

Highlights of China's Monetary Policy in 2008

On January 16, the People's Bank of China announced a rise in the RMB reserve requirement ratio of depository institutions by 0.5 percentage points to 15 percent, effective January 25, 2008.

On January 18, the People's Bank of China, jointly with the China Banking Regulatory Commission, released the *Notice on Releasing the Administrative Rules on Affordable Housing Development Loans* (PBC Document [2008] No.13) to specify regulations on interest rates, maturity, and project capital for affordable housing development loans with the aim of guiding the relevant financial institutions to support government-directed affordable housing development on a risk-controlled basis and to encourage financial institutions to play a further role in addressing the housing difficulties of low-income families.

On January 18, the People's Bank of China issued the *Notice on Launching the RMB Interest Rate Swap* (PBC Document [2008] No.18) to fully launch the interest rate swap business.

On January 31, the People's Bank of China reported to the Finance and Economy Committee of the National People's Congress on implementation of the monetary policy in 2007.

On January 31, the People's Bank of China released the *Urgent Notice on Improving Financial Services to Fight the Snowstorm Disaster* (PBC Document [2008] No.36) to encourage and organize financial institutions to appropriately arrange the structure, pace, and timing of lending, and to enhance credit support to fight the disaster. A total of 5 billion yuan in emergency agriculture-supporting central bank lending was granted. Also, the Notice requires that management of the issuance of funds allocation be enhanced to ensure the cash supply in the market. In addition, adequate financial services should be provided for post-disaster recovery production and spring agricultural activities.

On February 22, the *China Monetary Policy Report, Quarter Four, 2007* was released.

On February 27, the People's Bank of China held a conference to analyze the current economic and financial situation. While highlighting a tighter monetary policy, the People's Bank of China encouraged financial institutions to continue granting loans on a differentiated basis, to intensify adjustments in the credit structure, and to ensure credit support for post-disaster recovery construction and spring agricultural activities.

On March 18, the People's Bank of China announced a rise in the RMB reserve requirement ratio of depository institutions by 0.5 percentage points to 15.5 percent,

effective March 25, 2008.

On March 19, the People's Bank of China released the *Opinions of the PBC, the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC) on Extending Financial Support to Accelerate the Development of the Services Industry* (PBC Document [2008] No.90), calling on financial institutions to continue deepening reform and to improve relevant mechanisms in order to create a favorable environment and to provide financial support for the development of the services industry, especially in key areas and the weak parts of the services industry, and to speed up construction of the financial infrastructure, creating financial service platforms to support the development of the services industry.

On March 25, the Examination and Appraisal Committee of the People's Bank of China on the Issuance and Redemption of Special Central Bank Bills for the Pilot Reform of Rural Credit Cooperatives (RCCs) decided at its 12th regular meeting to redeem special central bank bills totaling 21 billion yuan issued to RCCs in 276 counties (cities) in 25 provinces (autonomous regions and municipalities), including Jiangsu province.

On March 27, the Monetary Policy Committee of the People's Bank of China held its first regular quarterly meeting of 2008.

On April 3, the People's Bank of China, jointly with the China Banking Regulatory Commission, released the *Notice on Policies on Village and Township Banks, Loan Companies, Rural Credit Shops, and Micro-credit Companies* (PBC Document [2008] No. 137) to specify provisions on the management of reserve requirements, deposit and lending interest rates, payment and clearing, accounting, financial statistics and required reports for regulatory purposes, credit references, cash, and risks, so as to encourage and guide these four types of institutions to earnestly provide agriculture-supporting services to rural areas in accordance with the laws and regulations.

On April 15, the PBC reported to the Finance and Economy Committee of the National People's Congress on implementation of the monetary policy in the first quarter of 2008.

On April 16, the PBC decided to raise the RMB reserve requirement ratio of depository financial institutions by 0.5 percentage points to 16 percent, effective April 25, 2008.

On May 12, the PBC announced a rise in the RMB reserve requirement ratio of depository financial institutions by 0.5 percentage points to 16.5 percent, effective May 20, 2008.

On May 14, the *China Monetary Policy Report, Quarter One, 2008*, was released.

On May 19, the People's Bank of China, jointly with the China Banking Regulatory Commission, issued the *Emergency Notice on Financial Services in the Areas Affected by the Sichuan Earthquake (No. 1)* (PBC Document [2008] No. 152), which specified special policies to be adopted to resume financial services in areas severely affected by the earthquake, including Sichuan, Gansu, Shaanxi, Chongqing, and Yunnan. Restrictions on credit planning of financial institutions incorporated in the affected areas were removed in order to encourage them to take full advantage of their funds to meet the need for funds in the disaster-relief efforts and post-quake reconstruction. National financial institutions were also encouraged to increase credit extensions to the quake-stricken areas by channeling funds from other regional branches within their respective systems.

On May 30, the *China Regional Financial Performance Report 2007* was released.

On June 4, the Examination and Appraisal Committee of the People's Bank of China on the Issuance and Redemption of Special Central Bank Bills for the Pilot Reform of Rural Credit Cooperatives (RCCs) decided at its 13th regular meeting to redeem up to 19 billion yuan of special central bank bills issued to rural credit cooperatives in 296 counties (county-level cities) of 24 provinces (autonomous regions or municipalities), including Jiangsu province.

On June 7, the People's Bank of China decided to raise the RMB reserve requirement ratio of depository financial institutions by 1 percentage point to 17.5 percent. The ratio was to be raised by 0.5 percentage points as of June 15, 2008 and by another 0.5 percentage points as of June 25, 2008.

On July 2, the State Administration of Foreign Exchange, jointly with the Ministry of Commerce and the General Administration of Customs, released the *Measures for Online Verification of Collection and Settlement of Foreign Exchange from Exports* in an effort to strengthen supervision of cross-border fund flows and to improve examination of the authenticity and consistency of export transactions and the collection and settlement of foreign exchange.

On July 3, the People's Bank of China issued Notice No.12 (2008), declaring that the Delivery Versus Payment (DVP) settlement approach would be adopted in the inter-bank bond market commencing August 1, 2008.

On July 14, the Monetary Policy Committee of the People's Bank of China held its second regular quarterly meeting of 2008.

On July 15, the People's Bank of China reported to the Finance and Economy

Committee of the National People's Congress on implementation of the monetary policy in the first half of 2008.

On July 28, the People's Bank of China held a conference to analyze the current economic and financial situations.

On August 1, the People's Bank of China, jointly with the China Banking Regulatory Commission, submitted to the State Council several opinions on optimizing the credit structure in order to strengthen financial support to agriculture, rural areas, farmers, medium- and small-sized enterprises, and post-quake reconstruction. The opinions proposed that financial institutions be encouraged to optimize their credit structure while expanding aggregate credit and to increase credit extensions to major areas, including agriculture, rural areas, farmers, medium- and small-sized enterprises, and post-quake reconstruction, and to the weak links in the economy.

On August 4, the People's Bank of China, jointly with the Ministry of Finance and the Ministry of Human Resources and Social Security, released the *Notice on Improving the Management of Guaranteed Micro-loans to Promote Entrepreneurship and Employment* (PBC Document [2008] No. 238) to improve the management of guaranteed micro-loans extended to laid-off workers and to promote entrepreneurship and employment.

On August 5, the State Council promulgated the newly revised *Regulations on the Foreign Exchange System of the People's Republic of China*, effective immediately.

On August 6, the People's Bank of China, jointly with the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC), released the *Opinions on Financial Support and Services for Reconstruction after the Wenchuan Earthquake* (PBC Document [2008] No. 225) to render comprehensive financial support and services for post-quake reconstruction.

On August 15, the People's Bank of China released the *China Monetary Policy Report, Quarter Two, 2008*.

On August 15, in an effort to enhance the lending capacity of rural credit cooperatives in areas hit by the Wenchuan earthquake, the People's Bank of China decided that from May 1, 2008 to June 30, 2011 rural credit cooperatives in the affected areas would enjoy preferential rates on central bank lending aimed to support post-quake reconstruction, with interest rates of different maturities being cut by 0.99 percentage points from the central bank lending rates to rural credit cooperatives.

On August 20, the State Administration of Foreign Exchange approved the launch of a pilot program of special permission for individual domestic and foreign currency

exchange business in Beijing and Shanghai.

On September 15, the People's Bank of China announced that as of September 25 the RMB reserve requirement ratio was to be lowered by 1 percentage point for depository financial institutions, with the temporary exception of the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications, and the Postal Savings Bank of China. The reserve requirement ratio for financial institutions incorporated in the areas worst hit by the Wenchuan earthquake would be cut by 2 percentage points.

On September 16, the People's Bank of China decided to lower the RMB benchmark lending rate for financial institutions. The one-year RMB benchmark lending rate was cut from 7.47 percent to 7.20 percent, down 0.27 percentage points. The benchmark lending rates of other maturities were lowered accordingly. The interest rates on individual housing provident fund loans were also lowered. The rate on individual housing provident fund loans with maturities of up to 5 years was lowered from 4.77 percent to 4.59 percent, down 0.18 percentage points; and the rate on loans with maturities of above 5 years was lowered from 5.22 percent to 5.13 percent, down 0.09 percentage points. The benchmark deposit rates remained unchanged.

On September 27, the Monetary Policy Committee of the People's Bank of China held its third regular quarterly meeting of 2008.

On September 28, the People's Bank of China, jointly with the China Banking Regulatory Commission, released the *Notice on Offering Financial Services to Promote the Sustainable and Healthy Development of China's Milk Industry* (PBC Document [2008] No. 275), which emphasizes that efforts should be made to offer relevant financial services to safeguard the foundation of the development of the Chinese milk industry, to maintain the stability of the milk market, and to support and promote the sustainable and healthy development of the Chinese milk industry.

On October 8, the People's Bank of China decided to lower the RMB reserve requirement ratio of depository financial institutions by 0.5 percentage points, effective October 15, 2008.

On October 9, the People's Bank of China decided to lower the RMB benchmark deposit and lending rates of financial institutions. The one-year benchmark deposit rate was cut by 0.27 percentage points from 4.14 percent to 3.87 percent, and the one-year benchmark lending rate was cut by 0.27 percentage points from 7.20 percent to 6.93 percent. Deposit and lending rates of other maturities were adjusted accordingly. The interest rate on loans from individual housing provident funds was also lowered by 0.27 percentage points.

On October 15, the People's Bank of China, jointly with the China Banking

Regulatory Commission, issued the *Opinions on Accelerating Innovation in Financial Products and Services in Rural Areas* (PBC Document [2008] No. 295). With a view to furthering financial reform and financial institutional innovation in the rural areas, the PBC and the CBRC decided to launch a pilot program of rural financial products and services innovation in major grain-producing regions or selected counties and county-level cities with solid economic fundamentals in six central provinces and three northeast provinces in an effort to encourage financial institutions to improve their rural services and to meet the diversified needs for financial services of agriculture, farmers, and rural areas so as to support the building of a new socialist countryside.

On October 16, the People's Bank of China reported to the Finance and Economy Committee of the National People's Congress on implementation of the monetary policy in the first three quarters of 2008.

On October 20, the People's Bank of China held a conference to analyze the current economic and financial situations. The PBC encouraged financial institutions to increase credit support to major sectors and weak areas, including agriculture, rural areas, farmers, and small- and medium-enterprises, as well as reconstruction programs in the disaster-stricken areas.

On October 22, the People's Bank of China decided to lower the floor rates of commercial individual housing loans and the minimum down payment ratio. The floor rates of commercial individual housing loans were lowered to 0.7 times the benchmark lending rates; the minimum down payment ratio was lowered to 20 percent; and the interest rate on loans from individual housing provident funds was also cut by 0.27 percentage points, effective October 27, 2008.

On October 22, the People's Bank of China, jointly with the China Banking Regulatory Commission, issued the *Guidance on Providing Financial Support to Rural Housing Reconstruction in the Earthquake-hit Areas* (PBC Document [2008] No. 304), asking financial institutions to implement the State Council's *Guidelines on Policies and Measures to Support Post-quake Reconstruction* (State Council Document [2008] No. 21) and to provide credit services to accelerate rural housing reconstruction in the quake-hit areas.

On October 30, the People's Bank of China decided to lower the RMB benchmark deposit and lending rates of financial institutions. The one-year benchmark deposit rate was cut by 0.27 percentage points from 3.87 percent to 3.60 percent, and the one-year benchmark lending rate was cut by 0.27 percentage points from 6.93 percent to 6.66 percent. Deposit and lending rates of other maturities were adjusted accordingly. The interest rate on loans from individual housing provident funds was left unchanged.

On November 17, the People's Bank of China released the *China Monetary Policy Report, Quarter Three, 2008*.

On November 26, the People's Bank of China decided to lower the RMB reserve requirement ratio of the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the China Construction Bank, the Bank of Communications, and the Postal Savings Bank of China, the six large depository financial institutions, by 1 percentage point, and to cut the RMB reserve requirement ratio of small- and medium-sized depository financial institutions by 2 percentages points, effective December 5, 2008. The PBC also decided that financial institutions in areas hit by the Wenchuan earthquake and in rural areas would continue to enjoy the preferential reserve requirement ratio.

On November 27, the People's Bank of China decided to lower the RMB benchmark deposit and lending rates of financial institutions as well as the deposit and lending rates of the PBC to financial institutions. The one-year benchmark deposit rate was cut by 1.08 percentage points from 3.60 percent to 2.52 percent, and the one-year benchmark lending rate was cut by 1.08 percentage points from 6.66 percent to 5.58 percent. Deposit and lending rates of other maturities were adjusted accordingly. The interest rate on individual housing provident funds loans with maturities of up to five years was cut by 0.54 percentage points to 3.51 percent, and the interest rate on loans with maturities of and above five years was cut by 0.54 percentage points to 4.05 percent. At the same time, the deposit and lending rates of the PBC to financial institutions were also lowered. The interest rate on the required deposit reserve was lowered from 1.89 percent to 1.62 percent, down 0.27 percentage points, and the interest rate on the excess deposit reserve was lowered from 0.99 percent to 0.72 percent, down 0.27 percentage points. The one-year central bank liquidity lending rate was lowered from 4.68 percent to 3.60 percent, and the interest rates of other maturities were cut accordingly. The rediscounting rate was lowered from 4.32 percent to 2.97 percent.

On December 2, the Examination and Appraisal Committee of the People's Bank of China on the Issuance and Redemption of Special Central Bank Bills for the Pilot Reform of Rural Credit Cooperatives (RCCs) decided at its 14th regular meeting to redeem special central bank bills totaling 32.7 billion yuan issued to RCCs in 440 counties (cities) in 22 provinces (autonomous regions), including Anhui province, and to issue special central bank bills totaling 3.5 billion yuan to RCCs in 127 counties (cities) in 5 provinces (autonomous regions), including Shaanxi province.

On December 3, the People's Bank of China, jointly with the China Banking Regulatory Commission, issued the *Notice on Releasing Measures on the Administrative Rules for Low-rent Housing Construction Loans* (PBC Document [2008] No. 355), urging financial institutions to support the development and construction of low-rent houses and to help improve the people's livelihood in line

with the major measures outlined by the CPC Central Committee on expanding domestic demand to promote stable and relatively rapid economic growth and the *Opinions on Addressing the Housing Problem of Urban Low-income Families* released by the State Council (State Council Document [2007] No. 24).

On December 5, the People's Bank of China held a conference to analyze the current economic and financial situations. The PBC highlighted the importance of balance and steadiness in extending credit, encouraged financial institutions to beef up credit support to major areas that are key to domestic demand expansion and asked them to avoid extending credit blindly. The PBC also urged financial institutions to provide better credit support to economic growth.

On December 11, the People's Bank of China released the *Opinions on Improving Financial Services for Irrigation and Drainage Infrastructure Construction* (PBC Document [2008] No. 361), asking financial institutions to carry out the guidelines announced at the 3rd Plenary Session of the 17th CPC Central Committee and the video conference convened by the State Council on irrigation and drainage infrastructure construction this winter and next spring, to beef up funding support for the construction of irrigation and drainage infrastructure, and to facilitate the expansion of domestic demand and the sustainable development of China's agriculture so as to steadily promote the building of a new socialist countryside

On December 18, in an effort to increase central bank lending to areas hit by the Wenchuan earthquake and to enhance the lending capacity of rural credit cooperatives in these areas, the People's Bank of China decided that, along with the rural credit cooperatives in the areas most seriously affected by the earthquake and the seriously affected areas, rural credit cooperatives in areas less affected by the earthquake would also be entitled to access central banking lending aimed to support post-quake reconstruction with a preferential interest rate.

On December 22, the People's Bank of China decided to lower the RMB reserve requirement ratio of depository financial institutions by 0.5 percentage points, effective December 25, 2008.

On December 23, the People's Bank of China decided to lower the RMB benchmark deposit and lending rates of financial institutions as well as the interest rates of central bank lending (rediscounting) of the PBC to financial institutions. The one-year benchmark deposit rate was cut by 0.27 percentage points from 2.52 percent to 2.25 percent and the one-year benchmark lending rate was cut by 0.27 percentage points from 5.58 percent to 5.31 percent. Deposit and lending rates of other maturities were adjusted accordingly. The interest rate on individual housing provident funds loans with maturities of up to five years was cut by 0.18 percentage points to 3.33 percent, and the interest rate on loans with maturities of above five years was cut by 0.18 percentage points to 3.87 percent. At the same time, the interest rates of central bank

lending (rediscounting) of the PBC to financial institutions were also lowered. The one-year central bank liquidity lending rate was lowered by 0.27 percentage points from 3.60 percent to 3.33 percent, and the one-year central bank lending rate (excluding emergency lending) to rural credit cooperatives was lowered by 0.54 percentage points from 3.42 percent to 2.88 percent. The interest rates of other maturities were cut accordingly. The rediscounting rate was lowered from 2.97 percent to 1.80 percent, down 1.17 percentage points.

On December 30, the Monetary Policy Committee of the People's Bank of China held its fourth regular quarterly meeting of 2008.

On December 31, the People's Bank of China, jointly with the China Banking Regulatory Commission, issued the *Notice on Policies Concerning Loan Repayments Delayed by the Wenchuan Earthquake* (PBC Document [2008] No. 392), which provides that in areas hit by the earthquake, a grace period shall be granted for individual and corporate loans extended prior to the earthquake that cannot be repaid on time due to the earthquake. The Notice also prescribes that during the grace period, financial institutions shall not urge early repayment, impose penalty interest, or regard such delayed repayments as a bad credit record, and that debtors shall be given access to new loans.