

Administrator's Message

In 2004, the recovery of the world economy picked up obviously, with the global economic growth rate of 5 percent, international trade increasing by 8.8 percent, and foreign direct investment rebounding from the bottom to reach more than US\$600 billion. Under such a backdrop, China's macro economy control has attained staged effects, and the national economy developed steadily and rapidly, seeing a 9.5 percent of year-on-year growth in the gross domestic product (GDP). China registered a 35.7 percent surge in its foreign trade, exceeding US\$1 trillion for the first time to top US\$1.15 trillion and become the world's third largest trading power. China's actual utilization of foreign direct investment rose by 13 percent to US\$60.63 billion.

China's balance of payments continued to post a dual surplus under both current account and capital account, maintaining the momentum of net capital inflows. The exchange rate Renminbi of remained stable, being at 8.2765 renminbi per US dollar at the end of the year. By the end of 2004, state foreign exchange reserves stood at US\$ 609.9 billion, an increase of US\$206.7 billion over the end of the previous year.

During the past year, the foreign exchange administration agencies nationwide fully implemented the arrangements of the CPC Central Committee and the State Council on strengthening and improving macro control, continued to deepen the reform of the foreign exchange administration system in accordance with the requirements of improving socialist market economy and carrying out China's commitments to WTO accession, focused on promoting the equilibrium of the balance of payments, vigorously facilitated foreign trade and investment activities, further streamlined the procedures of authenticity verification under current account, supported enterprises to go globally, and explored more channels for capital outflows. The SAFE proactively fostered and developed the foreign exchange market, and steadily advanced the reform of the renminbi exchange rate mechanism. Meanwhile, it reinforced the management of short-term capital inflows and the sales of foreign exchange, energetically rectified and regulated the foreign exchange market order, and strengthened anti-money laundering in terms of foreign exchange administration. All these measures have strongly boosted the development of the external economy and safeguarded the national economic and financial security.

The year 2005 will be an important year for implementing the scientific outlook on development, consolidating the macro control achievements and maintaining a benign momentum in the economic and social development. It is also an important year to completely fulfill the objectives of the tenth five-year plan. The Central Government has clearly put forward that it is of great urgency to change the pattern of growth, it is of great urgency to step up the economic structural adjustment, it is of great urgency to promote coordinated development, and it is also of great urgency to improve related system and mechanism. The foreign exchange administration agencies, under the guidance of the CPC central committee, will adopt a scientific outlook on development, continue to deepen the reform of the foreign exchange administration system, further facilitate foreign trade and investment activities, steadily advance the convertibility of renminbi, improve the renminbi exchange rate formation mechanism, strengthen the monitoring and management of cross-border capital flows, forestall external financial risks, gradually establish the market mechanism and management system for adjusting the balance of payments, and promote the overall, harmonious and sustainable economic development.

In 2005, we will continue to carry forward the tradition of innovation and enterprising spirit, be realistic and pragmatic in our work, keep pace with the times, work together as one, work in a down-to-earth manner, strive to maintain the equilibrium of the balance of payments, and make further contribution to building a harmonious socialist society in an all-round way.

A handwritten signature in black ink, likely belonging to Hu Jintao, the former President of China. The signature is stylized and written in a cursive script.

Reform and Development of Foreign Exchange Administration

In the year of 2004, the State Administration of Foreign Exchange resolutely carried forward the spirit of the Third and Fourth Plenary Session of the 16th National People's Congress as well as that of the Central Economic Working Conference, and earnestly implemented the state macro economic control measures. In a bid to maintain the equilibrium of the balance of payments, the SAFE further facilitated foreign trade and investment activities, strengthened the administration of foreign exchange inflows and sales, steadily advanced capital account convertibility, and improved the renminbi exchange rate formation mechanism.

Further facilitating trade activities. Automatic verification of import payment was adopted for remittance on delivery. The Export Proceeds Reporting and Verification System was implemented nationwide. The management method of verification on the internet was experimented, and the scope of automatic verification by export firms was gradually expanded. Upper limits on enterprise's foreign exchange accounts under current account were raised, and regional ceilings of foreign exchange accounts were removed. Multinational corporations were allowed to pay advanced or apportioned expenses for non-trade purposes to their overseas affiliates. The standards of outbound foreign exchange usage by enterprises and entities that are not included in the financial budget going abroad on official business were unified and increased, and the criteria of foreign exchange purchase for self-financed study abroad by individuals was raised. Foreign exchange administrative policies on foreign trade by individuals were established, with individuals being allowed to conduct foreign exchange collection and payment for trade purpose. Individuals' use of domestic renminbi bankcards in Singapore, Thailand and Korea was encouraged.

Strengthening the administration of capital inflows and foreign exchange sales. The regulations on external borrowing and domestic foreign exchange loans were unified for domestic and foreign-funded banks. Scale control was applied to external borrowing by foreign-funded banks and the administration of the sale of domestic foreign exchange loans extended by them was strengthened. It was reiterated that the sum of the cumulative occurrences of medium and long-term external debt and the outstanding short-term external debt of a foreign-funded enterprise may not exceed the difference between its

total investment and its registered capital. In the principle of bona fide demand, the system of "foreign exchange sale for payments" was adopted for the administration of a single sale of foreign exchange equity capital and external debt exceeding US\$200,000 by foreign-funded enterprises, making clear that international commercial loans borrowed by foreign-funded enterprises shall not be used for the repayment of renminbi loans. The authenticity verification of cross-border capital flows and foreign exchange sales by individuals was strengthened.

Widening channels for orderly capital outflows. Foreign exchange administration of overseas investment was further reformed with a view to supporting global operation of domestic enterprises. Qualified multinational corporations were allowed to conduct internal operation of foreign exchange funds among their domestic member companies and their overseas affiliates. Insurance companies were allowed to invest their foreign exchange funds in overseas securities markets. Emigrant Chinese were allowed to transfer their legitimate assets outside China, and non-residents were allowed to transfer their inherited assets outbound. Research on introducing international development institutions to issue renminbi-denominated bonds was made.

Steadily promoting the reform of foreign exchange market. The ceiling of enterprise's foreign exchange accounts under current account was raised, more authority was granted to enterprises and individuals in using their foreign exchange, and the band of designated foreign exchange banks' revolving position of foreign exchange purchase and sale business was broadened. Pilot program on forward foreign exchange purchase and sale which had been conducted by the big four stated-owned commercial banks was extended to other banks. The business of purchase and sale between foreign currencies were approved, and new foreign exchange financial products were introduced.

Strengthening the monitoring of balance of payments and early warning of risks. Indicator system and working rules for off-site supervision were established. As inspection of statistics was tightened, data quality was improved. International Investment Position statement was compiled on a trial basis. Research on establishing a high-frequency debt monitoring system and a market expectation survey system was made.

Trade credit survey system was established, and the monitoring systems of export exchange costs, currency circulation related to border trade and foreign exchange black market were improved.

Vigorously rectifying and regulating foreign exchange market.

On-site examination and off-site inspection were combined, with more efforts being devoted to the enforcement of foreign exchange laws and regulations. A number of major cases were detected and disposed of. Through enhanced cooperation with other government departments, the crackdown on "underground money shops" was launched nationwide. Anti-money laundering was intensified from the perspective of foreign exchange administration, by taking advantage of the information system of reporting large-value and suspicious foreign exchange transactions to monitor irregular capital flows.

Speeding up the transformation of foreign exchange administration functions.

In accordance with the *Administrative License Law* and the requirements of the State Council concerning the reform of the administrative approval system, the third round of cleaning up administrative approval items was completed. On the basis of the removal of 26 administrative approval items, 8 more items were removed, and 39 items were retained.

Improving the management and risk control of foreign exchange reserves.

Sticking to a scientific and prudential mode of reserve management, decision-making procedures and risk management framework for investment were further improved. The scope of optional financial products for investment was expanded, and the currency composition of reserves was optimized. The overall maturity yield of reserve portfolios was higher than that required by the investment benchmark, realizing the objectives of reserve management in terms of security, liquidity and profitability.

Supporting the development of renminbi business in Hong Kong and Macau.

The use of renminbi bankcards in Hong Kong and Macau was liberalized, banks in Hong Kong and Macau were 80 businesses, and settlement arrangements for renminbi business were provided to banks in Hong Kong and Macau. The developments of these businesses was closely tracked and assessed for the sake of follow-up research on overseas personal renminbi business.

China's Balance of Payments, External debt and Foreign Exchange Market Analysis

Balance of Payments Position

In 2004, with the rapid development of national economy, fast growth of foreign trade and large inflows of foreign direct investment, China's current account and capital and financial account maintained a dual surplus. Of which, the current account surplus rose by 50 percent year on year to US\$ 68.659 billion; and the capital and financial account surplus jumped by 110 percent to US\$110.66 billion. By the end of 2004, foreign exchange reserves reached US\$609.932 billion, an increase of US\$206.681 billion as compared with the end of last year.

Current account surplus grew rapidly

Trade surplus in goods went up. Based on international coverage of balance of payments statistics, China's trade surplus in goods rose by 32 percent to US\$ 58.982 billion, of which exports went up 35 percent year on year to US\$593.393 billion and imports rose by 36 percent year on year to US\$534.41 billion. The rapid growth of China's imports and exports was mainly attributable to the recovery of the world economy and the rapid development of domestic economy.

Scale of service trade increased. With China's opening-up of service sectors and increasing personnel and economic exchanges, the scale of service trade expanded gradually. In 2004, the credit and debit of service trade reached US\$62.434 billion and US\$72.133 billion respectively, up by 34 percent and 30 percent respectively. The service deficit widened to US\$ 9.699 billion, up by 13 percent year on year. In terms of composition, transportation was the main contributor to the enlarged service deficit. In 2004, the credit and debit under the item of transportation were US\$12.067 billion and US\$24.544 billion respectively, leaving a deficit of US\$12.476 billion, an increase of US\$2.15 billion over 2003. In addition, fairly large deficits were registered under the items of insurance, royalties and

license fees and consultation. In 2004, insurance deficit jumped by 35 percent year on year to US\$5.743 billion; royalties and license fees rose by 24 percent to US\$4.26 billion and consultation deficit went up 1 percent to US\$1.581 billion. The widened service deficit showed the necessity to improve the competitiveness of China's service sectors with the implementation of China's commitments to the WTO entry.

Income deficit went down slightly. In 2004, the credit and debit of under the income item reached US\$ 20.544 billion and US\$ 24.067 billion respectively, up by 28 percent and 1 percent respectively. The rapid growth of receipts and slow growth of payments under the income item resulted in an income deficit of US\$3.523 billion, down by US\$4.316 billion year on year.

Inflows under current transfer grew fast. In 2004, current transfer surplus surged by 30 percent to US\$22.998 billion, much higher than the growth of previous years. In 2004, the credit of current transfers was US\$24.326 billion and the debit, US\$1.428 billion. The big jump in current transfer surplus was mainly attributable to the increase of overseas remittance.

Capital and financial account surplus increased significantly

Inflows under foreign direct investment grew moderately. In 2004, China's actual utilization of foreign direct investment rose by 13 percent year on year to US\$ 60.63 billion, and the outflows due to the withdrawal and liquidation of inward foreign direct investment reached US\$5.694 billion, leaving US\$54.936 billion of net inflows under foreign direct investment, up by 17 percent year on year. In terms of industrial structure,

foreign investment in high-tech industries (such as the equipment manufacturing and electrical machinery and apparatus industries) kept rising. In terms of sources of fund by country and region, foreign investment from Hong Kong, Japan and Korea accounted for more than 75 percent of the total new foreign direct investment.

Portfolio investment surplus surged dramatically. In 2004, portfolio investment surplus skyrocketed by 72 percent year on year to US\$19.69 billion. Of which, US\$13.203 billion of inflows were contributed to newly attracted overseas portfolio investment funds; and the remaining net inflows of US\$6.486 billion were due to the reduction of foreign portfolio assets held by domestic institutions (mainly financial institutions), up by US\$3.503 billion as compared with 2003. The US\$13.203 billion of inflows under portfolio investment on the liability side were closely related to the accelerated pace of Chinese enterprises' overseas fund-raising and foreign investment in China's securities market.

Other investment balance turned from deficit to surplus. In 2004, other investment enjoyed a surplus of US\$37.908 billion, while in 2003, it had a deficit of US\$5.882 billion, which may be contributed to the US\$45 billion of capital injection with international reserves (as recorded as debit of other investment, i.e. capital outflows) at end-2003. On the asset side, net inflows under other investment reached US\$1.98 billion, mainly due to the withdrawal of foreign assets by domestic institutions; and on the liability side, net inflows under other investment reached US\$35.928 billion, which was related to the fast growth of China's external debt.

Reserve assets increased by a large margin

In 2004 China's international reserves grew rapidly. Of

which, special drawing rights (SDRs) increased by US\$0.161 billion, the reserve position in the International Monetary Fund decreased by US\$0.478 billion, and foreign exchange reserves increased by US\$206.681 billion, higher than the US\$116.844 billion of increase last year. By the end of 2004, China's foreign exchange reserves amounted to US\$ 609.932 billion.

Net errors and omissions occurred on credit side

In 2004, US\$27.045 billion of net errors and omissions occurred on the credit side, equivalent to 2.4 percent of the combined volume of exports and imports of goods according to balance of payments statistical coverage, and was well within the internationally accepted benchmark of 5 percent.

Balance of Payments Outlook for 2005

In 2005, influenced by rising commodity prices (such as rising crude oil prices) and a new round of interest rate hike worldwide, the world economy is expected to step into a stable development. The external demand for China's exports will continue to be strong, and the volume of exports in 2005 will maintain fast growth. The composition of imports will be adjusted and the volume of imports will continue to increase. China's foreign trade will remain a surplus. With further opening-up of China's service sectors, the service and income items are expected to be in deficit, while current transfers will remain in surplus. The overall current account balance will be in surplus.

In terms of capital and financial account, foreign direct

investment will continue to grow. From the perspective of the global structural adjustment, Asian countries and regions will still be main destinations of foreign direct investment. In 2005, with further opening up of more industries and continuously improving direct investment environment, foreign direct investment in manufacturing industry and services is expected to grow faster. China will continue to maintain surplus in the capital and financial account.

External Debt

By the end of 2004, China's outstanding external debt amounted to US\$228.596 billion (excluding that of Hong Kong SAR, Macao SAR, and Taiwan Province), up by US\$34.962 billion or 18.06 percent over the end of 2003. Of this total, outstanding medium and long-term debt stood at US\$124.287 billion, an increase of US\$7.697 billion compared with the figure at the end of 2003, and accounting for 54.37 percent of the total debt; and outstanding short-term debt was US\$104.309 billion, an increase of US\$27.265 billion compared with the figure at the end of 2003, and accounting for 45.63 percent of the total.

Of the total outstanding external debt, outstanding registered external debt was US\$182.092 billion, and outstanding trade credit was US\$46.504 billion. An increase of US\$4.082 billion of the outstanding external debt was attributable to valuation changes in 2004. Of the registered external debt, sovereign debts borrowed by government departments were US\$33.591 billion, accounting for 18.45 percent of the total; debts of Chinese-funded financial institutions were US\$65.969 billion, accounting for 36.23 percent; debts of foreign-funded enterprises were US\$44.646 billion, accounting for 24.52 percent; debts of Chinese-funded enterprises were US\$5.939 billion, accounting for 3.29 percent; debts of foreign-funded financial institutions were US\$31.634 billion, accounting 17.34 percent; and debts of others were US\$0.259 billion,

accounting for 0.14 percent.

In the year of 2004, new borrowings of registered external debt amounted to US\$205.973 billion, principal repayment was US\$185.023 billion, and interest payment was US\$5.217 billion, leaving a net external debt inflows (new borrowings less principal repayment and interest payment) of US\$15.733 billion.

The prominent features of China's external debt in 2004 were as follows: external debt flows surged by fold, the gross scale of external debt grew fast, and the share of short-term external debt continued to climb. In particular, in the first half year, due to the rapid economic growth in China, and driven by the expectations of RMB appreciation, China's external debt rose fast in terms of stock and flows. In order to address such a problem, the SAFE and related government agencies adopted corresponding policy measures and controlled the fast growth of external debt, in particular the growth of short-term debt. According to preliminary statistics, China's ratio of outstanding external debt to foreign exchange income under the item of goods and service trade was 34.9 percent, the ratio of outstanding external debt to GDP was 13.9 percent, the debt ratio (repayment of principal and payment of interest on long- and medium-term external debt plus payment of interest on short-term external debt divided by foreign exchange income under the item of goods and service trade) was 3.19 percent, and the ratio of outstanding short-term external debt to foreign exchange reserves was 17.1 percent, showing that major external debt indicators were well within accepted international benchmarks.

Inter-bank Foreign Exchange Market

In 2004, China's inter-bank foreign exchange market registered a steady operation and the exchange rate of renminbi remained stable.

Turnover of foreign exchange transactions increased. The cumulative trading volume in the inter-bank foreign exchange market amounted to US\$209.04 billion, up by 38.3 percent as compared with the US\$151.131 billion of trading volume in 2003, hitting a new record .

Transactions of major foreign currencies were buoyant. The trading volume of US dollars, HK dollars and Japanese yen all grew substantially as compared with 2003, of which, the trading volume of US dollars and Japanese yen were US\$204.411 billion and 134.963 billion yen respectively, up by 37.8 percent and 76.5 percent respectively. However, the trading volume of euro decreased slightly.

Trading of Major Foreign Currencies in the Inter-bank Foreign Exchange Market in 2004



Exchange rates of renminbi against major currencies were mixed. At the end of 2004, the exchange rate of renminbi against US dollar was 8.2765yuan per US dollar, up by 2 basis points as compared with that of end-2003; the exchange rate of renminbi against euro was 11.2588yuan per euro, down by 7.6 percent; and the exchange rate of renminbi against Japanese yen was 8.0573yuan per 100 yen, down by 3.9 percent.

Review of International Financial Market

In 2004, the world economy maintained a fast growing momentum, with a pronounced recovery in major economies and a rapid growth in several emerging market economies. The international financial markets suffered severe fluctuations and ran into numerous problems. The exchange rates of US dollar declined further, bond yields swung drastically, the range of major stock indices fluctuated violently, and the international gold prices hit new record highs from time to time.

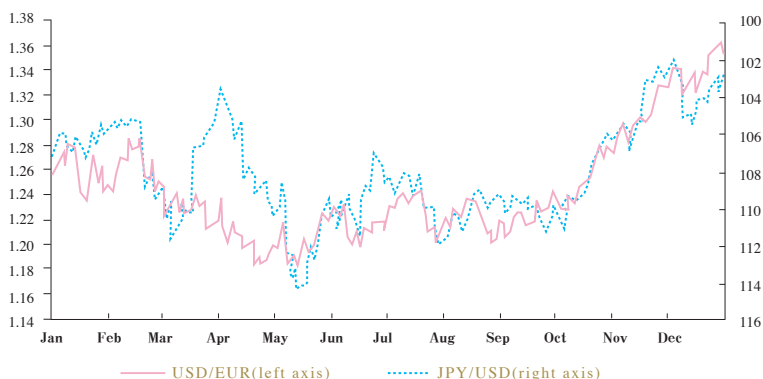
Exchange rates of US Dollar declined further

The exchange rates of US dollar continued to decline in 2004. By the end of the year, trade-weighted exchange rate of the US dollar against other major currencies fell to a nine-year low of 80.38. The exchange rate of euro against the US dollar picked up in the first half year and then reversed its trend until the fourth quarter, when the structural imbalance of the US reignited the market attention and led to a sharp rise of euro. On December 20, the exchange rate of euro reached a historical high of 1.3667USD per euro since its birth, and closed at 1.3558 by the end of 2004, up by 7.7 percent over end-2003. The exchange rates of US dollar against other major currencies declined by different margins: year-end US dollar depreciated by 4.5 percent against Japanese yen, 6.94 percent against UK sterling, 3.87 percent against Australia dollar, and 7.24 percent against Canada dollar as compared with end-2003.

Main reasons for the decline of the US dollar were as follows:

- The structural imbalance of the US economy had shown no signs of improvements, with the ratio of current account deficit to GDP reached as high as 5.6% in the fourth quarter;
- The US government acquiesced in the depreciation of its currency, and no allied intervention operations were undertaken by the international community, resulting in rampant bear operations of speculators such as hedge funds;
- The dramatic oil price rise had certain impact on the steady recovery of the US economy, and some European countries were pleased to see moderate appreciation in their currencies so as to offset the inflationary pressures brought by oil price rises;
- The currency structural adjustments of some central banks and large institutional investors (such as mutual funds) lowered the demand for US dollar-denominated assets.

The Trend of the Exchange Rate of USD/EUR and JPY/USD in 2004



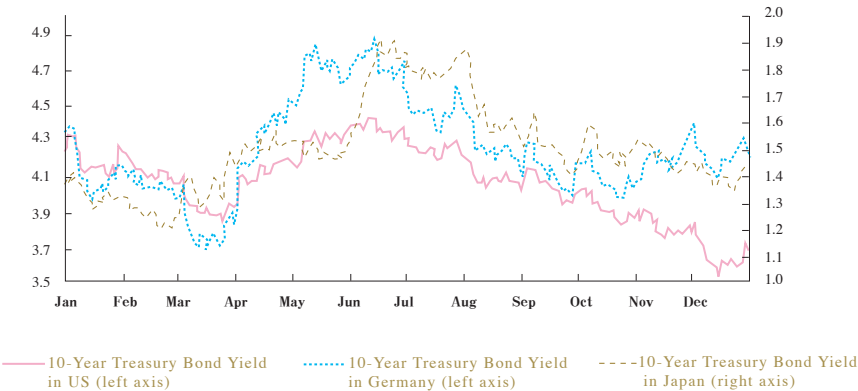
Yields of Treasury bonds swung drastically

The movement of Treasury bond markets in major economies was mainly determined by macroeconomic trend, monetary policy stance and direction of international capital flows. The US T-bond yields continued to go down in the first quarter, and picked up in the second quarter due to the impact of the interest rate hike, with 10-year US Treasury bond yield in June jumping to 4.87 percent, the peak of the whole year; declined gradually in the third quarter; and picked up again in the fourth quarter, with the year-end yield equaling the year-beginning yield. The Japanese Treasury bond prices once fell dramatically due to the significantly improving economic conditions, and were well underpinned in the second half year. The Germany Treasury bond market movement followed that of US T-bond market. Due to the impact of the appreciation of euro and capital inflows, the yield of Germany T-bond continued to decline, but still outperforming the yields of US T-bonds and Japanese T-bonds.

By the end of the year, 10-year US Treasury bond yield closed at 4.22 percent, down by 3 basis points over the end of the previous year. The US Treasury bond yield curve became flat, with the spread between 10-year and 2-year Treasury bond yield narrowing by 128 basis points to 115 basis points. 10-year Germany Treasury bond yield closed at 3.68 percent, down by 61 basis points year-on-year to 4.29 percent. 10-year Japanese

Treasury bond yield closed at 1.44 percent, up by 7 basis points as compared with the 1.37 percent of yield at the end of the previous year.

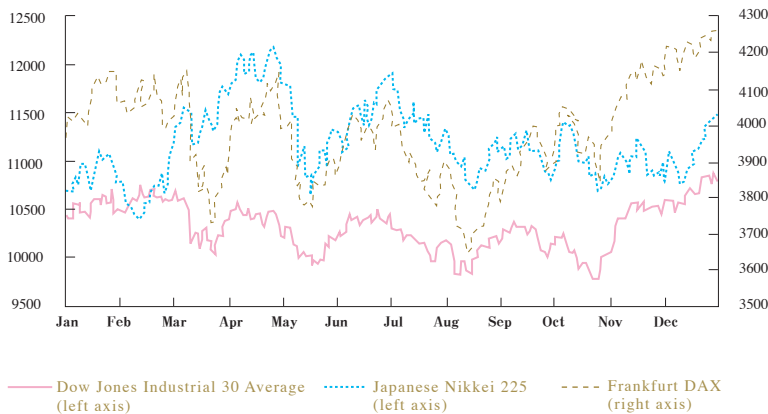
10-Year Treasury Bond Yields in US,Germany and Japan2004



Major stock indices fluctuated dramatically

In 2004, due to dual impact of favorable factors such as economic growth and benign corporate earnings and unfavorable factors such as rising oil prices and geopolitics,

Stock Indices in US,Germany and Japan 2004



major stock markets fluctuated within a certain range. By the end of the year, the Dow Jones average price index of 30 industrial stocks closed at 10783.01 points, 3.15 percent higher than a year before; Frankfurt DAX index closed at 4256.08 points, up by 7.34 percent; and Nikkei index closed at 11488.76 points, up by 7.61 percent.

Gold and silver prices kept rising

In 2004, due to the impact of the movements of US dollar and world political situation, gold became more popular as a financial hedge instrument. The gold price deviated from the demand and supply for real gold, but was closely related to the EUR/USD exchange rate movement, with the correlation coefficient reaching as high as 0.83. During the first half year, following the EUR/USD fluctuations within a certain range, gold prices also fluctuated within the band of 380 and 423 US dollars per ounce; and during the second half year, gold prices gathered momentum following the rise of euro exchange rates. The gold price opened at 415 US dollars per ounce at the year beginning, and closed at 438.10 US dollars per ounce at the year end, 5.57 percent higher than a year before. Silver price increased by 30.83 percent from the opening price of 5.19 US dollars per ounce at the year beginning to the closing price of 6.79 US dollars per ounce at the year end.

Statistics and Monitoring of Balance of Payments

Standardization of statistical information was enhanced. *The Classification and Coding for International Receipts and Payments Transactions* was compiled, which was also reported to be approved as national recommended standard. Uniform standards for format of documents concerning indirect BOP statistical reporting were established to resolve problems such as too many complicated documents and certificates for banks to conduct indirect BOP statistical reporting, over-workload of banks and frequent duplicating work of filling in forms by declarers. The *General Factors of Bank Interface Criterion for Indirect BOP Statistical Reporting* was established to standardize data exchanges between banks' computer systems and BOP statistical and monitoring system.

Preparatory work for the upgrade of the BOP statistical and monitoring system was conducted vigorously. The program and operating mode for upgrading the system upgrade were set down. The printing, administration and usage of domestic banks' international receipts and payments documents were standardized by integrating banks' international receipts and payments documents, BOP statistical reporting documents and export and import verification documents, with all documents being registered for record. In the transition period before the upgrade of the BOP statistical and monitoring system, a complementary analysis system for BOP statistics and monitoring was developed for collecting, processing and analyzing data of cross-border foreign exchange receipts and payments by banks on agent basis.

Network of statistics and monitoring was improved. The trade credit survey system was established and implemented, with more than 5,000 foreign trade enterprises in 13 regions nationwide being organized by local SAFE branches to conduct sample survey, which helped obtain important data concerning the stock and flows of trade credit for the compilation of China's Balance of Payments statement and International Investment Position statement. The export cost monitoring system was reformed, and preparatory work for the upgrade of related software was also conducted so as to improve the efficiency and quality of monitoring. The methodology and the system of monitoring border-trade currency circulation were normalized, and the monitoring content and reporting format were unified. The research and supervision on the features of

black foreign exchange market were strengthened.

International Investment Position was compiled. China's International Investment Position for 2002 and 2003 was compiled on a trial basis and sent to related government departments for the first time, which was of great significance for analyzing the stock of China's foreign financial assets and liabilities and its debt solvency.

Analysis and international cooperation was enhanced to improve the BOP risk early-warning system. The foreign exchange receipts and payments situation and balance of payments position were forecasted and warned, with quarterly analysis reports being submitted. The balance of payments risks were assessed regularly, and the future developments of balance of payments were analyzed. Research on the methods and ways for improving the BOP risk early-warning system was conducted on the basis of following the latest international theories and China's actual economic situation. Meanwhile, a high-frequency debt monitoring system and prospective survey system was launched by the SAFE in cooperation with the World Bank.

In 2005, the general idea governing the balance of payments statistics and monitoring is to further amend the rules and procedures for BOP statistical reporting. Continue to upgrade the BOP statistical and monitoring system. Improve China's trade credit survey system, and enhance the timeliness and accuracy of data by taking advantage of electronic means, thus to lay a solid foundation for the establishment of an enterprise survey system for BOP statistics. Establish a preliminary information monitoring system of BOP transactions under the item of bankcards, and set down operational procedures for the BOP statistical reporting under the item of bankcards. Make research on establishing a statistical and monitoring system reflecting banks' own cross-border capital flows and their foreign assets and liabilities. Coordinate the statistics of foreign exchange sales and purchases and the BOP statistics. Research on setting up models for monitoring short-term capital flow and strengthen the monitoring of cross-border capital flows.

International Investment Position

International Investment Position (IIP) is a statistical statement reflecting the stock of external financial assets and liabilities of an economy at a particular point. It records the composition of changes in the stock of an economy's external financial assets and liabilities in a specific period due to transactions, prices changes, exchange rate changes and other adjustments. It is of great significance for one to understand the composition and changes of an economy's external financial assets and liabilities and analyze the debt sustainability and solvency of an economy.

IIP statement and Balance of Payments (BOP) statement constitute a complete set of international accounts of an economy. The accounting principles for the valuation, unit of account and conversion in IIP are consistent with those adopted in the compilation of BOP statement. China's IIP is compiled in accordance with the standards set by the International Monetary Fund. In terms of valuation principles, assets and liabilities are recorded on the basis of current market value, in terms of US dollar, using the unified conversion rates of various currencies disseminated by the State Administration of Foreign Exchange. The columns of the IIP highlight the distinction between assets and liabilities, with the difference between assets and liabilities representing the net position. The columns are broken down by function, fully consistent with the standard components of the capital and financial account in the balance of payments. Assets are broken down into direct investment, portfolio investment, other investment, and reserve assets; and liabilities are broken down into direct investment, portfolio investment and other investment. The rows of the IIP reflect the opening position, the closing position, and factors causing changes of the position.

Foreign Exchange Administration under Current Account

Procedures of verification were simplified with a view to facilitating business operation of enterprises. Automatic verification of imports under the item of remittance on delivery was conducted, reducing enterprises' import verification by 40 percent in terms of volume. Balance verification of import payments was adopted so that more energy could be devoted to the supervision of large-amount payments and major enterprises. To solve some left-over issues appropriately, the data on overdue verification of import payments which could not be verified due to various reasons were transferred from regular supervisory database to special supervisory database, reducing the daily supervision of the SAFE. The export proceeds verification and reporting system was rolled out, implementing verification methods adaptive to economic development such as automatic verification and on-line verification.

Enterprises' autonomy in their use of foreign exchange was enhanced to better satisfy their reasonable needs. The ceiling on enterprises' foreign exchange accounts under current account was raised, and the regional upper limits on foreign exchange accounts under current account was removed, thereby granting more authority to enterprises so that they had more autonomy in using their foreign exchange and reduced their operational costs. The regulations on outbound foreign exchange usage by enterprises and entities that are not included in the financial budget going abroad on official business were promulgated, satisfying the needs of foreign exchange for overseas business trip of enterprises of various ownerships, including state-owned enterprises, private enterprises and foreign-funded enterprises. Multinational corporations were allowed to make payments abroad for advanced or apportioned expenses to their overseas affiliates. By the end of 2004, a total of 282 Chinese and foreign-funded multinational enterprise groups and their domestic affiliates had registered with the SAFE for record. Related foreign exchange administration measures concerning overseas outsourcing production (OEM and ODM) were explored and established, and were conducted on a trial basis in Shenzhen and Shanghai. Pilot program on centralized management and centralized receipts and payments of foreign exchange under current account by multinational enterprise groups was actively launched. The reconciliation of data on foreign exchange accounts was conducted to enhance the data quality.

Administration of individuals' foreign exchange was strengthened and individuals' needs of foreign exchange were further satisfied. For better implementation of the new *Foreign Trade Law*, foreign exchange administrative policies for individuals' foreign trade business were published. The standards of foreign exchange supply for self-financed study abroad were increased, with foreign exchange for tuition being supplied according to the real demand; and the coverage of foreign exchange supply for living expenses was further widened, with a supply no more than the equivalent of US\$20,000 being conducted directly at banks. Meanwhile, individuals were allowed to repay their overseas consumption or overdrafts using domestic bankcards with purchased foreign exchange. In 2004, foreign exchange purchase for private purposes by domestic individuals totaled US\$1.96 billion, up by 63.3 percent over the same period of last year. Regulations on standardizing foreign exchange receipts and payments by individuals were issued to strengthen the supervision and management of the authenticity of big-amount foreign exchange sales by individuals.

Flexible foreign exchange administrative policies for border trade were established in a bid to promote the development of border trade in the north-east and western regions. Convertible currencies, renminbi and the currency of the adjacent country were all allowed to be used in border trade settlement, with flexible policies being adopted in the administration of verification of foreign exchange receipts and payments under border trade. Detailed rules for implementing the administration of border trade were formulated according to the characteristics of different frontier regions. The SAFE promoted the pilot program on tax rebates for border trade settled in renminbi in concerted efforts with related government departments, increased tax rebate rates for border trade settled in renminbi via the banking system, and guided the settlements of exports under border trade into the banking settlement system.

In 2005, the general idea governing foreign exchange administration under current account is to facilitate the foreign exchange usage of enterprises and individuals and meet reasonable foreign exchange demand under current account in the principle of current account convertibility; gradually conduct

double-way and balanced supervision of capital flows under current account, and maintain the equilibrium of the balance of payments. Improve the management information system under current account by making full use of advanced technology such as computerized system. Continue to innovate the administration of export and import verification, advance the reform of foreign exchange accounts under current account, improve the administration of resident individuals' and non-resident individuals' foreign exchange, receipts improve the foreign exchange administration system of service trade, facilitate foreign exchange collections and payments under current account by multinational corporations, and further standardize the foreign exchange administration regulations governing border trade.

Steadily Advancing Reform of Regulation on Foreign Exchange Accounts to Facilitate Foreign Exchange Collection and Payment Activities

Main Points of Policies	Effective Date	Regulations
<div>1. For domestic institutions whose foreign exchange expenditures under current account were less than 80 percent of its foreign exchange receipts under current account for the previous year, the ceiling for their foreign exchange accounts under current account shall be set as 30 percent of its foreign exchange receipts under current account for the previous year.</div> <div>2. For domestic institutions whose foreign exchange expenditures under current account were more than 80 percent (inclusive) of its foreign exchange receipts under current account for the previous year, the ceiling for their foreign exchange accounts under current account shall be set as 50 percent of its foreign exchange receipts under current account for the previous year.</div> <div>3. Regional ceiling of foreign exchange account under current account is removed, and the ceiling on foreign exchange account under current account shall be unified nationwide.</div>	<div>May 1, 2004</div> <div></div> <div></div>	<div>Circular of the State Administration of Foreign Exchange on Issues Related to the Adjustment of the Criteria for Setting Ceilings on Foreign Exchange Accounts under Current Account (Promulgated by the SAFE on March 30, 2004)Huifa[2004] NO.23</div> <div></div> <div></div>
Incorporate the administration of foreign exchange accounts under current account under the following items into the administration of foreign exchange accounts under current account for special sources and earmarked purposes, with the ceiling being set at 100 percent of their foreign exchange proceeds:	September 1, 2003	Circular of the State Administration of Foreign Exchange on Adjusting the Policy on the Administration of Foreign Exchange Accounts under Current

Main Points of Policies

Effective Date

Regulations

1. Foreign exchange accounts under current account under the items of international project contracting and international labor services.
2. Foreign exchange accounts under current account under the items of international ocean shipping, shipper and forwarder on an agent basis.
3. Foreign exchange accounts under current account under the item of international invitation of public bidding.
4. Foreign exchange accounts under current account under the item of temporary foreign exchange proceeds from overseas that must be transferred to other domestic institutions and individuals.

Account under the Items of International Project Contracting and etc.(Promulgated by the SAFE on August 5, 2003)Huifa[2003] NO.90

1. Further lift the controls on Chinese-funded enterprises in terms of opening a foreign exchange account under current account, allowing Chinese-funded enterprises and foreign-funded enterprises with the right of foreign business or having foreign exchange proceeds under current account to open a foreign exchange account under current account.
2. Incorporate the former foreign exchange settlement account and special foreign exchange account into a foreign exchange account under current account.
3. Conduct a unified ceiling management against foreign exchange account under current account, with the ceiling being set at 20 percent of the foreign exchange proceeds under current account for the previous year.
4. For those entities that do not have foreign exchange proceeds under current account in the previous year, their initial ceiling is set at an equivalent of US\$ 100,000.
5. The regional ceiling for all SAFE branches is set as 25 percent of the foreign exchange proceeds under current account for the previous year, and local SAFE branches are authorized to adjust the ceiling for foreign exchange account under current account of the domestic institutions within their jurisdiction according to their actual situation provided that the sum of ceilings for foreign exchange accounts under current account of all the entities within their jurisdiction do not exceed the regional ceiling.

October 2002

15. Circular of the State Administration of Foreign Exchange on Further Adjusting Policies on Administration of Foreign Exchange Account Opened for Current Account Purpose(Promulgated by the SAFE on September 9, 2002) Huifa[2002] NO.87

BOX

Main Points of Policies

Effective Date

Regulations

6. The ceiling of foreign exchange account for special proceed sources and earmarked purposes such as donation, aid and international postal remittance is set at 100 percent of the foreign exchange proceeds from special sources listed above.
7. The policies on the administration of foreign exchange account under current account for Chinese-funded enterprises and foreign-funded enterprises are unified.

1. Controls on Chinese-funded enterprises in terms of opening foreign exchange settlement accounts was relaxed and the coverage was expanded, Chinese-funded enterprises with an annual foreign exchange proceeds exceeding the equivalent of US\$2,000,000, an annual foreign exchange expenditure exceeding the equivalent of US\$200,000, enjoying export and import rights, with sound financial position, and not violating foreign exchange regulations in the past two years, were allowed to keep a certain part of foreign exchange proceeds in their accounts.
2. The ceiling for Chinese-funded enterprises' foreign exchange settlement accounts shall be set at 25 percent of the smaller one of the cumulative export receipts and the cumulative foreign exchange expenditures for the previous year.
3. For large-sized enterprises with an annual volume of exports and imports exceeding US\$10,000,000 (inclusive), they can apply to the local SAFE branches for opening 2-3 foreign exchange accounts according to their actual operational needs.

1. Foreign exchange accounts were classified as foreign exchange accounts under current account and foreign exchange accounts under capital account by nature, meanwhile foreign exchange accounts under current account were classified into foreign exchange settlement accounts and special foreign exchange accounts by function, and differential administration was conducted for foreign exchange accounts with different nature.
2. Foreign trading enterprises with an annual volume of exports and imports exceeding the equivalent of US\$ 30 million, registered capital

December 2001

1, Circular of the State Administration of Foreign Exchange on Detailed Implementing Rules on the Administration of Foreign Exchange Settlement Accounts of Chinese-funded Enterprises (Promulgated by the SAFE on November 12, 2001) Huifa[2001] NO.184

October 1997;

15, Regulations on the Administration of Domestic Foreign Exchange Account (Promulgated by the People's Bank of China on October 7, 1997) Yinfa [1997] NO. 416

September 30, 1997;

Circular on Allowing Chinese-funded Enterprises to Keep

Main Points of Policies

Effective Date

Regulations

above 10 million renminbi and enjoying export and import rights, and production enterprises enjoying export and import rights with an annual volume of exports and imports exceeding the equivalent of US\$ 10 million, registered capital above 30 million renminbi and net assets no less than 30 percent of their registered capital, were allowed to open foreign exchange settlement accounts and keep a certain part of foreign exchange proceeds in their accounts.

3. The ceiling for Chinese-funded enterprises' foreign exchange settlement account was set at 15 percent of their total value of exports and imports for the preceding year.
4. All foreign exchange proceeds in special foreign exchange accounts under the items of international project contracting and international labor services were allowed to be held in the accounts.
5. All foreign-funded enterprises were allowed to open foreign exchange settlement accounts, with the ceiling for their accounts being set according to their paid-in capital and the turnover of foreign exchange for current account transactions.

October
15, 1997

Foreign Exchange Proceeds within the Account Ceiling
(Promulgated by the People's Bank of China on September 30, 1997)
Yinfa [1997] NO. 402

Operational Procedures for the Administration of Chinese-funded Enterprises Keeping Foreign Exchange Proceeds within the Account Ceiling
(Promulgated by the SAFE on September 29, 1997)
[97]Huizhengfa NO.07

1. Foreign-funded enterprises were allowed to open foreign exchange accounts and keep some foreign exchange proceeds under current account.
2. For Chinese-funded enterprises, they may be allowed to open foreign exchange accounts for foreign exchange proceeds under the following items: foreign exchange proceeds of companies engaged in overseas project contracting, or in the provision of labor services to, technical cooperation with, or other services to entities abroad; foreign exchange that received and paid on behalf of their principals by organizations acting as agents in foreign-related business or in overseas business; foreign exchange that has been provisionally collected and is awaiting payment or settlement; and premiums for foreign exchange insurance accepted by, premiums for the insurance of risks to be reinsured with overseas insurance companies by, and as yet unsettled payments of premiums of , insurance companies. Enterprises were not allowed to open foreign exchange accounts for other foreign exchange proceeds under current account that were not mentioned above. Instead, all such foreign exchange shall be sold to designated foreign exchange banks.

January
1994

1. Announcement of the People's Bank of China on Further Reforming the Foreign Exchange Administration System
(Promulgated by the People's Bank of China on December 28, 1993)

BOX

Adjustment of Policies on Foreign Exchange Administration under Current Account for Resident Individuals since 2001

Main Points of Policies	Effective Date	Regulations
<ol style="list-style-type: none">1. To satisfy the needs of foreign exchange purchases by enterprises and entities that are not included in the financial budget going abroad on official business, the guiding quotas set for travel expenses are as follows: for a person going abroad on official business, if he is allowed to stay abroad for no more than 30 days(inclusive), he may purchase foreign exchange equivalent to US\$3,000 from banks for once; if he is allowed to stay abroad for more than 30 days, he may purchase foreign exchange equivalent to US\$5,000 from banks for once. If the amount exceeds the aforesaid guiding limits, he shall apply to the SAFE branch or sub-branch for approval and then purchase foreign exchange from a designated foreign exchange bank.2. In addition, any staff of enterprises or entities that are not included in the financial budget going abroad on official business may also purchase pocket money equivalent to US\$400 with his or her own renminbi fund for once.3. Enterprises and entities that are not included in the financial budget may go through the formalities for use of foreign exchange before going abroad or after returning from abroad.	December 15, 2004	1, Circular of the State Administration of Foreign Exchange concerning Some Issues Related to the Use of Foreign Exchange of Enterprises and Entities that are not included in the Financial Budget for Foreign Travel on Official Business (Promulgated by the SAFE on December 7, 2004) Huifa[2004] NO.117
<ol style="list-style-type: none">1. The guiding quotas of foreign exchange purchases for self-financed study abroad by resident individuals was increased from the current standard of an equivalent of US\$20,000 per person per annum to the following criteria: the guiding quotas for foreign exchange covering tuition is set according to the amount listed in the Letter of Acceptance or the tuition certificate of the schools outside China, and the ceiling for foreign exchange covering living expenses is US\$20,000 or its equivalent per person per annum.2. Evidences for foreign exchange purchases for living expenses for self-financed study abroad were cut down, with a foreign exchange purchase for living expenses below the equivalent of US\$20,000, evidences of living expenses were no longer needed.3. For a self-financed student going to study in such countries where foreign exchange deposits are required, such as Germany and Belgium, he	January 2005	1, Circular of the State Administration of Foreign Exchange concerning Adjusting the Guiding Quotas of Foreign Exchange Purchases for Self-financed Study Abroad by Domestic Resident Individuals (Promulgated by the SAFE on November 9, 2004) Huifa[2004] NO.111

Main Points of Policies

Effective Date

Regulations

may purchase pocket money equivalent to US\$3,000 in addition to the purchase of foreign exchange deposits.

A cardholder may repay his overdrafts due to overseas consumption or cash withdrawal with domestic foreign currency bankcards with his own foreign exchange funds or with purchased foreign exchange from the financial institution that issued the card.

September 2004

1, Circular of the State Administration of Foreign Exchange on Standardizing the Administration of Foreign Currency Bankcards(Promulgated by the SAFE on June 30, 2004)Huifa[2004] NO. 66

1. The guiding quotas of foreign exchange purchased by resident individuals was increased according to the length of outbound stay: an equivalent of US\$3,000 of foreign exchange may be purchased for outbound stay less than half a year; and an equivalent of US\$5,000 of foreign exchange may be purchased for outbound stay no less than half a year(inclusive).
2. The coverage of foreign exchange supply for self-financed study abroad was expanded from the students studying preparatory college course and above to all students studying abroad.
3. The formalities for purchasing foreign exchange by individuals for outbound tour were simplified: a resident individual may purchase foreign exchange by presenting his passport, valid visa and ID card or residence certificate.
4. A resident individual was allowed to make up foreign exchange purchases after his return for his overseas consumption or expenditures under current account provided that their authenticity can be verified.

October 2003

1, Circular on Adjusting the Policies of foreign exchange Purchases by Domestic Resident Individuals under Current Account (Promulgated by the SAFE on September 1, 2003)Huifa[2003] NO.104

1. Market access to the business of selling foreign exchange to resident individuals was liberalized, with more qualified banks being allowed to apply for such a transaction, while in the past only Bank of China was authorized to conduct the business.
2. The former regulation that a resident individual can only purchase foreign exchange at local

August 2002

1, Circular of the State Administration of Foreign Exchange on Distributing the DETAILED IMPLEMENTING RULES ON THE ADMINISTRATION

BOX

Main Points of Policies	Effective Date	Regulations
<p>banks where he resides was changed to that he may purchase foreign exchange at both local banks and otherwise banks where he resides.</p> <p>3. The guiding quotas of foreign exchange purchases for private purposes by resident individuals were unified and raised to an equivalent of US\$ 2,000 (excluding the guiding quota for self-financed study abroad, which was equivalent to US\$20,000).</p> <p>4. The procedures for foreign exchange purchases were simplified. Foreign exchange purchases for going on a pilgrimage, visiting relatives abroad and etc. other than self-financed study abroad and outbound tour may be conducted at banks upon the presence of private passport, valid visa and residence certificates.</p> <p>5. Verification administration was conducted in order to prevent duplicate foreign exchange purchases effectively.</p>		<p>OF FOREIGN EXCHANGE PURCHASES BY DOMESTIC RESIDENT INDIVIDUALS</p> <p>(Promulgated by the SAFE on July 11, 2002) Huifa [2002] NO.68</p>
<p>1. Foreign exchange may be purchased to cover tuition and living expenses for overseas study of college courses (including preparatory courses) and above by self-financed individuals.</p> <p>2. The approval procedures for foreign exchange purchases were simplified: foreign exchange purchases below the equivalent of US\$20,000 may be purchased at banks upon prescribed evidences; foreign exchange purchases exceeding the equivalent of US\$20,000 shall be purchased at banks upon the approval of the SAFE.</p>	<p>December 1, 2001</p>	<p>1, Circular of the State Administration of Foreign Exchange on Adjusting Policies of foreign exchange Purchases and Payments by Resident Individuals for Self-financed Study Abroad (Promulgated by the SAFE on November 5, 2001) Huifa [2001] NO.185</p>

Foreign Exchange Administration under Capital Account

Administration of foreign-funded banks' short-term external debt was reformed. Scale control was applied to foreign-funded banks' external debt in a bid to promote fair competition between Chinese-funded banks and foreign-funded banks, to prevent external debt from excessive growth and to forestall external debt risk. Measures for prescribing quotas of domestic foreign-funded banks' outstanding short-term external debt were established. The regulations on foreign exchange loans extended to domestic institutions by Chinese-funded banks and foreign-funded banks were unified, i.e. all foreign exchange loans except foreign exchange in connection with the negotiation of export trade bills shall not be converted into renminbi.

Administration of foreign-funded enterprises' external debt and foreign exchange sales was strengthened. In order to control the scale of foreign-funded enterprises' foreign liabilities and to address the problem of excessive growth of foreign exchange sales under capital account, it was reiterated that the sum of the cumulative occurrences of medium and long-term external debt and the outstanding short-term external debt of a foreign-funded enterprise may not exceed the difference between its total investment and its registered capital. The administrative policy on the sale of foreign exchange equity capital and external debt by foreign-funded enterprises was strictly implemented, with the system of "foreign exchange sale for payments" being adopted for a single sale of foreign exchange equity capital above a certain amount (US\$200,000).

Pilot program on the qualified foreign institutional investor (QFII) scheme continued. Within the gross scale approved by the State Council, the SAFE granted QFII quotas, paid close attention to QFIIs' investment activities in domestic markets and guided QFIIs to adjust their investment portfolio by such means as window guidance and propaganda. By the end of 2004, 24 QFIIs had been approved with the total investment quota amounting to US\$3.425 billion. The investment quotas were mainly granted to institutional investors targeting long-term investment provided that total investment quotas did not exceed the prescribed gross scale.

Legitimate personal assets were allowed to be transferred abroad. Chinese emigrants were allowed to transfer their legitimate assets outside China, and foreign residents were

allowed to transfer their inherited assets outside China, which further enhanced the capital account convertibility and safeguarded individuals' exertion of legal property rights.

Internal operation of foreign exchange funds by multinational corporations was allowed. Qualified domestic member companies of a multinational corporation were allowed to aggregate domestic foreign exchange funds and accommodate each other with foreign exchange funds in the form of domestic entrusted foreign exchange lending; and were allowed to aggregate or accommodate each other with foreign exchange funds within the region or even worldwide by extending loans to overseas member companies for the sake of optimal allocation of foreign exchange resources. The internal operation of foreign exchange funds by qualified multinational corporations further improved the investment environment, enhanced enterprises' efficiency in using their foreign exchange funds, and resolved such problems as the shortfall of working capital and financing difficulties faced by Chinese-funded enterprises engaging in overseas investment.

Reform of foreign exchange administration of overseas investment was deepened. The pilot program on foreign exchange administration of overseas investment was extended to another 10 areas with the amount reaching US\$580 million. By the end of the year, a total of 24 areas were selected to conduct the pilot program with the total foreign exchange purchase quota amounting to US\$2.48 billion. Moreover, the deposits surrendered as guarantee for repatriation of overseas investment profits were all returned to enterprises.

Overseas use of foreign exchange insurance funds was allowed. Qualified insurance companies were allowed to operate their foreign exchange funds overseas within the approved quotas. Ping An Insurance (Group) Company of China was approved to invest in foreign securities within a quota of US\$1.75 billion. The policy widened the channels for insurance companies' foreign exchange investment and relaxed the controls on the outflows of securities funds in an orderly and controllable manner.

Foreign exchange administration of financial asset management companies was standardized. The procedures and formalities of

registration, reporting to the regulator for record and verification concerning non-performing assets disposal by asset management companies were clarified.

Foreign exchange administration of foreign direct investment was improved. Regulations on the inquiry of capital injection verification of foreign-funded enterprises and foreign exchange registration of foreign investment in special economic zones (such as export processing zones and bonded areas) were made clear, and the current system of inquiry of capital injection verification of foreign-funded enterprises and foreign exchange registration of foreign investment was further improved. The rules on foreign-funded enterprises' increase of registered capital were clarified. Related issues such as the withdrawal of equity capital, mergers and split of enterprises were also normalized.

In 2005, the general idea governing foreign exchange administration under capital account is to steadily advance capital account convertibility with a view to maintaining the equilibrium of the balance of payments. The SAFE will adopt balanced administration of capital inflows and outflows to safeguard the national economic security; carry forward the "going-global " strategy to encourage orderly capital outflows; improve the administration of contingent liabilities to prevent external debt risks; and make research on establishing a comprehensive capital transaction statistical and monitoring system for timely analysis of capital inflows and outflows.

Evolution of Renminbi Convertibility under Capital Account

In recent years, the SAFE has constituted and promulgated a series of policy measures to further push forward capital account convertibility, in particular the opening-up of the investment in securities. Main measures were as follows:

- Foreign exchange administration of overseas investment was reformed to encourage domestic enterprises to go abroad;
- The qualified foreign institutional investor (QFII) scheme was introduced, with foreign institutional investors being allowed to invest in domestic securities market within the authorized quotas;
- Overseas investment of foreign exchange insurance funds and the social security funds was explored and liberalized;
- External debt administration of Chinese-funded and foreign-funded banks was unified, and the controls on the market access for foreign-funded financial institutions were lifted gradually;
- Multinational corporations were allowed to conduct internal operation of foreign exchange funds among their domestic member companies or between their domestic member companies and overseas member companies, which helped them optimize the allocation of resources;
- Controls on cross-border capital transfers by individuals were loosened, with emigrant natural persons being allowed to transfer their legitimate assets outside China, and non-residents being allowed to transfer their inherited assets outbound;
- Foreign exchange administration of foreign direct investment was improved.

According to the preliminary assessment of the SAFE, by the end of 2004, of the 43 items under 7 major categories of capital transactions as classified by the International Monetary Fund, over half were not restricted or slightly restricted, while only less than 15 percent were tightly controlled.

Assessment of China's Capital Account Convertibility

Category	Criterion for Classification	Items	Share (%)
Convertible	There are basically no limits on the transactions and related exchange formalities, but subject to certain approval procedures or authenticity verification	11	25.6
Slightly restricted	There exist very few restrictions on a particular transaction entity or on part of a transaction	11	25.6
More restricted	There are restrictions on most transaction entities or the major part of a capital transaction	15	34.9
Tightly controlled	The transactions are prohibited in principle, including those transactions that are not clearly specified in related regulations but not allowed in practice	6	13.9

Supervision on Foreign Exchange Business of Financial Institutions

Supervision on Foreign Exchange Business of Banks

Improving the supervision over the business of foreign exchange purchases and sales by banks. The People's Bank of China has further clarified that the SAFE, its branches and sub-branches are responsible for the market access and exit management in terms of the business of foreign exchange purchases and sales. The SAFE vigorously conducted the registration of financial institutions engaging in the business of foreign exchange purchases and sales, preliminarily established a system of reporting and disseminating the information of such financial institutions, with more than 26,000 outlets of financial institutions conducting the business of foreign exchange purchases and sales having registered for record. Research was conducted for the amendment of the *Provisional Procedures for Designated Foreign Exchange Banks' Purchases and Sales of Foreign Exchange*, and the supervision over the business of foreign exchange purchases and sales was improved. Banks were allowed to resolve the problem of currency mismatching in the course of disposing of non-performing loans and the problem of local and foreign-currency mismatching of their operational equity capital by purchasing and selling foreign exchange on their own account.

Launching and implementing off-site supervision on foreign exchange receipts and payments of banks. Related working system for off-site supervision and indicator systems was set up to guide the SAFE branches and sub-branches to gradually improve off-site supervision based on existing administration measures.

Standardizing and supporting further development of the foreign exchange business under bankcards. The ceiling for cash withdrawal of bankcards and the category codes for commercial firms were standardized to forestall illegal transactions such as gambling. Big-amount and abnormal overseas transactions with bankcards were required to be reported for record afterwards, and administrative policies governing foreign currency bankcards were specified and improved. Under the prerequisite of accurate execution of cash withdrawal ceiling and the category codes of commercial firms, the policy of repaying overseas overdraft with domestically issued bankcards with purchased foreign exchange was liberalized.

By the end of 2004, a total of more than 27,000 financial institution outlets nationwide had been approved to conduct the business of foreign exchange purchases and sales.

Supervision on Foreign Exchange Business of Securities Companies

Standardizing the administration of foreign exchange accounts of securities companies, making clear the foreign exchange administrative measures on securities companies with foreign stakes, and allowing securities companies to conduct foreign exchange lending business within a specified range.

9 securities companies were newly approved to conduct foreign exchange business, 27 securities companies were approved to change their License for Securities-related foreign exchange Business when their former license expired, and 2 securities companies were disqualified from the list of conducting foreign exchange business. By the end of 2004, there was a total of 110 securities companies nationwide qualifying for conducting foreign exchange business.

Supervision on Foreign Exchange Business of Insurance Companies

Simplifying the procedures for some foreign exchange business of insurance companies. *The Administrative License Law* was implemented, the operational procedures for administrative approval items were standardized, and the approval procedures for insurance companies' foreign exchange business were further streamlined.

Standardizing the administration of foreign exchange receipts and payments under the item of export credit insurance. Foreign exchange administrative policies concerning the business of export credit insurance were established, and the formalities and related certificates for foreign exchange receipts and payments under the item of export credit insurance were standardized.

Further improving the foreign exchange supervision over insurance business. The system for the statistics and monitoring of insurance foreign exchange capital was further

improved, training on foreign exchange insurance policies for the staff of the SAFE, its branches and sub-branches was strengthened, and the off-site supervision level was improved continuously.

By the end of 2004, there was a total of 57 Chinese and foreign-funded insurance companies with the License for Foreign Exchange Business granted by the SAFE.

In addition, the SAFE made clear foreign exchange administration policies on the opening of foreign exchange accounts and foreign exchange purchases and sales by auto financing companies; and further amended the regulations on the foreign exchange administration of trust and investment companies, the foreign exchange administration of financial companies of enterprise groups, and the foreign exchange administration of financial leasing companies.

What is Forward Purchases and Sales of Foreign Exchange

Forward purchases and sales of foreign exchange are agreements between domestic institutions and designated foreign exchange banks to buy or sell a fixed quantity of foreign exchange at a specific future date at a pre-agreed price with pre-agreed currencies.

In 1997, Bank of China was the first pilot bank to conduct the business of forward purchases and sales of foreign exchange on a trial basis. The pilot program was extended to the Industrial and Commercial Bank of China, Agricultural Bank of China and Construction Bank of China in 2003. The pilot program was further rolled out to the CITIC Industrial Bank and Bank of Communications in 2004.

Currently, the longest term of forward sales and purchases of foreign exchange is 1 year, and the transactions may be conducted with major convertible currencies such as the US dollar, the Japanese yen, euro and Hong Kong dollar. According to related regulations adopted in 2004 on expanding the business of forward purchases and sales of foreign exchange, domestic institutions may apply to banks for forward purchases and sales of foreign exchange including: receipts and payments under the items of goods trade, service trade and income, repayment of foreign exchange bank loans, and repayment of external debt which has been registered with the SAFE. In terms of amended market access to forward purchases and sales of foreign exchange, the main conditions that shall be satisfied include: 2 years or above after acquiring the qualification for the business of purchases and sales of foreign exchange; the volume of foreign exchange purchases and sales for the previous year exceeding US\$20 billion (inclusive), and having relatively great ability of accessing renminbi and foreign exchange financing.

Since it was launched, the business of forward purchases and sales of foreign exchange has been widely applauded in the market, and its steady development has played an active role in helping enterprises avoid exchange rate risks, diversifying banks' products and promoting the development of foreign trade and external economy.

Information Inquiry System of Financial Institutions Conducting the Business of Foreign Exchange Purchases and Sales

In order to enhance the transparency of information on the management of foreign exchange purchases and sales, to facilitate enterprises and individuals to conduct related transactions, to better the services to the public in terms of the management of foreign exchange purchases and sales, and to reinforce the supervision and regulation of the business of foreign exchange purchases and sales conducted by financial institutions, the SAFE disseminated information on financial institutions conducting the business of foreign exchange purchases and sales on its website (WWW.SAFE.GOV.CN) in accordance with related requirements of the People's Bank of China.

The SAFE, its branches and sub-branches are responsible for the market access and exit management of financial institutions in terms of foreign exchange purchases and sales, and those financial institutions that have conducted the business of foreign exchange purchases and sales shall go to corresponding foreign exchange administration agencies to go through the formalities of registration for record. Presently, the registration work of financial institutions conducting the business of foreign exchange purchases and sales across the country has almost finished, with all the information being input into the information inquiry system of financial institutions conducting the business of foreign exchange purchases and sales.

After accessing the system, the public can choose to input some key words concerning the area (province and prefecture) where a financial institution conducting the business of foreign exchange purchases and sales is located, the type of an institution and its operating location, and then conduct an inquiry quickly and conveniently. By clicking the name of institutions among the inquiry results, all detailed information, including the type of institution, registration location, operating address, the institution code of Financial License, the date of issuance of license, the number of the license, and etc., may be easily obtained.

Rectifying and Regulating Foreign Exchange Market

Pushing forward investigations and strictly combating illegal foreign exchange transactions. In 2004, 1227 cases involving illegal foreign exchange transactions were investigated nationwide, and 1293 cases have been closed, with the amount of fines and confiscations reaching RMB74.31 million. In close cooperation with public security agencies, foreign exchange administration agencies organized 479 special clampdowns on "underground money shops", with 86 "underground money shops" and harmful dens of illegal foreign exchange transactions were cracked down, involving RMB12.5 billion of illegal transactions. Thanks for the crackdowns, banknotes equivalent to RMB110 million were captured, 460 passbooks and bank accounts with amount totaling RMB 42 million yuan were frozen, 274 suspected offenders were seized, and RMB19.43 million of fines and confiscation were collected. On the basis of improved internal coordination mechanism and upgraded technical means, the SAFE investigated and disposed of 16 significant cases, striking a heavy blow to illegal traders' swollen arrogance and effectively guiding the public to abide by rules and regulations on foreign exchange administration.

Conducting special inspections and closely monitoring abnormal cross-border capital flows. More than 1000 special inspections and investigations over 3000 enterprises of various types were conducted. SAFE concluded the special inspection over foreign exchange receipts and sales by designated foreign exchange banks which started in 2003. Meanwhile, SAFE launched a special inspection over some domestic foreign-funded banks and insurance companies as well as a special inspection over foreign exchange receipts and payments between domestic enterprises/individuals and offshore financial centers. The SAFE branches also launched some special inspections over foreign exchange sales of equity capital and external debt by local foreign-funded enterprises and advance collection by foreign trade enterprises.

Strengthening anti-money laundering from the perspective of foreign exchange administration by monitoring irregular cross-border capital flows. Following the general idea of improving related rules and regulations and IT construction, the SAFE played an active role in the legislation of the *Anti-money Laundering Law* led by the National People's Congress, established specific content, standards and procedures for the

reporting of large-value and suspicious foreign exchange transactions by financial institutions, and designed and developed anti-money laundering information management system so as to enhance the level of collecting, aggregating, sorting out and analyzing anti-money laundering data. SAFE coordinated with the People's Bank of China in terms of integrated supervision of local and foreign currencies, and took an active part in international exchanges and cooperation in the field of anti-money laundering. In 2004, the SAFE received 4.35 million reports of large-value and suspicious foreign exchange transactions, involving an amount of US\$1209.6 billion. By screening and sorting out relevant data, the SAFE inspected and dealt with a lot of cases in violation of regulations on foreign exchange administration, and enhanced the anti-money laundering awareness of the public through exposing some cases.

Implementing the five-year plan for the establishment of foreign exchange credit system, and pro-actively advancing the process. Research and pilot programs on the construction of foreign exchange credit system were launched. Activities such as "credit rating of designated foreign exchange banks in terms of compliance with related laws and regulations" were carried on trial basis within pilot SAFE branches. Pilot SAFE branches were guided to explore and operate the "financial credit information system".

Publishing *China's Report on Anti-money Laundering from the perspective of Foreign Exchange Administration in 2003* for the first time. The Report gave a comprehensive picture of the achievements of anti-money laundering from the perspective of foreign exchange administration in 2003 and summed up the experiences.

The general idea governing foreign exchange supervision and inspection in 2005 is to continue to intensify the inspection over capital inflows. Foreign exchange inspection of major regions and key industries will be strengthened. Continue to push forward anti-money laundering from the perspective of foreign exchange administration, and strengthen the monitoring of large-value and suspicious foreign exchange transactions of non-banking financial institutions. Launch further crackdown on major and significant cases involving illegal

foreign exchange transactions so as to consolidate the results of rectifying and regulating foreign exchange market. Launch pilot program on exposing illegal foreign exchange transactions, and continue to improve the establishment of foreign exchange credit system.

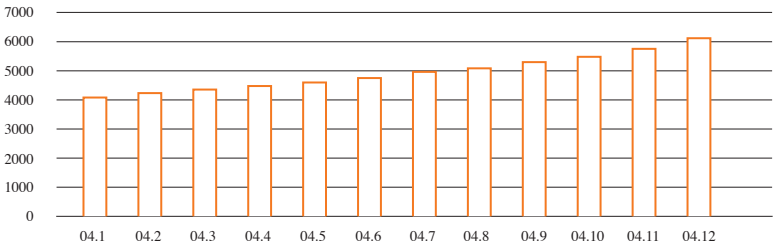
New Progress in Anti-money Laundering from the perspective of Foreign Exchange Administration in 2004

- *Implementing Rules on the Administrative Measures for the Reporting by Financial Institutions of Large-value and Suspicious Foreign Exchange Transactions* was promulgated, which reinforced the duties and responsibilities of the SAFE branches and sub-branches in anti-money laundering, and further standardized the supervision over anti-money laundering and such work as aggregating, sorting out, screening and analyzing anti-money laundering data.
- *Rules on Classified Administration of Anti-money Laundering Information and Investigation* was issued, clarifying the principles and procedures that the SAFE branches and sub-branches must follow in the process of establishing a data base of classified information (such as "Special Mention List", "Black List" and "White List") and conducting investigation.
- A standardized Reporting System of Large-value and Suspicious Foreign Exchange Transactions was set up to submit monthly and quarterly analytical reports to the Anti-money Laundering Bureau of the People's Bank of China and the National Anti-money Laundering Monitoring Center regularly. From October 2004, the SAFE began to provide case-by-case data of large-value and suspicious foreign exchange transactions, creating conditions for integrated supervision of local and foreign currencies in the monitoring of anti-money laundering.

Management of State Foreign Exchange Reserves

In 2004, China's foreign exchange reserves continued to rise rapidly. As of December 31, 2004, state foreign exchange reserves amounted to US\$ 609.932 billion, up by US\$ 206.681 billion or 51.25 percent as compared with end-2003.

State Foreign Exchange Reserves in 2004
(in 100 million of US dollars)



In 2004, economic growth was registered in major developed countries, with the United States economy outperforming Japan and European Union. Due to the impact of "dual deficits" of the United States, rising oil prices and international capital flows, the exchange rate of US dollar was on the decline on the whole. The Treasury bond yields in major bond markets fluctuated violently, experiencing a down-up-down-up phase. With the rapid accumulation of foreign exchange reserves and severe fluctuations in international financial markets, China's foreign exchange reserve management was faced with great challenges.

Various operational activities were carried out with PIBM at the core. Based on accurate judgment of the foreign exchange market trend, the SAFE grasped the investment timing and optimized the currency composition of assets. To deal with highly volatile yields in the bond market, the SAFE made every effort to improve the returns of bond investment. The SAFE also further boosted foreign exchange reserve management, vigorously conducted bond repurchase and lending transactions, and explored market potential to increase investment returns.

Further improving reserve management according to the requirements of large-scale investment. Research and analysis were reinforced and focused on crucial issues concerning reserve management and operations. Various portfolio

investment decision-making groups were set up, investment decision-making mechanism was improved, the scope of participants of investment decision-making was enlarged, and the exchanges and cooperation between the investment analysts, risk managers, performance assessors and the portfolio investment managers were strengthened. The risk management committee was strengthened, and relevant regulations on risk management were amended and improved. Compliance inspection of investment operations and other procedures was launched, with internal auditing being intensified. Price-inquiry requirement on trading was put into practice so as to further standardize investment behavior and lower trading costs.

Team construction was vigorously reinforced to ensure stable development of the reserve management team. A powerful leadership was established, training and exchanges of cadres were strengthened, and human resources management was improved. More reserve management staff were equipped according to the actual needs, with more professionals joining the team. Currently, more than two-thirds of the staff holds Ph.D. degrees and master's degrees.

Introduction to Reserves Management

What are foreign exchange reserves? Foreign exchange reserves refer to convertible currency assets held by the monetary authority of a country (or region) in order to maintain the equilibrium of balance of payments and promote the stability of exchange rate. Foreign exchange reserves, together with monetary gold, reserve positions in the International Monetary Fund, SDR holdings and other claims, constitute international reserves. Generally speaking, foreign exchange reserves account for the largest share of international reserves, which are also fastest-growing and most important reserve assets.

What role do foreign exchange reserves play? As for the countries other than the issuing countries of reserve currencies, sufficient foreign exchange reserves are conducive to maintaining the stability of the macro-economy, enhancing the monetary authority's ability of making and implementing the monetary policy, and strengthening the ability of maintaining and adjusting balance of payments; they are favorable for maintaining the stability of the current exchange rate regime, withstanding impact on domestic economy of external impulses, and preventing financial risks; and they are helpful in boosting confidence and providing credit guarantee to the national economic development, international borrowing and international financial cooperation. In addition, foreign exchange reserves can help enhance a country's ability in dealing with contingencies such as natural disasters and wars.

How does China manage its foreign exchange reserves? According to *Law of the People's Republic of China on the People's Bank of China*, as the central bank, the People's Bank of China holds China's foreign exchange reserves, and the State Administration of Foreign Exchange (SAFE) is authorized to operate and manage state foreign exchange reserves. Therefore, the SAFE set up the Central Foreign Exchange Business Center (i.e. Reserve Management Department) to manage state foreign exchange reserves with a professional team. For long, the SAFE has followed the principle of "security, liquidity and return", conducted standardized and professional asset management under a clarified and improved authorization system, gradually formulated a complete set of foreign exchange reserve operation and management system in conformity with China's actual situation, including the operational and management mode focusing on investment benchmarks and scientific and advanced risk management system, and continuously improved internal governance structure, thereby to safeguard the security of reserve assets and related operational activities. The maturity structure of foreign exchange reserves are based on long-term and strategic structural benchmarks, refraining from making a profit on short-term price fluctuations and participating in speculative transactions in foreign exchange markets and bond markets.

Improvement of Rules and Regulations for Foreign Exchange Administration

Implementing the *Administrative License Law* and further advancing foreign exchange administration according to law

Administrative approval items of the SAFE were published in time. On the basis of the reform of administrative approval system in 2002 and 2003, 8 more administrative approval items were removed in 2004. By the end of 2004, the State Administration of Foreign Exchange had removed 34 administrative approval items, which accounted for 45% of the total. *The List of Administrative License Items of the SAFE* was disseminated, publicizing the existing 39 foreign exchange administrative license items and related legal basis, and basically realizing administration according to law.

Foreign exchange administrative approval procedures were standardized. The *Circular on Some Procedural Issues related to the Implementation of Foreign Exchange Administrative Approval* was issued to normalize the procedures for public notification, handling of applications, examination and decisions, decision-making deadline, hearing, supervision and inspection and etc., thereby to promote the systemization, standardization and legalization of foreign exchange administrative approval.

Abiding by WTO rules and enhancing the transparency of regulations and policies

Transparency of the law-making process was enhanced. Actively implemented the system of internal discussion of draft foreign exchange regulations, and held hearing conferences to seek comments from related government departments, banks, and enterprises prior to the formal promulgation of a regulation, thereby to ensure the quality of legislation and make sure that the regulation is scientific, reasonable, forward-looking and practical.

Timely publication of regulations was strengthened. Continued to publicize the regulations and policies and introduce the background of a regulation and policy adjustments by bringing into play the function of major publication channels including the internet website of the SAFE (www.safe.gov.cn) and the *Gazette of the State Administration of Foreign Exchange*, thereby to help the public understand the objectives of the

implementation of a certain regulation and main contents of the regulation as well. Foreign exchange policies and foreign exchange administration were vigorously propagandized, with answers to hot issues and problems in the spotlight being given for the sake of active guidance of the public opinion.

Manners of investigation and research on foreign exchange legislation were innovated. The information tracking and feedback mechanism after the publication of foreign exchange rules and regulations was improved to follow up the implementation effects. Research on hot issues and difficulties of foreign exchange administration was conducted energetically, and regulations were studied and evaluated earnestly, laying a theoretical foundation for the legislation and policy making.

The general idea governing the SAFE's improvement of rules and regulations in 2005 is to focus on the amendment of the *Regulations on Foreign Exchange Administration of the People's Republic of China*, clear up rules and regulations, and step up efforts to improve the legal framework. Conscientiously implement the *Administrative License Law*, speed up the transformation of government functions, and standardize the foreign exchange administrative approval system.

Existing Administrative Approval Items of the State Administration of Foreign Exchange

1. Foreign exchange registration and approval of foreign exchange payments under the item of foreign direct investment
2. Approval of foreign exchange purchases and payments to overseas under capital account
3. Approval of external debt borrowers' hedge of debt directly through overseas institutions
4. Approval of state-owned enterprises' annual risk exposure of overseas hedge of futures
5. Approval of domestic institutions' external debt, on-lending of external debt and external guarantee
6. Registration of asset management companies' disposal of non-performing assets with foreign capital and approval of outward remittance of foreign parties' profits
7. Approval of the qualifications for custodian of qualified foreign institutional investors
8. Approval of qualified foreign institutional investors' investment quotas, accounts and outward remittance and issuance of foreign exchange registration certificates
9. Approval of classified verification of export receipts for exporters
10. Approval of receiving export receipt verification certificates by exporters
11. Approval of exporters' foreign exchange payments for export returns and compensation
12. Approval for exporters to make up the special copy for export verification and the special copy for tax rebate of the verification certificates
13. Approval of the applicability of policies on non-trade foreign exchange purchase and payment by multinational companies to foreign-funded enterprises or Chinese-funded enterprises
14. Approval for banks to conduct the business of selling foreign exchange to resident individuals without ID certificates whose serial codes are duplicate
15. Approval of outward remittance of profits by foreign investors of financial institutions with their own foreign exchange or with purchased foreign exchange
16. Approval of foreign exchange purchases and sales due to mismatching foreign exchange and renminbi assets for financial institutions
17. Approval of foreign exchange registration, alteration of registration and write-off of entities within special economic zones
18. Approval of foreign exchange sale, foreign exchange purchase and payment for entities within special economic zones
19. Approval of foreign exchange purchases and payments for enterprises with a leasing term below one year, for leasing trade and for leasing (with taxes being paid according to related regulations)
20. Approval of short-term external debt by domestic foreign-funded financial institutions
21. Approval of foreign exchange purchases and payments, foreign exchange sales, cashing and carrying foreign bank notes outside China by individuals
22. Approval of source of foreign exchange funds (assets) for overseas investment, outward remittance of such funds and registration of outward remittance of such funds
23. Approval of the sales of foreign exchange proceeds raised from overseas under the items of B share, H share and red chips
24. Approval of difference verification of export proceeds and record for later verification for exporters
25. Approval of import payment in foreign exchange for importers
26. Approval of insurance companies' foreign exchange purchases for overseas reinsurance
27. Approval of the timing for financial institutions' large-value foreign exchange sales and purchases transactions
28. Approval of the opening, alteration, closing, cancellation and ceiling of foreign exchange accounts (including special renminbi settlement account for border trade)

BOX

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29. Approval of domestic transfer of institutions' foreign exchange funds
 30. Approval of institutions' above-limit withdrawal of foreign bank notes
 31. Authenticity verification of foreign exchange purchases and payments for non-trade purpose by domestic institutions
 32. Approval of external guarantee by financial institutions and enterprises
 33. Registration and approval of comprehensive external debt and contingent foreign liabilities of domestic institutions
 34. Approval of market access to and exit from foreign exchange business for non-banking financial institutions such as insurance and security companies
 35. Verification of export receipts for exporters
 36. Approval of market access to and exit from the business of foreign exchange purchases and sales for banks, rural credit cooperatives and exchange agencies
 37. Verification of import payment for importers
 38. Approval of foreign exchange sales under capital account
 39. Approval of quotas of short-term external commercial borrowings
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IT Application

Focusing on the construction of service platform for foreign exchange administration. The Export Verification Reporting System was rolled out nationwide, realizing automatic data collection on foreign exchange receipts and customs declaration of goods, fulfilling double-way monitoring of capital flows, enhancing the efficiency of verification administration and the utilization of information, and increasing enterprises' flexibility in export verification. An on-line reporting and approving system for export verification was developed and run on a trial basis, leading to a complete command of export verification information by the SAFE and convenient remote operation on the net by enterprises. A pilot program on running the external debt statistics and monitoring system (banking version) was launched, through which banks can log on the system and input external debt data via network, thereby realizing real-time data collection of banks' external debt and enhancing the efficiency of external debt statistics in terms of monitoring and supervision.

Strengthening the construction of supervision platform for foreign exchange administration. Data of the management information system for foreign exchange accounts were cleared up nationwide, and a pilot program on incorporating the data of foreign exchange purchases and sales by domestic institutions into the management of foreign exchange accounts was launched. A system for statistics and analysis of foreign exchange accounts was developed and run on a trial basis, with data being used to serve administration and decision-making better. In terms of the construction of the information system for anti-money laundering, the computerized system was upgraded to a network version on the basis of the popularization of the analytical program, and the construction of a new system was actively advanced. A pilot program on the comprehensive utilization of data was launched, with the research on the integration of foreign exchange data being conducted in depth. Analytical models were tested by some SAFE branches, with integrated data being used for the analysis of foreign exchange receipts and payments position.

Promoting the construction of management information system for government affairs. The internal information website was put into use, transferring such information as the policies, regulations and work of the SAFE to the whole system

(including the SAFE, its branches and sub-branches) in time and providing a platform for SAFE branches and sub-branches to report their work to and have direct dialogue with their headquarter. The upgrade of the SAFE office automation system enhanced the efficiency of internal handling of official business and document circulation. The clean-up of the information on the SAFE internet website standardized the dissemination of information on foreign exchange administration, and enhanced the frequency and transparency of the information on government affairs disseminated to the public.

In 2005, the general idea governing the IT application of the SAFE is to focus on the construction of the platform for foreign exchange supervision and regulation on the basis of improving the foreign exchange service platform. On the basis of the current business application systems, coupled with data integration and reuse of information resources, the SAFE will improve the IT management system and standards, and form an integrated IT application system for foreign exchange supervision and regulation.

Major Application Systems of the SAFE

NO.	System	Functions	Users
1	Indirect Reporting System for the Statistics of Balance of Payments	The system is a computerized system for the statistics of the international receipts and payments via domestic banks by domestic institutions (excluding banks) and individuals.	The SAFE branches and sub-branches and designated foreign exchange banks
2	Statistical and Reporting System for Exchange Business	As a sub-system of the international balance of payments system, the system can be used to collect data on cross-border exchange transactions (only including foreign exchange cash, traveler's check and credit card business) taking place at banks and exchange outlets.	The SAFE branches and sub-branches and designated foreign exchange banks
3	Statistical System for Foreign Exchange Purchases and Sales of Banks	By generating statistics of the foreign exchange purchases and sales data reported by banks and providing important reference for the analysis of foreign exchange receipts and payments position, this system is an important data source for the supervision over foreign exchange purchase and sales business of banks.	The SAFE branches and sub-branches and designated foreign exchange banks
4	Management Information System for Foreign Exchange Purchases by Resident Individuals	With the administration and statistics of foreign exchange purchases business by domestic resident individuals via the system, the restrictions on banks' conducting foreign exchange sales business for individuals were lifted, helpful to prevent duplicate foreign exchange purchases by individuals, realize cross-locality foreign exchange purchases, facilitate individuals' foreign exchange purchases and create favorable environment for level competition of the banking industry.	The SAFE branches and sub-branches and designated foreign exchange banks
5	Export Verification Reporting System	Through the sharing and comprehensive utilization of the customs and banking data, the system improved data collection and analysis, enhanced the utilization of information from such perspectives as dynamics and statistics, stocks and flows, structures and regions, realized the monitoring of double-way capital flows, and shifted from the current case-by-case supervision mode to batch-by-batch or even aggregate supervision, improving the accuracy and timeliness of the verification business.	The SAFE branches and sub-branches

NO.	System	Functions	Users
6	System for Batch Exchange of Export Verification Data	Via the system, the SAFE receives export verification forms, customs declaration forms and information of enterprises in batches from the General Administration of Customs, and distributes the data to sub-data centers. A data sharing system has been established between the SAFE and the General Administration of Customs, which helped enhancing the speed and efficiency of data processing, acquiring complete information of customs declaration forms, and ensuring accurate and timely track of enterprises' foreign exchange collection.	The SAFE branches and sub-branches
7	Management Information System for Foreign Exchange Accounts	By collecting, processing and analyzing the information of foreign exchange accounts, the system realized computerized management of institutions' foreign exchange accounts and effective monitoring of foreign exchange capital flows.	The SAFE branches and sub-branches
8	Statistical and Monitoring System for External Debt	Based on the new ideas, new methodology and new demand of external debt statistics and monitoring under new circumstances, the system gradually realized the combination of statistics and management by differentiating various forms of external debt inflows. Meanwhile, the system met the need for external debt statistics according to the latest international standard and coverage and external exchange of the regulatory department, and preliminarily satisfied the need of making forecast and analysis of external debt disbursement, principal repayment and interest payment in the coming period.	The SAFE branches and sub-branches

International Exchanges and Cooperation

Overseas investigation and study tours were organized focusing on the key work. In order to learn from the experiences and methods concerning the exchange administration system in foreign countries, the SAFE arranged 163 missions or 383 person-times abroad in 2004. These overseas study tours focused on current hot and difficult issues, such as anti-money laundering, development, application and supervision of foreign exchange derivatives, methods of supervising foreign banks, retrospective thoughts on the management and legislation of exchange system after the financial crisis, cross-border capital flows and high-frequency debt monitoring system, survey on the renminbi business of banks in Hong Kong, etc.

International exchanges were strengthened, and China's foreign exchange policies were disseminated. More than 360 visits from international and regional organizations, foreign central banks and other government departments, as well as foreign financial institutions were arranged, an increase of 24 percent compared with the previous year. China's economic and financial policies were disseminated during these meetings.

More overseas training programs were conducted through various ways. Training class on Foreign Exchange Administration Policy and Practice jointly organized by the SAFE and the IMF in the United States enabled a systematic study of the analytical framework of balance of payments, evolution of exchange regimes and reform experience, capital market operations and supervision in the US, etc. The second-stage training course on anti-money laundering in Australia covered a wide range of topics including legislation and institutional framework of anti-money laundering, the status quo of anti-money laundering in financial areas, international cooperation and exchanges in this regard and so on. Another training program on Financial Business and Management was also held in Russia for civil servants among others.

Several international seminars and workshops were held. Foreign institutions and experts specialized in international finance were invited to the SAFE to give lectures on the topics of market maker system, development of financial derivatives, etc. Workshop on Vulnerability Analysis of Capital Flows was hosted by the SAFE in cooperation with the World Bank.

International Seminars held by the SAFE in Recent Years

Themes	Main Topics	Organizers	Time	Place
Seminar on Custody of Cross-border Portfolio Investment	Concept and methods of cross-border securities investment, custodian business and products, depositary receipts, foreign exchange asset management, management of investor relations of overseas listed companies, etc.	The SAFE	November 15-17, 2004	Beijing
Seminar on Monitoring of Irregular Capital Flows	Legislation and conventions on AML/CFT in international society and individual countries, status quo of international AML, functions and operations of FIU, monitoring of irregular cross-border capital transactions, etc.	The SAFE	May 11-13, 2004	Dongguan, Guangdong
Seminar on Coordinated Portfolio Investment Survey	Fundamental concept, development, statistical coverage and practical methods of coordinated portfolio investment survey, other methods of portfolio investment survey, statistical ideas, etc.	The SAFE The IMF	April 5-9, 2004	Xi'an, Shaanxi
Workshop on Vulnerability Analysis of Capital Flows	Theoretical foundations and analytical tools of assessing capital flow vulnerability, practical experience in monitoring capital flows in developing and developed countries, establishment of high-frequency debt monitoring system and market expectation survey system, etc.	The SAFE The World Bank	March 23-26, 2004	Shenzhen, Guangdong
Seminar on China's Capital Account Liberalization: International Perspectives	Initial conditions and approaches to capital account liberalization, capital market, corporate sector and non-bank financial institutions during the process of capital account liberalization, experience with offshore circulation of domestic currency banknotes, etc.	The SAFE The BIS	September 12-13, 2002	Beijing
Workshop on International Investment Position Statistics	Theoretical framework of IIP statistics, compilation methods, collection of data, difficulties in data processing, etc.	The SAFE The IMF	August 14-29, 2002	Chengdu, Sichuan
Seminar on Capital Account Convertibility and International Capital Flows	Concept of capital account convertibility, capital control and prudential regulation, overview of capital account convertibility and capital flows in developing and developed countries, financial sector stability and its relationship with capital account liberalization, etc.	The SAFE The IMF	October 15-20, 2001	Kunming, Yunnan
Workshop on Foreign Exchange Market and Operations	Focus on operational issues of foreign exchange market, such as the choice of an exchange regime, foreign exchange market and its development, central bank intervention, forward foreign exchange market, external sector liberalization and financial stability, etc.	The SAFE The IMF	October 16-20, 2000	Haikou, Hainan

Personnel Management and Internal Auditing

Vigorously promoting the construction of leadership and making great efforts to enhance the overall accomplishment of the cadres. Earnestly implemented the Regulations on Selecting and Appointing Party Leadership and Cadres, judged, reviewed and appointed cadres from the perspectives of moral integrity, ability, diligence, performance, and incorruptness, with a batch of young and capable cadres with high academic degrees joining the leadership. Personnel exchanges were proactively advanced, with more than 30 cadres exchanged cross departments or divisions. Strengthened the work of training for cadres, and formed a relatively mature working mode in terms of designing training courses, selecting teachers, providing logistic services, organizing and implementing training plans. Throughout the year of 2004, the SAFE arranged training in rotation for all cadres above division chief level, and 8 training courses (such as foreign exchange business training and English training) for cadres in the SAFE network, with the number of trainees going up by 51 percent over the previous year to reach 422 person-times. Greatly promoted the introduction of high-level talents and recruited 50 cadres in the year, which not only enriched the professional team, but also provided strong organizational safeguard and intellectual support for foreign exchange administration.

Strengthening internal auditing and promoting the standardization of foreign exchange administration. Energetically and steadily promoted internal auditing in the SAFE head office, its branches and sub-branches, and further standardized the operational procedures for foreign exchange businesses. Made clear the responsibilities of each position, implemented level-by-level authorization, and conducted the accountability system. Conducted internal auditing for foreign exchange administration, and urged all departments to carry out internal control system, thereby ensuring an effective implementation of laws and regulations on foreign exchange administration and reinforcing the supervision of audit for the SAFE branches and sub-branches. Organized and participated various auditing programs, including a special auditing program for the operation and management of computerized network and related business application systems, a special auditing program for imports and exports verification, and an audit/investigation into foreign currency clearing business, etc. The supervision of audit has enhanced the risk awareness of the business departments, improved the internal control system gradually and promoted the standardization of foreign exchange administration.

In 2005, the general ideas governing the personnel management and internal auditing of the SAFE is to focus on the selection and allocation of cadres, personnel training and exchanges, internal control mechanism and self-construction centering on the core of foreign exchange administration, thereby to enhance the overall accomplishment of cadres working in the SAFE, its branches and sub-branches and to safeguard the healthy development of foreign exchange administration.