

Speech at the 2013 Lujiazui Forum

Governor Zhou Xiaochuan
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Your Excellency Mayor Yang Xiong,
Distinguished Guests,
Ladies and Gentlemen,

Good morning! It is a great pleasure to attend the 2013 Lujiazui Forum. With Lujiazui chosen as the venue of the Forum, I understand that the theme is about building an international financial center in Shanghai. Let me give you an update of the progress in this regard, and then share with you my ideas on what to do next to speed up the progress. I will also touch upon the hot topics at the moment.

I. Good progress has been made in building an international financial center in Shanghai

Building an international financial center in Shanghai is a natural choice in China's modernization drive and in the process of deepening reform and opening up. The financial community has attached great importance to the endeavour and taken many actions to support it. In recent years, focusing on reform, opening up and innovation, a lot of effective measures have been taken in Shanghai to build a system of financial markets and to enhance the competitiveness of the city as an international financial center.

1. The development of capital market has played a key role in promoting Shanghai's rise as an international financial center

Shanghai has always been on the forefront of capital market development in China. Shanghai's progress has driven the optimization and reform of the financial system and resource allocation in China. Shanghai's experience of capital market reform and development is an important part in the country's experience of economic reform. It is a pragmatic choice for Shanghai to support the capital market to play a key role in the city's economic development as an effective way of providing services to the whole country. Developing the capital market is one ingredient in the success of international financial centers and financial sector development elsewhere and an important component in Shanghai's efforts to develop an international financial center.

In recent years, thanks to the sustained, steady and sound development of the Chinese economy and the progress in market-oriented reform, the capital market in Shanghai has played an increasingly prominent role in promoting Shanghai's move towards an international financial center. A system of capital market has emerged in Shanghai, open to both domestic and international investors, a market that has strong pricing and information function, and with international influence; Shanghai has become a center of RMB cross-border investment and financing, a center of RMB product reference pricing, a center of commodities pricing, and a center of financial information service; a group of fairly large listed companies with sound corporate governance have been nurtured in the city, and they now serve as industry leaders; a good environment and strong mechanism have been created conducive to capital market innovation and development, risk prevention and resolution. The international influence of the major indices of the Shanghai Stock Exchange and Shanghai commodities future prices is on the rise, and the city's capital market is increasingly open to foreign investors. The Zhangjiang Innopark, as one of the pilot zones of the new Third Board, will play a positive role in supporting the growth of a multi-tiered capital market system, and promote the connection and cooperation of regional OTC market and national market.

2. The development of inter-bank market has facilitated reform and innovation of financial markets

An increasingly diversified group of issuers have come to the inter-bank bond market. Various kinds of financial institutions, domestic and foreign, have issued subordinated bonds, ordinary financial bonds, and special financial bonds earmarked for micro- and small enterprises. These activities have boosted the capital adequacy of financial institutions, opened new channels of financing for them, and increased their capability to provide services to the real sector. A larger group of non-financial enterprises have also raised fund on the inter-bank market by issuing short-term financing bills, medium-term notes, collective notes, privately placed notes and other debt financing instruments. As a result, the financing channels of the non-financial corporate sector have been diversified, and their liability structure improved. The financing structure of the entire economy has been optimized.

The investor base of the inter-bank borrowing and bond markets has been diversified. A larger variety of financial institutions have access to the interbank borrowing market, including non-bank financial institutions. These new comers have increased the trading volume and liquidity of the market, laying ground for the Shibor to better serve as a reference for market pricing. The legal-person and non-legal person collective products of various financial institutions are offered on the inter-bank bond market, diversifying the bond investors, deepening and broadening the bond market.

3. The development of cross-border RMB business supported Shanghai to become a center for the innovation of cross-border RMB products

The RMB settlement business of cross-border trade has been advanced. At the moment, the geographical coverage of RMB settlement of cross-border trade is expanded to the entire country and there is no geographical limit on entities located outside of China. In China, all the enterprises that do goods importing and exporting, service trade and other current account transactions may choose to use RMB as the invoicing and settlement currency. Furthermore, RMB settlement business under the capital and financial account has made progress. Foreign central banks, RMB clearing banks, RMB business participating banks, and other overseas institutions may invest their RMB holding on the inter-bank bond market. RMB-denominated outward direct investment, RMB-denominated foreign direct investment, RMB lending for overseas projects, RMB fund pooling and other businesses have been launched. The pilot program of Renminbi Qualified Foreign Institutional Investor Scheme (RQFII) has made headway since its launch.

The volume of RMB settlement of cross-border trade has gradually expanded. Since the launch of the pilot program in July 2009, the business has made good progress, with the settlement volume growing and the reflow mechanism of RMB functioning smoothly. RMB has become more popular outside China, providing strong support to cross-border investment and trade and the development of real economy.

The cross-border RMB business has expanded in Shanghai. Shanghai is included in the first group of pilot cities participating in the RMB settlement of cross-border trade. The settlement volume in Shanghai has kept growing rapidly, among the largest in the

whole country. Shanghai has encouraged business innovation and experiment to take advantage of the financial market environment in the city. In December 2012, Shanghai launched the pilot business of overseas lending based on RMB fund pooling, the only city in China undertaking such a pilot.

4. Exploration was made to facilitate the cross-border flow of foreign exchange and investment, and promote the reform of foreign exchange administration system

Shanghai's experiment has been advanced in reforming the foreign exchange administration system. In 2010, qualified enterprises in the Shanghai Free Trade Zone were allowed to participate in the foreign exchange administration pilot program in the Center for RMB Settlement of International Trade. In 2012, the pilot fund use facilitation program was launched for the multinational companies whose China headquarters are located in Shanghai. These pilot reforms have made it easier for multinational companies to manage their treasuries and increased Shanghai's appeal to multinational companies and investors.

5. Shanghai has become home to many newly established institutions

The stock, futures, inter-bank, and derivatives markets are all located in Shanghai. Since 2002, the PBC has chosen Shanghai as the venue for the newly established institutions including the Gold Exchange, China Union Pay, Clearing House, Credit Reference Center, Anti-money Laundering Monitoring and Analysis Center and the Central Bank Clearing Center. In August 2005, the PBC opened its Head Office in Shanghai to provide efficient service to the financial markets in Shanghai and support Shanghai's growth into an international financial center. Other financial institutions have followed suit and opened their head offices in Shanghai. In 2012, the PBC's Financial Consumer Protection Bureau was established in Shanghai.

Moreover, with the PBC's support, two central banks, i.e. the Norges Bank and the Bank of Korea opened representative offices in Shanghai. The two offices have played an important role in promoting bilateral financial cooperation with Norway and Korea. Overseas monetary authorities and international financial organizations have become investors on the inter-bank bond market in Shanghai.

II. Shanghai has the advantages and potential to become an international financial center

At present, Shanghai has a multiple of advantages and the potential to become an international financial center. First of all, the country's rapid growth and transformation of growth pattern provides a solid foundation. Fairly rapid and stable growth in China, accelerated development of modern service sector, advanced manufacturing sector and strategic emerging sector, and increased overall strength of the economy will provide a solid real economy foundation and naturally require better and more sophisticated financial services from Shanghai as a financial sector.

Second, China is a large economy with a high savings rate. China's GDP is more than 50 trillion yuan, among which savings amount to 25 trillion yuan. At the moment, most savings are kept as bank deposits. The development of direct financing has been emphasized in recent years. With the development of direct financing, capital market has the potential to attract more investment. The development of international financial center in other parts of the world has shown that attracting large groups of investors and lots of fund is an important condition to become a financial center and prompts a financial center to play a bigger role. With an increasingly larger share of savings being invested in the capital market, Shanghai will have greater potential and stronger drive to become an international financial center. In particular, as most of the domestic saving is RMB denominated, the expansion of the cross-border use of RMB and the rising of RMB's status in the world will become a new force supporting Shanghai's growth into a an international financial center.

Third, as is highlighted by this round of global financial crisis, the international monetary and financial system needs to be adjusted. As the emerging market and developing economies become more active in world trade and financial markets, they will gain a larger say. Against such a background, the international community will increasingly value the stable economic and financial environment in China. These developments will provide a favorable external environment for Shanghai's efforts to build an international financial center.

Last but not least, after many years' development, Shanghai has consolidated her status as an important financial center in China and become more influential in the

global financial market. The good momentum is continuing.

III. Ideas on further steps to build Shanghai into an international financial center

Under the new circumstances and in the new environment, to promote the stable and healthy development of the Chinese economy, to upgrade the growth pattern in Shanghai and in China, optimize the distribution of productive forces, and promote economic and financial reform and opening-up, it is necessary to accelerate the paces to build Shanghai into an international financial center. Going forward, in accordance with the decisions adopted by the State Council, we will actively support and promote the development of Shanghai as an international financial center, redouble the efforts of opening-up to promote the development of Shanghai as an international financial center to a higher level.

1. The cross-border use of RMB will be expanded to turn Shanghai into a global center for RMB products innovation, trading, pricing and settlement

After the outbreak of the global financial crisis, we took measures to meet market demands, actively implemented the pilot program of RMB settlement in cross-border trade, advanced the RMB settlement of cross-border investment, steadily developed the RMB loan business for overseas projects, strengthened and deepened bilateral monetary cooperation with other countries. Currently, the cross-border use of RMB has grown to a fairly large scale. As the facilitation of the cross-border use of RMB is a gradual process supported by the strength of the Chinese economy, we have adopted a strategy of *promoting the use of RMB in a low-key, pragmatic and effective way, respecting market and meeting market demand, adopting a gradual approach, and keeping risks within a controllable range.*

The rapid development of cross-border RMB business is a major opportunity for Shanghai to build an international financial center in the next five years. While RMB is in wider use in cross-border transactions and international business, we will, based on the arrangement of the 12th Five-Year Plan for Economic Development and Social Progress, actively promote Shanghai to develop into a center for RMB products innovation, trading, pricing and settlement.

First, expanding the cross-border use of RMB, and gradually increasing the proportion of RMB settlement in cross-border trade. We will support the domestic and foreign-funded multinational companies to launch cross-border RMB management business, so that the RMB will be included in the asset portfolio of multinational companies. The cross-border RMB trade refinancing market will be launched to enlarge the scale of RMB trade financing.

Second, supporting the two-way opening-up of cross-border RMB investment and financing business. Research will be made in order to launch the pilot program of Qualified Domestic Individual Investor Scheme (QDII2) and Renminbi Qualified Domestic Limited Partner (RQDLP) business.

Third, supporting the infrastructure development for cross-border use of RMB. The Cross-border Inter-bank Payment System (CIPs) which is being developed in Shanghai, is an important step to support the cross-border use of RMB, improve the RMB payment and clearing system, guard against and defuse risks in RMB cross-border payment, create a fair and competitive market environment, and facilitate the development of Shanghai as an international financial center.

2. The opening-up of financial market will be accelerated to promote a multi-levelled and well-functioning financial market system to emerge in Shanghai that is accessible to domestic and international investors

The PBC will actively promote the reform, opening-up and development of financial markets including money market, bond market and foreign exchange market, and etc, deepen and broaden the financial market, support innovation in order to build a financial market system with diversified ways of trading, diversified groups of participants, increasingly rich products, transparent and effective market regulation.

First, promoting the two-way opening-up of bond issuing market. We will encourage more qualified international development institutions to issue RMB bonds in the domestic market, expanding the scale of RMB bonds issued by international development institutions on the interbank market, and allow qualified foreign commercial institutions with high credit ratings to issue RMB bonds in China.

Second, increasing the participants on the money market. We will continue to support foreign-funded commercial banks and their branches, foreign-funded non-banking financial institutions to enter the interbank borrowing market and interbank foreign exchange market, increase the number of foreign-funded institutions, and enlarge their transaction volume on the money market within the approved quota. Under the precondition of controllable risks, foreign RMB participating banks and other banks have direct access to interbank borrowing market and interbank foreign exchange market to support the coordinated development of the onshore and offshore RMB market.

Third, deepening and broadening the foreign exchange market. Measures will be adopted to support foreign-funded financial institutions to participate in the interbank foreign exchange market. With the RMB clearing banks in Hong Kong and Macao already in the interbank market, other RMB clearing banks and participating banks will be allowed to enter the interbank foreign exchange market, so that the domestic RMB exchange rate will guide the rate movements on the international market. On the basis of direct trading of RMB against USD, JPY and AUD, the direct bilateral exchange rate regime of RMB against more currencies will be established, and the exchange rate of RMB against currencies of emerging economies and surrounding countries will be quoted on the interbank foreign exchange market.

3. The capital and financial account convertibility will be advanced based on the progress of economic and financial reform and in view of domestic and international environment

The capital and financial account convertibility is planned in several documents of the Communist Party of China (CPC) and the State Council. Progress in this area is also included in the 12th Five Year Plan for Economic Development and Social Progress. The gradual realization of capital account convertibility is conducive to financial innovation and financial market development. It promotes the clustering of financial institutions and internationalization of financial system, facilitates the cross-border use of RMB, improves the mechanism of market economy, enables the market to play a fundamental role in resource allocation on a larger scale, meets market participants' demand for international investment and financing, and increases the openness of the economy comprehensively. It is also of major importance to the development of

Shanghai as an international financial center.

In 1993, the Third Plenary Session of the 14th Central Committee of CPC decided that RMB should be a freely convertible currency. In 1996, China fulfilled the obligation under the Article VIII of IMF Articles of Agreement and announced that RMB was convertible under the current account. Entering the new century, the conditions are increasingly available to promote capital account convertibility with the growing strength of the Chinese economy, and the deepening of interest rate, exchange rate, state-owned banks and financial market reforms.

Under the new circumstances, the process of RMB capital account convertibility will be accelerated in order to further open up, promote trade and investment facilitation, improve financial services to the real economy, build China's capacity and efficiency to participate in global allocation of resources, and improve people's livelihood.

Capital account convertibility is a flexible institutional arrangement, not a black or white option. According to international experience, even after the capital account convertibility is realized, suspicious fund flow, external debt and short-term capital flow can still be managed from a macroprudential perspective to effectively guard against the risks in cross-border capital flow, seek advantages and avoid disadvantages, so that the capital account convertibility will play a positive role in various fields. In the meantime, the timing of convertibility measures will be flexibly arranged based on developments in the domestic and international economy and financial market as well as the basic conditions of reform. The measures will be launched one by one whenever the time is right for one of them.

4. The international financial exchange and cooperation will be strengthened, and the financial cooperation between Shanghai and Hong Kong, Shanghai and Taiwan deepened to enhance the influence of Shanghai as an international financial center

Measures in this regard include strengthening international and regional financial cooperation, participating in global economic and financial governance, enabling Shanghai to play a role in the international exchange in order to enhance the

influence of Shanghai in the international financial sector.

The complementarity, mutual assistance and interactions between the financial markets in Shanghai and Hong Kong will be enhanced, the mechanism for financial cooperation between Shanghai and Hong Kong will be improved, and their exchange and cooperation in the market, institutions, products, business and human resources will be strengthened. The financial market products and financial infrastructure between Shanghai and Hong Kong will be connected. The financial exchange and cooperation between Shanghai and Taiwan will be actively promoted. The establishment of a cooperation mechanism will be studied to expand cooperation between Shanghai and Taiwan.

5. PBC will actively participate in and promote the development of the pilot Free Trade Zone in Shanghai which is under research

While visiting the Yangtze River Delta, Premier Li Keqiang asked relevant departments in Shanghai to study how to start the pilot free trade zone based on the Shanghai Free Trade Zone. In accordance with the latest decision of the State Council, the PBC will focus on overall financial sector reform and opening-up, create and optimize the financial environment that is compatible with the development of the pilot free trade zone, and establish an interaction mechanism between the free trade zone and an international financial center in Shanghai.

In view of China's economic and financial situations, the Central Economic Work Conference convened at the end of last year decided that a sound monetary policy will be implemented this year. Currently, performance of China's economy and the financial sector is sound, prices are stable, indicating that the sound monetary policy is appropriate and effective. In the meantime, the global economic and financial situations are complex and changing, and the domestic economy faces new situations and problems. Financial markets have been sensitive to any market signal and responded quickly, thus it is easy to identify and correct problems. The PBC will continue to implement a sound monetary policy, make the policy measures more forward-looking, better-targeted and more flexible, and conduct preemptive adjustments and fine-tunings in a timely and appropriate manner. We will work together with relevant authorities to guide financial institutions to provide

rational credit supply, properly manage the total volume of assets and liabilities as well as maturity structure, support the structural adjustment, transformation and upgrading of the real economy. Besides, a number of monetary policy instruments and measures will be adopted to adjust market liquidity timely, maintain the overall market stability, and create sound monetary conditions for the stable performance of financial market and economic development.

Since the beginning of this year, China's economic growth is generally stable. Measures of structural adjustment have been intensified too. Although the growth rate has slowed down, it is rational in general and reflects a stable-yet-progressive trend. Furthermore, the dividend of reform will be further released as the effect of streamlining administrative measures unfolds, the adjustment of economic structure and economic upgrading accelerates, and the quality and efficiency of economic growth improve. China is and will be in a period of strategic opportunities and enjoy enormous potential. From a global perspective, China remains an important engine for global growth. We have confidence in the economic growth, financial sector and market development of the whole country, and in Shanghai's development as an international financial center.