

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

organized the drafting of *the Guidelines for Risk Control of State Treasury Fund Management*, comprehensively reviewed procedures of all state treasury operations, identified and evaluated potential risks in all areas of operations, listed risks and risk categories and preventive measures. These measures have laid a solid groundwork for further promoting quantitative risk management of state treasury funds.

State treasury statistical analysis became more targeted and effective

The PBC further strengthened dynamic monitoring and statistical analysis of state treasury funds, in order to ensure the timeliness and accuracy of the state treasury statistical reports. The PBC continued improving the indicator system for statistical analysis, the framework of fund operation analysis and the mechanism of quarterly analysis meeting, which strengthened the quality of analysis of fund operation of the state treasury management. Taking into consideration of the different developmental features in various regions and from the perspective of the state treasury management, the PBC also conducted thematic researches on a number of key and topical issues, such as reform of the value-added tax, the operation and taxation of small- and medium-sized enterprises, and the land finance. The PBC also expanded the application of results of state treasury analysis and reported to the central

and local governments and relevant authorities on treasury fund operations and thematic researches, which provided them with valuable information.

The management of the government securities was further improved

The PBC and the MOF jointly issued *Measures for the Administration of the Issuance Quota of Savings Bonds in 2013* and *Measures for Calculating the Overall Ranking of Members of Underwriting Groups of Savings Bonds in 2013*, and twice adjusted the quota for underwriting groups. While standardizing the management, these measures gave full play to the adjustment role of the market, and made underwriting institutions more proactive and enthusiastic in underwritings. The PBC also worked with the MOF in expanding the pilot program of online selling of (electronic) savings bonds. With two rounds of expansions, the number of banks in the pilot program increased from three to nine, expanding the marketing channels of (electronic) savings bond. In 2013, 34.501 billion yuan of (electronic) savings bonds were marketed through online-banking, accounting for 15.9 percent of the total (electronic) savings bonds issuance. The protection of the rights and interests of investors was also enhanced and innovated. The PBC also worked with relevant authorities to carry out the pilot program of re-depositing matured certificate treasury bonds, which

further protected the interests of treasury securities investors.

Cash management of the state treasury was steadily improved

The PBC and the MOF jointly issued *The Bidding Operation Instructions for the 2013 Term Deposits at Commercial Banks for Central Treasury Cash Management*, further standardizing the tendering and bidding operations. The PBC supervised the commercial banks which won the bids to repay treasury funds on time when the term deposits became due, with the correct amounts of principals and interests. A monitoring system of loan-to-deposit ratio of commercial banks winning the bids was also studied and developed, and risk warnings were duly issued. The PBC also strengthened the monitoring of daily price movements of the treasury securities and ensured that state treasury deposits at commercial banks were fully supported with quality collaterals. Forecasts of cash flows of state treasury were conducted aiming to improve the quality of analysis and predictions. The PBC also carried out research on topical issues and challenges of state treasury cash management and drafted *Measures for Pilot Programs on Cash Management of Local Treasury Operation*, preparing for the launch of cash management at

local treasuries.

Remarkable progress was made in treasury related theoretical research and innovation

The PBC continued to expand the scope of research in state treasury theories, and carried out research projects in a number of key areas, such as the basic questions about state treasury accounting, special treasury account management, reform of centralized collection and payment system, reforming the practice of “the provincial offices overseeing the county treasury operation directly” and “county offices performing township treasury operation”, the construction of the “state treasury project”, the impact of value-added tax reform on China’s industrial structure adjustment, innovation in savings bond products, challenges of market-based interest rate reform on the management of savings bonds and the solutions, etc. These research projects played an increasingly important role in guiding the work of state treasury management. At the same time, the PBC adhered to a scientific, practical, prudent and effective approach, and made innovations in areas of institutional development, system promotion and staff training.

Table 4 Issuance of Government Savings Bonds in 2013

Categories	Issues	Issuing date	Actual issuing amount (100 million yuan)	Term			
				3 years		5 years	
				Amount (100 million yuan)	Interest rate (percent)	Amount (100 million yuan)	Interest rate (percent)
Certificate bonds	1st Issue	3.10-3.19	292.85	176.33	5.00	116.52	5.41
	2nd Issue	6.10-6.19	405.36	248.99	5.00	156.37	5.41
	3rd Issue	9.10-9.19	295.72	186.83	5.00	108.89	5.41
	4th Issue	11.10-11.19	191.97	115.23	5.00	76.74	5.41
Electronic savings bonds	1st Issue	4.10-4.19	300	300	5.00		
	2nd Issue	4.10-4.19	200			200	5.41
	3rd Issue	5.10-5.19	299.84	299.84	5.00		
	4th Issue	5.10-5.19	200			200	5.41
	5th Issue	7.10-7.19	240	240	5.00		
	6th Issue	7.10-7.19	160			160	5.41
	7th Issue	8.10-8.19	240	240	5.00		
	8th Issue	8.10-8.19	160			160	5.41
	9th Issue	10.10-10.19	209.77	209.77	5.00		
	10th Issue	10.10-10.19	160			160	5.41

Table 5 Cash Management Operations of Term Deposit with Commercial Banks for Central State Treasury in 2013 (deposits)

Operation date (Interest date)	Batch of deposits	Amount (100 million yuan)	Interest rate (percent)	Term	Interest income (yuan)
2013.04.23	2013(1)	400	4.50	6 months	897 534 246.55
2013.05.23	2013(2)	400	4.80	6 months	957 369 863.03
2013.06.20	2013(3)	400	6.50	6 months	1 296 438 356.16
2013.07.11	2013(4)	500	5.01	6 months	1 249 068 493.16
2013.07.18	2013(5)	500	4.30	3 months	536 027 397.26
2013.08.15	2013(6)	500	4.69	3 months	584 643 835.59
2013.08.28	2013(7)	500	4.75	3 months	592 123 287.67
2013.09.12	2013(8)	500	4.23	3 months	527 301 369.92
2013.11.14	2013(9)	300	6.00	3 months	448 767 123.29
2013.12.10	2013(10)	300	6.30	3 months	471 205 479.45
Total		4 300			7 560 479 452.08

Table 6 Cash Management Operations of Term Deposit with Commercial Banks for Central State Treasury in 2013 (withdrawals)

Operation date (Due date)	Batch of withdrawal	Amount (100 million yuan)	Interest rate (percent)	Term	Interest income (yuan)
2013.02.26	2012(5)	600	4.22	9 months	1 893 797 260.26
2013.03.26	2012(10)	400	4.32	6 months	861 632 876.73
2013.01.17	2012(11)	500	4.00	3 months	498 630 137.00
2013.04.25	2012(12)	500	4.50	6 months	1 121 917 808.19
2013.05.14	2012(13)	500	4.70	6 months	1 171 780 821.92
2013.05.23	2012(14)	500	4.80	6 months	1 196 712 328.79
2013.10.22	2013(1)	400	4.50	6 months	897 534 246.55
2013.11.21	2013(2)	400	4.80	6 months	957 369 863.03
2013.12.19	2013(3)	400	6.50	6 months	1 296 438 356.16
2013.10.17	2013(5)	500	4.30	3 months	536 027 397.26
2013.11.14	2013(6)	500	4.69	3 months	584 643 835.59
2013.11.26	2013(7)	500	4.75	3 months	592 123 287.67
2013.12.12	2013(8)	500	4.23	3 months	527 301 369.92
Total		6 200			12 135 909 589.07

DEVELOPMENT OF FINANCIAL IT INFRASTRUCTURE

The foundation of financial information security was continuously underpinned

Greater efforts were made in research on developing financial information technology and deepening the understanding of financial information security. The research project assigned by State Council on “financial information and network security” was completed.

Progress was made on the construction of a safeguard system of financial information security. Together with CBRC, the PBC issued guidelines on banking sector disaster backup framework to improve construction of the related systems. Assessments and special inspections in classified protection of information system security of the banking sector were unfolded to improve information sharing and reporting mechanism. *Bulletin on Financial Institution Information Security* and *Warning of Risks on Financial Sector Information Security* were issued on a regular basis. A coordination and exchange mechanism was established on joint operation and maintenance of banking sector data centers. The PBC coordinated banking sector players to beef up information security during special occasions such as during the Third Ple-

nary Session of the 18th CPC Central Committee. Online payment anti-fraud platform was promoted to enhance PBC’s capability to spot fishing websites, make rapid response and conduct situation analysis.

Continuous progress was made on safeguarding the PBC’s information security. *Integrated Standards on the PBC Information Security (2013 Edition)* was amended and released. The PBC branch offices were organized to promulgate and apply information security management system to protect computers and mobile storage mediums that contained confidential information, and set up mainframe monitoring and auditing system. Information security technology upgrade of the PBC intranet was completed. The reactive operation and maintenance of the PBC data center system was transformed into pro-active and risk-control oriented operation and maintenance. Comprehensive risk inspections and classified resolution were carried out on the PBC data center system.

Financial technology played a greater role in servicing the society

More extensive services were provided to micro- and small-financial institutions. *Administrative Measures on Access to the*

People's Bank of China Financial Intra-city Network was amended. The construction of access platforms at the PBC provincial-level branches was finished with 1,366 small- and micro-financial institutions connected to the network, improving the inclusive financial services.

Remarkable progress was made in transition to chip cards. At end 2013, newly issued financial IC cards totaled 467 million, accounting for 64 percent of all new bankcards, and accumulatively 593 million bankcards were issued nationwide. After chip cards acceptance environment had been upgraded, nationwide E-cash inter-bank recharge system was put into operation.

The construction of mobile financial infrastructure was kicked off. The public mobile financial service platform was put into trial operation, connecting seven banks including China Construction Bank and CITIC Bank. Accelerating the use of financial IC cards in public services and promoting mobile financial services have become essential parts of the national policy that guided information consumption and promoted industrial structure upgrading, indicating that China was moving toward using chip and mobile technology in providing financial services.

Financial standards testing and certification system has taken shape

Financial industry standardization was pushed forward steadily. The PBC released a series of major standards such as *China Financial Integrated Circuit Card (IC Card)*

Specifications PBC 3.0. Furthermore, the PBC issued *Administrative Measures of the People's Bank of China on Technology Standards*. Efforts were made to draw up and implement administrative measures on financial industry standardization, and to strengthen coordination and management of financial industry standardization.

The PBC actively took part in international activities related to financial industry standardization. For the first time, the PBC hosted the Annual Meeting of the Technical Committee on Financial Services of International Organization of Standardization (ISO/TC68). In addition, the PBC participated in developing the *Legal Entity Identifier (LEI)* system and organized China UnionPay and Foreign Exchange Trade System to develop ISO20022 messages. Furthermore, the PBC successfully recommended nominees for LEI Central Operating Unit and Board of Director (COU BOD) and deputy organizer for ISO20022 foreign exchange standards assessment working group. At end 2013, altogether fourteen experts from China joined seven international standards working groups.

The building of financial standards testing and authentication system was advanced. The PBC set up China Financial IC Card Security Testing Center and passed project inspection, filling in a gap in domestic financial sector IC chip security testing. Also, the PBC orderly advanced facility and technology authentication of payment service for non-financial corporations, reviewed qualification requirements for testing agencies

and authentication agencies, made plans for authentication operation frameworks and safety and quality control arrangements, and started to draw up working plans for testing and authentication in mobile finance.

The planning and construction of network and information system were unveiled in an orderly manner

Data framework management was improved step by step. The PBC Accounting Data Centralized System (ACS) had been put into use in five provinces and cities, representing a major step in data framework management. Besides, the PBC finished *The Research on Data Framework Analysis and In-depth Application*, released the report on data standards system, and drew up *The Technology Standards on Data Life Span Management*.

Major systems construction and expansion were accelerated. The TCBS had been extended nationwide. Working with the State Administration of Taxation, the PBC accomplished the extension of the CTAIS. The PBC improved the RMB Settlement Account Management System, promoted the construction of Second-generation Banknote Issuance Management System, and ensured the smooth launch of the Second-generation Payment System and the ACS. In addition, the PBC wrapped up analysis on intra-city and remote disaster backup arrangements and started important intra-city disaster backup system construction and carried out system-switching drills,

laying a solid information technology foundation for financial services.

The construction of Financial Institution Information Management System was pushed forward. The PBC released *Administrative Measures on Financial Institution Code (Trial)* and started pilot programs of issuing financial institution code certificates. Besides, the PBC accomplished annual information examination on more than 210,000 financial institutions, providing basic information on financial institutions' legal person status and branches for the Third Economic Census and verified the accuracy, integrity and reliability of financial institution code system.

Achievements of information technology application in financial industry were compiled and reviewed to further promote innovation. The PBC finished initial summary on information technology application achievements in banking sector over the past twenty years and held annual selection of "Top Ten Events of Financial IT Development in 2013." In addition, the PBC organized relevant institutions to apply for NDRC projects on IT innovation capacity building. The project of setting up China UnionPay national engineering laboratory of E-commerce and E-payment had been approved.

Better coordination and cooperation among financial IT related units took form

According to the requirement of separation between administration and operation, clearer division of labor was made among the Technology Department of the PBC,

the Information Center of the PBC, and the China Financial Computerization Corp. The Technology Department of the PBC fulfilled its responsibilities in “IT management” such as system planning, standards development, framework management, and quality control. The Information Center of the PBC focused on system-wide “safe operation”, including resource management, operation and maintenance monitoring, emergency response, and disaster backup system construction. The responsibilities of China Financial Computerization Corp. centered on “system development” related work, including R&D, testing, integration, authentication, research and

public communication. In the interest of the PBC’s IT infrastructure development, the IT-related units enhanced cooperation to form coordinated working mechanism. In addition, coordinated mechanism between the PBC Head Office and branch offices worked smoothly. The PBC branch offices launched a series of projects such as regional information security management, financial IC cards application and promotion, financial institution code certificate issuance, and construction of network management and monitoring system, taking advantage of the synergies of the PBC IT related units.

• BOX •

Building the Financial Institution Code System

The international financial crisis in 2008 was a sobering reminder to the global financial sector that the lack of a clear and comprehensive identification system for financial institutions might bring about potential risks to the operation of the industry. The world started to pay attention to the building of an identification system for financial institutions. Since 2009, the PBC has started building a code system for financial institutions that would suit the need of China's statistical and regulatory requirements, so as to promote the interconnection among various financial systems, realize information sharing, enhance financial regulation and provide analytical support to relevant decision making.

The details of the financial institution code system

The code system for financial institutions covers such organizations as the monetary authority of the People's Republic of China, the regulatory authorities and their branch institutions; legal entities such as domestic banks, securities companies, insurance companies, trust organizations and their licensed branches/affiliates at home and overseas; financial institutions engaging in transaction settlement and their branches; domestically established financial holding companies and their licensed branches; foreign financial institutions and their licensed, non-legal entity branches in China; and other relevant institutions the PBC deems as subjects to the code system.

The code of financial institution is an assembly code that contains 6 sections with a combination of 14 Arabic numbers and capital letters.

<u>X</u>	<u>X</u>	<u>XXXX</u>	<u>XX</u>	<u>XXXX</u>	<u>X</u>
Financial Institution Categorization Code of Grade 1	Financial Institution Categorization Code of Grade 2	Financial Institution Categorization Code of Grade 3	Region Code	Sequence Code	Check Code

Building the framework of financial institutions code system into a specialized institutional mechanism

Since 2009, the PBC has released *The Coding Standards for Financial Institutions*

and the *Rules on the Management of Financial Institution Information*, and has established the information management system for financial institutions which serves as a platform for nationwide unified information processing, such as code information registry, inquiry, verification and management. The PBC also regularly verifies the code information, laying the groundwork for using the codes as the “ID” of financial institutions. In order to provide effective means for the regulators and financial institutions to use in identifying entities, confirming transactions and sharing information, in 2013 the PBC launched the pilot program of issuing *Financial Institution Code Certificate*, and adopted *The Coding Standards for Financial Institutions* as the standard of the industry. With the standardized system, the information platform, the tangible carrier and through the promotion of their usage, the PBC has successfully established a coding system framework for financial institutions, which has formed an evolving specialized institutional mechanism.

Building the basic information database of financial institutions and creating a panorama view of all financial institutions

As of the end of 2013, the Financial Institutions Information Management System had collected the basic information of 242,512 financial institutions which included 10,067 corporate financial institutions. The collected information covers financial institutions’ code, name, address, legal representative or responsible person, the capital contribution of the 10 largest owners and the parent organizations. The collected information is a true reflection of financial institutions’ organization, regional distribution, establishment and revocation, joint share-holding and holding companies, also objectively revealed the equity information and cross-holding relations of various financial institutions. It provides a panorama view of China’s financial institutions and is gradually becoming the “Household Registration Booklet” of financial institutions.

Expanding the use of code information in depth and width, and improving the comprehensive service capacity of data

The PBC, BOC, CCB and the Postal Savings Bank of China (PSBC) have built their relevant systems based on the financial institution codes, which have laid a foundation for the data exchange and information sharing among various financial institutions and systems. The financial institution codes are used in surveys of aggregate

financing of the economy the Third National Economic Census and the comprehensive statistical analysis in Wenzhou's pilot zone of comprehensive financial reforms. China's financial institution codes are also compatible to the international coding system of Legal Entity Identification (LEI). On the basis of gaining the full understanding of the development of China's financial institutions, the PBC carries out statistical analysis of the stock and change information of financial institutions, verifies the effectiveness of economic policies, predicts the trend of regional economic development, monitors distributional change of financial institutions and provides statistical support to the decision-making of relevant policies.

CREDIT INFORMATION MANAGEMENT AND THE DEVELOPMENT OF SOCIAL CREDIT SYSTEM

The PBC strengthened the institutional building of the credit information industry and the implementation of *the Regulations on Administration of the Credit Reference Industry*

On January 21, 2013, the State Council announced that *the Regulations on Administration of the Credit Reference Industry* (the “Regulations”) would become effective on March 15, 2013. The Regulations prescribed the basic rules for credit reference agencies and credit information activities, and clarified the rights and responsibilities of the parties involved. The release of the Regulations showed that the credit information industry of China had laws and regulations to abide by. It would be conducive to strengthening the management of credit reference market, regulating activities of credit reference agencies and the conduct of information providers and users, and protecting the rights of information entities. It would also help the market to play a better role and promote the building of the social credit information system. To better implement the Regulations, the PBC released the *Administrative Measures for Credit Reference Agencies* (the

“Measures”) on November 15, 2013. The Measures followed the principle of strict management for credit reference agencies that handle personal information of individuals and lenient management for credit reference agencies that deal with credit information of businesses, stressed the market operation by credit reference agencies and the government supervision, and let the state administration and public supervision both play their roles. The Measures set out the rules on market entry, operation and exit for the credit reference agencies. The Measures would play an important role in regulating the credit reference agencies and protecting the legal rights of information entities.

The PBC compiled *the Interpretation of the Regulations on Administration of the Credit Reference Industry*, which comprehensively explained the rationale, the legal background, the significance of the Regulations and the issues that required attention during the implementation. It would be helpful for the staff of credit reference agencies, information providers and users, information entities, credit information regulation departments and scholars to better understand and learn the Regulations. To raise the public

awareness, the PBC conducted a nationwide publicity campaign on “implementing the Regulations and promoting the sound development of the credit information industry”. 165,000 branch offices of financial institutions, over 70 credit reference agencies, over 60 credit rating agencies, 540 micro-credit companies and 430 financing guarantee companies took part in the campaign. Nearly 30 million people in total participated in over 53,000 educational activities. The PBC also provided training for the staff of local PBC branch offices, banking institutions and credit reference agencies, helping the related parties to better understand and better implement the Regulations.

The PBC strengthened credit information management in accordance with the law, regulated credit information business, and protected the rights of credit information entities

The PBC required all banking institutions that reported to or made inquiries in the financial credit information basic database to conduct self-examinations of their implementation of the Regulations. Based on the results of these self-examinations, the PBC conducted special inspections on them, made suggestions for corrective actions, and required them to carry out the credit information business in accordance with the law, in an effort to protect the rights of the credit information entities. The PBC set up a working group to review financial institutions’

applications for access to the financial credit information basic database, compiled *Rules and Procedures on Reviewing Application for Accessing the Financial Credit Information Basic Database*, and further regulated the access management of the database. Altogether 816 small-sized institutions were granted access to the database after the reviews. Credit Information Management System (the first phase) was in trial operation, which enhanced informatization of the credit information management and provided the PBC with an efficient means to monitor the market development and better conduct credit information management.

The PBC actively promoted the building of the credit information system, resulting in the broader application of the system and greater social influence

The range of the inquiry service of the financial credit information basic database was broadened; credit information products and services increased; the new edition of enterprises’ credit report system went into operation; and the trial service of credit report on-line inquiry was well accepted. As of end-2013, the database recorded information of about 840 million individuals and 19.193 million enterprises and other organizations, and the inquiries of the information for individuals and enterprises reached 350 million and 104 million respectively. The functions of the Movable Interest Registry Platform were further improved, with more regis-

tered users, more registrations and inquiries of chattel secured financing such as pledge receivables and financial leasing. This platform had provided good basic service to the financing and credit enhancement of SMEs, and had enabled the receivables play a better role in alleviating their financing difficulties.

The PBC improved the management methodology to better promote the development of the credit rating market

Following the State Council's requirement of transforming the government's functions, and in order to better serve the enterprises, especially the SMEs, the PBC launched the reform of the credit market credit rating management methodology, which shifted from focusing on ex-ante qualification approval before granting access to the database to monitoring and disclosing information during and after the credit rating process. The PBC clarified that the names of credit rating institutions whose rating results can be used in the market would no longer be released on the Internet. The registration, statistics, monitoring, and information disclosing mechanism of the credit rating agencies was further optimized. In Shanghai, Liaoning, Shandong, Hubei, Sichuan and Zhejiang, the PBC carried out credit rating pilot programs on micro-credit companies and financing guarantee companies. Encouraging progress was made in these pilot programs. The credit ratings helped make breakthroughs in promoting the cooperation

between banks and credit companies and between banks and guarantee companies, facilitating financial regulation, promoting the development of credit industry, providing good incentives to the parties involved, enhancing their business management abilities, and providing risk warnings. As of end-2013, 76 credit rating agencies had registered with the PBC, 3,271 credit ratings in the bond market and near 50 thousand credit ratings in the credit market were issued.

The PBC made efforts to push forward the building of credit information system for the small- and micro- businesses and rural area, and made progress in building social credit system

First, jointly with NDRC, the PBC played a leading role in promoting the development of social credit system. In cooperation with relevant agencies, the PBC completed the compilation of the *Outline of the Plan for Building Social Credit System (2014~2020) (for approval)*, stating the objectives, framework and key tasks in building social credit system. The PBC, jointly with NDRC and State Commission Office of Public Sectors Reform, released the *Circular about Opinions on Using Credit Records and Credit Reports in the Administrative Management Affairs*, promoting the use of credit records and credit reports in the administrative management, strengthening the building of credit record, and nurturing the development of credit reference market.

Second, the PBC promoted the building of the credit information system for the SMEs and the rural areas. The PBC released the *Guidelines on Basic Data Items in Building the Credit Information System for Small- and Medium-sized Enterprises and Rural Areas*, regulating the credit files compilation of small- and micro-business, rural families and other business entities. As of end-2013, near 2.43 million small- and micro-enterprises established credit files nationwide, and 350 thousand small- and micro-enterprises received bank loans, with the outstanding balance of the loans reaching 7.23189 trillion yuan. 151 million rural families established credit files, of which, 101.43 million

received credit assessments, and 87.46 million received bank loans with the outstanding balance of loans reaching 2 trillion yuan. Third, the PBC further promoted the use of institution credit code (ICC). Taking into consideration of local circumstances, PBC branch offices actively worked with the local governments and financial institutions and made breakthroughs in the use of ICC in various fields. The numbers of regions, institutions and projects that use ICC have been growing with time. As of the end of 2013, the PBC issued 20.80 million ICCs, granted 1,054 financial institutions the access to the ICC system, and opened accounts for 460 thousand users.

Administrative Measures for Credit Reference Agencies

To meet the requirement of “setting up a sound social credit system” made by the Third Plenary Session of 18th CPC Central Committee, and to better implement the *Regulations on Administration of the Credit Reference Industry* (the “Regulations”) the PBC issued the *Administrative Measures for Credit Reference Agencies* (the “Measures”), which complement the Regulations and provides more details.

The Measures are an important set of rules that complement the Regulations. The Measures take standardizing the establishment, alteration and termination of credit reference agencies as the mainline, and focus on their corporate governance, risk control and information security. The framework of the Measures consists of six chapters with 39 articles. The First Chapter states the general principles, including the purpose, range of application, regulatory authorities and regulatory principles. The Second Chapter stipulates the establishment, alteration and termination of credit reference agencies, including the establishment qualification, application and registration procedures of credit reference agencies and their branches. The Third Chapter stipulates the management of the appointment of the senior management of credit reference agencies, mainly regulating the qualification reviews, registration conditions and procedures of the directors, supervisors and senior executives. The Fourth Chapter specifies the regulation and management, including the regulatory agency’s administrative responsibilities and administrative measures with regard to the credit reference agencies. The Fifth Chapter spells out the penalty rules, clarifying the applicable penalties in the case of non-compliance. The Sixth Chapter contains the supplementary articles.

To protect individual’s privacy and safeguard the rights and interests of individual information entities, the Measures follow the principles of strict management for the personal credit reference agencies that deal with personal credit information of individuals (personal credit reference agencies), and lenient management for the credit reference agencies that handle business credit information, and further clarify relevant rules on strengthening the management of the personal credit reference agencies. First, as authorized by the Regulations, the Measures further stipulate the qualifications that a personal credit reference agency should have. The Measures require that

the personal credit reference agencies should have a sound organizational structure, sound business operation, information safety management, compliance management and other internal control systems, and their credit information system should meet the second or higher level of the national information security protection standards. Second, the Measures strengthen the management for personal credit reference agencies, and set out rules on the important alteration issues of personal credit reference agencies and the establishment of their branches. Lastly, the Measures improve the exit procedure of personal credit reference agencies, which focus on the sequencing of the database handling procedures and the exit procedures of credit reference agency to prevent the leaking of credit information during an agency's exit.

In terms of the regulatory measures, the Measures spell out the reporting requirements for the credit reference agencies, and establish the priority-focused regulatory system. The PBC can subject a credit reference agency to intensified surveillance if it is involved in a serious data breach incident, shows signs of a possible data leakage, is having major financial difficulties, or has been the subject of numerous complaints. The PBC can require it to increase the frequency of business reporting and to increase the frequency of information security assessment, and take relevant regulatory measures. Moreover, the Measures specify the requirements of the appointment of senior managerial personnel of personal credit reference agencies.

The Measures, the Regulations and other relevant laws and regulations constitute the administrative framework of credit reference agencies, and play an important role in regulating their operation and protecting the legal rights and interests of information entities.

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Improving the supervisory and regulatory mechanism for anti-money laundering (AML) and enhancing supervisory effectiveness

In 2013, on the basis of the comprehensive pilot program of large-value and suspicious transaction reporting at the ICBC, the PBC further expanded the pilot program to another 36 financial institutions of different sizes and in different sectors and locations. A new regulatory methodology was formed, where financial institutions defined their own criteria for suspicious transactions. This made data reporting, monitoring and identification better targeted and more effective. It provided stronger incentives for self-initiated AML efforts by financial institutions and enhanced their awareness of their AML obligations. Institutions in the pilot program conducted in-depth assessments of risks stemming from products and clients by taking into account of their own business features and developed a total of 2,198 indicators and 629 models for monitoring suspicious transactions, which contributed to the very encouraging achievements in the development of AML monitoring and

analysis system, the revision of AML work framework and the optimization of AML procedures. With the number of suspicious transaction reports falling substantially, the number of AML report-induced investigations rose notably.

According to the above institution-oriented regulatory model, based on the inspections of banking financial institutions, the PBC conducted on-site AML inspections of the headquarters of Guosen Securities and China Construction Bank Life Insurance Company respectively along with some of their branches. The comprehensive AML inspections at financial institutions' headquarters focused on internal control arrangements, organizational structures, review and evaluation mechanisms and training programs, aiming at checking their compliance and the completeness of various institutional arrangements. The selective examinations on branches were aimed at examining the implementation and effectiveness of institutional arrangements and their fulfillment of basic AML obligations. In the process, the effectiveness of AML policies and regulations were reviewed. The inspection method-

ology, featuring a combination of systematic data analysis and non-moduled inspections, was tested, while identification and understanding of sources of money laundering risks in the securities and insurance sectors were enhanced. These helped to lay the groundwork for improving regulatory and supervisory approaches in the future.

During the year, the PBC further intensified inspection and penalty by conducting targeted AML on-site inspections of 1,131 financial institutions, with a total of 264 institutions and 168 practitioners being penalized for non-compliance. After the PBC issued the *Circular on the Fulfillment of Anti-Money Laundering Responsibilities by Payment Institutions* on February 6, 2013, AML units of the PBC at various levels organized payment institutions to conduct self-inspections and make corrections in AML-related practices. They also carried out on-site inspections on 15 payment institutions, with one being penalized for non-compliance.

Consolidating and enhancing the financial system's capacity to manage money laundering risks and effectively addressing the risk factors in money laundering and terrorist financing

At the start of year, the PBC issued the *Guidelines on Assessing the Risks of Money Laundering and Financing of Terrorism at Financial Institutions and Client Risk Management*, clearly articulating the basic principles, set of indicators and assessment

models for financial institutions to evaluate the risks of money laundering and terrorist financing. Financial institutions, according to their types, were offered guidance on formulating and implementing corresponding work plans as well as developing internal control systems and operational procedures so as to promote them to set up the client-oriented AML risk management mechanism.

The PBC studied and issued *Administrative Measures for Freezing Assets Involved in Terrorist Activities*, which clearly spelled out the obligations of financial institutions and specific non-financial institutions to freeze assets as well as administrative responsibilities. A specialized mechanism for freezing assets involved in terrorism was actively pursued outside the criminal judiciary procedures to effectively prevent terrorist financing.

Based on the pilot analysis programs, the PBC published in May 2013 the *Notice of the General Office of the People's Bank of China on Conducting Analysis of Money Laundering Typologies* to kick off the analysis of money laundering typologies at 36 PBC branches and 18 national banking institutions. Money laundering typologies analysis and reporting mechanism of banking financial institutions was primarily established and findings were distributed to financial institutions and ministries concerned.

With regard to the risks lurking in the AML efforts of financial institutions, the PBC conducted research and developed the

Criteria for Assessing Anti-money Laundering Risks at Financial Institutions, which enabled a comprehensive evaluation covering five aspects, including environment, products/clients, internal control, communication and adjustment. Based upon the narrow-based pilot program in 2012, these criteria were further applied to all branches and subsidiaries in 2013.

In the meantime, the PBC attached great importance to new money laundering risks and took timely measures to address them. First, regulation of AML at overseas institutions was tightened by continuously and closely watching AML efforts made by overseas subsidiaries of Chinese financial institutions, which were urged to fulfill AML obligations according to law, in order to protect overseas Chinese financial institutions' lawful rights. Second, the *Notice on Preventing the Risk of Bitcoin* was promulgated jointly with four ministries, including the Ministry of Industry and Information Technology, etc, to earnestly carry out the AML regulatory requirements for Bitcoin agencies and prevent relevant money laundering risks in a practical manner. Third, given the high occurrence of unlawful activities, such as new types of cyber frauds, illegal trading of bank cards, fund-raising frauds and illegal pyramid schemes, the PBC strengthened monitoring and published *Warnings of Money Laundering Risks* in a timely fashion to remind, from the AML perspective, various entities to beef up their internal control.

Continuing enhancing efforts of transferring suspicious transaction clues and facilitating effective investigation and cooperative investigation

During the year, the scope of AML monitoring was further expanded to include China UnionPay and various clearing centers into the program of reporting large-value and suspicious transactions. The China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC) received 381.4335 million large-value transaction reports and 24.5310 million suspicious transaction reports throughout the year. It transferred and reported 204 clues of suspicious transactions to the public security authorities, and undertook 989 cooperative investigations requested by other agencies. As a result, the number of cases transferred from and investigated with the assistance of the PBC witnessed a substantial growth. AML authorities at various levels received 4,854 clues of suspicious transactions, launched investigations into 3,832 cases, and reported 474 cases to criminal investigative authorities. Among them, 168 cases or 35.4 percent of the total were filed for formal investigation, up by 8.2 percentage points from last year. The PBC assisted the criminal investigative authorities in 618 money laundering cases with 225 cases being cracked.

The PBC played an important role in the investigation of several major crimes and terrorism-related crimes by actively cooperating with authorities of public security,

national security, procuratorate, customs and taxation. During the special nationwide crackdown on illegal pyramid schemes launched by the State Administration of Industry and Commerce together with other ministries, AML units of the PBC at various levels identified clues or assisted in the crackdown of several illegal pyramid selling cases that spanned several provinces and municipalities.

Broadly deepening international and regional cooperation while focusing on the need of AML in China

During the year, on behalf of the Chinese government, the PBC assumed the position of Co-Chair of the Asia/Pacific Group on Money Laundering (APG) and successfully sponsored the 16th APG Annual Meeting in Shanghai in July. It actively participated in international AML rule-making and the internal governance of AML organizations via multilateral cooperative mechanisms including the Financial Action Task Force (FATF), the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and the APG.

Discussions on AML regulatory cooperation were held with countries on the basis of multilateral cooperation and bilateral exchange. After signing the Memorandum of Understanding with the Financial Intelligence Units (FIUs) of the Czech Republic and Kazakhstan, the CAMLMAC has to date established bilateral intelligence exchange ar-

rangements with 22 overseas counterparts. It received 314 pieces of intelligence from overseas, provided 117 cooperative investigation feedbacks to overseas counterparts and closed 14 intelligence referrals throughout the year.

Improving training and exploring standardized training methods for AML regulators and practitioners

The PBC further improved professional training by both introducing foreign experience into China and arranging study visits abroad. It invited experts from the IMF to provide thematic training to staff holding key positions in AML efforts, sent selected young and middle-aged staff to a short-term training in Toronto. It offered video and long-distance-training programs, and provided online training on basic operation and ongoing education to AML personnel at the PBC branches and financial institutions. The framework of training courses and online questions and answers were further improved with experts answering questions in real time. Throughout the year, a total of 265 thousand full- and part-time AML personnel completed various training programs. Three advanced exemplary courses on AML management delivered by external experts were offered to senior AML managers of financial institutions. Through intensive training, exams and thesis, the senior managers enhanced their awareness and understanding of the theoretical knowledge and business approaches about AML.

FINANCIAL CONSUMER PROTECTION

Building the financial consumer rights protection system

The PBC promoted the issuance of various rules and regulations related to financial consumer rights protection, including *The Administrative Measures for Financial Consumer Rights Protection (trial)* and *Contingency Plan for Mass Complaints*, so as to guarantee that all aspects of the related work were carried out in an orderly manner. The PBC also played an active role in amending the relevant laws such as *Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers*, and provided opinions with regard to financial consumer protection based on work related experience. Taking into consideration of the local circumstances, the PBC branch offices stipulated and carried out relevant regulations on consumer rights protection and explored innovative work approaches, and achieved encouraging results.

Conducting extensive financial consumer education

The PBC conducted a series of surveys and analysis with regard to financial consumer education. In August, a survey on con-

sumers' financial knowledge was carried out for the first time in seven provinces. The aim was to assess the effectiveness of the financial consumer education, the inadequacies in consumers' financial knowledge, as well as their knowledge demand and the characteristics of their consumption behaviors. As a result, *the Survey Report on the Financial Consumer Protection and Financial Consumer Education in China* was published.

In accordance with the relevant requirements and work schedules of G20, the PBC, together with the CBRC, the CSRC and the CIRC, worked out *China National Strategies for Financial Education*, which was included in the *Advancing National Strategies for Financial Education* published at the G20 St. Petersburg Summit, wherein the governance mechanism, goals and implementing measures of China's consumer financial education were clarified, showcasing the world the latest development in financial education in China. The document was well received.

The PBC actively organized relevant activities, such as financial knowledge education on March 15, 2013 and "the Financial Literacy Month" in September 2013. It explored various ways to improve the effectiveness of financial consumer educa-

tion. Desired outcomes have been achieved through spreading financial knowledge that closely related to consumers' daily life through different outreach events that featured different themes.

Further improving the consulting and complaint channel of the financial consumers

The PBC's consulting and complaint hotline for financial consumer protection, "12363", has been in smooth test operation for a year. The hotline was put into use on a trial basis in Shanxi, Shanghai, Hubei, Jiangsu and some areas in Guangdong after arduous research, assessment and preparation. By the end of the year, altogether 1,994 complaint calls and 2,480 calls asking for consultation were received. The complaints were directly taken and dealt with or being transferred and processed, and basically were all handled well. In October, 2013 the PBC issued *Notice on Further Promoting the Pilot Program of Publicizing the "12363" Consulting and Complaint Hotline for Financial Consumer Protection*, and the trial program was going to be extended nationwide by the end of 2014. Meanwhile, the design and development of the information management system of financial consumer protection was carried out smoothly. The domain www.12363.org had been registered. The system construction plan was completed and application for construction in 2014 was filed.

Gradually improving the reception and processing mechanism of consumer complaints

The PBC directed branch offices to follow "the jurisdiction principle" and set up and improve their standardized complaint processing mechanism. During the year, a total number of 9,139 complaints and 88,149 consulting calls from the consumers were received, of which 8,850 complaints were resolved, accounting for 96.8 percent of the total. With respect to the disputes over redemption of the extra long-term inflation-indexed bank savings in certain regions, the PBC followed the development closely, checked the facts, worked out a resolution plan and took timely measures to effectively prevent and resolve some of the unstable factors in the disputes. Meanwhile, in order to further improve the accuracy of the assessment and judgment of the overall situation of financial consumption disputes as well as to enhance the information transparency, the PBC decided to establish the practice of analyzing the quarterly financial complaints data collected by the whole PBC system and releasing the final reports.

The PBC actively explored the non-law-suit mechanism for resolving financial consumption disputes, tackled some practical problems concerning the vital interests of the people, and effectively prevented or resolved some unstable factors that emerged from the disputes between the financial institutions and consumers.

Steadily advancing the regulation, inspection and evaluation work

In August, 2013 the *Notice on Launching the Special Inspection on the Protection of Personal Financial Information* was distributed, and the special inspection was carried out across the country from September to December. The PBC branch offices examined more than 600 financial institutions and different types of non-financial payment service agencies. This inspection achieved excellent results, clarifying customer information protection practices of these institutions and revealed major weaknesses. The PBC branch offices took corresponding measures, urging the institutions to rectify problems identified, which further standardized their business operation and heightened their awareness of their responsibilities in protecting the personal financial information of consumers.

The PBC also earnestly explored effective ways of conducting regulation and management of financial consumption rights protection, instructed the branches offices to conduct evaluation of financial institutions' practice of financial consumer protection and request them to carry out self-examination. Within the year of 2013, several branches offices conducted the evaluation of the whole financial industry or the banking sector in their respective jurisdiction.

The PBC also started building an il-

lustrative case study database. In 2013, the PBC gathered and sorted out 545 financial consumption protection cases, and published two test-run editions of *The Selected Cases of Financial Consumer Rights Protection*. Two hundred illustrative case studies of twelve categories were specially selected and compiled to serve as work reference.

Actively promoting the implementation of inclusive finance

The Third Plenary Session of the 18th CPC Central Committee clearly called for "the development of inclusive finance." The PBC actively involved in the theoretical research on the subject, closely followed the latest developments in international practice, probed into the grass roots to scrutinize the situation in China, and provided constructive opinions in coordination with relevant ministries. The PBC also prepared relevant reports, including *The Selected Experience and Practice of Financial Inclusion in Ten Countries*, *The Financial Inclusion Index System*, and *The Development of Financial Inclusion in China*. In June, 2013 the PBC joined the Fourth Working Group of the G20 Global Partnership for Financial Inclusion (GPFI), in which China co-chaired with Russia and the U.S., leading and coordinating the efforts in global inclusive finance, participating in developing international rules, learning mature foreign practices and sharing China's experience.

INTERNATIONAL FINANCIAL COOPERATION AND RULE-MAKING

The PBC actively participated in global economic governance through platforms such as G20

In September, 2013 the Eighth G20 Summit was held in St. Petersburg, Russia. Among the main topics were global economic and financial development and challenges, supporting long-term investment and financing, reforming the international financial framework, promoting financial sector reform and improving financial inclusion. With President Xi Jinping attending the G20 Summit for the first time, China presented to the world an image of a cooperative and responsible country and won positive responses from the international community. During the year, the PBC attended a series of G20 meetings, namely the meetings of G20 financial ministers and central bank governors, the deputies' meetings, and various working groups meetings. At these meetings, the PBC showed to the world China's achievements in a number of areas such as adjusting economic structure, reducing current account surplus, maintaining growth and balancing the economy. In particular, it voiced China's positions on promoting a strong, sustainable and balanced global growth, improving long-

term investment and financing, reforming the international financial system, and etc.

The PBC also actively participated in the meetings of financial ministers and central bank governors from the BRICS countries and substantially improved their financial cooperation. At the Durban Summit in March, 2013, the BRICS leaders confirmed the possibility of setting up a contingent reserve pool of US\$100 billion in their declaration. Currently, consensus has been achieved on its basic framework, such as its funding size, governance principles and lending tools.

The PBC fully participated in coordination of international economic and financial policies and promoted international rule-making and standard-setting

Through bilateral and multilateral channels, the PBC advocated the speeding up of completing the domestic approval procedures by the IMF members of the IMF's 2010 quota reform, and actively took part in discussions on quota formula. Besides, it continued working with the IMF in areas of crisis relief and poverty and debt reduction. The PBC also provided funds to the IMF's Poverty Reduction and Growth Facility (PRGF) and African Technical Assistance Programs.

The PBC deeply involved itself in the activities and decision making of international financial institutions and standard setting bodies, such as the BIS, the FSB and the BCBS. It attended the BIS Bimonthly Governors' Meetings, Special Governors' Meeting in Asia and Pacific Region, meetings of Committee of Global Financial System (CGFS), BCBS, and etc., where it joined discussions on the direction and measures of major global financial supervisory reforms and the development of related standards. The PBC promoted the implementation of these standards domestically and improved financial supervision. It took part in the FSB institutional reform and contributed to the development and revision of international rules and standards on financial regulation, such as reform of the over-the-counter derivatives (OTC) market, macro-prudential policies and regulation on credit rating agencies (CRA), enhancing China's influence in the development of international financial rules and standards.

The PBC pushed forward regional financial cooperation and contributed to regional financial stability

The PBC worked with the EMEAP to improve the crisis management and resolution framework. It attended various EMEAP meetings, including meetings of governors and their deputies, and successfully hosted the 44th EMEAP Deputy Governors' Meeting. As co-chair of the ASEAN+3, China coordinated the revision of the CMIM and facilitated building of consensus among all parties. It promoted the concrete imple-

mentation of the agreement on doubling the regional foreign exchange reserve pool to US\$240 billion. By actively involving in the events of the SEACEN, the Central Bank Governors' Club of Central Asia, Black Sea Region and Balkan Countries, and the organization of South East Asia, New Zealand, Australia (SEANZA), the PBC fully exchanged views with relevant parties on issues of common interest and sought solutions, promoted regional policy dialogues, and improved the regional cooperation. In the meantime, the PBC also attended activities of the Shanghai Cooperation Organization (SCO), the Boao Forum for Asia (BFA), and etc., which further enhanced mutual understanding and trust.

The PBC took part in major policy dialogues in a practical manner and deepened bilateral financial coordination and cooperation

In July, 2013 the Fifth China-US Strategic and Economic Dialogue (SED) was held in Washington DC, the United States. This round of dialogue was the first face-to-face, high-level and comprehensive consultation between the financial authorities of both sides after the leadership change in China. The PBC closely worked with relevant authorities, adhered to the principle of mutual benefits and win-win policy, properly handled disagreements, maintained and further expended the China-US economic cooperation. The dialogue reached 89 agreements, among which were agreements on financial market access.

China-Europe relationship was com-

prehensively improved. The PBC, jointly with the Deutsche Bundesbank, hosted the China-Germany Financial Stability Forum, in which the two sides held in-depth discussions of financial stability issues. It participated in the Fifth China-UK Economic and Financial Dialogue, where the two sides reached 59 agreements in areas of international economic policy coordination, trade and investment, and financial regulatory cooperation. Just before the 50th anniversary of the establishment of diplomatic relation between China and France, the PBC deepened bilateral financial cooperation by jointly hosting the Third China-France Financial Forum with the Banque de France, and attending the First China-France High Level Economic and Financial Dialogue. The PBC hosted the First China-Switzerland Financial Dialogue in Shanghai, paving the way for further exchange and cooperation in the financial area. The PBC also held two rounds of dialogues with the European Central Bank at working level, where the two parties exchanged views on issues such as monetary policy and financial stability.

The PBC maintained the momentum of China-Japan financial cooperation. It implemented the leaders' agreements on strengthening cooperation in developing financial markets and ensured the successful launch of direct trading between the Chinese yuan and the Japanese Yen, which provided a favorable business environment for enterprises and financial institutions from both countries.

Bilateral and practical cooperation was strengthened and mutual trust enhanced be-

tween the PBC and the financial authorities of a number of countries. The PBC successfully launched meetings of China-Russia and China-Kazakhstan sub-committees on financial cooperation. It strengthened cooperation with the Monetary Authority of Singapore in areas of direct trading between the Chinese yuan and the Singaporean dollar and innovations in cross-border RMB business. It also renewed agreement on local currencies swap with Indonesia. It granted Reserve Bank of India access to China's interbank bond market to make investment and participated in the Sixth China-India Financial Dialogue. It also started direct trading between the Chinese yuan and the Australian dollar.

The PBC actively promoted economic and financial cooperation with the African, the Latin American and the Caribbean regions

The PBC strengthened business cooperation and exchange of experience with multilateral development institutions including the Inter-American Development Bank (IADB), the African Development Bank (AfDB), the West African Development Bank (la Banque Ouest Africaine de Developpement, or BOAD), the Eastern and Southern African Trade and Development Bank (PTA Bank) and the Caribbean Development Bank (CDB), and etc. Together with the IADB, the PBC set up and put into operation a co-financing fund, and supported economic and social development in the Caribbean. The PBC also promoted mutual trust and cooperation with relevant countries in the regions in areas of finance, trade and investment.

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

Financial cooperation with Hong Kong and Macao

The PBC steadily pushed forward the development of RMB business in Hong Kong and Macao, and promoted the trade and investment facilitation between Hong Kong and Macao and the mainland. By the end of 2013, outstanding RMB deposits in Hong Kong posted 860.5 billion yuan, accounting for 12 percent of all deposits of financial institutions in Hong Kong, or 23 percent of all foreign currency deposits. Throughout the year, the actual RMB receipt and payment transactions between Hong Kong and the mainland amounted to 3.55 trillion yuan, a year-on-year increase of 55.5 percent, and accounting for 57.2 percent of all cross-border RMB receipts and payments with the mainland, or the largest among all the regions. By the end of 2013, a total of 429.1 billion yuan of RMB-denominated bonds have been issued on a cumulative basis in Hong Kong. In particular, RMB-denominated bonds issued by mainland institutions amounted to 92.5 billion yuan; treasury bonds issued by MOF reached 80 billion

yuan; and, those issued by overseas institutions amounted to 256.6 billion yuan. At the end of 2013, the outstanding RMB deposits in Macao posted 85.834 billion yuan.

The PBC steadily promoted the cross-border flow of RMB and gradually relaxed the approval of RQFII quota. After the issuance of the *Measures for the Pilot Program of Securities Investments in China by RMB Qualified Foreign Institutional Investors* and *Provisions on the Implementation of the Measures for the Pilot Program of Securities Investment in China by RMB Qualified Institutional Investors*, the eligible RQFIIs included Hong Kong subsidiaries of domestic commercial banks and insurance companies, and financial institutions which registered in Hong Kong and conducted business in Hong Kong. In the meantime, the scope of investment was expanded, as such, financial institutions could decide on what securities to invest in light of market conditions. By the end of 2013, the RQFII quota available to financial institutions from Hong Kong posted 270 billion yuan. The PBC also actively participated in the research and policymaking of financial services and trade liberalization

under *Supplement X to CEPA*.

The PBC actively promoted financial reform and innovation in the Pearl River Delta, and explored ways to strengthen financial cooperation between Guangdong Province and Hong Kong and Macao. Efforts were made to implement the *Overall Scheme of the Pearl River Delta Financial Reform and Innovation Comprehensive Experimental Area* and the building of three important platforms in Nansha, Qianhai District of Shengzhen, and Hengqing District of Zhuhai. Through strengthening policy guidance, testing new ways in financial reform and opening-up, and promoting the construction of regional factor trading platforms, the PBC contributed greatly to the financial cooperation between Guangdong Province and Hong Kong and Macao.

The PBC provided support for establishing cross-border RMB business innovation experimental zone in Qianhai Deep Harbor Modern Service Cooperation District in Shenzhen. In Qianhai District, efforts were made to steadily push ahead with the cross-border RMB business innovation, strengthen media campaign and training, actively implementing the rules on cross-border RMB loans to promote the orderly its development.

Financial cooperation with the Taiwan region

Under the framework of the *Memorandum of Understanding on Currency Clearing Cooperation across the Taiwan Strait*, the PBC

made sure that the cross-Strait currency clearing mechanism would operate in accordance with the relevant laws and regulations of each side. By the end of 2013, in Taiwan the outstanding RMB deposits posted 182.6 billion yuan, outstanding discounts and loans 12.739 billion yuan, and the total remittances 100.454 billion yuan. Actual RMB receipts and payments across the Taiwan Strait amounted to 258.98 billion yuan, a year-on-year growth of 66 percent, accounting for 4.2 percent of all cross-border RMB receipts and payments, or ranking the third among the regions.

On February 6, 2013, the Taipei Branch of Bank of China, the designated RMB clearing bank in Taiwan, started to open RMB accounts for participating banks, carry out the RMB clearing and settlement business, and provide RMB purchase, sale, and interbank lending services. There were 65 Domestic Banking Units (DBU) and 75 Offshore Banking Units (OBU) which were qualified to conduct RMB business in Taiwan. On April 2, 2013, the Shanghai Branch of Taiwan Bank, the designated TWD clearing bank in the mainland, started to provide two-way exchange services between RMB and TWD, with a ceiling of TWD 60,000 per person each time.

Efforts were made to further deepen financial cooperation across the Taiwan Strait. On June 21, 2013, authorities on both sides of the Taiwan Strait signed the *Cross-Strait Service Trade Agreement*, allowing Taiwan-funded financial institutions to invest in the

mainland' capital market via the RQFII. The OBU of Cathay United Bank, Hong Kong Branch of Taiwan Cooperative Bank, and Hong Kong Branch of Taiwan Business Bank were authorized to invest in the mainland's interbank bond market.

Exchanges with authorities from Hong Kong, Macao and Taiwan regions

In 2013, the PBC conducted a series of high-level exchanges with authorities from Hong Kong and Macao. Major activities included: Governor Zhou Xiaochuan met with Mr. Leung Chun-ying, Chief Executive of the Hong Kong SAR; Mr. Joseph Yam Chi Kwong, former Chief Executive of the HKMA; Mr. Chan Tak-Lam, Chief Executive of the HKMA; the delegation of the Hong Kong Association of Banks; Mr. Tsang Chun-wah, Financial Secretary (FS) of the Hong Kong SAR. Deputy Governor Hu Xiaolian met with Mr. Chan Tak-Lam, Chief Executive of the HKMA; Mr. Li Xiaojia, Chief Executive of the HKEx; Mr. Eddie Yue, Deputy Chief Executive of the HKMA. Deputy Governor Liu Shiyu met with Mr. Peter Pang, Deputy Chief Executive of the HKMA. Deputy Governor Yi Gang met with Mr. Li Xiaojia, Chief Executive of the HKEx; Ms. Julia Leung Fung-yee, Undersecretary of the Financial Services and the Treasury Bureau. Deputy Governor Pan Gongsheng met with senior management of the HSBC; Mr. Li Kwok-po, Chairman and

Chief Executive of the Bank of East Asia Limited; Mr. Yang Weimin, Executive Director of the *Asset* magazine; and a delegation from the Hong Kong Association of Banks. Deputy Governor Pan Gongsheng visited Hong Kong under the "Mainland Sponsored Visitors' Program". Assistant Governor Jin Qi met with Mr. Lam, Wai Chung Gordon, President of the Hang Seng Bank (China). These communications and exchanges of policies and views strengthened cooperation between PBC and representatives from the Hong Kong and Macao regions.

On June 29 to 30, 2013, the China Society for Finance and Banking and the Taipei Foundation of Finance jointly held "the Seminar on the Development and Cooperation of the Bill Markets across the Taiwan Strait." On September 25 and 26, 2013, the 18th Cross-Strait Financial Symposium was held in Beijing, which was co-chaired by the China Society for Finance and Banking, the Chung-hua Institution for Economic Research, and the Taipei Foundation of Finance. Participants deliberated on a series of topics including e-banking, small- and micro- finance and the development of small- and micro-enterprises, private capital and the development of private financial institutions, QFII/RQFII schemes, and cross-Strait financial cooperation. These meetings helped promote cross-Strait financial exchange and cooperation.

HUMAN RESOURCES

Staff composition

As of end-2013, the total number of staff of the PBC system reached 132,481 (including 20,559 working in the China Banknote Printing and Minting Co., Ltd and its subsidiaries).

Of the total number of staff, 43,118 or 32.55 percent were female; 940 or 0.71 percent held PhD degrees (in particular, 148 working in the PBC Head Office, accounting for 20.25 percent of the total at the Head Office); 10,053 or 7.59 percent held master's degrees (in particular, 388 working in the PBC Head Office, accounting for 53.08 percent of the total at the Head Office); 66,961 or 50.54 percent held bachelor's degrees (in particular, 154 working in the PBC Head Office, accounting for 21.07 percent of the total at the Head Office). In 2013, 2,448 new staff members were recruited from universities and other entities, and 3,168 retired.

In terms of organizational structure, 731 worked in the PBC Head Office (including the staff working in the PBC affiliated units but being managed according to the Civil Servant Law), 606 in the Shanghai Head Office, 2,048 in public institutions and enterprises affiliated to the PBC Head Office,

6,419 in regional branches and operation offices (including operation offices under branches), 9,307 in sub-branches in provincial capital cities, 1,499 in sub-branches in quasi-province-level cities, 45,879 in sub-branches in prefecture-level cities and 44,658 in county-level sub-branches.

In terms of age group, 16,531 were 30 years old or younger; 11,004 were between 31 and 35 years old; 14,542 were between 36 and 40 years old; 28,999 were between 41 and 45 years old; 33,492 were between 46 and 50 years old; 14,708 were between 51 and 54 years old; 13,205 were 55 or older. To strengthen the youth work and better unite young staff to make contributions to the central bank's scientific development, the PBC Youth Union was founded on November 6, 2013.

Staff team building

In 2013, the organizational and human resources work of the PBC focused on serving the functions of the PBC. The PBC earnestly implemented the spirits of the National Organizational Work Meeting, carried out the "Mass Line" Education and Practice Campaign within the PBC system, and strengthened the building of PBC cadres

and staff team, which had achieved remarkable outcomes. First, concrete progress was made in the “Mass Line” Education and Practice Campaign. The first phase of the campaign within the PBC system strictly followed the central government’s plans and directions, fulfilling all the requirements. Self-designed programs that specifically related to the work of the PBC were also carried out. Senior officials and party members at all levels have raised their “Mass Line” awareness, improved their working style, strengthened the party member and people’s, and cadre and people’s ties, enhanced the financial service and initially established an effective long-term mechanism for maintaining top-rate working style. Second, the PBC improved the selection and appointment procedure of officials. In accordance with the “good officials” criteria and taking into account of the institutional functions and operational peculiarities, the PBC improved the official review mechanism and selection and appointment system, aiming at selecting the best officials that can fulfill central bank’s responsibilities. In 2013, the heads of 16 units (departments) were adjusted and appointed, and 44 people were promoted to (deputy) director-general level positions. Third, more officials were given opportunities to have fixed-term secondments within the PBC system. About 822 officials were re-appointed or seconded to other units. In particular, about 16 chief officials from branch/sub-branch offices of (deputy) director-

general level were re-appointed or seconded to units in other places. Fourth, evaluation and supervision on officials’ performance were further enhanced. The approach of “one report and two reviews” continued to be applied in the units which were eligible to appoint and dismiss officials, and about 16,000 staff (including both officials and the general staff) in 56 branch/sub-branch offices of (deputy) director-general level and affiliated units took part in these reviews. On the basis of conducting self-examination of official selection and appointment in PBC branches/sub-branches and affiliated units, the PBC examined the selection and appointment of senior party officials in 6 branch/sub-branch offices and 1 affiliated units. The PBC continued to conduct surveys on the satisfaction of official selection and appointment, with over 10,000 staff members participating in the surveys. Fifth, continuous efforts were made in staff training on a large scale. The PBC provided rotating training sessions on the documents of the 18th CPC National Congress and speeches of Xi Jinping, the General Secretary of the CPC. Continuous efforts were made to provide extensive training for staff, and more distance training courses were provided to some 116 thousand staff. Sixth, efforts were made to strengthening the building of a professional talent pool. The PBC took the lead in recommending candidates for “The 1000 Talents Plan” of the financial sector. In 2013, 3 financial experts were recruited for the sector,

making the total number of financial experts to 36. Examination and appraisal of staff for all levels of professional qualification were completed successfully, with the total number of senior-level professionals of the PBC system reaching 5,730. Seventh, significant progress was made in the staff management. The PBC issued relevant directives on the management of contract employees working in operational positions in branches and sub-branches. The PBC initially set up a classi-

fied staff management system consisting of both regular staff and contract employees. The PBC comprehensively implemented the measures of staff performance evaluation and improved related practice. The recruitment procedures were further standardized and improved, and contract employees were timely hired, which effectively solved the problem of labor shortage in operational positions and some local sub-branch offices.

INTERNAL AUDITING

The goals set in *The Three-year Internal Audit Transformation Plan* were fully accomplished

According to the requirements that achievements in the internal audit transformation shall be institutionalized, that experiences and practices shall be promoted, and that exploration of innovations shall become a long-term task, the PBC fully carried out The Three-year Internal Audit Transformation Plan, stepped up efforts to strengthen the institutional construction, continuously promoted the sharing of auditing experience, and gave full play to the internal audit's functions in preventing risks, which has strengthened internal control and facilitated institution governance. First, the risk-oriented auditing approach was basically established. *Trial Methods of Risk Assessment of People's Bank of China Internal Auditing Units* was issued. Several major business areas were chosen to conduct risk assessments, and corresponding reports were produced. The risk assessment database of PBC was set up to facilitate the establishment of risk-oriented auditing approach. Second, performance audit was further explored. The guidance of the PBC on performance audits was drafted. Branch offices were directed to conduct comprehensive

performance audits in areas such as resources allocation and project management. The PBC also finished compiling performance auditing manuals on operational cost management of office buildings and official vehicles and human resources allocation. Third, end-of-term audits were enhanced. *End-of-term Auditing Practice of the People's Bank of China* was revised and released, which institutionalized economic responsibilities as the key of end-of-term audit. Revision of the *People's Bank of China Performance of Duties Audit Mechanism* was promoted. Fourth, audits on internal control were deepened. *Manual of the People's Bank of China Internal Control Audit* (2013) was revised and completed. *The People's Bank of China Internal Control Audit Rules* was drafted. Branch offices were directed to carry out regular internal control audits. Fifth, information technology audits were further pursued. *The People's Bank of China Standards on Information Technology Audits* was released, which became the first PBC standards on information technology and further clarified the scope, goals, methods and evaluation standards of information technology audits. Sixth, great efforts were made to promote the application of computer-aided auditing practice. *Guidance of the*

People's Bank of China on Computer-aided Audit and Rules on the Management of People's Bank of China Computer-aided Auditing System were released. The application of the PBC computer-aided auditing system was promoted and gradually improved. Real-time monitoring on high-risk events was explored. Computer-aided auditing cases and model were compiled and distributed. Seventh, assessment of internal auditing quality was strengthened. Branch offices were organized to draft methodology to assess internal auditing quality and pilot assessment programs were conducted. Eighth, research on internal auditing transformation and development was enhanced. A group was set up to follow-up on and translate international internal auditing theories and practices, as well as a mechanism for young staff to do research on specific issues. Many articles such as Chamber's blog on internal audit was compiled and translated. Ninth, great efforts were made to enhance the public awareness of internal audit transformation. *Exploration on People's Bank of China Internal Audit Transformation and Development* (Third Volume) was published and branch offices were organized to collect related experiences.

The auditing programs were steadily carried out

In 2013, the PBC's internal auditing units completed 5,200 auditing programs, identified 33,000 violations and risk-related issues and put forward 17,000 proposals for taking corrective actions.

First of all, end-of-term audits were conducted on some senior bank officials, such as directors of some branches and sub-branches and chief representatives of PBC overseas offices. The audits focused on economic responsibilities, specifically on examining the decision-making and the execution in terms of budget management, financial revenues and expenditures, assets and liabilities, capital construction and procurement management. Second, audits on internal controls were conducted. Branch offices were organized to conduct internal control audits on economic activities such as execution of the budget, financial revenues and expenditures, large-value procurement, asset management, capital construction and contract management. Great attention was paid not only to internal control issues in the organizational level such as organizational culture, institution, mechanism, personnel and system, but also to key high-risk business areas. Third, special auditing survey was conducted on the management of pension, medical care and housing fund of the PBC staff. Auditing investigation was conducted on the management of social insurance, medical insurance and housing fund in 6 sub-branches in provincial capital cities and 11 sub-branches in quasi provincial-level cities. Meanwhile, the operation of in-house clinic at 70 sub-branches was examined. Some universal or typical problems were discovered, and suggestions for improvement were put forward. Fourth, special audits on banknote issuance and management were conducted. The audits fully applied the

computer-aided auditing means and combined the on-site and off-site auditing methods to realize full coverage of data on banknote issuance. Fifth, special audits on the management of Treasury accounting business and system operation were conducted including the operation, management and maintenance of TCBS and TIPS. By closely combining operational audits and information technology audits, internal auditing work achieved good results. Sixth, audits on infrastructure construction management were conducted, including the infrastructure projects and decoration and renovation of the PBC Head Office, branches and sub-branches. Seventh, auditing investigations were conducted on the resource allocation and performance of duty of the county-level sub-branches. 725 county-level sub-branches were audited through which a deeper understanding of the prominent problems in the operation of these sub-branches was achieved and suggestions for improvement were put forward. Eighth, special audits were conducted on the management of reserve requirement. Through auditing the management of reserve requirement and treasury deposits, some institutional and operational problems were discovered and the auditing scope of PBC balance sheet was expanded. Ninth, Audits were conducted on six enterprises and institutions directly affiliated to the PBC Head Office, focusing on financial management, compensation management, business operation, information security, internal control and organizational governance. The audits helped the audited units to im-

prove their risk management, internal control and organizational governance.

Organization and management of internal auditing practice was strengthened and improved

First, the training resources was comprehensively arranged, innovations were made in training methods, and cross-training among branch offices were strengthened, which popularized the internal audit transformation experience. Second, the application of internal audit findings was enhanced. Brief reports and special issues on internal audit were compiled and distributed, which reflected the key discoveries and risk analysis of internal auditing units. Third, comprehensive analysis of internal audit was enhanced. *Major Problems Discovered in People Bank of China Internal Audits* was printed and distributed as a reference document for the PBC Working Conference in 2014. Fourth, exchange and consultation mechanism with other departments and agencies was further improved. Special emphasis was put on continuously giving full play to the confirmation and consultation function of internal audit in institution building and standardized management. Fifth, external exchange of internal audit was strengthened. PBC representatives attended the annual meeting of Central Bank Internal Audit Working Group (CBIA) organized by the BIS and fully involved in the research project of “Enhancing the Recognition of Central Bank Internal Audit.”

FINANCIAL SURVEY AND STATISTICS

Financial statistics standardization has made measured progress

In response to new requirements for monetary policy conduct and macro-prudential management under the condition of market-based interest rate reform, and to comprehensively reflect the balances, changes, term structures and interest rates of outstanding deposits and loans in a timely and accurate manner, after three years of efforts, the statistical system of standardized comprehensive survey on deposits and loans was formulated, and the corresponding information system was also established. Across the country, 1,398 sub-branches of 143 financial institutions with legal person status were selected as the sampling institutions, covering all kinds of banking financial institutions including large-, medium- and small-sized banks, rural cooperative financial institutions, finance companies, village and township banks, small loan companies, and etc. Quality evaluation of data on deposits and loans of the first batch of pilot institutions was completed, and the goal of setting up a statistical system that includes information on “aggregates and structures, volumes and prices, and stock and flow” was initially

achieved.

Great efforts were made in compiling, analyzing and releasing the aggregate financing to the real economy

Efforts were continued in the compilation and analysis of aggregate financing to the real economy. During the year, the simultaneous publication of money, deposits and loans, and the aggregate financing data was achieved, considerably improving the timeliness of information disclosure. In the meantime, the PBC strengthened research on the statistical system of regional aggregate financing, researched and improved the plan for compiling regional aggregates data, and pushed ahead with the compilation, monitoring and analysis of regional statistics. During the year, the compilation frequency of aggregate financing changed from quarterly to monthly, and the discrepancies between the national aggregated data and regional data were reduced significantly, basically meeting the requirements for official compilation and disclosure to the general public. Practices in the past three years indicated that the “aggregate financing” has been gradually accepted by policymakers at various levels and the

general public and has received widespread attention and become an important monthly indicator for China's macroeconomic management.

The pilot scheme of the comprehensive statistics of financial industry was advanced steadily

The aim of building the comprehensive financial statistical system is to address the defects of current financial statistical system, meet the needs of macro-prudential management, accurately measure the scale of aggregate financing and monitor financial risks. The CPC Central Committee and the State Council have attached high importance to the comprehensive financial sector statistical work. In 2013, authorized by the State Council, the Joint Ministerial Conference Mechanism of Financial Regulatory Coordination led by the PBC was established, and at its first meeting one of the main topics was the sharing of financial regulatory information and the coordination mechanism of comprehensive financial statistical system. Meanwhile, the pilot scheme was successfully launched in Shenzhen and Wenzhou. In Shenzhen, the compilation of comprehensive financial statistical information for multiple periods was completed, while in Wenzhou the preliminary statistical summary table of comprehensive financial statistics was compiled. During the year, based on the pilot schemes of comprehensive financial statistics in Shenzhen and Wenzhou, the PBC

initially improved the core indicators and reporting instructions of comprehensive financial statistical system, and explored ways to develop China's comprehensive statistical monitoring of the financial sector and the initial framework for compiling financial survey.

Innovations were made in financial survey and statistics

Over the recent years, on-going innovations were made by Chinese financial institutions. The off-balance sheet businesses expanded rapidly, especially some fast growing credit-like businesses such as banker's acceptance and bank financing guarantee, having had some impacts on the money supply, aggregate credit and other financial aggregates. To get timely, comprehensive, and accurate information of the scale and structural characteristics of banks' off-balance sheet businesses, to carry out in-depth research on the off-balance sheet businesses, to define the scope of off-balance sheet businesses, and to develop the specialized statistical system, the PBC classified the off-balance sheet businesses into six categories, including the credit businesses, contingent items related to transactions and trade, and commitments, so as to compile classified statistics. During the year, the PBC directed Wuhan Branch, Yichang and Xiangyang sub-branches, using mortgage loan data from local commercial banks, to research and assess methodologies of compiling mortgage housing price indices

and tried to compile housing price indices for the markets in Yichang and Xiangyang.

The financial survey and statistics work, as well as financial analysis and research were pushed forward

In terms of financial statistics, the PBC has consistently maintained the timeliness and accuracy of statistical data, ensured the timely compilation of important financial data including money supplies and aggregate financing to the real economy. It effectively organized the processing and checking of 12,000 financial statements of the PBC system per month, collected a total of 78 batches of preliminary and official data, including Monthly Batch No.1, Monthly Batch No. 2, and Quarterly data, reviewed and compiled about 6,000 financial statements. The corporate bond statistics and classification of interbank market and bond market participants were improved. The new version of the *People's Bank of China Quarterly Statistical Bulletin* was published.

In terms of financial survey, the PBC has drawn on experiences both at home and abroad and solicited opinions from its branch offices, revised the quarterly survey of entrepreneurs, integrated and optimized the contents of the survey, and made adjustments to part of the survey samples. The PBC developed the survey system of enterprises' private financing, streamlined the data reporting procedure for PBC branch offices, and improved the efficiency of the

analysis work. In addition, the PBC made in-depth analysis of the survey data, continued to monitor the composite performance index of 5,000 industrial enterprises, the composite price index, and the composite inventory index, and conduct trials in compiling the PBC consumer confidence index and the exchange rate tolerance index. The corporate goods price index was compiled on a monthly basis, and the product specification samples were maintained and updated on a regular basis. The stability of the survey samples was maintained while their representativeness was ensured. During the year, more than 3,000 product specification samples were updated, accounting for 15 percent of the total.

As for financial analysis, the PBC made full use of its own advantages, strengthened field investigation and research, enhanced analysis, ex-ante research and assessment of economic development, and kept a close eye on new situations, issues and trends. The PBC sent the financial performance report to the State Council every month. It analyzed development in money, credit and aggregate financing, price fluctuations in financial markets, and on- and off-balance sheet businesses of financial institutions, and conducted research on the linkage between the prices of single commodities and the overall price level, as well as on RMB convertibility under the capital account, all of which rendered substantial support for the PBC to carry out its core mandates. Besides center-

ing research efforts on financial reform and development and major issues in monetary policy conduct, the PBC organized its branch offices to carry out research on urbanization, capital account liberalization, the effect of market-based interest rate reform, interest rate transmission mechanism, the effect of financial innovations, the effect of monetary and financial policies, the effect of new capital regulations, the effect of property tax, and the development of services industry, so as to provide reference for monetary policy decisions. The method of business cycle survey was introduced into economic forecasting, and the business survey on the economy, prices, money, and credits was conducted

on a regular basis. In addition, forecasts were conducted on six aspects including over 30 indicators, i.e., economic growth, price, fiscal sector, external sector, financial and economic activities, in order to provide forward-looking data and form judgments on economic and financial performance. In the meantime, the Financial Survey and Statistical Department actively took part in the work of the PBC on maintaining financial stability and implementing counter-cyclical macro-prudential management, and produced the *Banking Sector Stability Indicators Monitoring* and the *Quarterly Monitoring Report of Commercial Banks' Financial Soundness* on a regular basis.

• BOX •

Aggregate Financing to the Real Economy Comprehensively Reflecting the Relationship between Financing and the Economy

Aggregate financing to the real economy is a product of China's diversified financial development

In recent years, China's aggregate financing has expanded rapidly. The financial markets have witnessed diversified development. Constant innovations have been made in financial products and financing instruments. Securities and insurance institutions have increased financing toward the real economy. The off-balance-sheet businesses of commercial banks have gained more weight as alternatives to the on-balance sheet lending. The indicator of new RMB loans can neither reflect fully the relations between financing and the real economy, nor comprehensively reflect the financing scale of the real economy. Therefore, China innovatively started to compile statistics on aggregate financing in 2011. The indicator has been written into the documents of Central Economic Work Conference and the *Report on the Work of the Government*. It has won popularity and the attention from all walks of the society and has become an important monitoring and analyzing indicator in China's macroeconomic management, under the new circumstances.

Definition and composition of aggregate financing to the real economy

Aggregate financing to the real economy refers to the total value of funds provided by the financial system to the real economy over a certain period of time. Here, the financial system means the entire financial system as a whole. In terms of institutions, it includes financial institutions such as banks, securities firms and insurance companies. In terms of markets, it includes the credit market, bond and securities markets, insurance market and the intermediate business market. Aggregate financing consists of four parts with ten sub-items. The four parts are respectively, on-balance sheet businesses of financial institutions including RMB and foreign currency loans; off-balance-sheet businesses including entrusted loans, trust loans and undiscounted bankers' acceptances; direct financing including domestic stock and corporate bond

financing; and, other items such as insurance compensation, investment real estate, loans from the small loan companies and finance corporations.

Aggregate financing to the real economy is compiled mainly based on the basic statistical framework specified in IMF's *Manual of Monetary and Financial Statistics*, which is an important guiding document for countries to compile financial statistics. According to IMF's statistical framework, there are two basic principles for collecting statistical data on aggregate financing. One is consolidation, i.e. cancelling out transactions between financial institutions and those between financial institutions and financial markets to avoid double counting. The other is netting principle. Aggregate financing to the real economy is a flow concept, which is the difference between the beginning and ending balances, or that between the current issue and current redemption, or that between the new loans and loan repayments.

Basic features of aggregate financing to the real economy in recent years

From 2002 to 2013, China's aggregate financing has continuously expanded, and has effectively promoted the stable and fast development of the economy. In 2013, the aggregate financing reached a record high of 17.32 trillion yuan, about 8.6 times that of 2002. In terms of financing structure, the financial markets have experienced diversified development and the financial system has improved continuously. First, the proportion of RMB loans has declined significantly and hit the record low. In 2013, RMB loans accounted for 51.3 percent of the aggregate financing, 40.6 percentage points lower than that of 2002. Second, direct financing, especially corporate bond financing, has increased rapidly. In 2013, the domestic corporate bond and equity financing of non-financial enterprises accounted for 11.8 percent of the aggregate financing, increased by 6.9 percentage points from that of 2002. Third, the financing through off-balance-sheet businesses of financial institutions has grown rapidly. In 2013, the value of funds the real economy got through entrusted loans, trust loans and undiscounted bankers' acceptances amounted to 29.8 percent of the aggregate financing, while in 2002 these kinds of financing were virtually zero.

Aggregate financing to the real economy reflects the financing condition of the real economy from multiple angles

It contains the information on both the aggregate and the structure of financing,

reflecting not only the aggregate financing the real economy gets from the financial system, but also the flowing direction and structure of the funds.

It shows the relative proportions of direct and indirect financing, presenting data on both indirect financing from the financial institutions and direct financing through issuing corporate securities and stocks in the financial markets. In recent years, direct financing has grown significantly and its share of the aggregate financing has increased.

It includes information of the financing through all kinds of financial products, such as from banking, insurance and securities industry products, from both on- and off-balance sheet businesses, from business activities in the credit, bond, stock, insurance and intermediate markets. Therefore, aggregate financing to the real economy comprehensively reflect the continuing diversified financing channels and products of China's real economy.

It also reflects the financing aggregates and structure of different regions and industries. Different from the indicator of money supply, aggregate financing can be compiled in different categories from multiple angles, such as financing in regions and industries and from different sources. As a result, it can also reflect the regional difference of economic development and the development of different industries in China.

It can provide reference information for macroeconomic policy-making. An empirical study was conducted by using the statistics of financing aggregates since 2002. The results show the following:

Aggregate financing to the real economy is closely related to major economic indicators, such as GDP, fixed assets investment, total retail sales of consumer goods, electricity generation, CPI and total volume of foreign trade. It is correlated with all major economic indicators, and the coefficient of correlation is around 0.9. It is a leading indicator comparing to economic growth, investment and price and it changes as the other indicators change.

It is closely related to the major operational targets of monetary policy such as monetary base and interest rate. It correlates significantly negatively with interest rate ^①, and significantly positively with monetary base.

^①In the quantitative analysis, the 7-day pledge-style bond repurchase rate of the inter-bank market and the yield to maturity of five-year Treasury bond are chosen as the representative rates.

FINANCIAL RESEARCH

Pushing forward research on financial reform and development

The PBC carried out in-depth research on important issues such as interest rate liberalization, convertibility of the capital account, reform of RMB exchange rate formation mechanism, future trends of financial sector development, internet finance, financial sector opening up and the financial management mechanisms of the central and local governments.

Research was also made in overall design of the economic reform and the development strategy of the financial sector. Centered on structural adjustment and financial transformation, the research was enhanced in financial management, financial market and financial stability and other topics that were central to the central banking, providing research support for the top level design of the financial reform.

Efforts were also made in the follow-up, monitoring and assessment of the implementation of the 12th Five-year Plan of Financial Reform and Development. The PBC put forward suggestions regarding the adjustment of reform orientation and momentum and summed up reform experience, promot-

ing the smooth realization of the reform goals. In line with the implementation of the 12th Five-year Plan of the financial sector, *Top-level Design and Overall Planning of China's Financial Development and Reform* was published, explaining the rationale of the reform.

Thematic research in rural finance were strengthened. In-depth research was also conducted with regard to reform of rural credit cooperatives, agriculture-linked credit, large-scale operation of agriculture, reform of rural land system, mortgage loans based on the right of use of land for housing and the right to land contractual management, the market structure of rural finance, development of micro finance as well as rural financing system in foreign countries, etc. *2012 Report of China Rural Financial Services* and *2013 Case Studies of China Rural Financial Service Innovations* were released, popularizing the policies and innovations in rural financial services.

Steadily advancing regional financial reform and innovation

The PBC was actively involved in promoting the formulation and implementation

of regional financial reform plans. According to the important strategy of constructing China (Shanghai) Pilot Free Trade Zone of the CPC Central Committee and the State Council, the PBC took the lead in formulating and promulgating *Opinions on Financial Support for the Construction of China (Shanghai) Free Trade Zone*, reinforcing the financial support for cross-border investment and trade to promote the development of the real economy in the Pilot Zone. The PBC, in collaboration with relevant authorities, launched special financial reform projects in Yiwu, Zhejiang Province and the city group of Changsha, Zhuzhou and Xiangtan, exploring new way in financial reform and accumulating new experiences. The PBC also followed up on the development in financial reform pilot zones such as Pearl River Delta, Wenzhou of Zhejiang Province and Quanzhou of Fujian Province and summarized the reform experiences of the above-mentioned pilot zones based on the analysis of the achievements as well as existing problems, which would serve as a reference when financial innovations was to be promoted nationwide.

Financial support was also strengthened in remote and border regions, as well as areas inhabited by ethnic minorities. Further research was done on the overall planning of establishing pilot zones in Yunnan Province and Guangxi Zhuang Autonomous Region for comprehensive financial reform in border regions. Efforts were also made in formulat-

ing the financial support policies for building the Silk Road Economic Belt and Silk Road at Sea as well as stimulating the economic and social development of Tibet and Tibetan ethnic areas in four provinces through differential policies. The PBC also successfully hosted the Third China-Eurasia Expo Financial Cooperation and Development Forum, giving more impetus to the monetary cooperation as well as investment and financing cooperation among China, Asia and Europe.

Enhancing research on the key and difficult problems in the financial sector

Positive achievements were made in research on granting domestic institutions more market access and comprehensive operation. Research was made on the barriers that prevented the private capital from entering into the banking sector as well as the solutions. The PBC also studied the risk control and supervisory reform of the comprehensive operation of the financial sector, providing policy recommendations on the development of China's financial administration system.

Progress was made in research on international economy and finance. Positive results were achieved in the research of overseas infrastructure investment, opening-up of the financial sector, RMB "go-global" strategy and development of the off-shore markets, capital account convertibility, spillover effects of the quantitative easing policies of the developed economies, industrial

transfer and upgrading as well as progress of TTP, TTIP, TISA and America BIT and China's countermeasures.

Progress was also made in research on finance and taxation. In-depth analysis was made in the evolvement of government debts and coordination of macro policies, the constraints in the development of local government debts in China, the financing methods of local governments in the process of urbanization, the transformation from business tax to value-added tax and the reform of pension funds.

Research on private lending and financial services for small- and medium-sized enterprises (SMEs) made headways. Investigation was made on the P2P lending and the developments and problems of domestic and foreign on-line borrowing. Centered on areas where private lending was active, research was made on issues such as the regulation of private lending, and policy suggestions were put forward as for how to improve laws and regulations and safeguard financial stability. Nationwide survey on financial services for SMEs was conducted, providing a full picture of commercial banks' credit supply and financial services to SMEs. Development of small loan companies and their potential risks were also explored.

Analyzing macroeconomic and financial development and conducting fundamental research in a concrete manner

Efforts were made in monitoring and

analyzing the macroeconomic and financial situation. The PBC closely followed the latest development of economic situation and adjustments of macro management policies of the major developed economies, focusing on the tapering of the US quantitative easing and the spillover effects. The PBC also paid close attention to China's aggregate financing to the real economy, the scale and structure of credit and the changes in market liquidity. Forecasting methodologies for main economic indicators were improved, so were the forecasts of economic growth and price movement. Quarterly price monitoring and analysis were launched, serving as an important reference for formulating monetary policy.

Fundamental researches in various areas were advanced steadily. The research on the methodologies of GDP calculation was strengthened. Systematic research on the definition and calculation of potential growth rate was made and potential growth rate of China was calculated accordingly. The PBC also studied the development trend of the leverage ratio of the Chinese economy, its soundness and potential risks. The research also covered topics such as the soundness of the balance sheet of the central bank and the allocation of national income. Continued efforts were made in investigating into low carbon finance and related issues. The special research project of saving historical financial data was progressing smoothly with continued efforts made in data process-

ing and sorting. The compilation of *China's Monetary and Financial History* was well under way.

Strengthening research on featured topics and regional financial policies

The mechanism for conducting featured research was further improved. Based on the experiences in recent years, and taking into consideration of the local characteristics of their areas of jurisdiction, the PBC branches improved and innovated their research mechanism, and further clarified featured research plans and supporting measures, setting up a institutionalized and standardized framework for carrying out research.

The quality of featured research was further improved. By launching featured research projects and making full use of regional advantages and previous accomplishments, the PBC generated a series of featured, high-quality research findings, which could serve as valuable reference for policy-making. These research projects, for example, covered areas such as international financial markets, pension finance, food safety and agricultural modernization, pro-

viding useful information to policy makers.

Making progress in academic exchange, scientific research management and publication-related work

The positive impacts of academic exchange activities were further growing. China Society for Finance and Banking, Banking Accounting Society of China and the Chinese Society of International Economic Relations held large-scaled academic events such as Cross-Strait Financial Symposium and Annual Meeting of Banking Accounting Society of China on a regular basis. Meanwhile, these societies also explored means to play a more active role and hosted a series of high-quality academic seminars on topical issues in economy and finance. As these seminars became more practical, targeted and with more in-depth discussion, they played a more important role in providing policy advice and promulgating policy measures, contributing to the overall financial reform and development. Efforts were also made in exploring different ways to promote the application of research results.

Supporting the Financial Reform in Shanghai Pilot Free Trade Zone

The establishment of the China (Shanghai) Free Trade Zone (FTZ) is a significant step taken by the CPC Central Committee and the State Council, after taking consideration of domestic and international situations, in response to new trends of global economic and trade development. The FTZ is a major initiative and attempt to boost reform and opening up under the new circumstances. On September 29, 2013, the opening ceremony of FTZ was held in Waigaoqiao District, Shanghai. The FTZ is comprised of four special custom supervision areas, including Shanghai Waigaoqiao Bonded Zone, Waigaoqiao Bonded Logistics Zone, Yangshan Bonded Port and Shanghai Pudong Airport Comprehensive Bonded Zone, spanning an area of 28.78 square kilometers.

After the release of the *Framework Plan for the China (Shanghai) Pilot Free Trade Zone* by the State Council, the PBC, the CBRC, the CSRC and the CIRC introduced measures one after another to give financial support to the FTZ. The PBC issued *The Opinions of the People's Bank of China on Financial Measures to Support the China (Shanghai) Pilot Free Trade Zone*. The CBRC introduced eight measures, including supporting development of domestic and foreign banks in the FTZ, supporting investment of private capital in the banking industry in the FTZ, and etc. The CSRC introduced five measures to further open up the capital market and deepen reform, such as supporting eligible individuals or institutions to invest in both domestic and overseas markets, supporting financial institutions in the FTZ to provide commodities and financial derivatives trading services for domestic clients. The CIRC introduced eight measures, including supporting the establishment of foreign-funded health insurance agencies in the FTZ on a pilot basis, supporting the business of ship-ping insurance, and etc.

It puts forward major objectives and details of providing financial support to the building of the FTZ that *The Opinions of the People's Bank of China on Financial Measures to Support the China (Shanghai) Pilot Free Trade Zone (the "Opinions")*. The main objectives are to make finance serve the real economy, to deepen reform and opening up, and to establish financial regulatory models that can be copied and

promoted. The financial support measures cover six aspects. The first is to introduce innovations in the account management system that facilitates risk management. *The Opinions* puts forward an approach of separate accounting to advocate innovative financial business and facilitate currency exchange for cross-border investment and financing in the FTZ under the precondition of controllable risks, so as to better serve the real economy. The second is to explore ways to facilitate exchange and remittance for investment and financing. The *Opinions* allows entities in the FTZ, based on their specific operation and cross-border business, to make full use of FTZ and overseas financial markets to hedge against risks in accordance with relevant regulations. The third is to expand the cross-border use of RMB. Support is to be extended to boost the development of cross-border E-commerce in the FTZ. Enterprises in the FTZ can conduct cross-border RMB fund pooling business and centralized payment and receipt of RMB under the current account, so as to further facilitate cross-border RMB flow. The fourth is to speed up market-based interest rate reform. According to the *Opinions*, under the framework of macro-prudential regulation, and taking into consideration of the need in the development of the real economy, market entity cultivation and market environmental construction, efforts shall be made to steadily promote market-based interest rate reform in the FTZ. The fifth is to deepen the reform of foreign exchange administration. The foreign exchange administration authority introduced five measures, including supporting the FTZ to develop a CBD and new trade, simplifying registration procedures for direct investment, and etc. The sixth is about monitoring and regulation. From the perspective of macro-prudential regulation, the *Opinions* specifies a series of risk prevention measures and advocates the implementation of whole-process risk management.

PUBLIC COMMUNICATION AND EDUCATION

In-depth interpretation was made on financial reform and macroeconomic management policies to enhance public awareness

A wide variety of channels was utilized to explain and interpret macroeconomic management policies, including news briefings, interviews, press conferences, online interviews, and articles published by PBC senior officials. On the sideline of the annual sessions of the National People's Congress and the Chinese People's Political Consultative Conference, Governor Zhou Xiaochuan, Deputy Governor Liu shiyu, Deputy Governor Yi Gang, and Deputy Governor Pan Gongsheng attended a special press conference on monetary policy and financial reform to answer questions of public interest from domestic and foreign journalists. The questions covered sound monetary policy, market-based interest rate and exchange rate reform, and RMB capital account convertibility. After the successful closing of the Third Plenary Session of the 18th CPC Central Committee, Governor Zhou Xiaochuan published an article titled *Comprehensively Deepening Financial Reform and Accelerating the Improvement of Financial Market System* to provide detailed interpretation

on financial reform policies introduced in the Third Plenary Session of the 18th CPC Central Committee. Director Generals from related departments of the PBC conveyed information and explained policy through channels such as conducting interviews and publishing articles, enabling the public to be better informed and understand economic and financial policies and reform measures.

Publicizing new financial services to improve service to the public

Focusing on inclusive finance, the PBC launched outreach programs on payment and settlement, anti-counterfeit banknote, credit information service, anti-money laundering, financial consumer protection, and rural finance. To get closer to the people, the PBC initiated activities such as exhibitions, interviews, and onsite business sessions in rural areas, communities and schools. A series of communication events was held on subjects such as safe chip era for financial mobile payment, nationwide extension for financial IC card E-cash cross-bank recharge, the operation of the Second-generation Payment System, and RMB settlement for cross-border trade, enabling the public to under-

stand the achievements of modern payment and settlement technologies. Greater efforts were made to launch outreach programs on anti-counterfeiting. In October, 2013, the PBC organized an outreach week on anti-counterfeiting, with over 32,000 featured activities unveiled and 138,000 financial institution outlets repeatedly showing related videos, enhancing the public awareness and ability on anti-counterfeiting. Meanwhile, the PBC made efforts in guiding media opinions and properly dealt with negative news such as CIF9 counterfeit banknotes in Beijing. After the implementation of *Regulations on Administration of the Credit Reference Industry*, on March 15, 2013 the PBC launched a financial literacy program with the theme of “protecting one’s credit record and living a happy life” spreading the message that the public can benefit from good credit records and may be punished by poor credit records. The event greatly enhanced the public awareness of the importance of credit records and credit information safety. Financial institutions were encouraged to deliver education on anti-money laundering in various methods, such as LED billboards with AML slogans, brochures in outlets, and notes on consumer obligation in business contracts, so as to enhance knowledge and awareness of the public. In September 2013, the PBC unfolded “the Financial Literacy Month” with a series of outreach programs in colleges, rural areas, communities, government institutions, and military camps.

During “3·15-the Consumer Rights Day”, the PBC kicked off a series of activities on financial consumer protection with various topics and specific themes to help more consumers to benefit from the achievements of financial reform, enhance risk awareness and responsibilities, and establish the concept of taking respective responsibilities as a seller and a buyer. Also, the PBC launched outreach programs on tailored bankcards for farmers to withdraw cash and pilot programs on mobile payment to promote financial products and services suitable to rural areas and farmers, so that people in rural areas could enjoy richer, better and more convenient financial services.

Transparent administration was advanced to enhance credibility of the PBC

On its website, the PBC made timely release of information on monetary policy, financial statistics, financial performance and financial service for reader-friendly browsing, searching, downloading and printing. To follow the trend of Internet technology development and information broadcast transformation, the PBC released information through Weibo to facilitate communication with the public. On December 1, 2013 the PBC Weibo, the official Weibo of the PBC, was put into use on Internet platforms of Sina and Tencent. New media channels played an active role in rapid communicating of financial policies, spreading financial literacy, and responding to internet users’ inquiries.

2013

STATISTICAL
ANNEX



Selected Economic Indicators

(Year-end Balance)

100 million yuan

	2009	2010	2011	2012	2013
Gross Domestic Product (GDP)	340 902.8	401 512.8	473 104.0	518 942.1	568 845.0
Industrial Value Added	135 239.9	160 722.2	188 470.2	199 670.7	210 689.0
Fixed Assets Investment	224 598.8	278 121.9	311 485.1	374 694.7	447 074.0
Retail Sales of Consumer Goods	132 678.4	156 998.4	183 918.6	210 307.0	237 810.0
Urban Households		136 123.0	159 552.0	182 414.0	205 858.0
Rural Households		20 875.0	24 367.0	27 893.0	31 952.0
Export & Import (100 million of US dollars)	22 075.4	29 740.0	36 418.6	38 671.2	41 600.1
Export	12 016.1	15 777.5	18 983.8	20 487.1	22 096.3
Import	10 059.2	13 962.4	17 434.8	18 184.1	19 503.8
Balance	1 956.9	1 815.1	1 549.0	2 303.1	2 592.4
Foreign Direct Investment (100 million of US dollars)	900.3	1 057.4	1 160.1	1 117.2	1 175.9
Foreign Exchange Reserves (100 million of US dollars)	23 991.5	28 473.4	31 811.5	33 115.9	38 213.2
Consumer Price Index (previous year=100)	99.3	103.3	105.4	102.6	102.6
Government Revenue	68 518.3	83 101.5	103 874.4	117 253.5	129 142.9
Government Expenditure	76 299.9	89 874.2	109 247.8	125 953.0	139 744.3
Fiscal Balance	9 500	10 000	8 500	8 000	12 000
Per Capita Urban Household Disposable Income (yuan)	17 174.7	19 109.4	21 809.8	24 564.7	26 955.0
Per Capita Rural Household Net Income (yuan)	5 153.2	5 919.0	6 977.3	7 916.6	8 896.0
Number of Employed Persons in Urban Areas (million)	333.2	346.9	359.1	371.0	382.4
Registered Urban Unemployment Rate (%)	4.3	4.1	4.1	4.1	4.1
Total Population (million)	1 334.5	1 340.9	1 347.4	1 354.0	1 360.7

Notes: 1. Sources from 2013 China Statistical Yearbook, Statistical Communiqué of the People's Republic of China on the 2013 National Economic and Social Development and Report on the Implementation of the Central and Local Budget for 2013 and on the Draft of the Central and Local Budget for 2014.

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

	2009	2010	2011	2012	2013
Gross Domestic Product (GDP)	9.2	10.4	9.3	7.7	7.7
Industrial Value Added	8.7	12.1	10.4	7.7	7.6
Fixed Assets Investment	30.0	23.8	23.8	20.3	19.3
Retail Sales of Consumer Goods	15.5	18.3	17.1	14.3	13.1
Urban Households		18.7	17.2	14.3	12.9
Rural Households		16.2	16.7	14.5	14.6
Export & Import	-13.9	34.7	22.5	6.2	7.6
Export	-16.0	31.3	20.3	7.9	7.9
Import	-11.2	38.8	24.9	4.3	7.3
Balance					
Foreign Direct Investment	-2.6	17.4	9.7	-3.7	5.3
Foreign Exchange Reserves	23.3	18.7	11.7	4.1	15.4
Consumer Price Index	-0.7	3.3	5.4	2.6	2.6
Government Revenue	11.7	21.3	25.0	12.9	10.1
Government Expenditure	21.9	17.8	21.6	15.3	10.9
Per Capita Urban Household Disposable Income (after adjusting for inflation)	9.8	7.8	8.4	9.6	7.0
Per Capita Rural Household Net Income (after adjusting for inflation)	8.5	10.9	11.4	10.7	9.3
Number of Employed Persons in Urban Areas	3.8	4.1	3.5	3.3	3.1
Natural Population Growth (‰)	4.9	4.8	4.8	5.0	4.9

Note: Same as the notes in prior page.

Aggregate Financing to the Real Economy (AFRE)

100 million yuan

	The Whole Year of 2012	The First Half Year of 2013	The Whole Year of 2013
Aggregate Financing to the Real Economy	157 631	101 529	173 169
Of which: RMB Loans	82 038	50 792	88 916
Foreign Currency-denominated Loans (RMB equivalent)	9 163	5 791	5 848
Designated Loans	12 838	11 118	25 466
Trust Loans	12 845	12 365	18 404
Undiscounted Banker's Acceptances	10 499	5 169	7 756
Net Financing of Corporate Bonds	22 551	12 164	18 111
Domestic Equity Financing by Non-financial Corporations	2 508	1 248	2 219

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.

The Structure of Aggregate Financing to the Real Economy

Percentage change

	The Whole Year of 2012	The First Half Year of 2013	The Whole Year of 2013
Aggregate Financing to the Real Economy			
Of which: RMB Loans	52.0	50.0	51.3
Foreign Currency-denominated Loans (RMB equivalent)	5.8	5.7	3.4
Designated Loans	8.1	11.0	14.7
Trust Loans	8.1	12.2	10.6
Undiscounted Banker's Acceptances	6.7	5.1	4.5
Net Financing of Corporate Bonds	14.3	12.0	10.5
Domestic Equity Financing by Non-financial Corporations	1.6	1.2	1.3

Note: Same as the notes above.

Aggregate Financing to the Real Economy in 2013, by Areas

100 million yuan

Areas	Aggregate Financing to the Real Economy, by Areas	RMB Loans	Foreign Currency-denominated Loans (RMB equivalent)	Designated Loans	Trust Loans	Undiscounted Banker's Acceptances	Net Financing of Corporate Bonds	Domestic Equity Financing by Non-financial Corporations
Beijing	12 556	3 954	844	2 552	286	257	4 246	164
Tianjin	4 910	2 028	437	552	529	397	802	39
Hebei	6 247	3 042	5	813	843	720	349	91
Shanxi	3 701	1 774	37	711	168	148	678	39
Inner Mongolia	2 730	1 636	8	245	401	-124	288	161
Liaoning	5 654	3 163	256	815	-49	612	564	67
Jilin	2 172	1 532	-3	280	61	10	117	50
Heilong-jiang	3 333	1 436	82	407	1 120	-32	167	26
Shanghai	7 964	3 177	267	1 884	1 783	26	494	85
Jiangsu	12 070	7 208	-65	1 901	482	432	1 624	49
Zhejiang	8 345	5 491	302	1 365	724	-1 090	871	130
Anhui	4 969	2 761	115	607	551	277	358	117
Fujian	6 923	3 183	301	1 022	1 562	64	532	36
Jiangxi	3 898	1 979	8	383	917	147	282	34
Shandong	10 838	4 613	410	1 329	935	2 036	1 128	44
Henan	5 691	3 004	151	577	269	512	861	81
Hubei	6 114	2 756	110	781	1 096	529	517	101
Hunan	4 165	2 395	64	417	136	362	526	126
Guangdong	13 826	8 223	293	1 960	886	1 106	599	193
Guangxi	2 801	1 698	27	543	0	60	256	7
Hainan	1 084	592	160	131	0	72	97	0
Chongqing	5 031	2 222	183	845	466	346	528	109
Sichuan	7 137	3 951	174	1 449	693	-275	510	86
Guizhou	3 541	1 821	-20	485	486	525	178	5
Yunnan	4 268	1 928	27	564	1 157	62	280	101
Tibet	773	412	0	21	315	12	-20	25
Shannxi	4 254	2 350	55	677	268	245	485	52
Gansu	2 617	1 585	36	253	11	289	225	107
Qinghai	1 229	603	43	86	292	26	153	0
Ningxia	664	568	6	67	0	-32	16	2
Xinjiang	2 854	1 916	80	-152	347	94	332	91

Notes: 1. Aggregate Financing to the Real Economy, by Areas is an aggregate indicator measuring the total funding that the financial system provides to the real economy during a certain period in a certain area. It is a flow.

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

3. Funding provided by headquarters of the financial institutions amounts to 1.09 trillion yuan.

Selected Financial Indicators

(Year-end Balance)

100 million yuan

	2009	2010	2011	2012	2013
Money & Quasi-money (M2)	610 224.5	725 851.8	851 590.9	974 148.8	1106 525.0
Money (M1)	221 445.8	266 621.5	289 847.7	308 664.2	337 291.1
Currency in Circulation (M0)	38 247.0	44 628.2	50 748.5	54 659.8	58 574.4
Total Deposits with Financial Institutions	597 741.1	718 237.9	809 368.3	917 554.8	1043 846.9
Savings Deposits	260 771.7	303 302.5	343 635.9	399 551.0	447 601.6
Non-financial Enterprise Deposits	217 110.0	244 495.6	303 504.3	327 393.7	361 555.2
Total Lending by Financial Institutions	399 684.8	479 195.6	547 946.7	629 909.6	718 961.5

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.

Selected Financial Indicators

(Growth Rates)

Percentage change

	2009	2010	2011	2012	2013
Money & Quasi-money (M2)	28.52	19.73	13.6	13.8	13.6
Money (M1)	33.22	21.19	7.9	6.5	9.3
Currency in Circulation (M0)	11.71	16.69	13.8	7.7	7.2
Total Deposits with Financial Institutions	28.21	20.16	13.5	13.4	13.8
Savings Deposits	19.68	16.31	13.8	16.3	11.9
Non-financial Enterprise Deposits	37.73	12.61	9.2	9.9	10.1
Total Lending by Financial Institutions	31.74	19.89	15.8	15.0	14.1

Note: Same as the note above.

Depository Corporations Survey in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Net Foreign Assets	269 481.68	272 681.59	272 740.08	280 986.36
Domestic Credit	846 427.32	867 997.53	899 230.16	927 007.02
Claims on Government (net)	48 554.78	41 570.23	41 580.08	49 043.61
Claims on Non-financial Sectors	729 509.29	753 846.57	780 422.79	796 463.77
Claims on Other Financial Sectors	68 363.26	72 580.73	77 227.29	81 499.64
Money & Quasi-money	1 035 858.37	1 054 403.69	1 077 379.16	1 106 524.98
Money	310 898.29	313 499.82	312 330.34	337 291.05
Currency in Circulation	55 460.52	54 063.91	56 492.53	58 574.44
Corporate Demand Deposits	255 437.78	259 435.91	255 837.81	278 716.61
Quasi-money	724 960.08	740 903.87	765 048.82	769 233.93
Corporate Time Deposits	215 732.94	228 029.08	239 080.28	232 696.58
Personal Deposits	449 007.48	453 410.56	461 958.18	467 031.12
Other Deposits	60 219.66	59 464.23	64 010.36	69 506.23
Deposits Excluded from Broad Money	26 890.17	26 580.60	26 844.30	25 940.33
Bonds	95 986.00	99 129.65	101 362.22	103 672.07
Paid-in Capital	30 772.04	31 215.56	31 871.50	32 765.57
Others (net)	-73 597.57	-70 650.38	-65 486.94	-60 909.58

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 quasi-money since October 2011.

Balance Sheet of the Monetary Authority in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	254 127.19	257 853.95	261 561.48	272 233.53
Foreign Exchange	246 103.34	249 868.78	253 548.68	264 270.04
Monetary Gold	669.84	669.84	669.84	669.84
Other Foreign Assets	7 354.02	7 315.33	7 342.96	7 293.66
Claims on Government	15 313.69	15 312.73	15 312.73	15 312.73
Of which: Central Government	15 313.69	15 312.73	15 312.73	15 312.73
Claims on Other Depository Corporations	11 374.77	16 182.04	16 680.77	13 147.90
Claims on Other Financial Corporations	10 025.94	10 218.54	10 242.23	8 907.36
Claims on Non-financial Sectors	24.99	24.99	24.99	24.99
Other Assets	8 073.84	7 148.84	7 369.00	7 652.04
Total Assets	298 940.43	306 741.10	311 191.20	317 278.55
Reserve Money	253 649.82	257 776.47	263 137.87	271 023.09
Currency Issue	61 330.87	59 831.34	63 041.13	64 980.93
Deposits of Financial Corporations	192 318.96	197 945.13	200 096.74	206 042.17
Deposits of Other Depository Corporations	192 318.96	197 945.13	200 096.74	206 042.17
Deposits of Other Financial Corporations	0	0	0	0
Deposits of Financial Corporations Excluded from Reserve Money	1 349.94	1 316.87	1 268.28	1 330.27
Bond Issuance	13 880.00	10 381.79	7 878.00	7 762.00
Foreign Liabilities	1 295.98	1 127.07	1 817.84	2 088.27
Government Deposits	22 757.24	32 329.99	34 480.77	28 610.60
Equity	219.75	219.75	219.75	219.75
Other Liabilities	5 787.70	3 589.16	2 388.69	6 244.57
Total Liabilities	298 940.43	306 741.10	311 191.20	317 278.55

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 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	28 622.03	28 686.42	27 768.63	28 814.09
Reserve Assets	197 788.45	203 119.83	206 057.31	211 775.57
Deposits with Central Bank	191 918.13	197 352.41	199 508.73	205 369.11
Cash in Vault	5 870.33	5 767.41	6 548.58	6 406.46
Claims on Government	55 998.33	58 587.49	60 748.12	62 341.47
Of which: Central Government	55 998.33	58 587.49	60 748.12	62 341.47
Claims on Central Bank	15 209.93	10 183.55	6 135.86	10 301.42
Claims on Other Depository Corporations	262 063.19	259 553.69	253 805.32	260 441.97
Claims on Other Financial Corporations	58 337.31	62 362.19	66 985.06	72 592.28
Claims on Non-financial Corporations	559 589.05	573 036.26	589 767.90	599 575.15
Claims on Other Resident Sectors	169 895.24	180 785.31	190 629.91	196 863.63
Other Assets	66 392.12	70 700.07	71 913.72	82 045.96
Total Assets	1 413 895.66	1 447 014.81	1 473 811.82	1 524 751.55
Liabilities to Non-financial Institutions & Households	952 641.85	972 848.07	989 356.03	1 012 778.84
Deposits Included in Broad Money	920 178.20	940 875.55	956 876.28	978 444.31
Corporate Demand Deposits	255 437.78	259 435.91	255 837.81	278 716.61
Corporate Time Deposits	215 732.94	228 029.08	239 080.28	232 696.58
Personal Deposits	449 007.48	453 410.56	461 958.18	467 031.12
Deposits Excluded from Broad Money	26 890.17	26 580.60	26 844.30	25 940.33
Transferable Deposits	8 069.95	8 227.78	7 666.78	7 453.98
Other Deposits	18 820.22	18 352.82	19 177.52	18 486.35
Other Liabilities	5 573.48	5 391.91	5 635.45	8 394.20
Liabilities to Central Bank	8 881.29	14 428.86	15 030.26	11 663.21
Liabilities to Other Depository Corporations	111 646.03	107 641.31	102 469.50	110 397.95
Liabilities to Other Financial Corporations	64 524.71	65 250.27	69 570.32	74 804.70
Of which: Deposits Included in Broad Money	60 219.66	59 464.23	64 010.36	69 506.23
Foreign Liabilities	11 971.56	12 731.70	14 772.20	17 973.00
Bond Issue	95 986.00	99 129.65	101 362.22	103 672.07
Paid-in Capital	30 552.29	30 995.81	31 651.75	32 545.82
Other Liabilities	137 691.93	143 989.14	149 599.55	160 915.95
Total Liabilities	1 413 895.66	1 447 014.81	1 473 811.82	1 524 751.55

Balance Sheet of Large-sized Domestic Banks in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	19 956.68	19 929.37	18 977.88	19 356.15
Reserve Assets	115 377.77	116 172.04	117 421.01	114 779.03
Deposits with Central Bank	112 075.63	113 009.45	113 672.12	111 157.87
Cash in Vault	3 302.14	3 162.59	3 748.90	3 621.16
Claims on Government	38 837.36	40 139.10	40 711.57	40 884.26
Of which: Central Government	38 837.36	40 139.10	40 711.57	40 884.26
Claims on Central Bank	13 446.45	8 890.03	5 735.04	9 906.40
Claims on Other Depository Corporations	115 153.06	116 535.22	114 513.19	112 958.07
Claims on Other Financial Corporations	22 625.63	20 810.53	20 965.71	22 269.38
Claims on Non-financial Corporations	309 101.62	314 164.00	322 990.96	328 232.63
Claims on Other Resident Sectors	91 904.00	97 432.02	102 191.05	105 640.46
Other Assets	45 243.54	49 267.08	50 038.33	59 569.52
Total Assets	771 646.10	783 339.41	793 544.74	813 595.90
Liabilities to Non-financial Institutions & Households	541 025.91	545 124.55	552 734.98	559 212.62
Deposits Included in Broad Money	522 616.33	527 835.17	535 313.53	540 342.35
Corporate Demand Deposits	140 833.81	141 670.71	139 301.98	148 850.18
Corporate Time Deposits	92 649.46	98 046.44	102 986.59	98 546.21
Personal Deposits	289 133.06	288 118.02	293 024.97	292 945.96
Deposits Excluded from Broad Money	14 443.01	13 777.97	13 831.48	13 077.25
Transferable Deposits	4 164.36	4 234.97	3 948.12	3 587.00
Other Deposits	10 278.65	9 543.00	9 883.36	9 490.26
Other Liabilities	3 966.57	3 511.41	3 589.97	5 793.02
Liabilities to Central Bank	3 389.17	6 845.25	7 273.91	4 127.96
Liabilities to Other Depository Corporations	24 548.68	21 911.95	20 454.94	21 960.06
Liabilities to Other Financial Corporations	34 279.48	34 269.50	34 295.08	35 825.90
Of which: Deposits Included in Broad Money	32 881.44	32 106.01	32 259.77	34 117.92
Foreign Liabilities	5 673.21	5 762.08	6 770.66	8 668.73
Bond Issue	61 816.13	63 404.61	64 903.48	65 949.37
Paid-in Capital	16 067.25	16 047.89	16 050.64	16 070.02
Other Liabilities	84 846.27	89 973.57	91 061.05	101 781.25
Total Liabilities	771 646.10	783 339.41	793 544.74	813 595.90

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 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	7 059.72	7 194.58	7 373.36	7 937.39
Reserve Assets	34 550.86	37 218.62	37 359.86	38 461.75
Deposits with Central Bank	33 987.85	36 597.75	36 748.31	37 789.89
Cash in Vault	563.01	620.87	611.55	671.86
Claims on Government	8 801.89	9 351.75	10 287.37	10 911.79
Of which: Central Government	8 801.89	9 351.75	10 287.37	10 911.79
Claims on Central Bank	748.58	540.81	91.07	90.14
Claims on Other Depository Corporations	67 540.81	65 148.77	60 047.51	60 806.49
Claims on Other Financial Corporations	15 705.67	22 048.39	24 923.41	26 712.65
Claims on Non-financial Corporations	131 634.48	134 299.64	136 830.90	138 872.84
Claims on Other Resident Sectors	32 310.00	34 905.84	37 320.19	38 770.70
Other Assets	8 017.77	7 913.27	8 041.62	8 641.13
Total Assets	306 369.78	318 621.68	322 275.29	331 204.88
Liabilities to Non-financial Institutions & Households	169 829.49	177 177.11	178 430.49	180 861.25
Deposits Included in Broad Money	160 266.73	167 264.61	168 162.49	170 689.72
Corporate Demand Deposits	53 025.20	54 372.95	52 534.49	57 170.36
Corporate Time Deposits	69 408.71	72 907.36	75 288.44	72 658.18
Personal Deposits	37 832.82	39 984.30	40 339.56	40 861.17
Deposits Excluded from Broad Money	8 820.69	9 005.32	9 246.75	9 019.53
Transferable Deposits	2 154.92	2 190.61	1 988.17	2 098.31
Other Deposits	6 665.78	6 814.71	7 258.59	6 921.22
Other Liabilities	742.06	907.19	1 021.24	1 152.01
Liabilities to Central Bank	3 565.90	5 095.49	4 872.03	4 956.22
Liabilities to Other Depository Corporations	44 055.35	45 549.31	40 823.83	43 044.25
Liabilities to Other Financial Corporations	25 648.16	25 684.10	29 169.83	32 294.56
Of which: Deposits Included in Broad Money	23 485.44	23 006.40	26 608.82	29 822.92
Foreign Liabilities	1 987.17	2 288.53	2 762.43	3 402.75
Bond Issue	32 512.34	33 761.65	34 407.15	35 736.47
Paid-in Capital	2 412.83	2 442.70	2 575.80	2 646.82
Other Liabilities	26 358.54	26 622.80	29 233.72	28 262.56
Total Liabilities	306 369.78	318 621.68	322 275.29	331 204.88

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 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	204.83	283.90	211.52	273.54
Reserve Assets	30 894.42	32 853.30	34 096.50	38 957.19
Deposits with Central Bank	29 860.02	31 836.25	32 930.07	37 711.77
Cash in Vault	1 034.40	1 017.06	1 166.43	1 245.42
Claims on Government	6 807.92	7 252.78	7 796.58	8 321.72
Of which: Central Government	6 807.92	7 252.78	7 796.58	8 321.72
Claims on Central Bank	428.40	330.62	101.76	88.24
Claims on Other Depository Corporations	48 324.82	48 486.16	48 720.59	55 187.45
Claims on Other Financial Corporations	15 181.78	16 076.71	17 408.46	19 855.04
Claims on Non-financial Corporations	78 049.96	83 116.71	87 251.92	88 879.19
Claims on Other Resident Sectors	22 868.67	24 793.11	27 120.54	29 082.92
Other Assets	7 849.66	8 529.20	8 567.95	8 734.19
Total Assets	210 610.47	221 722.48	231 275.84	249 379.49
Liabilities to Non-financial Institutions & Households	147 528.12	155 950.94	162 049.65	173 423.96
Deposits Included in Broad Money	146 369.69	154 404.17	160 469.27	171 625.57
Corporate Demand Deposits	40 518.62	42 850.67	43 318.27	48 775.95
Corporate Time Deposits	37 037.13	39 533.23	41 988.15	43 004.07
Personal Deposits	68 813.94	72 020.26	75 162.85	79 845.54
Deposits Excluded from Broad Money	782.61	1 076.58	1 054.92	1 099.53
Transferable Deposits	287.32	344.90	342.20	358.87
Other Deposits	495.29	731.69	712.72	740.66
Other Liabilities	375.82	470.19	525.46	698.86
Liabilities to Central Bank	709.69	1 023.78	1 352.96	1 120.56
Liabilities to Other Depository Corporations	34 459.09	34 309.05	34 920.25	39 674.60
Liabilities to Other Financial Corporations	3 319.54	4 190.43	4 893.81	5 429.27
Of which: Deposits Included in Broad Money	3 082.10	3 654.87	4 444.45	4 876.28
Foreign Liabilities	636.07	645.46	601.40	632.72
Bond Issue	1 443.76	1 699.23	1 779.05	1 744.55
Paid-in Capital	6 186.64	6 478.52	6 758.21	7 226.45
Other Liabilities	16 327.56	17 425.06	18 920.50	20 127.38
Total Liabilities	210 610.47	221 722.48	231 275.84	249 379.49

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 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	1 243.00	1 139.88	1 098.01	1 127.57
Reserve Assets	2 803.12	2 804.18	2 756.11	3 082.84
Deposits with Central Bank	2 793.53	2 795.23	2 746.73	3 073.25
Cash in Vault	9.60	8.95	9.38	9.59
Claims on Government	936.10	1 239.91	1 376.81	1 535.16
Of which: Central Government	936.10	1 239.91	1 376.81	1 535.16
Claims on Central Bank	449.12	307.47	127.31	127.22
Claims on Other Depository Corporations	5 577.64	5 009.57	5 595.19	6 312.82
Claims on Other Financial Corporations	2 139.99	1 176.34	1 281.63	1 400.03
Claims on Non-financial Corporations	10 036.89	9 963.36	10 312.78	10 580.86
Claims on Other Resident Sectors	626.16	661.28	719.14	789.63
Other Assets	1 115.25	828.01	799.68	849.12
Total Assets	24 927.27	23 130.01	24 066.67	25 805.26
Liabilities to Non-financial Institutions & Households	14 140.49	13 594.55	13 960.33	15 107.58
Deposits Included in Broad Money	11 214.84	10 778.74	11 162.05	12 119.95
Corporate Demand Deposits	2 450.60	2 310.69	2 107.41	2 886.72
Corporate Time Deposits	6 814.99	6 495.17	7 073.85	7 193.25
Personal Deposits	1 949.25	1 972.88	1 980.79	2 039.97
Deposits Excluded from Broad Money	2 557.60	2 426.91	2 426.26	2 426.25
Transferable Deposits	1 256.42	1 257.72	1 189.86	1 158.40
Other Deposits	1 301.18	1 169.20	1 236.40	1 267.85
Other Liabilities	368.05	388.90	372.02	561.38
Liabilities to Central Bank	22.98	5.44	15.18	1.03
Liabilities to Other Depository Corporations	2 748.71	1 461.01	1 447.07	1 226.74
Liabilities to Other Financial Corporations	826.43	693.57	691.91	736.13
Of which: Deposits Included in Broad Money	656.66	551.70	550.93	551.87
Foreign Liabilities	3 673.09	4 035.61	4 637.67	5 268.39
Bond Issue	60.82	111.09	111.71	80.71
Paid-in Capital	1 532.16	1 509.65	1 513.54	1 585.73
Other Liabilities	1 922.58	1 719.08	1 689.26	1 798.94
Total Liabilities	24 927.27	23 130.01	24 066.67	25 805.26

Balance Sheet of Rural Credit Cooperatives in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	3.86	3.70	3.73	3.50
Reserve Assets	11 905.56	11 603.54	11 802.66	13 855.03
Deposits with Central Bank	10 944.42	10 645.64	10 790.38	12 996.64
Cash in Vault	961.14	957.91	1 012.28	858.39
Claims on Government	519.25	505.93	517.58	632.29
Of which: Central Government	519.25	505.93	517.58	632.29
Claims on Central Bank	136.18	113.54	80.04	88.19
Claims on Other Depository Corporations	18 788.83	17 522.41	17 651.51	16 287.33
Claims on Other Financial Corporations	2 163.44	1 766.58	1 876.26	1 837.28
Claims on Non-financial Corporations	20 865.68	21 259.72	21 580.33	21 753.52
Claims on Other Resident Sectors	21 941.57	22 731.89	22 982.40	22 225.97
Other Assets	3 900.72	3 957.71	4 276.35	4 069.31
Total Assets	80 225.09	79 465.03	80 770.87	80 752.41
Liabilities to Non-financial Institutions & Households	64 622.86	64 921.84	65 111.36	65 312.59
Deposits Included in Broad Money	64 500.47	64 804.50	64 982.05	65 123.83
Corporate Demand Deposits	11 045.02	11 171.97	11 187.69	11 514.66
Corporate Time Deposits	2 177.19	2 317.52	2 344.43	2 270.71
Personal Deposits	51 278.27	51 315.01	51 449.93	51 338.46
Deposits Excluded from Broad Money	8.33	9.95	9.22	8.35
Transferable Deposits	0.49	0.70	0.72	0.97
Other Deposits	7.83	9.25	8.50	7.38
Other Liabilities	114.06	107.39	120.08	180.41
Liabilities to Central Bank	1 081.73	1 361.75	1 414.29	1 341.24
Liabilities to Other Depository Corporations	5 143.17	3 788.06	4 357.91	3 935.85
Liabilities to Other Financial Corporations	396.89	369.15	467.60	459.35
Of which: Deposits Included in Broad Money	68.59	109.77	106.87	90.30
Foreign Liabilities	2.02	0.02	0.03	0.02
Bond Issue	0	0	0	0
Paid-in Capital	2 388.47	2 432.30	2 420.38	2 570.11
Other Liabilities	6 589.95	6 591.90	6 999.30	7 133.26
Total Liabilities	80 225.09	79 465.03	80 770.87	80 752.41

Balance Sheet of Finance Companies in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Foreign Assets	153.95	134.99	104.13	115.95
Reserve Assets	2 256.72	2 468.13	2 621.16	2 639.72
Deposits with Central Bank	2 256.68	2 468.10	2 621.13	2 639.68
Cash in Vault	0.04	0.03	0.03	0.04
Claims on Government	95.82	98.01	58.21	56.25
Of which: Central Government	95.82	98.01	58.21	56.25
Claims on Central Bank	1.19	1.08	0.63	1.23
Claims on Other Depository Corporations	6 678.03	6 851.56	7 277.32	8 889.82
Claims on Other Financial Corporations	520.80	483.63	529.60	517.90
Claims on Non-financial Corporations	9 900.43	10 232.83	10 801.00	11 256.11
Claims on Other Resident Sectors	244.85	261.18	296.58	353.95
Other Assets	265.17	204.79	189.78	182.69
Total Assets	20 116.96	20 736.21	21 878.40	24 013.61
Liabilities to Non-financial Institutions & Households	15 494.98	16 079.08	17 069.23	18 860.84
Deposits Included in Broad Money	15 210.13	15 788.37	16 786.89	18 542.90
Corporate Demand Deposits	7 564.53	7 058.93	7 387.97	9 518.73
Corporate Time Deposits	7 645.46	8 729.36	9 398.83	9 024.15
Personal Deposits	0.14	0.09	0.08	0.01
Deposits Excluded from Broad Money	277.93	283.87	275.66	309.41
Transferable Deposits	206.43	198.89	197.70	250.43
Other Deposits	71.50	84.98	77.96	58.98
Other Liabilities	6.91	6.84	6.68	8.53
Liabilities to Central Bank	111.82	97.16	101.89	116.21
Liabilities to Other Depository Corporations	691.04	621.93	465.49	556.45
Liabilities to Other Financial Corporations	54.20	43.52	52.09	59.47
Of which: Deposits Included in Broad Money	45.43	35.49	39.52	46.93
Foreign Liabilities	0	0	0	0.40
Bond Issue	152.95	153.07	160.83	160.98
Paid-in Capital	1 964.93	2 084.73	2 333.18	2446.70
Other Liabilities	1 647.03	1 656.72	1 695.70	1 812.56
Total Liabilities	20 116.96	20 736.21	21 878.40	24 013.61

Monetary Aggregates in 2013

(Quarter-end Balance)

100 million yuan

	Q1	Q2	Q3	Q4
Money & Quasi-money (M2)*	1 035 858.37	1 054 403.69	1 077 379.16	1 106 524.98
Money (M1)	310 898.29	313 499.82	312 330.34	337 291.05
Currency in Circulation (M0)	55 460.52	54 063.91	56 492.53	58 574.44
Corporate Demand Deposits	255 437.78	259 435.91	255 837.81	278 716.61
Quasi-money	724 960.08	740 903.87	765 048.82	769 233.93
Corporate Time Deposits	215 732.94	228 029.08	239 080.28	232 696.58
Personal Deposits	449 007.48	453 410.56	461 958.18	467 031.12
Other Deposits	60 219.66	59 464.23	64 010.36	69 506.23

Note: *Including deposits in housing provident fund management centers with bank accounts and deposits of non-depository financial institutions with depository financial institutions.

Monetary Aggregates in 2013

(Year-on-year percentage change)

	Q1	Q2	Q3	Q4
Money & Quasi-money (M2)	15.67	13.99	14.17	13.59
Money (M1)	11.83	9.03	8.91	9.27
Currency in Circulation (M0)	11.83	9.70	5.72	7.16
Corporate Demand Deposits	11.84	8.90	9.63	9.73
Quasi-money	17.39	16.23	16.46	15.59
Corporate Time Deposits	21.26	22.20	19.15	18.76
Personal Deposits	16.49	14.41	14.58	13.53
Other Deposits	11.09	8.99	20.62	19.46

Note: Same as the note above.

Statistics on Volume of RMB Issuance

100 million yuan

Notes & Coins	Year-end Balance of 2012	Year-end Balance of 2013
100 Yuan Note	53 100.60	56 576.50
50 Yuan Note	2 451.20	2 921.48
20 Yuan Note	1 061.58	1 158.53
10 Yuan Note	1 718.15	1 839.43
5 Yuan Note	832.66	872.64
2 Yuan Note	39.05	39.02
1 Yuan Note	514.03	560.28
5 Jiao Note	122.34	136.73
2 Jiao Note	21.13	21.02
1 Jiao Note	61.78	67.91
5 Fen Note	1.56	1.56
2 Fen Note	1.76	1.76
1 Fen Note	2.92	2.92
1 Yuan Coin	393.11	432.41
5 Jiao Coin	141.82	157.03
1 Jiao Coin	88.94	98.30
5 Fen Coin	6.88	6.91
2 Fen Coin	5.82	5.82
1 Fen Coin	3.46	3.48
Total	60 568.81	64 903.73

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

Statistics on Numbers of Non-cash Payment Operations

10 thousand (number)

		2009	2010	2011	2012	2013
Commercial Papers	Bills of Exchange	720.50	679.24	531.72	469.24	377.13
	Banker's Drafts	4.22	4.77	4.97	5.11	4.74
	Transfer Bank Drafts	716.28	674.47	526.75	464.13	372.38
	Commercial Drafts	821.58	936.71	1 256.05	1 553.33	1 630.67
	Commercial Acceptance Bills	20.99	22.18	20.59	18.83	21.13
	Banker's Acceptance Bills	800.59	914.53	1 235.46	1 534.50	1 609.54
	Promissory Notes	636.26	786.06	805.29	718.89	626.17
	Cash Promissory Notes	2.85	5.82	7.93	2.12	1.86
	Transfer Promissory Notes	633.41	780.24	797.36	716.77	624.31
	Cheques	85 373.72	87 243.51	82 064.45	75 598.78	66 700.19
	Cash Cheques	28 112.38	27 703.18	26 442.42	24 789.07	21 702.69
	Transfer Cheques	57 261.34	59 540.33	55 622.03	50 809.71	44 997.50
	Domestic Letter of Credit	2.51	6.12	8.22	26.88	8.61
	Total	87 554.57	89 651.64	84 665.73	78 367.12	69 342.76
Bankcards	Cash Deposits	374 827.74	468 428.21	547 807.25	678 702.96	794 171.17
	Cash Withdraw	942 784.85	1 178 706.16	1 418 061.02	1 613 373.58	1 811 712.78
	Consumption	349 123.89	484 942.37	641 300.92	900 906.84	1 297 095.46
	Transfer	302 383.41	443 594.17	570 793.67	698 415.56	856 577.55
	Total	1 969 119.89	2 575 670.91	3 177 962.86	3 891 398.94	4 759 556.97
Settlements	Remittance	81 820.33	102 203.79	117 262.52	141 000.07	183 717.28
	Consignment Collection Payment	77.91	79.10	80.95	74.29	62.12
	Entrusted Collection of Payment	2 865.88	2 789.11	3 073.11	3 247.27	3 151.72
	Total	84 764.12	105 072.00	120 416.58	144 321.63	186 931.12

Statistics on Transaction Value of Non-cash Payment Operations

100 million yuan

		2009	2010	2011	2012	2013
Commercial Papers	Bills of Exchange	40 900.70	40 009.98	30 482.91	27 031.50	21 587.28
	Banker's Drafts	68.79	56.27	56.31	49.92	45.19
	Transfer Bank Drafts	40 831.91	39 953.7	30 426.60	26 981.58	21 542.09
	Commercial Drafts	96 244.60	108 454.34	142 266.10	160 629.40	182 409.49
	Commercial Acceptance Bills	5 183.16	5 935.44	8 373.65	4 893.96	6 685.14
	Banker's Acceptance Bills	91 061.44	102 518.9	133 892.45	155 735.44	175 724.35
	Promissory Notes	74 788.55	86 108.85	88 754.03	71 036.08	60 278.65
	Cash Promissory Notes	114.10	395.32	520.96	64.22	55.06
	Transfer Promissory Notes	74 674.45	85 713.53	88 233.07	70 971.86	60 223.59
	Cheques	2 605 034.99	2 737 769.05	2 687 934.69	2 595 621.84	2 595 621.84
	Cash Cheques	180 031.14	192 637.9	201 527.07	190 503.73	171 631.52
	Transfer Cheques	2 306 183.69	2 412 397.09	2 536 241.98	2 497 430.96	2 423 990.33
	Domestic Letter of Credit	2186.18	5 573.16	11 872.40	17 029.53	17 071.25
	Total	2 700 334.86	2 845 181.32	3 011 144.49	2 963 661.20	2 876 968.51
Bankcards	Cash Deposits	344 993.18	448 641.76	533 568.66	577 087.75	666 058.47
	Cash Withdraw	371 762.13	509 818	593 447.23	613 658.67	707 988.82
	Consumption	68 612.95	104 297.67	152 118.84	208 256.04	318 315.25
	Transfer	874 546.33	1 404 872.8	1 959 118.64	2 063 116.79	2 541 239.04
	Total	1 659 914.59	2 467 630.23	3 238 253.37	3 462 119.25	4 233 601.58
Settlements	Remittance	2 701 907.96	3 627 199.96	4 660 276.94	6 290 077.14	8 804 179.43
	Consignment Collection Payment	6 567.89	7 616.09	7 543.56	6 704.51	6 684.84
	Entrusted Collection of Payment	88 819.93	104 159.66	126 288.20	140 534.83	154 179.21
	Total	2 797 295.78	3 738 975.71	4 794 108.70	64 37316.48	8 965 043.48

Statistics on Transactions via Payment Systems

10 thousand (number), 100 million yuan

Volume		2009	2010	2011	2012	2013
High Value Payment System	Volume (number)	24 801.90	29 121.66	37 211.44	47 035.96	59 548.66
	Value	8 039 463.72	11 043 680.19	13 552 814.97	17 719 972.13	20 607 617.10
Bulk Electronic Payment System	Volume (number)	22 580.53	38 672.84	56 304.92	75 393.50	104 027.48
	Value	114 617.04	162 124.36	183 614.11	185 477.54	203 154.11
Internet Banking Payment System	Volume (number)				26 580.35	71 784.34
	Value				35 630.14	94 684.645
Inter-city Bill Clearing System	Volume (number)	43 043.30	44 957.39	41 803.08	39 135.21	41 871.49
	Value	694 061.69	731 904.25	709 484.72	665 182.46	682 886.89
China Domestic Foreign Currency Payment System	Volume (number)	28.29	54.48	76.24	111.05	139.44
	Value	3 445.88	9 506.38	17 103.76	33 614.79	44 294.86
Interbank Fund Transfer System	Volume (number)	338 783.44	524 460.31	729 076.77	895 492.15	1 075 915.52
	Value	3 147 552.55	4 580 717.89	5 305 821.12	6 245 593.61	7 452 224.44
Interbank Bankcard Payment System	Volume (number)	694 167.83	845 329.81	1 038 147.93	1 248 897.88	1 513 946.08
	Value	76 687.16	112 267.74	159 285.29	217 631.82	322 972.28
Total	Volume (number)	1 123 405.29	1 482 596.49	1 902 620.38	2 332 646.10	2 867 233.02
	Value	12 075 828.04	16 640 200.81	199 281 123.97	25 103 102.49	29 407 834.32

Statistics on Numbers of Bank RMB Settlement Accounts

10 thousand (number)

	2009	2010	2011	2012	2013
Entity Settlement Accounts	2 191.12	2 487.07	2 824.22	3 169.57	3 558.06
Basic Deposit Settlement Accounts	1 288.67	1 475.28	1 693.30	1 904.47	2 162.35
General Deposit Settlement Accounts	655.67	750.32	859.41	983.28	1 099.47
Special Deposit Settlement Accounts	223.46	237.10	247.09	258.98	274.28
Temporary Deposit Settlement Accounts	23.31	24.36	24.42	22.83	21.96
Individual Settlement Accounts	279 227.36	335 082.06	408 185.37	487 811.70	560 720.36
Total	281 418.48	337 569.12	411 009.59	490 981.27	564 278.42

Statistics on Bankcard Numbers

10 thousand (number)

	2009	2010	2011	2012	2013
Credit Card	18 555.56	22 972.57	28 545.91	33 109.51	39 079.24
Ordinary Credit Card	16 393.59	20 557.10	25 162.44	28 903.53	34 356.27
Quasi-credit Card	2 161.97	2 415.47	3 383.47	4 205.98	4 722.97
Debit Card	188 038.81	218 565.60	266 359.09	320 305.21	382 310.04
Total	206 594.37	241 538.17	294 905.00	353 414.72	421 389.28

RMB Interest Rates in 2013

Percent per annum

	Jan. 1	Dec. 31
Benchmark Rates		
Required Reserves	1.62	1.62
Excess Reserves	0.72	0.72
Loans to Financial Institutions		
20 Days or Less	3.25	3.25
3 Months or Less	3.55	3.55
6 Months or Less	3.75	3.75
1 Year	3.85	3.85
Rediscount	2.25	2.25
Official Interest Rates on Deposits & Loans of Financial Institutions		
Interest Rates on Deposits		
Demand Deposits	0.35	0.35
Time Deposits		
3 Months	2.60	2.60
6 Months	2.80	2.80
1 Year	3.00	3.00
2 Years	3.75	3.75
3 Years	4.25	4.25
5 Years	4.75	4.75
Interest Rates on Loans		
6 Months (including 6 months)	5.60	5.60
6 Months ~1 Year (including 1 year)	6.00	6.00
1~3 Years (including 3 years)	6.15	6.15
3~5 Years (including 5 years)	6.40	6.40
Longer than 5 Years	6.55	6.55
Loan Prime Rate (Average)		5.73
Weighted Average Rates in Interbank Market in December		
Interbank Borrowing		4.16
Bond-pledged Repo		4.28

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 2013

Percent per annum

	Overnight	1-Week	2-Week	1-Month	3-Month	6-Month	9-Month	1-Year
January	2.12	3.08	3.21	3.91	3.90	4.10	4.26	4.40
February	2.73	3.40	3.64	3.88	3.89	4.10	4.26	4.40
March	2.33	3.16	3.43	3.49	3.88	4.10	4.26	4.40
April	2.49	3.37	3.50	3.58	3.88	4.10	4.26	4.40
May	2.92	3.54	3.59	3.76	3.88	4.10	4.26	4.40
June	6.69	6.80	6.72	7.04	5.08	4.15	4.27	4.41
July	3.37	4.11	4.39	5.01	4.78	4.22	4.27	4.40
August	3.22	4.05	4.67	4.76	4.66	4.22	4.27	4.40
September	3.17	3.75	4.25	5.28	4.66	4.22	4.27	4.40
October	3.58	4.25	4.72	5.21	4.68	4.22	4.27	4.40
November	3.89	4.45	5.26	5.71	4.70	4.22	4.27	4.40
December	3.68	5.21	5.56	6.20	5.30	4.59	4.63	4.69

Money Market Statistics in 2013

	Q1	Q2	Q3	Q4
Turnover of Interbank Borrowing (100 million yuan)	102 855	102 923	78 041	71 370
Turnover of Interbank Repo (100 million yuan)	378 361	416 933	380 937	405 408
Quarter-end Shibor: Overnight (%)	2.68	4.94	3.13	3.15
Quarter-end Shibor: 1-Week (%)	3.39	6.16	4.20	5.25
Quarter-end Month Weighted Average Rates of Interbank Borrowing (%)	2.47	6.58	3.47	4.16
Quarter-end Month Weighted Average Rates of Bond-pledged Repo (%)	2.46	6.82	3.49	4.28
Commercial Bills Accepting (100 million yuan)	54 321	52 615	45 003	50 747
Quarter-end Commercial Bills Outstanding (100 million yuan)	92 425	91 557	89 381	90 371
Financial Institutions Discounting (100 million yuan)	95 196	128 345	122 666	110 379
Quarter-end Financial Institutions Discount Outstanding (100 million yuan)	21 520	23 283	20 594	19 594

Bond Market Statistics in 2013

	Q1	Q2	Q3	Q4
Total Bond Issuance (100 million yuan)	19 639	23 040	26 899	19 108
Government Bonds	2 633	6 078	6 929	4 591
Central Bank Bills	0	1 140	4 008	214
Financial Bonds	6 389	6 348	7 310	6 263
Corporate Credit Bonds ¹	10 617	9 474	8 653	8 040
Quarter-end Outstanding Balance of Bond Issuance ² (100 million yuan)	278 262	283 934	291 554	299 977
Government Bonds	84 262	88 092	92 601	95 471
Central Bank Bills	13 380	8 090	5 578	5 462
Financial Bonds	97 779	100 344	102 900	105 772
Corporate Credit Bonds	82 801	87 369	90 434	93 242
International Institutions Bonds	40	40	40	31
Quarter-end Chinabond Composite Index (% , net price)	101.17	101.07	98.92	96.07
Quarter-end Chinabond Yield Curve (% , for 1-year term)	2.68	3.48	3.55	4.22
Quarter-end Chinabond Yield Curve (% , for 10-year term)	3.54	3.51	4.00	4.55

Notes: 1. Including debt financing instruments of non-financial corporations, enterprises bonds, corporate bonds and transferable bonds.
2. Including domestically-issued US dollar bonds.

Stock Market Statistics in 2013

	Q1	Q2	Q3	Q4
Total Funds Raised (100 million yuan)	1 083	880	725	1 179
Turnover of Trading (100 million yuan)	112 170	99 251	133 547	123 103
Quarter-end Volume of Stock Issued (100 million shares)	32 055	33 106	33 489	33 822
Quarter-end Market Capitalization (100 million yuan)	233 685	212 813	241 276	239 077
Quarter-end Numbers of Companies Listed	2 492	2 491	2 489	2 489
Quarter-end Close Index				
Shanghai Stock Exchange Composite Index (December 19, 1990=100)	2 237	1 979	2 175	2 116
Shenzhen Stock Exchange Component Index (July 20, 1994=1000)	8 890	7 695	8 515	8 122

Futures Market Statistics in 2013

	Q1	Q2	Q3	Q4
Transaction Volume (10 thousand lots)	45 322	55 072	58 958	46 831
Turnover of Trading (100 million yuan)	603 912	679 445	780 881	610 524
Quarter-end Position (10 thousand lots)	592	680	705	737

Insurance Market Statistics in 2013

	Q1	Q2	Q3	Q4
Premium Income (100 million yuan)	5 151	4 362	3 920	3 790
Property Insurance	1 513	1 614	1 495	1 591
Life Insurance	3 638	2 748	2 425	2 199
Claim and Benefite Payment (100 million yuan)	1 488	1 475	1 546	1 704
Property Insurance	730	765	858	1 087
Life Insurance	758	710	688	617
Quarter-end Assets in Total (100 million yuan)	76 686	78 840	80 530	82 887
Of which: Bank Deposits	23 992	23 405	22 879	22 641
Investment	46 875	49 424	51 280	54 232

Gold Market Statistics in 2013

	Q1	Q2	Q3	Q4
Value Traded of Au99.99 (100 million yuan)	1 799	2 947	2 514	1 886
Value Traded of Au (T+D) (100 million yuan)	3 495	5 653	5 241	4 287
Value Traded of Ag (T+D) (100 million yuan)	3 350	5 753	6 231	3 635
Au99.99 Quarter-end Close Price (yuan/g)	320	244	266	236
Au (T+D) Quarter-end Close Price (yuan/g)	320	243	266	237
Ag (T+D) Quarter-end Close Price (yuan/kg)	5 849	3 744	4 395	4 011

Balance of Payments in 2013

100 million US dollars

	Line	Balance	Credit	Debit
Current Account	1	1 828	26 637	24 809
Goods & Services	2	2 354	24 250	21 896
Goods	3	3 599	22 190	18 591
Services	4	-1 245	2 060	3 305
Transportation	5	-567	376	943
Travel	6	-769	517	1 286
Communication Services	7	0	17	16
Construction Services	8	68	107	39
Insurance Services	9	-181	40	221
Financial Services	10	-5	32	37
Computer & Information Services	11	94	154	60
Royalties & License Fees	12	-201	9	210
Consulting Services	13	169	405	236
Advertising & Public Opinion Polling	14	18	49	31
Audio-visual & Related Services	15	-6	1	8
Other Business Services	16	135	341	206
Government Services, n.i.e	17	0	12	12
Income	18	-438	1 855	2 293
Compensation of Employees	19	161	178	17
Investment Income	20	-599	1 677	2 276
Current Transfers	21	-87	532	619
General Government	22	-31	11	42
Other Sectors	23	-56	520	577
Capital & Financial Account	24	3 262	17 271	14 009
Capital Account	25	31	45	14
Financial Account	26	3 232	17 226	13 995
Direct Investment	27	1 850	3 478	1 629
Abroad	28	-732	364	1 096
From Abroad	29	2 582	3 114	532
Portfolio Investment	30	605	1 041	436
Assets	31	-54	258	311
Equity Securities	32	-25	136	161
Debt Securities	33	-28	122	150
Bonds & Notes	34	-28	122	150
Money Market Instruments	35	0	0	0

Continued

	Line	Balance	Credit	Debit
Liabilities	36	659	784	125
Equity Securities	37	326	407	81
Debt Securities	38	333	377	44
Bonds & Notes	39	160	204	44
Money Market Instrument	40	173	173	0
Other Investment	41	776	12 707	11 930
Assets	42	-1 365	1 439	2 804
Trade Credits	43	-603	65	667
Long-term	44	-12	1	13
Short-term	45	-591	64	654
Loans	46	-319	374	693
Long-term	47	-422	100	522
Short-term	48	102	274	172
Currency & Deposits	49	-20	890	910
Other Assets	50	-423	110	533
Long-term	51	100	100	0
Short-term	52	-523	10	533
Liabilities	53	2 142	11 268	9 126
Trade Credits	54	449	449	0
Long-term	55	8	8	0
Short-term	56	442	442	0
Loans	57	934	9 493	8 558
Long-term	58	194	569	375
Short-term	59	740	8 923	8 183
Currency & Deposits	60	758	1 208	450
Other Liabilities	61	0	118	118
Long-term	62	8	21	13
Short-term	63	-8	97	104
Reserve Assets	64	-4 314	13	4 327
Monetary Gold	65	0	0	0
Special Drawing Rights	66	2	2	0
Reserve Position in IMF	67	11	11	0
Foreign Exchange	68	-4 327	0	4 327
Other Claims	69	0	0	0
Net Errors & Omissions	70	-776	0	776

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, Macao and Taiwan regions). This table employs rounded-off numbers.

International Liquidity

Millions of the US dollars

	2009	2010	2011	2012	2013
Total Reserves (minus gold)	2 414 131	2 862 276	3 197 107.22	3 325 440.10	3 833 290.98
SDRs	12 510	12 345	11 855.24	11 365.61	11 183.59
Reserve Position in IMF	2 469	2 593	4 104.42	2 485.26	792.19
Foreign Exchange	2 399 152	2 847 338	3 181 147.56	3 311 589.23	3 821 315.20
Gold (million ounce)	33.89	33.89	33.89	33.89	33.89
Gold (national valuation)	9 815	9 815	9 815	9 815	9 815
Foreign Liabilities of Other Depository Corporations	88 145	108 406	123 250.01	157 509.42	294 789.16

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 (%)
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	19 406.3	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
2013	3 389	38 213.2	15.4

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

RMB Exchange Rate, End-2013

Year	Foreign Currency	Year-end Rate (RMB/per unit of foreign currency)	Change of Basis Points
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
2013	USD	6.0969	-1 886
	HKD	0.78623	-246
	JPY	5.7771	-15 278
		8.4189	1 013

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

Brief Table of China's External Debt, End-2013

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		32 837 421				1 488 727
Chinese-funded Financial Institutions*	26 515 127		46 218 827	2 575 216	148 260	4 823 815
Foreign-funded Financial Institutions			46 633 812		521 889	
Foreign-funded Enterprises		442 145	38 865 653	177 821	109 744 057	
Chinese-funded Enterprises		50	1 824 349	837	1 170 129	1 610 891
Trade Credit between Enterprises						
Total	26 515 127	33 279 616	133 542 641	2 753 874	111 584 335	7 923 433

Continued

Types of Debt Debtor	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						34 326 148
Chinese-funded Financial Institutions*	139 952 790	43 168 063				263 402 098
Foreign-funded Financial Institutions	4 909 688	12 177 535	3 225			64 246 149
Foreign-funded Enterprises			9 368 889	294		158 598 859
Chinese-funded Enterprises			363 395	1 123 753		6 093 404
Trade Credit between Enterprises					336 500 000	336 500 000
Total	144 862 478	55 345 598	9 735 509	1 124 047	336 500 000	863 166 658

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 & Others	Total
2009~2013 (cumulative amount)	70 824	30 762	101 586
2009	32	4	36
2010	4 380	683	5 063
2011	15 606	5 202	20 808
2012	20 617	8 764	29 381
2013	30 189	16 109	46 298

Flow of Funds

(Financial Transaction)

	Households		Non-financial Corporations		General Government		Financial Institutions	
	Uses	Sources	Uses	Sources	Uses	Sources	Uses	Sources
Net Financial Investment	69 335	0	-44 272	0	5 899	0	-18 554	0
Financial Uses	97 059	0	94 844	0	22 344	0	227 219	0
Financial Sources	0	27 724	0	139 116	0	16 445	0	245 774
Currency	3 245	0	321	0	78	0	31	3 910
Deposits	58 929	0	46 968	0	20 569	0	5 290	129 748
Demand Deposits	19 789	0	6 008	0	7 684	0	0	33 482
Time Deposits	38 830	0	21 425	0	11 243	0	0	71 498
Fiscal Deposits	0	0	0	0	-1 782	0	0	-1 782
Foreign Exchange Deposits	109	0	9 811	0	131	0	295	8 259
Other Deposits	200	0	9 723	0	3 293	0	4 995	18 291
Customer Margin of Securities Companies	-408	0	-4	0	-19	0	-232	-685
Loans	0	27 724	0	91 609	0	-18	122 250	0
Short-term Loans & Discounted Commercial Paper Loans	0	13 066	0	39 038	0	0	52 104	0
Medium & Long-term Loans	0	13 365	0	15 376	0	0	28 742	0
Foreign Exchange Loans	0	21	0	6 427	0	-25	9 122	0
Designated Loans	0	0	0	13 208	0	0	13 208	0
Other Loans	0	1 271	0	17 559	0	8	19 073	0
Undiscounted Banker's Acceptance Bills	0	0	10 499	10 499	0	0	10 499	10 499
Insurance Technical Reserves	13 628	0	646	0	0	7 406	0	6 868
Inter-financial Institutions Accounts	0	0	0	0	0	0	9 329	-60
Required & Excessive Reserves	0	0	0	0	0	0	23 150	23 150
Securities	4 493	0	951	24 661	505	8 783	38 012	12 625
Bonds	2 629	0	1 078	22 532	420	8 783	36 951	9 764
Government & Public Bonds	2 594	0	-31	0	-133	8 783	6 353	0
Financial Bonds	0	0	-16	0	20	0	17 610	17 614
Central Bank Bonds	0	0	-55	0	-52	0	-7 743	-7 850
Corporate Bonds	35	0	1 181	22 532	585	0	20 730	0
Shares	1 864	0	-127	2 129	85	0	1 062	2 861
Securities Investment Funds Shares	3 097	0	29	0	142	0	1 764	5 198
Cash in Vault	0	0	0	0	0	0	971	928
Central Bank Loans	0	0	0	0	0	0	476	476
Miscellaneous (net)	14 076	0	27 388	0	1 068	0	9 208	51 780
Foreign Direct Investments	0	0	3 919	15 932	0	0	0	0
Changes in Other Foreign Assets & Debts	0	0	4 126	1 429	0	273	403	1 338
Changes in Reserve Assets	0	0	0	0	0	0	6 069	0
Errors & Omissions in the BOP	0	0	0	-5 014	0	0	0	0

Statement in 2012

Accounts)

100 million yuan

All Domestic Sectors		The Rest of the World		Total		
Uses	Sources	Uses	Sources	Uses	Sources	
12 408	0	-12 408	0	0	0	Net Financial Investment
441 466	0	12 539	0	454 005	0	Financial Uses
0	429 059	0	24 947	0	454 005	Financial Sources
3 675	3 910	235	0	3 910	3 910	Currency
131 756	129 748	519	2 527	132 275	132 275	Deposits
33 482	33 482	0	0	33 482	33 482	Demand Deposits
71 498	71 498	0	0	71 498	71 498	Time Deposits
-1 782	-1 782	0	0	-1 782	-1 782	Fiscal Deposits
10 346	8 259	439	2 527	10 785	10 785	Foreign Exchange Deposits
18 211	18 291	80	0	18 291	18 291	Other Deposits
-663	-685	-22	0	-685	-685	Customer Margin of Securities Companies
122 250	119 315	-310	2 624	121 940	121 940	Loans
52 104	52 104	0	0	52 104	52 104	Short-term Loans & Discounted Commercial Paper Loans
28 742	28 742	0	0	28 742	28 742	Medium & Long-term Loans
9 122	6 423	-310	2 389	8 812	8 812	Foreign Exchange Loans
13 208	13 208	0	0	13 208	13 208	Designated Loans
19 073	18 838	0	235	19 073	19 073	Other Loans
20 998	20 998	0	0	20 998	20 998	Undiscounted Banker's Acceptance Bills
14 274	14 274	0	0	14 274	14 274	Insurance Technical Reserves
9 329	-60	-4 025	5 363	5 304	5 304	Inter-financial Institutions Accounts
23 150	23 150	0	0	23 150	23 150	Required & Excessive Reserves
43 963	46 069	1 979	-128	45 941	45 941	Securities
41 079	41 079	0	0	41 079	41 079	Bonds
8 783	8 783	0	0	8 783	8 783	Government & Public Bonds
17 614	17 614	0	0	17 614	17 614	Financial Bonds
-7 850	-7 850	0	0	-7 850	-7 850	Central Bank Bonds
22 532	22 532	0	0	22 532	22 532	Corporate Bonds
2 884	4 990	1 979	-128	4 862	4 862	Shares
5 033	5 198	165	0	5 198	5 198	Securities Investment Funds Shares
971	928	0	43	971	971	Cash in Vault
476	476	0	0	476	476	Central Bank Loans
51 740	51 780	39	0	51 780	51 780	Miscellaneous (net)
3 919	15 932	15 932	3 919	19 851	19 851	Foreign Direct Investments
4 529	3 040	3 040	4 529	7 569	7 569	Changes in Other Foreign Assets & Debts
6 069	0	0	6 069	6 069	6 069	Changes in Reserve Assets
0	-5 014	-5 014	0	-5 014	-5 014	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^③ 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.

Securities Investment Fund Shares Issued by securities investment fund, which indicates quantity of funds held by investors.

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

Central Bank Loans Loans 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.

Changes in Other Foreign 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^④ Arising from insufficient coverage, the differences of accounting timing, scope, classification, valuation and source materials with the process of compiling the Balance of Payments.

③ Only includes listed shares.

④ 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 2012

In 2012, China's flow of funds showed the following features. First, an evident increase was witnessed in the volume of flow of funds in the whole system, which strongly supported the stable and steady growth of the economy and helped maintain a favorable growth momentum. Second, incremental liability and equity financing of domestic non-financial sectors saw a large increase over the previous year. In terms of structure, the proportion of corporate bond financing rose significantly. The financial structure continued to diversify. In terms of sector, household debt increased steadily and newly increased financial assets registered a record high. Relatively large increase was seen in newly increased liability and financial assets of non-financial corporate sector. The financing gap remained large for non-financial corporate sector, which showed strong desire to expand production and investment. And the government sector had abundant funds. Third, both incremental financial assets and liabilities of financial institutions dramatically increased from the previous year. Fourth,

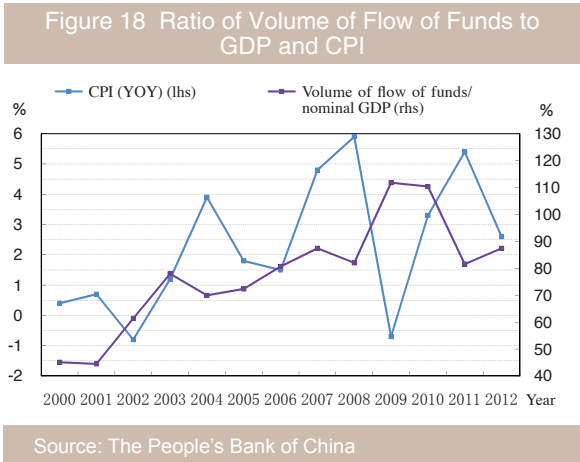
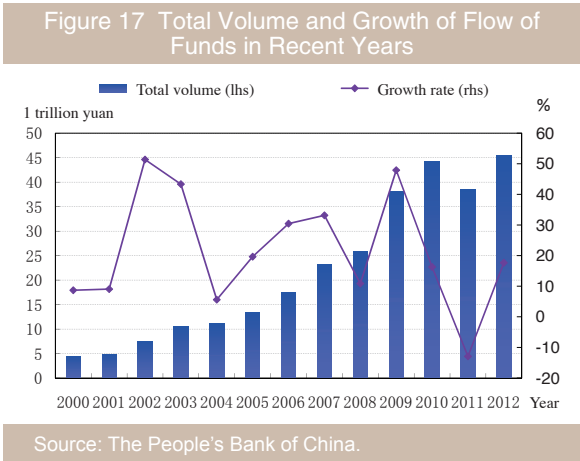
the net volume of domestic fund used by foreign sector kept on shrinking.

Marked increase was witnessed in the volume of flow of funds in the whole system, which strongly supported the stable and steady growth of the economy

In 2012, the volume of flow of fund in the whole system registered 45.40 trillion yuan, a yearly increase of 6.81 trillion yuan or an expansion of 17.7 percent, 30.6 percentage points faster than in the previous year (the previous year witnessed a decline of 12.9 percent year on year). The scale of flow of funds evidently increased. This expansion was due to the PBC's goal of maintaining a stable and steady growth of the economy, for which it continued the prudent monetary policy, strengthened pre-adjustment and fine tuning, and actively guided a reasonable growth of money and credit. During the year, the all-system financial aggregates registered a historic high of 15.76 trillion yuan^①, a year-on-year increase of 2.93 trillion yuan. Board money

^①The aggregate financing to the real economy 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 provided 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, entrusted 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 small-loan companies and finance corporations.

M2 rose by 13.8 percent, or 0.2 percentage point higher than in the previous year. The ratio of total volume of flow of funds in the whole society against GDP in 2012 was 87.4 percent, 5.9 percentage points higher year on year, and 10.3 percentage points higher than the average between 2000 and 2011 (Figures 17 and 18). In 2012, the evident expansion of the flow of funds strongly supported the stable and steady growth of the economy and helped maintained a favorable growth momentum.



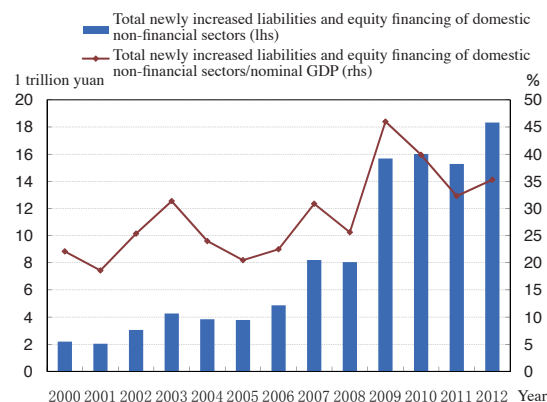
The incremental liabilities and equity financing of domestic non-financial sectors largely increased from the level of previous year and registered a record high. The incremental financial liabilities of non-financial corporate sector went up significantly. The proportion of bond financing by the corporate sector clearly increased, and the financing structure became more diversified

In 2012, newly increased liabilities and equity financing of domestic non-financial sectors (including households, non-financial corporations and general government, the same thereafter) registered a historic high of 18.33 trillion yuan^②, an increase of 3.05 trillion yuan or 20.0 percent year on year. The expansion rebounded in 2012 from the retreat in 2011. The ratio of total volume of newly increased liabilities and equity financing of domestic non-financial sectors to the nominal GDP was 35.3 percent, 3 percentage points higher than in the previous year, and 7.6 percentage points lower than the average between 2009-2010 when China was dealing with the international financial crisis. This showed the strong desire of domestic non-financial sector to expand production and investment, which drove up the financing need (Figure 19).

Compared with the previous year, there was a large increase in the total volume of incremental liabilities and equity financing

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

Figure 19 Ratio of Total Newly Increased Liabilities and Equity Financing of Domestic Non-financial Sectors to Nominal GDP in Recent Years



Source: The People's Bank of China.

by the non-financial corporate sector in 2012. The breakdown of sectors shows that the newly increased volume of liabilities and equity financing of households, non-financial corporate and government sectors were respectively 2.77 trillion yuan, 13.91 trillion yuan and 1.64 trillion yuan, up by 243.1 billion yuan, 2.46 trillion yuan and 343.5 billion yuan correspondingly, and they accounted for 15.1 percent, 75.9 percent and 9.0 percent of the total

of the domestic non-financial sectors. Among the above sectors, the percentage of incremental liabilities and equity financing by the households sector declined by 1.4 percentage points, and those of the non-financial corporate and government sectors were respectively up by 1.0 and 0.5 percentage points (Table 7).

In terms of financial instruments, the financing through loans and bonds increased substantially, whereas equity and foreign financing declined. The growth of undiscounted bankers' acceptances and insurance reserves was stable. In 2012, newly increased liabilities of domestic non-financial sectors through loans^③, bonds, undiscounted bankers' acceptances and insurance reserves were respectively 11.93 trillion yuan, 3.13 trillion yuan, 1.05 trillion yuan and 740.6 billion yuan, up by 24.8 percent, 58.2 percent, 2.2 percent and 10.5 percent correspondingly. incremental liabilities in the form of equity and foreign liabilities (foreign direct invest-

Table 7 Newly Increased Liabilities and Equity Financing of Domestic Non-financial Sectors by Sector in 2012

	New Increase (100 million yuan)	Change (YOY) (100 million yuan)	Growth (YOY) (%)	Proportion (%)	Change in proportion (YOY) (percentage point)
Households	27 724	2 431	9.6	15.1	-1.4
Non-financial corporations	139 116	24 640	21.5	75.9	1.0
General government	16 445	3 435	26.4	9.0	0.5
Total	183 285	30 506	20.0	100.0	0.0

Source: The People's Bank of China.

③When calculating the stock of funds, the statistics of loans are processed according to a board definition, including general loans, entrusted loans, trust loans, wealth management loans, and loans by micro-credit companies and credit companies, the same thereafter.

ment and other financial liabilities overseas) were 212.9 billion yuan and 1.26 trillion yuan, down by 62.9 percent and 14.0 percent respectively. In terms of proportions, loans (65.1 percent) and bonds (17.1 percent) increased by 2.5 and 4.1 percentage points respectively, whereas foreign liabilities (6.9 percent), undiscounted bankers' acceptances (5.7 percent), insurance reserves (4.0 percent) and equity (1.2 percent), down by 2.7, 1.0, 0.4 and 2.6 percentage points respectively (Table 8).

close to the level of 2011 (Figure 20), which took up 30.4 percent of the newly increased liabilities in the same period, down by 2.5 percentage points from 2011. The willingness of households to purchase real estate declined, because of the high real estate prices in recent years and adjustment policies on the real estate market such as the new mortgage loan policies for buying a second house and restrictions on purchasing houses.

Due to the fast growth of households' income, the financial assets of the house-

Table 8 Newly Increased Liabilities and Equity Financing of Domestic Non-financial Sectors by Financing Structure in 2012

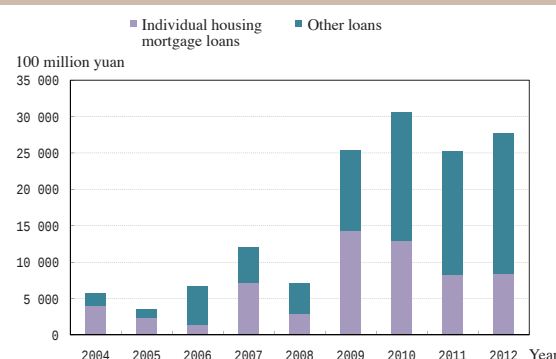
	New increase (100 million yuan)	Change (YOY) (100 million yuan)	Growth (YOY) (%)	Proportion(%)	Change in Proportion (YOY) (percentage point)
Loans	119 315	23 724	24.8	65.1	2.5
Undiscounted banker's acceptances	10 499	228	2.2	5.7	-1.0
Bonds	31 315	11 515	58.2	17.1	4.1
Treasury bonds	8 783	2 642	43.0	4.8	0.8
Corporate bonds	22 532	8 873	65.0	12.3	3.4
Equity	2 129	-3 609	-62.9	1.2	-2.6
Insurance reserves	7 406	705	10.5	4.0	-0.4
Foreign liabilities	12 620	-2 057	-14.0	6.9	-2.7

Source: The People's Bank of China.

1. Liabilities of households increased steadily and their newly increased financial assets hit a historic high

In 2012, newly increased liabilities of the households sector reached 2.77 trillion yuan, an increase of 243.1 billion yuan or a 9.6 percent growth over the previous year. More specifically, newly increased personal mortgage loans registered 842.3 billion yuan,

Figure 20 Composition of Newly Increased Liabilities of the Households Sector

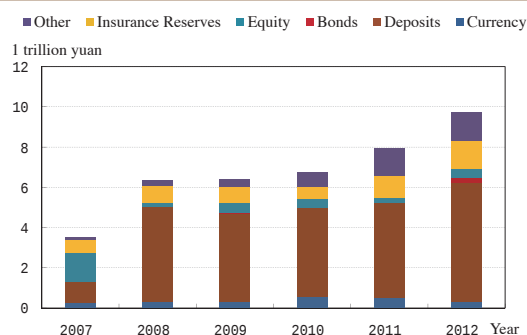


Source: The People's Bank of China.

hold sector increased by 9.71 trillion yuan, registering a historic high. It was 1.83 trillion yuan more than the growth in 2011, an expansion of 23.3 percent, or 6.5 percentage points. In terms of assets composition, factors such as higher prices in the capital market made households adjust their holding of financial assets, in which there was an evident increase in the proportions of equity and bonds. In 2012, households' deposits^④ increased by 5.89 trillion yuan, 1.12 trillion yuan more than the previous year. The newly increased deposits accounted for 60.7 percent of the total newly increased financial assets held by households, a 0.1 percentage point rise from the level of 2011. Incremental equity-related assets^⑤ reached 455.3 billion yuan, 250.9 billion yuan more than the previous year, and its proportion reached 4.7 percent, which was 2.1 percentage points higher than in 2011. Bond assets increased by 262.9 billion yuan, 342.3 billion yuan higher than in 2011, and accounted for 2.7 percent of the total newly increased financial assets, 3.7 percentage points higher than in the previous year. Insurance reserves increased by 1.36 trillion yuan, 261.6 billion yuan more than the growth in 2011 and accounted for 14.0 percent of the total newly increased financial assets, the same as in 2011. The increments in other assets, including wealth management products, reached 1.41 trillion yuan, up by

25.3 billion yuan, and took up 14.5 percent of the total newly increased financial assets, which declined by 3.1 percentage points year on year (Figure 21).

Figure 21 Composition of Newly Increased Financial Assets of the Households Sector



Source: The People's Bank of China.

2. Substantial increases were seen in the newly increased liabilities and financial assets held by the non-financial corporate sector. The financing gap remained relatively large and was just below the historic high

In 2012, newly increased liabilities and equity financing of the non-financial corporate sector registered 13.91 trillion yuan, 2.46 trillion yuan or 21.5 percent more than in 2011. This evident increase reversed the trend of continued year-on-year decline in the previous two years. Specifically, newly increased loans registered RMB 9.16 trillion, 2.12 trillion more than in the previous year, and accounted for 65.9 percent of the newly increased liabilities and equity financing by

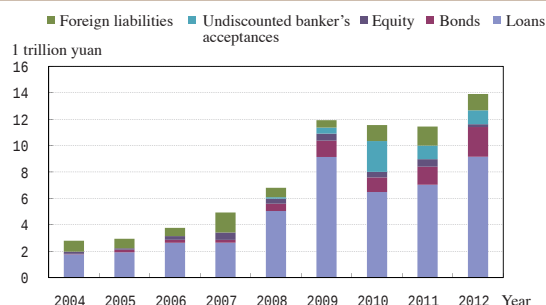
④ Statistics of deposits are processed according to a broad definition, including all deposits in domestic and foreign currencies as well as entrusted deposits in the *Summary of Sources and Uses of Credit Funds of Financial Institutions*, the same thereafter.

⑤ Equity-related assets include equity financing, securities investment funds, and margins of securities companies' clients, the same hereinafter.

non-financial corporate sector in the same period, 4.4 percentage points higher than in the previous year. Incremental corporate bond financing registered 2.25 trillion yuan, 887.3 billion yuan more than in the previous year, and accounted for 16.2 percent of the total, 4.3 percentage points higher than in the previous year. Equity financing reached 212.9 billion yuan, 360.9 billion yuan less than in the previous year, and accounted for 1.5 percent of the total, 3.5 percentage points lower. The newly increased foreign liabilities was 1.23 trillion yuan, 208.4 billion yuan less than in the previous year, and accounted for 8.9 percent of the total, a 3.7 percentage points decline. Newly increased liabilities in the form of undiscounted bankers' acceptances reached 1.05 trillion yuan, the same as the previous year, and accounted for 7.5 percent of the total, a sharp decline of 1.5 percentage points (Figure 22).

Newly increased financial assets held by non-financial corporate sector registered 9.48 trillion yuan, 2.81 trillion yuan or 42.0 percent more than those in the previous year.

Figure 22 Composition of Newly Increased Liabilities and Equity Financing of the Non-financial Corporate Sector



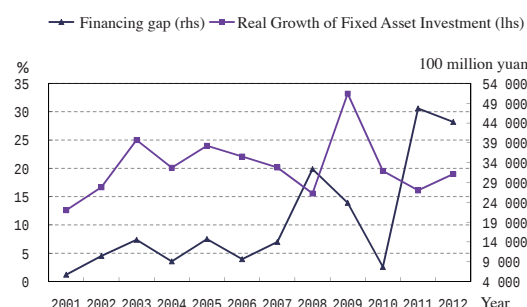
Source: The People's Bank of China.

Deposits increased by 4.70 trillion yuan, 559.4 billion yuan more than in 2011, and accounted for 49.5 percent of the total newly increased financial assets held by non-financial corporate sector, a sharp decline of 12.4 percentage points from the previous year.

Financing gap of the non-financial corporate sector (or the net financial liabilities, which equals to newly increased liabilities and equity financing less newly increased financial assets) reached 4.42 trillion yuan, just second to the historic high (just below the previous year's amount of 4.77 trillion yuan). The financing gap remained comparatively large, as enterprises had a strong desire to increase production and investment in 2012 and the demand for funds was relatively huge (The nominal growth of all society fixed asset investment was 20.3 percent in 2012. When price factors were removed, the real growth was 19 percent year on year, 2.9 percentage points faster than the level in 2011) (Figure 23).

3. The government sector continued to possess adequate funds

Figure 23 Financing Gap and Investment Growth of the Non-financial Corporate Sector



Source: The People's Bank of China and the National Statistics Bureau.

In 2012, the government sector (including central and local governments, governmental agencies and organizations, administrative units and social security funds, the same thereafter) had newly increased liabilities of 1.64 trillion yuan, 343.5 billion yuan more than in the previous year, the growth of which was the highest since 2008. This supported the financing needs to stabilize the economy. More specifically, newly increased liabilities in the form of Treasury bonds was 878.3 billion yuan, up by 264.2 billion yuan from the previous year, and accounted for 53.4 percent of the total newly increased liabilities of government sector, 6.2 percentage points higher than in the previous year. Newly increased liabilities in the form of insurance reserves reached 740.6 billion yuan, 70.5 billion yuan more than in the previous year, and accounted for 45.0 percent of total newly increased liabilities. Its proportion declined by 6.5 percentage points (Figure 24).

Newly increased financial assets held by the government sector reached 2.23 trillion yuan, 198.1 billion yuan more than in the

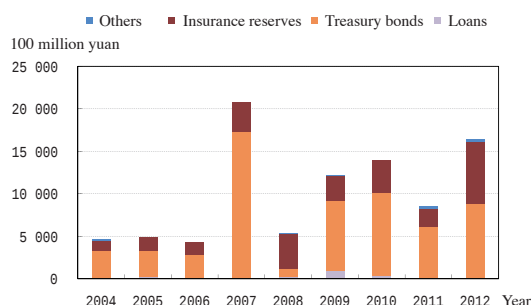
previous year. Specifically, the fiscal deposits declined 178.2 billion yuan, which was 148.1 billion yuan larger than the decline in 2011. Other deposits, including government agencies and organizations, and social security fund, increased by 2.24 trillion yuan, up by 228.7 billion yuan (Figure 25).

Despite the fiscal deficit of 870.0 billion yuan in 2012 after netting the government income and expenditure, the overall net fund surplus reached 589.9 trillion yuan (e.g. newly increased financial assets less newly increased financial liabilities), 162.9 billion yuan higher than the average between 2006 and 2011. The general government sector still possessed adequate funds.

The Increases in the financial assets and liabilities of financial institutions were conspicuously greater than those of the previous year

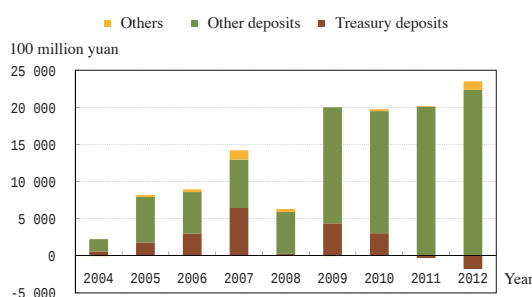
In 2012, the newly increased liabilities and equity financing of financial institutions reached 24.58 trillion yuan, a year-on-year increase of 5.12 trillion yuan or up by

Figure 24 Composition of Newly Increased Major Financial Liabilities of the Government Sector



Source: The People's Bank of China and the National Statistics Bureau.

Figure 25 Composition of Newly Increased Major Financial Assets of the Government Sector



Source: The People's Bank of China.

26.3 percent. The newly increased financial assets totaled 22.72 trillion yuan, up by 3.25 trillion yuan or 16.7 percent year on year. The newly increased loans reached a historical high of 12.23 trillion yuan, which exceeded that in the previous year and the previous record high in 2009 by 2.64 trillion yuan and 112.6 billion yuan respectively. The newly increased loans constituted 53.8 percent of the total newly increased financial assets of financial institutions in 2012, showing an increase by 4.6 percentage points over the previous year. The newly increased bond assets reached 3.70 trillion yuan, or 16.3 percent of the total, an increase of 7.5 percentage points. The newly increased reserve deposits totaling 2.32 trillion yuan constituted 10.2 percent of the total, showing a decrease of 8.4 percentage points over 2011. The newly increased non-discounted banker's acceptances reached 1.05 trillion yuan, constituting 4.6 percent of the total, a decrease of 0.7 percentage point over 2011. The newly increased foreign financial assets totaling 647.2 billion

yuan, accounting for 2.8 percent of the total, a decrease of 8.3 percentage points.

The scale of external sector's use of China's funds continued to shrink

The newly increased financial assets in the external sector of China reached 2.49 trillion yuan in 2012 (China's funds used by the rest of the world), which was 1.35 trillion yuan or 35.2 percent less year on year, decreasing for the second consecutive year. The newly increased financial liabilities and equity financing (foreign funds used by China) totaled 1.25 trillion yuan, which was 1.27 trillion yuan less than in 2011, a reduction of 50.4 percent. China's external net financial asset formation (external net financial asset formation equals the difference between the newly increased external financial assets and the newly increased liabilities and equity financing) totaled 1.24 trillion yuan, which decreased by 6.2 percent from the level in 2011, indicating that the external sector's use of China's funds continued to decline.

2013

CHRONICLE



2013 CHRONICLE

January

5 Jan. The PBC issued the *Guidelines on Assessing the Risks of Money Laundering and Financing of Terrorism at Financial Institutions and Client Classification Management*, to guide financial institutions to assess the risks of money laundering and terrorism financing and properly determine the classification of clients' money laundering risks, so as to enhance the effectiveness of anti-money laundering and combating financing for terrorism.

6~7 Jan. PBC Governor Zhou Xiaochuan attended the BIS Bi-monthly Meeting, the Group of Governors and Heads of Supervision Meeting, and the FSB Steering Committee Meeting in Basel, Switzerland. Participants discussed the long-term financing in emerging economies, reference interest rates of the financial markets, the role of central banks in maintaining stability and monetary policy framework, the proposed revisions to Liquidity Coverage Ratio, global financial sector reform, etc.

8 Jan. The PBC launched the Standing Lending Facility (SLF) as an instrument to provide liquidity to financial institutions.

10~11 Jan. The PBC Work Conference of 2013 was convened in Beijing. The meeting implemented the guidelines of the 18th CPC National Congress, the Central Economic Work Conference and instructions of State Council leaders. It comprehensively reviewed PBC's main work in 2012, and laid out the work plan for 2013. PBC Governor Zhou Xiaochuan delivered a work report as well as a conclusive remark at the end of the meeting. Hu Xiaolian, Liu Shiyu, Yi Gang, Wang Huaqing, Pan Gongsheng, Li Dongrong, Guo Qingping, and Jin Qi attended the meeting.

14 Jan. PBC Deputy Governor Yi Gang and Mr. Luis Alberto Monero, President of the Inter-American Development Bank (IADB) signed an agreement on establishing a co-financing fund to promote sustainable economic and social development in the Latin American and Caribbean regions.

18 Jan. The PBC announced the launch of the Short-term Liquidity Operations (SLO) as a supplement to the open market operations to be used on a discretionary basis to manage temporary liquidity fluctuations in the banking system.

21 Jan. Premier Wen Jiabao paid a visit to the PBC Head Office and presided over a meeting.

The Regulations on Administration of the Credit Reference Industry was promulgated as

State Council Decree No. 631. It became effective on March 15, 2013.

22 Jan. The PBC issued the *Notice on Strengthening Liquidity Management of Local Financial Institutions with Legal Person Status and Enabling Central Bank Short-term Lending to Play a Greater Role in Supplying Liquidity* (the “Notice”). In accordance with the Notice, PBC branch offices should attach great importance to the positive role of central bank lending in providing temporary liquidity support to local financial institutions with legal person status, guide local financial institutions to use the central bank short-term lending as a conventional financing source to solve short-term liquidity shortages, and make full use of the central bank short-term lending to meet the reasonable demand of financial institutions for liquidity.

25 Jan. The PBC and the Taipei Branch of Bank of China signed *the Agreement on RMB Clearing Business*.

28~29 Jan. Deputy Governor Yi Gang attended the Plenary Meeting of the FSB in Zurich, Switzerland. The meeting’s agenda included vulnerabilities affecting the global financial system, progress of financial sector reform, and reform of financial benchmark setting. The meeting announced that the institutional reform of the FSB had been completed.

February

2-3 Feb. PBC Governor Zhou Xiaochuan attended the BIS Special Governors’ Meeting in Seoul, Korea. Participants discussed global economic situations, corporate bond development in emerging economies, and challenges facing commercial banks in the Asia-Pacific region.

7 Feb. The General Administration Department of the PBC issued the *Opinions on Strengthening the Credit Work for 2013*, urging PBC branch offices and banking financial institutions to enhance financial services to the agricultural sector, rural areas, and farmers, SMEs, urbanization projects, adjustment of the economic structure and industrial upgrading, government subsidized housing projects, employment and other livelihood projects, as well as to the clearing-up and regulation of local government financing vehicles.

8 Feb. The PBC authorized the ICBC Singapore branch to act as the clearing bank for RMB business in Singapore. The PBC signed *the Agreement on RMB Clearing Business* with the ICBC Singapore branch in April.

16 Feb. According to the *Notice on Issuing the Administrative Rules on Using Vehicles for Public Affairs for the Party and Government Organs* released by the General Office of the CPC Central Committee and the General Office of the State Council, the *Administrative Rules on Fixed Assets of the PBC*, and other relevant regulations, the PBC issued the *Administrative Rules on Using Vehicles for Public Affairs in the PBC System*.

18~22 Feb. PBC Deputy Governor Li Dongrong led a delegation to attend the Second Plenary of the 24th Meeting of the Working Group of Financial Action Task Force (FATF) held in Paris, France. The meeting adopted a new mutual assessment method, and set up a special working group which includes China, to consider new member acceptance issue.

March

1 Mar. The CSRC, the PBC, and the SAFE jointly promulgated and released the *Measures for the Pilot Program of Securities Investment in China by RMB Qualified Foreign Institutional Investors*.

4 Mar. The PBC issued the *Notice on Expanding the Recipient Eligibility of Central Bank Agro-linked Loans and Enhancing the Financial Services for Spring Farming Activities* (the “Notice”). According to the Notice, the scope of eligible recipients of central bank agro-loans would be expanded nationwide to guide rural financial institutions to step up credit support to the agricultural sector, rural areas, and farmers, and make preparations for extending financial services for the spring farming activities.

7 Mar. The PBC renewed the bilateral local currency swap agreement with the Monetary Authority of Singapore. The size of the new swap facility is 300 billion yuan, or SGD 60 billion. The agreement will be effective for three years and can be extended by mutual consent.

10~14 Mar. PBC Deputy Governor Hu Xiaolian attended the Global Financial System Committee Meeting, BIS Bi-monthly Meeting, and the 147th Basel Committee on Banking Supervision (BCBS) meeting in Basel, Switzerland. Participants discussed global economic situations, mortgage policy of central banks, evaluation of SIFIs, evaluation of supervisory consistency, and other issues.

11 Mar. The General Administration Department of the PBC issued the *Guidelines on Basic Data Items in Building the Credit Information System for Small- and Medium-sized Enterprises and Guidelines on Basic Data Items in Building the Credit Information System for Rural Areas*, to regulate the building of credit profiles of economic entities such as small and micro enterprises, and farmers.

13 Mar. The PBC issued the *Notice on Issues Regarding Investment in the Interbank Bond Market by Qualified Foreign Institutional Investors*, allowing eligible QFIIs to apply to the PBC for access to the interbank bond market.

16~19 Mar. PBC Deputy Governor Yi Gang attended the Annual Meeting of the Board of Governors of IADB Group in Panama city, Panama, and visited Cuba after the meeting.

24~30 Mar. PBC Governor Zhou Xiaochuan attended the BRICS Finance Ministers and Central Bank Governors' Meeting in Durban, South Africa. Participants discussed the progress in establishing Contingent Reserve Arrangement (CRA) among the BRICS countries.

25 Mar. To implement *Document No.1* of the General Office of the CPC Central Committee on accelerating the development of a modern agricultural sector, the PBC issued the *Guiding Opinions on Enhancing Financial Innovation to Support Faster Development of Modern Agriculture*, urging all banking financial institutions to speed up financial innovation to meet the reasonable financing demand for the development of a modern agricultural sector, in particular those new agricultural production and operation entities such as large specialized farming business, family farms, and farmers' cooperatives, and to upgrade financial services to the agricultural sector, rural areas, and farmers.

Gold price enquiry forward transactions were launched on the interbank market by the Shanghai Gold Exchange.

26 Mar. The PBC and South African Reserve Bank signed *the Agency Agreement for the PBC to Manage South African Reserve Bank's Investment on China's Interbank Bond Market*.

The PBC signed a bilateral local currency swap agreement with the Banco Central Do Brasil (the Central Bank of Brazil). The size of the swap facility is 190 billion yuan, or 60 billion real. The agreement will be valid for three years and can be extended by mutual consent.

April

1 Apr. The Monetary Policy Committee of the PBC convened its first regular meeting in 2013, chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that China's economy and financial sector in general maintained a steady growth momentum, prices were stable but the future trend was uncertain; and the global economy showed signs of improvement but still faced complex situations. It was emphasized at the meeting that efforts should be made to closely follow the latest developments in the real economy and financial markets at home and abroad as well as changes in international capital flows, continue the sound monetary policy to maintain policy continuity and stability, make policy measures more forward-looking, better-targeted and more flexible, properly handle the relationship among stable growth, structural adjustment, inflation control and risk prevention, and maintain a stable monetary environment.

9 Apr. With the authorization of the PBC, the China Foreign Exchange Trade System (CFETS) announced that it would improve the trading mode between RMB and the Australian dollar and launched direct trading between the two currencies on the interbank foreign ex-

change market.

10 Apr. The PBC issued the *Administrative Rules on Printing Bank Bills and Certificates*, to strengthen management of the printing of bank bills and certificates and safeguard their security.

18~21 Apr. PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the joint Spring Meetings of the IMF and the World Bank in Washington, D.C., U.S.. Participants discussed the global economic and financial situations, the IMF reform, and etc. On the side-line of the meeting, Governor Zhou Xiaochuan attended the G20 Finance Ministers and Central Bank Governors' Meeting.

20 Apr. After a strong earthquake on a 7.0 Richter scale occurred in Ya'an, Sichuan Province, the PBC launched an emergency plan to support earthquake relief work to ensure safe operation of the financial business systems and earnestly safeguard the financial and social stability in the quake-stricken areas.

25 Apr. The PBC issued the *Notice on Issues Concerning the Implementation of the Measures for the Pilot Program of Securities Investment In China by RMB Qualified Foreign Institutional Investors*.

25~27 Apr. PBC Deputy Governor Yi Gang attended the 44th EMEAP Deputies' Meeting in Guangzhou, China. Delegates discussed the global and regional economic and financial developments, crisis management and resolution framework of the EMEAP, global and regional financial regulatory reform and development, and use of local currencies in intra-regional trade and investments.

May

2 May. The first trial operation of the PBC Accounting Data Centralized System (ACS) went successfully at PBC Beijing Business Processing Centre, Operation Office of the PBC Jinan Branch, and the PBC Jining sub-branch.

3 May. PBC Assistant Governor Jin Qi attended ASEAN+3 Finance Ministers and Central Bank Governors' Meeting, in New Delhi, India. Delegates mainly discussed issues such as how to strengthen the CMIM, the AMRO, the ABMI, as well as global and regional economic and financial developments.

5 May. To support compliant enterprises to carry out normal business activities and to prevent BOP risks, the SAFE issued the *Notice of the State Administration of Foreign Exchange on Strengthening Administration of Foreign Capital Inflows* in order to strengthen administration of the comprehensive position of banking institutions in terms of the settlement

and sale of foreign exchange, to enhance categorized management of foreign exchange receipts and payments of import and export firms, and to intensify foreign exchange inspection.

7 May. PBC Deputy Governor Liu Shiyu met with Mr. Luigi Federico Signorini, Deputy Governor of the Bank of Italy. They exchanged views on issues related to evaluation of the BASEL III Capita Accord.

12~14 May. PBC Governor Zhou Xiaochuan attended the BIS Governors' Bi-monthly Meeting in Basel, Switzerland. At the meeting, delegates discussed risks of reversal of long-term low interest rates in developed countries and their potential impacts on emerging market economies, global credit markets, and the relationship between non-financial enterprise credit growth and the monetary policy transmission mechanism.

13~16 May. The 2013 Plenary Meeting of the ISO/TC68 (International Organization for Standardization Technical Committee on Financial Services) and its sub-committees was held in Guangzhou, China, the first meeting held in China since its establishment some 60 years ago. PBC Deputy Governor Li Dongrong, Chairman of the China Financial Standardization Technical Committee (CFSTC), attended the meeting and gave a speech.

20~29 May. PBC Deputy Governor Li Dongrong led a Chinese delegation to attend the Annual Meeting of the Board of Governors of the Caribbean Development Bank in Castries, Saint Lucia. Li Dongrong visited Peru after the annual meeting.

24~26 May. PBC Governor Zhou Xiaochuan and Mr. Michael Ambuhl, the Secretary of State of the Swiss Federal Department of Finance signed an *Memorandum of Understanding on the Establishment of Financial Dialogue Mechanism between the People's Bank of China and the Swiss Federal Department of Finance*.

28 May. PBC Deputy Governor Liu Shiyu met with Mr. Peter Pang, Deputy Chief Executive of the HKMA. They exchanged views on financial stability, systemic risks, Hong Kong's RMB clearing platform, current development of RMB business in Hong Kong, and other issues.

29~30 May. PBC Assistant Governor Guo Qingping led a Chinese delegation to attend the Annual Meeting of African Development Bank in Morocco and visited Kenya after the meeting.

30~31 May. PBC Assistant Governor Jin Qi attended the 8th Session of China-Kazakhstan Financial Cooperation Sub-committee in Guilin. Participants discussed the settlement of bilateral trade transactions in local currencies, and the development of payment system.

31 May.~1 June. With the assistance of the PBC, the Group of Thirty (G30) Spring Plenary was held in Shanghai. PBC Governor Zhou Xiaochuan and Deputy Governor Hu Xiaolian attended the meeting. During the Plenary Session, participants discussed the current

global economic and financial situations, international financial regulatory reform and Basel III Capital Accord.

June

2~9 Jun. PBC Chief Disciplinary Officer Wang Huaqing visited Canada and the U.S. to conduct on-site research on issues related to protection of financial consumer rights.

18~19 Jun. PBC Deputy Governor Hu Xiaolian attended the 148th BCBS meeting in Basel, Switzerland. At the meeting, participants discussed liquidity, leverage ratio, assessment of SIFIs, simplification and comparison and margin requirement of non-centrally cleared OTC derivatives.

PBC Assistant Governor Jin Qi attended the 14th Meeting of the Financial Cooperation Sub-committee of the China-Russia Premier-level Regular Meeting Committee in Russia. At the meeting, participants discussed cross-border transactions settlement in local currencies, trade and project financing, etc.

20~22 Jun. PBC Deputy Governor Hu Xiaolian paid a visit to the Nepal Rastra Bank. The two sides signed *the Agency Agreement for the PBC to Manage Nepal Rastra Bank's Investment on China's Interbank Bond Market*.

21 Jun. The Monetary Policy Committee of the PBC convened its second regular meeting in 2013, chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that operation of China's real economy and financial sector was generally sound, prices were stable, but there were a lot of difficulties and challenges ahead; the global economy showed signs of improvement and still faced complex situations. It was emphasized at the meeting that efforts should be made to follow the latest developments in the real economy and financial markets at home and abroad as well as changes in international capital flows, continue the sound monetary policy, set policy measures more forward-looking, better-targeted and more flexible. Fine-tunings and preemptive adjustments would be conducted when necessary and with appropriate strength.

The *Cross-Strait Service Trade Agreement* (the "Agreement") was signed by both sides of the Taiwan Strait. According to the Agreement, Taiwan-funded financial institutions will be allowed to invest in the mainland's capital market, with an investment quota of 100 billion yuan.

22 Jun. The PBC signed a bilateral local currency swap agreement with the Bank of England. The size of the swap facility is 200 billion yuan or 20 billion pound. The agreement will be valid for three years and can be extended by mutual consent.

22~24 Jun. PBC Governor Zhou Xiaochuan attended the Annual Meeting of the BIS and

the Plenary Meeting of FSB in Basel, Switzerland. At the BIS Annual Meeting, participants discussed the global economic situation, ways to promote economic growth, non-technical barriers in providing liquidity to central counterparties, and etc. At the FSB Plenary Meeting, participants discussed vulnerabilities of the global financial system and the latest developments in strengthening financial regulation and supervision. On the sideline of the meeting, Governor Zhou Xiaochuan attended the 5th Trilateral Governors' Meeting of China, Japan and Korea.

26 Jun. The General Administration Department of the PBC issued the *Guidelines on Improving Financial Services for Job Creation and Entrepreneurship of College Graduates*, which required banking institutions to take effective measures to give college graduates preferential policies, to actively explore ways to make innovations in financial services and modes in line with the actual needs and characteristics of employment and business ventures of college graduates, to properly allocate financial resources, to optimize the credit structure, and to continuously improve financial services for college graduates.

28~30 Jun. PBC Deputy Governor Yi Gang attended the 18th Governors' Meeting of the EMEAP in Kuala Lumpur, Malaysia. The meeting mainly discussed the impacts on the EMEAP region of tapering of quantitative easing in developed economies, regulatory reform of OTC derivative transactions, crisis management and resolution framework, and establishment of safe and prime assets in the Asia-Pacific region.

July

2 Jul. The PBC issued Announcement No.8 [2013] (*Announcement on Improving Transaction Settlement on the Interbank Bond Market*), requiring that all interbank bond transactions be carried out via the system provided by the National Interbank Funding Centre and shall not be revoked or changed after the transactions are completed in an effort to further regulate the trading and clearing business on the interbank bond market, safeguard the legal rights and interests of market participants, and to promote the sound development of the market.

3 Jul. PBC Governor Zhou Xiaochuan chaired the Party's mass line education and practice conference of the PBC system. The meeting made arrangements for carrying out the Party's mass line education and practice work in the PBC.

9 Jul. The PBC issued the *Notice on Simplifying the Procedures for Cross-border RMB Services and Improving Relevant Policies*, which simplified cross-border RMB business procedures under the current account, relaxed regulations on the maturity and quota of account financing, and standardized overseas RMB loan and guarantee business by domestic non-financial institutions, and so forth.

10~11 Jul. PBC Governor Zhou Xiaochuan and Deputy Governor Yi Gang attended the

5th Round of Sino-US Strategic and Economic Dialogues in Washington D.C., U.S. A total of 87 agreements were reached under the economic dialogues.

15~22 Jul. The 16th Annual Meeting of APG was held in Shanghai. It was the first time that PBC hosted the APG's Annual Meeting as a member. More than 400 representatives from 41 member and observer economies attended the meeting. PBC Deputy Governor Li Dongrong attended the meeting and delivered an opening speech. At the meeting consensus was formed on the preliminary framework for the next phase of the region's anti-money laundering tasks.

20 Jul. With the authorization of the State Council, the PBC decided to remove controls over interest rates offered by financial institutions from July 20, 2013. The lending-rate floor, which was 70 percent of the benchmark lending rate, was removed. Financial institutions would independently determine their lending rates based on commercial principles. Controls over interest rates of bill discounts were removed. Instead of adding a certain amount of basis points to the central bank discount rate, the financial institutions would price bill discounts independently. The lending-rate ceiling for rural credit cooperatives was removed. Besides, to strictly implement the differentiated housing mortgage policy and to promote the sound development of the real-estate market, the floating band for home mortgage loan rates was not adjusted.

25 Jul. Commercial banks began to issue tier-two capital bonds on the interbank market on a trial basis to satisfy their recapitalization need, with the Tianjin Binhai Rural Commercial Bank issuing 1.5 billion yuan of tier-two capital bonds on the interbank market.

August

15 Aug. To further strengthen coordination of financial regulation and supervision, ensure the stable operation of the financial industry, with the approval of the State Council, the PBC, the CBRC, the CSRC, the CIRC, and the SAFE jointly established the Joint Ministerial Conference Mechanism of Financial Regulatory Coordination.

26 Aug. To improve financial services for poverty reduction and economic development in large poverty-stricken areas, the General Administration Department of the PBC issued the *Notice on Establishing Co-movement and Coordination Mechanisms for Offering Financial Services in Contiguous Poverty-stricken Areas to Alleviate Poverty and Promote Development* (the "Notice") which required relevant PBC branch offices in fourteen large contiguous poverty-stricken areas to set up a financial services coordination mechanism. According to the Notice, PBC branch offices should take measures according to local circumstances, and ac-

tively carry out financial-service innovations, information sharing, policy publicity, statistical analysis, and so forth.

September

2 Sept. The Treasury Centralized Booking System (TCBS) completed its construction throughout the country, marking the basic formation of the overall framework of modern treasury information system with the “3T” as the core component.

4 Sept. The PBC promulgated and released the *Rules on Enforcement and Inspection of Payment and Settlement Businesses*, to regulate the behavior of enforcement and inspection of payments and settlements businesses, and to make the enforcement and inspection work more institutionalized, standardized and scientific.

5~6 Sept. The 8th G20 Summit was held in St. Petersburg, Russia. At the meeting, participants discussed global economic situations and challenges, ways to promote long-term financing and investment, reform of global financial architecture, reform of the financial sector and ways to promote financial inclusion. PBC Governor Zhou Xiaochuan accompanied President Xi Jinping to attend the meeting.

7~8 Sept. PBC Deputy Governor Hu Xiaolian attended the high-level roundtable meeting of the BIS and the meeting of Global Financial System Committee. At the roundtable meeting, participants mainly discussed the reversal of bond market, market liquidity and capital position of banks. At the meeting of Global Financial System Committee, participants discussed risks and challenges posed by the tapering of quantitative easing in advanced economies.

8~9 Sept. PBC Governor Zhou Xiaochuan attended the Bi-monthly Governors’ Meeting of the BIS in Basel, Switzerland. At the meeting, participants discussed impacts of international financial market turmoil and monetary policies of advanced economies on emerging economies.

9 Sept. The PBC signed a bilateral local currency swap agreement with the Magyar Nemzeti Bank (Hungarian National Bank). The size of the swap facility is 10 billion yuan, or 375 billion forint. The agreement will be valid for three years and can be extended by mutual consent.

10~14 Sept. PBC Governor Zhou Xiaochuan attended the meeting of the Governors’ Club of member countries of the Central Asia, Black Sea Region and Balkans in Armenia. During the meeting, participants discussed lessons learnt from the global financial crisis, approaches and tools to address future challenges.

11 Sept. The PBC and the Central Bank of Iceland renewed their local currency swap

agreement. The size of the new swap facility is 3.5 billion yuan, or 66 billion krona. The agreement will be valid for three years and can be extended upon mutual consent.

12 Sept. The PBC signed a bilateral local currency swap agreement with the Bank of Albania. The size of the swap facility is 2 billion yuan, or 35.8 billion lek. The agreement will be valid for three years and can be extended upon mutual consent.

18 Sept. PBC Deputy Governor Liu Shiyu met with Mr. Euromar Tovar, President of the Central Bank of Venezuela and Mr. Rafael Ramirez, Minister of Energy and Petroleum.

23 Sept. The PBC issued the *Notice on Relevant Issues Concerning RMB Settlement for Investment in Domestic Financial Institutions by Overseas Investors* to standardize the RMB settlement by overseas investors when they set up financial institutions, conduct merger and acquisition of or equity investment in financial institutions in China.

24 Sept. The inaugural and first regular meeting of the self-regulatory pricing mechanism for market interest rates was convened in Beijing. The self-regulatory pricing mechanism for market interest rates, as a self-regulatory and coordinating market mechanism among financial institutions, aims to apply self-regulatory management over interest rates that are independently determined by financial institutions on the money, credit, and other financial markets, under the precondition that they comply with the relevant interest-rate regulations so as to maintain market order for fair competition and to promote the healthy development of the financial market. The meeting deliberated on and passed the *Guidelines for the Self-regulatory Pricing Mechanism of Market-based Interest Rates and the Rules for the Loan Prime Rate (LPR) Centralized Quote and Release Mechanism*, and elected the first chairman of the mechanism.

27 Sept. The Monetary Policy Committee of the PBC convened its third regular meeting in 2013, chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that performance of the financial sector and real economy in China was generally sound, and the price situation was basically stable, despite the many difficulties and challenges; the global economy took a turn for the better and the situation remained complex. It was emphasized at the meeting that efforts should be made to closely monitor the latest developments in the financial market and real sector at home and abroad and the changes in international capital flows. In accordance with the general requirements of keeping the continuity and stability of macro-economic policies, the sound monetary policy would be continued, policy measures would be more targeted and balanced, and preemptive adjustment and fine-tuning would be conducted when necessary. Efforts should be made to strike a balance among pursuing stable growth, adjusting economic structure, promoting reform and preventing risks; optimize the allocation of financial resources, make good use of the new loans and mobilize the stock of credit assets in order to create a stable financial environment and monetary condition for the adjustment of economic structure, upgrading and transformation of the economy.

October

1 Oct. The PBC and Bank of Indonesia renewed their local currency swap agreement. The size of the swap facility is 100 billion yuan, or 175 trillion Indonesian Rupiah. The agreement will remain in effect for three years and can be extended upon mutual consent.

8 Oct. The PBC and the ECB signed a bilateral local currency swap agreement. The swap line has a maximum size of 350 billion yuan, or 45 billion euro. The agreement will remain in effect for three years and can be extended upon mutual consent.

The PBC Second-generation Payment System was successfully unveiled.

9 Oct. The PBC issued the *Notice on Reforming the Management Methodology of Credit Rating on the Credit Market* to launch the reform of the credit rating management. The focus of supervision was transferred from ex-ante qualification and accreditation to ex-post and on-going monitoring and information disclosure.

10~11 Oct. PBC Deputy Governor Yi Gang attended the Annual Meetings of the IMF and the World Bank. On the margins of the meetings, Deputy Governor Yi also attended the G20 Finance Ministers and Central Bank Governors Meeting and the BRICS Finance Ministers and Central Bank Meeting. Participants discussed the global economic situation, financing for long-term investment, strengthening the G20 process and cooperation issues among the BRICS countries.

15 Oct. The 5th China-UK Economic and Financial Dialogues were held in Beijing. PBC Deputy Governor Pan Gongsheng attended the meeting. The Dialogues yielded a total of 59 agreements in areas such as international economic policy coordination, trade and investment, and financial regulatory cooperation. It was announced at the meeting that China would extend its RQFII program to the UK, with an aggregate quota of 80 billion yuan.

22 Oct. At the 10th meeting of the China-Singapore Joint Council for Bilateral Cooperation, it was announced that China would extend its RQFII program to Singapore, with an aggregate quota of 50 billion yuan.

24 Oct. PBC Governor Zhou Xiaochuan and Mr. Martin Gruenberg, Chairman of the Federal Deposit Insurance Corporation (FDIC) signed the *Memorandum of Understanding on Cooperation, Technical Assistance, and Cross-border Resolutions Between the People's Bank of China and the Federal Deposit Insurance Corporation*.

25 Oct. The Loan Prime Rate (LPR) centralized quote and release mechanism formally entered into operation. The LPR is the most preferential lending rate offered by a commercial bank to its prime clients; other lending rates can be offered by adding or subtracting basis points based on the LPR. The authorized publisher will calculate a weighted average of the quotes provided by the panel banks as the average LPR rate and release it to the general pub-

lic. The LPR mechanism represents an expansion of the market-rate base interest-rate quotation from the money market to the credit market, providing an important reference for financial institutions in pricing their credit products.

30 Oct. To implement the guidance of the State Council on boosting information consumption and expanding domestic demand, the PBC launched its mobile financial trusted service management platform (TSM), laying a solid foundation for the healthy and rapid development of mobile financial services.

November

1 Nov. Upon the approval of the State Council, the PBC issued the *Notice on Issues Related to Expanding the Pilot Reform Program of the Agro-related Financial Service Department of the Agricultural Bank of China*, which added 538 county-level sub-branches of the ABC in Jiangsu, Zhejiang, Hunan, Yunnan, Jiangxi, Shanxi, and Guangdong provinces to the pilot scheme and renewed the preferential measures, such as the differentiated reserve requirement ratio, supervisory fee reduction or exemption, and business tax reduction or exemption.

6 Nov. The inaugural meeting of the People's Bank of China Youth Federation as well as the first plenary session of the PBC Youth Federation 1st Committee was held in Beijing. At the meeting, delegates deliberated on and passed the *Organizational and Working Rules of People's Bank of China Youth Federation (Draft Version)*, elected the standing members, vice chairman, and chairman of the People's Bank of China Youth Federation 1st Committee, and discussed the *Work Report of the People's Bank of China Youth Federation 1st Committee*.

10~12 Nov. PBC Deputy Governor Pan Gongsheng attended the Bi-monthly Meeting of the BIS in Basel, Switzerland. Participants discussed communication practices of monetary policies of advanced economies, rebalancing in advanced economies, deceleration and impacts of the Chinese economy and financial architecture.

12~15 Nov. PBC Deputy Governor Li Dongrong led delegation to attend the 19th Plenary Meeting of Eurasian Anti-Money Laundering and Anti-Terrorist Financing Organizations (EAG), in Ashgabat, Turkmen. The meeting discussed officially ending the first round of EAG mutual evaluation and the procedures of the second round mutual evaluation process.

15 Nov. The *Administrative Measures for Credit Reference Agencies* was promulgated and released as the PBC Decree No. 1, effective as of December 20, 2013.

22~23 Nov. PBC Governor Zhou Xiaochuan attended the 49th Conference of the Governors of the South East Asian Central Banks (SEACEN) in Katmandu, Nepal. At the meeting, participants discussed the inclusive finance, macro-prudential policy and regulation and supervision.

24~25 Nov. PBC Governor Zhou Xiaochuan attended a seminar on the pilot scheme of comprehensive financial reform in border areas in Kunming.

26 Nov. The first China-France High-Level Economic and Financial Dialogue was held in Beijing. The meeting was jointly hosted by Vice Premier Ma Kai and French Minister for Economy and Finance Pierre Moscovici. PBC Governor Zhou Xiaochuan attended the meeting. After the meeting the two sides issued a joint announcement that a total of 35 agreements were achieved at the meeting in areas of economy and finance, economic and financial cooperation, and trade and investment.

The third China-France Financial Forum was held in Beijing sponsored by central banks from both countries. About 300 representatives from central banks, regulatory authorities, self-disciplinary organizations, and market institutions attended the forum. Delegates discussed economic and financial developments in both China and France, capital market development in Europe and China, opportunities and challenges in other financial areas, etc. PBC Governor Zhou Xiaochuan and Banque de France Governor Christian Noyer attended the forum.

December

1 Dec. The People's Bank of China launched its official microblog (central bank weibo) on the sina.com and tencent.com websites.

3~4 Dec. The first China-Switzerland Financial Dialogue was held in Shanghai. Delegates from both countries discussed opening-up of financial market, cross-border use of RMB, international financial regulatory reform and international financial institutions.

PBC Deputy Governor Hu Xiaolian attended the 150th BCBS meeting in Hong Kong. At the meeting, participants discussed topics such as liquidity, leverage ratio, risk measures, supervision and enforcement.

8 Dec. The PBC issued the *Provisional Rules on the Management of Interbank Certificates of Deposit* to regulate the business of interbank certificates of deposit, broaden the financing channels for deposit-taking banking financial institutions, and promote the development of the money market. On December 12 and 13, ten financial institutions, including the Bank of China and the China Construction Bank, issued the first batch of interbank certificates of deposit, with total issuance volume of 34 billion yuan and covering maturities of one month, three months, and six months.

12 Dec. The PBC issued the *China Credit Information Industry Development Report, 2003-2013*. The report provided a comprehensive summary of the work and achievement the PBC has made for the past ten years since it assumed the responsibility of credit information

management, analyzed the current opportunities and challenges facing the credit information industry, and presented the outlook for the tasks in the next five years.

25 Dec. The Monetary Policy Committee of the PBC convened its fourth regular meeting, chaired by Governor Zhou Xiaochuan, Chairman of the Monetary Policy Committee. It was agreed at the meeting that the performance of financial sector and real economy in Chinese was generally sound, and the price situation was basically stable, despite the many difficulties and challenges. The global economy was expected to continue a slow recovery momentum but also faced with some unstable and uncertain factors. It was emphasized at the meeting that efforts should be made to closely monitor the latest developments in the financial market and real sector at home and abroad and the changes in international capital market; in accordance with the general requirements of seeking progress while maintaining stability and carrying out reform and innovation, efforts should be made to continue the sound monetary policy, maintain appropriate liquidity, guide money, credit and the aggregate financing to the real economy to grow at a proper pace, and optimize the financial and credit structure.

26 Dec. The PBC signed an agency agreement, *the PBC to act as the IFC's agent for investment in China's interbank bond market*, with the International Financial Corporation (IFC), a member of the World Bank Group.

27 Dec. The Project of Building of the PBC Shanghai Offsite Disaster Recovery Center was officially launched.

31 Dec. The PBC and the CBRC issued the Public Announcement [2013] No.21 to further regulate the risk-retaining behavior of institutions initiating credit asset securitization business, and specified that the initiating institutions can retain the credit risks of the underlying assets in a flexible way, particular in a vertical manner.

The PBC issued the *Notice on Issues Concerning the Ex-post Supervision of Issuances of Financial Bonds Earmarked for Lending to Small- and Micro- Enterprises*, which specified requirements for relevant institutions, such as issuers and lead underwriters of financial bonds, during the pre-issuance and holding period, with respect to internal control, submission of reports, and so forth, and for ex-post supervision of such bonds by the PBC and its branch offices to make sure the funds from the issuance of financial bonds by commercial banks are used to extend credit to small and micro enterprises.

Major Rules and Administrative Documents Promulgated in 2013

No.	Document Number	Title (Main Content)	Time of Issuance
1	Decree [2013] No.1	(Administrative Measures for Credit Reference Agencies)	11.15
2	Announcement [2013] No.3	(Designation of Clearing Bank for RMB Business in Singapore)	02.08
3	Announcement [2013] No.6	(Administrative Rules for the Custody of Clients' Reserves of Payment Institutions)	06.07
4	Announcement [2013] No.7	(Normative Regulations and Documents Abolished)	06.28
5	Announcement [2013] No.8	(Improving Transaction Settlement on the Interbank Bond Market)	07.02
6	Announcement [2013] No.9	(Administrative Rules for Bank Cards Acquiring Business)	07.05
7	Announcement [2013] No.12	(Further Tightening Delivery Versus Payment Settlement Requirements for Bond Transactions on the Interbank Bond Market)	08.27
8	Announcement [2013] No.16	(Announcement on the Certification of Treasury Direct Payment Agent Banks and Treasury Authorized Payment Agent Banks)	09.11
9	Announcement [2013] No.20	(The Provisional Rules on the Management of Interbank Certificates of Deposit)	12.07
10	Announcement [2013] No.21	(Further Regulating Risk-retaining Behavior of Institutions Initiating Asset Securitization Business)	12.31
11	Document [2013] No.2	Notice on Issuing Guidelines on Assessing the Risks of Money Laundering and Financing of Terrorism at Financial Institutions and Client Classification Management	01.05
12	Document [2013] No.69	Notice on Issues Related to Investment in the Interbank Bond Market by Qualified Foreign Institutional Investors	03.10
13	Document [2013] No.105	Notice on Issues Concerning the Implementation of the Measures for the Pilot Program of Securities Investment In China by RMB Qualified Foreign Institutional Investors	04.23
14	Document [2013] No.168	Notice on Simplifying the Procedures for Cross-border RMB Services and Improving Relevant Policies	07.05
15	Document [2013] No.203	Notice on Issuing the Special Financial Plan for the International Trade Comprehensive Reform Pilot Program in Yiwu, Zhejiang Province	08.23
16	Document [2013] No.221	Notice on Issuing the Implementation Plan for the Economic Census of the Banking and Other Financial Sectors	09.16
17	Document [2013] No.226	Notice on Issuing the Rules on Enforcement and Inspection of Payment and Settlement Businesses	09.04
18	Document [2013] No.241	Notice on Issuing the Special Plan for Financial Reform and Development of the City Group of Changsha, Zhuzhou, and Xiangtan	09.18
19	Document [2013] No.244	Opinions on Financial Support to the Development of China (Shanghai) Pilot Free Trade Zone	12.02

20	Document [2013] No.276	Notice on Issuing the Overall Plan for Building the Comprehensive Financial Reform Experimental Zones in the Border Areas of Yunnan Province and Guangxi Zhuang Autonomous Region	11.20
21	Document [2013] No.289	Notice on Preventing the Risks of Bitcoins	12.03
22	General Administration Department Document [2013] No.187	Notice on Issues Related to Implementing the Principles of Financial Market Infrastructure	08.22
23	General Administration Department Document [2013] No.188	Notice on Improving the Information Reporting Procedures of the RMB Cross-border and Payment Management Information System (RCPMIS)	08.22
24	General Administration Department Document [2013] No.251	Notice on the Plan of the Operation and Maintenance of Payment and Clearing System in 2014	12.27